

The key to doing business in Russia

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Russia offers many opportunities for Western businesses. The world's largest country in terms of territory, it possesses vast natural resources, has a population of more than 140 million, and registered the world's fastest GDP growth rates, of 7.4 per cent, between 2001 and 2008.

At the same time, doing business in Russia is not for the faint-hearted. Russia's business environment is fast-changing and complex, and can initially be challenging for newcomers. As a result, the country has gained a not entirely fair reputation as a risky place to set up shop.

That said, many Western companies moving into Russia will find they have a clear competitive advantage in many sectors. What's more, Russia's somewhat daunting reputation can also be an advantage, as it serves as an entry barrier assisting those who do enter and learn to operate effectively. Those who take the plunge will find that just as important as dealing with the inevitable legal complexities and linguistic realities are cross-cultural issues related to everyday management and how business is done.

Based on extensive experience in Russia over the last 15 years, this article offers some pointers to foreign firms on how to avoid some common pitfalls and how to lower the learning curve that many of their predecessors will have climbed to achieve success.

Making a partnership in Russia work

Partnering with a local company, such as through using a joint venture or making an acquisition, is one way into Russia. I suggest clients ensure that both parties have something to contribute not only initially, but also some years into the future, otherwise it is better to have a wholly foreign-owned subsidiary. In my experience, when creating any sort of collaborative arrangement with a Russian company, whether a joint venture or an acquisition, people at the higher management levels tend to be focused more on the deal, as opposed to what's actually going to happen down the line. The CEO will be involved initially, but once the legal and technical aspects of the deal are organised, they typically hand over to their subordinates. This can cause problems later. It is important to make it clear from the outset that there is some need for continued involvement by top management beyond the initial deal-making. In other words, it is important to focus

on the marriage, not only on the wedding.

When putting together a deal, Western companies are inevitably going to focus on the contract. While contracts are certainly important in Russia, and any company entering into an arrangement in Russia should make sure they have a good contract, having a good relationship with a partner is far more important than the contract especially since, while improving, contracts are not as enforceable in Russia as in some other countries. Relationships help business everywhere, but they are especially critical in Russia.

Dealing with a dynamic environment

It is also important to consider whether the deal is going to work for everyone involved. It is very important to think not only in terms of getting the best deal in the short term for one's own company; too many businesses are focused only on what's good for them. For things to work out, any deal has to be good for both parties in the long term.

One of the most important things for foreign companies to remember is that Russia is a dynamic, constantly changing environment, which means that businesses need to be more adaptable than in other parts of the world. The solution is to stand firm on major goals and be flexible on details. In Russia's changeable environment, some say planning is impossible. I would say it is a necessity. Setting and sticking with long-term goals, while being flexible about the way those goals are pursued, helps guide employees through the sea of uncertainty. Some managers also say that strategic planning is useless in Russia since things change so rapidly. I would argue that strategic planning is even more important in dynamic environments like Russia than in a more stable environment. However, in dynamic environments a different type of planning is needed – contingency planning. Contingency planning helps managers to be prepared for different outcomes. Furthermore, it is important to articulate goals in terms of percentage changes and not actual numbers as such goals stay more relevant when conditions change.

A changing environment also means expecting the unexpected. Companies must be prepared not only to put out fires but to spot the opportunities that grow out of them. A key task of a successful leader in dynamic environments is looking for positive opportunities in negative events and conveying these opportunities to

employees. One needs to be honest when the news is bad, but then point out that the bad news does provide some potential good opportunities for one's firm. Most negative events have such opportunities. For example, if a firm is doing extremely well, it is sometimes difficult to make changes. If a firm is not doing so well (perhaps due to an external change), employees are often more open to changes. However, of course, firms should work to minimise negative surprises and they can do this by breaking up tasks into smaller pieces and implementing early-warning systems – such as additional checkpoints on long-range projects to spot delays at early stages.

Management practices

A hands-off management style is often mistaken for weakness in Russia. But while Russian bosses still tend to take an authoritarian approach, the best method is to practice authoritative, not authoritarian, leadership. Russians value strong, highly involved leaders who gain authority and trust through competence. Effective leaders in Russia communicate a compelling vision, deliver superior results and share responsibility and success with followers. At the same time it should be remembered that although Russia's tradition of authoritarian leadership means people are still obedient to superiors, foreigners do not naturally get that obedience from employees. They need to earn it.

It is also important for foreign firms in Russia to build a strong organisational culture with visible

foreign elements. Firms need strong organisational cultures since top management can not be everywhere and an organisational culture can help convey the way a firm's leaders would like employees to act. Humans do not do well with uncertainty and having a strong organisational culture provides more certainty. Furthermore, Russians are drawn to organisational cultures where employees are respected, made to feel part of a team and encouraged to achieve their full potential because in the past these were not traditional elements of Russian national work practices. Cultures like these make Russians feel like they are contributing the most they can to their firms and this is having an impact on motivating Russian employees. Western companies should preserve and play up these qualities, even as their top management becomes more Russian, especially since many Russians come to work for a foreign firm because they especially value firms with these types of values and practices.

One of the biggest management challenges in Russia is dealing with empowerment. Most progressive Russian middle managers or want-to-be middle managers say that they want more and more empowerment, more responsibility. Creating an empowered organisation should be a gradual process that begins with a promise not to punish employees for making honest mistakes.

Russians are both attracted to foreigners and sceptical about them. Many Russians are attracted to foreigners because they think that foreigners may have something

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The Stockholm School of Economics (SSE) campus in St Petersburg

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new and useful to explain to them. However, Russians are also quite sceptical about foreigners since many previous foreigners who have known much about how to work in their home country have come to Russia and from day one been prepared to solve all of Russia's problems (or a firm's problems in Russia) without really understanding much about the country. This lack of understanding about Russia has often led to significant mistakes.

Western managers coming into Russia often have difficulty dealing with the different concept of time that is often prevalent in Russia. Russians don't always evaluate time as accurately as they might, and can sometimes spend a lot of time working on something which is not important and could be outsourced. Equally important: people tend to be more flexible about arrival times for meetings, which can often go on for longer than anticipated.

Time use is also related to empowerment. Historically, in Russia failure has brought harsh punishment. As a result, many people avoid telling their boss if they feel that they are likely to be unable to complete a task because they are concerned about the consequences, and often they just hope for an eleventh hour miracle. One needs to stress the importance of knowing in advance if a project will run late, stress that honest failures will not be punished, but that failure to point out a mistake which you made which could adversely affect the company (for example a defective product) will be grounds for immediate dismissal.

Something that many Westerners could learn from Russians is the ability to work under adverse circumstances and with less than ideal resources. If possible, Russians will find a way to solve a task even if they do not have all of the ideal resources to hand. Many other cultures would not undertake trying to do something even if ideal resources existed. Russians can work extremely hard and extremely quickly, and as a result, are often able to pull off an eleventh hour miracle. But obviously, managers have to encourage employees to let them know if they're not going to be able to make a deadline, in order to facilitate planning. One of the things that I advise foreigners who are working in Russia to do is to break up tasks into smaller steps and to make sure you're checking along the way how things are progressing. This will decrease the number of crises you experience.

Contrary to what many think, Western companies will find Russians highly receptive to performance-related pay. Traditionally in Russia a bonus is more or less a fixed salary. It is very common for employees to have a low fixed salary and then receive a bonus that more or less is part of their salary. Western companies can attract loyal and hard-working staff by offering performance-oriented bonuses established on the basis of clear goals. This requires an efficient feedback system, which is something

that many companies in Russia have not developed as well as companies in the West. I have found that clear, performance-related compensation and feedback systems can really motivate Russian employees.

Russia has a long history, dating from communist times, of being very strong in terms of innovation, helped along by the fact that Russians are historically very well educated and technological innovation was highly valued in the communist era. Russians are also very creative and able to do things in alternative ways with limited resources. Thus, it is somewhat surprising that as a country Russia's performance in innovation is rather low. There are several causes of this. Russian firms need management practices which place higher value on individual ideas, even from lower-level employees. Russian firms also need to ensure that it is clear to employees that they will not be punished for honest failures so that they are willing to try innovative things. In addition, Russians need to place greater focus on the long term and not only the short term in their strategy making. Finally, Russia needs to focus more on developing the infrastructure which will lead to innovation, rather than focusing on declaring that innovation will happen.

Another factor hindering the level of innovation in firms in Russia is that one of the greatest problems in the Russian education system is that it's essentially a system based on memorisation to a higher degree than is desirable. I would prefer to see more modification away from memorisation to being able to truly understand and think independently. A good example of this is that the way that most Russian university exams take place is that students are given, at the end of a course, a list of possible questions they could have on the exam. They might get fifty questions. Then students take an exam, which is normally oral, and the professor randomly draws one of these questions to give to students. Thus, Russians are used to preparing these particular questions to be able to recite the answer to their professors. Now, of course, in the real world we don't have a limited number of questions that we encounter; we encounter any number of possibilities. So, I think one thing that could help further Russian managers' ability to be more innovative would be a change in the educational testing system, with less focus on memorisation and more focus on ways of thinking. This is one of the things that we at the Stockholm School of Economics and Ward Howell have been working very hard on with our programme participants, with some good results. In conclusion, Russia offers great potential for firms using culturally-appropriate management practices and strategies. **F**

*Some ideas in this article draw on ideas presented in a more expanded form in the author's article: "The key commandments of doing business in Russia", forthcoming in 2010 in *Organizational Dynamics*.*