Abstract. *The recent developments of Russian and Ukrainian economies and rapid growth of food industries have proven to be one of the key motives for international companies to enter these countries and stirred up active investments into the food sector. It is observable that when foreign food retailers and branded food processing companies enter a new country, they take their business models known from their home countries into the newly entered markets. In this context of particular importance are management concepts such as supply chain and chain quality management concepts. Therefore, our aim is to analyze the influence of Foreign Direct Investment (FDI) on the Russian and Ukrainian agri-food business. Our findings indicate that the interactions of foreign food retailers and branded food processing companies with local suppliers and buyers indeed have an impact on the development of supply chain management in Russian and Ukrainian food sectors. There is a tendency that Russian and Ukrainian business partners change their old business approaches formed under the Soviet system by e.g. improving the quality and delivery terms and increasing the diversity of their product range, etc. and copy Western business principles introduced by foreign companies. One can observe the influence of FDI on supply chain management at all stages of the supply chain.*

Keywords: Foreign Direct Investment (FDI), Supply Chain Management, Central and Eastern European (CEE) countries, Russian and Ukrainian agri-food business.

INFLUENCE OF FOREIGN DIRECT INVESTMENTS ON SUPPLY CHAIN MANAGEMENT: INSIGHTS FROM RUSSIAN AND UKRAINIAN AGRI-FOOD BUSINESS

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1. Introduction

Despite the fact that the majority of business transactions are being are being coordinated via arm-length transactions, verticalization is an important and growing phenomenon in the agri-food chains of Central and Eastern European Countries (CEEC) (Swinnen, 2006). A further important driver of verticalization can be seen in the growing importance of foreign investors and their demand of higher quality (Swinnen, 2006). Foreign Direct Investments (FDI) can be found at the farm and processing levels as well as in the retail sector (Stange, 2010). For example, in 2008, FDI in Ukrainian agriculture were about USD 0.8 billion, whereas they accounted for USD 1.8 billion and USD 3.6 billion in the food processing and the retail sectors, respectively. The indicator of USD 0.8 billion for agriculture may be perceived as rather low compared to the FDI indicators for food processing and retail. However, one should notice that the world total of agricultural FDI accounts for 3.3 billion US dollars (UNCTAD, 2009) and, thus, the share of Ukraine is not that small. Overall, even during the world financial crisis, East-European countries have demonstrated a positive trend with regard to FDI inflows. In 2008, FDI increased by one eighth as compared to 2007, and Russia, Ukraine and Kazakhstan accounted for 84% of that growth (UNCTAD, 2009).

It is observable that the foreign enterprises export their own business concepts into CEEC. Several studies on the effects of FDI in CEEC (Palmer, 2005; Roberts, 2005; Hanf and Pieniadz, 2007; Glaser-Segura, 2010) show that foreign investors are working hard to raise the level of quality of their suppliers in order to meet their own global quality requirements. Further on, foreign companies impose high (global) private standards to differentiate their products from those of the competitors, i.e., standards work as strategic tools (Swinnen, 2006).

No wonder that Russia attracts foreign investors and companies who are willing to expand in Russia. It has been among the world leaders in terms of the pace of economic growth in the past seven years. Low maturity and saturation of the Russian market makes it attractive for global players. In spite of the financial crisis and freezing of some projects, such international retailers as Metro and Auchan are successfully operating in Russia and Ukraine.

As for international manufacturers, such companies as Danone, Campina and Mars run their production facilities in Moscow suburbs and other large regions of the country. According to the study of A.T. Kearney (2011) Russia is considered to be an attractive target for global expansion of retail business and provides one of the best opportunities for food retailers, heading the list of 30 emerging markets worldwide. Russia witnessed an increased consumer spending and demand for consumer products that ultimately led to considerably increased retail sales. Consumer spending has risen rapidly for the past two years, fuelled by an income growth rate of 10% last year and 11% the year before. More spending by Russian consumers has led to the overall retail growth rate of 13% in 2007 (Kearney, 2008). Russia's Gross Domestic Product (GDP) grew by 8.5% in the first quarter and is on pace to deliver the highest growth since

2000 (Russia Food and Drink Report Q4, 2008). Though wages and salaries are still considerably below western levels, they have nevertheless increased more than sevenfold since the year 2000. The average monthly pay in Russia in 2007 accounted for 589 US dollars. The rise in income generates the spending among consumers. In the past Russian people made a lot of negative experiences with cheap and low quality products, therefore they appreciate the qualitative Western products and are prepared to spend money for them. Household spending habits of Russia's urban population, particularly for food, illustrate the role of the primary retail channels in Russia's grocery stores, produce markets, and supermarkets.

Some of the motives to expand to Central and East-European countries may be due to 'push' and 'pull' factors (Kacker, 1985; Rubaeva, 2010). The 'push' factors include saturation of domestics markets, legislation blocking expansion, shareholder pressures for growth, high operating costs, and market driven pressures for growth. The 'pull' factors involve attractive conditions in the host market and represent economic growth, consumer spending and general attractiveness of the foreign markets. Limited and saturated market in home countries combined with favorable conditions for retail trade in Russia and Ukraine cause foreign retailers to expand internationally and explore the new market opportunities abroad. Besides, the collapse of the socialistic central planning system in Soviet Union created an additional economic vacuum, which could be filled with new 'Western' ideas about new retail systems followed by first attempts to establish them.

Foreign Direct Investment became an increasingly important element in global economic development and integration during the 1990s (UNCTAD, 2003). This development occurred during the process of transition from socialism to capitalism and the integration of the Central and Eastern European countries into the world economy through trade and capital flows (Buch et al., 2003; Danciu, 2012; Di Mauro, 1999). These developments led to a large inflow of FDI in the region since the mid 90s (Konings, 2000). At that time the first wave of FDI in Russia started, being also accompanies by the issuance of the law on joint ventures with firms from capitalist countries was passed. Initially, there was not much foreign investment. Later, in the year 2003, Russia attracted huge FDI and was placed third in FDI projects in the world, beating both China and the US. Moscow City and Moscow Oblast in particular are the major hosts for FDI in Russia (Broadman and Recanatini, 2001). Ahrend (2000) states that there are obviously a number of reasons, why companies establish a presence in a foreign country. He divides them into those that are mainly interested in selling goods and services that they produce elsewhere, and those companies that invest into production facilities in a country, either to serve the local market or for export. This second group of FDIs seems to be observed in the food retail sector in Russia.

Most international retailers and branded food processors operating in Russia and Ukraine introduce their business models in their work with local suppliers, which proved to be successful in their home countries. Furthermore, it is known that international food producer and retailer companies entering new markets are trying to

bring their established supplier relationships with them. However, imports of ready-for-consumption products keep decreasing and most foreign companies prefer to invest in their production and open new production facilities in Russia and Ukraine in order to make products affordable for the large number of local consumers. Such international manufacturers as Danone, Campina and Mars run their production facilities in Moscow suburbs and other large regions of the country.

When retailers as well as processors enter a new country they face the challenge to build up their procurement and distribution systems. In this context it is observable that they are taking their business models known from their home countries into the newly entered markets. Thus, one can say modern management concepts are exported. In this context of particular importance are value chains addressing management concepts such as supply chain and chain quality management concepts.

The aim of our paper is to analyze the influence of FDI on Russian as well as Ukrainian agri-food business. First, we outline the features of Russian and Ukrainian agri-food business describing the current situation in food processing and retailing. Second, we discuss about the FDI in Russian and Ukrainian agri-food business. Third, we elaborate on the influence of FDI on management practices in agri-food business in these countries. The countries were chosen according to the typology of retail waves by Dries et al. (2004). Both countries belong to the third wave countries.

2. Agri-food Business in Russia and Ukraine

2.1. Food Processing Sector in Russia

Food processors in Russia can be divided into the following main groups: (1) large vertically integrated holdings focused on development of their production facilities using their own raw material resources (began in the mid 90s), such as Cherkizovsky meat processing plant, Wimm-Bill-Dann juice and dairy producer, etc.; (2) international manufacturers having their production facilities in Moscow suburbs and other large regions of the country (started to appear in early mid 90-s), such as Danone (France), Campina (Netherlands), Mars (USA), Dirol Cadbury (UK), San Interbrew (Belgium), etc.; (3) Russian holding companies with participation of foreign capital, such as OJSC “Baltika” Brewery Company, KamposMos, and others; (4) regional food processing companies that started their activity under the Soviet times and successfully passed through the period of structural management and production reorganization in the second half of the 90s; (5) small regional producers/entrepreneurs most of whom produce and sell their products in the region where they are located (USDA Annual Report, 2005).

Russia’s food processing industry keeps growing very quickly, with an annual increase of 15-20%. The number of food processing plants in Russia is estimated at 8,000 to 10,000 (Oshidar, 2007). Domestic sources of raw resources and specialized ingredients for meat, bakery, confectionary, juice, and dairy processing have not kept pace with the expansion of the sector. Food processors often build their production facilities close to a source of raw materials. Rapid consolidation of all sectors of the

food industry continues the process of integration of smaller companies into bigger holdings (Serova et al., 2006).

Quality pressure from the retail sector, combined with competitive pressures from foreign multinationals is pushing the sector forward. Many have upgraded their technology and equipment. Many Russian food processors are now focussing on international quality standards and seek quality ingredients. A combination of domestic and foreign investment has produced a fairly dynamic sector providing a significant market for inputs and ingredients (Oshidar, 2007).

Because the quality of some agricultural supplies is not sufficient for starting production by foreign food processors some of them import their supplies from abroad. Milk processing companies often have to collect milk from so many small farms and in such small quantities that it is difficult to stay efficient. Also the quality of milk is diverse and cannot be relied upon when producing according to new technologies. For example, German confectionery manufacturer Alfred Ritter closed the production facilities in Russia in 2008 (Schlindwein, 2008). The official reason for stopping the production was the insufficient quality of raw supplies in Russia. Another example is Petmol, a big milk processor in St. Petersburg, which buys raw milk from the Finnish Valio. In the bakery sector the basic raw materials for bread are easily available from Russian suppliers, but when high quality is required it is necessary to use imported materials (Ylä-Kojola, 2006). Meat companies use as much as 80 percent imported raw materials (Tiusanen and Malinen, 2006).

Currently there are 1700 dairy processors in Russia, ranging from small local operators to large national and multinational firms. The largest players are the Russian Wimm-Bill-Dann, which has 30 factories across Russia, the German Ehrman, French Danone, Dutch Campina, and Petmol owned by the Russian Unimilk (Ylä-Kojola, 2006). 44% of the milk production falls on the agricultural enterprises and the other half of the milk is produced mostly by individual households. The share of production by private farms is not considerable (4%).

In the meat sector Cerkizovsky is the biggest meat processing enterprise in Russia with an estimated 10-12% market share in the processed meat sector. Cherkizovsky controls more than 30 meat-processing companies located in various Tsaritsyno and Mikoyan in the Moscow area as well as Camponos, the largest foreign-owned (Spanish) meat processing company are next biggest companies in Russia (Ylä-Kojola, 2006). However, while evaluating the market share of companies in the meat sector one needs to take into account that processed meat accounts for up to a quarter of all meat consumed in Russia. Thus, companies might have a big share in the processed meat segment, but the overall market share remains quite insignificant (van Berkum, 2007).

As the table 4 shows the top 10 of the food processing companies in Russia in 2005 included such foreigners as Baltika Brewery (Denmark, Scotland), Sun Brewery (India), Mars (USA) and Coca Cola (USA). Danone became active in the Russian market in the early 1990s. Fermented milk products have always been popular and in great demand in Russia. The first Danone store opened in Moscow in 1992 and

became popular very quickly. In 1994, the Danone Group bought the controlling stake of the Bolshevik company, one of the oldest Russian confectionery plants with the production capacity of about 30 thousand tons per year. In May 1995 the first Danone dairy plant in Togliatti began producing Danone yogurt.

Campina Melkunie, a large farmer-owned Dutch cooperative specializing in dairy products, began importing long-shelf-life yogurt into Russia through a subsidiary in 1992. Campina's share of the Russian yogurt market quickly grew to greater than 50%, but the Russian financial crisis of August 1998 caused the currency to plummet, making imported dairy products too expensive for the average consumer. The market for those products dramatically declined almost overnight. To retain market share, Campina accelerated its early plans to produce yogurt and other dairy products 100% locally in Russia in order to maintain its brand and take advantage of the market opportunity left by the reduction in foreign imports.

Table 1

The top 10 food processors in Russia in 2008

№	Processor	Product types	Russian vs. foreign ownership	Sales, billion Rubles
1	Baltika Brewery	Beer	Denmark, Scotland	92.48
2	Nestle Russia	Chocolate, snack food	Schwitzerland	47.47
3	Unimilk	Dairy products	Russia	40.11
4	SunInbev	Beer	Belgium	39.63
5	Coca Cola HBC	Soft Drinks	USA	38.06
6	Mars	Chocolate, snack food	USA	37.42
7	PepsiCo Holding	Soft Drinks	USA	37.00
8	Razgulyai-Ukrros Holding	Sugar, Grain	Russia	36.40
9	Grain Company Nastyusha	Grain	Russia	31.53
10	United Confectionery	Confectionery, snack food	Russia	29.00

Source: Rating (2009).

Another tendency in the food industry is consolidation of assets: major companies of the sector tend to acquire the smaller players. For retailers however the big target group remains the agricultural enterprises, because it is easier for them to adjust to new quality and production requirements of international retailers. However, lack of large-scale wholesaler means that retailers are forced to rely on many small suppliers.

Changes in the food-processing sector have a positive impact on the agricultural sector in Russia pushing the need of producing more raw materials for further processing. However, the current status of the agriculture in Russia is far from meeting demand for raw materials in the local food-processing sector. Due to the fact

that the import of goods by foreign companies is complicated by the existing tax and customs regulations in Russia, international supermarket chains are forced to use locally produced resources and goods.

2.2. Food Retail Sector in Ukraine

On the basis of the level of development of the modern Western-style retailers, Dries et al. (2004) define "three waves" of retail internationalization. Specifically, Dries et al. (2004) describe the process of retail internationalization in the CEEC by referring to the concept of "retail waves" that gradually "cover" a group of several countries. They characterize the first-wave countries as those wherein the supermarket sector went from a tiny niche of around 5% of food retail in the mid-1990s to 40% to 50% by the mid-2000s. Examples are Hungary, Poland, and the Czech Republic. As the second-wave countries, they define countries wherein the sector grew to a share of 20% to 30%. Examples are Bulgaria and Croatia. The third-wave countries are those wherein the share was still at a "luxury" niche of 5% in the mid-2000s. Examples are Russia and Ukraine. Despite the "third-wave" countries demonstrate the lowest level of market penetration by foreign retailers, the process of verticalization is clearly observed as an outcome of retail internationalization in the third-wave countries.

Ukrainian retail has undergone an outstanding upturn in the last years; owing to the increase of the populations' incomes and consumers' accumulated needs. The annual growth rate of the retail turnover accounted for 120% to 130% in 2003–2007 (State Statistics Committee of Ukraine, 2008). As the highest purchasing power is concentrated in big cities and urbanized regions, the capital Kyiv and the four oblasts of Donetsk, Dnepropetrovsk, Odessa, and Lvov account for about 50% of the retail turnover (Kyiv itself is the most important trade center, with almost 20% of total retail turnover of the country). These areas accordingly display the highest level of the development of modern retail formats (cash & carry, hypermarkets, supermarkets, and the like). For example, in Kyiv, there are about 15 companies operating in these formats; Dnepropetrovsk is represented by about 10 such companies; and Donetsk, Lvov, and Odessa by 3 to 5. Yet, despite the ongoing modernization, old trade forms (e.g., private kiosks, mobile traders, markets, bazaars) still prevail in the structure of the Ukrainian retail trade (ZMP, 2006).

Besides domestic retailers, international retailers are also active in Ukraine. In the retail sector, the internationalization process is marked by the presence of such multinational players as Metro's Cash & Carry and Real (Germany), Rewe Billa (Germany), Auchan (France), and Perekrestok (Russia, former SPAR Ukraine). However, among international companies, only Metro and Auchan attained a stable success in the last years.

Alongside big national retailers, multinational companies gradually contribute to the development of modern forms of retailing or the so-called "organized retail" (ZMP, 2006). In the structure of turnover by modern retail formats, the share of discounters is 32.0%, supermarkets, 45.5%, and other formats, 22.5%. Overall, the share of organized

retail accounted for about 15% of total retail turnover in 2007, with an increasing tendency. Of these, almost 60% belong to the top five retailers (Retail Studio, 2008). It is reasonable to expect that in the next few years, the concentration of the sector will deepen. Whereas big chains still grow through opening new outlets, there is also a room for merger and acquisition activities. Furthermore, international enterprises are planning to enter the market or expand their current presence (ZMP, 2006).

Table 2

Top 10 in food retail in Ukraine, 2007

Company/Group	Turnover, $ Mio.	Main office	Country of origin
Fozzy	1 500	Kyiv	Ukraine
Metro	1 202	Kyiv	Germany
ATB-Market	1 056	Dnepropetrovsk	Ukraine
Furshet/Auchan	871	Kyiv	Ukraine/France
Velyka Kyshenia	556	Kyiv	Ukraine
Amstor	555	Donetsk	Ukraine
LIA	294	Luhansk	Ukraine
Tavria	286	Odessa	Ukraine
Pakko Holding	235	Lutsk	Ukraine
Rewe Billa	222	Kyiv	Germany

Source: Retail Studio (2008).

Thus, the competition in the sector is intensively increasing and displaying different strategies the retail companies employ to deal with the competitors. Though national players continue to compete mainly through expanding to regions with the use of their knowledge of local specifics, international ones find their own business models as an important prerequisite of successful competition. Particularly, they use their capabilities for retail branding and global sourcing. In the process of competition, retail-branding activities yield some positive outcomes, including brand awareness and quality of products. However, national retailers successfully use imitating strategies with regard to branding. Some forecasts claimed that totally the biggest players of the Ukrainian retail will sell about 25% of products under their own brands in 2010. The actual share is yet at the level of 11%, although some local retailers sell about 30% of products under their own brands. The use of global sources by multinational retailers is less pronounced, indicating the ability of local suppliers to catch up and comply with the retailers' least requirements. For example, about 90% of the Metro's assortment is supplied by local producers, distributors, and importers.

Because retailers are responsible to end consumers for the quality and quantity of the needed products, they have to maintain undisrupted supplies and minimize the risk of scandals. This especially concerns the retail-branded and globally sourced products. Therefore, the arrangement of well-functioning cooperative supply chain networks is being undertaken by international retailers. Thus, the process of verticalization is in action. In particular, this process is evident in the agri-food business wherein the products with short life span are developed.

3. Influence of Foreign Direct Investments on Management Practises in Russian and Ukrainian Agri-food Business

3.1. Foreign Direct Investment

FDI into transition economies is seen in a positive light in the literature. Bevan and Estrin (2004) mention that FDI may facilitate growth, promote technical innovation, and accelerate enterprise restructuring in addition to providing capital account relief. FDI is assumed to play a crucial role in economic restructuring and enhancing growth in the Central European transition countries (Barrell and Holland, 2000; Hooley, 1998). Damijan (2003) state that FDI provides probably the most important and cheapest channel of direct technology transfer to developing countries and serves as an important source of intra-industry spillovers to local firms without foreign participation.. There are several studies that offer empirical proof on the importance of FDI flows for economic growth in developing countries (Aitken and Harrison, 1997; Blomström and Sjöholm, 1999; Borensztein et al., 1998). Broadman and Recanatini (2001) call FDI an important engine of growth. They continue to state that FDI provides a package of financial capital, technology, managerial skills, information, and goods and services that can make an economy more competitive in the world marketplace, promoting growth and reducing poverty.

There seems to be considerable evidence about the positive impact of FDI on managerial techniques in the host country. According to Bergsman et al. (2000) FDI brings not only capital, productive facilities, and technology transfers, but also employment, new job skills and management expertise. Yudaeva et al. (2000) asserts that it is supposed to be easier for domestic firms to copy technologies of foreign-owned firms located nearby than trying to reproduce a technology used in manufacturing imported goods. She calls this phenomenon “a potential spin-off” of western managerial techniques. According to her there was no business culture in the Western sense of the word, therefore, foreign-owned firms serve as an example for domestic firms of how managers should behave.

As Dyker (2000) points out FDI transfer not only ‘hard’ technology (process and product technology), but also ‚soft’ technology (managerial concepts). He states that investing companies have to impose their own corporate organisational structures on subsidiaries or partners. Those organisational structures are based on the disposition of hierarchies, lines of responsibility, the use of intra-firm e-mail systems, etc. Even if an investing company did not want its management technology to be transferred, it would not be able to stop it. The implication is that, even where there is no soft technology gap as such, soft technology will be transferred in the course of FDI.

FDI in Russia started in 1987 (Kadochnikov, 2004). The economic reforms of the late 1980s permitted limited foreign investment in the Soviet Union. The first joint-venture law from June 1987 restricted foreign ownership to 49% of the venture and required that Soviet administrators fill the positions of chairman and general manager. By 1991, however, the Soviet government allowed foreign entities 100% ownership of subsidiaries in Russia.

In 1995, there were two big investments in food processing industry - the Mars factory at Stupino (Moscow region) and Coca-Cola plant in Stavropol (Krasnodar region) with a total value of 150 million USD (Dyker, 1999). In 1995 the total FDI flow in food processing was 250 million USD. This figure more than doubled in 1996, but experienced a decline in 1997. In 1998 the equivalent figure was more than doubled from 506 million USD to no less than 1192 million USD.

In 1998, the food industry had a predominant position in the Russian FDI inflow: more than one third of the overall foreign direct investment took place in that branch. In 1999-2003 there was a decline in investment flows - in 2003 this figures accounted only for 345 million USD. In 2000, the food industry received about 18,5% of all FDI, but in 2003 the equivalent figure was only just over 5%.

The first FDI in the retail sector in Russia were made by Migros Turk (Turkey) in 1997. Other major foreign retailers such as SPAR, Metro and Auchan started their investments after 1998. Edeka made its first investment in 2003. Most FDI has flown into the retail sector of the capital but Metro is also a major player on the Saint-Petersburg retail market. In 2003, sales of these foreign owned retail chains accounted for 36% of the supermarket sector in Moscow, and for 19% of the supermarket sector in Saint Petersburg (FAO, 2005).

According to Dries and Swinnen (2004) the spread of foreign retailers takes place in three waves of and Russia belongs to “third wave” countries, where it really started in 2002, and is growing very rapidly now (Reardon and Swinnen, 2004). The reasons for such waves were the economic development state and saturation of the markets, in which the retailers expanded. There are also waves observed within the country. This phenomenon is called “diffusion over space within a country” by Reardon and Berdegué (2005). The first wave was directed toward Moscow and St. Petersburg – two biggest cities in Russia. During the second wave retailers occupied the other 12 cities of Russia with the population of about a million such as Novosibirsk, Nizhniy Novgorod, etc. The third wave covers smaller cities, where the saturation of the second wave cities makes the retailers search for other places where they can situate their outlets (Dries et al., 2004).

According to Swinnen et al. (2006) FDI has resulted from several company strategies: to serve the local market when trade constraints limit imports, to use the domestic economy advantages for exporting to the home market of the foreign company or to third markets, etc. Nowadays there is a strong competition observed in Russian food sector among the foreign owned food processors operating there and the large domestic processors like Wimm Bill Dann. This is especially true for the regions of Moscow and St-Petersburg.

3.2. Soviet Management Style

When entering Russia and Ukraine many foreign companies encountered problems apart from high entry barriers in the form of complicated title registration procedures, unreliable quality of supplied products, a lack of production know-how and financing for farmers, supply chains characterized by distrust and absence of professionalism (Sheresheva and Tretyak, 2004) with the Soviet management style,

because it was so different from the Western management practices. Russian and Ukrainian companies got the heritage from the Soviet system which were characterized by dominant leaders making decisions in functionally incomplete organizations (lacking, for example, sales and marketing departments or modern finance departments), which lacked competitive knowledge and skills (Fey and Mills, 2007).

A number of authors have underlined this point and stated that Russian and Ukrainian environment is very complex and that the Soviet culture is significantly different from Western cultures. Arino et al. (1997) points out that there are two main sources of differences between Russian and western management styles, operational and cultural differences, with the cultural having a key impact on the operational. Russians differ from Westerners not merely in terms of culture (Hofstede, 1993), but also in the economic, political (Rosten, 1991), ideological, religious, and social systems (Michailova, 2000).

One important source of difference is the economic system of the Soviet state. In planned economies the behavior of managers was absolutely different from that in market economies. Under the Soviet system the state controlled almost everything. The state determined what was to be produced, how much, for what price, and by whom and allocated capital, raw materials and supplies, and labor. Managers were required to meet plan targets instead of maximizing the firms' profits. This had an impact on the way management was done in Russia and served as a source for wrong incentives for managers (Kadochnikov, 2004).

To western managers a company's purpose was to provide some good or service and, in so doing, to make some profit. In the Soviet world and prior to the recent changes, the purpose of a company was to serve a centralized and planned economy by complying with some production standards (Yakovlev and Kokorev, 1995). Managers were only responsible for fulfilling production plans, and did not care whether the goods being produced were useful, required or even wanted.

Taking into consideration the fact that Soviet managers were often severely punished for making mistakes, managers became afraid of taking initiative and making their own decisions and offering solutions to the problems (Arino et al., 1997). Even minor decisions were passed up the chain of command to become the responsibility of senior managers (Fey and Mills, 2007). As a result senior managers were overwhelmed with work and middle managers did not develop decision-making capabilities, while ordinary workers had their ambition and initiative denigrated (Michailova, 2000).

Some of the examples of such behaviour are described in the study of (Arino et al., 1997). He shows that workers in the production line did not want to take responsibility for fixing problems in the line or that the general manager's driver had difficulty to decide whether to fill the car with gas. Another example is looking for instructions even in the simplest situations, such as which colour telephones they should order (Shekshnia, 1994).

Traditional Russian and Ukrainian companies did not seem to be customer oriented. If customers experience a problem with a product just purchased, they must often solve the problem themselves (Fey, 1995). Therefore, the marketing strategy

used is different from that of the Western companies, which aim at understanding the consumer needs and finding ways to attract customers and develop their loyalty. Instead, Soviet managers were loyal to the boss, whose personal approval they regard as a decisive factor for their well-being in the company, far more important than their own performance. For example, Russian employees almost never confronted their bosses or even openly questioning their opinions (Puffer, 1994).

Culture and mentality of the Soviet managers were the reasons why Westerners and Soviets often saw the same things differently. For example, unlike Westerners, many Russian managers don't understand whom they work for. The concept of corporate ownership was totally foreign to them (Shekshnia, 1994). Russians thought that since the joint venture does not belong to the state, they can run it any way they want, e.g. raise their salaries, extend benefits, reduce working hours, etc. This vision was quite different from the one of Western partners.

Widely-spread among Russian managers was the opinion that business is something not legal or ethical, thus, all means of doing it were justifiable. Unlike their Western counterparts Russian managers have very vague ideas about the concepts of honesty, bribery, proprietorial information, etc. (Shekshnia, 1994). Such differences in management accounted for another source of misunderstanding and potential conflicts.

There are also some cultural specifics in the way the communication functions in Soviet firms. Traditionally, Russian companies have been very good with vertical information flow, yet the horizontal flow of information from one department to another has traditionally been difficult (Fey, 1995). For example, it is very common to leave a telephone message for someone and not have the call returned for three or four days if at all. In the West this situation would simply be unacceptable. Further, much time and effort are required to obtain information. Russians do not seem to feel the time pressure or to be diligent in taking steps to achieve that goal (Arino et al., 1997).

Therefore, there were extreme differences in culture, value systems, working habits and communication in the management approached used by soviet people and foreigners. Particular areas in which business practices differed included price setting, investment policies, cost analysis and control, quality control, and understanding the organizational structure (Arino et al., 1997). Other characteristics of Russian workers which have been observed by researchers include – difficulty in managing change proactively (Fey and Denison, 2003); a lack of absorptive capacity (Husted and Michailova, 2002); a tendency to be obedient, passive, and inclined to respond to authority (Ivancevich et al., 1992); and a preference to withhold opinions (Michailova, 2000).

3.3. FDI influence on Management

International retailers, trying to bring their established supplier relationships with them to Russia, are forced to start working with local suppliers due to the existing tax and customs regulations in Russia, which complicate the import of goods by foreign companies. Therefore, the international retailers are forced to use locally produced resources and goods. Because most retailers are forced to work with local

suppliers they try to introduce their business models in their work with local suppliers, which proved to be successful in their home countries.

Since the market influence of retailers steadily increases and their requirement standards for suppliers become more and more rigid in terms of quality and price, small and medium sized local agricultural producers have to comply with the new standards in order to stay in the supply chain, which puts pressure on them due to their poor financial condition. Since processors often had severe problems in obtaining sufficient quality of supplies, and since farmers may not deliver the quality or quantity agreed to, food processing companies, often as part of their own restructuring, started contracting with the farms and provide inputs in return for guaranteed and quality supplies. Therefore, one can conclude that such interactions with farmers change their old business approaches formed under the Soviet system. Agricultural producers get more adapted to the new management techniques and learn about the way to do business from foreign companies.

Furthermore, when retailers enter a new country they often take some of their 'home'-suppliers abroad. Therefore, the majority of suppliers of the international retailers are Russian. However, one can also observe that retailers are trying to bring their established supplier relationships with them to new countries. Thus, foreign food processors are establishing plants in Russia to produce international brands as well as the retailers' own brands.

For example, when Metro entered Russia, Hochland AG followed and built a dairy planet near Moscow. In fact, Hochland Russland was the first West European cheese manufacturer to establish a factory in Russia. Hochland began in September 2000 with processed cheese in small boxes, expanding in 2001 to manufacture processed cheese slices at its new facility in the Moscow region. In November 2003 Hochland put its own newly constructed plant into operation in Raos near Moscow. Hochland AG was initially protected; however, over the course of time, as local producers started to reach equal (chain) quality and process management standards, Hochland AG has become 'normal competition' with the local Russian suppliers.

Another example is the Dutch company Campina. When Campina built a processing plant and entered the local Russian dairy-production market in 1998, it faced a number of significant obstacles, including an unstable supply of low-quality raw milk, a lack of production know-how, lack of financing for farmers, and a supply chain characterized by distrust. In the first few years, Campina continued to import dairy products to keep up with consumer demand. Then, by supporting and investing and implementing 'Western' quality management approaches, the company increased local supplies of high-quality milk and overcame these initial obstacles.

There is also a tendency that Russian and Ukrainian processors copy Western business principles introduced by foreign companies. This fact is mirrored in the following example shown in the study of Swinnen et al. (2006). They describe a triangular structure in the collaboration between the dairy processor Wimm Bill Dann and the Swedish dairy equipment seller De Laval in the region of Nischnyj-Nowgorod. Since dairy farmers have to modernize and upgrade their equipment, but

only a few have the financial resources to do so, the dairy processor Wimm Bill Dann introduced a program, which allows dairy farms to lease milking equipment.

International retailers such as Metro and Auchan successfully operating in Russia and Ukraine have also imposed their management models in Russia. For example, Metro has already established its supplier portal (LZ, 2007) and all of the elements of the 'western' supply and quality chain management with all of their suppliers in Russia. This means that local suppliers must be willing to accept that Metro is the "chain captain" that sets the process standards throughout the whole supply chain. The Russian X5 Retail Group tends to copy the business model of its foreign rivals. For example, the strategy of X5 Retail Group includes optimizing regional supermarkets portfolio, rationalizing assortment, enhancing quality and freshness of products, facilitating promotion activities, enhancing private label sales and improving service, which indicates that this Russian retailer is also working according to modern management concepts.

There seems to be an impact of foreign retailers also on how local food processors conduct their management. For example, interviews with dairy companies conducted by Swinnen et al. (2006) indicate that dairies have substantially diversified their product range as a result of demands and opportunities at the retail level. Furthermore, dairy companies that used to be limited to selling their products locally are now distributing nation-wide through the retail sector. Since the spread of the major retail chains to the provinces happened before modern dairy investments, in these regions it is the retailers that are the frontrunners and who are driving the changes.

Furthermore, foreign and local companies widely use brands. The development of branded products normally leads to formation of well-organized supply chain networks (Hanf and Hanf, 2007). Because modern chain management (both supply chain and quality management) demands significant investment in IT and technology infrastructure, only a minority of local suppliers will be able to remain in the chain in the medium and long term. However, this development also demands that retailers and processors must motivate its local suppliers to comply with its rules and standards. Incentives for the cooperation can include an opportunity for both international and national growth, the prompt payment for the supplied goods, reputation, etc. Additionally, retailers must work out mechanisms to coordinate its suppliers. In this case, the long distances combined with bad road infrastructure are major challenges.

4. Summary and Conclusions

Russia and Ukraine represent the largest and fastest growing retail market opportunity among the Central and Eastern European economies. Economic growth combined with the remarkable spending habits of the Russian and Ukrainian consumer creates opportunities for the successful retail development in the country. Combined with the sensible fiscal and monetary management of economy, has made these countries quite attractive to foreign investors. Rapid growth of the food industry has

stirred up active investments into the food sector. Besides, growth of consumer spending and food consumption in Russia and Ukraine has further fuelled investments into the food processing industry and retailing. International retailers and food processors have accelerated their activity in these countries being influenced by the trends of internationalization. The success of foreign owned retailers and manufacturers in Russia and Ukraine is mirrored by the fact that such companies as Metro and Auchan are powerful market leaders.

Foreign retailers and manufacturers are exporting their business strategies and concepts getting supplied not only by their home suppliers, but by local companies as well, which renders influence on the development of supply chain management. One can observe that FDI influence supply chain management at all stages of the chain. Foreign retailers introduce their new procurement and management concepts while working with food processors, as well as directly with producers in case of fresh produce (fruits and vegetables). Food processing companies impose their management concepts on local producers and motivate them to improve the quality of the supplies. At the same time a lot of local retailers and processors begin to copy the management strategy of foreign companies, so there is a spill-over effect on management.

Since it is essential for Western companies (retailer, processors, etc.) to stick to their original business models (e.g. chain and quality management) when entering Russia (Roberts, 2005), in the long run, they expect their suppliers to meet the retailers' global requirements for food quality and safety as well as delivery terms. Therefore, products must be produced according to the global quality standards of the retailers and they are mostly positioned in the lower price segments. Because these suppliers are currently forced to produce according to the private (global) standards, they have the opportunity to supply not only the local markets but also the global market. Thus, the role of FDI for the national agri-food business in Russia and Ukraine is growing. The foreign enterprises employ their own business concepts to gain competitive advantage over the local firms. To compete with the foreign companies successfully, local firms use imitating strategies and their knowledge of local situation.

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