

Möllering, Guido; Stache, Florian

**Working Paper**

## German-Ukrainian business relationships: Trust development in the face of institutional uncertainty and cultural differences

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MAX PLANCK INSTITUTE FOR THE STUDY OF SOCIETIES



MPIfG Discussion Paper 07/11

**German–Ukrainian Business Relationships**

Trust Development in the Face of Institutional Uncertainty  
and Cultural Differences

Guido Möllering and Florian Stache



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Guido Möllering is a researcher at the Max Planck Institute for the Study of Societies. Florian Stache works as a consultant in a German-Russian joint venture. He was a visiting researcher at the MPIfG in September 2006.

moellering@mpifg.de  
stache@terminal-smolensk.com

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Max-Planck-Institut für Gesellschaftsforschung  
Max Planck Institute for the Study of Societies  
Paulstr. 3 | 50676 Cologne | Germany

Tel. +49 221 2767-0  
Fax +49 221 2767-555

[www.mpifg.de](http://www.mpifg.de)  
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## **Abstract**

The paper examines cultural differences and institutional uncertainty as important factors in the development of trust as a basis for successful international business relationships. The authors focus their investigation on the potential that actors have in becoming aware of and creatively responding to institutional contexts, cultural differences and the challenge of trust development. Empirically, the authors look at German–Ukrainian business relationships and draw on a qualitative analysis of field interviews conducted at the time of the so-called “Orange Revolution.” They conclude overall that the trust dilemma in international business relationships can be overcome through reflexivity and creativity, and they give many practical examples of what this means.

## **Zusammenfassung**

Der Beitrag untersucht, inwiefern kulturelle Unterschiede und institutionelle Unsicherheit wichtige Faktoren bei der Entwicklung von Vertrauen als Grundlage für erfolgreiche internationale Geschäftsbeziehungen sind. Die Autoren betrachten insbesondere die Möglichkeiten der Akteure, sich der institutionellen Kontexte, kulturellen Unterschiede und Herausforderungen des Vertrauensaufbaus bewusst zu werden und kreativ darauf zu reagieren. Als empirische Basis dieser Studie dienen deutsch-ukrainische Geschäftsbeziehungen. Die Autoren nehmen eine qualitative Analyse von Interviews vor, die zur Zeit der „Orangen Revolution“ geführt wurden. Die allgemeine Schlussfolgerung des Beitrags, dass das Vertrauensdilemma in internationalen Geschäftsbeziehungen durch Reflexivität und Kreativität überwunden werden kann, wird mit vielen praktischen Beispielen illustriert.

## Contents

1	Introduction	5
2	Research questions and conceptual foundations	9
	Defining and achieving successful business relationships	9
	The role of trust in promoting relationship success	10
	Conceptualizing trust in the context of this study	11
	Autological perspective on cultural differences and trust development	12
	Trust development and reflexivity towards the institutional context	14
3	Data collection and analysis	15
4	Empirical findings	19
	The role of trust in an uncertain institutional context	19
	The cultural specificity of trust building	21
	Active trust development and increasing stability	22
	Partner selection: Managerial cultures within national culture	23
	Dealing with cultural differences as part of active trust development	25
	Trust beyond good reasons?	31
	Trust and success	32
	A note of caution	34
5	Discussion and conclusions	35
	References	39

## 1 Introduction

Saint Ambrose's fourth-century advice of "When in Rome, do as the Romans do" wrongly suggests that successful cross-cultural interaction is easy. Apart from the possibility that the superficial imitation of the locals may not always be wise at all, you may actually first have to get to know the Romans, get them to get to know you, and get to know yourself. And then you have to be open, look for common goals and set up common rules that work best in the given context. We address this broad issue in this paper by reference to international business relationships between German and Ukrainian firms. Many German firms that are genuinely interested in investing in Ukraine or starting business relationships with Ukrainian partners do not get very far and abandon their plans even before they are able to judge how economically attractive they would have been. Similarly, many Ukrainian firms like the idea of doing business with German partners but hold back after initial contacts. There are all sorts of individual business reasons why the initial interest can vanish quickly, but there are also more general cultural and institutional reasons why many promising German–Ukrainian ventures never get off the ground.

Consider this managing director of a German firm who, upon his return from a visit to Kiev, waits in vain for an answer from two Ukrainian firms that were identified as potential suppliers to him. He has been in contact briefly with these firms during his visit and he has sent them a letter with samples of the products he is interested in buying from them and enquiring about their prices. Why do the Ukrainians not reply?

Actually, it was one of the authors of this paper, Florian Stache, who had organized the trip to Kiev in January 2005 for the German firm in question, which makes technical textiles mainly for the automotive, railway and aerospace industries. It is seeking to enter new markets and source standard inputs at lower costs in Ukraine. Florian had visited the two Ukrainian firms before, and at least one of them looked like a very promising partner for the German firm. The German manager went to a trade fair with Florian, where he met lower ranking representatives from the two Ukrainian firms. With the first one, after a short chat to a female sales manager, the German manager left his business card and asked about conditions and prices for the specific product he was interested in. With the second one, he just left a request for samples and for a price list to be sent to him.

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Contrary to Florian's advice, the German manager did not first make an appointment with either of the two Ukrainian firms' directors so they could all get to know each other, although it was known that the firms had virtually no experience of export business except for one relationship with a Russian customer dating still from Soviet times. Now, after the trip to Kiev and not receiving any reply, the German manager is unwilling to meet the Ukrainian directors a few months later. No German–Ukrainian business relationship will materialize in this case. Perhaps it was simply not interesting enough for them, but based on our own observations this is not the main explanation because it did not even get to a stage where the parties could judge how attractive a deal might have been. There was genuine business interest and potential on both sides, but in starting a relationship the firms followed different culturally shaped strategies of action without understanding the other side. Why did the German manager not accept that in Ukraine you need to get to know each other before you do business? Why did the Ukrainian managers not see that you cannot get orders from a German company if you do not even answer a simple request for samples and prices? Why did they both apparently fail to take into account the other's culture of entering into new business relationships?

With cases such as the above in mind, we contribute in this paper to the literature on the dilemma faced in cross-cultural business relationships when trust is regarded as particularly important and, at the same time, particularly difficult to achieve (see also Kühlmann 2005; Zaheer/Zaheer 2006). In these relationships, cultural differences threaten to erode fundamental bases for trust, which actually heightens the sense of uncertainty and vulnerability that trust is supposed to suspend (Ayios 2004; Child 1998). Culture implies familiarity and supports trust insofar as "trust is only possible within a familiar world" (Luhmann 1979: 20). In unfamiliar situations, by definition, actors do not know what they can take for granted (Schütz 1970); they struggle to form expectations and often tend to be wary. A lack of trust may jeopardize successful cross-cultural business relationships, because the positive expectations and willingness to be vulnerable associated with trust (Rousseau et al. 1998) are required even more when working with partners whom, for cultural or other reasons, one cannot effectively control or not even comprehend.

Slanted more positively, when the actors involved in a cross-cultural business relationship manage to deal with cultural differences in a reflexive and constructive manner, this should enhance the development of trust in the relationship and lead to better performance (Child 1998). As in other areas of business, the more difficult a challenge, such as cultural differences and trust building, the more it represents an opportunity to gain competitive advantage for those who can meet the challenge over those who cannot. Moreover, when partners are able to deal with "trouble," such as cultural misunderstandings, in a proactive and constructive way, this can actually strengthen their trust (Six 2005). In the study reported here, we explore how it is possible to develop trust in cross-cultural business relationships in the face of cultural differences.

Analysing culture and cultural differences, we follow Swidler (1986) who argues that cultures and the differences between them are best understood in terms of the specific habits, skills and styles that people use, like a “tool kit,” in constructing “strategies of action.” The unfamiliarity that is so typical of cross-cultural encounters is mainly due to the different tool kits for action that the parties have at their disposal. Older conceptualizations, mostly building on Weber or Parsons, emphasized that culture carries the values that define the ends of interest-driven action. This may still be the case to some extent, but values are actually not always that different across cultures and they do not predict individual behaviour very well either. For example, managers from different cultures are most likely to value honesty and fairness and do not differ very much in this respect. Even if the exact meaning of honesty and fairness is not identical, they can find much common ground in these values across their cultures. However, not least because the meanings implied are not fully identical and some variety is left, managers from different cultures have different, culture-specific repertoires for signalling their willingness to be honest and fair. In one culture this may entail paying a personal visit; in another culture it may involve sharing confidential information. We assume that cross-cultural problems often result from difficulties in understanding signals rather than from incommensurable underlying values (see also Branzei et al. 2007). It follows that actors need to be able to interpret the other’s action correctly, which invokes another popular conceptualization of culture as a shared meaning system (Geertz 1973). Meanings organize the cultural repertoire and indicate how it can be used, while values direct how it should be used. Hence, in empirical encounters, cultural differences need to be looked at first of all in terms of strategies of action which are created from learned skills, with values and meanings in the background. Neither values nor meanings nor action strategies are universal across cultures. Nor is there a universal guide to which action has a particular meaning implying a particular value. The challenge in cross-cultural encounters is to find common values behind very different repertoires (e.g. forms of hospitality) and to sense when value conflicts are obscured by seemingly identical actions (e.g. signing a contract).

When a cross-cultural business relationship is formed in practice, the parties involved do not only bring their own culture-specific strategies of action to the table, as it were, but their interactions are also embedded in an institutional context. It may not be clear to all parties what exactly this institutional context entails for them. Uncertainty in this regard has many sources which boil down to a lack of knowledge and/or agreement with regard to which rules, roles and routines can be taken for granted and which rights and obligations will be upheld. Such a lack of knowledge and/or agreement may not only be a subjective problem of the parties concerning a specific business relationship; it may exist “objectively” when larger institutional frameworks are significantly absent, failing or changing for whatever reason. In as much as institutions are a source of trust (Zucker 1986), an uncertain institutional context will generally impede trust in business relationships and may have to be compensated for by other ways of trust development (Child/Möllering 2003; Radaev 2005).



In this paper, we are interested in both cultural differences and institutional uncertainty as important factors in the development of trust as a basis for successful business relationships. We look primarily at how national, rather than organizational, cultures and institutions are relevant for organizations that work across national borders. This is not to deny that issues of organizational culture and the institutionalization of organizations are relevant in inter-firm relations, too. Problems (and opportunities) may occur, for example, not just because one firm is Ukrainian and the other German and their exchanges take place in Ukraine or Germany, but also because one is a small, loosely structured service firm while the other is a big hierarchical manufacturing firm.

We investigate the potential that actors have in becoming aware of and creatively responding to institutional contexts, cultural differences and the challenge of trust development. Adair and Brett (2005) argue that we need to take a closer look at what actors actually do in cross-cultural negotiations, and they show that in successful negotiations actors use communicative flexibility to overcome cultural distance (Hall 1976). Swidler's (1986) concept of culture as a repertoire for action strategies equally suggests that reflexive actors are not "cultural dopes" (Garfinkel 1967) but can be very creative in how they use their cultural repertoires. Our emphasis on reflexivity is also in line with an increasingly recognised need for more in-depth qualitative and interpretative research in international business (Marschan-Piekkari/Welch 2004; Scheytt/Soin 2006). We seek to understand how managers can make sense of themselves and their surroundings and, crucially, how they can respond. What do they actually do when they need to build trust in the face of cultural differences and unfavourable institutions?

Empirically, we look at German–Ukrainian business relationships, where cultural differences and institutional uncertainty are salient. As already indicated at the beginning of this paper, an observation that triggered our research was that, with the Soviet Union's collapse and the transformation of its former member states, relatively few German firms established subsidiaries in Ukraine or relationships with Ukrainian business partners – and even fewer did so successfully – although Ukraine appears to be a relatively attractive country for internationalization due to its low labour costs, favourable supply of raw materials, good level of education, great market potential, and reasonable geographical and political proximity to Germany and, more generally, the European Union (Kohlert 2006; Meyer 2006; Ögütçü/Kinach 2002; UNCTAD 2005).

Experts point out the institutional uncertainty in Ukraine as marked by political instability, arbitrary red tape, obscure corruption networks and so on (Akimova/Schwödi-auer 2005; Meyer 2006; Ögütçü/Kinach 2002). These problems do not only put foreign investors off; they also upset the Ukrainian population and have contributed to large-scale protest and unrest culminating in the so-called Orange Revolution at the end of 2004. This "revolution" was sparked by election fraud when opposition leader Viktor Yushchenko's electoral triumph was denied and incumbent Prime Minister Viktor Yanukovich was officially declared the winner. Peacefully enforcing Yushchenko's eventual rise to power, the Orange Revolution has become a symbol for the ongoing dra-

matic societal transformations in Ukraine, characterised by the clash of a still powerful yet also decrepit and self-serving elite with a far more progressive and ambitious population (for details see, e.g., Karatnycky 2005). Such transformations, especially when the overall direction is favourable with an increasingly established market economy and WTO membership on the horizon, bring opportunities for foreign firms to build business relationships in the country.

However, institutional uncertainty, cultural differences and the difficulties in building trust are obstacles to successful cross-cultural business relationships (see also Ayios [2004] on the Western experience of doing business in Russia). Nevertheless, there are success stories of German–Ukrainian business ventures. Germany is Ukraine’s most important trade partner after Russia, German investors have pumped hundreds of millions of Euros into Ukraine, and major German firms (besides numerous smaller ones) have been operating in Ukraine for many years (Meyer 2006; Ukrainian Embassy 2007). In our research, we focus on these successful cases and analyse qualitative data from interviews with experienced experts and practitioners, who explain mainly from a managerial perspective what it needs to build successful German–Ukrainian business relationships – and what needs to be avoided. Through this research approach we find that it takes reflexivity, sensitivity and even curiosity, whereas checklists of generic “dos and don’ts” may be misleading because they suggest that managers can bypass the effort of getting to know their specific business partners and agreeing rules with them in the face of personal, cultural and economic differences.

In the next section of this paper, we introduce in more detail our main research questions and the conceptual foundations needed to address them. This is followed by a section on data collection and analysis, describing the qualitative methodology that we adopted. Next, we present our empirical findings and, finally, we discuss them with conclusions for further research in the last section of the paper.

## **2 Research questions and conceptual foundations**

### **Defining and achieving successful business relationships**

How can business relationships across national and cultural boundaries be successful? This is the overall question motivating the research presented here, which implies a first conceptual challenge: How to define relational performance? Generally speaking, performance is the extent to which outcomes meet objectives, but there is a huge variety of specific objectives and outcomes that are potentially relevant in international management research and practice. Objectives vary according to the respective firms’ mode and stage of internationalization (e.g. Root 1994; Stopford/Wells 1972) and the specific organizational form adopted internally and externally (e.g. Bartlett/Ghoshal 1989;

Contractor/Lorange 1988; Powell 1990; Williamson 1991). Moreover, different outcome measures can be used even for one form of relationship such as the international joint venture (Geringer/Hébert 1991) and the partners in such a joint venture often do not necessarily have congruent goals and consistent outcome preferences (Beamish/Delios 1997). Financial motives may contradict learning motives, not to mention competitive rent seeking and “outlearning” (Hamel 1991) where the partners’ pursuit of individual goals may jeopardize their joint relational performance.

The insights from this literature are highly instructive, but they also suggest that it is not a good idea to approach the field with narrow definitions or simple quantitative measures of performance. Instead, we assume that success is in the eye of the beholder and we assess German–Ukrainian business relationships by their own standards and aspirations. We also acknowledge that unsatisfactory performance in cross-cultural business ventures can be due to classical business reasons (for example, higher costs or lower sales than anticipated) which are not directly attributable to cross-cultural issues or a lack of trust.

### The role of trust in promoting relationship success

Even broader than the range of performance definitions is the range of possible antecedents. And the relentless quest for “success factors” is most evident in the international business literature (Peng 2004). We focus in this paper on trust as an antecedent to relationship success without claiming that trust is the only key to success or attempting to offer a complete model of relationship performance and its antecedents. A closer look at trust is justified because prior empirical research confirms the positive effect of trust (e.g. Dyer/Chu 2003; Sako 1998; Zaheer et al. 1998), even though causality may be hard to establish (Inkpen/Currall 1997; Möllering 2002) and a surfeit of trust may also lead to negative outcomes (e.g. Kern 1998; Wicks et al. 1999).

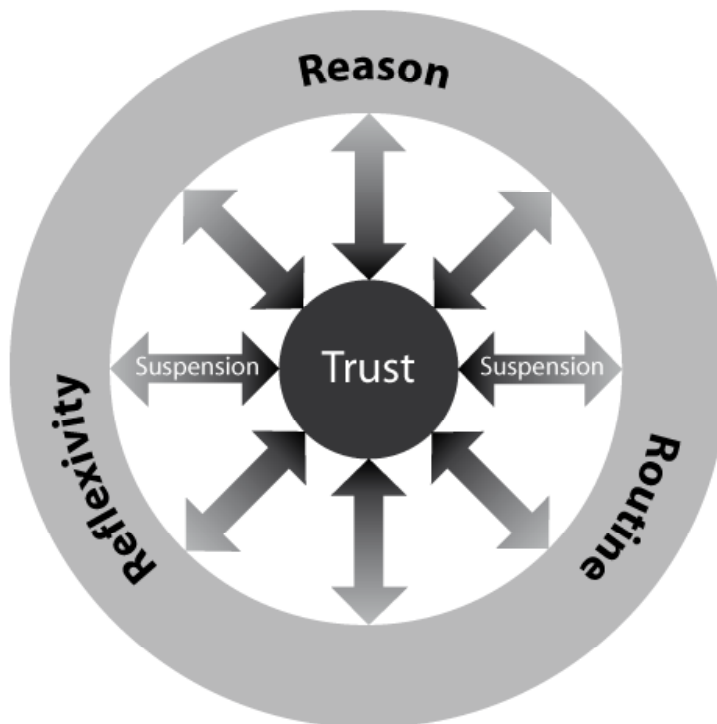
Hence, we assume that trust matters, but where does it come from? As mentioned in the introduction, cross-cultural business relationships such as the German–Ukrainian cases that we study are supposedly beset by a trust dilemma, whereby trust is regarded as particularly important and, at the same time, particularly difficult to achieve (Kühlmann 2005; Zaheer/Zaheer 2006). In response to this issue we investigate how it is possible to develop trust as a basis for successful cross-cultural business relationships in the face of cultural differences. We note that the literature is only moving slowly from static investigations of trust correlates to more dynamic analyses of trust development processes (Lewicki et al. 2006; Möllering 2006), although some key notions have been around for a long time such as the “principle of gradualness” (Luhmann 1979: 41), whereby trust is best built in small steps, often as a by-product of successful interaction (Elster 1983), but also actively worked on (Giddens 1994). Hence, our empirical study is designed to improve our understanding of trust *development* in cross-cultural business relationships.

### Conceptualizing trust in the context of this study

In analyzing trust development, we build on the rich interdisciplinary literature captured in integrative prior research (Möllering 2006) and we work with the following definition of trust: “Trust is an ongoing process of building on reason, routine and reflexivity, suspending irreducible social vulnerability and uncertainty as if they were favourably resolved, and maintaining thereby a state of favourable expectation towards the actions and intentions of more or less specific others” (p. 111, see also Figure 1).

In applying this concept of trust, we emphasize reflexivity and the possibility of *active* trust development (Child/Möllering 2003; Giddens 1994). In other words, inspired by Zand (1972), Luhmann (1979) and many others (Möllering 2006: 77–103), we investigate how trust can grow over time in German–Ukrainian business relationships through mutual experience and learning, which is of particular relevance when the initial conditions for a relationship are unfavourable, not least due to cultural differences. The crucial question will be how a process of trust development can be started in initial encounters and later maintained as the relationship matures (see also Lewicki et al. 2006; Williams 2007). This is complicated by the proposition that trust is a matter of will (James 1948; Luhmann 1979) but cannot be willed (Elster 1983, 1989; Simmel [1908]1950): it has to come “naturally.”

Figure 1 Concept of trust



Source: Möllering (2006: 110).

Reflexivity needs to be analysed, however, in connection with the other elements of the trust concept shown in Figure 1. Specifically, reflexive trust development is not disconnected from reason. Firms normally seek rational, albeit ultimately imperfect, grounds for the attractiveness of a relationship and the trustworthiness of the other parties. Moreover, they look for routines that they can draw on as generally accepted, taken-for-granted ways of engaging in business relationships, even if such routines may still fail. However, as argued strongly elsewhere (Möllering 2006), trust cannot be subsumed under reason or routine. Rather, it enables actors to go beyond the limits of reason and routine by “suspending” (Möllering 2001) uncertainty and vulnerability (in the Hegelian sense of *Aufheben*, see Hegel [1807]1973: 94), i.e. by making a leap of faith.

Our qualitative research is designed to capture trust development as a creative learning process that is driven by the actors themselves and enabled by leaps of faith but at the same time embedded in an economic, cultural and institutional context. We look for the “good reasons” that count in German–Ukrainian business relationships and try to understand how the parties involved deal with the uncertainty that remains. Most research on cross-cultural trust development still emphasizes the obstacles resulting from cross-cultural differences (e.g. Nes et al. 2007). We ask whether cross-cultural business relationships are not also formed in-between the cultures where they are partly disembedded from cultural constraints and, potentially, able to create new strategies of action drawing on a richer repertoire of cultural resources.

### Autological perspective on cultural differences and trust development

This brings us to the core of our study: the issue of cultural differences. International business relationships do not only cross national borders geographically (which already holds various technical implications for logistics and communication) but also culturally, which adds a special dimension to the management issues that are already relevant in domestic business relationships, such as resource dependence or transaction costs. This is why we focus on this special dimension in this paper. We have to find out from our interviews whether German and Ukrainian respondents regard cultural differences as a major issue or whether they see it as a minor issue in relation to the “strategic fit” and other more technical business issues that they also need to resolve (e.g. Child/Faulkner 1998; Geringer 1991; Porter/Fuller 1986).

Prior research on multinationals and international cooperation has shown very clearly that cultural differences in terms of national culture affect the way relationships are organized and also the performance they achieve (e.g. Geringer/Hébert 1991; Johnson et al. 1996; Shane 1994). For multinationals, Newman and Nollen (1996: 773) find that “business performance is better when management practices are congruent with national culture,” which includes the assumption and the conclusion that managers can

deal productively with cultural differences by adapting their practices – in the way that is known proverbially as “When in Rome, do as the Romans do.”

Moreover, research shows that cultural differences affect trust. Or, to be precise, it is argued that trust is culturally specific (Doney et al. 1998; Johnson/Cullen 2002). This comes out of comparative studies that show how the meaning and the strength of trust and the ways in which it is enacted vary across cultures (e.g. Burchell/Wilkinson 1997; Eisenstadt/Roniger 1984; Fox 1974; Fukuyama 1995; Sako 1992). Thus we might study trust in Ukraine on the one hand and trust in Germany on the other, compare them and attribute apparent differences to culture. This raises the question of whether trust is more difficult across cultures due to culturally specific and, therefore, partly divergent action strategies in relation to trust which may result in cross-cultural misunderstandings about what trusting and being trustworthy entails (Branzei et al. 2007). This is not trivial but the comparative approach may lead us to merely point out cultural sensitivity as a contributor to trust building (e.g. Johnson et al. 1996) without looking closer at the trust-building process itself and the presumed agency of actors towards culture (Swidler 1986).

With the research reported here we aim to go an important step further by adopting what we call an autological perspective on cultural differences. An autology is a self-reference of a concept to itself: thoughts about thoughts, the value of evaluation, hoping for hope and so on, which is not to be confused with tautology or infinite regress. Hence, it can be asked whether there are cultural differences in dealing with cultural differences and the first thing that comes to mind are culturally specific repertoires in the treatment of strangers, particularly foreigners. While hospitality may be broadly espoused as a value, cultures differ in the resources they hold for actors to develop skills that underpin their action strategies aimed at hospitality in cross-cultural encounters. And actors differ in their skilfulness in drawing on these resources according to differential access, exposure, experience, learning and so on.

As already mentioned, we adopt Swidler’s (1986) concept of culture as a tool kit for action strategies, which emphasizes variety and creativity on the part of actors as well as the habitual, rather than ontological or moral, quality of what we observe as cultural differences. Generalized cultural stereotypes (or survey-based classifications à la Hofstede 1980) are relevant to our research only when respondents refer to them in their cross-cultural interactions at the micro level. For example, Köhlmann (2005: 46) observes in some German–Mexican business relationships that “both parties act as if they try to contradict the assumed heterostereotype of the typical German or the typical Mexican. German business partners attach great importance to close, friendly relationships whereas their Mexican partners demonstrate competence, reliability and honesty.” In other words, both sides are not trapped in their own cultures but can adapt their action strategies drawing on cultural resources from the *other* culture by reference to the cultural stereotypes that they actually seek to leave behind. This also happens in success-

ful cross-cultural negotiations as studied by Adair and Brett (2005) who, however, see only one side (“high-context cultures” like Japan) adapting to the repertoire of the other side (“low-context cultures” like the U.S.) rather than cultural flexibility on both sides.

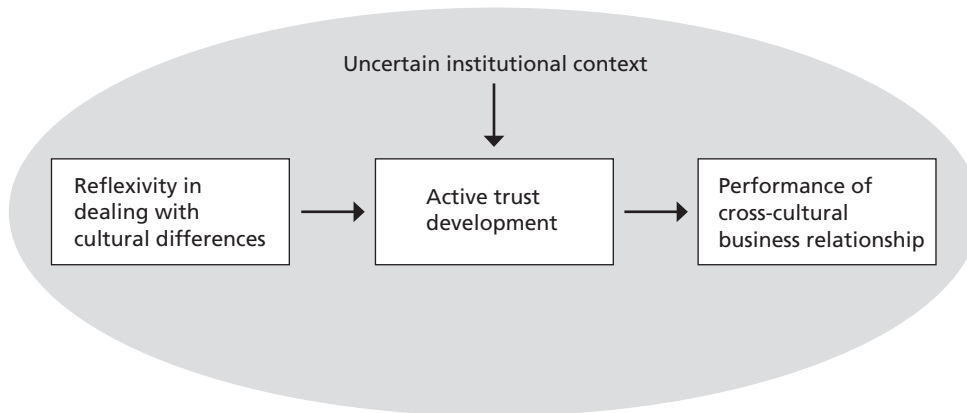
In this spirit, the autological perspective stands not only for an increased awareness of one’s own and the other’s cultural repertoire, but also for the actors’ capacity to respond to the mutual uncertainty that makes trust difficult (Ayios 2004; Child 1998; Kühlmann 2005). Hence, the most specific research question that we are interested in is whether reflexivity in dealing with cultural differences combined with reflexivity in trust development can resolve the trust dilemma in practice to make business relationships succeed.

### Trust development and reflexivity towards the institutional context

Our study pays particular attention to the fact that cross-cultural encounters and the relationships that grow from them are situated in an institutional context that may not be very stable and reliable (Child/Möllering 2003). According to Ayios (2004: 223) “in cross-cultural business at least, the institutional context in which business takes place is an absolutely key variable.” Ukraine is one of the transformation economies and societies in Eastern Europe, which implies a very dynamic institutional context (Akimova/Schwödiauer 2005; Ögütçü/Kinach 2002). The main part of our fieldwork took place at the time of the so-called Orange Revolution at the end of 2004 when, to say the least, the Ukrainian institutional framework was put into question and forced to change with no reliable prospect of what would come next. Moreover, German firms are used to a stable institutional framework at home, which does not apply in Ukraine. Hence, we ask whether a highly dynamic institutional context creates additional obstacles or, perhaps, opportunities in the process of dealing with cultural differences and developing trust in cross-cultural business relationships.

Conceptually, we follow the new institutionalism in organizational studies (Lane/Bachmann 1996; Powell/DiMaggio 1991; Zucker 1986) and note in particular that this literature is nowadays mainly concerned with issues of institutionalization, institutional change and institutional entrepreneurship which are particularly relevant to transformation economies (Child/Möllering 2003; Humphrey 1998). Zucker (1986) argues that trust can be based on institutions, especially between actors who have no history of prior interaction. Accordingly, new relationships between German and Ukrainian firms would benefit from a reliable institutional context, but this implies that they trust those institutions. Luhmann (1979), Shapiro (1987), Giddens (1990) and others have pointed out the importance of trust in institutions, as they are an object as well as a source of trust (Sydow 1998). If we find that most Ukrainians do not have trust in their own country’s institutions and the Germans or other foreigners do not trust Ukrainian institutions either, then it would appear that they need to build trust largely without the support of institutions or prior experience. Prior research suggests that they may resort to informal

Figure 2 Overview of research framework



rules or private orders, however undesirable they may be when seen from outside of the relationship itself (and here some might think of Mafia-type orders or corruption networks as rather negative examples, e.g. Gambetta 1993; Varese 2001; Volkov 2002). Alternatively, international business partners may be able to develop enough trust to have their own relationship-specific rules by which they abide. In this case, we need to find out how they are able to develop this trust without much institutional support.

In this section, we have introduced our main research questions and have clarified our conceptual approach. Figure 2 gives a simple overview of the main points and connections that we are interested in. The figure suggests that, especially in an uncertain institutional context, the performance of cross-cultural business relationships depends on whether the parties involved are able to actively develop trust, which, in turn, depends on whether they are able to deal reflexively with their cultural differences and with the institutional uncertainty. It is the aim of this paper to find out if and how this partial “model” applies to German–Ukrainian business relationships. The next section describes the method of data collection and analysis in order to prepare the ground for our empirical findings on German–Ukrainian business relationships and the answers they give to our questions.

### 3 Data collection and analysis

The research questions and conceptual foundations outlined above give a clear direction to our research but, at the same time, they are deliberately open ended. In order to find preliminary answers to our questions, we are interested in how actors who have substantial practical experience in German–Ukrainian business relationships make sense of trust development, cultural differences and institutional uncertainty. Hence, we draw on qualitative field data from exploratory interviews with a broad variety of relevant actors.



We need to emphasize the exploratory nature of this project. We did not have the resources to conduct a comprehensive survey of a representative sample of all German and Ukrainian firms with past, current or forthcoming engagements in German–Ukrainian business relationships. Hence, we did not try to build a predictive model of success and failure from predefined variables. Instead, we talked to a restricted but balanced set of experts who are successful in this context, but who have also observed others fail, and we tried to make sense of their accounts. Every case has its own history with unique conditions and events, but our expert respondents are also able to identify regular patterns in their interpretations of what happens in successful and unsuccessful German–Ukrainian business relationships. The core concepts of this paper – trust, culture, institutions – come up regularly in the interviews often unprompted and with a clear sense that, without creating social preconditions, “doing business” (with all the technical issues of production and sales) is impossible or very difficult.

While we did not follow a narrow set of methodological prescriptions, our approach is strongly inspired by texts on qualitative methods such as Alvesson and Sköldbberg (2000), Marschan-Piekkari and Welch (2004) or Denzin and Lincoln (2005 and earlier editions), emphasizing the highly interpretative and reflexive nature of qualitative research. This matches our exploratory research design, whereby interviews are not conducted for testing hypotheses but for generating rich new insights to fill a given research framework.

As much as it can be justified in hindsight – with Central and Eastern Europe as a region undergoing fundamental transformations, Germany as a leading industrial nation neighbouring this region, and Ukraine as a striking, yet under-researched, example of a large country torn between the old Soviet system and the new Western influences – our focus on German–Ukrainian business relationships was originally also a matter of opportunity. When the main empirical work was conducted in 2003 and 2004, we were both based in the management department of the Free University of Berlin, shared a general interest in interorganizational relationships and recognized that German firms sought to expand into Eastern Europe but were experiencing problems in doing so.

In 2003, one of us, Florian Stache, spent two months in Odessa, the fourth largest Ukrainian city and a major port on the Black Sea, with the aim of improving his language skills in Russian which he coupled, though, with a keen, yet diffuse, interest in establishing contacts with German firms and agencies in Ukraine and exploring opportunities for a research project there. During his stay, he was fortunate to be introduced to numerous key actors from among the small German community in Odessa. He also met Ukrainian businessmen and got first-hand impressions of their business practices. Back in Germany, he continued to build his network of contacts with key players involved in German-Ukrainian business relationships. Representatives from agencies such as Chambers of Commerce would prove particularly knowledgeable and helpful to him, as would some intensive exchanges with German firms active in Ukraine or seeking an engagement there. In the second half of 2004, we defined a research project on trust

development in German–Ukrainian business relationships, and Florian Stache used his extensive contacts in preparation for a two-month period of fieldwork in Ukraine at the end of 2004. Unsurprisingly, although not without dedicated efforts, the network of contacts in Ukraine would keep growing during his fieldwork there. Notably, he saw how the German community in Kiev, the capital, coped with the Orange Revolution.

The findings reported in this paper are based on twenty-one interviews that were conducted and analysed specifically for research purposes (see also Stache 2006). Their interpretation is facilitated by Florian Stache's countless additional conversations and field observations in Ukraine and also back in Germany. The sample of interview respondents was taken from a virtually unlimited number of potential interview partners among the available contacts. In the spirit of "theoretical sampling" (Glaser/Strauss 1967), respondents were selected with the aim of obtaining the most authoritative and insightful viewpoints as well as a broad and fairly representative variety of perspectives. Matching the exploratory nature of the project, most of the interviews were with experts who had much experience in the Ukrainian context and who have either observed or directly participated in German–Ukrainian business relationships. Notably, many of our respondents were not businessmen directly responsible for German–Ukrainian operations but rather senior commercial diplomats, lawyers, consultants or academics who could share their detailed knowledge and examples of numerous cases of German–Ukrainian relationships – including failures as well as successes. Many other respondents, however, would be directors representing firms currently active in Ukraine. Aware of pronounced regional differences in Ukraine and their potential effect on levels of trust (e.g. Chepurenko/Malieva 2005), we were careful to cover both the country's western regions (from Kiev) and the eastern regions (from Odessa). Our sample is biased in that almost all of our respondents were, at the time of the interview, still active in Ukraine and generally positive about the possibility of doing business there successfully. Thus, we can be accused of under-representing cases of failure and disappointment. However, this is in line with our overall research design, since we seek to explore the positive, constructive ways out of the trust dilemma in cross-cultural business relationships. How representative and realistic the solutions are for the whole population of German firms that would like to establish relationships in Ukraine is a different question that cannot be answered from a small-scale study like ours.

From the total of 21 interviews, 14 were held with Germans (in German) and seven with Ukrainians (in Russian). The German sample consists of seven senior managers from different sectors (automotive, banking, engineering, logistics, textile), three consultants, two high-ranking commercial diplomats, a lawyer and a business professor. In the Ukrainian sample we have four specialists from professional service firms and consultancies (in accounting, marketing, human resources), a manager of an agency representing German firms, a radio station director and an economics professor. The respondents were selected on the basis of their availability, interest and reputation for being knowledgeable in this topic with the aim of capturing a large variety of viewpoints. One German and four Ukrainian respondents were female. In terms of age, the

sample ranges from younger professionals to older professors. There was no need to conduct interviews in the Ukrainian language, because Russian is an accepted business language for communication with foreigners. The interviews took place in November and December 2004 and each lasted 45 minutes to two hours. They were semi-structured with flexible interview guides that could be tailored to the respondents but would typically have about 30 questions (plus prompts) covering the Ukrainian institutional context, the significance of trust, trust and cooperation, and active trust development. Interestingly, cultural differences were not originally envisaged as a main theme of the interviews but were brought up regularly by the respondents themselves. The interviews were transcribed in order to facilitate detailed analysis.

The interviews generated a very rich but still manageable amount of textual data (about 500 pages). We read the transcripts numerous times, identifying passages related to themes that we had broadly defined based on our theoretical work but also additional themes emerging from the interviews. There then followed a long period of consolidating the initial findings by discussing them in the light of conceptual ideas and questions, refining those ideas and generating new questions which would then lead us to reconsider the textual data and audiotapes again. While the actual empirical fieldwork was only performed by one of us (Florian Stache), the other one (Guido Möllering) gave the decisive conceptual inputs, and together we engaged in an intensive process of interpreting the data with a view to finding theoretically meaningful but also empirically defensible answers to our research questions. For the specific purpose of this paper, we clarified our research questions further and analysed the data once again in the light of new questions that had occurred to us. While we did not follow mechanistic, strictly controlled cycles of qualitative analysis (à la Huberman/Miles 1994, for example), we claim that our findings are the outcome of a thorough iterative process with mutual enrichment of theory and data, strong inter-researcher agreement and results solid enough to guide further research.

Our main method of probing the validity of our findings has been to stay in touch with the empirical field, including another visit to Ukraine in 2005 and maintaining contacts to firms and agencies engaged in German–Ukrainian business relationships. Hence we have been able to check our ongoing observations against the findings from our interviews. Specifically, for this paper we arranged “member checks” and presented our findings to experts on business in Ukraine like Robert Butschen and Gerhard Eschenbaum of IHK Düsseldorf (Chamber of Commerce) and used their feedback to correct or confirm our own interpretations.

In this section, we have outlined the way in which we collected and analysed our data, emphasizing that this is an exploratory project, based on qualitative data that we interpret in an iterative process moving between theory and data in search for answers to the research questions raised in Section 2. Next, we present our empirical findings as results of this process, intended to generate new ideas and to suggest possibilities for further research.

## 4 Empirical findings

### The role of trust in an uncertain institutional context

As shown in Figure 2 (above), we analyse trust development for successful cross-cultural business relationships in relation to the institutional context. To start with, we examine the connection between trust and institutions in Ukraine by outlining the very first steps of the Ukrainian economy towards a market system at a time when uncertainty was at its highest.

Institutions in Ukraine have been undergoing a vast transformational process since the beginning of the 1990s, most notably in the economic sphere. After the breakdown of the communist system, the change from a state-directed to a market-driven production system started off with virtually no production at all. A professor of Ukrainian history and language at the State University of Odessa describes the economic situation of the region when the communist regime was swept away as follows: “There was a real new start. All conveyor belts stood still, the only industry I remember that was still working were a couple of bread factories around Odessa.” Food vouchers, shortage of virtually everything and hyperinflation with subsequent currency changes are still remembered by every adult Ukrainian across every living generation. State companies within the former COMECON used to be strongly interconnected and mutually dependent across regional and national boundaries. Those connections broke down along with the institutions regulating the exchange of goods and services.

In the absence of any convertible currency or even reliable institutions safeguarding barter, personal trust in business partners was the only way for directors of state companies to restart production and a prerequisite for their firms to survive. “They were calling on the colleagues they trusted in order to get hold of, for example, some input factors in exchange for the promise of a certain amount of the finished good,” as the aforementioned Ukrainian professor recalls. Without stable institutions, trust was mainly generated reflexively in those times, derived from older sources, though, which were not reflexively created, namely “very long-lasting relationships often retraceable to Soviet youth organizations,” according to a German professor with in-depth experience in the Eastern Bloc since the beginning of the 1970s. The extreme political uncertainty during the first years of upheaval in the 1990s has rather strengthened mutual personal trust within networks throughout Ukrainian society, as all of the experts we interviewed agree. A German consultant in Odessa explains that “under those circumstances of uncertainty, you are just much more dependent on each other. Without people you can rely on, you literally cannot survive in this country.” Personal bonds of trust and reciprocity substitute for institutional safeguards, and trust itself is very much a by-product (Elster 1983) of the very conscious mutual efforts to get by (for similar observations in Russia see, for example, Chepurenko/Malieva 2005; Radaev 2005).

The reliance on personal trust built up over time coincides not just with the absence of reliable formal institutions but with a deep mistrust towards the Ukrainian state shared by all Ukrainian and German interviewees alike (see also Akimova/Schwödiauer, 2005). However, informal institutions seem to take the place of the state and the formal institutionalized mechanisms provided by the state elsewhere. For example, as in Russia (Varese 2001), it is taken for granted in Ukraine that a company have a *krysha* (lit. roof) to protect its interests: “This is formally only a company getting paid to arrange our security, with a security officer being there 24 hours. And it works very efficiently. There has never even been one item stolen from our production site, nor has anyone broken in” (German investor). The background of the companies offering these security services is somewhat obscure and dubious, but working with them is still “much better than relying on the state” who “won’t help you anyway, even in case of a burglary, if you don’t bribe them” as the Ukrainian head of a German radio station in Odessa points out. This practice is appalling, but it is evidence of creative responses to institutional voids.

Bribery is another example of how relationships are built under institutional uncertainty. This is a paradoxical and pathological practice, because bribery seeks to reduce uncertainty but undermines the institutions that would reduce uncertainty and make bribes unnecessary. From the point of view of individual actors in Ukraine, the situation looks a little different though: on the one hand, using bribes can be part of a reflexive, bottom-up trust-building process; on the other hand, bribing in Ukraine has already become all but institutionalized. A Ukrainian tax specialist we interviewed was able to tell us the standard “prices” for many “state services” irrespective of the actual functionary performing them. A further example of practices and organizations substituting for a well-functioning and trusted state is the so-called “checking” of potential business partners, which the head of an international association strongly recommended to us. This “checking” is offered by an officially operating German organization that even issues invoices to the German firms using them. The actual service involves a thorough informal inspection of the target firm, its owners and business partners, which is partly done using connections to the secret service, as the representative of a German law firm in Kiev elaborates. We have seen a “check-up” for a German firm and were fascinated by the kind and the amount of detail revealed on official stationary of this German association, the content marked as confidential. Needless to say, this sort of information would be difficult to obtain in the German context. However, we were told by this representative that it is “a procedure the Ukrainians do themselves on a regular basis and taken as completely normal.” It is recommended because “there *do* exist structures you don’t want to have anything to do with, and so you know beforehand,” as the head of a Ukrainian advertising agency working with leading foreign companies confirms.

There are numerous examples of established informal institutions substituting for inefficient (governmental) formal trust-producing structures. These informal institutions and their capacity to make exchanges more efficient are rooted in a culture that has known a kind of unquestioned “trust” routine of doing “correct” business on the huge black markets, which stems from Soviet times when many formal institutions were in

complete opposition to the needs of the population. This kind of routine is still part of the cultural repertoire that actors draw on when they form business relationships even though it contradicts some of the values that the actors espouse.

This section can only reflect a fraction of the rich empirical findings giving insight into how the interpersonal and informal mechanisms work that allow people to trust each other in the uncertain environment of post-socialist countries (see also Radaev 2005). Their existence supports the view of the German experts we interviewed and who work in this institutional context that is still in the making. They are convinced that trust does not play a minor role in this context, but often claim that trust, in the form of interpersonal trust, is even more important in this society than in more stable ones. “Here, one’s word still counts” is a fairly common expression of German experts regarding Ukrainians and trust. The ability to draw on informal institutions and reflexive trust development as substitutes for formal institutions presumes a particular taken-for-grantedness that may not be accessible for international partners who were not socialized in this context.

### The cultural specificity of trust building

Following on from the above, another theme that emerged from our interviews concerns the different taken-for-granted meanings of trust and ways of trust building in different cultures. While a Ukrainian manager may find it completely normal to rely on informal institutions and to ignore the weak formal institutions, a German manager may be perplexed by this due to deep cultural differences in the action strategies on how business is done. We interviewed a German consultant who works with German and Ukrainian firms in Ukraine. He confirms that the uncertain institutional context is a problem for trust building, but he also stresses that

in every community, be it in Germany or here in Ukraine, there are a number of mechanisms that one has learned from kindergarten onwards about how to build trust with others without falling flat on one’s face. ... And this is strongly dependent on which community it was where you grew up.

According to him, the fact that trust building is the outcome of socialization and learning about a specific cultural repertoire implies that Germans who want to build trust with Ukrainian partners “have to get deeper into the mentality and the ways of trust building that are customary here.” When asked whether Ukrainians can be trusted as much as Western business people, this consultant replies: “Ultimately the same but differently.” He explains that in Germany a handshake, a contract and a rough check of the other’s creditworthiness are enough to have confidence. Not so in Ukraine where, according to him, “a signed contract is not a signed contract. It takes more than the signature on the paper. ... Here, you need to get to know the other and his background a little deeper, also personally, or you will not be able to build trust.”

Contracts have a different meaning in Ukraine and are seen more like internal rules in addition to a personal relationship, rather than as external safeguards substituting for personal relationships, simply because it is a very common view that “the Ukrainian courts are corrupt” (Ukrainian Vice President of one of the world’s leading accounting firms, see also Akimova/Schwödiauer 2005). Overall, the cultural differences in trust building in business are captured by a German consultant’s talk of a clash of “deal-oriented” and “relationship-oriented” business cultures. Deal orientation is the predominant cultural style of Western managers who want “a good deal, written down in a good contract.” Ukrainians do business in a “relationship-oriented” way and rely on reflexive modes of trust production. Germans are used to very stable conditions, whereas the Ukrainians are used to high external uncertainty. Their cultural repertoires have developed in line with, and in response to, environmental conditions. It follows that different action strategies for trust production can be culturally induced obstacles for international cooperation as long as actors do not try actively to overcome those differences (Branzei et al. 2007).

### Active trust development and increasing stability

Our suggestion concerning the particular need for active trust development in cross-cultural contexts is already partly supported by the above findings and is underpinned further by our respondents, who emphasize that trust needs to be actively cultivated and that this is a key challenge for management in cross-cultural contexts. The managing director of the Kiev office of a major German-based consulting firm points out: “Trust isn’t something that is either there or not. Trust has to be built up.” He explains further that when you have already had successful prior transactions with a specific firm or person, then you will have some trust in them, whereas you have to be much more careful with a new partner. Another German managing consultant tells us similarly that he thinks that one of the main tasks of any joint venture general manager is to build trust.

For all of our respondents, it follows that trust development must not be left to chance – as a lucky by-product – but should be intentionally fostered through managerial action. In the Ukrainian context such action is seen as particularly important and should be targeted at building a relationship that allows for trust beyond narrow business issues. Specifically, regular visits to Ukraine are seen as imperative in this regard. And inviting the Ukrainian side to Germany could be just as important, especially because visa regulations are very strict in one direction but not the other. The Ukrainian head of one of the world’s biggest accounting firms in Kiev laments that it is often difficult to get visas even for her employees to travel to Western Europe. Even very wealthy Ukrainians cannot normally travel to the West without an invitation. Hence, business invitations are very attractive and often the only possibility for Ukrainian people to see Western Europe with their own eyes. “It is very important that not only the directors get to know

each other step by step; all employees working together across borders should have the possibility to meet in person,” the German director of the management consulting firm quoted above states.

Active trust development in the German–Ukrainian context today benefits partly from the old relationship-oriented trust-building culture in Ukraine in the absence of reliable formal institutions. However, as formal institutions have been improving somewhat in recent years, this actually aids active trust development, too. A Ukrainian tax specialist, for example, tells us that he is now more prepared than before to give credit to others with whom he does not have much prior experience, because he thinks that the court system now works better. And a Ukrainian business professor remarks that, generally, “it is definitely easier to trust with macroeconomic stability ... macroeconomic stability is important; law the most important.” He compares this to a game of football: “If there is stability in the rules of the game and if there are two equal teams playing against each other, it is conducive for fair play ... But if the rules become unstable, if the referee starts playing himself, then everyone just starts to make the most out of it for himself.”

Even against the background of the Orange Revolution, Ukrainian and German experts agree that, as in Russia (Chepurenko/Malieva 2005), overall stability in Ukraine has increased in a noticeable way since about 2001. Whereas, before, enormous uncertainty prevented trust production outside of existing networks, because “at that time, everyone would have taken as much money as possible, as you did not know what would happen tomorrow,” people now value the new relative stability and “nowadays might sometimes behave particularly correctly towards the foreign company, because it is seen to be something very special to work with foreigners who can supply a little stability, which is still a very scarce resource here” (both quotes by the Ukrainian director of a German radio station). This is supported by other respondents, too, and can be taken as evidence for agency in applying and adapting cultural repertoires when the situation changes. This agency weakens the force of culture and thus provides the opportunity for positive cross-cultural interaction.

### **Partner selection: Managerial cultures within national culture**

As described above, actors in Ukraine attach more importance to assessing specific managers and their background than to the details of the contract. One further reason for this may be that the understanding of what it means to be a manager is in flux in Ukraine as well. Interestingly, three different varieties of understanding the role of a manager appear frequently in talking to experts of the Ukrainian context, each one associated with a different period of the Ukrainian transition and the cultural repertoires produced at the time (Stache 2006: 73–79). First, some managers still work like “general directors” in Soviet times, inefficiently and by personal command. Second, those managers who take advantage of the absence of reliable rules or who follow



the spirit of free markets and capitalism excessively are often called “cowboys.” Third, with the environment becoming less uncertain and with better knowledge in Ukraine about how capitalism works in other countries, German interviewees find more and more “rational merchants” among Ukrainian managers, i.e. the sort of sensible business people they know from Germany. The younger generation in particular espouses the Western business culture and distances itself from Soviet legacies and cowboy-type excesses, drawing on a new cultural repertoire that is less accessible to older generations. Unsurprisingly, German firms interested in doing business in Ukraine will seek out the “rational merchants” with whom they can build trust more easily thanks to a common understanding of the managerial role and a similar cultural repertoire, while they will avoid the “general directors” and “cowboys.”

However, the unsettled role of Ukrainian managers and the lack of regulation on managerial behaviour contribute to uncertainty and create blank spaces. “In Germany, you cannot just not pay your employees because you don’t feel like it, because we have laws that work, but in Ukraine you can,” as the German head of a German–Ukrainian joint venture explains. The German managers are not used to such blank spaces and they are wary of encountering Ukrainian managers who are not “rational merchants” but “general directors” or “cowboys.” Unfortunately, it is not the case that just the three managerial ideal-types outlined here can all be found in Ukraine at the time of our interviews, but it is also possible to encounter any (dynamic) combination of the three varieties so that it is hard to know how much of a “general director,” “cowboy” and “rational merchant” the manager one faces is.

Ukrainian experts often talk very openly about the changing attitudes towards doing business. A Ukrainian tax specialist specialized in importing Western goods tells us: “During the 1990s, if there were Western investors it was more the feeling that big money had fallen from the sky.” A Ukrainian business professor in Odessa explains:

We didn’t even know what investment meant. There were no investments in Soviet times. If, for example, the Central Committee decided to renovate the Odessa Opera, then we took the money and no one really wanted something in exchange. It was more like help for the poor. We really had to learn that an investment is not just money to use up, but there’s someone who should get something in exchange. If there is a Western business suggesting cooperation, you first have to study their interest, what they want in exchange and then decide if that is a deal you want to do. Not everyone has understood that yet.

So how does one find out what type of manager one is dealing with? Ukrainians agree that there are many signs for this but that they can be assessed only by getting to know the other personally:

It is something very personal: some have got it, some never will. But you can make that out fairly quickly. Do they use modern information technology? Do they have a well-developed marketing system? These are some key factors showing how they understand business. If they don’t, don’t even try to work with them; they will not change. (Ukrainian CEO of a marketing agency)

These observations shed light on why managers socialized within such a context “will seek partners for whom interpersonal approaches to business relationships represent their own choice of business behaviour,” as Ayios (2004: 205) concludes referring to Russian businessmen. This makes choosing the right partner as a first start of active trust development a very important decision in Ukraine, which is something that German managers out of their usual experience in Germany do not seem to understand. In general, German managers are said to use action strategies that focus too much on matching production lines instead of matching personalities. A German business professor who has regularly worked in the Eastern bloc since the 1970s observes: “I have accompanied many groups of German managers through the country and very few bothered to really analyse their interlocutors, to capture their environment, how they behave towards their environment, including towards their employees.” And a German consultant frequently introducing foreigners to Ukrainian businessmen points out: “At first I have to ask: Who is this? With whom does he work? And before he will really talk to me and tell me what he thinks, he needs to know who I am. If I don’t pay attention to those things, I cannot do business here.”

In practical terms, taking the first steps in a completely unknown environment seems to be impossible without assistance. Organizations operating internationally with long experience in Germany and Ukraine can step in. The Düsseldorf Chamber of Commerce, for example, specializes in Eastern Europe and has a subsidiary in Kiev. Another example is the German Chambers of Industry and Commerce’s office in Kiev, the *Delegation der deutschen Wirtschaft*. These organizations are well known and trusted by actors on both sides, as German and Ukrainian interviewees in Kiev agree. They take up the role of “interpreting” trust. For example, they seek potential Ukrainian business partners as a service for German firms. They know those potential partners either directly or via their huge networks in the country. These organizations become institutionalized trust intermediaries and German managers are willing to pay for this, which fits Zucker’s (1986) conception of institution-based trust as a good that can be traded. Apart from such state-run or quasi state-run organizations, more and more private organizations and individuals work as trust intermediaries and we had the opportunity to interview many of them for the research reported in this paper.

### Dealing with cultural differences as part of active trust development

After the decision has been taken to start a business relationship with a certain partner, the next important challenge is to handle the different, culturally shaped expectations of what should be taken for granted in everyday collaboration. In our fieldwork, we sought to understand what significance foreigners working successfully in Ukraine attribute to cultural differences in the process of trust building and how they deal with these differences.

Interestingly, the German experts we interviewed who work successfully in Ukraine, as evidenced by their intention to expand their Ukrainian activities and stay in the country for at least another five years, actually favour the Ukrainian business culture in many ways and mention more advantages than disadvantages compared to Germany. Especially those working in the western part of Ukraine in the Kiev area cite “extremely motivated personnel” as an advantage, often even before geographical location, market size and market growth or low wages. “I can call my employees day and night on the mobile phone. Imagine that in Germany!” highlights the director of the biggest German investor in the Odessa region. Some more examples of the numerous advantages perceived by our German respondents are the following: “They work much better in teams than I am used to from Germany. Probably that is part of their culture rooted still in socialism”; “they are much more flexible: in Germany, if a machine doesn’t work, they call the service and production stops. Here [in Ukraine], they try to fix it themselves, often successfully.” The German director of one of the biggest and fastest growing foreign companies in Ukraine ascertains that “since I have been working here, I sometimes don’t understand anymore how they handle things in Germany.”

The high flexibility and motivation of Ukrainians can probably be explained by economic pressures and power asymmetries, too, but this does not contradict the fact that certain action strategies characterized by flexibility and responsiveness draw on cultural resources that have evolved in Ukraine over decades against the background of instability and uncertainty. German managers recognize – and appreciate – the different Ukrainian repertoire. Whether they will exploit it or make fair use of it is a different matter. More importantly for our analysis here, the questioning of one’s own cultural coordinates and opening up to the foreign culture partly explains why some companies are successful in the Ukrainian context while other German firms fail. A German consultant says: “In an environment where things do not work according to functioning rules, flexibility is a very important personal characteristic in everyday life as well.” This means that flexibility has to be part of the cultural tool kit because of the institutional context and also because it is now a culturally expected skill.

While our respondents recognize the importance of dealing with cultural differences, they also see that the two cultures may not be that far apart. Hence, it should be possible to understand the cultural resources and repertoires of the other with relative ease, once you make the effort. The director of the biggest German consulting firm working in Kiev reckons that “cultural differences do exist, but they are by far not as great as between Germany and China. Compared to the latter, Ukraine is fairly similar to Europe.” This view is dominant among the German experts interviewed. When they name unfavourable differences – like less quality-consciousness or a lack of willingness to take responsibility on the Ukrainian side – our respondents always manage to explain them very convincingly by differences in institutions and history. Thus another important point seems to be that successful German actors in Ukraine do not stop at the level of recognizing cultural differences. Even when they are unfavourable, they try to under-

stand the reasons behind them, discuss the problems that arise openly and try to work with them. A German lawyer points out that

this is extremely important: to understand those cultural differences and to take special care again and again of the things that are not taken seriously by Ukrainian colleagues due to those differences. ... To point this out again and again ... that is, I think, the most important part of my work.

All German experts agree that there is a big willingness to learn on the Ukrainian side which they attribute overall as going hand in hand with the vast changes the Ukrainians experienced during the past 15 years and the flexibility that this required from them. The world Ukrainians were used to dissolved at the beginning of the 1990s and they have had to be open to new influences ever since.

Ukrainian experts do reflect on their culture regarding openness and trust as well, but without always putting it in such positive terms. A Ukrainian professor of economic analysis and business at the State University of Odessa expresses it as follows:

For reasons of history, we still have problems with plurality of opinion and that is a very important ingredient to trust in working relationships as well. If you are not tolerant towards differences, if you don't accept others as you accept yourself, there is no space for mutual trust.

He feels that, for completely different reasons, business people from Western Europe treat Ukrainian business partners as inferior and not as equals. This leads to the same problem of a lack of tolerance and respect for the other. German interviewees realize this specific issue, too, and say about the Ukrainians that “they enter business talks generally with a feeling of complete inferiority, and if you don't manage to establish some sort of exchange on the same level, they'll try to cheat you later using their local knowledge and cleverness” (German business professor). From this we gather that success might be connected to the ability to reflect on negative aspects of one's own culture when dealing with cultural differences. This is confirmed by a German lawyer working in Kiev: “Generally, working with Ukrainians is not difficult. What they don't like is what we in Germany call *Besserwessitum* [Westerners' know-it-all manner].”

What the above implies is not just that our respondents recommend that Germans should simply “teach” the Ukrainians in a more culturally sensitive and understanding way. They also point out that the Germans themselves can learn a lot if they recognize the advantages of the Ukrainian cultural repertoire, such as more flexibility. In this vein, Ukrainians mention negative aspects of Western business culture, such as “working according to rules just because of the rules” (head of an Ukrainian advertisement agency) and taking a lot of time to come to decisions. As the Ukrainian tax specialist we interviewed relates: “We were settling an agreement with a German firm. When they eventually called back to say they agree and we should meet, we had already forgotten about them.”

Starting with a basic attitude of openness and flexibility towards the other, the crucial point in building the relationship then seems to be to create internal stability and, most importantly, to “find common rules, otherwise there will never be trust. If one plays soccer and the other handball, that is the same problem for building up trust as if they don’t find a common aim to work towards,” as a Ukrainian business professor puts it. Interestingly, German and Ukrainian experts often mention independently that trustful business relations first need a common goal and, second, common rules set out by both parties to achieve the goal under the given circumstances. This does not mean that in Ukraine everything has to be done the Ukrainian way. “You have to discuss what you see here and compare it to the way of work you are used to. What works better in Germany? What works better in Ukraine? How can we best work together under the circumstances here?” as a German consultant in Odessa reviews everyday practice. He gives the example of punctuality:

If someone is late and I punish him right away with my German idea of law and order, I have lost. I first have to ask why. In an environment where it is not even taken for granted that there is electricity and water every morning, there are so many reasons why he or she just could not come earlier. That does not mean I accept everything. There are always other possibilities, like introducing the rule that, for example, lost time has to be made up for later or the objective has to be reached within the time left, etc.

Regarding the role of the manager, the president of a German bank in Ukraine gives the example of how he handled culturally different behaviour of the locals that was just not fitting as an efficient practice working in a market economy. He tells us:

You always have to listen to other arguments, but sometimes you have to make things very clear. The problem was they never accepted responsibility and always asked me what to do. So I arranged a meeting with the highest executives working here with me and told them: “It says *manager* on your business card. You get paid like a manager. How do you think a manager should behave?” We went through this procedure a couple of times and now things are already a lot better.

Trust across cultures in business relations seems to emerge in interaction when, in situations that are also characterized by dependence and power differentials, people start to look beyond cultural differences and work on setting up common rules for their specific relationship. Those rules can then contribute to reflexive trust building by making each other’s behaviour better understandable and less uncertain. A German lawyer observes:

It is important to come here with a good amount of curiosity and interest for the country, and to look how the market works. You have to listen to the people when they tell you something. You have to go ways with them you would never go in Germany, open up your eyes and ears for completely different ways of handling business and sometimes go those ways. Take the example of [a German director of a German firm producing building materials very successfully in Ukraine]: He has more than internalized this already. Many official ways already don’t exist for him any more. He goes his way and knows how to be successful.

Another example that makes this point a bit clearer is behaviour towards the state. As mentioned above, Ukrainians have by history very different taken-for-granted perceptions of state institutions. Although this is a very sensitive topic, all German and Ukrainian experts agree that, at the time of our interviews at the end of 2004, it is not possible to work completely without bribery in Ukraine. However, we also find a wide range of attitudes and personal action strategies regarding the practice of bribing. At one end, bribing is tolerated but committed as little as possible. The head of an official German organization promoting German business in Ukraine says:

I can only recommend to always respect the law and not to even start doing anything illegal. Otherwise you get dependent on someone very quickly. ... Germans are famous for always respecting the law, just because they don't know anything else. ... We have a very good reputation because of that and should strive to keep it. Some German investors have even been awarded medals for exemplarily paying taxes.

At the other end, bribing is seen as a legitimate instrument to reach business goals under the given circumstances:

We have been profitable from the moment we arrived here and we have bribed as much as possible from the very beginning. If I need a building licence, for example, I know exactly whom to pay and I will have it tomorrow. If I want the same building licence in Germany, I need three years of going through various stages of bureaucracy and I might still not get it. [German director of one of the biggest investors in Ukraine which, ironically, was one of the few firms honoured for paying taxes accurately.]

We cannot discuss the ethical issues of bribing in this paper and certainly do not recommend or condone the practice. However, we see the different practices of bribing in Ukraine as evidence of the need of foreign companies to find a way of dealing with the unfamiliar culture and context they encounter. In interaction with local partners in a context that offers little certainty and security, they will be successful if they can find a common repertoire with rules for the relationship that may lie somewhere between or even beyond the business cultures involved.

Furthermore, this example illustrates that even the most adverse circumstances attached to working in a transformation economy can have positive effects on doing business as long as there exists the willingness to question one's own taken-for-granted perceptions. Interestingly, the Ukrainian experts hate the necessity for bribery and they complain about the difficult situation for businesses under those circumstances more than the German experts, for whom bribing seems to be merely a reaction to a corrupt state that has emerged out of the remains of socialism. In other words, bribing is seen as a culturally specific skill, but not as a "value" that characterizes the Ukrainian culture. From the Ukrainian perspective, the frustration with those who have the power and abuse it corruptly for personal gain without consideration for the needs of the population contributed to the occurrence of the Orange Revolution in 2004.

On a lighter, but particularly instructive note, it takes even some physical effort to overcome cultural differences and build trust in Ukraine. In order to learn about the unfamiliar context, get to know the personality of the business partner, define a common aim and develop rules for the relationship, regular face-to-face meetings are required. In this regard, Ukrainian experts consider informal meetings as being more important than official business meetings. A Ukrainian business professor points out:

To trust someone, you need to get to know him better in some informal atmosphere. That takes time. There is an old proverb saying you need to eat a centner [Russian unit of weight] of salt with him! It is very important to see how he behaves towards others, especially when he is in his natural environment and unforeseeable incidents occur.

Clearly, it takes many meals together to eat that much salt (about a hundred kilos). All German experts are used to this business conduct. They say it is normal to bring their wives to business meetings in restaurants for example. For them this cultural difference compared to Germany is something they even seem to enjoy. None of them questions this way of mixing business and private life. One respondent tells the story of how business partners cooked traditional dishes of their home country for each other. This is not only a very graphic and reflexive way of actively dealing with cultural differences, it is also a practice that goes much further than what would happen even in long-lasting business relations in Germany, where it is very unusual that business partners cook for each other. The Germans we interviewed who are active in Ukraine successfully, though, have adapted to this way of trust production and regard getting to know the private environment of the business partner as something important to assess his personality.

The personal trust developed in this way helps to overcome the difficulties in cross-border collaboration. And overcoming such difficulties is then an opportunity for strengthening trust further: “You only realize who is a friend when you are in trouble” (Russian proverb quoted by our respondents). This matches the English saying “A friend in need is a friend indeed” and points to the possibility that trust, like friendship, is particularly proven and enhanced when constructive support is offered in times of trouble (Six 2005). However, in order to be able to offer such support, one first has to make the effort of understanding each other.

According to the German respondents, taking an interest in the foreign environment and being open to new ways different from the familiar ones in Germany is the key to success in Ukraine. Inversely, an unwillingness to do things differently than in Germany and to extend the cultural repertoire is said to be the most important reason for failure. We are actually surprised that our respondents put this cultural openness (or lack thereof) at the top of their list of reasons for success (or failure) in Ukraine. We asked them “What do you see as the biggest trap for a foreign company starting to invest in Ukraine?” and anticipated that they would mainly talk about legal, political or technical difficulties. That they talked first and foremost about culture underlines the great practical relevance of this topic.

### Trust beyond good reasons?

Setting up operations in Ukraine or with Ukrainian partners is still considered a high-risk investment from the German point of view, and it is also risky for Ukrainian firms to commit themselves to international cooperative ventures. This perception of general high risk may be enough to deter potential partners who apply crude stereotypes and do not even get to the stage of investigating concrete opportunities, as some observers have told us. When the high risks are actually taken, this is primarily for economic reasons, because in many industries not only the potential losses but also the potential profit and growth rates in Eastern Europe are much higher than in the stable and saturated West. Nevertheless, it is clear that, under the highly uncertain conditions in Ukraine, it is ultimately impossible to calculate with any precision in advance whether it will pay to trust a potential business partner in this country. In return, Ukrainian firms hold similar reservations about their Western partners' good will and motivations and find it hard to predict if a potential partnership will be in their own interest.

In response to the ultimately incalculable risks, firms use common risk management practices such as limiting their exposure in the initial phases of new projects and spreading the risk over a portfolio of projects. A German lawyer in Kiev gives an example:

Look at this Frenchman. He buys machinery for this Ukrainian factory so that it becomes capable of building the parts that he needs. Of course there is an agreement that the factory pays off the machinery via price reductions on the delivery of the parts. But what happens if suddenly the machines are gone and no deliveries ever arrive? He bears the risk of losing the machines and his investment worth several hundred thousand euros because he sees himself as an entrepreneur. He says to himself: I have been to all kinds of countries. In the end I made money everywhere. Somewhere along the way you lose some money, but that's it.

The entrepreneur described in this example acts on the basis of a good economic rationale, but this does not mean that trust is not required from him. Even though the portfolio approach provides some security, he still has to set up each investment carefully – too many bad apples can spoil the whole portfolio – and whenever he engages with a concrete Ukrainian partner, he faces the incalculability of the project but often seems to be able to just do it and make a leap of faith beyond the evidence he has for that partner. Even the process of getting to know the other as highlighted above only reduces uncertainty and vulnerability up to a point after which “suspension” (Möllering 2001) is required in order to reach trust. Put differently, we see a portfolio of leaps of faith and not a portfolio of rationally calculated risks. The portfolio approach as such may still be wise, but in the Ukrainian context where individual projects are incalculable and there are no statistics to show how likely certain types of projects are to fail or succeed, trust can hardly be replaced by quantitative portfolio management techniques.

The above confirms that managers look for good reasons before they trust. Interestingly, however, we also find that looking for good reasons can jeopardize the trust-building process in cross-cultural relationships. For example, if the parties compare too



closely, and only in monetary terms, the hourly pay in Ukraine with that in the West, this can create major tensions. A German business professor tells us: “The young people in Ukraine want to make a lot of money and, if you treat them well, they are good partners. But you mustn’t exploit them. If you pay them 60 cents an hour here, while you pay 32 euros in Germany, that is simply nasty.” But how do you establish a fair hourly rate for your Ukrainian workers if the output is actually the same, but it is clear that the Ukrainian workers earning only a fraction of what their German colleagues make is one of the most important reasons for German firms going into Ukraine in the first place? It is counterproductive for trust building to focus on these figures and more conducive to trust to compare within the Ukrainian context and to emphasize procedural justice and interactional justice. Fortunately, Ukrainian experts generally blame the circumstances and not the foreign partners for income differentials. They also look beyond short-term profit and see the importance of building relationships with foreign partners who offer stability.

Hence, both in the way that managers build on good reasons and in the way they set aside unfavourable information, we find some evidence for the relevance of the leap of faith in trust. Moreover, the reflexive trust-building activities described throughout this section all imply a kind of just-do-it attitude on the part of the German and Ukrainian managers who open up to the other culture and look for common aims and rules.

### Trust and success

As we have seen above, our respondents believe that it is possible to overcome cultural differences and build trust in cross-cultural business relationships by dealing reflexively with one’s own and the other’s cultural background, learning from each other and establishing common ground. Now we need to ask whether successful trust-building activities also lead to better performance. In the long run, as our German and Ukrainian experts agree, firms want to make money, but they have other short-term aims, too. For example, for Ukrainians there is a strong interest in getting to know people from the West per se – which Florian Stache felt strongly when he was in Ukraine and which facilitated the fieldwork greatly. Moreover, stability is an important aim for Ukrainians entering business relations with foreign firms. And some Ukrainians might even have some hope of personally escaping their difficult living conditions through activities with a foreign company.

German firms operating in Ukraine are sometimes happy enough when they manage to get a foot into a market that is expected to expand quickly in the years to come. Also, they want to use it as a bridgehead for further expansion into Eastern Europe. Ukraine is seen by many as lying geographically and culturally half way to Russia. To gain experience in Ukraine first and then move on to Russia was the main reason for a big German producer of building materials investing in Ukraine, for example.

Hence, as expected, the notion of “success” in cross-cultural business relationships is somewhat diffuse among German and Ukrainian firms and their managers. However, in spite of this vagueness, they all agree that success is very much dependent on trust. Given the nature of our empirical data, we cannot quantify or prove this effect formally, but it is an interesting finding in itself – if only from a social constructivist perspective – that our respondents share the view that trust is of paramount importance and not an irrelevant nicety. The highest official representing German business in Ukraine expresses that, for her personally, trust is “the very first priority. I have been in Ukraine for a long time and I know that trust is more important than any contract. Although I studied law, I can tell you once again: trust is the most important thing. ... If you trust someone, you might not even need a contract.” All interviewees responded in a similar way and even the great willingness to talk to us about trust in business relationships reflects the importance Ukrainians and Germans involved in cross-cultural business relationships assign to this factor, too. In other words, while we cannot offer a full list of “success factors,” our results suggest that trust would be high on such a list and managers who want to create successful German–Ukrainian business relationships must not ignore the question of how they can build trust across cultures.

At the very beginning of this paper we introduced the case of a German manager who waited in vain for responses to the letters and requests he sent to potential Ukrainian business partners. Revisiting this case, we may now conclude that he might have had more success, especially with one of the target firms, if he had recognized the cultural differences in trust building. Florian Stache had introduced him and knew that the Ukrainian firm was open to doing business with foreigners. As part of his own investigations, Florian went through the getting-to-know process with the managers of the firm and told them about himself and his aims. He visited their production site, which was in good shape, and the Ukrainians were open enough to give him preliminary samples, cutting off parts of the textiles they were just manufacturing. They were prepared in principle to meet the German manager in May 2005. However, when all this manager did during his initial visit in January 2005 was to ask for price quotations and samples, this went against the Ukrainian way of establishing a business relationship. They first want to get to know the person behind the deal and do not sell anything merely based on product specifications and price. Moreover, there is a lot of fear in Ukraine of being exploited by Western investors and therefore the Ukrainian side was unwilling to disclose prices or technical capabilities to someone they did not know personally. The German manager, in return, did not understand their position: “If they do not want to do business, I will not push them,” he said, and he was not willing to make an initial leap of faith and invest the time and money to get to know the Ukrainian executives. Both sides did not reach the point at which you recognize the cultural differences, question your own culturally shaped action strategies and move beyond the differences in an attempt to find common ground and ways of coming together.

Furthermore, different temporal orientations, which are also culturally and institutionally rooted, contributed to the failure. The German side did not see a time lag of four

months between the initial encounter in January at a trade fair and the scheduled follow-up in May as a problem, because they expected the exchange of letters and samples in the meantime. The Ukrainian side, however, probably felt a lack of appreciation due to the fact that the Germans made no time to visit them as soon as possible after the trade fair. We argue that the willingness to engage in active trust production by meeting the Ukrainian directors personally in their offices and openly discussing the aims of both parties would have contributed to the start of a successful business relationship.

We cannot claim that this example or the twenty-one interviews we carried out give a fully representative picture. However, we find evidence in the accounts of our respondents that the success of cross-cultural business relationships depends significantly on active trust development activities which are undertaken from a position of openness to the other culture and a willingness to deal reflexively with cultural differences (see Figure 2 above). We have analysed this empirically in an uncertain institutional context and we find that, overall, institutional uncertainty makes the cultural reflexivity and active trust development even more salient than in a stable context that offers much stability and certainty on which new relationships can draw.

### A note of caution

Nevertheless, there are some limitations that became apparent during our research. Predominantly Ukrainian experts mention that active trust development loses its functionality when it is openly called that. As soon as the business partner feels that regular meetings are arranged just to build up trust in order to get a better deal, this will have counterproductive effects. There has to develop some real interest in the persons and, ideally, in the country if one wants to do good business in Ukraine. But when it is obvious that everything is *just* about the good business, then the issue of the cultural difference between “deal orientation” and “relationship orientation” returns. Two German respondents also mentioned that when trust builds up unnaturally quickly and a relationship gets too personal too quickly, this might be an early sign of the intention to abuse Western firms. Thus, time is important again. Reflexive trust development needs time, even when it is actively pursued. Hence, managers have to negotiate a terrain that lies conceptually between not forcing trust (Elster 1983; Simmel [1908]1950) and not leaving it up to chance either (Giddens 1994), as well as between pursuing their own interest and contributing to the common interest in the relationship.

Active trust development in the sense of investing in the relationship by getting to know each other personally step by step seems to be the common way to build up trust in Ukraine, whereas relying on the institutional context and just deciding by quality and price might be the common way to enter business in Germany. Although the Ukrainian way is often recommended for building trust across geographical and cultural distances, its disadvantages are also obvious: transaction costs are much higher and firms are less

flexible in that they can only build and maintain a limited number of relationships, each of which takes time to evolve. According to Zucker (1986) this is exactly why institutions become increasingly important as trust bases in complex market economies.

However, institutional deficiencies do not only cause problems, they also provide entrepreneurs with an amount of freedom in the way they do business. As one respondent relates:

As soon as the unfinished goods arrive at my partner factory in Ukraine, they start working, even two weeks without a break, sometimes even the nights when necessary. And if there is no work, because a lorry did not get through the customs control, for example, they stay at home and get no money. That is something completely unthinkable in Germany, but in the Ukraine of today that sort of flexibility is completely normal.

Whether this sort of flexibility is also socially desirable is a different question, of course. Perhaps some German managers want to exploit both the economic dependence and the cultural repertoire of Ukrainian businesses. But to be successful in the long run, they ought to recognize that they need to give fair rewards to the Ukrainian side and show flexibility and learning themselves.

Finally, it must not be forgotten that things are still very much in flux in Ukraine and other countries of the former Soviet bloc. For example, Chepurenko and Malieva (2005) find in a survey of 400 small entrepreneurs in four Russian regions – much to their own surprise – that the importance of personal trust networks, *kryshas*, local milieus and intermediaries has declined and that business partners do rely on institutions even though they still say that they very much distrust those institutions. This is a very different picture compared to the 1990s and we may observe similar changes in Ukraine as well as further changes, perhaps even reversals, in the transforming economies and societies of Eastern and Central Europe.

## 5 Discussion and conclusions

The research reported here confirms previous findings on the influence of cultural differences on trust and, subsequently, relationship performance (Ayios 2004; Child/Faulkner 1998; Doney et al. 1998; Johnson/Cullen 2002; Zaheer/Zaheer 2006). Using a qualitative methodology, we have been able to look beyond abstract, superficial indicators and identify specific meanings and action strategies that produce the culture–trust–performance link that has often been suggested but seldom investigated in-depth. We also contribute new insights by reporting specifically on business relationships involving Germany and Ukraine, which have not as yet been the object of much systematic study, despite the size and significance of the two countries (Kohlert 2006). In 2007, democratic processes are at work in Ukraine but political and institutional uncertainty

remains high. The experiences in the German–Ukrainian context that we relay in some detail in this paper will be useful to managers and researchers planning to go into this context or comparable ones.

Conceptually, we have also demonstrated that the institutional context has to be taken into account systematically when trying to understand cultures, cultural differences and trust-building processes (see also Zaheer/Zaheer 2006). Thus, we have applied the historical findings of Zucker (1986) to the contemporary case of a transformation economy where institutions are relatively unreliable and unstable (see also Child/Möllering 2003). We connect research streams on institutional and cultural influences on trust, emphasizing a micro perspective that analyses individuals' perceptions of institutions, cultures and relationships. Importantly, we look at the habits and skills that individuals use to construct their action strategies. The culture that shapes these repertoires reflects the institutional context, too, in particular the continuous instability and uncertainty that has made flexibility a skill that is much more important and expected in Ukraine compared to Germany. Our analysis of individual skills and strategies demonstrates that actors are often able to deal constructively with the cultural and institutional situation they find themselves in. Further research needs to investigate in more detail how the actors' responses to institutions and cultures might feed back and trigger change at the institutional and cultural level. The problem of trust is an ideal focus for such investigations, because trust entails both agency and embeddedness by definition.

Our main contribution in this paper has been to highlight the role of reflexivity in relationship building and the analytical and practical value of adopting what we call an autological perspective on cultural differences. By this we mean that we do not merely look at whether differences in the cultural repertoires exist but also, more importantly, at how people deal with them in interaction (Kühlmann 2005). We do not simply ask whether trust matters but also what people do to build it in difficult situations. And this approach is also matched by defining success and performance in terms of individual perceptions instead of objective measures.

In sum, we show that it is not enough to become more *aware* of cultural differences, trust and performance. Our findings from the field lead us to conclude that it is necessary to become more *creative in responding* to the apparent barriers and dilemmas one encounters. This involves a genuine interest in understanding the other, questioning one's own assumptions and searching for common aims and rules for initial interactions that produce positive mutual experience from which a trustful relationship can grow. We do not claim that this process and the leaps of faith it involves are easy, but our findings show that those firms and managers who have overcome the trust dilemma in the German–Ukrainian business context have achieved it in this way.

More normative inferences in the sense of models predicting success or checklists containing the managerial “dos and don'ts” at different stages in a cross-cultural business relationship would go against a fundamental message that we received in our interviews:

managers should not assume that there is a fixed model or an explicit “best practice” that they can simply emulate, but they very much need to get engaged, try to understand the other side and establish idiosyncratic goals and rules within the relationships that they build. The specific suggestions and examples we have reported in the empirical part can be no more than a rough guideline and source of inspiration. For example, it is advisable to arrange personal meetings, to seek the help of trusted third parties and to openly discuss profit motives, but such pointers do not release managers from finding out for themselves what works when, where and with whom. Leaps of faith in particular are not accomplished by following a script but by agency.

Further research needs to find out what separates those who are able to deal creatively with cultural differences, an uncertain institutional context and the difficulties in trust building from those who fail to overcome the obstacles. Is it, at the individual level, a matter of personality or can the open and constructive attitude be learned? We have been told by our respondents and have observed ourselves that many managers do not get out of their mould for a long time but then, more or less suddenly, a particular insight or event changes their attitude very quickly. However, there is no guarantee that this will always happen in time. Another factor that has been suggested to us is the difference between older and younger generations of managers. It should be investigated whether the cultural repertoires of younger Germans and Ukrainians overlap to a much larger degree than those of their older colleagues, bosses and predecessors. At the organizational level, it needs to be asked what kind of structures enable or constrain managers to become open, self-critical and creative in business relationships. An organizational culture of mistrust and bureaucratic control is probably not a good condition from which to build trustful relationships outside of the firm across national cultures. Hence, we encourage further research to look at how trust building depends on individual and organizational conditions in boundary spanning across cultural divides (Perrone et al. 2003).

We have focused in this paper on cultural differences because, by definition, they characterize cross-cultural business relationships compared to relationships within one culture. However, it is an intriguing question whether managers in cross-cultural encounters should also focus on cultural differences and address them in their trust-building processes, as we have suggested. After all, if we imagine any concrete setting, not only cultural differences but also different personalities, business interests, organizational structures et cetera are involved, each carrying a degree of potential conflict. Perhaps, as Akos Rona-Tas has suggested to us, it is smart to focus on cultural issues at the beginning of a relationship because they are relatively uncontroversial and resolvable (displaying mutual respect and interest). Or perhaps it is not, because the cultural distance is too great and it would be much easier to find common ground at the interpersonal level (e.g. professional identity, family situation, hobbies) or at the business level (e.g. a few simple, initial transactions). Further research can address this question and elaborate how international business relationships involve not only the cultural level but also other levels (personal, organizational, technical, financial, etc.).

Taking all these suggestions for further research together, we call for more comprehensive studies, which may be interpreted in two ways. First, a structured survey of a large sample of international business relationships could be undertaken in the tradition of the positivist search for “success factors.” We think that this would only produce very superficial insights with limited practical value, though. Second, and more in line with our approach in this paper, researchers could do in-depth, qualitative case studies following a small number of international business relationships over several years and analyzing relationship development at various levels and in various dimensions (see also Marschan-Piekkari/Welch 2004). The outcome could be an empirically grounded process framework for the development of cross-cultural interorganizational relationships similar to the conceptually derived framework by Ring and Van de Ven (1994), perhaps even using their framework to structure the case analysis and then revise the model in line with the empirical findings. This would give a very useful orientation device for managers without any “best practice” claims.

For reference, Ring and Van de Ven’s (1994) process framework for the development of cooperative interorganizational relationships comprises the three consecutive stages of negotiation, commitment and execution, which are supplemented by continuous assessments of the balance of efficiency and equity in the relationship. Accordingly, negotiations enable the development of joint expectations followed, ideally, by the commitments stage, in which obligations and rules are agreed upon. These commitments are then executed through interactions between the parties and, completing the cycle, the executions feed back into further negotiations, in which joint expectations are stabilized and/or updated. According to Ring and Van de Ven, formality and informality need to be balanced at each stage, and the continuous assessment of efficiency and equity also influences the further development of the relationship. The authors point out that relationships will undergo a repetitive sequence of the practically overlapping, but analytically distinct, stages proposed in their framework.

Three aspects of this framework are particularly noteworthy (Möllering 2006). First, trust matters from the beginning but is supposed to be rather weak initially and expected to build up gradually. It is an input and an output of relationship development. Second, the framework emphasizes the need for the parties involved to get to know each other through mutual experiences as they go through the cycles. While utility considerations and formal rules clearly play their role, too, the fate of a relationship depends mainly on the reflexive process of developing trust and joint expectations over time. Third, the framework suggests, on the one hand, that relationships will become more stable and robust, the more often they successfully complete the negotiation–commitment–execution cycle, not least because of the trust that is built up; on the other hand, when key persons involved in the interorganizational relationship are replaced or when assessments turn negative, trust may be lost, expectations may no longer match and there is always the possibility of dissolving the interorganizational relationship. Although we could not use this framework in the research reported here, it resonates very well with our findings and we recommend its use for future research and management practice in cross-cultural interorganizational contexts.

It almost goes without saying that the generalizability of our findings and conclusions is limited in as much as we have only studied the German–Ukrainian context, used a small but in-depth sample approach and focused on salient cultural and institutional factors with less emphasis on economic, technical and structural factors that are clearly also relevant and hardly separable from culture and institutions. Thus, this has been an exploratory project aimed at identifying ways out of the trust dilemma in culturally and institutionally unfavourable contexts. We conclude that the trust dilemma can be overcome through reflexivity and creativity and we have given many detailed examples of what this means. We hope that future research on trust, culture and institutions will pursue similar research strategies and study not only the issues but also the successful managerial responses to these issues. This will help us to understand why some firms are more successful in international business than others, and it can help firms to become more successful by reviewing their own practices in the light of our findings.

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