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How to source from Russia?

- A multiple case study of six companies' experience of purchasing in Russia

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Abstract

Title: How to source from Russia? - A multiple case study of six companies' experience of purchasing in Russia.

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Issues: The issues presented are:

- What characterise Russia as a supplier market?
- Which sourcing experiences have been made by other Swedish companies in Russia?
- How can this knowledge be utilised at Scania?

Purpose: The purpose of this master thesis is to find out whether it is worthwhile for Scania to look for new suppliers in Russia, based on other Swedish companies' experiences of purchasing in the country.

Method: In order to answer the purpose of our thesis the study of Scania's purchasing organisation has to be complemented with in-depth studies of other companies' purchasing organisations. Five Swedish companies from different sectors have been chosen to constitute a reference to Scania and its sourcing attempts in Russia. Their experiences and procedures regarding sourcing from Russia are analysed with the aim to formulate a strategy on how to purchase from Russia. The material necessary are gathered mainly through qualitative interviews.

Conclusions: The study has shown that the Russian industry is characterised by low competitiveness and obsolete machinery. The transformation from a communistic production model to market based one is not yet completed and is among other things delayed by negative political interventions and a poor financial system.

Furthermore our case studies have shown that Swedish companies are not purchasing from Russia to a great extent and those who do primarily carry out local purchasing.

Thus the findings suggest that it is not motivated for Scania to actively search for new suppliers in Russia. The cost of an active search and the risk if they do not find any is higher than the possible rewards. Scania should however keep an eye on Russia if the industry develops.

Key words: Russia, Russian Industry, Purchasing, Business Culture, Multiple Case Study, Scania, Foreign Supplier

Acknowledgements

The work with this thesis has been an adventurous journey that begun in the early December 2005 with a lunch at an Italian restaurant in Lund. At that lunch we decided to do our master thesis together, in spite of the fact that we actually did not know each other; “at least he is from Jönköping” we both thought for our selves when we made the somewhat daring decision. When the Big Media Company cancelled our Master Thesis the day before Christmas the automotive company Scania brought us a late present we appreciated more than the other ones that Christmas; we were welcomed to write our thesis for them in Södertälje. Yeah!

A few weeks later we therefore installed ourselves at the purchasing department – and in a shared one-room Scania apartment (the rough get-to-know-each-other phase was defiantly facilitated by the Olympics.) Thanks to a super interesting topic for the thesis as well as nice co-workers at Scania the journey - not just the physical one to Russia - has been a very pleasant one which certainly will stay in our memory for a long time.

We would like to express our gratitude to our supervisors at Scania; Rolf Blomgren, Lars Erik Nerback and Lennart Lundström, who have given us interesting inputs and valuable support, and perhaps most important, made our trip to Moscow and St Petersburg possible to accomplish. Furthermore we like to thank the interviewees at the case companies; Johan Fröjdh (Alfa Laval), Åke Carlsson and Gennady Gushin (BBH), Per-Arne Sandmark (Electrolux), Mikael Franzén (IKEA) and Anders Göransson (Skanska). Your commitment to the project has been fantastic; without it the results of the study would have been much less usable.

Finally we like to thank Alexander Konson who have shared with us a Russian perspective of Western companies in Russia and also Erik Eberhardsson who, as a Swedish insider, has given us the opposite; a Western perspective of a Russian company. We also want to thank our tutors in Lund; Johan Lundin and Christer Kedström, for their professional guidance throughout the project.

Lund, May 2006

Richard Werthén Johan Öhlén

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1 Introduction

The introduction aims to give the reader some background information about the master thesis, which was carried out at Scania's purchasing department in Södertälje. Furthermore the issue and purpose of the study is presented.

"To acquire knowledge, one must study, but to acquire wisdom, one must observe"
– Marilyn vos Savant

1.1 Background

During the last 15 years there has been an increasing globalisation of the world. The implication is increasing global competition which forces companies worldwide to improve processes and production efficiency in order to be competitive. The reasons why this has happened are many. One is the homogenisation of countries and cultures because of media and Internet which also create new ways to communicate. Another is the forming of trade regions like EU, GATT and NAFTA which also contribute to the globalisation.[1]

History has shown that in a highly competitive environment many manufacturers begin to produce in low cost locations or outsource production to low cost producers. The reason for outsourcing is not just to lower cost, but also to gain access to the supplier's capabilities, e.g. competent personnel.[2] A study in spring 2006 made by Fordonskomponentgruppen – an organisation for suppliers to the automotive industry - showed that manufacturing in low cost countries will increase with 50 % in the forthcoming five years. Half of the studied companies said that they would employ more personnel in Sweden - instead of outsourcing production to low cost countries - if they could find competent and experienced people in Sweden.[3]

The reason why cost is not the only factor to consider when deciding where to produce is related to the new production conditions that companies are facing today. Besides the shift from national to global competition there is in fact a shift from make-to-stock production to a kind of build-to-demand production model.[4] This, together with shorter product life cycles, creates a need to leverage product information throughout the supply chain to ensure customisation and rapid product development. In the automotive industry many companies have introduced a so called Lean Thinking - based on experience from the Japanese automotive producer Toyota - to adapt to this new reality.

[1] Van Weele (2002) p 5
[2] Kotabe & Murray (2004)
[3] Dagens Industri (2006-04-13) pp 6-7
[4] Chung, Yam & Chan (2003)

The Swedish automotive producer Scania is one of the companies that have adopted this production philosophy. Among other thing this has affected the company's way of working with suppliers. Lean production has in fact resulted in a need for closer cooperation with the suppliers since the value chain has to be well coordinated to work sufficiently. Scania has therefore pretty tough requirements that the supplier has to fulfil in order to be an assured supplier.

Traditionally Scania has used suppliers located in Western Europe but since competition is increasing, sourcing from low cost markets is becoming more common. Scania has been able to find assured suppliers in East European countries like Poland and the Czech Republic, but so far, not in Russia. The Russian supplier market is interesting for Scania for several reasons. The wage level is a lot lower than in Western Europe and the distance to the production site in Södertälje is relatively short compared to low cost markets in Asia. Furthermore the technical level is believed to be sufficient and the raw material cost is low which stems from almost endless resources.[5]

With this background information at hand Scania initiated a project a couple of years ago in order to find global suppliers[6] in Russia. A co-worker at Scania's bus assembling plant in St Petersburg was hired by the Swedish sub-division Special Projects (SR), which mission is to find new suppliers. The project was not that successful however; no assured supplier was found. A year later the responsible manager at SR decided to give the project another try in a form of a master thesis; a project the writers of this thesis now have finished.

1.2 Issue

With the aim of giving Scania valuable input regarding new attempts of finding suppliers in Russia this master thesis will have external focus. The business culture and the economic landscape are different from the Swedish ones, owing to Russia's economic history with plan economy and centralised ruling of both country and companies.[7] Consequently we will not just evaluate the former attempt but also study the bigger context in Russia, i.e. what is the industry structure like, how has the history affected the industry and what characterise the Russian business culture.

According to the Swedish Trade Council Swedish companies are well established in Russia, especially when it comes to marketing and selling products. Sweden and the Swedes have a good reputation in Russia which one could argue would simplify trade between the two countries. There are nevertheless few well known examples of Swedish companies that source successfully from Russia. We will therefore also try

[5] Lars-Erik Nerback (2006-02-08)

[6] Global Suppliers is by definition those suppliers that deliver to production plants for the global markets in contrast to the Local Suppliers that deliver to local production units, e.g. assembly plants.

[7] Göran Carlander (2006-02-09)

to investigate what kind of experience Swedish companies really have of the Russian supplier market.

The learning's we made from these studies will finally be applied to Scania. We will try to give answers to questions such as; should a new sourcing attempt be initiated and if so how should it be carried out. To sum up, the three questions we aim to answer in this thesis are:

- What characterise Russia as a supplier market?
- Which sourcing experiences have been made by other Swedish companies in Russia?
- How can this knowledge be utilised at Scania?

1.3 Purpose

The purpose of this master thesis is to find out whether it is worthwhile for Scania to look for new suppliers in Russia, based on other Swedish companies' experiences of purchasing in the country.

1.4 Disposition of the Thesis

Chapter 2 Mode of Procedure
In this chapter we report on how the thesis work was carried out. By doing this the reader can form is own opinion about the reliability of the study. We describe which methodological approach we have but also how the study was carried out in practise. Finally we discuss the quality of our research including validity and reliability.

Chapter 3 Literature Study
The literature study covers the topics of interest in this study, namely purchasing, Lean Production and Culture. The purpose of the chapter is to explain to the reader some of the trends and factors that affect international sourcing. The three parts is finally brought together in a discussion based on a model about international supplier selection.

Chapter 4 Russia
This chapter contains basic information about the Russian society, the economic transformation from communism to market economy and also about the industry in Russia. How Russian companies are organised and work is exemplified by a short case study of a Russian automotive producer. Finally we present information about the business climate and the business culture in Russia and also how its affect business making.

Chapter 5 Scania
In this chapter the main contents are about Scania purchasing department and how it is organised. At the end we will describe how Scania have attempted to find suppliers in Russia before. We will start with a brief presentation about Scania as a whole.

Chapter 6 Case Companies
This chapter describes our findings from the five case companies and compiles what they say about purchasing in Russia. In the beginning a short discussion about how the interviews were conducted and why a quantitative survey was answered by the companies is presented.

Chapter 7 Discussion of our Findings
In this chapter we analyse the findings from the study of Russia as well as the case studies. Thereafter we try to ascertain which implications these might have for Scania when looking for suppliersin Russia. The discussion whether Scania should go on looking for suppliers or not and what strategy to use if so are concluded in a scenario analysis. Finally we give Scania our recommendations of what to do.

Chapter 8 Conclusions
In the conclusion we sum up the most important findings that were discussed in the former chapter and let them constitute answers to the issues presented in the introduction chapter. We also give some advises regarding further research and discuss whether our finding can be used in another context, e.g. by other companies wishing to source from Russia.

2 Mode of Procedure

In this chapter we report on how the thesis work was carried out. By doing this the reader can form is own opinion about the reliability of the study. We describe which methodological approach we have but also how the study was carried out in practise. Finally we discuss the quality of our research including validity and reliability.

"*Before I know what to investigate, I can not know how to do it*" – *Fog*

2.1 Method Used – an Overview

In order to answer the purpose of our thesis the study of Scania's purchasing organisation has to be complemented with in-depth studies of other companies purchasing organisations. After discussions with our tutors in Lund and at Scania we decided to carry out the thesis as a series of case studies. Five Swedish companies from different sectors have been chosen to constitute a reference to Scania and its sourcing attempts in Russia. In addiction to those a Russian automotive company has been studied in order to understand of how Russian companies work and are organised. These companies' experiences and procedures regarding sourcing from Russia are analysed with the aim to formulate a so called white book on how to purchase from Russia. This white book together with an analysis of the Russian context is used to formulate a future sourcing strategy for Scania in Russia.

The research was divided into four phases as illustrated in figure 2.1. The first phase - the pre-study - included project planning, method discussions, interviews with purchasers at Scania and a first general study of Scania and its purchasing organisation. In the second phase - the internal scan - a more thorough study of the purchasing process was carried out together with a search for relevant theories connected to procurement. The third phase - the external scan - begun with a literature study of Russia, complemented by interviews with two Russians living in Sweden and the study of the Russian automotive producer. The case studies were also carried out in this phase. Purchasing managers at the Swedish companies in Russia were interviewed via telephone and complemented with interviews on site. The final phase – analysis - were initialised after a mid term seminar, where a reference thesis group as well as teachers gave us feed-back. This phase, and our thesis work, was completed with a presentation of our results at both Scania and the concerned institutions at Lund University.

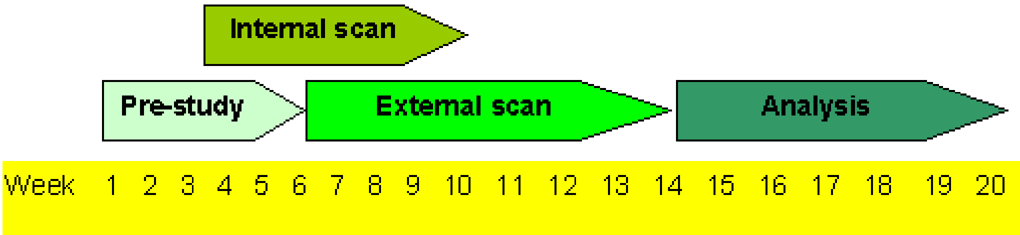

Figure 2.1: The four phases of the thesis work

2.2 Methodological Approach

There are basically two different ways on how to perceive the reality which you are studying, namely the positivistic and the interpretative approach.[8] The positivistic approach is based on the thoughts of the philosopher Auguste Compte. He created and believed in a so called positive philosophy which implies that science should not study anything that is not real and measurable and that facts should be separated from values. The purpose of a positivistic approach is to create a simplified model of reality since the reality itself is too complex to describe. In conformity with natural scientists the positivistic influenced social scientists believes in causal relations which involves an aim to find universal laws that are independent to the social context.[9]

The interpretative approach was formed as an alternative to the predominant positivistic orthodoxy. According to social scientists such as Max Weber and Alfred Schutz research in a social context should have a focus on understanding, rather than explaining, the human behaviour. The interpretative approach is a mixture between a numbers of different philosophies, which all asserts that the study object plays an important role for the applied method. The representatives for this approach argue that the study object in the social sciences - people and their institutions - differ a lot from the study object in the natural sciences, thus a special method is needed.[10]

Since this thesis aims to increase the understanding of the Russian context and relationship between people and corporations from different cultural contexts we found the interpretative approach most appropriate. In accordance with that philosophy we describe not just the experience of multi cultural business relations; but also put the result into a social science reference frame in order to better understand cultural differences that may influence business. The reference frame is based on both theoretical studies and on interviews with Russian, respectively Swedish, corporate representatives.

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[8] Bryman & Bell (2003) pp 27-33
[9] Lundahl & Skärvad (1999) pp 38-40
[10] Bryman & Bell (2003) pp 27-33

2.3 Research Strategy

The research strategy to use is dependent on the issue of the study. One of the most important decisions to make before carrying out the research is whether o use a quantitative or qualitative method. It is also important to decide which attitude towards hypothesis, or a pre-understanding of the study object, that is desirable.

2.3.1 Qualitative or Quantitative Approach?

The above presented scientific attitudes toward research are connected to the applied method, which can be either qualitative or quantitative. Which one to use is dependent on the issue of the research, but usually a quantitative study has a positivistic foundation while a qualitative study has an interpretative foundation.[11] There is no distinct difference between the two methods; they are both research tools that can be used separated or combined. Yet there are some principle differences between the two. In a quantitative approach the empirical information is transformed into figures that are processed and analysed using objective, often statistical, methods. When using a qualitative method the information is on the other hand processed by the researcher who influences the result with his interpretation of the problem.[12] A qualitative study has a low formalisation and the primary purpose is to understand what you study. You can use different ways to collect data to get a deeper understanding of the problem and describe the environment in which it exists. The method should reflect closeness to the source where you gather information.[13]

In this thesis we mainly use a qualitative approach. The external study is carried out as an in-depth study of a few companies and the companies are represented by only one or a couple of managers at preferably the purchasing departments. Moreover we tried to find connections between parts that belong to a context instead of studying isolated events and their effects on business in Russia. The interviews were adjusted to the respondent in order to catch up individual experiences and deviations. Since this thesis is based on several cases that are compared to each other the approach can not be completely qualitative. The comparative aspect implies a procedure that is standardised to a certain extent. By doing this the legitimacy of a comparison is hopefully increasing, but it can also lead to questions that are based on prejudice. To prevent this we used an open questionnaire that was used more as a reference than a definite template.

2.3.2 Inductive or Deductive Method?

Also connected to the practical implementation of method in a research is whether to use an inductive or a deductive method. The differences between the two of them are illustrated in the figure below.

[11] Holme & Solvang (1997) p 75
[12] Holme & Solvang (1997) p 76
[13] Holme & Solvang (1997) p 14

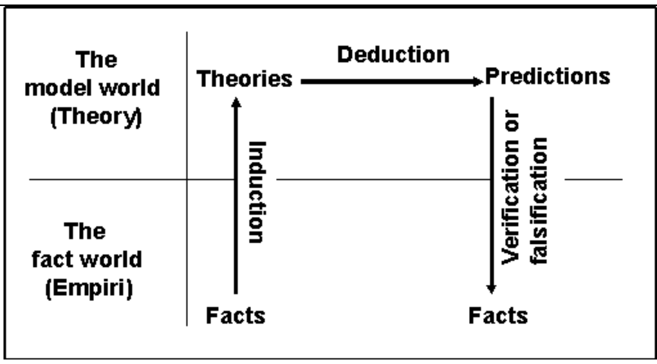

Figure 2.2: The research cycle according to the positivistic basic outlook.[14]

The inductive method is preferably used in the natural sciences or in positivistic influenced social research, often carried out in a quantitative study. This method implies that the researcher gather empirical information without prejudice and after that formulate a theory or a conclusion upon the findings. A method is nevertheless rarely completely inductive since research often is carried out in an iterative process where the theory formulation is complemented with more empirical findings. The deductive method implies that the researcher formulate hypothesises upon his own knowledge and perception of the reality. When the researcher has abstracted the reality to hypotheses this, or these, are tested on the reality whereupon the predictions are verified or falsified in a consecutive order.[15]

In this study of Russian business and how to manage supplier relations with representations from other business cultures the empirical information is continuously interpreted with support from relevant theories. Since we used those theories together with the gathered empirical information our picture of what to study became clearer. This also affected the problem formulation that was a laborious process that went on during the whole research period.[16] Since we did not formulate hypotheses that were falsified or verified with a logical deduction nor made conclusions based upon solely empirical findings, our work method is to be considered as both deductive and inductive. Hence, the method could be classified with an alternative approach developed by Glaser and Strauss (1967). This method - called grounded theory - is a mix between the deductive and the inductive method. The theory development, when using this method, is a process that goes on parallel with the empirical information gathering.[17] We find this classification the most appropriate for our thesis.

2.4 Practical Procedure

Besides the decision of which research strategy to use there are some decisions to make regarding the practical procedure of the study, e.g. which kind of case study is

[14] Lundahl & Skärvad (1999) p 41, figure 4.1, free translation
[15] Bryman & Bell (2003) pp 23-25
[16] Holme & Solvang (1997) p 43
[17] Holme & Solvang (1997) p 57

preferable, how should the information be collected and how should interviews be performed. In this section we report on the decisions we make regarding those practical issues.

2.4.1 Is it a Benchmark or Multiple Case Studies?

Research can be carried out through experimental studies or non-experimental studies. In qualitative studies the researcher is obliged to the latter, since the possibility to perform an experiment is strictly limited. Among the non-experimental methods are surveys and case studies. In surveys a phenomenon is investigated by asking questions to a great number of respondents, while in case studies a fewer number of cases is investigated more thorough.[18]

A variant of the traditional case study is the multiple case studies where e.g. organisations are compared to each other considering different aspects. A comparative multiple study is to some extent a hybrid between the survey and the case study, but also the experimental study since it include the comparative dimension.[19] The different cases can for example be chosen upon how successful they have been in a given situation. By doing this the similarities is as important as the differences seeing that they both contribute to the total outcome.[20] It is important to decide which analysis level that is relevant for the study, and if possible, study the cases upon the same level. The differences in analysis level are described in the so called SOGI model (Society, Organisation, Groups or Individuals).

This thesis is carried out as multiple case studies, where Scania’s sourcing process and sourcing experiences in Russia is compared to that of five other purchasing departments. Since the purpose of this thesis is to formulate a so called best practices regarding sourcing from Russia the cases were chosen upon the following criteria, with the highest priority first:

- Is the company willing to be a part of our case study?
- Does the company purchase a substantial amount of material in or from Russia?
- Does the company purchase treated material to be used in production?
- Does the company purchase material from Russian-owned suppliers?

We contacted the Swedish Trade Council in Moscow that sent us a list of Swedish companies operating in Russia. Among those 229 companies we selected around 40 companies that we thought could fulfils the criteria mentioned above. Those, preferably big companies with representation offices in Russia, were contacted via mail or telephone. Finally five companies were chosen to be part of the multi cases study. The persons that represented the case companies were either purchasing managers or CEO´s; the exact titles are presented in the list of reference. The selection of cases – and also the number of cases used - is often a compromise

[18] Lundahl & Skärvad (1999) pp 50-51
[19] Bryman & Bell (2003) p 78
[20] Ibid

between what is theoretically desirable and what is practicable.[21] We are aware of the fact that our choices may have been subjective since our selection criteria's are rather vague, and our possibility to verify whether the company fulfils the criteria's is low.

We have intentionally chosen case companies that we believe are, or have been, more successful than Scania regarding sourcing from Russia since the purpose of the study was to improve the possibility to find suppliers in Russia. Hence, the study can be considered as a part of a benchmark process. One similarity between our study method and a benchmark is that both compare performance of one organisation with others that are more successful in some aspects. However, our study process did not really conform to the definition of the conception benchmark that is "… the ongoing process of measure products, services and work methods in relation to those companies that can be considered as industry leaders."[22] The definition tells us that benchmarking is a continuous process that includes measuring the outcome of an operation, which not was the point of interest in this time limited research. This thesis can therefore not be classified as a benchmark study, even if it includes some elements that are similar to a benchmark study.

2.4.2 Information Gathering

In the qualitative research process information is gathered with a pre-understanding of the problem. Thus, the result will be affected by the researcher and his socially based prejudice.[23] We think that it is especially important to be aware of this fact when the study object concerns cultural aspects such as our study does. The prejudice about other cultures and perhaps the Russian in particular, is formed since childhood and will probably affect the researchers approach to the problem. We have therefore carefully chosen our sources in the cultural study of the thesis and also, if possible, gathered information "from both sides", i.e. read articles and interviewed people from both Sweden and Russia.

Articles that have been used in both the theoretical and empirical chapters have mostly been found on the electronic library of Lund University, but also through Internet sites. The tutors in Lund have given us guidance in relevant literature that has been borrowed through Scania's library service. When we searched information on Internet we carefully choose sites that are well known and well reputed.

Most empirical findings in this thesis are based on interviews with company representatives at Scania and at the case companies, as well as with persons who have experience and knowledge about Russian business. These interviews have been preceded by more or less extensive preparatory work e.g. studying of web pages, reading articles and other secondary information. The preparations were more extensive with the case interviews at hand since those interviews were more structured than the others. Furthermore we wanted to approach the interviews

[21] Lundahl & Skärvad (1999) p 192
[22] Camp (1993) p 20; Free translation
[23] Holme & Solvang (1997) p 97

concerning culture and the ones at Scania with a more open mind which included a restrictive use of manuals. Those interviews are to be classified as unstructured.

In the semi-structured interviews with the case companies we used the same manual for all interviews and also prepared the respondents by sending them the manual some days in advance. Those interviews were recorded to ensure we got the right information and to make it possible to analyse the answer afterwards. The case interviews that were carried out using telephones were later followed-up by personal interviews, when possible on site in Russia. This structured procedure is more often to be found in quantitative studies where the researcher have a clear view of what answers he is looking for.[24] The reason for using it in our qualitative study is to ensure we get the right type of information and perhaps most important; we ask the same questions to all case companies which allow us to compare the answers with each other.

After the first telephone interviews with the case companies we put together a survey about critical success factors for succeeding with purchasing from Russia based on the answers that were given. At the second interview the companies filled in the survey, that is grade the factors from one to five regarding importance. The aggregated result from this small quantitative study are presented and analysed in the discussion chapter. The second interviews, performed on site in Russia[25], had a broader and more cultural oriented focus than the first one that mainly dealt about company related issues. The questionnaire that was used at the telephone and the on-site interviews is presented in attachment 1.

2.4.3 Observations

When making observations the researcher gets a picture of the reality by looking at, listening to and asking questions to the study object. The method implies that the researcher takes part of the group in an open or a hidden manner[26]. We have made observations at production sites at Scania, both in Södertälje and in St Petersburg, which can be classified as open since the observed person knew they were observed. The case interviews have preferably been carried out on site which gave us a possibility to get a sense of the working environment and the corporate culture. Since our thesis regards cultural aspects we highly prioritised a journey to Russia, not just to meet the case companies on site, but also to feel the atmosphere and the Russian spirit. This journey also involved some practical issues that Swedish businesses representatives are confronted with, namely getting VISA, making hotel bookings and getting around in a Russian metropolis. This field trip into the Russian bureaucracy, which may be classified as a hidden observation, has been very instructive.

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[24] Bryman & Bell (2003) p 361

[25] Our contact person at Electrolux is located in Sweden in contrast to the contact persons at the other case companies. We therefore choose to perform only one on-site interview with him which covered the subjects that in the other interviews were divided into two parts.

[26] Holme & Solvang (1997) p 122

2.5 Quality of Research

In this final section we explain what validity and reliability is and what we have done to achieve this. In order to help the reader to make his own opinion about the validity and reliability of this study we also present some source criticism.

2.5.1 Validity and Reliability

To assure a high quality of the research it is important to pay attention to validity and reliability. The terms have a slightly different meaning depending on if you do a qualitative or a quantitative research. In a qualitative study validity means that there has to be conformity between the researcher's observations and the conclusions he draws. Often the validity of a qualitative study is high since the researcher spends so much time in the context he is trying to understand.[27] If a research has a high reliability it implies that the result of the study would be the same if the study was repeated in another time and another place. In other words; the study has no or few random systematic measuring faults.[28] Reliability is harder to achieve in a qualitative study than in a quantitative one since it is impossible to "freeze" the social environment in which the study took place, and which affects the results of the study.[29]

In this thesis we have tried to reach a high validity by studying different types of companies from different sectors. We think that their aggregated knowledge about the study object can be summed up in general learning of how to manage purchasing in Russia. However we are aware of the fact that all case companies are big companies that have been chosen with Scania's situation in mind. This fact makes the results less general which therefore lowers the validity. A high reliability was important to achieve since our aim were to compare the cases between each other. The procedure in the case studies was therefore standardised, which we described in section 2.4.2.

2.5.2 Source Criticism

The purpose of source criticism is to decide if the source is valid, reliable and if it is essential for the issues. This may be hard to determine for many sources but you should at least try to get a subjective opinion since this kind of analysis might give a clue on how certain the conclusions will become.[30]

In this study we have mainly used internal documents, articles and interviews as secondary sources. The internal documents should give a good description of historical events (meetings, plant visits), but they are however written by Scania employees and might therefore be subjective. The articles used in the theoretical framework are published in renowned papers and the books used are to a great extent prescribed books which both vouch for a high quality. The articles, books and brochures used in the empirical sections did not always have the same reliable source.

[27] Holme & Solvang (1997) p 94
[28] Bryman & Bell (2003) p 48
[29] Bryman & Bell (2003) pp 305-306
[30] Eriksson & Wiedersholm-Paul (2001) p 150

We have therefore had a critical attitude towards them and have tried to verify important fact with a supplementary source. The most difficult sources to criticise are the interviewees. We must guess the motives of the people we are interviewing and try to assess the information through that. One potential risk is that the people from the case companies might want to make their company sound more successful and innovative than it really is or was regarding e.g. their business in Russia.

Finally, we like to comment the survey that was carried out at second interview occasion since its presentation in the discussion chapter may cause the reader to think it is a statistical survey. It is not to be seen as statistical survey but more as graphic illustration of important factors to consider when purchase from Russia. Our aim is not to analyse the level of neither importance nor the difference among the factors but instead discuss those that most companies consider to be important and respectively those that were considered not so important.

3 Literature Study

The literature study covers the topics of interest in this study, namely purchasing, Lean Production and Culture. The purpose of the chapter is to explain some of the trends and factors that affect international sourcing an also introduce the concepts used in the thesis. The three parts is finally brought together in a discussion based on a model about international supplier selection.

"In theory, there is no difference between theory and practice. But, in practice, there is." - Jan L.A. van de Snepscheut

3.1 General Purchasing Theory

As companies struggle to increase customer value by improving performance, many companies are turning their attention to purchasing and supply chain management.[31] By one estimate between 50 percent and 70 percent of a manufacturing company's potential value is in purchased items; even for service industries, half of their service are in fact purchased from other companies. Thus, an organisation's profit is determined and defined by its purchases to a large extent, and purchasing has been considered one of the key drivers for a company's survival and growth.[32]

The purchasing function has hence developed during the years; from a situation where the only objectives were to obtain goods and services in response to internal needs to a new one where the strategic aspects have become more important.[33] This development affects among other things the method of finding and selecting new suppliers and also the relationship between the buying company and the supplier.

3.1.1 The Purchasing Process

The purchasing function should determine the needs of the company, select suppliers, negotiate prices and deals, issue the order and follow up the obtained results with evaluations and improvements. Figure 3.1 illustrate the chain of activities and also explains the terms used in purchasing.[34]

[31] Monczka, Trent & Handfield (2005) p 5
[32] Zeng (2000)
[33] Monczka, Trent & Handfield (2005) p 30
[34] Van Weele (2002) pp 14-17

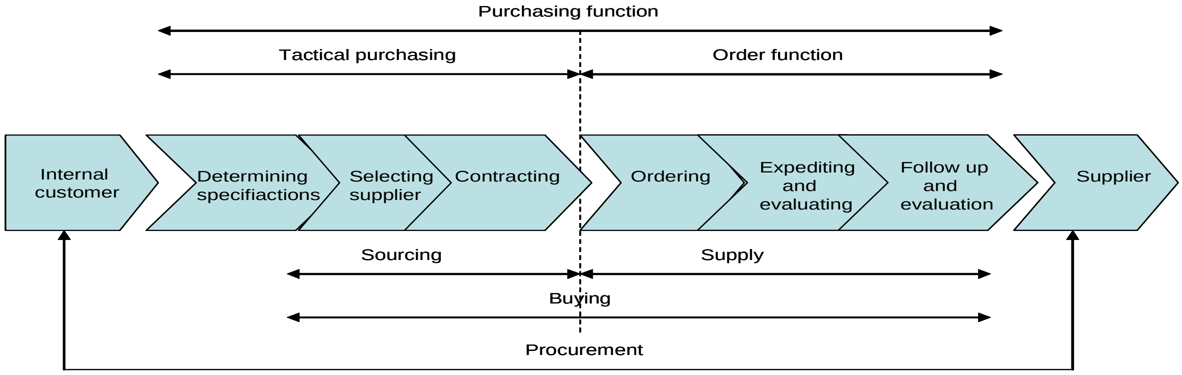

Figure 3.1: The purchasing process.[35]

According to this model the chain of purchasing events begins with determining specifications. In this stage a need is observed and identified and the quality and quantity of the purchase is determined. The next step is to identify possible suppliers and then through evaluation eliminate the ones that do not reach the level of standards. Requests for quotation (RFQ) are also sent out to determine which of the possible suppliers offers the best price[36]. This step also includes activities like finding sources of supply and gathering knowledge of procurable resources. When it is decided which suppliers meet the requirements it is time for the negotiating in order to establish an agreement. Hopefully an agreement can be reached and the order and delivery phase can commence, this phase is also monitored and evaluated. During business-making between the companies the purchasing company will usually follow up and make supplier ratings and rankings which will then be used for supplier development.[37]

Both during the sourcing phase and the follow up phase of the supply chain the purchasing function has a big responsibility when assuring and determining the quality of the purchased goods. This is usually done with assistance from a so called supplier quality assurance (SQA) program. The purchasing function's main tasks in the quality assurance is to prepare the specifications as detailed as possible, to make a preliminary qualification of potential suppliers, to have a sample inspection procedure, to examine the preproduction series, to examine the first series meant for production and to periodically evaluate the supplier. We will discuss the conception quality later in this chapter.[38]

3.1.2 The Strategic Importance of Purchasing

As mentioned in the section above the importance of purchasing strategy has increased during the last decades. The strategic aspect of purchasing has to do with the shift from regional to global sourcing and the shift from a make-to-stock

[35] Van Weele (2002) p 15
[36] Monczka, Trent & Handfield (2005) p 42
[37] Van Weele (2002) pp 14-17
[38] Van Weele (2002) pp 195-198

production model to a build-to-demand model.[39] A global market opens up new possibilities for the individual company to put a focus on core competences and purchase the other products and services from independent suppliers all over the world. The demand driven production model however implies a certain need for coordination and to some extent also cooperation between the different actors in the value chain. To manage the supply chain and the supply base is thus one of the most important issues for the purchasing departments of today.[40]

Another dimension that has made sourcing a strategic important decision is the shortened life cycle that most products experience today. This fact, together with today's possibilities to imitate new innovations, implies a situation where product innovation is not enough to ensure competitive advantages. It has to be complemented with manufacturing and marketing capabilities, which nowadays is sought for globally. A worldwide network of suppliers is more or less necessary for companies who like to develop new markets or products around the world simultaneously.[41]

3.1.3 The Relation to the Supplier

The supplying network discussed above can constitute of both wholly-owned subsidiaries and independent suppliers. The first alternative, often refereed to as intrafirm sourcing, implies that the company produces products or services in-house, within their corporate system around the world. The second alternative, commonly called outsourcing, can be separated into domestic and offshore outsourcing. The first represent purchasing from external suppliers in the own country while offshore represent purchasing from abroad, preferably from low cost countries such as Korea and China.[42]

Some Japanese companies make a distinction of outsourcing as to whether it is based on an arm length or a strategic partnership basis. Which type of outsourcing is used in a specific situation depends on whether the purchased goods, or the relation to the supplier, can be seen as strategically important for the company. If it is they establish close strategic partnerships which include cooperation with the supplier to a large extent. If it is not they use an arm length relation which allow them to easily shift suppliers to get the lowest price on the market.

The outcome of this strategy is thus supplier segmentation where the company has a specific strategy for each supplier segment which decides the degree of supplier involvement.[43] A tool that can be used for supplier segmentation was presented 1983 in classic article by Peter Kraljic. It is illustrated in figure 3.2 below.[44]

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[39] Chung, Yam & Chan (2003)
[40] Monczka, Trent & Handfield (2005) p 31
[41] Kotabe & Murray (2003)
[42] Ibid
[43] Dyer, Cho & Chy (1998)
[44] Van Weele (2002) p 147

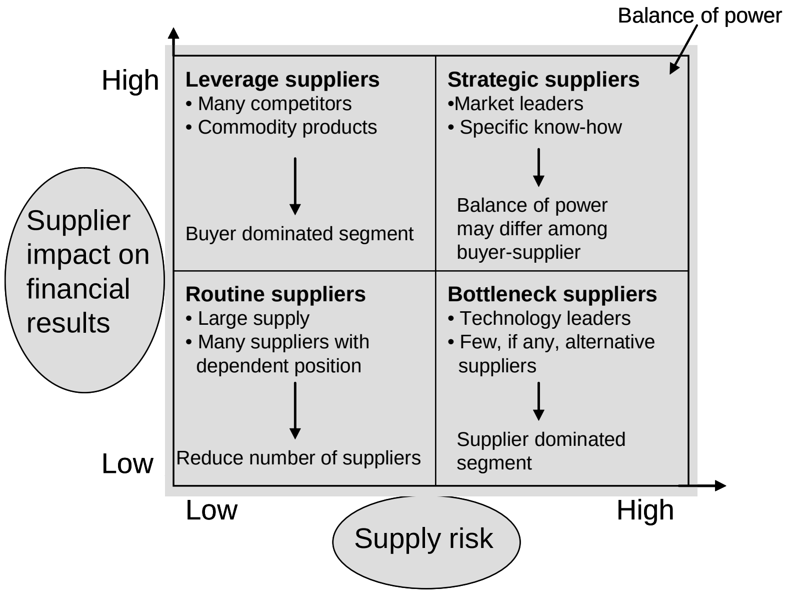

Figure 3.2: Kraljic's matrix[45]

The working method using Uralic's matrix can be summed up as follows. The first step is to identify the company's strategic commodities and suppliers. Reviews of the purchasing spend per category and its supplier base in general usually shows that the 20/80 rule[46] applies: 20 % of the products and the suppliers will represent about 80 % of purchasing turnover.

With this information at hand the second step will be to categorise the suppliers in the four segments based upon their importance for financial result and supply risk. A fundamental aspect when formulating a purchasing strategy and find out appropriate supplier relationships is the balance of power. If the supplier is important for the company and thus can be called a key supplier a weak position is not desirable, since cooperation and development implies a certain level of independence both for the supplier and the buying company. In this situation the upper right position in the matrix respectively the lowest left is preferable.[47]

For every segment of the supplier portfolio a different strategy is possible. These are:

- *Partnership* (upper right corner). This strategy is chosen for suppliers whose products have a big impact on the end-product's price and when the supply

[45] Van Weele (2002) p 147
[46] The 80/20 rule stems from the studies made by the Italian economist Vilfredo Pareto (1848–1923). He found that the wealth distribution in the investigated European countries was, and had been for a long time, warped in pretty much the same way. It has been noticed that this distribution (80/20) is significant also for other fields. [taken from www.kontentanledarskap.com 2006-03-24]
[47] Van Weele (2002) pp 145-147

risk is considered to be high. In these circumstances the company shall aim at a close relationship to the supplier which includes a balanced power balance and thorough collaboration between the parties.

- *Competitive bidding* (upper left corner). For products that can be categorised as leverage products small price reductions can generate large sums of money. Since the suppliers of these products often are changeable no long term contracts are used. This buyer dominated situation justifies an active market scanning through continuous market and supply research.

- *Securing continuity of supply* (lower right corner). If the purchased product is classified as a bottleneck product the focus is to secure the supply, even to additional costs. At the same time the company shall look for alternative supply sources, or even change the product design to avoid this undesirable situation.

- *Systems contracting* (lower left corner). This strategy involves standardisation of the purchasing process and a reduction of the number of suppliers in order to lower costs related to purchasing. Sometimes it can be worthwhile to outsource this function to specialised purchasing offices.

The company shall also bare in mind the benefits and obstacles of a close relationship before the purchasing strategy are applied. Among the benefits of using a close relation to the supplier are trust and long-term contracts. Trust makes it possible to share sensitive information and it can also result in an early supplier involvement, in e.g. the product innovation phase, which often is a win-win situation. Long term contracts can also be seen as a win-win situation since the supplier among other things reduces risks connected to new investments, which the buying company hopefully gets part from via lower prices. There are however some obstacles to a close supplier relation, among them the need to keep confidential information within the company, limited interest in a closer relation at the supplier and legal barriers such as antitrust laws.[48]

3.1.4 A Different View of Supplier Relationship

Besides the decision of what kind of relation the company wish to establish to its suppliers it is important to consider whether to use multiple or single sourcing. The decision is related to the discussion above concerning different types of products and its implications for the purchasing strategy illustrated in the Kraljic matrix, but focus more than the latter on the view of supplier involvement. The idea of multiple sourcing is to use a large supplier base and short duration contracts in order to get lowest price on market. The idea of single sourcing is to reduce the number of suppliers and develop the single, or few suppliers', competence in order to get competitive prices together with the possibility to streamline the value chain.

[48] Monczka, Trent & Handfield (2005) p 106

Since the introduction of lean thinking and Just-In-Time (see chapter 3.2) the concept of single sourcing has experienced increasing popularity among manufacturing companies around the world.[49] The concept of single sourcing is often used together with a high supplier involvement and with high volume businesses. It could however be argued that a more ad-hoc approach toward supplier involvement should be used since companies have limited possibilities to establish several high involvement relationships and the environment in which they act often is changing fast. What supplier relation to use should thus be decided for each single case and evaluated in respect to the monetary value of business, the continuity of the relation over time and finally whether or not the supplier in the relationship is used as a single source. [50]

3.1.5 Supplier Evaluation and Selection

The selection and continuous evaluation of a supplier is one of the most important processes for the purchasing function. Historically companies bought from the supplier with the lowest price and did not consider factors, e.g. quality and delivery reliability, which could become hidden costs. Today’s outspoken supplier strategies like long and close relationships and cooperation in product development have changed this. A company should thoroughly examine possible and current suppliers and evaluate their strengths and weaknesses and how they affect future costs. [51]

Companies use a variety of different approaches when selecting and evaluating suppliers but the goal is always the same, to reduce purchasing risk and maximise overall value for the customer. The degree of effort spend on these activities should reflect the importance of the purchased goods (see Kraljic´s matrix chapter 3.2.3). A supplier selection or evaluation process usually starts when a company identifies either a need within the organisation or a new business opportunity, perhaps a new supplier market. There are different ways to gather the information for a supplier evaluation. The usual are through supplier-provided information, supplier visits and/or through third party information. [52]

While a first evaluation is obviously used when selecting suppliers, continuous evaluations is used by buying firms in order to measure and improve the products and services bought from suppliers[53]. Supplier evaluations is one of the most discussed topics in purchasing theory[54]. A survey done in 1996 examined which traits automotive companies valued most in their suppliers. It should be these that are examined in an evaluation of a potential or current supplier.[55]

The most important traits identified were quality and delivery reliability.[56] These have also been identified as the most important factors in a number of other studies[57]. Long

[49] Zeng (2000)
[50] Gadde & Snehota (2000)
[51] Monczka, Trent & Handfield (2005) p 207
[52] Monczka, Trent & Handfield (2005) pp 207-208
[53] Prahinski & Benton (2004)
[54] Talluri & Narasimhan (2004)
[55] Choi & Hartley (1996)
[56] Ibid

term relationship possibility was also an important factor. Financial factors, like price, are the least important according to the study.[58] Other factors that affect are the management capability, environmental factors, employee capability and process and technological abilities[59].

3.1.6 Quality

Quality is a powerful tool through which an organisation can achieve competitiveness, but it often means different things to different people[60]. That is why we will begin this section by trying to define the conception quality. The literature gives many suggestions on how to describe quality but we have chosen one stated by IBM[61]; "Quality is the degree in which customer requirements are met. We speak of a quality product or quality service when both supplier and customer agree on requirements and these requirements are met".

Quality is not just the conformance to the technical specification of the purchased goods but can also relate to delivery reliability and continuous improvement at the supplier. It is important to not only judge the physical properties of the goods but to also consider the more abstract characteristics. [62]

Quality assurance is the way a company keeps up their methods and procedures of quality control. This means following up if they are efficient, that they lead to the desired object and that they are applied correctly. A quality assurance assessment at a supplier investigates how well he follows the guidelines which he promised to follow when the deal was made. These guidelines often compose of international standardisation descriptions like ISO 9000 or QS 9000. These are often called quality systems.[63]

3.1.7 Quality Systems

The most commonly used quality systems in the automotive industry are the ones mentioned above (ISO 9000 and QS 9000) together with ISO/TS 16949 (where TS stands for technical specification). There are also many national standards such as VDA 6.1 in Germany, AVSQ in Italy and EAQF in France[64]. All of the mentioned standards are however very similar but we will discuss the three most common standards a bit more.

The purpose of the International Organisation for Standardisation (ISO) is to promote the development of standards to facilitate the international exchange of goods and services. In 1986 ISO presented their first international standard ISO 9000. This is

[57] Chen & Paulraj (2004)
[58] Choi & Hartley (1996)
[59] Monczka, Trent & Handfield (2005) pp 215-222
[60] Madu (2004) p 1
[61] As quoted in van Weele (2002) p 191
[62] van Weele (2002) p 191
[63] van Weele (2002) p 192
[64] Reid (2005)

actually a series of the standards; 9000, 9001, 9002, 9003 and 9004. ISO 9001 is the most demanding and comprehensive of these standards. ISO 9002 and 9003 has fewer requirements than 9001 and 9000 and 9004 deals with the guidelines for use. ISO 9001 involves 20 specific elements that deals with e.g. management responsibility, contract review, design and document control, process control and corrective action. To get ISO 9000 certification a company needs to get accredited by a third part.[65]

QS 9000 was introduced 1994. It incorporates the requirements of Chrysler's supplier quality assurance manual, Ford's Q-101 quality system standard, General Motor's targets for excellence and also ISO 9001. QS 9000 is focused on enhancing a company's quality system and requires a systematic managerial strategy. It requires that companies maintain both short- and long-term business plans, perform feasibility reviews, maintain control plans from the part prototype through pre-launch to final production and adhere to strict process control requirements. QS 9000 also states that 100 % on time delivery is a mandatory requirement for subcontractors.[66]

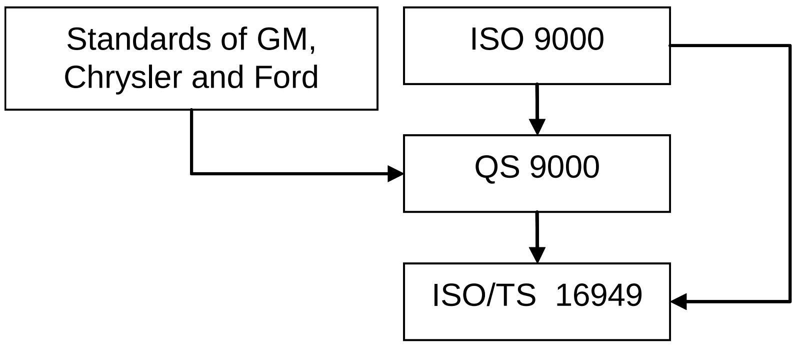

Figure 3.3: The relation between different quality standards.

How ISO/TS 16949 is related to the other standards is seen above in figure 3.4. In 1998 ISO released their new standard ISO/TS 16949 since ISO 9000 was insufficient for use in the automotive industry. ISO/TS 16949 is an optional document for automotive suppliers to use to satisfy existing customer certification requirements.[67] This also means that you have to be an automotive supplier to get the certificate[68].

Scania, along with many other companies, have environmental demands on their suppliers and uses the most commonly used environment quality system ISO 14000. The ISO 14000 series focuses on environmental quality issues. It deals with the guidelines and principles of environmental management systems to make businesses aware and concerned about the need for environmental protection. The main focus in the series describes and explains how a company should develop an environmental management system, environmental auditing and life cycle assessment of their products.[69]

[65] Madu (2004) p 54
[66] Marquendant (1995)
[67] Reid (2005)
[68] Rolf Blomgren (2006-01-31)
[69] Madu (2004) pp 63-65

3.2 Lean Production

Scania uses a production system which they call Scania Production System a.k.a. SPS. SPS is based on principles founded by Toyota in the 1950s; principles which are nowadays called Lean Production[70]. Lean production as a way of producing was discovered in a study of the automotive industry during the late 1980s and resulted in a book called “The machine that changed the world”[71] which described Toyota’s production system.

3.2.1 What is Lean Production?

Lean Production is a philosophy about how to conduct production which covers the entire value chain of a product. The core of Lean Production is to find and eliminate waste from the value chain and through this increase the productivity and flexibility.[72] Different kinds of waste are e.g. unnecessary movement of employees during the production, waiting for the next process step or unnecessary transport of materials. Waste is defined as “any activity which consumes resources but create no value”.[73]

For a company to use a Lean Production system they also need to use some supporting systems which are called Just in Time and Kaizen. Just in Time is the concept of a product arriving at a certain place in the value chain exactly when it is needed there and in the right amount. If this can be achieved the inventory levels and waiting times can be radically decreased. To achieve this, the system needs to have a Pull-ordering structure which means that it is the customer who starts a process by ordering a product. Often a Kanban system is used to make the sure the orders are processed in the right time. Kanban is a card that is placed within a batch of products and appears when it is time to order new ones.[74] Kaizen means continuous, incremental improvement of an activity[75].

3.2.2 How to Become Lean

Womack and Jones have identified five important steps, or principles, which can make a company better on reducing waste.

The first step is to define what activities actually adds value for the customer since that shows what the customer is willing to pay for. Without this knowledge a company will always believe that every activity is necessary, which is usually not the case. After that it is necessary to identify a value stream for every product family. The characteristic of a product family is that the products therein pass the same activities. When the value stream of a family is identified it should be analysed.[76]

[70] A.k.a. Lean Manufacturing, Lean Management or Lean Thinking.
[71] Womack, Jones & Roos (1990)
[72] Womack & Jones (2003) p 15
[73] Womack & Jones (2003) p 350
[74] Part Development AB (2005)
[75] Womack & Jones (2003) p 349
[76] Womack & Jones (2003) pp 16-21

The third step is to create a flow. The object is that the product within a value stream should flow continuously so that value is constantly added. Companies often need to change the design of their workshops in order to achieve this. Step number four is to create a Pull-system. The task for employees when this is introduced is to avoid all stops within the value streams and "pull" the products through production based on customer demand. The final step is to strive for perfection. The most important concept is continuous improvement and an understanding that you are never done. Lean Production means that companies always will look for new ways to improve processes.[77]

3.2.3 How does Lean Production Affect Sourcing Decisions?

Some of the more important differences between Lean Production and non-Lean Production systems can be found within design and supply management. The supply base should be small with close relationships to the suppliers the company have. This also implies big orders to suppliers which give them more power in the relationship. One of the cornerstones is also that all companies within a value chain should make a profit even if they have harsh cost reduction demands on themselves.[78]

Suppliers are usually very involved in product development since new products have a big impact on their processes as well. Companies involve personnel from other organisations within the value chain in order to make sure that the new product fit the value chain and can be produced as effective as possible. Suppliers are also confronted with targets on cost reduction, quality improvement and lead time reduction which have to be accommodated in order to make the value chain lean.[79]

The relationship between customer and supplier needs to be close and trusting in order to achieve all of this. There must also be a will to help the supplier develop if it does not have the resources to make it alone. The geographical distance between buyer and supplier is also an important factor to take in to account since longer distances increase delivery risks and decrease the possibility of making a Just in Time system work.

3.3 National and Organisational Culture

The culture within an organisation can help us understand how the organisation is created, developed, managed and changed[80].

According to Geert Hofstede - an expert on cultures and organisations - every human has within them a pattern of thoughts, feelings and possible ways to react. This pattern is developed during our lives and is affected by our nationality, ethnical

[77] Womack & Jones (2003) pp 21-25
[78] van Weele (2002) pp 138-140
[79] Ibid
[80] www.tnellen.com (2006-03-09)

affiliation, gender, generation, wealth and by the organisations we are a part of. Hofstede believes that people with similar experiences have similar patterns inside and describes this phenomena as the culture from which the individual comes from and is affected by. He defines culture as “the collective mental programming that differ people from one category or group from others”. Cultural differences manifest it in many ways but there are four expressions that cover the entire phenomena as seen in figure 3.5.[81]

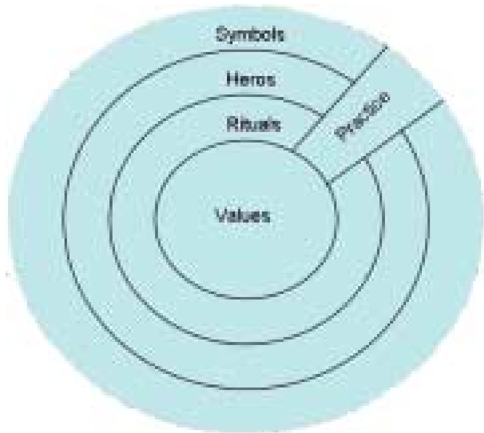

Figure 3.4: Cultural manifestations on different levels.[82]

Symbols are words, gestures or pictures that have special meaning for the people within a culture. Heroes are the people - dead or alive, real or fictive - who have the qualities which are highly valued inside the culture and who becomes role models. Rituals are collective activities which are not needed to reach a goal but are considered socially important within the culture. Ways to greet, show respect to people and religious ceremonies are good examples of rituals. All of the above expressions of a culture are visual practices of the culture; this means they are visual to people outside the culture. The core of the model is the values we have. These can not be observed by others but affect us a great deal. They decide e.g. what we find good or bad, clean or dirty, forbidden or acceptable and so on.[83]

3.3.1 Cross Cultural Differences

Geert Hofstede discusses and identified different dimensions in cultures that are possible to measure against other cultures. He identified the dimensions through surveys done within IBM. We think that these dimensions discuss the middle of figure 3.5 above (values). The identified dimensions are[84]:

- *Power Distance* is defined as the extent to which the less influential members of organisations and institutions in a country expects and tolerates that the

[81] Hofstede (1991) pp 15-21
[82] Hofstede (1991) pp 15-21, free translation
[83] Hofstede (1991) pp 15-21
[84] Hofstede (1991)

power is unevenly distributed. In a country or culture with a high power distance the emotional distance between lower members and higher members are greater than in a country with a low power distance score. According to the surveys Sweden has a very low power distance, only 31 points, and placed itself on 67th place out of 74 surveyed countries. Russia has a high power distance, 93 points, and was placed 6th on the same scale.

- *Individualism* characterises cultures with weak links between the members and where all members of a group are expected to take care of themselves. The opposite is a collectivistic culture where people is integrated in groups with strong ties which functions as a protection for the individual, but also demands a high loyalty to the group. Sweden has a fairly high individualistic score with 71 points and place 13 out of 74. Russia has 39 points and place 37 and is consequently considered as a collectivistic society.

- *Masculinity* measures how a culture values the separation of male and female emotions. In a masculine culture men are suppose to be tough, aggressive and focus on material success while women should be modest, caring and focus on life quality. In a feminine culture the gender roles are more alike, both men and women should be modest, caring and focus on life quality. According to Hofstede's surveys Sweden is the least masculine country with 5 points. Russia is the 63rd least masculine country out of 74 with 36 points.

- *Uncertainty Avoidance* focuses on the level of tolerance for uncertainty and ambiguity within the society, i.e. unstructured situations. A high uncertainty avoidance ranking indicates that the country has a low tolerance for uncertainty and ambiguity. This creates a rule-oriented society that institutes laws, rules, regulations, and controls in order to reduce the amount of uncertainty. A low uncertainty avoidance ranking indicates the country has less concern about ambiguity and uncertainty and has more tolerance for a variety of opinions. This is reflected in a society that is less rule-oriented, more readily accepts change, and takes more and greater risks. Russia has a high uncertainty avoidance, 95 points, and place 7 out of 74 countries. Sweden has 29 points and place 70.

Hofstede's colleague Michael Bond later identified a fifth dimension which is called "long- term orientation", it is however mostly applicable on the Asian cultures which we will not be discussing.

Richard R. Gesteland – another cultural scientist - has identified other aspects that affect cross-cultural business which we find very useful for an analytical purpose[85]. If you place these in Hofstede's model (Figure 3.5) they discuss the three outer layers (rituals, heroes and symbols).

[85] Gesteland (2005)

- *Deal focused (DF) vs. relationship focused (RF) cultures*. Gesteland calls this the "great divide" between business cultures. DF people have a more task solving attitude towards doing business while RF people want to know the other part before getting down to business. If you are from a DF culture, such as Sweden, it is easy to consider RF people dilatory, vague and inscrutable. RF people are on the other hand often considering DF people to be pushy and aggressive. Russia is a moderately deal focused culture.

- *Informal vs. formal cultures.* In some cultures the code of conduct, etiquette and social rules are more important than in others which can create misunderstandings. According to Gesteland Sweden is a very informal culture while Russia is very formal.

- *Rigid time vs. fluid time cultures.* Some cultures in the world are very strict about being on time while others have a more relaxed view on appointments and schedules. Sweden is very rigid in it is time perspective. Russia has a variably rigid time perspective, this means that they have fluid time culture but can adjust to rigid time if the circumstances demand it.

- *Emotionally expressive vs. emotionally reserved cultures.* Gesteland states that expressions, signs and gestures can mean very different things in different cultures, which can cause misunderstandings, confusion and creates a communication gap between companies. Sweden is emotionally reserved while Russia is a bit more expressive.

3.4 Choosing a Global Supplier

More and more companies choose to source globally and the reasons are many. It is often a question about cost; countries like China, India and Russia have got much lower salaries than Sweden and many other West European countries. The quality could be better abroad; Japan and Germany are e.g. obsessed with quality issues. Competitors could be starting to use foreign suppliers which forces companies to use it too in order to compete.[86]

One of the main problems when analysing a foreign supply market is to identify which factors influence it. Selecting suppliers, especially foreign, is very important since a mistake might result in increasing material costs, bad product quality, transport and delivery problems and exchange rate fluctuations[87]. Culture is one of the biggest barriers to international purchasing and the understanding of culture and cultural differences is therefore a strength for any company's purchasing department[88]. There are however many factors that affect international sourcing

[86] Monczka, Trent & Handfield (2005) pp 306-308
[87] Min (1994)
[88] Monczka, Trent & Handfield (2005) p 311

decisions, most of which are presented in figure 3.3 and many of which have been discussed in this chapter.

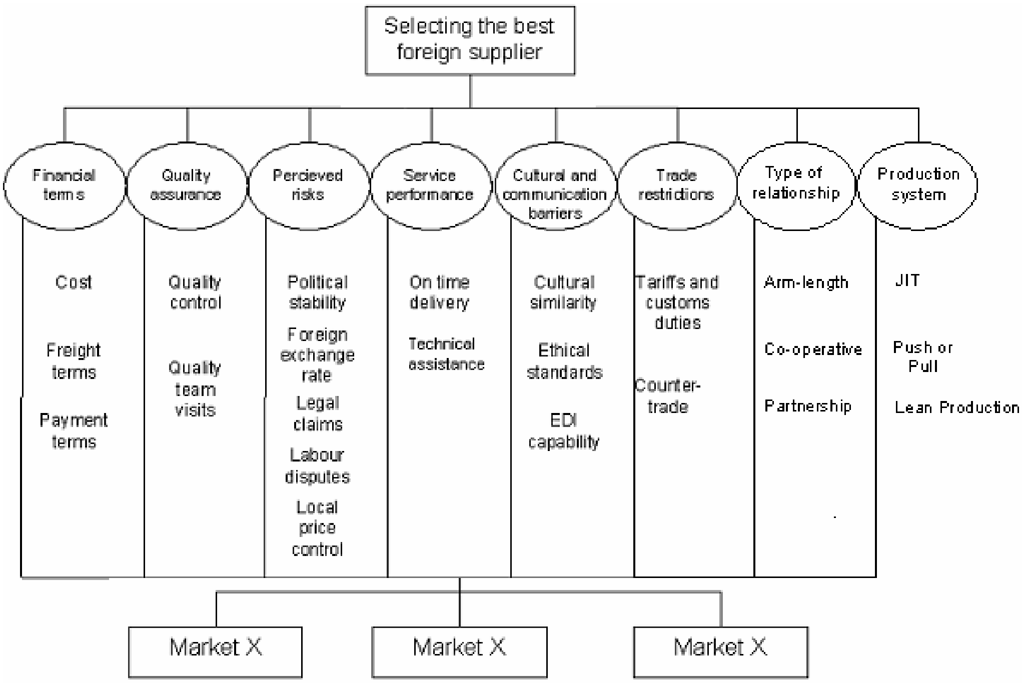

Figure 3.5: A model for international supplier selection.[89]

There are some exogenous factors affecting international sourcing which makes it much riskier than domestic sourcing. The decision to choose international suppliers must be based on the perceived risk of the situation. There are many risks in an international environment. Some risks that can affect are political instability, foreign exchange rate, bureaucracy, corruption and organised crime. Since all of these risks can result in hidden costs for international sourcing they should be factored in the international supplier selection decision.[90]

The culture, language, business customs, ethics and communication devices are all very important factors to analyse when sourcing from abroad. The buyer should consider factors like cultural similarity, ethical standards and electronic data interchange capability (EDI) when deciding on how to source from abroad.[91]

Most research made on purchasing ethics concludes that a formal ethics policy, or a code of conduct, helps define and deter potentially unethical purchasing behaviour[92]. Many firms follow the guidelines for multinational enterprises formulated by OECD (Organisation for Economic Co-operation and Development). The organisation

[89] Min (1994) free interpretation
[90] Min (1994)
[91] Ibid
[92] Monczka, Trent & Handfield (2005) p 481

provide voluntary principles and standards for responsible business conduct in a variety of areas including employment and industrial relations, human rights, environment, information disclosure, competition, taxation, and science and technology.[93]

Electronic Data Interchange is a communications standard that supports interorganisational electronic exchange of business documents and information. It is a cooperative effort between buyer and seller to eliminate many of the manual steps that need to be taken when communicating. This way EDI saves a great deal of time and paperwork as well as allowing fewer opportunities for errors, no mailing or physical delays and lower clerical costs.[94]

The lack of understanding for foreign business practice, language and cultural differences are some of the biggest barriers in international purchasing. Negotiations with foreign suppliers can be more difficult and simple requests can be totally misunderstood. The most common way to prepare for these things is through education and training. This can generate support for the process and create self-confidence when making business in an international climate.[95]

3.5 The Purpose of the Literature Study

This framework is presented mainly to create a background for the reader about the factors that affect a company when it wants to source from abroad. It is also a good description of the reality international companies must adapt to today when it comes to purchasing issues. Some of the topics described in the chapter will also help us to discuss many of the empirical observations of the study which will be done in chapter seven.

[93] www.oecd.org (2006-03-17)
[94] Monczka, Trent & Handfield (2005) p 603-604
[95] Monczka, Trent & Handfield (2005) p 308

4 Russia

This chapter contains basic information about the Russian society, the economic transformation from communism to market economy and also about the industry in Russia. How Russian companies are organised and work is exemplified by a short case study of a Russian automotive producer. Finally we present information about the business climate and the business culture in Russia and also how its affect business making.

"This is not west, this is not east, its Russia" – Gerhardt Egger

4.1 The Russian Society

Russia is the biggest country in the world and it stretches over 11 time zones, from Finland in the west to Japan in the East. The climate varies a lot due to the extensive landmass that creates inland climate with cold winters and hot summers. The nearly 150 million inhabitants consist of mainly Russians, but among 20 % of people belong to other minority groups such as Ukrainians and Tartars who primarily immigrated during the Soviet era. Russian is the spoken language and outside the big cities English speaking people is rather unusual.[96]

During the Soviet era religion was forbidden in practise, but since the return of democracy religion – for the most part Russian orthodox Christianity – is again a part of the Russian society[97]. The standard of living in Russia is probably higher than the GDP per capita (USD 3975)[98] indicates, since the price level is low and the black economy is huge. Some analysts believe that the black economy consists of between 50 and 100 percent of the official economy, which implies that wages often is higher than the average salary show in the statistics. [99] The private saving among the Russian is low in spite of the fact that they are not guaranteed a state pension.[100]

The education level in Russia is relatively high; almost everybody (96 %) complements their compulsory school with further education in the school system that is free of charge. Most of the students choose technical related topics and there is also a significant interest in IT where the competence is growing fast. The number of illiterate in Russia is nearly zero as a result of early Soviet education campaigns.[101]

Russia has a long tradition of international renowned culture, literature, music and others that stretches from Peter the greats regime in the eighteens century. During the

[96] The Swedish Trade Council (2005)
[97] Ibid
[98] www.worldbank.org (2006-02-14)
[99] The Swedish Trade Council (2005)
[100] Fredrik Wrange (2006-04-21)
[101] Länder i fickformat (2005) p 7

Soviet era cultural expression was strongly restricted, especially under Stalin's rule, and writers who criticised the regime were forced into exile or put into labour camp. [102] When regime critical writers, such as Pasternak and Solzhenitsyn, were published during Gorbatiov´s reform attempts in the late eighties the people became aware of the horrors that the communist party had committed.[103]

The middle class in Russia has traditionally been small, but has since the capitalistic era begun to grown some. Yet there is a small, very rich, upper class that consists of about 1-2 % of the population[104]. The number of people living below the subsistence line is decreasing, but still amounts to about 20 % of the total population.[105] The regional differences are big; the rural areas are in general poor while Moscow has a large amount of very rich people. Moscow is nowadays one of the most expensive cities in the world which foreign business men experience quickly; the hotel rates are the highest in the world.[106]

One of the social problems that Russia is facing is the decreasing population. UN reported a year or two ago that the Russian population can be reduced by a third to the year 2050. One of the reasons is abortions. According to the Russian health authority abortions nowadays outnumber births.[107] Some other factors that affects the decreasing population is alcoholism, traffic death, environmental problem including smoking and finally the emigration.[108]

4.2 The Economic Transformation

Even if communism in Soviet did include capitalistic intervention from time to time, the economy was centrally planned until 1991. The state apparatus was bureaucratic and inefficient; it was more important to fulfil the quantitative plan than to improve the products and equipment. In the early eighties, under the conservative Brezhnev's rule, the disastrous economic consequences of the Soviet system became obvious. Long cues outside the grocery stores spoke for themselves. When Michail Gorbatiov took power in the communist party Soviet was in deep crises. [109]

The only way to save the political system used was to liberalise the society with economic reforms (perestroika) and openness in press and the political debate (glasnost), Gorbatiov argued.[110] The outcome of the new reforms was that the Soviet Union both as a political-economical system and as a union begun to tottering which resulted in an undermined authority for the communist party. After an unsuccessful

[102] Länder i fickformat (2005) p 9
[103] Hosking (2001) p 577
[104] The Swedish Trade Council (2005)
[105] www.worldbank.org (2006-02-14)
[106] Veckans Affärer, no. 10 (2006), p 38
[107] Veckans Affärer, no. 10 (2006), p 40
[108] Fredrik Wrange (2006-04-21)
[109] Länder i fickformat (2005) p 24
[110] Schwarz, Lazear & Rosen (2002)

state coup by some old fashion communist leaders in august 1991 the Soviet system began to dissolve.[111]

The following years were characterised by economic reforms and privatisation of former state property by the use of a voucher system that initially transferred ownership from the state to the people. The vouchers the Russian people were given - around 150 million in total - could be exchanged to stocks in a chosen company via auctions.[112] The rapid privatisation led to a warped owner structure; the so called oligarchs succeeded to acquire a substantial part of the voucher which gave them tremendous amounts of power and wealth that they in many cases have been able to keep since then. The transformation to a capitalistic society caused huge structural changes of the economy and a decreasing GDP.[113]

In many ways the situation in Russia was comparable to the demobilisation that occurred after world war two in Western European economies. Different goods had to be produced to cater to private rather than to public tastes. Every person was also responsible for himself without the reliance of higher authority. The big difference between Russia and the concerned countries in Western Europe is that the latter could go back to an institutional foundation that were set before wartime[114]

After a rough period with structural problems, that eventually led to state financial crises in 1998, the economy has shown an upward trend with growth figures of nearly 10 % per year. The domestic industry was favoured by the devaluation, which in a way caused the financial crises, and made imported goods more expensive. The living standard that decreased during the first years of democracy is now slowly beginning to recover.[115]

Foreign analysts point out the need for further reforms in the economic field in order to spread ownership, reduce the widespread corruption and separate business and politics. [116] The Economist states that "…an open economy and a closed political system make uneasy bedfellows" which expresses their worries for power concentration in Kremlin at the expense of the emerging new economy in Russia.[117]

The non-working community governed by law is perhaps the core of the problem. Promises made by presidents Jeltsin and Putin to create an independent law court and a confidence-inspiring juridical apparatus have not been fulfilled at all.[118] "The juridical system is 100% corruptible and there is not single case that can not be influenced by money" states an investment banker at Alfa Capital.[119] Russia placed it

[111] Länder i fickformat (2005) p 25
[112] Veckans Affärer, no. 10 (2006), p 21
[113] Länder i fickformat (2005) p 39
[114] Schwarz, Lazear & Rosen (2002)
[115] The Economist (2004)
[116] Black & Tarassova (2003)
[117] The Economist (2004)
[118] SvD (2006-02-21)
[119] The Economist (2004)

self on position 126 out of 159 regarding the most corrupt countries in the world, according to Transparency International. The total amount that is paid as bribes expects to exceed SEK 23 billion every year.[120]

The harsh treatments of businessmen such as Chodorkovski and Lebedev, who have been sent to work camps in Sibiria, have sent alarming signals of Patinas way of dealing with suspicious criminals and political opponents.[121] In December 2005 a report from a well-reputed researcher showed that 72 % of the respondent in 128 Russian cities had no confidence for the authorities. Furthermore only 5 % thought that those in power did not use police, courts and prosecutors to discredit political opponents.[122]

4.3 The Russian Industry

Raw material is the backbone of Russian industry. The country has among the largest findings of gas, coal and oil in the world and today the oil and gas sector together amounts to more than half of the country's export income. Even though very few people - lesser than 1 % of the population - work in the gas and oil sector the whole economy is dependent of the income it generates.[123]

In the former Soviet Union, emphasis was placed on industrialisation, and especially on heavy manufacturing and military related production. Consumer goods had low priority. When a free market was introduced the demand for consumer goods increased, but since the knowledge of how to produce such products was low the increasing demand was satisfied with imports.[124] Energy and metallurgy still dominate the Russian industrial output and high-tech and consumer goods make up to a very small part of the Russian economy.[125]

Another remnant from the communistic era is the lacking market knowledge. Russian companies during that time did not have to consider the marketing and pricing aspect of doing business, they just produced what they were told to do by the authorities. The need for marketing knowledge, as well as purchasing knowledge, is therefore obvious. [126] These circumstances also influence the relation and communication between companies. In many sectors the distribution chain is fragmented with low connection between the different actors.[127]

The Russian economy is dominated by large industrial enterprises, with small and medium sized enterprises (SME´s), which have acted as an important source of

[120] Veckans Affärer, no. 10 (2006), p 36
[121] The Economist (2004)
[122] SvD (2006-02-21)
[123] The Swedish Trade Council (2005)
[124] Schwarz, Lazear & Rosen (2002)
[125] Economist Intelligence Unit (2003)
[126] Göran Carlander (2006-02-09)
[127] The Swedish Trade Council (2005)

growth in other transition economies, remaining woefully underdeveloped. The SME´s account for only 10 % of the Russian GDP, compared to 50 % or more in developed market economies and in more advanced transaction economies. An important factor is the local bureaucracy that strikes small companies - without political contacts - more than the bigger enterprises. Taxes and regulations have been a major obstacle to business entrepreneurs, but since a new tax regime from 2003 they are a less significant problem.[128]

Since the financial and economic crises in the late nineties there has been a steady trend with increasing mergers and acquisitions in the Russian industry. Large enterprises have used enormous profits from high international oil and metal prises to purchase undervalued manufacturing assets, for example in the automotive sector. According to some estimates 20 of these huge conglomerates accounts for up to 70% of the Russian GDP.[129]

The Russian industry is characterised by regional specialisation. The processing industry is concentrated in Moscow, St Petersburg, Yekaterinburg and Nizhny Novgorod (see figure 4.1). These regions or larger cities with higher industry diversity have managed the transition to a market based economy relatively well compared to smaller regions that during the soviet regime were dominated by one big actor. To some extent this industry structure, with one big company producing more or less everything by them selves, is still predominant in smaller cities which obviously make business more complicated.[130] In those cases the corporation often serve a role as a welfare provider that besides payment of salary provide the city with electricity, gas and social security.[131]

[128] Economist Intelligence Unit (2003)
[129] Ibid
[130] Ibid
[131] Ådahl & Anisimov (2000) pp 63-79

Figure 4.1: Map of Russia.

The corporation as a social security stems from the Soviet era when unemployment was illegal. The Russians still do not give in ones notice willingly even though their salary is being reduced. During the decline of the industry output in the nineties open unemployment remained at less than 10 % at the expense of average salary that sunk substantially. The labour unions have generally a low influence on business and do not operate in the same way as, for example, the Swedish ones. The number of strikes and labour related conflicts that increased during the nineties is nowadays fairly rare.[132]

4.4 The Automotive Industry

The automotive sector that in the eighties were big and reasonably export oriented has since the early nineties struggled with the same problem as the rest of the industry in Russia. Production has been obsolete and inefficient where old machinery is not being replaced at the same pace it is depreciating.[133] It still takes about 3 to 30 times more hours to produce a car in Russia than it does in Japan or US, which many times makes car production cost inefficient even if the wages are low.[134]

[132] The Swedish Trade Council (2005)
[133] Schwarz, Lazear & Rosen (2002)
[134] The Swedish Trade Council (2005)

Since the beginning of the new century things are getting better. Political stability and economic reforms in order to increase investments have modernised some sectors of the industry.[135] The automotive industry is one of six prioritised sectors, a.k.a. economic zones, where tax reduction and simplified bureaucracy have made it lucrative for foreign automotive producers to start up production sites with or without local partners.[136] EDICT no. 166 is one such initiative that has been made by the government. It states that if a foreign company put up a production in Russia and source at least 40% from local suppliers for a minimum of seven years the company can import goods duty free.[137] Furthermore the government has recently introduced a tax on used trucks older than 7 years in order to renew the country's old truck fleet.[138]

Many foreign actors in the automotive industry choose to enter the Russian market via some kind of partnership with local producers. Yet there is a lot of warning examples of failed partnerships between Western and Russian companies that have made western companies more careful regarding this alternative. Some foreign companies therefore choose to operate on their own in Russia in order to keep control and reduce risks.[139] Some argue that Russian companies are not ready for close cooperation and partnerships.[140]

The Russian automotive producer still dominates the Russian market for trucks and busses. The vast majority - more than 90 % - of all trucks sold in Russia last year was manufactured by Russian companies. The sales of imported trucks are however expected to increase substantially the next coming years.[141] Scania is the foreign producer that sells most new trucks in Russia with Volvo at a second place. The domestic automotive industry does not really compete with western producers since the price difference between the two is very big. The price for a new Russian truck is about the third compared to a Western brand such as Scania. Truck producers in China are on the other hand a great threat to the domestic industry; they can produce and sell trucks in the same price segment, and often with a better quality.[142]

The automotive industry and many of their suppliers are located in the Moscow and St Petersburg regions. Other regions with automotive production are Nizhny Novgorod and Samara.[143] The production is far behind western automotive production; the government did recently introduced EURO-2 standard compared to EURO-4 that is the current standard in Europe. Foreign people with knowledge about the Russian industry points out a need for machinery renewal and more competition among independent actors.[144]

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[135] Länder i fickformat (2005)
[136] Valery Korovkin (2006-02-17)
[137] Erik Eberhardson (2006-04-27)
[138] http://strategis.ic.gc.ca/epic/internet/inimr-ri.nsf/en/gr122079e.html (2006-03-05)
[139] Fredrik Wrange (2006-04-21)
[140] Mikael Franzen (2006-04-20)
[141] Dagens Industri (2006-05-18)
[142] Fredrik Wrange (2006-04-21)
[143] Alexander Konson (2006-04-22)
[144] Johan Fröjd and Alexey Vasin (2006-04-19), Erik Eberhardson (2006-04-27) etc.

4.5 The Russian Company

The organisation and performance of the Russian company is obviously different depending on e.g. which kind of industry it operates in, where it is located and whether it is privately or stately owned. There is however some characteristics that apply for most Russian companies according to the persons we interviewed on site in Russia.

The ownership of the Russian company is often more complicated than what for example is to be found in the Swedish opposite. Many companies are a part of huge group of companies operating in a number of different sectors.[145] The small companies are often private while many of the bigger ones are state-owned. There has been a steady trend last years with nationalisation of companies, especially in the lucrative energy and raw material sectors.[146]

Furthermore the organisation is generally very hierarchical which among other things affect decision making that according to our responders are rather slow. The top managers are expected to make most decisions by themselves which for example makes it important for a foreign company to assure that your contact at the company has mandate to make decisions regarding e.g. purchasing.

The hierarchical organisation may also explain the big income differences that are to be found in the Russian company. Top management in middle sized to big company often earn substantially more that their opposites in European companies. The lack of qualified and experienced managers also affects the salaries to a certain extent. Russian managers with experience from Western companies abroad are sought after and hence well salaried.[147]

The blue collar workers are on the other hand proportionately low paid. They can expect USD 300-500 per month at foreign owned companies and even lesser at Russian owned ones.[148] In addition to salary the company is obliged to pay payroll tax that amounts to 30 %[149]. The income tax is 13 % no matter how much you earn. Despite the low income tax the usage of what they call grey salaries is rather common. Grey salary includes one part that is accounted for (white) and one part that is paid directly to the employee (black).[150]

The tax legislation is tough in Russia. You are considered to be a tax criminal until you prove your innocence. The practical implications of this is that the company has to devote both efforts and resources to support the tax audit team that often sits

[145] Alexander Konson (2006-04-22)
[146] Johan Fröjd and Alexey Vasin (2006-04-19)
[147] Fredrik Wrange (2005-04-21)
[148] Johan Fröjd and Alexey Vasin (2006-04-19)
[149] Mikael Franzen (2006-04-20)
[150] Johan Fröjd and Alexey Vasin (2006-04-19)

months at the company going through verifications and documents. Moreover the procedure to get money back from the tax authority is complicated. A newly installed special court for tax cases is however expected to simplify this process.[151]

According to our responders there is a distinctive difference in the way which the company operates depending on whether the company has a young market oriented management or a one jokingly referred to as red management. The latter consists of older managers who were educated and trained during the communist era and they tend to keep the structures and management style of the past which often makes cooperation with these companies difficult.[152]

The education level among both managers and workers are in general high. It is not unusual that a worker has a university education in engineering and that a top manager has a MBA degree from a European or an American top university. The technical knowledge is often very good while the business knowledge is still poor. In order to modernise management and also to attract foreign investors it has became popular among Russian companies to hire a foreign manager.[153]

Due to the not so competitive environment in which many Russian company acts, the profit margin is often rather high. In spite of this fact the liquidity at Russian company is very bad which among other things affects the term of payment. It is for example usual for Russian suppliers to receive prepayments from the buying company which at best is used for buying necessary equipment and material and at worst are used for buying new sport cars for the management.[154]

Knowing this makes payment policies an important adjustment for foreign companies in Russia. Sometimes it is necessary to accept prepayments since no alternative exists while it is most of the time is an adjustment of paying a lower price and accept prepayments or paying a higher price after delivery and reduce the risk.[155] The moral regarding payment is rather low in Russia. If the Russian company can get off at the last payment in a hire-purchase contract they have no moral hesitation about that; it is in contrary seen as a good deal.[156]

4.5.1 Case Study: GAZ

GAZ is a Russian company in the automotive industry. It was established 1929 in Nizhny Novgorod and begun to produce cars 1932 with a licence from Ford. Today the company consists of six product divisions; light trucks, middle weight trucks, heavy trucks, cars, busses and military vehicles. Light trucks is the largest division with 137 thousand produced trucks last year followed by cars with 66 thousand produced vehicles. The company primarily sells vehicles on the domestic market, but

[151] Fredrik Wrange (2005-04-21)
[152] Alexander Konson (2006-04-22)
[153] Ibid
[154] Fredrik Wrange (2006-04-21)
[155] Gennady Gushin (2006-04-25)
[156] Fredrik Wrange (2006-04-21)

also has some export to the markets in East Europe and the CIS countries among others.[157]

The company is owned by a holding company, named RusPromAuto, by which all managers in the group are employed. The management is Russian except for the vice president who is a Swede, headhunted from Volvo Russia. GAZ is the most important trademark of the around 20 trade marks that the group have disposal of. RusPromAuto, with total revenue of around USD 2 billions, is in their part owned to 80 % by a huge investment company called Basic Element who invests in a great variety of industries, i.e. banking, metallurgy and aviations.[158],[159]

GAZ is to a large extent vertically integrated where in-house production amounts to between 30 % and 80 %, based on value. Compared to western automotive producers GAZ purchase more raw materials and does not integrate the supplier that much in the development of new parts and components. The more complicated items and electronic equipment is purchased from foreign suppliers, predominantly located in Germany. The own production is carried out at five manufacturing plants which together with the managing company RusPromAuto employs around 14 000 people[160]. The production is assured according to ISO standard 9001.[161]

The fact that GAZ, as well as other automotive producers in Russia, is vertically integrated limits the possibilities to purchase components from independent suppliers since every producer just manufacture for their own production. To increase the flexibility and modernise the Russian automotive sector GAZ has begun to sell components to other producer and are also trying to make them do the same thing. In the near future GAZ will hive off the component division and thus create two independent companies; one that assembly and one that produces components.[162]

4.6 Doing Business in Russia

The business climate in Russia has changed a lot since the first years of market economy. When business rules and laws were not established it was possible to earn huge profits in a short period of time. Nowadays competition has hardened, at least in the more progressive regions around St Petersburg and Moscow.[163] Yet there is a great opportunity for high margins. Stephan Dertnig of the Boston Consultant Group - a strategy consultant firm - estimates that a mid-sized firm which would make a 10 % return on sales in the West could expect 25 % in Russia.[164]

[157] Erik Eberhardson (2006-04-27)
[158] Ibid
[159] www.basicelement.ru (2006-04-28)
[160] http://self.bus.ru/eng/ (2006-04-28)
[161] Erik Eberhardson (2005-04-27)
[162] Ibid
[163] The Swedish Trade Council (2005)
164 The Economist (2004)

The maturing market has also changed the business culture in some aspects. Nowadays you are more likely doing business with a young English speaking manager with proper education than you were 15 years ago. The difference in management style between these young managers and the older ones, more often to be found in non-central cities, are sometimes very obvious. Even if young managers are willing to adopt business behaviour from western practice the Russian tradition of combining business with pleasure remains popular. This has to do with the desire of a personal relationship to the person he is doing business with.[165]

Despite this somewhat converging trend towards western management tradition one big difference remains namely bureaucracy and corruption. The Russian officials have an opportunity to influence both the speed and success of certain procedures connected to your business practise, a fact that some Western business men might not be used to. Without personal connections to this ‘old boys' network’ - high-rank officials on local or national level - your ability to succeed in Russia will be reduced.[166] Related to this is the common usage of “extra costs” that officials on all levels sometimes charge foreign, as well as domestic, business men.[167] In certain cases you will have no choice if you want to obtain what you are looking for.[168]

The corruption has changed face during the last decade. From a situation where criminals carried out direct threats to business representatives to a new more sophisticated one where the government and the officials plays an important role. Many western business men believe that bureaucracy and corruption is getting worse; the customs take longer time and the government nationalise companies etc.[169]

The business environment is generally formal. Business questions is rarely discussed over the phone or email; but are handled during face to face meetings. A simple meeting aimed at discussing straightforward business issues can be called negotiations, characterised by the whole series of formalities.[170] In order to get in contact with a Russian business partner you should know that the communication routines, especially regarding e-mail, at the companies are not particularly efficient. To make sure that the right person has received the information you better follow up a written offer with a phone call.[171]

Several people with experience from doing business with Russian companies stress the short term perspective that characterise business and behaviour. The decision making process is short and the usage of cost calculations is not very common. The Russian negotiator is in general experienced with a technical competence that many times is better than the Western counterpart. Negotiations around technical, legal and business aspects of the deal are often carried out simultaneously, especially in bigger

165 Alexander Konson (2006-04-22)
166 http://eng.srbc.ru (2006-02-17)
167 Valery Korovkin (2006-02-17)
168 http://eng.srbc.ru (2006-02-17)
169 Anders Göransson (2006-04-20)
170 http://eng.srbc.ru (2006-02-17)
171 The Swedish Trade Council (2005)

deals.[172] Moreover the Russians are in general more unscrupulous in business negotiations than for an example a Swede. Thus the demand for a competent negotiator is immense when doing business in Russia.[173]

Foreign companies operating in Russia are popular employers since they pay white salary and are seen as serious and reliable. It also involves a certain status to work for a foreign company. Sweden and the Swedes have a good reputation among the Russians owing to cultural similarities and a history that has many things in common.[174]

Foreign citizens and companies have the same legal rights to establish business in Russia as Russian citizens.[175] The most common commercial organisations are joint stock companies and limited liability companies, and for foreign entities an establishment of a subsidiary company is a common course of action in Russia. The tax system consists of three categories: Federal 1, e.g. Value Added Tax (VAT), Federal 2, e.g. profit tax and finally regional/local taxes e.g. land tax. [176] A double taxation treaty between Sweden and Russia reduce taxes to 5 or 15 % on profits made by a Russian subsidiary company.[177]

When exporting goods from Russia there are some export duties to consider, mainly put on raw materials like metals.[178] In addition to those there are import restrictions that the EU put on some products. From Russia there are for example import restrictions on steel and iron products that require an export licence from the Russian administration. [179] 18% VAT is added to all imported goods. Import tariffs specific to automotive components are between 5-10%.[180]

Russia is for the moment not a fully adequate member of the WTO, but a so called Accession member.[181] The EU has a bilateral agreement with Russia - the Partnership and Cooperation Agreement - that came into force 1997. The so called mixed agreement regards the political dialog as well as trade and investment issues. There are also some complement agreements for certain sectors, e.g. a steel agreement and an energy dialog.[182]

[172] The Swedish Trade Council (2005)
[173] Anders Göransson (2006-04-20)
[174] Fredrik Wrange (2006-04-21)
[175] Valery Korovkin (2006-02-17)
[176] Doing Business in Russia, KPMG (2005)
[177] Ibid
[178] Ibid
[179] www.kommers.se (2006-02-15)
[180] http://strategis.ic.gc.ca/epic/internet/inimr-ri.nsf/en/gr122079e.html
[181] www.wto.com (2006-02-16)
[182] www.europa.eu.int (2006-02-16)

5 Scania

In this chapter the main contents are about Scania purchasing department and how it is organised. At the end we will describe how Scania have attempted to find suppliers in Russia before. We will start with a brief presentation about Scania as a whole.

“Some are born great, some achieve greatness, and some have greatness thrust upon 'em” - Shakespeare

Scania’s business concept is to deliver custom made solutions for people and companies in the transport industry. The company develops and produces buses, marine and industrial engines and long-haulage trucks where the latter represent a bigger part of Scania’s total revenue.[183] The customers are both big distribution companies, that orders large volumes of trucks at a time, and single drivers that just want one truck[184].

The company, originally known as Maskinfabriksaktiebolaget Scania, was founded 1901 in Malmö. In 1911 Scania merged with Vagnfabriksaktiebolaget in Södertelge and the new company got the name Scania-Vabis. In the early thirties they developed their first in-house diesel engine, and just a few years later they introduced modular production thinking allowing the customer to choose between different engine alternatives. The possibility to build engines for alternative fuels came to be important when the Second World War decreased the supply of both gas and diesel in Europe. With their modular production Scania-Vabis relatively easy could modify the engines to run on wood or charcoal produced gas.[185]

After the war Scania-Vabis began to put a focus on export markets. Selling to customers abroad was carried out through independent importers and dealers, mainly in Europe. This expansive period also meant that new production sites outside Södertälje and even outside Sweden were set up. In the early eighties the company introduced Program Scania in order to increase their customer value by taking the modularity thinking one step further. All production - not just engines - at Scania is ever since to be classified as modular allowing the customer to choose between almost unlimited numbers of truck variants.[186]

Scania’s head office is located in Södertälje, Sweden, where also most of the R&D, marketing and purchasing is carried out. The company has eleven production units worldwide situated in Sweden, Brazil, France, The Netherlands, Poland and Russia. The number of employees is about 27000.[187] The Western European market is the

[183] www.scania.com (2006-02-20)
[184] Rolf Blomgren (2003-01-31)
[185] www.scania.com (2006-02-20)
[186] Ibid
[187] Scania Annual Report 2004

most important one for Scania where they are one of the five largest truck companies and have about 15 % of the market share[188]. Another important market is the Latin American one where Brazil is most important with over 25000 trucks sold in year 2004. East Europe is considered as a growth market and Scania have a sales office in Russia.[189]

Scania's Production System (SPS) is based on the Toyota production thinking and lean thinking. It is presented by Scania as a house where the base is their three "philosophies":[190]

- Customer first – Scania focuses all its efforts on the needs and business operations of their customers. This is reflected through the entire supply chain.[191]
- Respect for the individual – This is too encourage employees to develop and continuously improve their work.[192]
- Elimination of waste – To strengthen their competitive edge and work towards a better environment.[193]

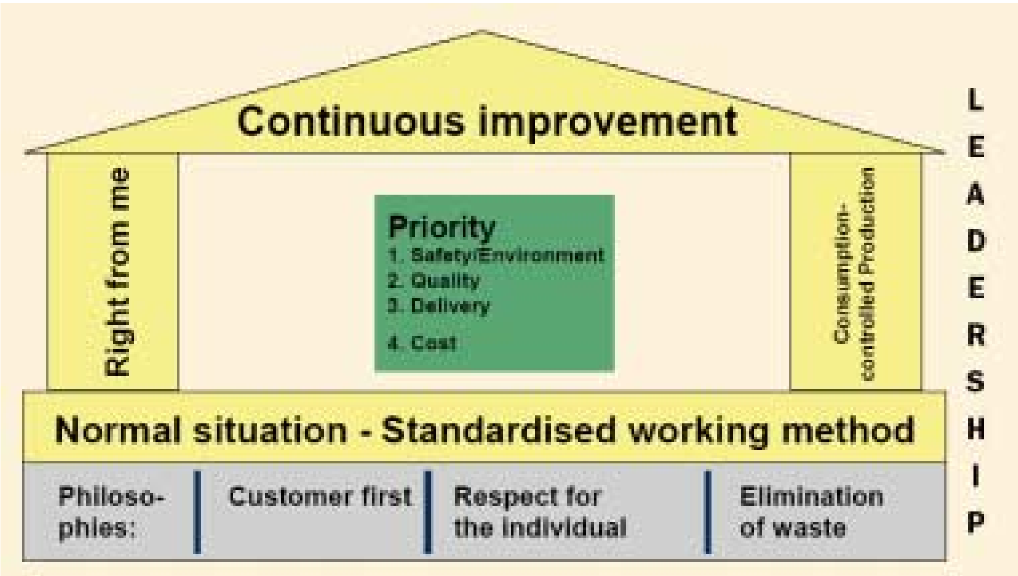


Figure 5.1: Scania's Production System (SPS)[194]

[188] Scania Annual Report 2004
[189] Rolf Blomgren (2006-01-31)
[190] Internal document
[191] Ibid
[192] Ibid
[193] Ibid
[194] Ibid

5.1 Scania's Global Purchasing Organisation

Scania global purchasing organisation is located in Södertälje with a regional office in Brazil which also is responsible for an office in Argentina. Furthermore Scania has opened offices in The Czech Republic, China, Poland and Russia to be able to look for new potential suppliers in these countries. The Purchasing department is responsible for buying components, material, and tools for running production, spare parts and non-automotive products. It is organised as shown in figure 5.2. All of the functions are situated in Södertälje except SLA and SE. The different functions in Södertälje are responsible for buying different components and materials except SE and SR that are looking for suppliers on new supplier markets.[195]

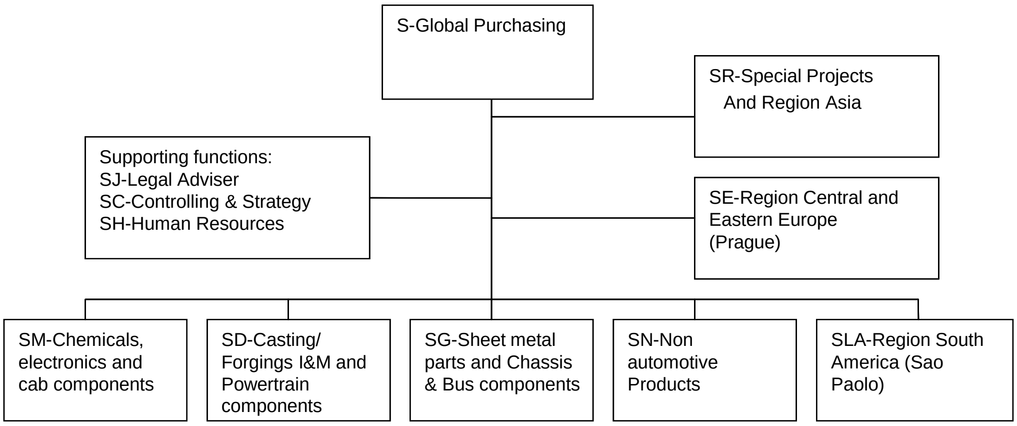


Figure 5.2: Scania's global purchasing organisation.[196]

Every department is responsible for the project purchasing, the production purchasing and the quality assurance of their commodities. The project buyer purchase parts and spare parts to new products and prototypes. The production buyers are responsible for the purchasing of parts to the running production and the quality assurance personnel monitors that suppliers and components meet Scania's standards.[197]

The purchasing department is following a code of conduct that regulates its compliance with laws, contractual obligations, standards of integrity and quality, general responsibilities, conflict of interest, confidential information and gratuities.[198]

The kind of materials Scania buys for production is e.g. sheet metal parts, iron castings, forgings and machined forgings, rubber and plastic. From history Scania has been buying most of the material from Western European suppliers but one of the new strategies for the future is to source from low cost countries like China, India and

[195] Lennart Lundström (2006-02-15)
[196] Internal document
[197] Ibid
[198] Ibid

also from Central Europe. Scania tries to have a relatively close and trusting relationship with their suppliers since this further continuous improvement and quality. They also prefer to have long time suppliers where both parties are in a winning situation.[199]

5.2 Scania's Basic Demands on their Suppliers

Scania's demands on the quality of their products obviously affect their suppliers as well. In Scania's procurement guidelines the following demands are mentioned[200]:

- ISO/TS 16949:2002 are valid in general for all suppliers of production and spare parts.
- In addition to general ISO/TS 16949 Scania Customer Specific Requirements are mentioned in a Scania standard 3868. Some of these are;
  - The supplying organisation shall perform regular product audits at a, by Scania, defined frequency.
  - The supplying organisation shall have an EDI-system that communicates with Scania through EDIFACT.
  - The supplying organisation must have high delivery reliability and shall monitor delivery performance for each delivery address at Scania.
  - Certain categories of suppliers to the supplying organisation (tier 2) must be approved by Scania purchasing. These are suppliers of:
    - Surface treatment.
    - Heat treatment of Scania designed parts.
    - Forgings for Scania designed parts.
    - Ductile iron castings for Scania designed parts.
- QSR (third edition) from QS 9000 and VDA 6.1 are accepted alternatives to ISO/TS 16949.
- ISO 9000:2000 is accepted for the non automotive suppliers.
- ISO 14001:2000 is valid as environmental demand.
- OECD guidelines for multinational enterprises shall be committed.

And as an international company Scania use English as concern language which means that their suppliers need to do the same on all levels in their organizations.

Some of these demands are not there only to ensure the physical quality of Scania's products but also to help achieve Scania's environmental thinking, moral commitment and to enhance and simplify communication between organisations in the supply chain.[201]

Scania is willing to make exceptions of some of these demands under special circumstances. This may occur if a new supplier has a good program on how to

[199] Rolf Blomgren (2006-01-31)
[200] Internal document
[201] Rolf Blomgren (2006-01-31)

implement changes to meet the demands within a reasonable time from start up. Some demands are never excepted however, e.g. the OECD demand and some of the environmental demands. The fact that a supplying organisation has a quality certification is not a guarantee that they have a high quality. Scania have noticed that it is as common for certified suppliers to have inadequate quality as it is for not yet certified suppliers.[202]

Scania also have some demands that are harder to verify. They state that suppliers should have commercial and technological potential. This means that a supplier should be prepared to evolve with Scania, both in commercial and technological aspects.[203]

5.3 Supplier Evaluation Model

To continuously monitor and improve the performance of their suppliers Scania uses a system that they call the Supplier Evaluation Model or SEM. This is a standard that includes the general requirements for supplier evaluation. The model is used both for the first assessment of a supplier and for continuous supplier evaluation. When used as a first assessment of a supplier the purpose is to evaluate the ability of the supplier, but when used as a continuous supplier evaluation it is mainly the supplier's performance that is evaluated.[204]

The model uses a grading system with five grades from a) to e).

Criteria	**Definition and follow up**
a) "Excellent"	All criteria evaluated are excellent.
b) "Good"	All criteria evaluated are lowest good.
c) "Acceptable with an action plan"	Some criteria evaluated "Not approved". Agreed action plan with timetable. If so new orders OK.
d) "Not approved"	Evaluation show not approved. Decision on actions from Scania.
e) "Not applicable"	

The supplier is evaluated in the following five categories.

- Logistics
- Quality and environment
- R&D
- After sales
- Company profile.

[202] Rolf Blomgren (2006-01-31)
[203] Ibid
[204] Internal document

Every category is evaluated through a set of criteria; the number of criteria differs between categories. Some of the criteria are measurable while some are based on common sense. If the model is used to carry out a first assessment the recommended highest grade is b)”Good”. Grade a)”Excellent” is only used in evaluations.[205]

The SEM is a good help to remember what to look for when you are evaluating or assessing a supplier. SE believes that this model might have been one of the reasons why they have not managed to find any Russian suppliers. They feel that maybe it is to strict or inflexible to accommodate new suppliers from Russia.[206]

5.4 Scania’s Sourcing Process

SR compares Scania’s sourcing process with a filter with several layers that removes more possible suppliers the more information it collects (Figure 5.3).

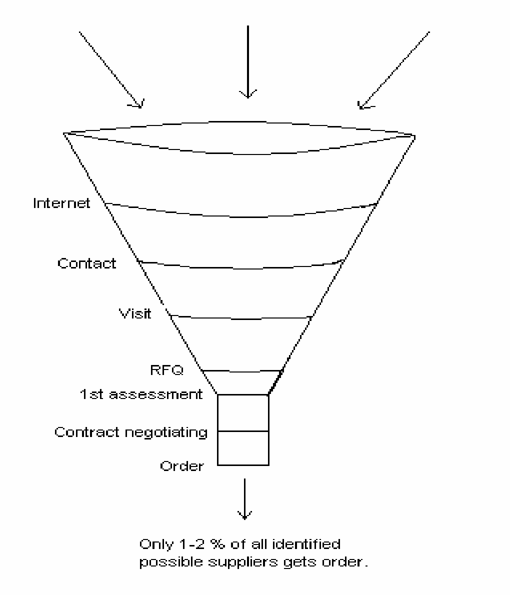


Figure 5.3: An illustration of Scania’s sourcing process[207].

The way which Scania searches for suppliers is usually the same. First the responsible person - usually a buyer at Scania - search sources of interest which could be Internet, media, newspapers, organisations, personal connections, embassies or trade councils. When the buyer has found a number of possible suppliers he contacts the company through mail or telephone to get a better understanding of their capability. He also sends a request for information about the company which is called PSS. After that he visits the suppliers that have passed previous investigation. During the visits he tries to get a picture of the company by looking at; if the company is well organised, if the

[205] Internal document
[206] Lennart Lundström (2006-02-15)
[207] Ibid

workshops are tidy, if they follow the certificates they say they are and if they can produce what Scania needs. This is a very important part of the process and it is important that the buyer is experienced to make this evaluation by just a visit.

If the buyer believes the company has potential and passes all of Scania's demands, he sends a RFQ to the company. If the quotation is accepted by Scania it is time for a supplier quality assurance engineer to investigate the company. This is to absolutely ensure the quality of the products. During his visit he also performs a SEM-evaluation of the supplier, something that if the supplier becomes accredited will be done continuously.[208] If everything is satisfactory on the first assessment the basic sourcing activities are finalised through contract negotiation and, if the parties can reach an agreement, order.

This is the way it usually works. Scania has however tried different ways to find suppliers as well. One of them is to host a seminar where Scania has invited suppliers they are interested in. In the seminar the suppliers are informed of what Scania wants and are then interviewed. If Scania thinks the supplier has potential they make a visit at the supplier and after that it works like it is described above.[209]

The process of finding and contracting a supplier can take between six months and two years depending on how promising Scania think the potential supplier is.[210]

5.5 Scania in Russia

Scania entered Russia in 1993 with a representation office for the marketing and sales organisation. In 1998 the new company Scania Russia was formed with the mission to sell Scania products in the Russian market. The market for foreign trucks has grown during these years and last year 5000 foreign trucks were sold. Scania was the market leader with 1400 sold trucks. Scania does not have any assembly plant for trucks in Russia but the responsible manager in Russia thinks that it might be considered when Scania reach volumes of 7000-8000 sold trucks annually.[211]

In 1999 Scania started building a bus factory in St Petersburg and in 2002 the first bus rolled out. In the beginning the factory produced about five buses every month but now they produce up to 25 during one month. They produce both long- and short distance busses. They have a purchasing organisation on the factory which works with local suppliers. Their local suppliers supply mainly for the bus body, things like windows and seats. Today about 30 % of the value of a bus is sourced locally. The bus factory is the first one in Russia to be ISO 9001 approved and their quality work is considered extremely thorough by Russian standards.[212] We visited one of the local

[208] Internal document
[209] Rolf Blomgren (2006-03-13)
[210] Lennart Lundström (2006-02-15)
[211] Fredrik Wrange (2006-04-21)
[212] Tatiana Kolesnikova and Dmitriy Ogarkov (2006-04-24)

suppliers and observed that the workshop was tidy and the management seemed to be good although the machinery was a bit old and they were not very good in English.

In 2002 Scania started looking for global suppliers in Russia. The project was conducted by SR. The project was lead by SR manager Lennart Lundström but he also wanted a Russian to help so he turned to the St Petersburg bus factory for a local purchaser who could help. The local purchasers in St Petersburg were able to apply for the job and Alexander Konson (AK) was chosen. In the beginning AK only worked with the project half time but eventually he started working with it full time.[213]

Since AK had only worked with busses he got trained in Södertälje and Zwolle for a couple of weeks. He believes that this training was sufficient to understand the truck purchasing issues. He says that the biggest difference is the volume. He needed to find companies which were large enough to produce the big volumes Scania needs. In the bus factory they produced a maximum of 200 busses annually but Scania makes over 50000 trucks per year.[214]

When AK started looking for suppliers there was no plan on how to go trough with the project so he got to do as he wanted and thought was best. He started looking through Internet and if he found any company that looked interesting he first called them up and then visited them. During the entire project he found 600-700 potential suppliers and visited 70-80 of them. Besides Internet he used sources from the bus factory, his own connections and possible supplier tips to find suitable companies. He also got some help from embassies in the CIS countries when he searched there.[215]

Scania have a list of materials and components which are prioritised when looking for new suppliers. This list is revised continuously but when AK was looking it was surface treated sheet metal that was the most interesting thing to look for. He also looked for plastics, glass and wire harnesses suppliers. The already existing suppliers for the bus factory was investigated, especially the glass and plastic ones, but they were just not able to supply the volumes the truck side at Scania needed.[216]

The main problem with Russian companies is the production culture. They do not think the same way Western European companies do and often believe that their old way of producing should be sufficient in the future as well. It is often very common that they have old machines and equipment, something that probably is caused by high interests and short term thinking which leads to an aversion for investing. They are often poor at calculating correct prices and believed that since Scania is a big company they could pay more than others. Another big problem is their English knowledge. They often say that they can communicate in English just to get a chance at a deal but often it is a big exaggeration.[217] On our trip to Russia we visited one of

[213] Alexander Konson (2006-04-22)
[214] Ibid
[215] Ibid
[216] Ibid
[217] Ibid

the bus factories suppliers, on that company the boss did not speak a word English and his secretary was also very poor at it.

In general AK says that the companies have a pretty good quality. He believes that many companies should not have a problem obtaining ISO 9000 certification if they tried to get it. On the other hand many companies that do have it do not use the basic principles behind it. The management within the companies is very important to investigate. A lot of old companies are lead by people coloured by the Soviet times. This kind of management is called Red Management and should be avoided. According to AK it is best to look for suppliers with a fairly young management, preferably with a Western education. AK, as well as all the others we talked too, emphasizes the personal relationship between supplier and customer. You often need to get to now each other on social basis by for example eating and drinking together. This also makes it very important to get to know the top boss at the company since everyone listens to him and it is with him you need to have a good relationship.[218]

There are some things AK thinks should be changed if Scania wants to try to find suppliers in Russia again. First of all they need to make a formal decision that states why and how they are going to do things. Sometimes it felt like the organisation behind AK was not committed enough. He says that since Scania was so indecisive he personally got a bad reputation within the local supplier market; people just did not trust him enough. This was also one of the factors that made him quit in 2005. It was the correct decision to have a Russian purchaser familiar with the automotive industry working on the project. He says this is vital for the understanding of the context and also the ability to identify when possible suppliers only are in it for the short term profits.[219]

One of the major obstacles when AK worked in the project was to find surface treatment for sheet metal. In Russia they used another coating than in Sweden and this problem is probably still there. AK’s suggestion is too “invite” Proton Finishing or some other surface treatment company to Russia which have the correct equipment. Scania needs to be more flexible in some of their demands. They can not be too strict about for example EDI capability or ISO certification. Instead they must be willing too work with and teach companies that look promising since there probably are no companies which are ready to become Scania suppliers at once. Scania should focus on a small number of possible suppliers instead of trying to develop a competition situation.[220]

Patience is probably the most important quality any company must possess to make it in the Russian market. AK believes that the industry is developing in Russia all the time but without help the evolution is slow. He says that it is probably better now than it was when he worked with the project but still believes that you should search the

[218] Alexander Konson (2006-04-22)
[219] Ibid
[220] Ibid

same regions as him, St Petersburg, Moscow and Nizhny Novgorod. The project was put on hold in 2005 when AK left Scania.[221]

[221] Alexander Konson (2006-04-22)

6 Case Companies

This chapter describes our findings from the five case companies and compiles what they say about purchasing in Russia. In the beginning a short discussion about how the interviews were conducted and why a quantitative survey was answered by the companies is presented.

"At the end of the day everybody wants to make money." – Johan Fröjdh

This case study was, as we said in the methodology chapter, conducted through interviews with mainly purchasing managers at the different companies. More detailed information about the respondents is found in the sources section. The qualitative questionnaire is mainly based on issues covered in the theoretical framework and is presented in Appendix 1. The quantitative survey was answered by the same people as the qualitative questionnaire and will function as graphical presentation to validate what is being said in the qualitative study, a compilation and discussion of the answers will be presented in chapter 7.2.1. At Alfa Laval both a Russian and Swedish purchaser got to answer the survey, this was done to try to highlight some of the differences between Russian and Swedish mindset. Since no major differences between their answers were found no thorough investigation of this has been made.

6.1 Alfa Laval

6.1.1 The Company

Alfa Laval helps their customers to heat, cool, separate and transport products such as oil, water, chemicals, beverages, foodstuff, starch and pharmaceuticals. They do this through their three key technologies; centrifugal separation, heat transfer and fluid handling. Alfa Laval is organised in two supporting divisions; the operations division that includes purchasing, logistics and manufacturing and the sales and marketing division, as well as two major sales divisions; the process technology division and the equipment division. Alfa Laval has customers in approximately 100 countries around the world. About 50 % of sales are in Europe, 30 % in Asia and 20 % in North and South America.[222] The most important purchasing markets are still Europe and USA, but the ones in Asia and Eastern Europe, including Russia, are becoming more important since global competition increases.[223]

Purchasing Organisation

As mentioned above the purchasing department is part of the operations division. The company has a global sourcing strategy and today they have low cost purchasing units in Mexico, India, China and East Europe. They also have a local purchasing

[222] www.alfalaval.com (2006-03-03)
[223] Johan Fröjdh (2006-03-22)

department on every production unit which is about 20 around the world. Commodity groups are; metals; castings and forgings; machining, forming and fabrications; electrical, instrumentation and flow items; seals, fasteners and transmissions and finally indirect material. The company has a supplier development function, a function that coordinates the local offices, and a support function. Alfa Laval has about 2500 suppliers, most of which are located in Western Europe, but they want to reduce this base by up to 30 %. Alfa Laval purchase for approximately 600 million euro every year.[224]

Purchasing Process

New potential suppliers are found via Internet, trade fairs and sometimes through local agents, although that is not desirable since it increases the communication distance to the supplier. The company obviously also use their own network channels, for example the marketing department if they have suggestions on possible suppliers. When they have found a supplier with a cost level that meets their needs they do an initial audit of the supplier. This audit is based on a supplier visit and handles factors like tidiness, impression of management and safety regulations. If the company wants to continue with the supplier they often do a second audit, this is a more detailed audit where Alfa Laval representatives grade the supplier in categories like strategic vision and improvement programs. The supplier also has to give out information about how much he sells, what his profit is and who his other customers are. Then the supplier must deliver a test order to Alfa Laval which has to be exactly like the demands on the drawing of the part.[225]

The continuous evaluation of the supplier is based on delivery reliability, quality reliability and payment terms. The company does not have a standardised way of rewarding or punishing their suppliers but gives good suppliers more orders and vice versa.[226]

Alfa Laval does not have a basic demand for an ISO certification but they do want the supplier to have some kind of similar quality system. Suppliers are also expected to follow Alfa Laval's business principles which deal with ethical, environmental and business integrity issues[227]. If they do not they must have a program to improve these issues. To be able to communicate in English is a demand for global suppliers but not for local.[228]

6.1.2 Russian Experience

Alfa Laval bought a factory outside Moscow in 1992 to manufacture heat exchangers. The local sourcing started the same year. Russia is considered an important market for Alfa Laval and they sell for approximately 60 million euro there. Everything that is produced in the Russian factory is sold in Russia. When Alfa Laval searches for

[224] Alfa Laval purchasing presentation (2005)
[225] Johan Fröjdh (2006-03-22)
[226] Ibid
[227] Alfa Laval business principles (2005)
[228] Johan Fröjdh (2006-03-22)

new suppliers in Russia they mainly use Internet and trade fairs. The company has recently started to look for possible global suppliers in Russia.[229]

Both Local and Global Suppliers

Alfa Laval has both local suppliers and one global supplier in Russia. For the moment there is one Russian employee working full time and one Swedish ExPat working half time with global suppliers in Russia. Local suppliers are used for supplying the production plant in Russia with raw material and less complicated components while the global one is intended to supply components to production plants all over the world. The components consist of bended and machine prepared parts, often zinc treated. Some forged and casted products also occur. Alfa Laval put a great effort in finding new global suppliers in Russia but since the requirements regarding those are more severe than for local suppliers they have not found that many that could be approved as a global supplier. Most suppliers of components are found in the Moscow region and suppliers of raw material in the central parts of the country and around the Urals.[230]

Cooperation in Order to Increase Quality

Due to low salaries and cheap raw material the Russian supplier can deliver price competitive products to Alfa Laval's production site in Moscow. Another advantage of establishing business in Russia is the shorter distance to Europe compared to the low cost countries in Asia. To the disadvantages of using a Russian supplier is the sometimes very poor quality of the delivered goods. Alfa Laval stresses the need for cooperation with the supplier in order to increase the quality of product and production. They have therefore an interest in establishing long term relationships with the suppliers, especially those who are or intended to be global suppliers. In those cases Alfa Laval work actively and close with the supplier which sometimes also include financial support to the supplier. Alfa Laval strives for a balanced relation to the supplier where neither party is dominant; a situation that at times is unavoidable since Alfa Laval often is a very important customer for the supplier.[231]

A Different Business Culture

Alfa Laval believes that doing business in Russia differs from e.g. Sweden in many aspects. One of them is the importance of a personal relation to your business partner which will be facilitated if you speak Russian since few Russians speak English. Another difference is the organisational form; Russia is much more centralised than Sweden with a strict hierarchy and slow decision making process. Alfa Laval believes that the technical competence is sufficient but that the competence regarding business is less developed. One big obstacle in addition to language is bureaucracy which among other things affects lead time and delivery reliability. This fact makes stock-keeping more important in Russia than in e.g. west European companies. Even if the way of doing business in Russia is somewhat different the business culture is not that

[229] Johan Fröjdh (2003-03-22)
[230] Ibid
[231] Ibid

different from that in other more developed countries because "at the end of the day everybody wants to make money".[232]

Find a Competent Partner!

Alfa Laval believes that Russia is far behind other east European countries what regards industrial development. In opposite to the fast developing countries in Asia where new industries are built with new equipment Russia have tended to use and renovate old factories with a slow development pace as a result. Despite these somewhat structural problems Alfa Laval believes that the future potential in Russia is considered to be big. The lacking competences in business sometimes causes strange business calculations including incorrect relations between cost of work and material. The calculations are moreover often based on a general assumption that prices goes up, no matter what. Those facts imply a need for cooperation with and supervision of the supplier. The supplier intervention shall however be carried out carefully to prevent conflicts and the general advice for business in Russia applies: go slow and prepare for step-by-step progression. To succeed with purchasing from Russian suppliers Alfa Laval believes it is necessary to find a local partner with knowledge of the Russian context.[233]

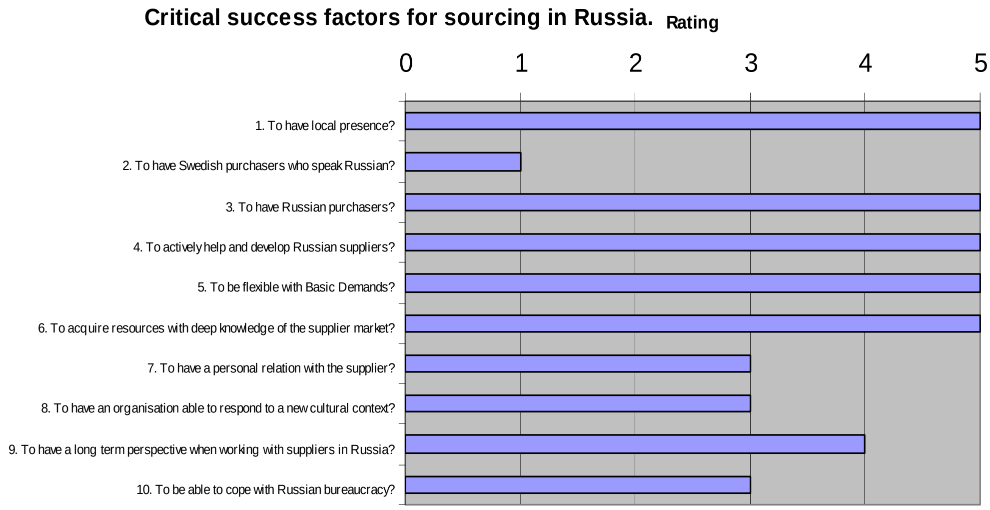


Table 6.1: Johan Fröjdh's answers to the survey.

[232] Johan Fröjdh (2006-03-22)
[233] Ibid

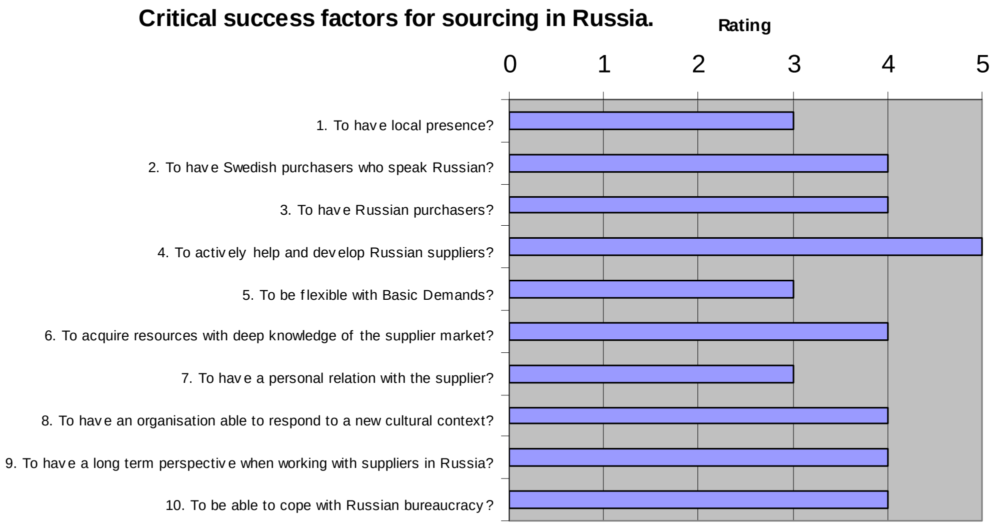


Table 6.2: Alexey Vasin's answers to the survey.

6.2 Electrolux

6.2.1 The Company

Electrolux is a world leading producer of appliances and equipment for kitchen, cleaning and outdoor use. The company has two business areas, Indoor Products and Outdoor Products, both of which include products for consumers and professional users. The products consist of consumer durables such as refrigerators, washing machines, and vacuum cleaners, as well as gardening and forestry equipment such as lawn mowers, garden tractors and chainsaws. It also includes commercial appliances for professional cooking, refrigeration and washing. Within the Corporate Group there are about 50 Product Divisions, spread all over the world. Electrolux consists of such companies as AEG, Frigidaire and Husqvarna, to name just a few.[234]

Purchasing Organisation

Electrolux has a global sourcing strategy. Sourcing from the so called low cost countries consists of around 20 % of the total purchasing amount, but that percentage is expected to increase to the double in the future. For the moment the number of supplier amounts to around 5000. The purchasing organisation has three levels. They have a global purchasing department in Stockholm which accounts for about 50 % of all purchasing. The company also has a purchasing department for every product segment, e.g. outdoor products. Lastly they have a small purchasing department on every factory which deals with local purchasing of mostly indirect material. Almost

[234] www.electrolux.com (2006-02-27)

all purchasing today is made regionally, for logistic reasons, but Electrolux have a development program on how to increase purchasing from low cost countries.[235]

Purchasing Process

Electrolux mainly buys components and semi-manufactured material which are then assembled in their own factories. The way which Electrolux finds new suppliers is much standardised. When examining a new supplier market they do this as a project. If they locate possible suppliers they try to visit as many as possible for an evaluation. To find the companies Electrolux use many possible sources like local employees, trade missions and Internet.

The Global Supplier Quality Assurance System (GSQA) is a framework used for evaluating potential and current suppliers to Electrolux. The system consists of Supplier Process Audits for potential suppliers and ongoing evaluations for current suppliers, which both aims to ensure that the suppliers perform in accordance to demands and guidelines formulated by the Group Purchasing Council.

The Supplier Process Audit includes quality systems as well as production processes. The first step of this audit consists of a Supplier Profile Questionnaire which is later followed up by a visit and a Self Assessment Process Audit.[236] The ongoing evaluations are measuring, on a monthly basis, the supplier's ability to deliver the right products at the right time. A product fault or delayed delivery results in a so called Demerit which summed up gives the supplier's total rating. The supplier is charged for faults and delays that cause any problem for Electrolux's production plants.[237]

Electrolux never make exceptions from their basic demands[238]. Some of these are[239]:

- Concerned documents shall be written in English.
- ISO 9001:2000/ISO/TS 16949, QS-9000 or equivalent.
- ISO/DIS8402 (Quality management and Quality Assurance Vocabulary)
- Accept and follow Electrolux Code Of Conduct (e.g. no child labour, freedom of association, environmental compliance)
- Not use any of the materials specified in a Restricted Material List.

6.2.2 Russian Experience

Per-Arne Sandmark got the mission to start up Electrolux's business in Russia 1994. He started a sales division which he led from 1994-1996. He started working with the possibility of purchasing in Russia 1997. In 2000 he carried out a project with the goal of finding Russian suppliers together with two colleagues. They found over 100 possible suppliers and up to 2003 they visited almost 70 of these but none of them

[235] Per-Arne Sandmark (2006-02-28)
[236] www.electrolux.com (2006-02-27)
[237] Ibid
[238] Per-Arne Sandmark (2006-02-28)
[239] www.electrolux.com (2006-02-27)

passed Electrolux's quality demands. To find the companies Electrolux used sources like local employees, local trade missions, Internet and their business network and estimate that they found at least 80 % of all interesting companies. They did eventually find one company located in Russia which they use today, but that is the Swedish-Danish company Kappa Förenade Well. Today Electrolux have two factories in Russia, a laundry machine factory in St Petersburg and a chainsaw assembly plant in Moscow. Everything manufactured in these factories is sold in the CIS (Commonwealth of Independent States).[240]

Purchasing Raw Materials

Today there is one Russian who works with global purchasing in Russia and three more that work with local purchasing of mostly indirect material. The share of local material in the products manufactured in Russia is no more than 10 %. The company says that you have to have Russian speaking personnel in order to work in Russia. Electrolux have a theory on why they have so much trouble finding Russian suppliers. They believe that the products they want too purchase, which is components, is harder to buy in Russia than raw material. Furthermore Electrolux often manufacture so short series of products that maybe the really good suppliers are not interested in working with them. Electrolux also thinks that there is a difference working with consumption products since the demand for these in Russia have forced suppliers to develop rapidly, this demand does not exist for industry products.[241]

Three Types of Companies

Per-Arne Sandmark has identified three types of companies in Russia:

- Old government owned companies.
- New private companies founded by Russian entrepreneurs.
- New companies founded by Europeans.

He says that the structure of the supplier market has not developed yet. The biggest problems with the possible suppliers are:

- They want to make fast money.
- Can not handle the quality demands.
- Do not have the right raw material.

These are problems that get more apparent the further from big cities you get and Electrolux think that it is in Moscow and St Petersburg you have the best chance of finding a good supplier.[242]

[240] Per-Arne Sandmark (2006-02-28)
[241] Ibid
[242] Ibid

The Old Structure Remains

The industry is very often built in a planned economy manner with a lot of similar production at the same geographical places. This could be a beginning to clusters but the ones that exist do not have any government support and are not effective. This old structure is also why many companies are vertically integrated which Electrolux thinks is one of the reasons they can not find suppliers, they are just not good enough making these kinds of products and need to work more with their core competences. The big size of the home market which have minimal competition might also be a reason to why companies develop in such a slow pace. Despite high criminality and organised crime Electrolux have never had any problem with that.

The formality from the Soviet days also remains, but it is more common in the old companies than in the new. The difference in business culture is also less apparent in the new companies. They are also generally better in communicating in English. It is always the boss that decides in Russia and co-workers are very hesitant to take decisions without him.[243]

Difficult to Combine Western Demands with Russian Reality

Electrolux does not want to make exceptions for suppliers that not reach their quality demands. The company says that Russia is very slow in adapting to these demands, something that haven't been a problem in Asia or other Eastern European countries like Poland. This is even more surprising considering their high technical competence. They have noticed that many of their possible suppliers have had ISO 9000 certificates but they are hesitant as to whether they follow them or not. QS 9000 on the other hand is not usual in Russia.

Per-Arne Sandmark doubts that it is possible to source globally from Russia today without many complications. Maybe you could source locally or perhaps use Western European companies in Russia but that will probably eat up the margins. He sums up the critical success factors for finding and working with Russian suppliers like this[244]:

- Focus on a few possible suppliers at a time.
- Be patient with them.
- Help them with development and problem solving.

[243] Per-Arne Sandmark (2006-02-28)
[244] Ibid

Table 6.3: Per-Arne Sandmark's answers to the survey.

6.3 IKEA

6.3.1 The Company

IKEA sells low-price products, including furniture, accessories, bathrooms and kitchens at retail stores around the world. Their core business is the selling of home furnishing.[245] IKEA is one of Sweden's most successful international companies and IKEA's founder and owner Ingvar Kamprad is the fourth wealthiest man in the world today. IKEA's biggest markets are Europe (81 % of sales) and North America (16 %) and they sold products for 14.8 billion Euro 2005.[246]

Purchasing Organisation

IKEA have a global purchasing organisation at the headquarter in Älmhult where the strategic purchasing and management is located. The company also has local purchasing offices in the countries where they purchase a lot or see much potential which today is in 32 countries. The company tries to work close to their suppliers and use long agreements where they help develop production, products and logistics. IKEA purchases almost everything they sell and only 10 % comes from their own production units. They purchase 67 % of their goods in Europe, 30 % in Asia and 3 % in North America. The company sees a lot of potential in countries like Russia, Ukraine and Vietnam.[247]

[245] www.ikea-group.ikea.com (2006-04-04)
[246] Ibid
[247] Mikael Franzén (2006-03-22)

Purchasing Process

IKEA mostly buys finished products and they do not have very much connection to companies earlier in the value chain, they are however attempting to get more connections with the second tier. It is the local purchasing offices who look for new possible suppliers. It is then the headquarter who decides which of the possible suppliers should be approved. IKEA also have a supplier portal where possible suppliers can send information and they get many offerings from Russian suppliers.

When evaluating new suppliers IKEA have what they call minimum demands which contains issues about material choices, chemical substances in products, testing of products and certification of where the material is from. If the supplier passes these demands and can lower IKEA's costs they are willing to help them improve quality. Since IKEA purchases so many different types of products these demands differ quite a bit.

When the supplier is approved IKEA begins working with them in order to make them implement IKEA's code of conduct (IWAY), which covers issues like environment and business ethics, and their quality standard (QWAY) which is a simplified version of ISO 9000. If the suppliers can not meet these standards an action plan on how to implement them is worked out. To make sure the suppliers maintain the quality implemented IKEA makes yearly audits.[248]

6.3.2 Russian Experience

In the 1970s Ingvar Kamprad became friends with two Soviet officials that could open the doors to the otherwise closed country. IKEA invested capital and efforts in their partner company who initially had severe quality problems. Even if they managed to improve the manufacturing process at their partner companies, the purchasing volume remained small during the communist period. When Soviet collapsed and the idea of a new gigantic low cost market was born IKEA decided to invest heavily. One of the more ambitious plans was to build an advanced production plant for wood works with equipment imported from Sweden. The project became a big failure. After years of setbacks IKEA finally decided to give up the project that had cost them more than SEK 60 million.[249]

After some years with low activity in Russia the company decided to formulate a new plan of attack. The breakthrough came 1999 when president Putin signed a decree that reduced the custom fees with half. Since then both purchasing and sales have been successful in Russia.[250]

IKEA makes the most of their purchases from the European part of Russia but has also started to work in Siberia. About 1.5 % of all IKEA's purchased material comes

[248] Mikael Franzén (2006-03-22)
[249] Torekull (1998)
[250] Ibid

from Russia.[251] IKEA have purchasing offices in Moscow, St Petersburg, Irkutsk and Novosibirsk but mostly work with suppliers to the local stores.[252]

The Importance of Being Present

IKEA have noticed that they often have to start at the lowest levels when working with new suppliers in Russia. The company often has to help build the enterprises from the bottom in order to get them to follow IKEA's demands; they say that it is worse in Russia than anywhere else where they have suppliers. These circumstances makes it very important to be present in Russia since you must always, or at least in the beginning of a new supplier relationship, be "on call" if your supplier has problems. It is also good to have people in your organisation that speaks Russian since English is not very common and it is easier to communicate without an interpreter. IKEA says that to work with Russian suppliers you also need to be "…patient, patient, patient".

Russians is a people that love to negotiate. Negotiations takes place frequently and is often very time-consuming. Deals that are suppose to stretch over a long period of time seldom last but have to be re-negotiated after short periods of time. The constant negotiating is also one of the reasons companies should have Russian speaking co-workers since there can be misunderstandings when using interpreters and misunderstandings can lead to more negotiations.[253]

Search for Good Management

When IKEA normally searches for suppliers they look for good production facilities, this is however not enough in Russia. When the Soviet Union was dissolved every worker at a company got a share of that company which unfortunately made the management very weak since there were no majority owners. This is a problem that still exists according to IKEA and that is why you have to judge the management of a potential supplier before you do anything else. Often there is no middle management in the organisation and that makes it very centralised. This is reflected in the Russian leadership style. Workers very often have great respect for the boss and every decision must come from him to be sanctioned. It is important though not to just look at the management but also at the ownership structure. Also remember that personal relationships are very important in Russia and IKEA says it is sometimes hard to keep apart business and private life which might lead to corruption if not treated carefully.[254]

Why Russia

The biggest reason why IKEA have Russian suppliers today is because the import customs from the European Union is so high and if they use local suppliers they bypass this problem and can lower the prices in their Russian warehouses. The company has some global suppliers in Russia as well, mostly in the heavy wood

[251] Mikael Franzén (2006-03-22)
[252] Ibid
[253] Ibid
[254] Ibid

sector, which is not so surprising since Russia has a lot of forest industry. There are no export customs.

In China everything has gone very quick when adjusting to a Western market, but not in Russia. This is because there are very few entrepreneurs and no authority support in Russia. This has also made very many companies extremely bad at identifying business opportunities. Furthermore they often see foreign companies as frightening and complicated to work with and they do not usually look for export possibilities. They are however usually technically skilled and learn very fast if you take the time to work with them.[255]

Russia – Far Behind
IKEA considers Russia to be far behind many of the other Eastern European countries like Poland and the Czech Republic. They think that it is because Russia has no desire to join the European Union which is a consequence of their national pride and the fact that they do not consider themselves Europeans. There is also a suspicion against Western quality systems which IKEA believes may be a big problem for Scania. The last ten years has been chaos and the authorities have done nothing to develop the industry but now there are starting to be some progress. Unfortunately Russia has a lot of raw materials and this makes the progress go slower since they can make money without an advanced industry. The stupid thing is that although they have all these resources their metal industry is not competitive on an international arena. Corruption is also a problem although IKEA never have had a problem with it. Mikael Franzén says that he sometimes experience situations in Russia that he had in Poland 1983 and think that is how far behind some parts of Russia is.

They identify the lack of entrepreneurism as the single biggest problem in Russia today and give the following advice if Scania or other companies wants to find suppliers there:

- Work with a long-term scope.
- Do not hesitate to make investments to get further.
- Have patience.

“If you can accomplish this you should do it now because in 10 years everyone will be there.”[256]

[255] Mikael Franzén (2006-03-22)
[256] Ibid

Table 6.4: Mikael Franzen's answers to the survey.

6.4 Skanska

6.4.1 The Company

Skanska is a construction company which is aimed at satisfying people's need for housing, work environment and communication opportunities. They do this through four different business streams. These are; construction, which is focused on housing and construction and services related to road construction and civil engineering; Project development Residential, which is oriented towards initiating, developing and running residential and commercial real estate projects; Commercial development, which initiates, develop and runs commercial real estate projects; and build on transfer which develops, invests in and operates major public private partnerships.[257] Skanska wants to be a major participant in the markets they work in.[258]

Purchasing Organisation

Skanska have a project oriented purchasing organisation where every building project is responsible for their own supply and usually someone on the site is responsible for purchasing to that site. This means that purchasing is very local but Skanska tries to buy some material nationally, e.g. gasoline, cement and heavy machinery. The company has a goal to make purchasing global but believe that the way to build houses have to change to a more industrialised approach where they build walls, roof and floor in a factory and then assemble them on the building site. Since a couple of years they have a purchasing director for the entire company as well as one for the Nordic countries. Skanska buys everything from cement and nails to ovens and

[257] www.skanska.se (2006-03-20)
[258] Anders Göransson (2006-03-23)

elevator systems and can have up to 150 suppliers per building site. The biggest purchasing market is Europe but they also have a lot of belief in Asia.[259]

Purchasing Process

In the building industry it is very common that the customer have requests about which suppliers to use. This makes it nearly impossible for the building company to choose their suppliers. Skanska, when they have the choice, uses suppliers that they have used with good results before or listens to the references presented by the possible suppliers.

Since Skanska not yet have a global purchasing they do not have standardised ways to evaluate suppliers and this is done differently in different countries. Both current and possible suppliers must follow Skanska's Code of conduct which covers: human rights, integrity and ethics, employee relations and environment. The evaluations are made through observation of the suppliers during the building process and how they perform when it comes to e.g. delivery precision. Another important selection criterion for Skanska is safety which is very important within the building industry and all suppliers must have a good record in this area. Skanska use payment as a means to punish or reward their suppliers.

Skanska have ISO 9000 certification but they do not have that demand on their suppliers although many of them have it anyway.[260]

6.4.2 Russian Experience

Skanska entered the Russian market 1994. In the beginning they had to import almost everything since there were no suitable suppliers. The company bought mostly from Western Europe, something they still do if they need to import anything. In Russia today they have two types of enterprises. In Moscow they build office buildings and industrial facilities to both Russian and foreign companies. When they do fit-out work of modern offices they have to import almost all material because the quality is superior. In St Petersburg they buy a lot of land and build apartments, which is more like an investment enterprise because they outsource almost everything in the process, including the building which is done by local contractors. In the different projects they have both Russians and Europeans in the management which are responsible for purchasing. Skanska also has a couple of people working with local, national and some global purchasing, but they are Russians. Over the years, and especially after the crisis 1998-2000, Skanska have been able to use more and more local suppliers, none of these have been used as global suppliers though.[261]

Short Term Business

In Russia the business is characterised by short term thinking, people want to make money and they want to make it fast. A contradiction to this is that everything moves very slowly. There is an endless amount of bureaucracy which can be extremely

[259] Anders Göransson (2006-03-23)
[260] Ibid
[261] Ibid

tiring. People also want to become managers because they believe that this position can ease their workload. Perhaps these traits can be based in the fact that Russians have a strong belief about “living in the present”.

Skanska mostly uses suppliers they have used before and know well. The company is restrictive when choosing suppliers and says that the biggest three problems with possible Russian suppliers are:

- Suppliers have bad quality.
- Suppliers do not deliver on time
- Suppliers often have bad economy.

The cooperation between different projects and firms and the ability to spread new ideas is also something that needs to be developed in order to create a competitive industry. Furthermore there is a feeling that no one really believes in Russia because it is not common that new factories are built, like in China. Instead the old ones are renovated, but the old machinery is often left alone. There might also be a connection to their vast resources. They do not need a top notch industry because they can just dig up what they have in their mines and sell it without really having to work with it.[262]

Use New Sources

It is very important to be present in Russia when doing business there; personal relationships are much more important and hear saying is one of the best ways of finding new suppliers. You have to get input from a network because the usual sources like Internet and trade fairs do not work very well in Russia. It is hard to find suppliers even with a good network so without it, it might be almost impossible. Often the relationship is considered more important than the achievement and many times you need to have a close relationship in order to not be tricked.[263]

Get Good People

To get a good result Skanska believe that you must support the local presence with Western management philosophy. To have someone who understand Russia but also have a good knowledge and preferably an education in European ways to work. In order to succeed you just have to work with the right people that have a vast understanding about the business and have a wide personal network, which can be used to find suppliers, but also have the skills to help them develop. They should also be loyal since corruption is very common and not least in purchasing issues. Besides working with good people Skanska stresses that you must have a long term perspective in order to do business in Russia.[264]

[262] Anders Göransson (2006-03-23)
[263] Ibid
[264] Ibid

A Big Country

When doing business in Russia it is always important to remember how huge the country is and how long the distances can be. The cultural differences might also differ. Skanska believes it is best to begin in Moscow where the business culture is beginning to become similar to Europe's, i.e. more deal-focused and less relationship focused. Skanska consider the infrastructure to be good which simplifies the long distances. They also think that the general technical competence among people is high.

The biggest difference between Russian and Swedish business culture is the morale. In Sweden an oral deal is considered binding but in Russia you have to write everything. Furthermore the payment willingness can be lower there and people you do business with have a tendency to make themselves not contactable if an unpleasant issue needs to be worked out. Then there is the centralised management technique which often makes it impossible to talk with anyone but the boss. To counteract these issues you should work very close with your supplier and use a lot of control so that these problems do not occur.[265]

Table 6.5: Anders Göransson's answers to the survey.

6.5 BBH

6.5.1 The Company

Baltic Beverages Holding AB (BBH) is the leading company in the brewing industry in Russia, Ukraine, the Baltic countries and Kazakhstan. The BBH family consists of 18 breweries, ten of which are in Russia, four in the Baltic countries, three in Ukraine and one in Kazakhstan. The company is a 50/50 owned joint venture between

[265] Anders Göransson (2006-03-23)

Carlsberg A/S and Scottish & Newcastle plc. The strategy is based on acquiring leading local breweries and brands in its growing target markets. BBH transfers brewing expertise to the new members of the group, invests in modern technology and capacity expansion, and uses its accumulated know-how to strengthen local sales, marketing, distribution and management systems.[266]

Purchasing Organisation

BBH have a global purchasing unit consisting of Åke Carlsson and two more in Stockholm. Their task is to support the national and local purchasing departments. BBH's strategy has always been to use the existing people within an organisation and therefore they have local people on the local departments. The national department in a country syncs the local departments and tries to create consolidated purchasing opportunities. They are also responsible for the supervision of which suppliers are profitable and should be used. When BBH first started running the Russian breweries they had to source a lot from Western Europe but today they source 70-80 % locally. The company obviously buys a lot of the substances for the beverages they produce like water and malt but they also buy things like aluminium for the cans and refrigerators for storage.[267]

Purchasing Process

Since BBH have a big network in the markets they target they usually use this when they are looking for new suppliers. When they have found possible suppliers they look at their customers since the quality demands in the brewing industry is generally the same and BBH knows what demands other companies have on their suppliers. The next step is to confirm with the possible supplier that it can handle the technical specifications; this is done through discussions with the specification responsible at BBH. After that they make a test run and if that works out BBH increase the volumes order steadily.

BBH does not use any standardised quality systems as demands on their suppliers. Since many of the products they buy is affected by things like environment and weather conditions that would be very hard. Their suppliers often have ISO 9000 certificates anyway but BBH can not see any big difference between the ones that do have it and the ones that do not; "…it is just a piece of paper". There is however a growing demand from the market for recyclable cans which affect BBH and consequently their suppliers.

The company continuously evaluate their suppliers through random inspection. If there is anything wrong with the products that can be traced back to the supplier, BBH holds them responsible and makes them pay for the damages.[268]

[266] www.bbh.se (2006-03-03)
[267] Åke Carlsson (2006-03-15)
[268] Ibid

6.5.2 Russian Experience

BBH was founded 1991 as a result of a common interest in the Russian and Baltic markets by the Swedish brewery Pripps and the Finnish brewery Hartwall. After some acquisitions of Baltic breweries they entered the Russian market in 1993 by acquiring the mislead brewery Baltika in the St Petersburg region with help from a local official named Vladimir Putin. In order to restore the company they used the concept they developed in the Baltic States, namely “think global, act local”.[269] By this time it was a rather unusual strategy for penetrating the Russian market and included the controversial idea of keeping the former plant manager in charge. To assist him BBH created a team consisted of 15-20 financial, technical and marketing experts with experience from western breweries.

This local strategy also included sourcing from local suppliers. From the beginning it was almost nothing that were purchased from local suppliers, but things have changed however.[270] Purchasing is nowadays carried out by the local purchasing departments who purchase strategic important products such as malt from local or at least Russian suppliers.[271]

Foreign Companies Lead the Way
Åke Carlsson believes that the reason why the Czech Republic, Poland and other east European countries have come so far in their development towards Europe is mainly because of the interest from foreign firms. This interest have not been present in Russia yet and especially not in the heavy industry, except for the military industry. Russia is however a big raw material producer and BBH believe that this has slowed down the development within the other heavy industry. There is no drive to change this development either. “If the profitability is good, why change anything” is an attitude BBH have identified in Russia that affects their long term thinking very negative. The company has also noticed a slight improvement in the quality of machinery and manufacturing during the last years but they say that it is the mindset of people that need to change too. They must understand the necessity of quality in order to achieve it. BBH’s experience is that they must find their suppliers because the companies’ marketing functions are seldom very efficient, probably a remnant from the Soviet times.[272]

Focus on Low-Tech Production
BBH believes that it might be easier to find suppliers who do not produce very high-tech products. It is probably also easier to help them develop and to help them improve qualitative aspects. BBH themselves have had problem with finding Aluminium suppliers from Russia. As it turns out, even though Russia have vast Aluminium resources, the quality from the Russian aluminium factories does not have high enough quality to make beer cans out of. The perception of quality has risen during the last couple of years when people have gotten used to Western products.

[269] Ådahl & Anisimov (2000) p 37
[270] Åke Carlsson (2006-02-24)
[271] Ådahl & Anisimov (2000) p 37
[272] Åke Carlsson (2006-02-24)

Unfortunately this is a development that mostly affects products in the consumer market. Thanks to this many of BBH's suppliers have ISO. ISO is however often regarded as a paper product that leads the eye away from the real problems.

To be able to work in Russia companies need to have employees who talk Russian. According to BBH it is also good if they have some kind of Western European economic education. Unfortunately they often have very high demands when it comes to salary and especially if they will work in Moscow or St Petersburg.[273]

When in Rome…..

BBH says that it is easier for a multinational corporation to work in Russia then a small one. There is however many issues to be aware of when doing business in Russia. In negotiations the counterpart might have bought info about your company from different sources, e.g. the customs. The Russian companies also have a vision of themselves as good companies that do not need any help, this stems from the Soviet days when the regime told the citizens they were the greatest country in the world. Russians also have a tendency to put themselves first and not think about what's best for their company and they also have a different morale, than e.g. Swedes, they do not care how they reach a goal as long as they reach it. It is also important that you do not transfer any money between companies without a water proof deal.

BBH thinks that Scania can forget about Russia if they are not willing to bend some of their rules. Why are they for example not prepared to use agents? Why not use an agent that knows the supplier market during a transition period and then bypass him when the business is a bit more mature.[274]

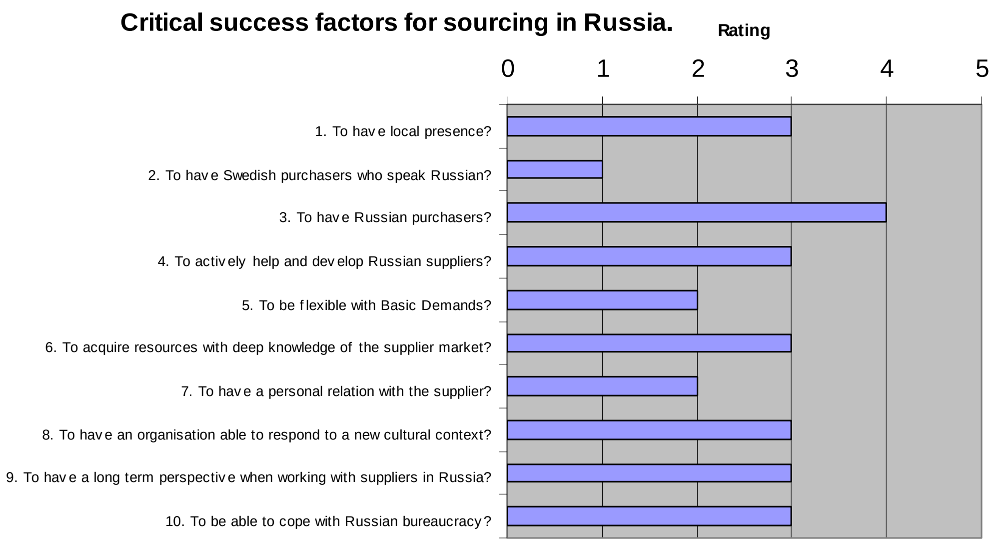


Table 6.6: Gennedy Gushin's answers to the survey.

[273] Åke Carlsson (2006-02-24)
[274] Ibid

7 Discussion of our Findings

In this chapter we analyse the findings from the study of Russia as well as the case studies. Thereafter we try to ascertain which implications these might have for Scania when looking for suppliersin Russia. The discussion whether Scania should go on looking for suppliers or not and what strategy to use if so are concluded in a scenario analysis. Finally we give Scania our recommendations of what to do.

” It would be naive to think that the problems plaguing mankind today can be solved with means and methods which were applied or seemed to work in the past. . ."
- Mikhail Gorbatjov

7.1 The Business Context in Russia

In order to understand how business works in different national contexts it is often necessary to look at the past; how has the country developed during the years and what kind of history does it have? This is especially true for Russia due to its past in a totally different social system compared to the western society. We will therefore start our discussion with an analysis of the past and how it has influenced the business context of today. Furthermore we investigate the Russian industry structure and what causes its characteristics.

7.1.1 Historical and Cultural Consequences

Russia has now experienced 15 years of market economy after what can be considered as the most revolutionary economical transformation in modern age. Whether the quick transformation was carried out in an appropriate way is not of interest in this thesis. Since the outcome of it still affects the Russian society to a large extent we will however discuss some of the underlying causes that we think can be derived from the historical context and which affect, or is dependent on, the national and business culture.

New Feudal Lords
First of all, and perhaps most importantly, the transformation in Russia did not involve the spreading of ownership that initially were intended and which has been so important in other transformation economies in e.g. south East Asia. In the Russian privatisation process the old nomenklatura – the ruling class - managed to buy out the workers from their part-ownership and was therefore able to stay in power in the new social system as well. The new-old entrepreneurs were given, or took, a role that could be compared to the old feudal lords since the lack of a national social security made them provide not just employment but support to the city where the often huge plant was located.

We believe that this structure with companies as a welfare provider has restrained the industrial development in Russia since they obviously do not act upon businesslike foundations. The fact that a democratisation of resources and income never became reality in Russia is probably also affected by the deep-rooted national culture that according to Hofstede is characterised by a huge power distance.

The Sources of Corruption

Another remnant from the past that affects business opportunities today is the close connections between politics and industry. The situation in the nineties where liberalisation was prioritised and the so called oligarchs owned much of the industry seems to have changed to a new one where the government slowly but surely is taking back the power. The re-nationalisation of companies and the wide-spread existence of politicians with double functions constitute a fertile ground for corruption.

Our study confirms that corruption and bureaucracy still remains one of the biggest problems in Russia, but it has changed characteristics. Corruption is nowadays more connected to the state and their officials than before when the mafia played a more important role regarding business intervention and bribes. We believe that this problem with all-level corruption is one of the most difficult to solve since it has to do with a hierarchical social order that have been predominant in Russia for centuries. Hopefully this characteristic within the Russian society will disappear when the democratic process evolves.

Corruption is connected to bureaucracy since inhabitants and companies who are the subject of bureaucracy often are willing to pay officials in order to be spared from it. There are however at least two conditions that have to be fulfilled for corruption to take place in a society; officials that are willing to accept bribes and a tricky bureaucracy that make people want to pay them. In our opinion, Russia fulfils both of them. The country has a gigantic amount of low-paid officials, of whom some are willing to accept bribes to finance increasing life expenditures. The second condition - a tricky bureaucracy - may origin from the communist era but more likely the uncertainty avoidance that according to Hofstede is very significant for Russia. He argues that this characteristic of a national culture results in a rule-oriented society with many complicated laws and regulations as well as rigorous controls of the population. This connection is definitely true for the Russian society.

Why the Transformation Takes Time

The final underlying cause we have identified concerns the transformation from one production model used in the past to a completely different one used, or at least strived for, today. The one used during the communist regime did not just affect the physical layout of production but also the mindset of people working in it. The understanding of markets and competition is probably hard, if not impossible, for older people grown up with a centrally planned economy. Many of the people we interviewed in Russia, both Russians and Swedes, confirmed the fact that older people find it difficult to adapt to the new mindset. Companies are therefore eager to recruit young Russian managers without experience from the Soviet era since a genuine understanding of market economy and how it works is seen as critical.

If this distinction is applicable for the population in general, it certainly affects the industrial structure and its slow transformation, seeing that the people in power, who to a large extent make the rules of the game in business, is old enough to have gotten their minds set during the old social order. Thus, in addition to the problems connected to the re-organisation of industry physically, there is mentally an obstacle to overcome as well. This might be the reason why the government does not want to liberalise the economy in order to attract foreign investment and modernise the industry. Hopefully a new generation of politicians, raised and educated during market economy, will work more proactive with this issue. No matter what the re-organisation and modernisation of industry will take time.

A Somewhat Rough Business Climate

Another, more positive, observation we have made in our study concerns business culture. According to Hofstede and especially Gesteland the Russian business culture differs a lot from the Swedish one. Our impression is that this is not the case, at least not among younger managers. There are of course some differences, a personal relationship is for example very important in Russia, but the similarities are more significant and common. It seems that the Russian way of doing business has converged with the western way of doing business.

Still, the business climate in Russia is probably rougher than what Swedish business representatives are used to. One common denominator that stands out from the interviews is the scrupulous behaviour that characterises business in Russia. The behaviour can be explained with help from Hofstede's thoughts about values and how they are formed by the individuals in a society. Since the way we behave is a result not just from values, but from symbols, heroes and rituals, the scrupulous behaviour in Russia probably stems from these ones. That is, if role models such as high politicians act scrupulous the people are likely to adopt the same behaviour.

7.1.2 The Industry Structure

As discussed in the section above the transformation of industry in Russia has been a slow process. The industry is still often vertically integrated and dominated by large companies and huge conglomerates. According to the persons we have interviewed it is, because of this reason, hard to find suppliers that can deliver products with good quality. We have identified two circumstances that we believe affect the industry climate in general and consequently also Scania's possibilities to source parts from Russia. These are illustrated in figure 7.1.

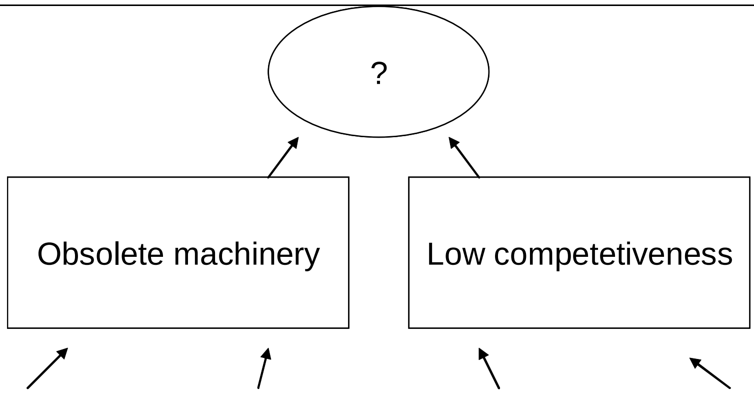


Figure 7.1: Two factors that influence the Russian industry negatively.

Obsolete Industry

The first one is related to the old machinery used in Russian companies. This fact, mentioned by most case companies and observed by ourselves, limits the companies' possibilities to deliver to high-demanding companies such as Scania. We believe that this fact in turn stems from a) the short term thinking that typifies Russia and b) the lack of financial resources.

The short term thinking is exemplified by the frequent use of pre-payments and the low private saving rate. The lack of financial resources probably has many sources. Two of them are the ill-working financial system and the low rate of foreign investments. The former of them are probably due to the many regulations that surround the financial system which among other things result in higher interest rates and an unwillingness to run into debt among the Russians. The latter, low foreign investment, are probably connected to the high risk that foreign investors are exposed to in Russia. The combination of scarce available funds and unwillingness as well as difficulties of borrowing money makes long-term corporate investments unusual in Russia.

Low Competitiveness

The second factor concerns the structure and competitiveness of the industry in Russia. Since the transformation of the industry is a slow process its structure is still characterised by vertical integration, regional specialisation and an overall low competitiveness. Why is it so and what are the implications for western companies trying to source from this market one might wonder.

Why the transformation will take time obviously has to do with the great proportions of change that is needed, discussed in the first section of the analysis. Yet, there has to be some other factors that explain why the industry in general performs rather poor but still is relatively profitable. We think that the answer is low competitiveness originated in the industry structure, the huge amount of natural resources and the big domestic market.

The industry structure has a restraining influence on the competitiveness since it is dominated by huge companies - often state-owned - which are vertically integrated. This circumstance creates a bad business climate for small, specialised companies to grow and develop since they have a hard time competing with, or selling to, the big companies. Unfortunately this has a direct consequence for foreign companies trying to find suppliers; independent producers of parts and components are simply not that common. Hopefully more companies than just GAZ perceive the value of a divided value chain and try to focus more on core competences.

The natural resources of primarily oil, gas and metals are huge income resources for Russia. Whether that is good for the economy in the long-term perspective can however be discussed. It seems that these sectors have created a kind of dual economy in Russia; one based on a very lucrative, modern, but also exports oriented industry and one based on an obsolete industry that does not receive resources and competences from the other one. Furthermore we believe that the last years' correlation between rising raw material prices and power concentration in Kremlin is no dummy connection. It is instead quite obvious that politicians who can take control over lucrative business actually do it. The natural resources are so to speak feeding corruption and delaying the modernisation of the industry.

The final factors that we believe influence the competitiveness are the size and regulations of the domestic market. Since import regulations are rather tough what regards bureaucracy and tax duty, and perhaps more important, the distances within the country are huge, the domestic industry is to a certain extent protected from foreign competition. This analysis was confirmed by some of the person we interviewed at the case companies. Moreover our study has shown that the Russian companies focus on the domestic markets and seems to have a small or non-existent interest in the export markets. The factors we believe influence the characteristics of the Russian industry are summed up in figure 7.2.

Figure 7.2: Underlying causes to the identified factors and its implication for Western partners

Consequently, these factors lead to low competitiveness and low incentives for restructuring and developing the industry. Hence, the productivity of the general Russian manufacturer is low, unless the western counterpart invests and gives technical assistance to the supplier. There is however other characteristics with this structure that have implications for foreign companies that are interested in cooperation with Russian companies. Low incentives for change often crate poor management which certainly is the case in Russia. For foreign companies operating in a global, high-competitive market the need for efficient communication and a flexible production is critical, as discussed in chapter three. To integrate a Russian supplier that has poor management, a hierarchical organisation and an obsolete production in a global supply chain can obviously cause huge problem. It is therefore crucial for the foreign company doing business in Russia to be aware of the context in which the Russian company acts in and carefully consider what kind of products that actually can be sourced from Russia.

7.2 What we learned From the Case Studies

During our research we have collected a lot of information about how the studied companies work in Russia. To compare every aspect of every company in order to figure out what is the best way of sourcing from Russian is too big of an issue to investigate in this analysis. We will therefore analyse every company for itself and then use the characteristics which we believe to be the most important when sourcing from Russia, to compare the companies with each other. Those characteristics are obviously not the only factors which affect a company’s success in Russia. We will therefore analyse every company separately and highlight the qualities and experiences which have the biggest impact when attempting to source from Russia. A matrix that highlights the most important features of the companies is presented in Appendix 2.

7.2.1 An Analysis of Each Company

Alfa Laval

Alfa Laval’s purchasing process is very similar to the one presented in the literature study (Figure 3.1). This is obviously not very surprising since Alfa Laval is a typical manufacturing company with a focus on heavy industry and the goods they purchase is similar to Scania and Electrolux. The general steps in the model should not affect a companies sourcing in Russia, but the way which each step of the model is carried out does. The way Alfa Laval finds new possible suppliers, e.g. through Internet or trade fairs, works in Russia although the homepages might not be in English and the marketing of companies might be less proactive than we are used to on trade fairs. This way of finding local suppliers has worked for Alfa Laval, but they have Russians, who know the language and where to look, working with it.

Alfa Laval’s basic demands, when compared to the other studied companies, are pretty strict. They want global suppliers to be able to communicate in English which is a big barrier for Russian companies. The company has strict business principles which must be followed by suppliers, but if a possible supplier does not follow them

Alfa Laval will help them by teaching and developing them. That is an issue Alfa Laval is very good at; they are prepared to work closely with a supplier if it is necessary for its continuous improvement and are ready to invest in them as well. In our survey of the company we got responses from both a Swede and a Russian at Alfa Laval. The thing they both stressed as the most important thing to do when sourcing from Russia was to actively help and develop Russian suppliers.

Alfa Laval has also understood the importance of a personal relationship with the supplier and that it is a very important issue of trust for the supplier. The fact that the company does not require ISO certification on their suppliers probably makes it easier in Russia. Alfa Laval have stated that they want their suppliers to have some kind of comparable quality system but this is probably the kind of flexibility in demands a company must have to work with suppliers in Russia.

Key Learning's:
- Have strict demands but help suppliers develop to pass them.
- Do not have ISO certification as a required demand on supplier

Electrolux

Just as Alfa Laval, and for the same reasons, Electrolux has a purchasing process similar to figure 3.1. Electrolux has however a more detailed and planned way of how to find new suppliers. They form a group of experts and let them search a supplier market and furthermore try to visit as many of the possible suppliers as possible which should give a better picture of the overall status of the supplier market. The company has normally a lot of localised purchasing to their factories in order to minimise logistical costs but in Russia the localisation is very small. This is strange since the company has put a lot of effort in finding suppliers in Russia. Electrolux is confident that the reason why they have not found any suppliers is because there are no suppliers in Russia who can meet their demands.

Together with Alfa Laval, Electrolux is the strictest company in our study what regards quality and basic demands. Both have very well developed evaluation systems for those matters. We believe that an evaluation system is crucial for a company wanting to save costs through purchasing, but companies need to be willing to adapt the parameters in the evaluation when the context changes. Electrolux demands on their suppliers might be to tough for many Russian suppliers to pass and the company does not seem to have a very outspoken strategy of helping possible suppliers to develop, especially when it comes to financial help. They do however feel that you need to have a good relationship with your suppliers and that a personal relationship in Russia is very important.

In the answers from the survey, Electrolux says that it is very important to have local presence, to have Russian purchasers and to acquire resources with deep knowledge of the suppliers you are interested in. These answers conform very well with them from the other studied companies and show an understanding of the special circumstances surrounding the Russian supplier market.

Key Learning's:
- Structured way of finding new suppliers, visit as many as possible.
- Electrolux has not been able to find any global suppliers.

IKEA
IKEA is probably the company with most experience of sourcing from Russia in our study and, as we stated above, the only company that can be considered successful with global sourcing from Russia. When we say we think IKEA is successful in this regard it is because they source a relatively big part - 1 % of their total purchasing value - from Russia. The reasons for their success are obviously many but perhaps most important is the characteristics of the purchased products. IKEA buy mainly finished goods made of wood which is one of Russia's main natural resources. The company also has a very well developed purchasing organisation since their primary activity is to buy products others have manufactured. IKEA's demands on suppliers are also less strict than for example Alfa Laval and Electrolux. IKEA are also very good at helping suppliers to develop in order to fulfil the demands and if they feel a supplier can learn they are not afraid to assist with resources.

It seems as though IKEA has been able to market themselves better than the other companies towards their suppliers. The company gets many offers from Russian companies who want to become an IKEA supplier; something that the other case companies has not experienced. This is probably a result of the well-known brand name that IKEA actually is.

We have stated before that Russian companies often have a short term way of doing business. IKEA believes that you must be patient when faced with this behaviour. This probably also requires a lot of control of suppliers to make sure they do not fool you or invest money in non value adding activities. IKEA has a lot of faith in Russia as a supplier market which is probably one of the reasons they are prepared to invest in the supplier. When they have taken the decision they stick to it which is a risk a company probably needs to take if wanting to source from Russia. IKEA says that single suppliers are not developed enough to facilitate single sourcing in Russia which is why they use a multiple sourcing strategy to create a competitive environment. This would not be possible for complex products since there are not enough of those kinds of industries in Russia. A company should try this approach if the suppliers they buy from are Leverage Suppliers. This is the case for IKEA in Russia since the wood-resources there are abundant.

Key Learning's:
- Source from suppliers early in the value chain.
- It is easier to source from Russia if you do not have very strict demands.

Skanska
Skanska, as well as almost every building company, does not have a very well developed purchasing organisation. The company purchase locally and it is the purchasing managers out at the building projects that have the responsibility to create an efficient supplier relationship.

Skanska's purchasing in Russia shows two distinct trends. The first one is that they have been able to source more and more locally which we believe indicates that the building industry in Russia is evolving. The second trend is that it is only material with low complexity and low quality demands that can be sourced locally, elevators and other components that are vital for building safety are still sourced from Western Europe. This indicates that if a company wants to source from Russia, they should look for components that are as close to raw material as possible, since the later you look in the value chain, the less developed it is.

Something we have noticed when looking at the expressed quality demands of the studied companies is that a company has tougher demands the more economical damage a fault in their product can cause. This is however not the case for Skanska. If something would be seriously wrong with their product the results for them would be devastating, and yet they do not have very strict demands on their suppliers. We believe that this is caused by the fact that the purchased goods – or a service which is a more accurate name in most cases – are controlled by Skanska personnel when produced. Thus formal demands are not that important.

Skanska seems to be the company in our study that has seen most of crooked behaviour from suppliers. The suppliers have for example in some cases required pre-payment which then has been used to buy items not related to the specific order.

Key Learning's:
- Skanska has a lot of experience of corruption and crooked behaviour from suppliers.
- Stress that everything goes slowly in Russia which require patience.

BBH
BBH's main strategy concerning purchasing is that local purchasing should be handled by local employees. This is obviously a logical belief since local people know all the facts about the region especially if they know the business segment well too. Local personnel can e.g. foresee logistical problems that have to do with infrastructure and might be able to pick up things about possible suppliers through their informal network. This thinking is shared by all the other companies as well, but it is only BBH that have a wholly Russian management in Russia. BBH only interfere when it is necessary to strengthen the knowledge in modern purchasing; a competence that is more developed in Western Europe.

As mentioned above it is probably easier to succeed with sourcing from Russia if the suppliers are to be found in the beginning of the value chain. BBH's breweries purchase mostly barley, which obviously is produces early in the value chain. BBH's breweries do not have the same high quality demands as e.g. Alfa Laval or Scania and yet they have the same problems as them. This suggests that the industry in Russia just is not advanced enough too facilitate the demands of Western industry.

Key Learning:
- Use Russians when working in Russia.
- Assistance from a foreign company improved the production.

7.2.2 A Comparison of the Companies

As we can tell from the empirical findings of our case study the general thoughts about how to source from Russia is quite similar. All of the companies believe that you need; to help suppliers develop, have someone who can speak Russian and understands the context, be flexible with demands you normally put on suppliers etc. The companies just follow these advices to different extents.

Of the studied companies it is only IKEA that can be said to be successful in sourcing globally from Russia and today they source about 1 % of all the products from there. Alfa Laval has one global supplier in Russia but also source locally to their factory in Moscow. Both Skanska and BBH also source locally and none of these companies have any plans on sourcing globally, BBH because they only have breweries in the CIS region and Skanska because they do not have a purchasing function developed enough. Electrolux is the only company which, like Scania, have actively tried to find global suppliers in Russia but failed.

What sets IKEA apart from the rest of the companies? First of all they have a very well developed purchasing function. They are the only company in the case study which buys finished products from suppliers. All the other companies manufacture something. Since IKEA is so dependent on their purchasing function they have understood how important it is to actively help and develop suppliers, this is especially true in Russia. The products IKEA buy from Russia is mostly made of wood and is not very complex to manufacture. Furthermore the suppliers that manufacture the products are to be found early in the value chain. IKEA, compared with Electrolux, Alfa Laval and Skanska (BBH can not really be compared in this regard since they make consumption goods), does not have very strict basic demands on their suppliers and are also very flexible with these demands. We believe this is an attitude you must have in Russia since the industry is so under-developed. The fact that IKEA actively help the supplier to develop combined with the fact that companies early in the value chain are used, probably explains IKEA’s success to a large extent. This might also be the reason why, especially Alfa Laval and Electrolux, have not been that successful in this regard. Western companies operating in Russia needs to understand that potential suppliers are a couple of years behind Western European manufacturing and will need help in order to meet basic demands like quality assurance systems, modern equipment or even such a basic thing as communication skills.

We mentioned earlier that we want to identify the characteristics in a company that makes them more probable to succeed in Russia. Now we can conclude that the most important characteristic is what kind of products you buy. The companies that buy products which generally are not very complex, early in the value chain, have better results in their sourcing from Russia. This leads us to believe that if a company wants to find suppliers in Russia they should focus on less complex products.

Results From the Quantitative Survey

In our study we let the companies answer a quantitative survey that was shown in the empirical chapter. The survey treats what the studied companies think are the most important critical success factors when sourcing from Russia. There are some interesting trends when observing it. First of all the answers correlate pretty well between the companies. This suggests that even if the companies are different in many regards there are general things to consider when trying to source from Russia. Another thing that sticks out from the survey is the answers on question number 5 (how important it is to be flexible with basic demands). The companies which we consider to have the strictest demands, Alfa Laval and Electrolux, think that this is very important while the other companies think that it is not. An explanation for this might be that the other companies use demands that are flexible by nature or of that kind that flexibility is not motivated.

If we weigh together all the answers of the surveyed companies (Figure 7.3) we obviously get a strong indication of what the critical success factors for sourcing in Russia really are.

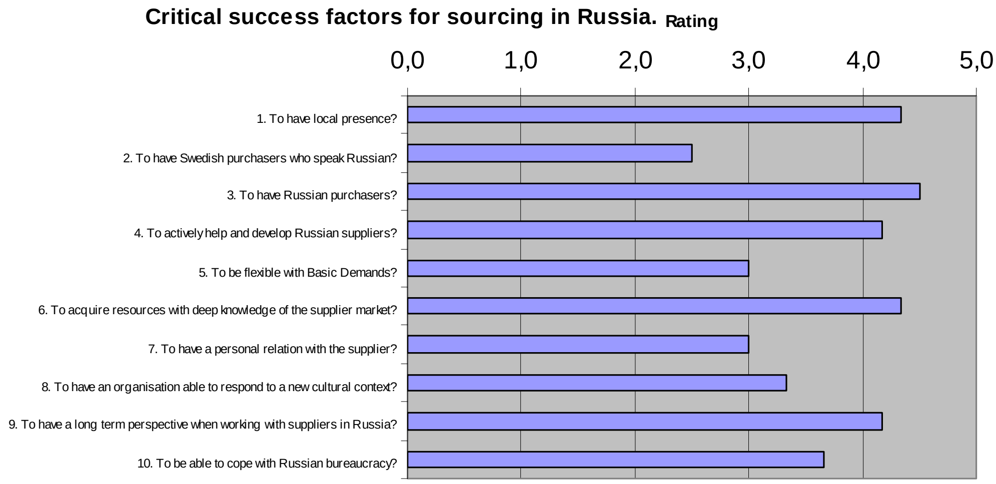


Table 7.1: Critical success factors when sourcing from Russia.

The most important factor identified in the survey is to have Russian purchasers working in Russia. This is important for a number of reasons. First of all Russian purchasers obviously can speak Russian which is vital since the English knowledge is very poor. Furthermore they are familiar with the cultural differences which can create problems for a Western European company operating in a Russian context.

The three most important factors are very similar to each other and all treats how much local presence a company should have. The survey indicates that the answer is: a lot. You can not source from Russia if you are not trusted in Russia, and you are not trusted in Russia if you do not live and work in Russia. It is also vital to have the required knowledge of the industry sector of interests. This can be explained by the fact that industry is under-developed and there is a need for someone who knows what parts of it have the potential to develop. This person is probably someone who has worked in the Russian automotive industry for a long time, but has a Western European education. We think that Western Education is still very important even if the education level in Russia is high.

The second most important factor concerns patience and assistance attitude. In order to find suppliers in Russia, and be able to use them, a company must have a long term perspective. The industry still has a long way to go and it is probably not possible to find any suppliers which pass all requirements right away. The supplier needs time and help to develop, which implies a certain risk for the Western partner.

What is a bit surprising about the survey is that question 7 (how important it is to have a personal relationship with the supplier) is not considered very important. Many of the companies, as well as cultural scientists such as Gesteland, have highlighted the fact that Russia is very relationship-focused. The answer to this survey is a sign that this is changing and young Russian businessmen are more deal-focused than the old ones.

7.3 The Implications for Scania

In this section of the discussion we will use all relevant information from our study of Russia and the case studies in order to formulate advises to Scania concerning further sourcing attempts in Russia. We begin with an analysis of Scania and continue with a comparison of Scania and the case company. With the analysis of Russia from the beginning of this chapter and the key learning's from the case companies at hand we sum up our findings in the final section; Implications for Scania.

7.3.1 The Characteristics of Scania

Scania is since a couple of decades a global company with production and sales all around the world. Their main markets, both sales and purchasing, are nevertheless in Europe and particularly in Western Europe. We believe that these circumstances influence the company's working methods regarding the own production but also overall sourcing decisions, e.g. in-house vs. outsourcing. Their strive towards a lean production and modular production has probably been simplified by the fact that their suppliers, preferably located in Western Europe, understand the new production paradigm and have resources to be a part of an integrated value chain. Moreover a close cooperation with suppliers is probably easier to maintain when all concerning companies share the same business culture.

The fact that Scania nowadays is a global actor has other consequences as well. Among them are the renowned brand name that Scania has created and the existence of sales representations all over the world. We believe that those facts should simplify the possibilities to find new suppliers in new purchasing markets. During our visit in Russia we became aware of the impact that a well-known brand has for foreign companies operating in Russia; a picture confirmed by both Russian and Swedes. This fact also makes it easier to recruit new local personnel working with suppliers and purchasing. The sales offices can provide general business information and perhaps also mediate information about potential suppliers.

Another aspect that affects purchasing procedures and the overall possibilities to source from Russia is the product characteristics. Trucks, busses and especially the engine is complex products to manufacture which often require big, highly automated, production plants. A fault or a delay originated from the supplier can cause huge problems in the production process and a fault discovered later on, that affects the function of the vehicle, can damage the brand name Scania besides its cost implications. In combination with new production philosophies such as lean production, those characteristics imply a need for competent suppliers and, perhaps most important, a developed purchasing function. The new role for purchasing departments of today, which we reported on in chapter 3, is therefore definitely applicable on Scania.

We believe that these circumstances regarding the product and the production are the main reason for high demands on suppliers; in addition to the facts discussed above namely that most current suppliers to Scania probably are used to those kinds of demands. Connected to this is also the relationship to the supplier. Scania use a large amount of suppliers to satisfy their production needs and are therefore managing a great network of suppliers. Since the purchased product is vital for the end-product, as well as the ability to produce it, it is important for the actors within the value chain to cooperate. We believe that this is the reason why Scania prefer close relations to the suppliers and why they choose to incorporate them in e.g. product development.

Even if Scania cooperate with the supplier to a large extent we find their working method towards the supplier quite passive in some senses. The potential suppliers are expected to live up to the basic demands and strive towards the criteria “excellent” in order to be a Scania supplier. Even if Scania can provide the supplier with technical assistance the potential supplier has a responsibility to quickly adjust his production to the tough demands that Scania has. This is a matter of course for a western company such as Scania but perhaps not that obvious for a company that source from low-cost countries. Based on our survey we believe Scania has to make an adjustment when working in this environment; work passive but lower the demands or work actively to develop the supplier and keep high demands. If Scania shall be able to keep producing long-lasting vehicles with high quality in the future we find it important to keep the high demands on their suppliers. Then it remains to work more actively to develop the supplier. In the context within which the Russian producer acts we find it almost impossible to fulfil the demands stated by Scania, even with financial and technical assistance. The core of the problem, in our opinion, is that Scania’s basic demands including comprehensive quality standards such as ISO/TS are suited for a western industry environment.

7.3.2 Comparison of Scania and the Case Companies

To legitimate and value the input we have received in our case study we must discuss how similar Scania and the case companies are. Scania is a company who manufactures complex products with high quality which might explain why they have strict demands for the supplier to fulfil. Electrolux and Alfa Laval are in those regards the two companies in our study that have most in common with Scania. Alfa Laval manufactures products with high qualitative demands mainly to the industry sector; Electrolux does the same thing but mostly to the private sector. Both companies are however dependent on the quality of their product since failures can cause their customers major costs. When it comes to product comparison the other three companies are obviously not very similar to Scania.

If we look at the kind of demands that the different companies put on their suppliers Scania and Electrolux are the strictest; using standardised manuals and low flexibility. Alfa Laval follows a little bit after but as we have said before we believe them to be more flexible than Electrolux and Scania. Skanska should be the company with highest demands on their suppliers but have chosen a non-standardised way to secure their quality. BBH’s quality demands are subject to the fact that their raw material is affected by weather and environmental factors. IKEA has minimum demands concerning mainly environmental issues but are very flexible and good at developing their suppliers.

Scania has a well developed global purchasing organisation with more or less standardised ways of finding new suppliers and evaluating suppliers. We see big similarities with Electrolux even if they have more regional purchasing. They too plan new sourcing ideas and how to explore new supplier markets very thorough. Alfa Laval has a nearly identical global purchasing organisation, but have more localised purchasing to every production unit. IKEA’s purchasing organisation is also pretty similar to Scania’s but they have more resources in the supplier markets they are working on. Skanska and BBH have local purchasing although both of these companies want to create more global purchasing functions.

All of the studied companies have had a desire to increase purchasing from Russia. Electrolux is the only company that stresses that global purchasing from Russia today is not possible since the industry is not developed enough. Scania have had the same kind of experience as Electrolux but have signalled a will to keep searching. All of the other companies have some kind of purchasing in Russia (local and/or global) and do not have any plans to stop sourcing from there. All of them also believe that Russia is a good future supplier market, including the people we talked to at Scania. IKEA is probably the company with the most long-term ambition in Russia. In spite of number of adversities they have continued their search for new suppliers which eventually has led to success. That shows how important it is to have a long-term goal and to be clear about your intentions in Russia.

Electrolux is the company which are most similar to Scania and whose opinion should be taken most serious, especially when dealing with qualitative demands. Alfa Laval is also much like Scania in that it is an industry which sells to other companies and has high demands on quality and cost. The other three companies in our study works in a different context and it is hard to show similarities when you look at technical issues. When you look at soft issues, like cultural and social experiences in Russia the studied companies have shown big resemblance to each other and we value this input as much as technical input since our aim is to find out how to source from Russia, from both a technical and social/cultural aspect. Another important reason why we choose five so different companies was to show the differences between different parts of the industry in Russia. This way we have learned that it is probably not the way in which a company sources from Russia that decides their success but what they buy; it is easier to find suppliers if you buy simple products.

7.3.3 How does our Findings Affect Scania

When we begun our study of Russia and the Swedish companies operating there we assumed that a) Russia is lucrative market for sourcing and b) there is plenty of Swedish companies that successfully source from Russia. We have now found out that both assumptions were misleading. As we discussed in the first part of the analysis Russia cannot be considered as a lucrative market for sourcing since the industry is characterised by low competitiveness and an obsolete production. Our assumption - that many companies successfully sourced from Russia - was proved wrong early in the process. We contacted nearly 50 Swedish companies we thought would fit our requests and finally got 5 that were used in the case studies, but only one of them - IKEA - can be considered as really successful what regards sourcing from Russia. In the light of the facts about Russia and the experiences from the case companies as well as the earlier attempt to find suppliers in Russia we will now try to ascertain the implications these has for Scania.

First of all, and perhaps most important, there are not that many companies that can deliver products to Scania – even if the demands were lower – owing to an industry structure that have a restraining influence on development which we argued for above. Yet there is hope. Scania is not the only automotive producer that is demanding more suppliers in Russia. One might think that especially those foreign companies that has a production in Russia, and therefore actively search for local suppliers, puts a great pressure on the domestic industry to restructure itself. That the market actually develops in this direction is exemplified by the initiative that GAZ recently has taken to divide their value chain in order to sell components to external automotive producer. Hopefully more Russian companies will do the same thing when competition sharpens and the need to focus on core competence increase.

Foreign companies that establish production or assembly plants in Russia can have other positive effects on the domestic industry too, among them the ability to educate the supplier about new production philosophies. Toyota - mother of the Lean Production concept - is about to start assemble cars in the St Petersburg region which hopefully will result in more developed suppliers that can be used by other companies as well. The competence is in fact the other main problem we have identified with potential suppliers in Russia. It concerns both production and businesslike aspects and are both probably originated in the fact that Russia still is a young industry nation, at least according to the western definition of industrialisation. Thus, if Scania wants to source from Russia and expect the supplier to satisfy the basic demands they probably have to help them to a certain extent.

The transformation from communism to market economy is probably more comprehensive than a western person might think. Even if it is believed to be a quick transformation in strictly economic terms it certainly has not been fulfilled yet in terms of industry structure and especially the mindset of the people. We believe that when this "mental transformation" has been settled and the politics show more willingness to create a healthy business climate – which definitely is not the case at the moment – it is going to get much easier to find competent suppliers in Russia. The cultural differences that we initially thought would affect the possibility to find and deal with suppliers has shown to be a minor obstacle. On the contrary the Swedish and Russian national cultures seem to have many similarities and since young Russians are willing to adopt western business principles, this should not create any problems. To cooperate with Russian co-workers or suppliers would therefore hardly be any problem for Scania.

One cultural difference between Russia and Sweden that we do have identified is one that has not been observed by Gesteland and Hofstede, namely the short term thinking that characterise the Russians. This fact is exemplified in the private life as well as in professional life and explains to a certain extent why Russians do not want to invest in relations or machinery which results in a long-term return. Paradoxically there is a need for foreign companies to apply a long-term view on the Russian investments according to our survey. We therefore recommend the foreign company, in our case Scania, to create common incentives for long-term cooperation. That could for example be common investments in machinery or long term ordering agreements.

The last aspects which we think directly affects Scania's possibility to source from Russia is where in the value chain the potential supplier are to be found. As we have mentioned before those companies who source early in the value chain has been more successful than those who demand more complicated products. We therefore suggest Scania to look for simple products with easy and preferably manual processing; the latter one because of the low wage level which according to some is the only competitive advantage to be found in Russia.

Alexander Konson (AK) had a lot of information to share with us when we spoke to him, and a lot of his information was confirmed by the case companies. We believe that AK is, and was, a very talented purchaser and that he possess many of the qualities you need to have as a purchaser in Russia. However, as many of our case companies have said, you probably need someone who is more educated in the issues concerning purchasing to trucks. The truck division has tougher demands on their suppliers than the bus division and the supplier selection process is probably more complicated. If Scania can find a purchaser who has worked with purchasing to trucks in Russia before and hire him their chances of finding suppliers should increase. This kind of person will however probably cost a lot of money to hire and the question is whether it is justified. As discussed above Russia is not developed enough within the industry yet, so hiring someone with maximum knowledge of the supplier market does not grant Scania success. What we can conclude is that Scania needs to have a Russian purchaser who at least understands the culture and language.

One of the major mistakes Scania made during their attempt to find suppliers in Russia was to not secure the decision to source from Russia in the organisation. AK mentions that he often felt like lying to suppliers because he could not promise them anything about Scania's intentions. This is obviously a pretty normal way; it just is not very smart to promise possible suppliers things you can not keep. However, in Russia the culture is very relationship focused. In order to even go to a supplier visit you need to get some kind of personal connection first and when that connection is established the supplier probably feels that he is entitled to ask that kind of questions. This can put purchasers in precarious situations but if the purchaser knows what the company wants, maybe the answers can become clearer. This can hopefully prevent rumours and preconceived ideas on the supplier market, something AK had problems with, and make it easier to communicate with possible suppliers. Another thing that should be changed in order to clarify the decision is the planning. Last time AK started from scratch and got to carry out the project his own way. His way was probably the best way but if you formulise a plan it is easier to evaluate things later in the project. Scania could easier compare where they are in the project and what they had planned in the beginning and base changes upon those facts.

The thing that sticks out most in this study is that it does not seem to be any correlation between the method of finding suppliers in Russia and how well you have succeeded. Another thing that does not seem to affect very much is the cultural and social context which we thought would be crucial, at least the young people in Russia seem to regard business making the same way as us, as a means to make money. This obviously suggests that Scania could carry out the changes discussed above and still not find any suitable suppliers. In our opinion the most important conclusion we can make is that the part of Russia's industry Scania wants to buy from, is not developed enough to produce any suitable suppliers. Either Scania have to invest and be prepared to develop the possible suppliers they can find or else they should just wait a couple of years before they start looking actively again.

7.4 Scenario Analysis

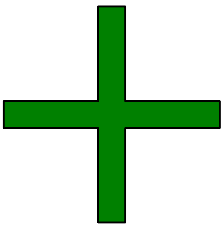
One of the key learning's we have made during our thesis work has been the fact that the outcome of a venture such as sourcing from a new market often is dependent on the input in terms of will and commitment to the task. Two of the companies in our case study, which also happens to be the most successful what regards sourcing from Russia, has personal committed managers to thank for much of their success. Thus, with this information at hand we believe that Scania's possibility to succeed with the task in Russia is dependent on the general opinion that the concerning managers have about Russia and its future potential. We will hereby present three different courses of action based on tree possible scenarios that we have identified. By doing this we will not just adjust our result to different perceptions of the Russian potential but also place our suggestions into a larger context.

7.4.1 Scenario 1: Wait and See

In this scenario Scania believes that the supplier market in Russia is under-developed and not worthwhile to penetrate, at least at the moment. The opinion is based on the experience from the former attempt and studies such as this one which indicates that the Russian supplier market will not be interesting for high-demanding Western customers for years.

In this scenario Scania will wait a couple of years before actively searching for suppliers again. It is probably not motivated to spend money again on a search that will presumably not become successful. The fact that they have information sources in Russia such as the bus factory and sales company also makes this justified. They can relatively easy get information about the Russian supplier market without having someone working full time with it.

If Scania makes a choice like the one described there are a couple of things they should remember. The supplier market might be far behind, but there are initiatives taken to improve the situation. One is Toyota's plans to open an assembly plant in St Petersburg, another is GAZ's plan to break up their value chain and start selling components. It is important that Scania continues to study the industrial development so that they are not left to far behind when things start to improve.



The situation in Russia does not motivate more investment that will probably be wasted. Also Scania is not required to do any structural changes and it will decrease the workload on SE that is responsible for the search in Russia today.

There is a risk that Scania will be left behind other competing companies when/if Russia's industry does improve. It also sends the signal that Scania is not at all interested in Russia which might affect the sales performance in Russia.

7.4.2 Scenario 2: Plan a New Attempt

In this scenario Scania believes that Russia is a supplier market for the future and will consequently continue the active search they have had before with someone working full time to find global suppliers in Russia. They believe that Russia, with it is low wages, high education and closeness to Sweden, is an even better sourcing option than China or India, if they can just find the suppliers, which they are confident exist.

If this assumptions regarding Russia is correct according to Scania there is some things that should be carried out differently compared to the previous sourcing attempt. First of all we believe that Scania has to plan the project better. This way it is easier to evaluate the project. They should also make a more formal decision so that the purchaser working with the project feels he has the trust he needs. The purchaser needs to have a solid education in working with purchasing to trucks; he should preferably get an extensive education within Scania to understand the specific context as well. This might unfortunately take a long time to carry through. He must be a Russian so that he is well aware of differences in the business culture and morale and can speak the language. The person working with the project should be located in Russia and primarily look for suppliers in the St Petersburg, Moscow and Nizhniy Novgorod regions Finally he should have a broad knowledge about the Russian industry - especially the automotive industry - and the special circumstances within it. Scania must see the project as a long term investment and be prepared to help develop suitable suppliers.

One of the problems Scania had during their last attempt in Russia was the fact that very phew possible suppliers passed Scania's basic demands. A solution to the problem could be to segment the sourced products not just in those five groups presented in the organisation chart below, but also regarding to how complicated the part is to produce and how critical the part is in the production process at Scania. However, by doing this the number of product groups would increase substantially. To keep the organisation simple, which is an expressed goal at Scania, we therefore suggest a solution that involves a creation of a new division, Special Supplier Project (SSR) that is connected to Special Project (SR), as the figure below shows.

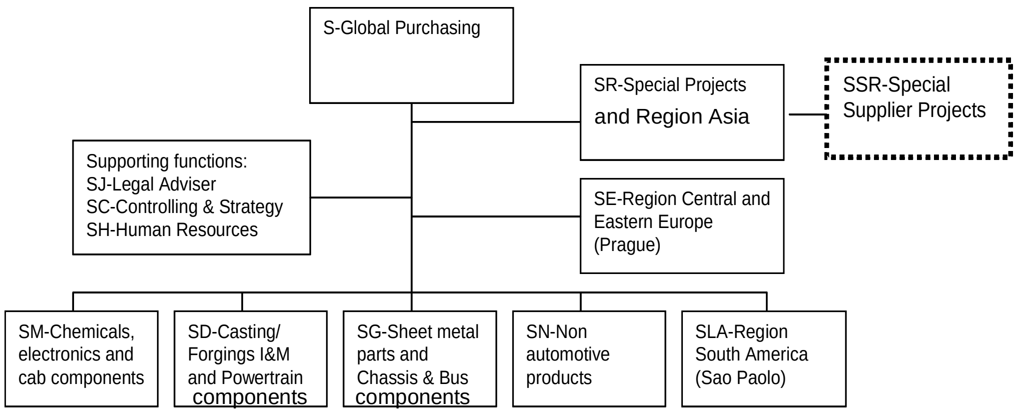


Figure 7.4: A small modification to the purchasing organisation.

The new division is either integrated in, or organised as a sub-division to, SR and is aimed at those suppliers which cannot fulfil the basic demands but who still are considered as suppliers with good potential. These suppliers are moreover evaluated differently than other suppliers owing to the special context in which they are operating. If Scania implement a division like this we suggest that they follow a working method that implies supplier segmentation, such as the one described in chapter 3 concerning Kraljic's matrix. The potential suppliers that could be considered as leverage suppliers should be prioritised in the SSR division.

The benefits of finding suppliers in Russia are low wages and closeness to Sweden which facilitates logistics. Since Scania already have a lot of information about the supplier market the search should be more effective now.

The costs of finding the right purchaser to work with the project might be big; there is also a big risk that the project may fail again, because of the same reasons as last time.

7.4.3 Scenario 3: A Bold Venture

In this final scenario Scania consider the Russian sales market to be very attractive and they are consequently planning to set up an assembly plant as soon as possible in order to satisfy it. The company believes that it is important to increase the local presence in order to keep or increase their high market shares. In addition to planning a plant set up they actively search for potential Russian partners as many other foreign automotive producer has done and still are doing. Furthermore the supplier market is believed to develop fast the next few years which implies a quick response from Scania what regards purchasing. To satisfy the increasing demand of local supply which the assembly plant will cause they also plan to establish a local purchasing office (LPO) in Russia. The LPO will also put a lot of efforts in finding global suppliers that could be used at Scania's production sites all over the world.

If this scenario will come true we believe that Scania has to change some aspects of their way of working with suppliers. In order to make suppliers fulfil the basic demands we suggest Scania to be ready to help the supplier to a certain extent, e.g. by shared investment costs in machinery and perhaps also provide technical assistance by letting an internal "Scania Supplier Development Team" visit and help the suppliers. Furthermore we suggest them to apply a more long-term view of the suppliers' potential, rather than the actual ability today, when it comes to supplier evaluation and selection since few of them will satisfy Scania's needs without help.

No matter if Scania decide to create a Russian LPO or just create a team to search for suppliers it is important to recruit competent staff for the task. Our study has shown that it is critical to have employees with a deep knowledge about the context where they work but also a real understanding of market economy and business in general. Consequently Scania should hire young Russian personnel, preferably with western experience. Another method of acquiring knowledge and get access to foreign markets is partnerships with local companies. However, we strongly recommend Scania not to do that in Russia due to the characteristics of Russian companies described in this thesis, besides the fact that many partnership actually have failed.

Cooperation with other foreign companies, maybe in other sectors though, is on the other hand to recommend in order to aggregate a certain demand or exercise pressure on politics regarding regulation and so on. It could also be worthwhile to attract Western suppliers to Russia, especially those who perform operations that Russian could not produce, such as surface treatment on metals. Whether to focus on the Moscow region or the St Petersburg region is for the moment hard to say; they have about the same attractiveness.

The Russian sales market is growing fast. By setting up an assembly plant Scania increase their possibilities to keep a strong market position. This will also affect their possibilities to find both global and local suppliers in a positive manner.

There are many risks and disadvantages with this alternative. First of all; the business environment in Russia is somewhat unstable with an uncertain political and industrial development. Huge investments like this alternative implies can therefore turn out very costly for the company if it does not result in a sufficient return.

7.5 And the Winner is…

The purpose of the three scenarios presented above is to show that Scania can be a winner in Russia by choosing a number of different strategies, all dependent on how much faith they have regarding the Russian supplier market. However, our study indicates that a course of action similar to that presented in scenario 1 is the one that should be taken. The concerning companies in Russia are simply not ready to deliver products to demanding Western companies such as Scania, without a certain amount of help and a lot of patience. For the moment we do not believe that the potential that the Russian supplier might have, make up for the additional work and probable investments that will be needed.

Instead we recommend Scania to leave Russia for the moment and evaluate other potential regions. We have for example gotten some indication that the CIS countries are developing positively which can be worthwhile to investigate more. The development in Russia could probably be observed without local presence, e.g. by continuous contact with the sales representation, Scania Peter and trade chambers in Sweden respectively Russia. Falling raw material prices should be seen as something good since that might turn the negative trend of stately hostile take-overs and strong political interventions.

Because, as the last years booming Russian stock market has shown, things can change fast in a developing country like Russia. So, even if Scania follow our advice and put the project on hold, we recommend them to keep an eye on the development. As they say you never know when the Russian bear wakes up…

8 Conclusions

In the conclusion we sum up the most important findings that were discussed in the former chapter and let them constitute answers to the issues presented in the introduction chapter. We also give some advises regarding further research and discuss whether our finding can be used in another context, e.g. by other companies wishing to source from Russia.

"I cannot forecast to you the action of Russia. It is a riddle wrapped inside an enigma: but perhaps there is a key. That key is the Russian national interests. "
- Winston Churchill

This master thesis was initiated by Scania to find out why they had not been able to find suppliers in Russia. Russia and East Europe is by many within the Western European industry considered as the next big supplier market. The country is close to Sweden, the wage level is low and the GDP growth has been substantial the last couple of years. This paints a very bright picture and yet, despite a three year project to find global suppliers in Russia, Scania found none. This context together with the theoretical framework presented, which discusses general purchasing theory, lean production and cultural differences, creates the background from which we draw the conclusions presented below.

8.1 Discussion of the Issues presented

In the master thesis a case study of Scania, as well as six other Swedish companies with experience from sourcing in Russia, is presented. In the beginning of this master thesis we introduced three issues which were up for discussion. In the last chapter answers to all three have been given but here we would like to highlight the most important findings.

What Characterise Russia as a Supplier Market?
The economical transformation of Russia, which is still going on, has lead to a warped ownership structure where the old leaders still have a lot of power and the power distance is high. The last years rising raw material prices has correlated with increasing power concentration in Kremlin which exemplifies the wide spread corruption that exists in Russia. Fortunately it does not seem to strike foreign companies that much according to our interviewees at the case companies.

That the transformation is not yet completed can also be seen at company level. The business making competence is rather low and the Russian management is, according to Westerners, generally poor. Managers from the past, referred to as Red Management, is avoided carefully while younger Russian managers, preferably those with experience from West, are considered as competent and easy to cooperate with.

We have in our study identified two important factors that we believe influence the Russian industry negatively; obsolete machinery and low competitiveness. The obsolete machinery limits the companies' possibilities to deliver to high demanding companies such as Scania. It stems from the short term thinking that typifies Russia and make them less inclined to make new investments. It is also caused by the lack of financial stability.

The low competitiveness within the industry makes the development go slow. In the discussion we argued that the low competitiveness stems from three restraining factors; an industry structure that is dominated by huge conglomerates without specialisation, the nearly endless natural resources that create a situation similar to that in Middle East, that it is no need for development since exports of raw material creates enough wealth by itself, and finally a gigantic domestic market with many customers but not that many producers.

Which Sourcing Experiences Have Been Made by Other Swedish Companies in Russia?

In the beginning of the study we had the impression that many Swedish companies had sourcing from Russia. This quickly turned out to be a false assumption and the experiences made by Scania are quite similar in the case companies as well. We got a lot of input about factors Scania should consider when trying to find and work with suppliers in Russia. Some of the most important are:

- Use Russian purchasers when working in Russia.
- Use purchasers with extensive knowledge about the Russian automotive industry and basic demands on suppliers.
- Be flexible with demands on suppliers.
- Help possible suppliers; both financially and with technical competence.
- Take an active decision regarding sourcing from Russia.

How Can This Knowledge Be Utilised at Scania?

Our findings suggest that it is not motivated for Scania to actively search for suppliers in Russia. The cost of an active search and the risk if they do not find any is higher than the possible rewards. Scania should however keep an eye on Russia if the industry develops. There are at least two ongoing projects that we believe might affect the industry climate positively; partly the initiative to hive off the component division and focus on core competences made by GAZ, and partly the building of an assembly plant in the St Petersburg region by Toyota.

If Scania wants to continue the active search for suppliers in Russia they could use the advice given in this study as a platform. They need to be patient and work with a long term perspective and be prepared to help potential suppliers develop which will cost both time and money.

8.2 Future Research

In this study we do not present any timeframe of when we believe the Russian industry will be developed enough for an active search for suppliers. With a background from a similar context in other regions, e.g. China or Poland, a timeframe like this should be possible to create. Together with a cost analysis of the search for new supplier versus a risk calculation of not finding any, this will probably create an even stronger foundation for Scania to build a sourcing decision upon.

A similar analysis as the one presented could also be done, but focus on other parts of the industry, e.g. the consumption industry, which is probably more developed.

8.3 Generalisation

The recommendations presented in this master thesis are applicable mainly for the automotive industry, but as we have concluded, similar industry has the same problems in Russia which makes our result applicable for them as well. Other parts of the industry do not show the same characteristics and should hence not use these recommendations without a thorough investigation of their particular supplier market.

We have used a method in which we studied five case companies which has constituted a reference to our “core case company” Scania. Another way to do it could have been to study maybe just one or two companies but make the study more in-depth. This method might have given a more focused best practice solution. This alternative way would also have been hard to validate since there are so few companies which have succeeded with sourcing from Russia in the industry which we are interested in. Our purpose, as stated by Scania, was however to create a generalised best practice about the Russian supplier market which we feel have been accomplished. We also think that since a lot of facts about each case company are presented in our case study, the reader is given a chance to make their own analysis.

We have deliberately chosen a theoretical framework which is not used to create a model from which we build our discussion. The issues studied are, in our mind, too complex to be based on one single assumption or model. As we have already stated in the theoretical framework its main purpose is to create a necessary understanding about the context in which companies work today. We could have focused more on phenomena highlighted in the theoretical framework and this is something the authors have discussed during the research as well. Because of this we have in the end of the theoretical framework designed a model (figure 3.5) with issues that should be considered if a company wants to source from a new supplier market. The purpose is to use the model as a guideline, not as a critical success factor key.

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Scania Internal Documents

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Scania STD4173

Appendix 1: Interview Questionnaire

Questionnaire to case companies

Personal

- Could you give us a short briefing about your background in the company?
- Have you worked in Russia?
- If yes, during which years? What did you work with?
- Have you worked with purchasing in other countries than Russia?

The purchasing organisation

- How is the purchasing function organised at your company?
- Does your company use local purchasing departments? Local purchasers?
- How much of the cost of goods sold consists of purchased material?
- Can you describe the value chain in which your company act?
- Which are the main sourcing markets for your company?
- Which sourcing markets are prioritized at the moment and in the future?

Supplier evaluation

- What kind of demands does your supplier have to fulfil concerning environmental, technical and quality issues? (code of conduct, documentation language, ISO 9001, ISO14001 etc)
- How does your company evaluate potential suppliers?
- Did you change or adjust the evaluation process in Russia?
- How does your company evaluate current suppliers?

Purchasing from Russia

- Could you give us a short briefing about your experience of purchasing in or from Russia?
- For how long times have your company had suppliers in Russia?
- Why do you purchase from Russia?
- What made you look for suppliers in Russia?
- What kind of products/material do you purchase from Russia?
- Which regions in Russia do you purchase from?
- Can you quantify the purchasing amount from Russia, in value and as part of total purchasing amount?
- Does your company have a standardised procedure when looking for new suppliers?
- Did you have to change or adjust that procedure in Russia?
- Does your company cooperate with partners when entering a new supplier market, e.g. the Swedish trade council, local agents or joint ventures?
- Does the market and purchasing departments cooperate in Russia?
- How would you define your company's relation to their suppliers?

- How important are your company for the supplier and how important are the suppliers for you, i.e. are you usually their most important customer?
- Is Russia considered as an important export market?
- Are the purchasing managers Russians or Russian speaking?
- What were the major obstacles when looking for new supplier in Russia?
- How did you solve those problems?
- What do you think are the critical success factors when looking for new suppliers in Russia?

Experiences from Russia

- How does purchasing from, or in, Russia differ from purchasing in other countries?
- Has the Russian sourcing market changed during the years? In what way?
- Is the Russian supply market more attractive for your company now than it were ten years ago? Why?
- Do you have any experience of corruption or organised crime?
- Do you think that the Russian business culture differ from the Swedish one? How?
- If the answer above is yes, how has it affect your business in Russia?
- How are negotiations with Russian suppliers carried out?
- How are Russian companies organised? (decentralised vs. centralised, vertical integration etc)
- Is leadership in Russia different from that in Sweden?
- Are personal relations important for successful business in Russia? Political contacts?
- Would you consider your Russian supplier to be competent (attitude and capability) as regards technical, business related issues? Delivery reliability? Contract discipline?
- Do you have and advice to Scania concerning how to find, and establish contact with, Russian suppliers?
- Do you know someone at, or outside, your company that we should meet for an interview?

Appendix 2: Case Company Matrix

Company	**Supplier industry**	**Strictness of basic demands**	**Flexibility of basic demands**	**Global sourcing in Russia**	**Local sourcing in Russia**	**Presence in Russia**
Scania	sheet metal parts, iron castings, forgings and machined forgings, rubber and plastic etc.	Very strict	Low	No	Yes, to bus factory	Sales company, bus factory
Alfa Laval	metals; castings and forgings; machining, forming and fabrications; electrical etc.	Strict	Medium	Yes, one company	Yes	Sales company, factory
Electrolux	Mainly electrical components	Very strict	Very low	No	Yes, some	Sales company, two factories
IKEA	Wood, textile, metal, finished furniture etc.	Low	High	Yes	Yes	Stores, big trading division
Skanska	Everything from cement and nails to ovens and elevator systems	Special	Special	No	Yes	Building projects
BBH	Barley, aluminium, plastic etc.	Low	High	No, only operates on the CIS market	Yes	Breweries