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Challenges in Roundwood Trade between Finland and Russia – A Cultural Approach

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Abstract

The collapse of the socialistic reign changed the operational environment in Russia dramatically. In the Soviet planned economy, production volumes and prices of forest products were determined by the central planning authority. Furthermore, the Soviet industrial policy promoted large scale forest industry complexes, whose standardised products were supplied primarily to the domestic markets. In free market economy, the privatisation of forest industry enterprises and intensified participation in international business and trade have challenged the Russian managers to adopt new business strategies and to learn a more customer-oriented way of thinking. From the viewpoint of foreign enterprises, the success in business with Russian partners requires profound understanding of the Russian working culture and mentality as well as up-to-date knowledge of the operational environment in Russia.

Together with the changes in Russian society and economy, the roundwood trade between Finland and Russia has undergone a structural change. The patterns of bilateral trade agreements in bartering protocols are not working any more. Instead, the trade is organised between the private companies and middlemen both in Finland and Russia. Currently, the imported roundwood, over 80% of which originates from Russia, accounts for about one fifth of the annual roundwood consumption of the Finnish forest industry. As some of the timber assortments cannot be processed in Russia, the trade with Finland also benefits Russia. Therefore, there is a mutual interest to avoid misunderstandings and to improve the business culture in roundwood trade.

After a short review of the history and evolution of the Finnish – Russian roundwood trade, volumes and distribution of the assortments, this study focuses on the importance of the cross-cultural differences between Finnish and Russian roundwood trade. The study concentrates only on a few theoretical concepts which are closely connected to the cultural differences and are of particular importance in roundwood trade. These concepts are power distance implying how the decision making is distributed in the society, management of time implying the intensity of use of raw materials, and management of quality implying the maximisation of the value-added production. This study is a first stage towards an oncoming questionnaire research on cultural aspects in roundwood trade between Finland and Russia.

Keywords

roundwood trade, cross-cultural communication, power distance, time and quality dimension

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Other information

Contents

Preface

After the collapse of the Soviet Union, the strategy of many Russian forest companies was to increase the international trade and co-operation. One major incentive to this was the difference between domestic and international prices of forest products as well as the chronic need for foreign currency. Foreign money was needed for the business operations, for maintaining the production capacity and, especially, for investments due to the lack of domestic finance resources. The difficulties were not only financial; the old and inefficient production technology inherited from Soviet era and products that typically did not meet the demand in the international markets caused additional troubles. In all, the Russian forest sector had an unsatisfying competitive structure to meet the challenges of world markets. As a result, the export of forest products mainly consisted of low added value products, such as roundwood and sawn timber.

Already during the Soviet era, the forest resources of Northwest Russian were a part of the global international trade of roundwood. This status has currently been enhanced as roundwood export from Northwest Russia has increased considerably. Due to geographic closeness and history of close relationship and co-operation, the majority of roundwood exports from Northwest Russia have headed to Finland, where the Russian originated roundwood has become an important part of the forest industry firms' wood procurement. Concurrently, the increased roundwood trade has had both direct and indirect effects both in Finland and Northwest Russia via employment, stumpage incomes and silviculturural activities, among others.

The Forest Summit in Helsinki on 25-27th October 2004, convened by the Finnish Prime Minister Mr. Matti Vanhanen and the Russian Prime Minister Mr. Mihail Fradkov, emphasised that both the countries have similar interest for developing sustainable forestry, nature conservation, forest certification, and for increasing roundwood trade and co-operation between the two countries. Moreover, the aim of forest policy in Russia is to promote value added production by attracting both domestic and foreign forest investments in Northwest Russia and thus to stimulate domestic woodworking industry. According to the Summit discussion, the difference between Finnish and Russian way of thinking become concrete in roundwood trade and forest policy issues such as:

- Custom legislation
- The system of trade contracts: Agenda as well as formulation of negotiations
- Determination of rights, duties and responsibilities related to contract implementation
- Methods applied in measuring quality and roundwood volumes

These questions, however, cannot be solved only on economic level but on cultural level as well. The differences in market environments, languages, infrastructures, forest technologies, the ways of working, and habits make it often difficult among the Finnish and Russian forest managers and policy makers to avoid misunderstandings and controversies. Cross-cultural communication obstacles often complicate and delay trade actions and collaboration in general.

These deficiencies can be decreased by advancing cross-cultural communication. Therefore, there seems to be a clear need to evaluate the possible bottlenecks and problems related to cultural differences in forestry business between Finland and Russia. Cross-cultural communication shall a) help to identify the potential sources of misunderstandings and difficulties, b) make both partners aware of their cultural specialities, and c) proceed towards coordinated mutually accepted basis on trade contracting. This conclusion is evident irrespective the fact that no such research results over comparison of managerial decision making are available.

The research concentrating managerial economics and cross-cultural issues among forest industry companies involved in Finnish-Russian roundwood trade would help to identify the supporting and impeding features of Russian specialities. Research focusing on cultural discrepancies of Russian business with respect to that of western one would be a great benefit towards sustainable forest management in Russia as well as to improve the success of Russian forest industry managers in the business relations in international markets. It is well known that Russia will benefit from the benchmarking type of corporate governance evaluation to meet the standards of European forest related business. The results will also help the Finnish counterparts to understand better the way of working and market environment in Russia.

The first task of this study is to shortly highlight the evolution of roundwood exports from Russia to world market and, especially, to Finland and comment the developments of the challenge to improve cross-cultural communication between the countries. The second task is to provide a state-of-the-art survey of cross-cultural topics related to international business culture and, especially, to quality and time dimension in roundwood trade. Power distance, as an important structural feature behind national business culture, is discussed in Finland and Russia and compared between the countries. This survey is a step towards an oncoming questionnaire research in Finland, Republic of Karelia, Leningrad Oblast and among federal authorities in Moscow.

This report is the first joint interest collaboration effort between Moscow State Forest University and Finnish Forest Research Institute in cross-cultural issues. Natalia Vinokurova would like to express her gratitude to the Academy of Finland giving a financial support (grant number 105362) to implement postgraduate studies in Finland. Comments and suggestions by Professor Ari Lehtinen are gratefully acknowledged.

Joensuu, Moscow, February 2005

Authors

1 Introduction

Finland and Russia have a long common history in roundwood trade. During the Soviet era, the roundwood was involved into the comprehensive barter trade contracts between the two countries. Roundwood was a minor item of those bilateral trade agreements in bartering protocols. There was a short downturn in the roundwood trade between the countries in the early 1990s, after the collapse of Soviet Union. Roundwood import from Russia to Finland recovered by the middle of the 1990s and became an important source of raw materials for Finnish forest industries. In 2003, roundwood import to Finland totalled 16.5 million cubic meters, over 80 percent of which originated from Russia (Ollonqvist & Viitanen 2004). Currently, imported roundwood accounts for about one fifth of the annual roundwood consumption of the Finnish forest industry (Tilli *et al.* 2004).

Roundwood exports in the barter trade between Finland and Soviet Union was based on the items contracted by the central foreign trade institution in Moscow.[1] Trade actions were governed by exact rules and statements in the Soviet Union. The major trading partner on the Finnish side were trading houses without own industrial use of roundwood. Their position as trade commissioner was parallel with the Soviet institution. The trade partners were trade specialists while the fundamental actors in the background, lespromhozes (forestry enterprises) in the Soviet Union and forest industry firms in Finland, had no direct business contacts. The need of knowledge concerning the partners' rules and actual needs did not reach the actual partners which were harvesting units in the Soviet Union and forest industry firms in Finland. The Soviet industrial policy emphasised large scale forest industry complexes covering all the stages from roundwood harvest to manufacturing of mechanical wood products, pulp and paper. Roundwood export was a minor part of the activity. Although the export of forest products was an important source of Western currencies, the final products of the Soviet forest industry were supplied primarily to the domestic markets. Furthermore, the uniform prices and standards for final products - determined by MINLESPROM, a leading central planning authority related to roundwood harvest and trade - distorted production costs of raw materials, labour, energy and transportation, and assisted the Soviet forest industry to avoid external competition. This induced to process in large scaled products of under-standard quality using ineffective production plants and applying wasteful and often nature consuming production technology (Dudarev *et al.* 2002).

Most of the forest industry enterprises were privatised in the beginning of the 1990s along with the fundamental changes in Russian economy, and the domestic market for forest products was opened for competition. However, the final products of the Russian forest industry were rarely competitive with foreign products mainly due to the inherited lack of incentives to respond to customer-orientated demand. Only low value-added products, such as roundwood, plywood and sawn timber, were relatively high competitive export products.

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[1] Finland was the only Western country with which the Soviet Union practised barter trade instead of trade in freely changeable currencies.

The operational environment in Russian roundwood market has also changed dramatically - at least from the viewpoint of foreign firms. During the Soviet era, the direct procurement activity of Finnish firms in Russian was exceptional. In the beginning of 1990s, exporting of roundwood became slightly easier, but there was a still vast amount of rules and export restrictions. While the export of Russian roundwood was liberalised, Western forest industry companies were highly interested in getting profitable raw material from Russia. Although the devaluation of rouble in 1998 assisted the roundwood exports, there existed a contradiction concerning the detailed internal rules of quality in Russia and the requirements of timber exporting companies. This discrepancy restricted the expansion of potential customers in Russian roundwood market.

However, despite the fact that Russia has vast forest resources, the amount of economically accessible forest resources is limited. Due to the lack of forest roads and the condition of infrastructure in general, logging operations have concentrated on areas where road network is working (Gareyev *et al.* 1998). Especially, these operations have taken place in Northwest Russia, in areas such as Republic of Karelia or Leningrad area. During the last ten years, utilisation of forest resources of Northwest Russia has been locally very intensive and currently the forest resources are nearly in full use (Piipponen 1999).[2] Therefore, enterprises involved in roundwood trade have revised their market behaviour and forced to make new plans and evaluations. A choice between investments and enlargement of operating area has to be made.

Some Western enterprises have looked after new possible sources of roundwood and others have started to export Russian roundwood from further areas. These activities have coincided with the increase in the export volumes and the consequent expansions of the permanent organisations of roundwood exporting firms in Russia. Russian forest policy has also changed. The aim is to promote investments in production capacity by implementing taxes and duties on roundwood exports. In the Republic of Karelia and Leningrad area, few sawmills have already been modernised by Western investors. A few new sawmill investments have also been made and plans for investing further are in process. Although Western investments have concentrated so far on mechanical wood working industry, it might be possible to build or reconstruct also pulp or paper mill in Russia within years (Industry reviews 2004).

Currently, Russia is negotiating for participating in World Trade Organisation. Although the time schedule and the possible transition period are under discussion, this participation will implicate more harmonised trade legislation, customs duties, and open competition in world market. Also, the aim of the forest policy in Russia has been to promote domestic value-added production and to attract both domestic and foreign investments in forest sector in Northwest Russia. In all, this progress towards international collaboration requires more cross-cultural connections together with more customer-orientated way of thinking. In addition to the old-fashioned forest technology, the lack of new and replacement investments, macroeconomic instability and

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[2] Annual roundwood removals in Northwest Russia are, on an average, close to the allowable cut. However, regional differences are high, as they were already during the Soviet era. Basically, logging occurs in areas which have been under intensive forest use already decades or even centuries.

deficient infrastructure, some to mention, the Russian forest industry is suffering from economic problems caused by the inadequacies to cope the needs of international forest product market. Developing Russian forest sector and its competitiveness naturally requires investments, both material and mental. The managers of Russian forest industry would benefit from adapting new business strategies and learn of new ways of thinking. Also, it is sometimes difficult for foreign enterprises and forest managers to understand the operational environment in Russia, where the culture, language, way of working, interpretation and enforcement of legislation, importance of unofficial relations, and business way of thinking distinctly differ from those features typical at the Western market economies in general and in product markets in particular. This complicates the daily communication, induce misunderstanding, and, among other fundamental restrictions, cause prudence for foreign investors to invest on Russian forest sector.

The major aims of this study are

1. to identify the major forms and causalities behind the insufficient understanding on the differences in national cultural background between Finnish and Russian roundwood trade partners,
2. to study the potential benefits from Finnish – Russian collaboration related to cross-cultural activities and
3. to evaluate the supporting and impeding factors related to the social interactions between the Finnish and Russian buyers, sellers, working partners and subordinates.

This study concentrates on cross-cultural communication problems on roundwood trade between Russia and Finland. As noted by Dudarev *et al.* (2004), the co-operation between Finnish and Russian forest industry companies in many cases can proceed mutual benefits. Thus, there is every reason to expect benefits not only through a trade of goods and intermediate inputs, but also significant expansion of through trans-border industrial co-operation, increase in investments and growth of trading in skills. Despite of its multifarious meaning, this study concentrates only on few key features definitions related to cross-cultural communication. Time and quality management are important dimensions of business conduct especially in the roundwood trade. In addition, there is power distance as a structural feature complicating business activities.

This study is organised as follows. Section two shortly reviews the current state of Russian forest sector. Roundwood exports from Russia, its development and present state are analysed in section three. Section four defines the main theoretical concepts concerning cross-cultural communication and discusses main differences between Finland and Russia. Finally, section five concludes with discussion of challenges for future research.

2 Forest Sector in Russia[3]

During the Soviet era, forests were regarded as an endless natural resource waiting to be exploited. However, as forestry and forest industry were not considered strategic branches, they lacked powerful sector ministries, and thus their development was largely neglected. Moreover, working in forest sector, especially in forestry, was not highly respected in the Soviet society. Although the forest sector was of minor importance on the national scale in the Soviet Union, its importance to regional economies was high. With this respect little has changed since the collapse of the Soviet Union.

During the Soviet time, logging permissions were based on long-term leasing contracts which were a part of centralised system. The auction system, widely applied during tsarism, was abolished after the revolution and restarted in 1993 (Vasin 2002). In the Soviet Union, leasing was a legitimate way to keep local forest industry as independent as possible from authorities. Nowadays, development in Russian forest sector seems to follow partly that Soviet tradition. As private forest ownership is not possible, long-term leasing contracts can be seen as a compromise between tightly state-owned and private forest resources.

In Russia, state is the major forest owner and logging companies are able to get logging permissions by renting forest areas or through special auction system. According to Forest Code of Russian Federation (Lesnoi kodeks…1997), public institutions such as schools are allowed to use forest resources freely in order to get finance for their annual operation costs. It is also possible to make logging contracts between logging companies and local leshozes (forest management unit). In practise, a notable proportion of roundwood is sold and bought outside the official logging permission system. Illegal loggings, which are made without any permission, constitute a serious problem in Russian forest sector. Even thought the annual volumes of illegal loggings have turned downwards, the estimates vary from 10 to 30 percent of the official volume of loggings (Gareyev *et al.* 1998, State Forest Service 2003, Pisarenco & Strahov 2004).

In auctions, logging company can buy a short-term logging permissions; the longest is valid one year after the auction. By renting forest areas, company can get longer, up to 49-year long logging permission (Holopainen 2004, Polosenie o porjadke…1997, Jacobsen 1999)[4]. However, the majority of renting agreements usually cover less than 10 years. Renting of forest areas is still the main way of receiving logging permissions in Russia: relative share of auctions has been about 20 percent of annual roundwood removals (Vasin 2002). The share of concession, the third legal way of receiving a logging permission, has been very small. The dominance of

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[3] While the full description of the development and current state of the Russian forest sector is beyond the scope of this study, a reader can consult www.idanmetsatieto.info to receive more detailed information.

[4] While writing this paper, Federal Law 199-FZ (dating from December 29th 2004) changed some sections of the valid Forest Code (1997) considerably. One of the changes was the lengthening of the longest forest rent period up to 99 years.

auctions and renting is mainly due to the weak infrastructure in Russia where large forest areas are practically not exploitable and accessible from the economic point of view.

Typically, risk-averse (can also be cost minimising) buyers prefer short-term logging permissions, because with longer ones, buyer is responsible for costs and duties to forestry such as regeneration. This is also a question of costs: it is expensive to acquire expertise and resources to regeneration activities. Especially, Russian logging companies are used to explore their relationships on local level by making straight contracts with leshozes and authorities. In addition, Russian logging companies rent a lot of suitable forest area, because in forest renting system social economic aspects matter often more than buyers' solvency (Piipponen 1999, Vasin 2002). In auctions price level is usually too high for majority of Russian companies, and therefore they try to get logging permissions through some other way (Jacobsen 1999).

The behaviour of large and small logging companies – lespromhozes – to receive a logging permission is not similar. Large logging companies usually use a rent as a method for receiving a logging permission. The share of short term contracts is approximately 80 per cent. Small logging companies obtain logging permissions through an auction. While there is not any guarantee for the contract prolongation, the both the small and large forest companies are not willing to invest in road building, reforestation and other infrastructure.

While foreign companies might have difficulties to enter directly to Russian roundwood market, auctions as a quite open trade way can be the best choice until company has created enough relationships and is used to business culture. Recently, Finnish forest industry companies, for example, have begun to use more Russian middlemen in their roundwood procurement. Perhaps partly due to that, the share of auctions has diminished over the past few years (Vasin 2002).

Among Russian authorities, renting of forest areas is considered to be a better way of selling logging permissions than, for example, auctions (Vasin 2002). In Russia, forest industry has been quite short-sighted: both local and foreign logging companies have used almost all accessible forest resources while state has had no possibilities to look after the forest regeneration and other duties (Gareyev *et al.* 1998). As a result, local authorities have decided to prefer longer logging permissions that can change Russian forestry towards more sustainable forest management. If logging permissions were longer, logging companies may have interest in investments on local infrastructure and forestry. That would help state to sustain or even improve current state of Russian silviculture and forest use.

Since 2005 the federal government is in charge for distribution of forest resources. The direction is a long-term contract up to 99 years based on an auction. The financial resources of multinational forest industry companies, Russian pulp and paper mills and Russian sawmills will be involved for improving the current situation in wood procurement.

3 Export of Industrial Roundwood from Russia

Roundwood was a minor export item for the Soviet forest sector.[5] In the beginning of the 1990s, only 5 percent of total felling was exported. After the shift to market economy the total volume of felling diminished drastically in Russia. However, the volume of roundwood exports from Russia began growing and has grown almost every year since 1992. In 2002, already 30 per cent of the total volume of felling was exported from Russia (Faostat) [6]. Thus, the export of roundwood has become an important part of Russian roundwood market. Clearly, the strategy of local logging enterprises to survive and adapt to new conditions and operational environment has been to sell roundwood to international markets, where the price of wood has usually been higher than in the domestic markets. This development is seen in Northwest Russia, especially. Although the role of foreign exporters and Russian middlemen has recently strengthened in local roundwood market and trade, local forest industry and logging enterprises have been able to maintain their positions as prime operators in local roundwood market in areas such as Murmansk or Arkhangelsk (Piipponen 1999).[7] In fact, in many cases, it has been difficult for foreign enterprises to get logging permissions, especially long-term lease agreements.

3.1 Total Roundwood Exports from Russia

Russia is one of the major roundwood exporters on global scale. From the beginning of the 1990s annual roundwood exports from Russian has grown significantly.[8] In 1992, the total volume of export was about 10 million cubic meters, while ten years later it has grown to over 35 million cubic meters (Fig. 1). Main reasons for this development are liberalisation of foreign trade in Russia in the early 1990s, devaluation of rouble in 1998, and the increase in demand for Russian roundwood in neighbouring countries both in Europe and in Asia.

Industrial softwood dominates the export of roundwood, and the increase in the total volume of roundwood exports is mainly due to the increase in softwood exports (Fig. 1). Currently, approximately 70 percent of roundwood exports from Russia consist of sawlogs and 30 per cent of pulpwood. Annual volumes of fuelwood exports from Russia have been marginal, slightly over one million cubic metres (Fig. 1).

[5] However, even though the export volumes were small, Soviet Union was the leading exporter of the coniferous species in the world in 1975. See Redko & Redko (2002) for details.

[6] The export shares differ between assortments: From the total production, 45 percent of coniferous pulpwood is exported. The corresponding shares for deciduous pulpwood, coniferous and hardwood sawlogs are 49%, 24% and 3%, respectively.

[7] By regions, the export shares of industrial roundwood are approximately: 1% in Arkhangelsk and Komi, 40% in Vologda, 60% in Karelia and Novgorod, and 90% in Leningrad, Murmansk and Pskov.

[8] The total amount of roundwood constitutes industrial roundwood, fuelwood, chips, impregnated wood and wood residuals.

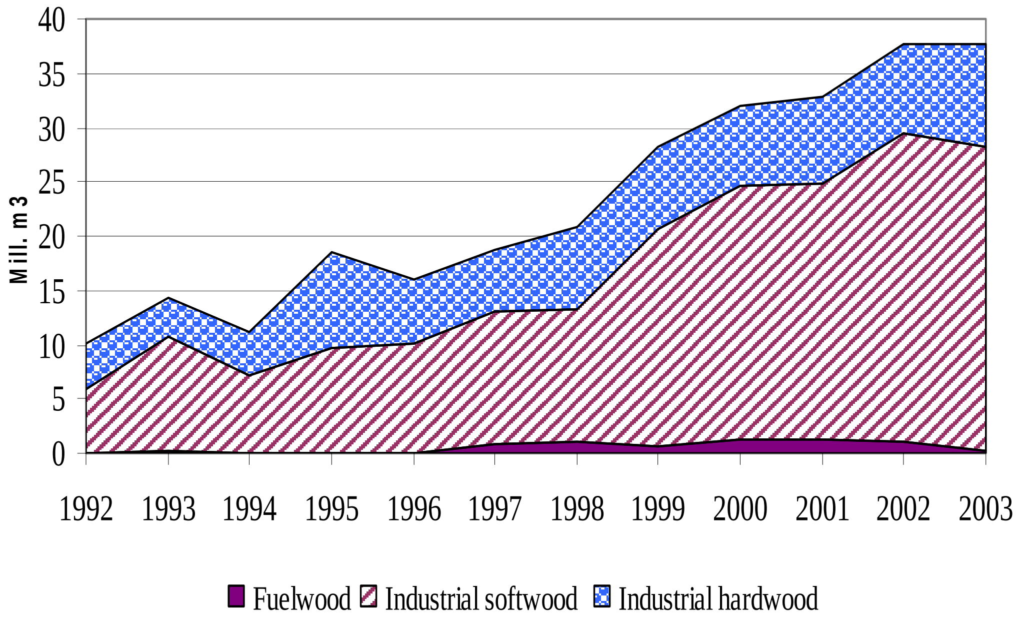

Fig. 1. Volume of roundwood exports from Russia, 1992 – 2003. (Faostat, Metinfo)

3.2 Roundwood Exports from Russia to EU-Countries

3.2.1 Industrial Softwood

As mentioned before, the majority of annual roundwood exports from Russia is softwood (mainly spruce and pine): during the years 1997 – 2002 the share of softwood has varied between 60 and 80 percent of the total roundwood exports, and the volumes of softwood exports are trending upwards (Faostat). Especially, softwood exports from Russia to current area of European Union (EU 25) have slightly grown until 2002. Thereafter, the increased roundwood demand in China has displaced the export to EU area.

On an average, one third of the total softwood exports from Russia have entered the EU-countries during the years 1997 – 2002 (Fig. 2). In addition, the volumes of softwood exports to other than the EU-countries have been growing since 2002. This results from the increase in softwood exports from Russian Far East to Asian countries, to booming markets of China, especially. Indeed, nowadays China is world's largest importer of industrial softwood, most of which originates from its neighbouring Russia.

The volumes of softwood exports from Russia to the European Union have distributed quite unequally. Finland and Sweden are the most important trading partners accounting for over 80 percent of the total export volume (Fig. 3). In 1997 – 2002, Finland's share has been on an average 60 percent and this share has had a growing trend (Faostat). During the same period, the export share of Sweden seems to have diminished while the export shares of the Baltic countries, especially Estonia and Latvia, have grown slightly. (Faostat)

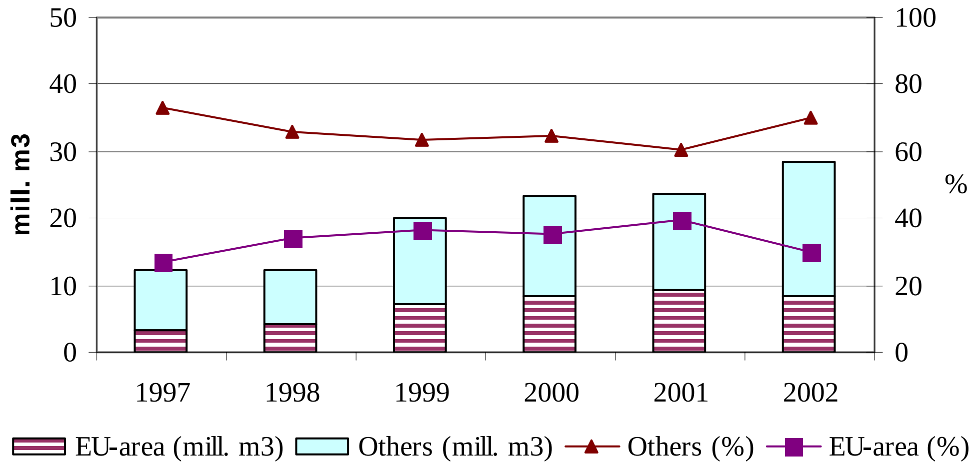

Fig. 2. Export of industrial softwood from Russia to the EU and other countries. Annual volumes and relative shares from year 1997 to 2002. (Faostat)

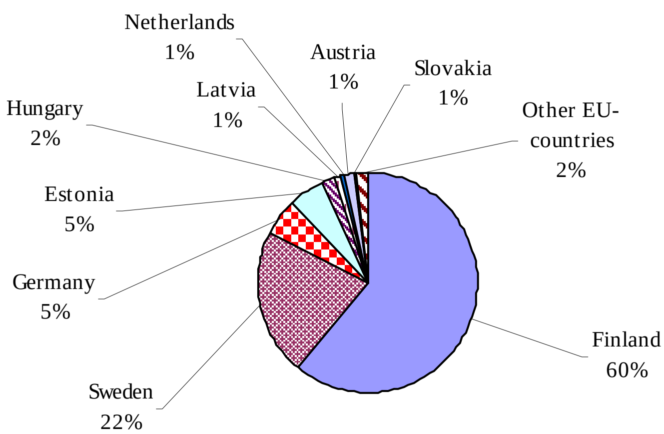

Fig. 3. The percent shares of softwood exports from Russia to EU-countries. The shares have been calculated as an average of the export volumes for years 1997 - 2002. (Faostat)

3.2.2 Industrial Hardwood

Despite the fact that the majority of Russian roundwood exports are softwood, industrial hardwood (mainly birch) is also significant export item for Russia. Especially, the trade in hardwood between Finland and Russia is notable. Export volumes of industrial hardwood from Russia have grown significantly during the years 1997 – 2002. Thus, the development of export volumes of hardwood has been similar to that of the export volumes of softwood. Almost all the exported hardwood has entered to European Union, as the share of other countries has diminished rapidly (Fig. 4).

The reason for the exports of hardwood originates to the collapse of Soviet Union. Most of the fibreboard and particle board enterprises were bankrupted and Russia has no capacity to utilise all available volume of harvested hardwood. Most of the pulp mills in Russia use only softwood pulpwood in their production. While forests are mixed in Russia, and the forest legislation obligates to cut the hardwood as well as the softwood from the stands, logging companies, especially in remote regions, are willing to sell the hardwood pulpwood even for free of charge. In Northwest Russian regions closed to Finland, the competition of hardwood between Finnish companies has had positive influences on logging companies' profits together with employment and other social impacts. Therefore, the federal government in Russia has even promoted exports by diminishing customs duties for hardwood pulpwood.

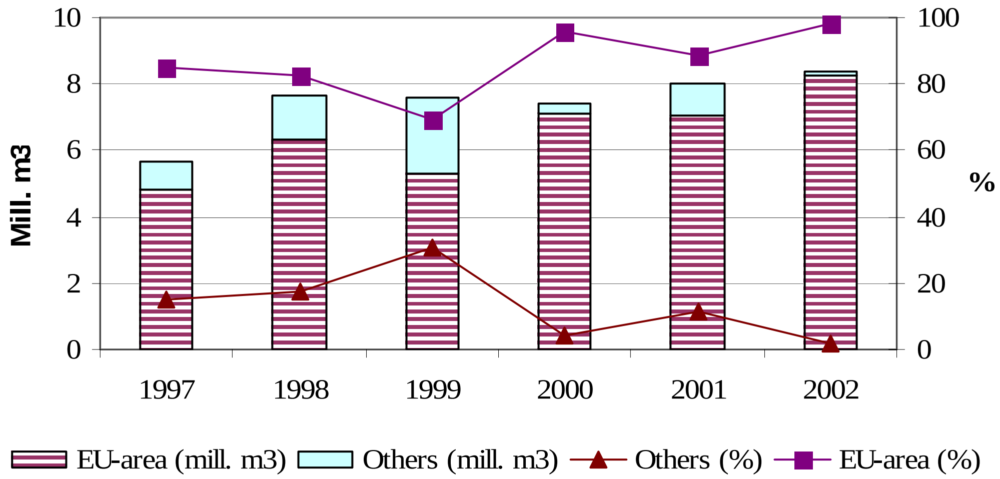

Fig. 4. Export of Russian industrial hardwood to the European Union and other countries. Annual volumes and relative shares from year 1997 to 2002. (Faostat)

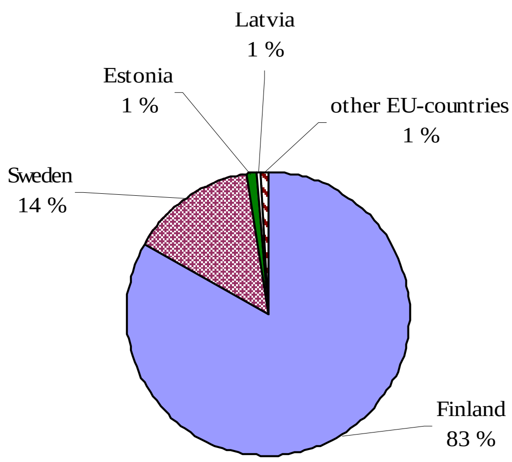

Fig. 5. The shares of different EU-countries of total export of industrial hardwood from Russia. The shares have been calculated as averages from the years 1997 - 2002. (Faostat)

In 1999, nearly 30 percent of hardwood exports from Russia ended up outside the current area of European Union, while three years later the same share was only a few of percent. Thus, the situation is opposite to that of exports of Russian softwood. A majority of Russian softwood exports has gone outside the European Union while almost all the exports of industrial hardwood have entered the EU-countries.

The exports of hardwood from Russia to the European Union has distributed even more unequally than exports of softwood. On an average, over 90 percent of the export of Russian hardwood has headed for either Finland or Sweden (Figure 5). On a national level, it seems that Finland has strengthened its position as the major importer of Russian hardwood, while the shares of the other EU-countries have been almost unchanged. (Faostat)

3.3 Roundwood Exports to Finland

Partly due to the geographic location, Russian roundwood has become highly important for Finnish forest industry. The import volume of Russian roundwood has more than doubled from the early 1990s to recent years consisting 13.4 million cubic meters in 2003, and accounting for about 20 percent of the total industrial use of raw wood in Finland (Figure 6). The share of the Russian roundwood has been over 80 percent from that of the total roundwood import to Finland.

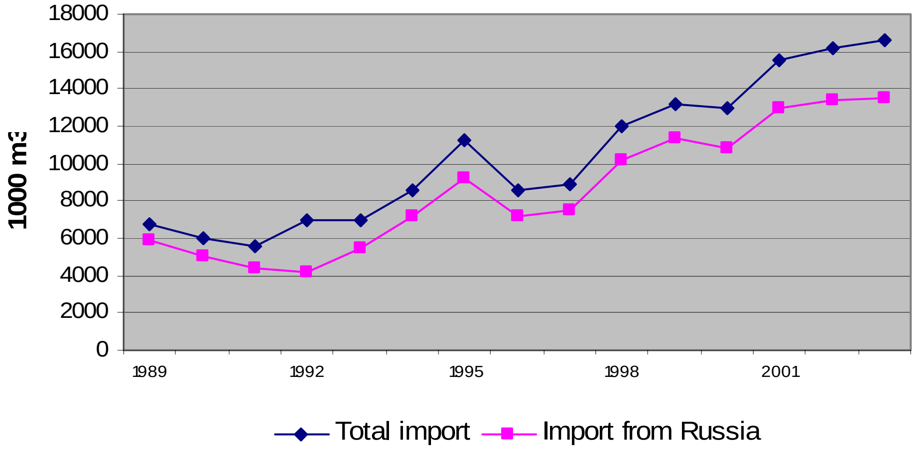

Fig. 6. Volumes (1000 m^3) of total and Russian originated roundwood import to Finland 1989 - 2003.

Although the total volume of imported roundwood from Russia has increased, the distribution of industrial roundwood assortments has changed during the past 15 years. Figure 7 depicts this evolution.[9] In the early 1990s, over 90 percent of the roundwood imports from Russia to Finland

[9] The data from 1989 – 1994 is collected from Board of Customs (see Mutanen 2004). For years 1995 – 2001, only the total imported volumes of species are available. Therefore, to receive import shares for different assortments, the sub-division of pine, spruce and birch into logs and pulpwood was estimated by using the shares of assortments with respect to the total import to Finland as reported by Finnish Forest Industries Federation. With respect to birch, the approximated annual shares describe fairly well the realised import shares from Russia, while regarding pine and spruce, these approximations may slightly un-

consisted of birch and pine pulpwood. While birch pulpwood still is the most important import assortment with share of over 45 percent, the share of softwood logs has increased especially after the mid-1990s. In 2003, the import share of logs was about 37 percent of the total roundwood import from Russia. Especially, the spruce sawlogs have increased their share from 2 per cent in 1995 to 19 percent in 2003. Also, spruce pulpwood has become a more important import article for Finnish forest industry as its share of total roundwood imports is currently 9 per cent.

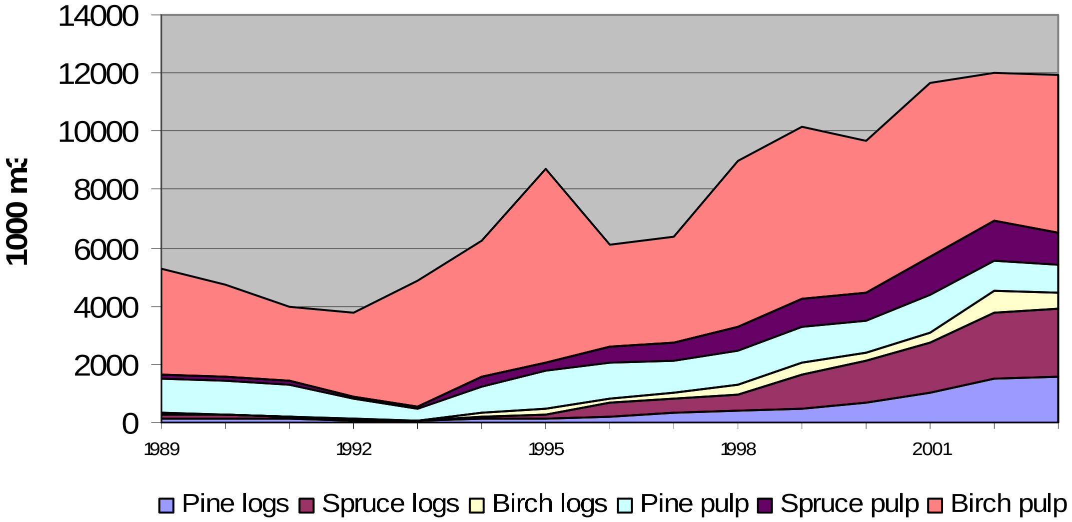

Fig. 7. Distribution (1000 m^3) of imported roundwood assortments from Russia to Finland, 1989 – 2003. (Board of Customs, FFRI)

4 Cultural Aspects in Finnish-Russian Roundwood Trade

Cultural issues are important for mutual understanding between the trading partners in international trade. The analyses over the dimensions of culture will clarify their importance both in the actual trade conduct as well as in the position of structural background issues among the trading partners. In market dealings, pure trade is only a part of the business process. There are other significant structural elements in the background, such as cultural questions, among others. Particularly, in roundwood trade between Finland and Russia this fact is observable and important because the partners' societal and economic developments have been highly different during the last few decades. While basic elements of society have been quite stable in Finland, Russia has gone through dramatic changes in society and economic system. Practices, which were created during Soviet era, hardly apply in the current conditions. Majority of managers in the Russian forest sector enterprises had limited experience in their background concerning direct partnership in trade contracts and communication with the international business partners. This is mainly due to the prior Soviet export trade patterns in the early 1990's based on the

der- and overestimate the shares of logs and pulpwood, respectively. From 2002 the Board of Customs has reported the imported assortment volumes from Russia.

highly specialised centralised foreign trade authorities. Specialists in Soviet foreign trade were trade specialists in barter trade without much knowledge on business trade. Transition into the new trade patterns and markets was very fast. However, it will take time to become familiar with the new habits, requirements, way of working and operational environment with the Western trading partners. On the other hand, cultural question is not one-sided. Majority of the current Finnish roundwood trade partners had their activities in the background, behind the trading houses. They will benefit from increased knowledge over Russian business culture to become viable Russian roundwood market participants in the current market context. Sufficient knowledge about partner's way of thinking and operating on both sides is one of the major conditions of successful business relationship.

4.1 Culture as Definition for Cross-Cultural Studies

Culture has various types of definitions depending on the context and coverage. The definitions range from all-encompassing to limited areas of interest, as can be seen in the following examples.

> "By culture is meant every aspect of life: know-how, technical knowledge, customs of food and dress, religion, mentality, values, language symbols, sociopolitical and economic behaviour, indigenous methods of taking decisions and exercising power, methods of production and economic relations, and so on." (Verhelst 1990, 1996)

> "Culture is communication." (Hall 1959)

> "Culture is how things are done here." (Mole 2001)

> "Culture is a body of learned behaviour, a collection of beliefs, habits and traditions, shared by a group of people and successively learned by people who enter the society." Mead (1951)

The majority of definitions on culture have a common feature that it is learned instead of inherited. Inheritance means in this context an unconscious adaptation to habits and other culture related implicit features. Learning, on the other hand, cover the explicit features transmitted mainly in schools and in other institutionalised modes to implement national culture. Indeed, communication means interaction from Latin language; interaction with society or interaction with person as a product of the society. According to Hall (1959) there are cultural aspects in all human actions meaning that interaction is the main aspect of human life that is closely connected with culture. Interaction means personal issues: how people express themselves (including shows of emotion), the way they think, how they move and how problems are solved. On the society level, the process of interaction determines how the actors prepare contract, how they follow to the agreement, how they distribute power and responsibility, how they prepare schedule, how transportation systems function and are organized as well as how economic and government systems are put together and function, and so on (see Hall 1959, 1976). Majority of the examples above have both unconsciously adopted and codifiable features of the national culture. Thus, national behaviour has historical and cultural background as well as those transmitted in codifiable forms. Interactions between single persons over up to the societal patterns of behaviour are outcomes from the culture they come from. Mole (2001), on the other hand, interpreted culture in a way that values, norms, customs, religious, national history, among others, influence on our interaction, way of think and communication. Interaction could be presented not only as verbal but also non-verbal communication, and it may be expressed by a special way of production process or organisational culture, and show the way of thinking and doing. The separation between codifiable and silent knowledge has become an important issue in the management of business firms in market economies. The management over codifiable knowledge concerning cumulation, formation, transmission and implementation can be planned. However, majority of silent knowledge is in implicit form in the heads of the members of the organisation.

In general, the definitions above emphasise the homogeneity of culture. Culture is often described in terms of common values, beliefs and norms, assumptions, perceptions, attitudes, symbols, heroes, rituals and ceremonies, behaviour including common patterns of communication, customs and etiquette. All these terms are closely connected: beliefs and norms imply common values, beliefs and norms in turn create assumptions while assumptions steer perceptions. Perceptions are shared with the attitudes and the world on heroes and complete scoundrels. Heroes are often an important part of the culture by supporting the values and creating ideal behaviour patters to society or single groups within (country or organisation). Every nation tends to preserve and create heroes and etiquettes as expressions over their specific way of thinking.

Culture covers also the unconscious features in the minds of human beings. Each individual has born into particular society and family, and they learn of thinking and behaving from the people around them. Hofstede (1986), the pioneer of intercultural studies, considers cultural issues as a kind of internal mental programming – the permanent software of human mind in a society concerned. He identifies three levels of uniqueness in mental programming: universal, collective and individual. Universal level is presented by mental programs which can be inherited or transferred in our genes, or they can be learned after birth. Universal level is the “biological operating system” of the human body, but includes a range of expressive behaviours, such as laughing and weeping, and associative and aggressive patterns of behaviour which are found in higher animals. The collective level of mental programming is shared with some but not with all other people; it is common to people belonging to certain group or category, but different among people belonging to other group or categories.

The individual level of human programming is the level of individual personality, and it provides for a wide range of behaviour modes within the same collective culture. Harris & Moran (2000) formed another concept: “Culture is fundamentally a group problem - solving tool for daily coping in particular environment”. From their point of view, culture can be analysed in macro context, such as in terms of national groups and activities typical to them, or micro sense, such within a system or organisation and their modes in behavioural patterns.

The dimensions of culture evaluated in this research consider a special model of human behaviour, as mental programs of individuals distinguishing the members of one human group from another (Hofstede 1986). This level of culture is based on national values that appoint mental programs, and thus, influence on national business style and organisational behaviour (see Hofstede 1986 and Harris & Moran 2000). Values that indicate the national collective mental programs in business culture consist of economic, political and religious system. Thus, collective programming is a special form of management culture or style. The special type of behaviour among Finnish or Russian groups of managers respectively is considered culture specific. The latter is assumed to be involved and identifiable in Finnish-Russian roundwood market.

4.2 Differences between Roundwood Markets in Finland and Russia

Cross-national differences in managerial values are considered crucial issues characterising the business communication in the global market where co-operation and understanding are essential to make effective decisions (Teprasta & David 1985). Values in economic, political and religious systems differ significantly between populations. Thus, respective management styles and organisational approaches are also likely to differ causing supporting and impeding factors related to trade contracting.

Western business communication with Russian managers sometimes proceeds frustration because of the mutual inability to understand each other.[10] Russia and Russian business people have poor command over the methods and ideology behind the management of market economy, firms and their representatives. The values in Russian economic, political and religious systems have nowadays without parallel cultural changes among Russian stakeholders. Forestry and the development of the Russian forest industry have frequently been in the political arena in recent times. On Russian side, this is because of the planned changes in the legislation of forestry would be based on a new economic and political values. On Finnish side, major issues have been a) potential and realised capacity investments in Russia and b) effects on the use of domestic roundwood resources and local stumpage prices. Benefits of developing the forest industry in Russia have been mutually understood. New values creating new political and economic systems mean that Russia needs a new management culture in their forest sector enterprises. Current management culture in forestry will benefit from the creation of a new management culture. This has turned out to be difficult. Russian experts have studied best forest policy practices in foreign countries, made comparisons between different systems of forest management and identified the fundamental values on which these systems are based. These activities have preceded the evaluation and preparation of the new forms in the new forest legislation.

[10] Industrialised market economies are called here as western economies and the business culture applied in the majority of those countries is called as western business.

The features of Russian business culture can be characterised by detailed legal framework governing the formalities related to trade actions. Nevertheless, at the same time major trade transactions are based on implicit mutual understanding between the trading partners. Legal framework constitutes governance potential in the hands of authorised institutions. This potential proceeds the actual partners to achieve mutual understanding without public interventions.

There exist much interest among Western trading partners to inculcate Western methods of business culture in Russian forest economy, to understand what type of business management would evolve, and which Western concepts of management and organisation would work best in Russia. At the same time, Russians emphasise their own deviant tradition in business culture. Roundwood trade between Finland and Russia can benefit from the reforms adopted from Western organisational culture only if it is applied in the forms adequate for Russian mentality.

Features of national culture analysed in this study provide insight into the cross-national differences and similarities in managerial values between Finland and Russia. The important features are power distance, individualism as opposed to collectivism, competitive orientation (or according to the Russian - Finnish roundwood market customs orientation), patterns to avoid uncertainty, political – influence orientation, and dogmatism. Taking together, they can elucidate managerial philosophies of doing business in Russian - Finnish roundwood market. The existence of these features is identified in this study by comparing quality and time dimensions in trade practice. These dimensions are involved to identify the proportions of codifiable and implicit features in trade patterns to be relevant. However, power distance as a background variable of roundwood trade is discussed first.

4.3 Power Distance in Russian Roundwood Market

The concept of power distance measures the human inequality and its acceptance in a society (see, e.g. Hofstede (1986) on work-related values in international corporations). Power distance is identifiable in different fields of society and social life. In essence, power distance is associated with how unequal the less powerful members of organisations and institutions experience the power distribution in society. This implies that inequality is defined from below, not from above. It also suggests that on society level, inequality is endorsed by the followers as much as by the leaders.

Understanding of power distance as a part of national culture is based on the statement of Gasse (1976): “Each culture justifies authority using its major values“. Hofstede (1986) devoted to culture’s consequences and introduced the index of power distance based on Patchen’s (1965) index of “willingness to disagree with supervisors”. The index of power distance explains the degree to which decision making is centralised in a country: the higher the index value, the more likely power is centralised.

National cultures are reflected on the power distance index value. Differences between index values are outcomes of differences in political systems, religious life, and philosophical and ideological thinking. The distance of power is different in Russia and Finland when measured with index scores. Russia has index value 88, whereas Finland has value 33 (Hofstede 1986, Elenkov 1998).[11] Thus, there is a distinct difference between Finnish and Russian political and economic systems. The use of index in this context helps also to identify the differences in the Finnish – Russian roundwood trade.

According to Rosten (1991), power in Russian organisations is concentrated in the hands of the general director, with little influence in the decision making process on the part of middle managers decision. Bollinger's (1994) study on the Russian system of management also placed Russia among the countries with high power distance. This mode of governance stresses the importance of knowledge in the implicit features of the business culture. However, it is likely that there will be a change in Russian managerial culture as a new generation of Russian managers educated in Western universities is entering the business life. First signs of this change are already visible (Haapaniemi *et al.* 2003).

The power distance in Russian forestry partly explains the poor and inadequate business connections between the Russian and foreign partners involved in roundwood trade. The Russian trade partner concentrates on the internal power of his organisation to have an adequate group orientation and to achieve power support inside the Russian organisation. The high index value of power distance can also be used to explain the inadequate quality of products, detailed legislate control, the system of private property and freedom, and system of communication and personal interaction in Russian forest sector.

High level of power distance is clearly reflected on the instability of Russian forest legislation. The Forest Code (1997) is very general without detailed explanations about the property rights or the reasons of deprivations. One of these reasons, according to Forest Code, is "withdraw of forest area for public needs''. What means "public needs", nobody knows, there are no comments on it. According to the new forest legislation, the rights of local power and its control over forests are cut and local business should be under the control of central power.

Under the central control, the interests of central authority substitute to those of the customers in the forest lease and roundwood market. This is because there are no direct connection between the timber producer (leshoz) and the foreign customer (e.g. Finnish roundwood buyer). Timber producer is not interested in enhancement of his products according to the market economy standards. Russian timber producer trade with a middleman at low price and has no money to

[11] Centralisation of authority and authoritarian leadership has a long history in Russia. Over the centuries, Russian culture has been replete with ruling elites and authority figures that tightly controlled society and suppressed personal freedom. Among these were leaders of Russian Orthodox Church, tsars, landowners, and the communist party elite.

modernise the production or to increase knowledge of the employees. Sometimes local or federal authorities organise own logging enterprises or control local firms. This state of the art defines the real owner of forests in Russia (state) imprecisely. Formally, local or regional authorities are responsible for the forests, but informally nobody knows who the authorised decision maker is.

The long tradition of centralised public management and control in all areas of life in Russia was strongly reinforced during the years of communist's rule. This tradition has continued in Russia irrespective of the break-up of the Soviet Union. Consequently, a minor group of authorities determines the rules of getting a logging license in Russian Federation. This and the aforementioned examples indicate that decision making in a country with a high power distance index value (Russia) depends not on legislation but on leader's motivation.

The motivation of the decision maker in Russia is closely connected with his/her personal characteristic, his/her position in the hierarchy and the position of hierarchy with respect to the power structure. Leaders in Russian forest complex sometimes are not experts in forest industry; rather, they are the representatives of powerful business groups. At the same time, they are persons who have own contemporaneous interests both in oil and forest businesses. These so-called oligarchs make financial investments into Western commercial banks and forest industry to diversify risk. The oligarchs are closely connected with central power and thus they have a strong influence on politics and legislation system. Central power, in its turn, is interested in large-scale forest industry companies because central power should have a control over forest exports and money. As central power and oligarchs have mutual interests, large scale business and politics are closely connected in Russia.

Clearly, understanding better the differences in organisational structures and management styles caused by the level of centralisation of power and other features related to national culture would benefit both the Russian and Finnish partners in roundwood trade by showing the way how to deal with each other.

4.4 Quality and Time Dimensions in Roundwood Trade between Finland and Russia

Quality and time dimensions in roundwood trade are issues that can be applied when characterising conduct among the participants in business activities. In roundwood trade between Finland and Russia, these concepts are of particular interest. If the participants in trade understand the quality norms and time from different perspectives, this induces misunderstandings and evidently impedes business activities.

4.4.1 Quality Dimension in Finland

To evaluate success in business activities, there must be a certain measures of the quality dimension in trade. Quality evaluation can be based on a) adopted routines (implicit), b) specifications made in formal contract (case specific) or c) some formal definitions such as ISO 9000 standard (institution). Quality evaluation of b) and c) types is possible with respect to the documented targets whereas evaluation of type a) can be only qualitative. In timber harvesting, there are specific dimensions for quality, such as cutting, limbing, cross-cutting and transportation, which are country specific and time or technology dependent.[12]

In Finland, the target of quality dimension in the cutting process is to maximise both quality and value of each part of the trunk. However, often it turns out to be difficult to take into account the preferences of both procurement section of Forestry Industry Firms (FIF) and Non-Industrial Private Forest Owners (NIPFO), because the objectives may often be at least a little contradictory. While forest owner typically wants to maximise stumpage price income, industry as a buyer of timber has to follow market demand of the final products. This affects wood procurement and demand for different timber assortments.

Needs of different buyers (FIF) are not similar: one needs more pulpwood while another prefers logs, even small ones. That is why Finnish version of cutting process of trunks can be described customer-oriented, that is, needs of each buyer is taken into account during the whole cutting process. Because cutting requirements differ among buyers, it would be important for forest owner and his income expectations to find a kind of buyer, who maximise value of each trunk. In practise, however, it is often impossible to find optimal solution for both parties, and therefore both seller and buyer have to be willing for compromises.

Basic elements of cutting process, variety of lengths and minimum diameters of logs and pulpwood, are also important aspects on market scale. In addition to these dimensions, there are additional quality requirements especially for logs such as the maximum diameter of branches (alive, dead, and rotten) and sweepness of the trunk. These quality dimensions are set by the buyer. The quality dimensions of the growing stock in a particular stand are reflected in the stumpage prices and thus affect the total stumpage income of the NIPFO. However, in Finland in contrast to Sweden, for example, the logs are not prised log by log with respect to their quality but *en masse*. This is one reason why relatively small changes in timber prices, especially in prices of sawlogs, have remarkable effects on NIPFO’s roundwood sales. Also minimum diameter of pulpwood, as a kind of limit between valuable and nonvaluable part of the trunk, has a notable impact on roundwood supply. When demand exceeds supply, FIFs may encourage NIPFOs to sell more wood by changing quality requirements or prices.

[12] The management of quality dimension can also be divided into the trade and harvest issues. The former means identification of trading items (quantities, qualities, unit prices, timing and division of payment, among others). The latter is related to the type of the trade (stump trade or trade on roadside).

The majority of NIPFOs belong to the PECF (minority to FSC) certification system. This certification system determines management targets that often are related to environmental issues. Procurement and regeneration must meet the requirements of the certification to be viable from the viewpoint of NIPFOs.

4.4.2 Quality Dimension in Russia

Russia has a long tradition of own standard quality. The national and sectoral quality standards for industrial roundwood were effective during the Soviet era and had the obligatory status.[13] Consequently the quality of delivered timber assortments must exactly correspond with the well-defined standard. These standards define:

- Correct understanding and having a single meaning of special terms in roundwood quality.
- Buyers' statement for roundwood requirements.
- Sellers' statement for the effective properties of roundwood.
- Correct identification and exact measurement of indicators, using in quality inspections of roundwood.
- Applying methods for volume and size measurements, which provide close to real values and maximise of economical use of roundwood

The quality features were mainly related to technical and physical requirements of the trading items during the Soviet time. In frame of centralised planned economy this approach worked quite well. The latter was partly due to the secondary function of unit prices. They were only technical units for calculation instead of the role prices have in market economies. However, after the collapse of the Soviet Union and the privatisation of forest industry, the logging enterprises faced a challenge to participate in the international wood trade. The obligation to meet Russian quality standards started to restrain the developing of the international trade based on customer requirements. This was partly due to the inadequate dimensions and measures of Russian roundwood with respect to need of the international customers.

The Russian law "On standardisation" (1993) improved the situation. According to the law, only a wood contract is an obligatory for execution both for a seller and for a buyer. The demands of the national and sectoral standards and the technical requirements for species, sizes, defects and wood processing, influencing on quality and price, are not obligatory. This change of a standard status allows roundwood suppliers to expand the range of roundwood assortments

[13] According to Karpuhin & Milner (1997), the quality requirements in international trade can be identified in four stages: 1) quality defined through technical parameters (dominant in the 1960s), 2) quality based on identified customer requirements (dominant in the 1970s), 3) quality satisfying measured customer satisfaction (dominant in the 1980s) and 4) quality maximising the pleasure of the customer (dominant in the 1990s).

according to the international market demand. The suppliers received a possibility to use the both standards and buyers' specifications at the same time. Moreover, they can use the buyers' methods of measurement and quality inspection. Usually the requirements and methods are included in a wood contract as annexes. However, the environmental, healthy and state income requirements must be met by obligatory rules.

The most sensitive demands to quality issue came from the economical security requirements. In frame of the roundwood exports, it means the control for currency earnings repayment. Customs and bank check the difference between wood prices in cargo customs declarations and in bank receipts. The seller must pay a fine if the difference exists. A risk to be a bankrupt is high, because of various interpretations of norms. Therefore, the Russian suppliers initiated the creation of technical requirements for roundwood exported to the most important importers of the Russian roundwood.

The Ministry of Economics of Russia adopted the technical terms on roundwood exports to Finland in 1998. These terms can be used by both contractors (seller and buyer) and by state inspection for roundwood exports (customs)

- TU 13-2-1-95 "Pulpwood delivered to Finland"
- TU 13-2-10-96 "Pulpwood delivered to Finland by vessels"
- TU 13-2-11-96 "Pulpwood delivered to Finland by railway and trucks with using weight method of volume measurement"
- TU 13-2-8-95 "Birch sawlogs delivered to Finland"
- TU 13-2-12-96 "Coniferous sawlogs delivered to Finland"

The requirements state the typical demands of Finnish consumers for roundwood quality, methods of wood measurement, quality and acceptance inspections applying on the Finnish home market. Moreover, the features of roundwood deliveries from Russia were taken into account.

The above technical requirements are standard annexes to a wood contract, where the common practise of a roundwood trade is stated. The wood contract demands are obligatory for a seller, a buyer and the authorities. The technical requirements just define the level of a wood contract.

Adopting of technical requirements had the following consequences:

- Integrating of the Finnish measurement with bark and the Russian measurement without bark.
- Admitting the acceptance and payment based on a measurement in Finland by customer (common trade practise) without attracting of independent experts.
- Confirming 5 % tolerance of roundwood price, delivered by a contract, as a result of measurement errors by a customer and a supplier.
- Improvement of the Russian suppliers' practise in the international quality regulations and the up-to-date measurement methods.

- Increasing of the Russian suppliers' responsibility for observance of rules and conditions of the Russian-Finnish roundwood trade.

However, establishing during last years the Russian state quality control system restrains the development of the roundwood exports.

Using the traditional terms of payments, based on acceptance reports in Finland, increases a commercial risk for Russian suppliers. At the same time, the companies, registered abroad, are free from penalties and extra costs for an expertise. These kind of intermediated companies actively use the preference, buying cheap roundwood in the Russian remote areas.

Since 2004 the Russian custom expected of the quality standards, created in 1970s, observance, which do not apply in practise. Moreover, according to a new customs order, exporters have to declare the amount of roundwood with bark and, therefore, to pay extra custom duties. Since 2005, a new national standard GOST R 52117-2003 “Roundwood. Measurement methods.” is effecting without the proper certification of methods. By opinion of Russian roundwood exporters, the applying of the standard will increase the customs dues and fees from 3 to 20 per cent for reasons related to the measurement coefficients. Thus, the back process of strengthening of quality standards is observed in Russia. It looks quite logically in the frame of centralisation of the authority process in Russia.

4.4.3 Time in Business Activities

The perspective and understanding of time are culture dependent. In the Western market economies, the conception of time can be understood as linear or monochronic. There are past, present, and future, through which time is felt to flow. Time is limited and its management requires careful planning. Creativity is limited to some extent by the cause-effect perceptions. The Russian concept of time can be characterised as polychronic or the ‘zone’. This time concept is associated with the feeling of timelessness. Time is not felt to flow although physical and mental things still happen. Planning and working are more spontaneous and undetermined. As there is no strictly determined and limited one time, multiple things are being done simultaneously.

In Western market economies, firms act according to the linear time concept. For example, the use of Just On Time (JOT) management culture in production implies that time is understood as linear. The transaction costs due to buffer stocks, undelivered products, and slack periods in production chains, are outcomes due to deviations from linear time management. In the globalising world, the requirements associated with linear time concept are replacing the national cultural characteristics in business activities.

4.4.4 Time Dimension in Finnish Roundwood Market

Roundwood input service of FIFs in Finland is based on JOT real time procurement supervision. Procurement section of FIF provides a constant flow of roundwood as an input to the production plants of the company, and acquires a buffer stock of roundwood to equalise wood input flow to factories and sawmills. The buffer stock of roundwood is inevitable due to the business cycles of forest product demand, and seasonal variation in roundwood trade with NIPFOs. Roundwood inventories of FIFs 1) in forest (standing store), 2) on roadside (roadside store), 3) in transportation, and 4) in factory yard (factory inventory) cause inventory and capital costs. Firms try to minimise especially inventories 2-4 for capital costs. Inventories in 1 must be accepted but can be reduced by real time inventory bookkeeping and real time procurement and transportation management. The different time concept in roundwood trade in Russia cause transaction cost to the Finnish FIFs, because of the need for buffers stocks to meet the discrepancies in the timing of roundwood import deliveries.

FIFs arrange their roundwood inventories according to their accessibility to use (liquidity of store). The total value of roundwood inventory is the sum of costs at factory gate (stumpage price and harvesting costs) and capital costs together with calculable transaction costs. Roundwood of uncertain accessibility such as imported roundwood has high capital and transaction costs to FIFs decreasing the potential willingness to pay.

4.4.5 Time Dimension in Russian Roundwood Market

The centralised planned wood procurement system existed in the Soviet Union. The balance between customers' needs and suppliers' possibilities was achieved internally, as the state was the owner of forests, logging companies (suppliers) and forest industry enterprises (customers). The state did not allow the stoppage of wood products production, and transaction cost accounting was not applied to measure inefficiencies in roundwood procurement. The roundwood deliveries for every supplier were planned from the outside for time horizon of 5 years, a year, a half year, 3 months, a month, a decade and a shift. The wood price was planned as well. Thus, the role of a logging enterprise (lespromhoz) was a production unit in the totally centralised wood procurement organisation.

The centralised planned wood procurement system was abolished in the beginning of the 1990s together with the privatisation of forest industry. This changed the wood flows decisively. Through forest lease or auction, the logging enterprises took the rights to deliver the roundwood according to their own possibilities and economic interests. The state lost the planning and control functions for the roundwood distribution and the efficiency of roundwood usage. The idea was following: the market will regulate the wood supply chain. Thousands of logging companies, without experience in marketing, should find appropriate customers to make contracts and to create quality equipments according to conclude contracts by themselves. The role of time factor became stronger in the wood procurement.

The market of roundwood in Russia can be characterised as perishable with a long cycle of production, selling and consumption. A rotation cycle of coniferous stand around 100 years, the preparation for wood harvesting needs several years (roads, cutting site allocation, etc., felling is going up to one year with stoppage including off-seasons). During a summer time, roundwood is a perishable good because the quality is decreasing after 2-3 weeks of storage (blue stain, insect damages, etc). At the same time, an average speed of a long distance wood transport (railway, vessels) is low. It means that the delivery of some assortments is not possible during summertime. For example, fresh spruce pulpwood, according to the quality requirements (TU 13-2-15-99 "Fresh spruce pulpwood delivered to Finland"), should be felled and delivered to Finland within 2 weeks, what is practically impossible under the Russian conditions.

Due to the low technical quality of the Russian forest inventory and the heterogeneity of forest fund, there is a significant variation between the actual volumes of timber assortments in the forest stand and the volumes specified in the trade contract. Furthermore, the infrastructure of forest areas does not allow transporting wood all year round. Therefore, the well-timed performance of wood contracts is quite a hard management task in Russia.

The demand for roundwood as well as wood prices is varying constantly by species, size, and quality. For example, Russia has an excess supply of birch and aspen pulpwood with respect to the domestic utilisation capacity. The pulp and paper and wood product industries' need for roundwood vary seasonally and cyclically. Thus, forest industry enterprises prefer to make two types of wood delivery contracts:

- “Basic” long term wood contract (one or more years).
- “Optional” short term wood contract (3-6 months).

A long term contract, on the one hand, secures the basic annual roundwood need of a customer. On the other hand, a big or medium size logging company is interested in a basic contract as well, because it has forest resources in lease for dozens years ahead and must fulfil an annual allowable cut by every species. Based on a long term contract, the companies have possibility

- to loan money from a bank for a moderate interest rate for machinery renovation, infrastructure improvement, etc.,
- to optimize the consecution of forest operations and
- to improve a system of quality of roundwood.

A short term contract plays a stabilisation role in forest industry's wood procurement. A small and medium size logging company is a key player. Usually, this company buys the cutting sites for a short time usage (up to 1 year) on an auction. Also, company's target is cutting site with wood resources needed on the market at the moment. If demand for birch pulpwood is high, the target will be deciduous stand, and vice versa. Of course, a big size company has a possibility to participate in an auction as well, if it has enough capacity to manage not only their own cutting sites.

In Russia, time management depends also on communication system and infrastructure. Because the decision making is strongly connected with authorities, time management is often conditional on the opinions of different levels of officials. Therefore, it is typical of the system that it uses the polychronic system of time management, because local and central authorities may have different views or objectives on a question.

5 Discussion and Future Challenges

5.1 Cross-Cultural Issues in Roundwood Trade

The dramatic change in operational environment in Russia together with expeditious privatisation and the participation in world business activity in general have generated an increased need for Russian managers to adapt new business strategies and to learn a more custom and market orientated way of thinking. Also, while the inherited habits, working and business culture in Russia differ from those of the Western counterparts, not to mention language barrier and totally different operational environment, it is often difficult for foreign decision makers to understand how the business is implemented in Russia. Thus, there is a mutual benefit to understand each others ways of working.

Although Finnish wood industry has a long history in roundwood and timber trade with Soviet Union/Russia, only a few organisations both in Finland and Soviet Union were in charge for roundwood exports from Soviet Union. Thus, the direct business contacts between the Finnish and Russian forest enterprises and managers have not occurred until the collapse of the Soviet Union in the early of 1990s. Since then, the roundwood volumes and trade have increased substantially, accounting in 2003 for about 13.5 million cubic meters, together with a consequence change in operational environment in Russia. Nowadays, Finnish wood procurement organisations should make wood procurement contracts with a dozens, or even with a hundred private logging and intermediate trade companies or middlemen. Because of the geographic closeness to Finland, the cross-border areas, such as Republic of Karelia and Leningrad and Novgorod areas have been the most active partners in roundwood trade with Finland. While there still are some obstacles in trade, both big and small & medium scale enterprises (SME) in Finland and Russia have gradually become familiar with the activities related to roundwood trade by learning-by-doing and learning from mistakes. However, inexperienced wood suppliers (especially SME) in the distant Northwest regions still meet problems in their roundwood business and prefer domestic supply. Therefore, there seems to be a clear societal need for a research for cross-communication issues related to roundwood market in general and those of roundwood trade between Finland and Russia in particular.

The research concerning cross-cultural differences in roundwood trade helps to understand the differences in national cultural background, values and ways of thinking. Such study is likely to produce concrete improvements for both partners to understand each other’s objectives and aspirations, and to stimulate cross-cultural collaboration. Increased frequencies in roundwood trade activities support increased interests to develop routines and standardised procedures. These, in turn, will decrease transaction costs due to bureaucracy, administration and uncertainty among the trading partners. Knowledge on cultural differences decrease precautions, proceed for better organised roundwood use, and provide basis for cross-cultural comparisons and mutual learning to develop trade procedures. Also, the results may help to reduce the possibilities of potential conflicts and increase benefits between Finnish-Russian cooperation by providing guidance for how to structure the social interactions between the Finnish buyers (recipients of roundwood), Russian sellers, working partners and subordinates.

5.2 Towards Empirical Survey on Cross-Cultural Features in Roundwood Trade

To implement evidence concerning the importance of cross-cultural differences between Finnish and Russian forest managers involved in roundwood trade, the participants in this study will carry out an empirical research in the near future. Using a multistage operation, this study will be implemented by a questionnaire type research in Finland, Republic of Karelia, Leningrad Oblast and, possible, among federal authorities in Moscow who are involved in roundwood trade.

The first stage of the study will be implemented in Finland. The target group will consist of enterprises (managers) who are involved in roundwood import from Russia. Those persons are either interviewed personally or asked to answer the questionnaire. The questions concerning the cross-cultural aspects such as power distance, time and quality dimensions and other related issues (such as trust) which are important in daily contacts and business with Russian counterparts from the cultural perspective. Considering the demographic specificity of the two countries, the research is implemented in Southeast Finland where the most of the Russian originated roundwood is consumed and processed. Especially, the pulp and paper mills in Imatra (Stora-Enso) and Lappeenranta (UPM-Kymmene) consume majority of the imported pulpwood from Russia. The study also covers the managers of sawmills in Finland, both independent and those owned by the big forest enterprises, and managers of sawmills in Russia which are owned by Finnish enterprises.

After receiving evidence from Finland and after the revision of the questionnaire, a comparable study is implemented in Russia. The persons to be interviewed in Russia are representatives of forest enterprises of Titan and Ilym Pulp Corporation, middlemen, chiefs of the leshozes, representatives of the Russian Senate and, possible, officials from Russian Embassy in Finland and officials from Finnish - Russian Chamber of Commerce. The comparison and analysis of the answers help to evaluate the possible bottlenecks in roundwood trade from the cultural perspective. Also, depending on the quality of the collected data, the differences can be studied according to the statistical analysis.

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