FROM RUSSIA WITH LOVE – TO AMERICA IN TRUST

by

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ABSTRACT

This case describes the travails of two operations managers, one American and one Russian, as they implement the “Joint Agreement” between their companies. The case sequentially addresses the American perspective, then the Russian perspective of operations methods, strategy, culture, and management issues as they participate in a series of reciprocal visits.

Part I – From Russia with Love

Bill Stone sank heavily into his stuffed chair and gazed absently out the corner window to the gray Chicago winterscape. It had been a tough day; implementation of the new supply chain software had gone smoothly, but team training had problems. And he was recovering from the trip to Ekaterinburg. The eleven-hour time difference, the extreme Siberian cold, and the never-ending social schedule had taken their toll. Yet, the Joint Agreement between the American Mining Equipment Company (AME) and the Urals Machine Consortium (UMC) now seemed workable. Both companies were major international manufacturers of mining equipment, such as steam shovels and ore trucks. As AME’s recently appointed Director of Operations, it was Bill’s job to make the Joint Agreement work.

Bill routinely thumbed through his inbox and mail, and then turned to his laptop, where an icon in the corner announced the receipt of e-mail.

Dear Bill; (it read)

Hope return travel to Chicago was good and not tired, and you have now time to discuss our meetings and situation with Joint Agreement. We so pleasured your visit us and thanks for all assistants. Much we have done since you leave. Heavy shovel assembly committee meet and discuss plans for revised schedule and Director was discussed with Region Planning Committee needs for more planning in manufacturing and safety of stamping machines.

We thank to you for wonderful friendship; Galena Ivanovna sends best greetings to Eva Maria.

Most sincerely
Nicholai Antonovich

Bill's thoughts wandered through the cold Chicago evening mist to Ekaterinburg, almost half a world away, in the Ural Mountains, gateway to Siberian resources. In Soviet times, Ekaterinburg was called Sverdlovsk; now it is the third largest city in the Russian Federation. For many years during the Cold War, Ekaterinburg was a closed city due to military and defense industries there. Foreigners could not enter and residents could not leave without authorization. In the 1960s, Gary Powers, the American U-2 spy pilot, had been shot down near there and, even today, many plants are known only by the numbers or codes assigned to conceal their identity and the nature of their production.

Nicholai Antonovich and Galena Ivanovna had been wonderful hosts during the seven-day visit. There were performances of the opera and symphony, both among the best in Russia, and visits to
family homes where Bill was given the position of honor on the sofa at the cramped family dinner table and entertained with piano and violin recitals by children and slide presentations of vacation camping trips to the Black Sea. Nicholai had toasted the greatest opening of Russia to the West since Peter the Great and to a lasting reduction in Russian xenophobia.

But the days had been all business. Breakfasts of strong instant coffee, rolls, cheese, and sausage were hosted by the Director General of UMC, Vladimir Vasiliovich Fyodorov, and attended by Deputy Directors and staff members. Conversations started with polite inquiries about family and accommodations, but quickly focused toward specific topics of the Joint Agreement, such as product mix or the schedule of technology transfers. Obyed, or dinner, in the middle of the day, was more formal; silver chafing dishes and four or five courses, starting with soup and rich dark water bread, then salad, an entree with vegetables and potatoes, and desert, followed by liqueur. Chocolate and local beer were ubiquitous and coffee was served from an ornate porcelain samovar.

Mornings and afternoons involved plant tours and meetings with staff and committee groups, government officials, and private bankers. At one such meeting the Governor of Sverdlovsk oblast (roughly equivalent of a U.S. state) gave Bill strong assurances that the Joint Agreement would be supported by both regional and national governments. The Governor concluded by commenting, "Russians must learn to destroy the Iron Curtain in their minds." Bill's attempt to learn Russian had helped and was certainly appreciated by his hosts; but discussions moved laboriously through Irena and Natasha, who took turns translating. Words and meanings were repeated and clarified; often one-word translation was available. Thus, terms were described, but there was no way to effectively communicate specific concepts, such as Economic Order Quantity or Supply Chain Integration, for which there was no corresponding Russian notion. Though the Joint Agreement had been signed, as Bill looked deeper into the details, he saw some inconsistencies and felt there might be further misunderstandings. John Halbersen, AME's President, would certainly want him to address these issues tomorrow at the Monthly Planning Update Conference.

One very important question was strategic planning. The Joint Agreement was clear; AME would produce certain items for export to Russia and eastern markets and UMC would produce other items for export to America and western markets. Annual volumes and product specifications were clearly stated. This market segmentation and cooperation offered advantages to both companies, such as specialization and focus, thereby reducing costs and improving efficiencies. Additionally, integrated scheduling of their complementary, roughly two-year order-lead-time products would stabilize schedules at each company. But Bill had seen little indication of strategic planning or use of long-, mid- and short- range business forecasting by his counterparts; he was also concerned that Joint Agreement deliveries might be slowed if UMC’s non-agreement business received a higher priority.

His Russian colleagues had confirmed, and reconfirmed, their commitment to the Joint Agreement; they apologized for the turbulence of the government regulatory environment, the financial environment, and their consequent inability to plan and forecast accurately. In fact, they described for Bill examples of vacillating taxation, environmental, and safety policies. Two years previously, for example, a 100% tax increase, based on product value, had been levied on all facilities that generate even low levels of sulfur emissions. As exports, products within the Joint Agreement
were exempted, but other UMC production was not. It took six months of lobbying and numerous defaults and bankruptcies to convince the government to change the tax. One day, a letter was received from the Central Economic Committee, stating that the tax had been canceled and the Minister for Environmental Affairs had been fired.

Conversations with Derwin Karsten, the Shop Master at Factory 14 and UMC employee for almost 60 years, were also difficult to ignore. Derwin described his employment at age ten and the movement of the plant from Leningrad (now St. Petersburg) in 1941, just before the Nazi Army blockaded the city, and he described, often with a sneer, his many experiences with the Soviet central planning system. Derwin's job had been to implement an often politically inspired plan. He described rail cars with bills of lading showing full loads of production that, in fact, were shipped empty, and commissioners who minimized production plans so they could easily make personal quotas. Yet, when asked about the future of Russian manufacturing, Derwin smiled broadly with a toothless grin:

"Now that... the future, it be fun. But we have many work to do, so we get rapidly started. Problem is ...worker know how to work, but manager only understand how work under ... strict plan."

"When plant sent from Leningrad and issue military goods here, officers came to plant to check quantity and quality of production ... and report to Moscow. If person produced bad good, he could even be named sabotaznick and disappear to Gulag. But also, if make suggestion on improving production, be granted with additional food and even free day for rest. Later these stimulations gone. Nobody invented things new and (a touch of bitterness marked Derwin's voice) we lost our growth skills and no longer worked to educate young worker in technical matters."

"But," Derwin grinned, "Russian worker with help of friends and comrades do anything. Russian worker know how to team and work for social good of all."

There were other problems. Orders were produced when even management knew that there were no buyers, and other orders were canceled because of inability to pay or lack of funding. The ruble had inflated by 50% in the past year, and by 600% in the prior year. Bill again reviewed several translations of the long range forecasts provided by UMC. Valerie Borisovich Larionov, Chief of Economic Planning, had used the quarterly and annual historical data, with the base line simple moving average and initial Winter's method forecasts. Mechanically, the calculations were correct, but the high error rates bothered Bill. Of course, forecasting with small unit values is always difficult, but, with that much error, why bother to forecast? Without a good forecast, strategic planning was tough and there was little indication that forecasting was more than a mathematical exercise. But he remained concerned with what appeared to be a general disregard for integrated planning, forecasting, and scheduling, starting at the long term, then disaggregating to execution.

The plant tours were extremely interesting. Ivan Alexandrovich Okhrimyenko, Chief Deputy Engineer, spent several days explaining production flows and equipment needs. (Bill marveled that many Russians, particularly in formal situations, use the middle name, or patronymic, as an expression of respect for a person’s family.) Most of the equipment was older; a few lathes were American, dating from the Lend-Lease Program in the 1930s Plant equipment, however, was clean
and well maintained. Some European computer-controlled equipment supplemented the general-purpose equipment, and workers proudly demonstrated skills with either technology; however, several expressed the need for state-of-the-art computer-assisted manufacturing equipment. In fact, Bill saw little indication of system automation during his entire visit. Bar codes were not used and data capture, when done, was manual. Such activities as scheduling, inventory management, and forecasting were done manually by a university economics professor. Some materials, particularly case hardened steel, were held in excess of expected needs, while other materials, usually rubber and plastic parts, were expedited on a weekly basis. Shortages in numerous commodities had resulted in the development of a secondary dealer-to-dealer market.

Numerous replacement and spare parts had been designed and manufactured locally. Bill visited the facilities of a subcontractor that provided aluminum castings for various motor and gear parts. The facility, about eight kilometers from the UMC plant, consisted of a roughly 40,000 square foot metal building. Ten to fifty gallon cauldrons were melted the minerals in a semi-enclosed coal furnace. Test chemicals assured the correct composition for alloys, and molten metal was then scooped in hand-held dippers and poured into formed depressions in a “sand box” on the floor. As the metal cooled, a wooden or metal “cap” was used to form the upper side of the part. Finished parts were then lathed, ground, or milled to tolerance, and the scrap recycled. Nicholai noted with pride that several weeks previously, because the phone system was out, a manager had taken the tramway, then walked to the plant to deliver an urgent message for expedited parts delivery. The plant had worked for three days straight, and the job had been delivered on time.

Quality control was the worker’s responsibility, but equipment designs tolerated unexpectedly high variances, which made quality control less of a problem. Engines required run-in times of 20 hours or more, and as Ivan Alexandrovich explained: "if it will run for 20 hours, it's good for life." Bill had also attended several training sessions in statistical process control given by the university professor, but he heard employees complain that the equipment would not hold settings.

The production process was labor intense. In fact, it was very costly to fire workers, Nicholai Antonovitch explained, because the company would have to contribute six months salary to the worker's unemployment compensation. Thus, many financially strapped companies, including UMC, had resorted to under-paying workers or skipping monthly checks. Even so, UMC was supportive of its labor force, which averaged twenty-two years with the company. Bill had spoken with several workers who were owed months of back-pay, but who accepted items of clothing or food from the company store or cafeteria or often were given company stock, instead of cash pay. Though many executives openly expressed a need for improved technology and training, most affirmed that technology improvements would not cause workforce reductions.

Safety appeared to be a more immediate problem. Bill noted the presence of high noise levels and lack of hearing protection in the engine testing room and near several of the stamping operations. Also, most equipment did not have hand or foot safety guards. For example, Bill watched as a woman placed metal plates in a stamping machine, and with a foot trigger, released the stamp. As the machine recovered, she pulled the stamped part out with her fingers. He asked Ivan Alexandrovich what protected the woman's fingers; Ivan's response was to tap his finger against the side of his head.
and say: "This". The labor force demonstrated high levels of discipline and training except for some computer skills. Pay at UMC averaged about $80 per month, which because UMC is a former state-owned business, is higher than most businesses in the area. Never-the-less, to live comfortably, all family members must work. The UMC cafeteria provided free employee meals, and the company offered a relatively generous retirement plan; but, with inflation, the stipend was of little value.

The distribution center through which UMC received parts made elsewhere and through which UMC shipped their partially assembled equipment was on the trans-Siberian rail line, connected to the plant by a spur. Storage sheds contained unmarked cartons on pallets that were moved by hand carts and a sporadically functioning forklift. Gantry cranes lifted heavier assemblies on rail cars that were picked up by the daily Trans-Siberian Express. Bill marveled at the lack of markings or records, but was told that the DC manager and crew knew location, product, and number of every shipment that went through the facility. Historical records were retained in shoebox like files. The DC manager proudly stated that, in twenty-five years, he had never lost a shipment.

The managers that he had met impressed him. Several, who might be described as "angry young men", were in their late 30s, and had been employed by the company for some fifteen or more years. Bill quickly realized that, although Russia is focused on female-associated values (matronymic), that few women have management jobs. Some men, like Ivan Alexandrovich, had traveled to Western Europe to visit companies and had developed an initial understanding of market-driven economies and supply chain management processes. These new managers clearly had found a common language with senior laborers and rejected the established bureaucratic directors in their firms.

On Sunday, Bill was invited to visit Nicholai’s dacha, which was, by train, some forty minutes or thirty kilometers from Ekaterinburg. They stepped off the train in a snowstorm and walked along a rutted dirt and gravel road that diminished to a logging path covered by two feet of snow, passing through a seemingly endless pristine white birch forest. Twenty minutes later, they entered the unlocked log cabin, lit the wood stove, and warmed some tea and hitochki (potato or meat cakes), provided by Galena Ivanovna. Fruit juice-sized glasses of vodka warmed their hearts long before the heat from the wood stove encouraged them to take off their mittens. On the train ride back to the city, Nicholai commented “friendships develop more rapidly in cold country air, not in heated city flats.”

Even in his short visit, Bill had started to feel appreciation for the mystique of Russia, the vast untapped mineral and human resources, the power of life-long friendships, and the tremendous strength of stoic life styles and work ethics. As Vladimir Vasiliovich had stated at the first breakfast meeting: "To do business in Russia, particularly in Sverdlovsk oblast, you must become friends first."

Bill glanced at his watch, and placed the reports back in the file folder. He considered suggesting to the Monthly Planning Update a multi-stage process to develop the Joint Agreement with UMC. But how to define the steps? What could be the impact of "translation misunderstandings" and "cultural differences?" Should he start with a more technical evaluation, or would a general SWOT (strength, weaknesses, opportunities, threats) analysis be appropriate? For both firms, cost management was critical, but then so was quality. AME had invested more than $10 million in software and training to integrate with suppliers and customers. Most marketing functions were on
line, pleasing customers: but several suppliers were resisting the focus toward supply chain teams, possibly because such teams emphasized the entire supply chain, rather than the local optimization of each stage.

The unionized and aging workforces of suppliers worked very dependably at defined and traditionally structured jobs, but supply chain automation required new levels of responsibility and perspectives. Ultimately, the best decisions were made by integrated teams consisting of shop floor operators from the sequential businesses, which required new job descriptions, training, and, most importantly, different behaviors and management skills. As Bill contemplated, his current problems were interspersed with flashbacks to Russia: the warmth of the community, the expediting and hoarding, the financial constraints, the safety and quality concerns, and the loyalty of the employees. If Nicholai Antonovich or other Russian managers could handle their problems, why could Bill not put together a simple supply chain? Some questions would be settled when Nicholai Antonovich came to Chicago in several weeks.

But, for now, Bill had a briefing to give tomorrow morning. He tossed the folders in his briefcase and headed for the door. Eva Maria would have a good supper ready and he wanted to sleep on this one a bit.

Part II – To America in Trust

The low mid-day sun reflected across the frozen lake speckled with windblown snow that had covered Ekaterinburg the night before. To Nicholai Antonovich, Senior Vice President for Manufacturing of Urals Machine Consortium (UMC), the whole of Siberia felt full of light and exuded a special warmth that only could be understood by one who had lived there many years. In two hours, the sun would set and darkness would quickly veil this land; then the only warmth would be in the brightly frosted windows and the hearts inside. Nature can be so deceptive, murmured Nicholai, But, then what to say about people? His friendship with, Bill Stone, Director of Operations of American Mining Equipment Company (AME), had clearly grown during his visit, but other forces were now apparent in the Joint Agreement between their two companies.

Though it had taken several days, since his return from Chicago, to readjust to Russian time, it would take many months to fully digest the events of the prior week. This visit had been extremely important for UMC, as well as for Ekaterinburg. The recent economic turmoil in Russia had caused tremendous disruption and loss, in addition to personal privation. Managers of large and small enterprises that had been profitable and stable only a few short years ago now must find a new niche and new buyers. Russian businesses can no longer sell to Uzbekistan or Poland. The Uzbeks cannot pay and the Poles prefer to buy higher quality German goods. It would be hard to find the right decision.

Ten years ago, there were no problems like this. Life was a comfortable mix of winter evenings with family and close friends, stable and full employment, summer vacations at Southern resorts, and full faith in the premise that Capitalism would ultimately be defeated. The main management task was to produce the required goods at the required time. This necessitated networking, as well as technical knowledge and decision-making. Now those skills aren’t required; the problems are mostly
financial, caused by the ruble’s decline. Barter and unpaid wages are widespread. Management and labor must work together as stockholders of formerly state-owned firms, verging on economic ruin.

The accounting books show a prosperous company. Orders are received, components and parts are produced and assembled, goods are shipped to customers, and taxes are paid. But where is the cash? More than fifty percent of customers cannot pay, thus the company cannot pay. Neplatzhy, it is called, the refusal or inability to pay bills. But the company must pay its bills, particularly to workers, because under privatization, they are now shareholders of the company. Unpaid workers will not rebel, they can do worse. They can sell their shares to some biznezman. And there are many biznezman in Ekaterinburg now, with government contacts and the ability to manipulate stock and acquire control of solid Russian businesses. But, if labor did sell the stock, they could lose everything. Thus, in many firms, a cautious, informal accord had developed between labor and management. Nicholai reflected with bitterness over the corruption that Capitalist practices had brought to Siberia and resolved not to let it happen at UMC. But the old guard bureaucracy did not understand that times are changing. For this reason, his visit to Chicago, his friendship with Bill Stone, and the success of the Joint Agreement was so important.

He loved the expression that he learned from Bill. These are challenging times, they joked, but, as Nicholai reflected, the words had very different meanings in Chicago and Ekaterinburg. Nicholai Antonovich clearly understood that UMC had to be rebuilt from the foundation up; everything must change. The first priority would be the structure of the company. He had to protect and train the workers, but at the same time eliminate management jobs and make the company profitable. Automation and information systems were top priorities, particularly in management of costly inventories, as were quality and investment in new equipment. It all had to be done, and with little money. He hoped that the Joint Agreement to exchange technology and work jointly in several global markets would provide the necessary currency and support, as well as the incentive for management to change. He had gone to America full of confidence that his company with its long history and renowned name, could easily establish a mutually profitable operation with the American company.

Those had been the expectations. On Monday, Nicholai Antonovich would present the results of his visit to the Board of General Directors. He took a clean sheet of paper and wrote the title: Results of the Visit of the Representative of the Urals Machine Consortium to the American Mining Equipment Company. He put down his pen on the desk, leaned back in his chair, and tried to build the chain of his impressions of his visit to Chicago.

This visit was an important opportunity for Nicholai Antonovich to enhance his vision of the future for Russian manufacturing operations. He knew that the craftsmen had technical skills to produce the best equipment in the world; their professional loyalty and dedication were also excellent, and their pay (roughly $80 per month) made UMC highly competitive in building labor-intensive products such as custom mining equipment. However, Nicholai also understood that they must learn something far more important. For seventy years we make work under communist economic model, and there’s no our fault, Nicholai told Bill. But trouble is we do no know work in market economy.
Nicholai liked to compare Siberia and America. America was where the British king sent its prisoners. Then for years, people from Europe and other places moved to America, searching for opportunity. Siberia had the same destiny. The czars, then commissars, shipped prisoners to Siberia. Then people from Russia and other Eastern European countries moved to Siberia, looking for land and opportunity. But Siberia proved rich in resources, such as oil, minerals and timber, and had become a land of opportunity and a melting pot. As he had told Bill, the biggest difference between Siberia and America is that Americans bought their freedom, and dearly, with blood, while Siberia will stay as part of Russia forever.

Nicholai Antonovich had taken with him to Chicago the accounting information, blueprints of floor plans, and copies of the Urals Machine Consortium: 200 Glorious Years of Management by the People, issued in 1996 on the company’s 200th anniversary. He tried to anticipate any question, any development. His fear was that the visit would be reduced to a tourist trip or perhaps the Americans would be suspicious that he just wanted to immigrate. But the stakes were too high to permit that.

He arrived in Chicago’s O’Hare Airport at two in the afternoon after an exhausting journey. The transfer in Moscow at Domodedovo national airport, then the trip across town by Metro to Sheremetyevo international airport, and following that, a twelve-hour flight to Chicago. He had flown economy class, thinking that business class would appear to his hosts to be a luxury.

The Customs Officer checked his passport and papers and surprised Nicholai by quickly returning them with an open smile. I wish good luck in business, he said in his emigrant Russian dialect. He was met by Bill Stone and the new interpreter, Masha, who had been hired to assist with the Russian Project. Masha had come to Chicago from St. Petersburg some ten years earlier and thought that in ten years she had become 110% American. The huge limo (longer than the drive track of our shovels, thought Nicholai) awaited them. Inside, Nicholai wanted to express greetings from many friends and ask about his visit agenda and other business matters, but Masha continued to chirrup about how lucky Nicholai was to be able to see America, and how unhappy that he had never visited another country. Nicholai finally interjected, in his broken English that he had been in China and Vietnam in the late sixties, although under another name. Bill, who had served there at the same time, quickly understood his friend’s smirk and interrupted Masha, telling her to give their guest a break.

Bill handed Nicholai a packet that contained his agenda, some biographical information about senior executives, and some details about the company, all translated into Russian. Bill also gave Nicholai a very specially Russian-printed invitation to visit their house over the weekend. Masha grimaced as they lapsed into talk of events and friends in Ekaterinburg, Bill speaking in his broken Russian and Nicholai practicing his newly learned English.

From the airport, the limo drove toward downtown. Why do we go this way, Nicholai asked Bill. Your plant is north of Chicago, is it not?

Masha jumped in, with pride in her voice, Oh, in America, top managers stay downtown; I reserved a suite for you on the seventieth floor with a full lake view.
This is something I could not even imagine, Nicholai said to himself.

The welcome dinner is scheduled this evening at seven, continued Masha. It won't be late, and in the morning you can rest from your trip.

I have never before eaten dinner at five o'clock in the morning, Nicholai responded tersely, looking at his watch, which he had not yet changed to local time.

At 6:00, he was awakened from an all-too-brief nap by a message that Masha would pick him up in thirty minutes to take him to the welcome dinner. During the car ride Masha asked about his suite and how he liked the lakefront view, and chirped breezily about various Chicago skyscrapers.

The atmosphere of the dinner was really nice and relaxing. Bill introduced Nicholai to John Halbersen, an open Scandinavian and President of AME. Halbersen thanked Nicholai for coming to Chicago, then commented, with Masha translating, We understand you have come here with a strong wish to advance the Joint Agreement. We will work with you toward this goal; however, you must understand that we are business people. We do promise to be honest and truthful with you.

I really appreciate your openness, Bill heard Masha translate Nicholai's response. But, I want to suggest that if we try to make decisions as businessman, there is a 90% probability that the decisions will be wrong. We need to first establish our friendship and trust, and then discuss our joint strategy, not at the plant level, but far above.

In two hours the dinner was over, and they agreed to meet the next morning and begin the detailed discussions. Bill chided Nicholai for the directness of his comments to the President; but Nicholai was too tired to understand.

The next morning, Masha took Nicholai to meet the Marketing Group. Though the translation process was slow, they asked many questions. Nicholai felt sometimes that he did not understand the meaning of the questions, and sometimes saw that his answers caused amazement. The Marketing Group members were not impressed with the history of his company or the extensive business ties in Europe and Central and South Asia. On several occasions, it appeared to Nicholai that the questions were hidden in excess and indirect verbiage, confusing to understand.

It was a relief when he was joined by Bill and several of the Marketing Group for lunch. He found the American lunch to be more functional, and less formal and time-consuming than the Russian obyed. He started to ask questions of his hosts; he was interested in basics. What are the main responsibilities (tasks) of the Marketing Group, how do they communicate with other departments, and what reports are made to senior executives? He also asked them how they survey markets and how they decide which markets to enter. Many Americans had never met a real Russian, and certainly not a senior manager of one of their global competitors. The give and take was dynamic, often punctuated by misunderstandings and disagreements over language. But, as the afternoon wore on, the language skills of Bill and Nicholai were supplemented by translation, and clarity and understanding gradually emerged. That small lesson, as Bill called the meeting, lasted all
afternoon.

Similar meetings with accountants and production managers were scheduled for the next day. AME accountants were conservative and did not accept his information, which was based on Soviet bookkeeping. We do not see how you can make profits; we do not see how you can calculate costs, they said. And, Nicholai had to acknowledge, that was true. My dear friends, he finally responded.

Imagine situation in which you are selling labor-intense and customized product in distant markets requiring extensive transportation. Government agreements mandate that you to sell at 80% of competitor’s price to assure that you hold market share. (Oh, good, Nicholai said to himself. I now use words that I learned yesterday. I wonder how that will translate?) Labor costs are 5% of the competition labor costs, and more than 50% of transactions based on barter, not open markets. Under those circumstances, how do you use accounting methods to calculate costs and profits of firm?”

After lunch (I positively like sandwiches for lunch.), Nicholai met with the production team, Bill’s area. Bill started with a plant tour, where Nicholai, with permission, videotaped the extensive automation and material handling equipment. He then showed how functional managers in scheduling, inventory, purchasing, production planning and quality control retrieve information from the computer system and view the entire supply chain as an integrated decision. It was a very exact process, each data record was interdependent with other items of information; costs were reduced because there was no surplus and no slack, and materials were sourced and controlled globally.

Bill, Nicholai asked. Tell me what happen if you get virus in net or if error data entered?

Bill, along with his management, grinned understandingly. If we get a virus, Bill said, it would shut us down. Even if there is one error, possibly a model number of a customer order, then, it would be helpful to have Russian managers with your intuitive skills and long tenure to solve the problem. You see, Nicholai, though we have virus shields and daily backup tapes to protect us, reconstructing the transactions would be difficult and time-consuming. If we have to go manual, we lose control.

After the plant tour, Nicholai met with the plant management team in a round table discussion. That meeting proved Bill’s words. The management team could not understand how Russian managers could schedule work without computerized data bases, could control quality using mostly judgmental evaluation by workers and could anticipate and resolve problems intuitively. In his turn, Nicholai was amazed that American managers could trust their computer displays, and without instinctively feeling the pulse of the plant. Nicholai was given example formats of forecasting, scheduling, inventory, quality control, and human resource management computer printouts. During the meeting, several managers checked their PDAs to reschedule their afternoon activities, causing Nicholai to openly comment that few Russian managers would need a PDA to remember their schedules for them. The discussions went late and were interrupted only when they had to leave for a scheduled meeting with John Halbersen.

In Halbersen’s office, Nicholai discussed the final and most substantial part of his visit, the briefing of the Joint Agreement, scheduled for the following Monday afternoon. Masha spoke at
length to Halbersen about the main issues that were discussed during the last four days. Halbersen did not ask Nicholai any questions, but paced the office. After a minute or so of silence, he finally said that for Monday’s meeting, they would invite several more people.

It will not be easy to adopt any decisions, and I want more input about the Joint Agreement from our staff, he said, with Masha dutifully translating. Nicholai was stunned; he had thought the Joint Agreement was fully accepted and that only a few details remained. He wanted to ask further questions of John Halbersen, but Bill’s frown said: “No.”

That evening, Nicholai joined Bill at his home in the Chicago suburbs for dinner and the promised weekend. Eva Maria had prepared kurnik (Russian chicken) and blinski (potato pancakes). Toasts of white wine were exchanged and greetings and gifts from Galena Ivanovna were given. Katja, Bill’s daughter, wore her broach of Urals gems and played a Tchaikovsky violin concerto, and son Eric demonstrated a computer game. Bill translated awkwardly, yet the warmth of the evening and smiles of all said far more. Later that evening, the two friends sat in the cozy TV room in Bill’s basement. While sipping Jack Daniels, (It really is not quite like Russian Vodka, thought Nicholai.) they discussed Nickolai’s visit. Both were pleased to meet again, and both wished the Joint Agreement to succeed. At the same time, Bill was visibly bothered.

You know, Nicholai, when I came back from Russia, I was excited about the Joint Agreement. However, some of our senior managers are not as enthusiastic. The Director of Finance, for example, can invest money in a plant in South America, in inventory, in new production technology, or we can buy back some stock. Those options all give us a rapid and easily calculated return, with little risk. In your case, we have no assurance that we can get back the capital, to say nothing about interest.

Wait!!! Wait!!! Whose ideas are those, Bill Louisovich? Yours or someone else? Where did this all come from? And why interpreter reports results of visit directly to President? Do you remember words of accountant, that Russian balance sheet not work in a country with market economy? Maybe she is right, but I know it works very well in my country. We find useful business information in balance sheets, and managers and employees, because of long experience, make right decision to grow productivity. Russian labor is among least expensive, most loyal and stable, and highest skilled in world. My English is no very good, but interpreter never said that, I would have heard.

Kolya (a nickname for Nicholai), Kolya, cool down. I understand that you are upset, but you must understand, the Joint Agreement will require long-term investments and we need to present it to the Board of Directors and to the stockholders. It is easy for you because you only need to convince your twelve-person Board of General Directors; but we must explain our plans to thousands.

Not true, that is old Russia interjected Nicholai. We must informally speak with each shareholder, often laborers or retirees. This is much difficult process than open stockholder meetings.

Ok, you got me there, Bill acknowledged. You know, Masha was recommended by Wes Sykes, our VP of Finance, stated Bill thoughtfully. Are you sure you are right about the mistranslations?
Nicholai discussed with Bill each of the situations with the President, the Marketing Group and the Accounting Section. Finally, Bill commented: “Ok, I know an MBA student, Grisha, from the Russian Far East; I think that she knows enough about American business to help us on this.

Nicholai spent all of Saturday and Sunday with Grisha as Bill looked on and offered occasional advice. As Nicholai explained the problems, together they prepared a detailed SWOT analysis of the Joint Agreement, and a comparable analysis of AME business both with and without the Joint Agreement. Grisha helped Nicholai to adapt his presentation to American management. They simplified arcane Russian accounting assumptions and emphasized the importance of the strong political and social support for the Joint Agreement.

Late Monday afternoon, Nicholai heaved a sign of relief as he concluded the formal presentation. He could see that the AME managers, some 55 in total, were impressed, and Grisha’s translation was understood by all. As he concluded the formal remarks, Nicholai spontaneously presented his own vision of the problems that his company faces and opportunities for the future cooperation with AME. He quoted the Governor of Sverdlovsk oblast: “We Russians must rid ourselves of Iron Curtain in our minds. But”, Nicholai added, “I now see that Americans also have Iron Curtain. The question is: will we gradually develop a working relationship to destroy both curtains, better understanding each other and working for the long term joint benefit?”

President Halbersen was visibly moved. “Now I see the situation more clearly, and I see more opportunities than before. Your visit is of extreme importance to us. I am going to consider possible alternatives of a ten- to fifteen-person staff exchange visit for several weeks, a pilot integration project, or long-term technology exchanges and business cooperation. I am sure we can find a segment of business where our mutual interests are aligned.

Before leaving Chicago, Nicholai spent a day with Grisha and Bill. They visited the Mercantile Exchange and Water Tower. Even in the cold winter, tourists were sightseeing, enjoying the warmth of Chicago. And the whole day, they talked about Russia, about the changes in the country, in the economy, and in people’s minds. They visited Marshal Fields to buy a sweater for Galena Ivanovana. The clerk showed them a beautiful discontinued item on sale, and then explained that she got a bonus for selling discontinued items. Nicholai was overwhelmed.

Nicholai bolted at the blast of the factory whistle. He placed several reports and folders, and the Results of the Visit ... pages, in his satchel. He would have to do his own analysis of how to sell the Board of General Directors and then how to communicate with the stockholders on the American visit and on the necessity of the changes that it would bring. What models could he use (Oh, American management again.) or should he communicate just his impressions and feelings. “How do you explain the importance of capitalism to people who have known only Socialism and planning,” he mused, “and who see little direct and immediate benefit (either personal or corporate) to change?”

Questions
1. Should Bill’s / Nicholai’s visit focus initially and/or primarily on trust-building activities or on technical details of the Joint Agreement?

2. What parts of Bill’s / Nickolai’s visit were well managed by his hosts, what parts were not well managed?

3. How should Bill / Nicholai organize his presentation to the Monthly Planning Update Meeting / Board of General Managers? Should Bill / Nicholai limit the use of data and use feelings and impressions or should he use a more quantitative approach?

4. What questions should Bill / Nicholai anticipate from the members of the Monthly Planning Update Meeting / Board of General Directors? How should he be prepared to answer those questions?

5. What is the most important risk of the Joint Agreement to the American / Russian management? How should Bill / Nicholai define and address that risk?

6. Which staff group (marketing, accounting, finance, operations, information systems, or human resources) would likely be most receptive (least receptive) to Bill’s / Nickolai’s presentation? For which reasons?

7. Prepare a SWOT analysis for Bill / Nicholai to present to management, assuming that the joint agreement moves forward and, based on your analysis, make recommendations about the next steps for each company to pursue the Joint Agreement.

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