

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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