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The Key Commandments
for Doing Business in Russia

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THE KEY COMMANDMENTS FOR DOING BUSINESS IN RUSSIA

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Abstract

Russia possesses many opportunities being the world's largest country in terms of territory, possessing vast natural resources, having a population of over 150 million people, having had one of the world's fastest GDP growth rates of 7.5% from 2001-2005, and having less competition in some industries than is the case in many countries due to the economic transformation Russia is undergoing. However, Russia also has a dynamic, unique, challenging, and sometimes difficult to understand business environment that has caused problems for many foreign firms. As a result, it is risk rather than opportunity that many associate with Russia. There is no denying that doing business in Russia is not for the faint at heart. However, the difficulty to understand Russia's business environment can also be an advantage as it serves as an entry barrier that assists those who do enter and learn how to operate effectively to reap higher returns. Based on interviews with executives from 36 foreign firms operating in Russia and supplemented by our extensive experience in Russia as executives, consultants, executive trainers, and researchers over the last fifteen years, this article suggests eight commandments that will enable foreign firms to avoid mistakes and skip the trial and error learning many of their predecessors have had to go through and achieve success in Russia more rapidly. Indeed, this article suggests that risks can be mitigated and Russia presents good opportunities for skillfully-designed foreign investment projects that take into account local specifics.

THE KEY COMMANDMENTS FOR DOING BUSINESS IN RUSSIA

Russia is the world's largest country spanning 11 time zones and it has business opportunities equal its size. Indeed, today Russia offers exciting business opportunities propelled by significant growth in the economy as evidenced by an average growth domestic product (GDP) growth rate of 7.5% per year from 2001-2005¹. Today in Russia it is not uncommon to hear businessmen discussing possible investment opportunities and saying that anything less than a 30% return on investment is uninteresting. However, large risks are also associated with doing business in Russia, and thus for many observers when they hear the word Russia it is the word *risk* rather than *opportunity* which comes to mind. There is no denying that doing business in Russia is not for the faint at heart. However, Russia's unique, challenging, and sometimes difficult to understand business environment also serves as a barrier² that assists those who do enter and learn how to operate effectively to reap higher returns.

With one of the fastest GDP growth rates in the world for the past five years, a population of 144 million people, a relative lack of competition in some sectors, and substantial growth in purchasing power (more Mercedes cars are sold in Moscow than in Berlin today and dollar denominated wages grew on average more than 400% over the last six years³), Russia shows some signs of becoming an attractive destination for foreign investment. Indeed, diverse international companies such as Raiffaissen Bank, Telenor, McKinsey, SAP, Tetra Pak, Phillip Morris, Mars, Wrigley, and McDonalds have already penetrated the Russian market and enjoyed success. Their successes support our view that today Russia presents good opportunities for skillfully-designed foreign investment projects that take into account local specifics. The challenge for foreign firms starting businesses in Russia is to figure out how to mitigate the risks and capture the profits. This article addresses this challenge.

The article aims to enable foreign firms and individuals interested in doing business in Russia to move further up on the learning curve and thus avoid mistakes that many foreign firms have previously experienced launching operations in Russia. Based on interviews with

executives from 36 foreign firms operating in Russia (see Table 1 for a list of companies interviewed) and supplemented by our extensive experience in Russia as executives, consultants, executive trainers, and researchers over the last fifteen years, we have developed eight commandments that will enable foreign firms to achieve success in the Russian market place (see Table 2 for a brief description of each of the commandments). The first three commandments deal with effective organizational practices in Russia, commandments four and five describe broad strategic issues which are important in Russia, and the final three commandments (six, seven, and eight) deal with specific external operational challenges of the Russian environment. Below, we present our eight commandments and illustrate each of them with examples from the firms that we interviewed.

----- Insert Tables 1 and 2 about here -----

Commandment 1: Practice Authoritative not Authoritarian Leadership

Leaders are important in any society, and by making their followers rise to new heights, they drive economic and social progress at macro and micro levels. Such leadership also provides meaning for employees. These roles are universal; however, the way people enact them differs from country to country. Russia has a tradition of strong, larger-than-life mavericks such as Peter the Great, Josef Stalin, and World War II hero general Georgy Zhukov. The new wave of Russian capitalism confirms this tradition: regardless of a successful Russian entrepreneur's competencies and management style, he or she invariably has enormous power within the organization. Followers look to the leader as a superior being who has unique rights and, by definition, deserves compliance. Russians have a need for powerful charismatic leaders and tend to create them often irrespective of the leaders' intentions⁴.

Russians' expectations of foreigners in leadership positions, however, are more complex. The formal title of CEO does not guarantee its holder the same level of compliance from Russian subordinates as if a Russian held that position. Respect and conformity will come only if the

leader demonstrates superior competence and delivers tangible results. When a leader is recognized as having such competence, Russian employees expect from him or her specific actions that address their problems and improve their working lives and the performance of their company. To some degree foreign executives must live up to a higher ideal than Russian managers since in Russia the general belief is that foreigners are more progressive and can do more for their staff than Russian bosses. When the above conditions are met, Russian employees led by foreign managers can perform wonders. When these conditions are not met, problems are likely to occur.

Robert Sheppard became Sidanco's de-facto president in February 1999 shortly after one of Moscow's courts declared the company, owned by Russian private shareholders and BP, bankrupt. One could hardly imagine a more difficult time to take over the leadership of a company. However, when Sheppard left Sidanco in 2002, the company was probably the most advanced oil major in the country--with hefty profits, a new business model, and as internal surveys showed, extremely satisfied employees. Sheppard changed the company by practicing what we call *authoritative leadership*--when a strong and highly-involved executive leads from authority gained from the followers by virtue of competence possessed rather than just through the power of the position.

We assert that it is important how a leader gains authority. Entering the company where turmoil and despair reigned, Sheppard remained cool, listened much to employees, traveled to regional subsidiaries, and did not rush to give orders. After this initial reconnaissance he concentrated on a limited number of issues that were key for the company's survival and on establishing his authority. Sheppard picked low-hanging fruit by introducing simple financial controls, centralizing cash management, and sending reliable people to key jobs in the regional subsidiaries. At meetings with Russian executives in the head office and in the regions, he demonstrated superior industry knowledge and established himself as a high authority on the oil business. He met with key external counterparts--regional governors, federal ministers,

regulators, bankers--and spoke with confidence about Sidanco's future and BP's commitment to the company and the country. Sheppard hired a few capable Russians and expatriates and moved out some crooks and drunks. He made it clear that he was the sole point of contact for board members and shareholders and shielded his management from such forces. Using his contacts at BP, Sheppard restructured Sidanco's debt. Improved results followed his efforts--by the beginning of 2000, Sidanco had returned to the black. Its oil production was on the rise, costs were declining, and salaries and taxes began to be paid on time. People inside and outside of the company recognized success and associated it with the new leader. Sheppard had firmly established his authority, and he moved on to reform the company.

Having both significant power and a clear vision of what he wanted the new Sidanco to be like, he nevertheless decided to involve his subordinates in the process of designing the new organization, planning the change process, and carrying out the transformation. A team consisting of key executives from the head office and the regions met regularly and debated available options, agreed on action plans, and followed up on previous decisions. From day one of the change program, Sheppard emphasized the importance of extensive communication about the change process. To support it and ensure success, Sheppard became the speaking head for the transformation process. He communicated about the changes by frequent articles in the company's magazine, conducting town-hall meetings in the regions, and meeting with governors, suppliers, and unions. To support the change program, Sidanco made significant investments in employee development and created a corporate university where Sheppard was president and an instructor.

Sheppard launched the change program, established the general direction, set limits, and developed well-defined targets and criteria for success, but he left his subordinates enough room for creative implementation. In addition, Sidanco's newly-created compensation and review systems reinforced the spirit of executives' individual and collective accountability. Gradually

withdrawing himself from day-to-day management, Sheppard spent much time and effort selling the change program to the board and winning its support. As Bob Sheppard said:

I could fix one or two things single-handedly, but I never would have succeeded in implementing the vision of “Operational Excellence” alone. There was no choice but to get other people involved. And they, at the end, responded very positively, even though initially they spent an enormous amount of intellectual energy explaining to me why that could never be done in Russia. But, you have to be firm in important things and use your authority. Later in details you can, and even should, be very flexible.

We can also learn from the experience of others what not to do. Ron Chapman (a pseudonym) also led a multinational manufacturing and service company’s expansion into Russia. The company swiftly established a number of joint ventures with local partners, and Ron decided to appoint representatives of the Russian parents to be General Managers(GMs) of the joint ventures and manage his firm’s Russian operation through them. A seasoned international executive with experience in the US, Japan, Taiwan, and Western Europe, Ron believed in delegation of authority, management by objectives, and a hands-off approach. He worked with his GMs through semi-annual country meetings usually held in resorts outside of Russia, annual performance reviews, casual visits to the factories, and informal meetings over a meal. He never interfered with operational issues but left these to the GMs. He judged the managers by year-end results. When the results were not as good as hoped for, Ron blamed them on unfavorable external conditions that were likely to improve in the future and thus normally recommended to pay his GMs full bonuses. Chapman felt that his Russian GMs were his key asset and tried to do everything he could to support and protect them. For example, he helped one general manager to send his daughter to the US to study, financed an apartment for two other GMs, and arranged medical treatment abroad for the fourth one. When expatriate deputy GMs criticized their bosses or brought to Ron’s attention problems at the JVs, the Country Manager publicly sided with the GMs and then tried to address the issues behind closed doors.

Ron Chapman was overall pleased with the way the business was developing in Russia when he received his first unexpected blow. One of his GMs left the company to return to his

old factory—the Russian partner in the JV, which he had secretly privatized. With the new owner turned CEO, the competitor factory modernized its product, launched an aggressive sales campaign, and became a significant competitor for the multinational. Just one year later an internal audit found that another GM had used company assets for personal enrichment and had conducted some questionable transactions with suppliers. Ron was furious. He felt that he was personally betrayed by his protégé and immediately fired the GM. But unfortunate events continued. The whole group of young high-potential managers, who had spent a year at the multinational’s operations in the US, left the company’s largest Russian JV, citing the authoritarian style of its GM as the reason for their departure. Just a month later three senior managers followed suit and started a service company to compete with the JV. The multinational’s market share started to decline rapidly and it lost its leading position. Soon its financial results began seriously to worry its parent company. Ron was transferred to managing another country, and the JVs were consolidated into one legal entity, which is still struggling.

One of the GMs who worked for Ron described him as “a nice guy, but a weak leader who did not know or care about the business.” Ron’s subordinates took his informality for weakness, hands off style for lack of professional knowledge, and empowerment for lack of interest. Having established that diagnosis early on, they went on to work on their own agendas, which often had little to do with the multinational’s vision for Russian operations. Ron chose a style that was unknown, and therefore incomprehensible, to his followers. In contrast, Sheppard chose to establish his authority first and to teach his followers his style from the position of authority. These cases indicate that it is important to match leadership style with followers’ expectations and readiness.

Foreign executives who become effective in Russia realize the importance of choosing leadership styles that work in Russia. They establish, recognize, and use their authority to promote what INSEAD professor Manfred Kets de Vries calls an organizational model based on 3Is – information, involvement, and innovation⁵. They start by assuming responsibility for

company results and its people and proving their leadership capabilities. They lead from a position of power, but they articulate and communicate to the followers a compelling vision for the future. They deliver superior results by focusing on people; they respect employees as human beings and demand the same level of respect from them; they involve followers in the process of deciding where to go and how to get there; they share information, responsibility and success; they develop trust by walking the talk and having others accountable for their words and deeds also; they develop, support, and personally mentor their followers; and they instill a culture of development and innovation. Acting in this way, they tap the better qualities of Russian employees—creativity, loyalty, endurance, curiosity, resourcefulness, and the ability to work hard—to create great momentum and produce outstanding results.

Commandment 2: Build a Strong One-Company Organizational Culture with Visible Foreign Elements

Our research has found that a strong organizational culture with clear sustainable organizational practices that are used to achieve specific goals has a positive correlation with high-performance in Russia. In the decades of communism most Russian organizations were dull places to work because they provided little meaning or opportunity for the majority of their members⁶. Office politics, double ethical standards, murky procedures, and unclear goals reigned. Companies that emerged during the first decade of Russian capitalism often suffered from the same diseases of non-transparency and arbitrary rule⁷. As a result, the efforts of some Western companies to build strong and transparent organizational cultures at their Russian subsidiaries have created a very positive response from most Russian employees. This type of environment emulates the famous words from the film *Field of Dreams*: "Build it and they will come."

The general director of UPM Paper in St. Petersburg—Pavel Sarkov—summarized his firm belief in the importance of a strong organizational culture by saying:

Our organizational culture is a key element that differentiates our firm from other companies and attracts people to our company. Our company's organizational culture here in St. Petersburg is built on three key principles which are very visible in the organization: 1. Trust – in employees; 2. Openness-- internally and externally, 3. Initiative--we want employees to contribute.

Pavel is confident that the above three principles are an effective basis for organizing. Pavel explains, “One has to trust employees or the costs are too high in terms of time needed for checking up on and controlling actions. A trusting environment is also much more enjoyable to work in and motivates employees.” At UPM the doors to all conference rooms and offices are kept open, and much of the office was designed in an open landscape format such that employees can hear much of what is going on in the company when they sit at their desks or walk through the office.

The UPM example also illustrates another important point regarding organizational culture. Many Russians are attracted to work for foreign firms to experience the organizational culture of an international firm. Thus, it is important that firms live up to their interest by having some visible foreign elements to their organizations. Although most of the specific features depend on the national origin and culture of the mother company, we found four fundamentals that Russian employees seek from their foreign employers: 1) fairness, 2) transparency, 3) meritocracy, and 4) a chance to have an impact on the organization and feel part of something important. People familiar with Russian national culture and organizational practices know that those elements are not traditional, but when foreign employers create this type of environment, Russian employees do wonders in exchange.

The food giant Mars is another company that benefits from having a strong organizational culture with visible foreign elements that are consistent throughout the company. Mars is a special company and one can quickly feel that when one walks in the doors. It is also clearly a foreign company in terms of how it operates and it uses this feature to its advantage to attract employees. The company is, however, conscious of the need to adapt to Russian culture and does well in this respect now that it has much experience in Russia.

Through internal processes and procedures, communication, and its leaders, Mars' culture promotes meritocracy, fairness, respect for an individual, and the feeling of being part of an elite institution. These qualities are imbued at the recruitment stage. With about 50 applicants for most managerial jobs, the company makes sure candidates know that it is only the very best who get to work at Mars. The best applicants are invited for testing that includes solving cases, taking examination, making presentations, and having an interview. Final candidates have additional interviews. This in-depth process enables selection of the most qualified candidates—qualified not only in terms of ability but also in terms of fit with the way Mars works. This extensive selection system also has the positive side-effect of making selected employees feel as though they are part of an elite team. This US company also has an informal atmosphere that is typically American. All employees, including managers, are called associates. Information flow between all levels is encouraged, and any employee can approach any senior executive. A positive attitude towards openness combined with an open space layout reinforces the special atmosphere of openness.

At Mars the decision making process is transparent, and great emphasis is placed on fairness. For example, in the case of a new opening any employee can apply for the job. All internal candidates are invited to go through an extensive assessment procedure that includes making a presentation on a prescribed subject, participating in a business game, and having an interview. Human resource managers and potential future managers who the employee will work for evaluate the results. Employees' past work results do not have much weight because the question is not if the employee can do his/her current job well, but who can do the new job best.

The most important aspect of Mars' organizational culture is its focus on action and individual responsibility fostering an attitude that employees should think creatively to solve problems and be able to take action. Russian employees, especially those with advanced

degrees, highly value opportunities to voice their opinions and to be heard by their superiors--a practice that rarely exists in Russian companies.

Organizational culture can indeed have a positive impact on performance of a foreign company in Russia⁸ (Fey and Denison, 2003), but it is also a delicate management tool that can backfire if leaders do not live up to proclaimed norms and values. For example, if a foreign firm states that it values employees' opinions, then it needs to implement some ideas provided by employees or employees will lose faith in the organizational culture. This fact is especially important to keep in mind as foreign subsidiaries go through the normal cycle of decreasing the number of expatriates working at their subsidiaries as the subsidiaries become more established. At this phase many firms we have worked with have run into problems with employees claiming that their organizations have become "too Russian." Thus, as the number of expatriates at a company decreases, foreign firms need to make sure to place extra effort on maintaining their organizational cultures, especially in preserving and even highlighting the foreign elements in their organizational cultures.

Commandment 3: to Create an Empowered Organization Step by Step

Many foreign executives suggest that creating an empowered organization in Russia is their largest management challenge. Yet those who have made significant progress down the road to empowerment emphasize the positive impact that it can have on employees' motivation and performance if implemented correctly, at a reasonable speed, and to the right extent considering employee readiness⁹.

Traditionally Russian organizations knew very little empowerment and both the top and the bottom of the hierarchy contributed to this situation. On the one hand, the centralized governance model permitted little decision making to occur at lower levels. On the other hand, employees were reluctant to show initiative or make decisions because of Russia's traditions of severe punishments of mistakes and non-traditional behaviors¹⁰. However, some foreign

companies operating in Russia such as Gillette, Microsoft, and Mars have demonstrated that empowerment can be successfully built into predominately Russian organizations.

First and foremost, firms that have been successful with empowering their employees recognize that empowerment should be a process, not an event. It cannot be implemented overnight and requires continuous step by step efforts. At the same time, empowerment should produce some visible results quickly to excite employees. Second, successful firms realize that empowerment requires a profound culture change that can be achieved only when company leaders' actions coincide with their words. Two elements are especially critical here – tolerance of mistakes and refusal to make decisions that have been delegated to an empowered employee. Managers have to control their instincts to criticize an employee who made an honest mistake so as not to stifle future employee initiative. Also, managers should also be willing to discuss the pros and cons of different alternatives with empowered employees when asked, but managers should avoid the temptation to make a decision on a previously delegated issue even if the subordinate asks that the manager do this and this would be quicker.

While empowerment is a challenge in many countries, in Russia it is particularly challenging and important because of Russia's tradition of limited empowerment and severe punishment of mistakes. This tradition leads to a reluctance to make decisions even when management has delegated such power and when employees themselves wish for more power. Below, we provide some examples of companies that have worked hard to create more empowered organizations by following the above principles with some success. Gillette employs about 650 workers at its factory in St. Petersburg. As one way to increase empowerment and employee involvement in generating ideas, Gillette has implemented a special type of cross-functional improvement project called rapid improvement events. This is when a cross-functional team with people from all levels of the organization is given a week off from their normal work to examine and try to solve a specific problem and implement as much of the proposed solution as possible. Gillette has gone to this intense week format because of the

realization that since time is a team's most scarce resource little progress is made when teams are competing against team members' daily work responsibilities. The ideas for these projects can be proposed by anyone and a committee of managers decides which ideas will be pursued. The teams receive good top management support when needed. The projects had proved quite successful. .

In some instances when one tries to empower employees in Russia, the actions are met with some resistance. For example, one manager at Gillette commented that several times after he had delegated a decision he would find employees returning to him asking him to make the decision. He found that three tactics were helpful in solving this problem. First, the manager worked hard to explain that one can not have progress without some risk. He stressed that people who took calculated risks and failed would not be punished. He stressed that the most important factor was that everyone learned from these failures such that they occurred only once. He also publicly advertised some examples of this principle. Second, the manager developed a policy whereby he would discuss the pros and cons of different options for a decision with his employees if they came to him, but once a decision was delegated he would not make the decision himself. He also found it useful in such discussions to say to employees, "If you were me what would you do?" Putting themselves in their boss's shoes often made it easier for employees to make the decision. Third, this manager found it was helpful to explicitly clarify which items an employee was empowered to act upon to the extent possible.

Ford St. Petersburg also has found it important to place significant effort on creating an empowered organization. Its managers acknowledge that creating an empowered atmosphere is a slow process and think that a belief that such a change can be made overnight is where many companies have gone wrong. Ford St. Petersburg focuses not just on empowering people to act, but on also making them responsible for the outcome of their actions. At the same time, Ford employees are not punished for honest mistakes. As a Production Manager at the Ford factory informed us, Ford does not want to increase quality by increasing the number of inspectors.

Instead, Ford wants to make employees all fully responsible for and actively checking for quality. For example, if an employee knows that the threads on a screw are stripped, Ford does not want the employee to be using the damaged screw to screw something into a car to save time, because it was the end of the shift, because there was no replacement part, or because the employee did not know how to fix the piece. To resolve this problem, a sheet of paper is attached to each car at Ford on which employees should write remaining problems to be fixed by the next person working on the car. Ford St. Petersburg also encourages employees to see the importance of improving their work and considering ways to prevent problems so that next time the same problem will not reoccur. However, the minimal first step that Ford requires is getting employees to be open about mistakes.

It is hard to find companies in Russia where employees are not punished for honest mistakes. This is one of the most important traditions to change for empowerment to work. A production manager at Ford explained that Ford Russia has worked to minimize this problem by repeating time and time again that employees will not be punished for mistakes resulting from taking a calculated risk that did not work out, for highlighting a problem, or for making an honest mistake. Employees should, however, make the same mistake only once. Changing behavior takes much effort, but Ford is convinced that such change is worth the investment as it will substantially benefit Ford's productivity in Russia.

Commandment 4: Respect Local Rules, But Play Your Own Game

“This is Russia--things are different here” is a magical statement that every foreign executive daring to operate in Russia hears every day if not every hour. Employees, suppliers, customers, government officials, and consultants repeat that a different business logic rules in Russia and thus doing business there requires a very special approach.

We do agree with the first part of this conclusion-- that Russia is a distinct market with specific rules of which one needs to be aware. However, our research shows that foreign

companies trying to create Russian-specific operating models by copying what local businesses do often fail, while foreign companies that intelligently apply (with some local adaptation) the business models that have helped them to succeed elsewhere more often flourish.

When the management consulting firm McKinsey entered the Russian market in the early 1990s, Russians who knew a little bit about the top-tier consulting industry as well as expatriates who knew a little bit about Russian economy and its captains both foretold a big fiasco: “Who needs strategy advice at astronomical prices in a country with a contracting economy, skyrocketing inflation, organized crime, and opaque privatization?” Yet, within a few years McKinsey had a flourishing Russian consulting practice. How did they manage this success? Not surprisingly by providing the services McKinsey is famous for around the world—strategy consulting to CEOs. Against some local advice, McKinsey refused to compromise on its target audience, pricing, or the quality of its work. It recognized that some local specifics needed to be taken into account such as high power concentration in the hands of the owner-CEOs, the need for some ritualism in dealing with these owners, e.g., unusually high levels of secrecy and extensive office politics.

McKinsey quickly recruited and trained many Russian-speaking consultants—not all from top business schools. It also started publishing a Russian language version of its quarterly magazine and provided free work for popular charitable organizations such as the Bolshoy Theater. However, McKinsey did not forget the formula that had made it successful in other countries. McKinsey even refused to provide services, such as recruiting managers and structuring deals, that its new Russian customers wanted. McKinsey felt that these activities would distract from its core services and fail to build on its strengths and its traditional strategy of consulting. By concentrating on its core competency of providing high-quality strategy consulting, McKinsey established itself as the unchallenged market leader. By the mid 1990s it had become fashionable among Russian business tycoons to have McKinsey’s consultants

working for their businesses. McKinsey's strategic advice was not always followed, but it was always listened to with interest and appreciation.

Citibank, a relative newcomer to Russian retail banking, followed a somewhat similar operating model that allowed it to gain a sizable market share in a short period of time. It did not try to compete with local banks on interest rates on deposits or staff wages, but offered a "civilized retail banking experience" to its clients, who were willing to pay a premium for a wide range of services, friendly and knowledgeable staff, reliability, and transparency. The bank takes into account the local market specifics when it structures products, sets rates, or plans advertising campaigns, but the core business model remains distinctly the same as it is in other places in the world.

In fact, we do not know of any foreign company that managed to beat local competition in Russia by privatizing assets or acquiring them below market value through sophisticated schemes or legal battles, by optimizing tax and salary payments, by getting special deals with different levels of government, or by cutting corners in the not-always-so-clear legal system. Some foreign firms have tried, but most have sooner or later failed. We strongly believe that in this sort of game home players will always have an advantage. Foreign businesses cannot beat the Russians at their own game but should be aware how the Russian game is being played to be able to protect their right to play their game on the Russian field. Companies who fail to recognize local specifics pay a high price for their stubbornness. For example, one multinational we talked to sent a very experienced expatriate sales person to Russia to develop business with the government. The struggling expatriate spent almost a year trying to get into the potential customer's premises, but failed because of his nationality (foreigners were not allowed to enter the building). Thus, he had to return home empty-handed.

To be sure, it is important to demonstrate awareness of and respect for local rules and customs in dealing with customers, suppliers, and employees. By this awareness we do not mean simply speaking Russian, drinking vodka, or going to the sauna (all of which can be

useful), but rather showing interest in and understanding local people and their way of life and incorporating this knowledge into one's businesses' operational model. For example, Microsoft successfully applied its standard management practices to develop business in Russia, but has done it taking into account local specifics. Unlike its businesses outside of Russia, in Russia Microsoft is organized in 19 regional offices in order to reflect geographical and cultural specifics of a country with 11 time zones and powerful regional elites. The offices were thin, but they ensured local presence and allowed for regional managers to have access to the highest echelons of power. Managers at Microsoft's headquarters took some time to agree with this approach, but when they saw how it worked they accepted its use in Russia.

Commandment 5: Stand Firm on Big Goals and be Flexible on Details

In Russia, with its constantly-changing environment, it is important to stay focused on a firm's big goals and be flexible on the details. Some managers argue that Russia is so dynamic that it is impossible to do much planning or have long-term goals. Our research shows that in fact just the opposite is the case. In Russia's dynamic environment, employees need clear strong goals that the company is working towards to reduce the level of uncertainty and provide some stability and direction. With such goals, the instability of the external environment seems more manageable. This is not to say that such goals should never change, but they should not change very frequently. We argue that it is not the key goals that should change often but the details of how these goals are achieved which needs to be very flexible and often changed in Russia. We also suggest that contingency planning can be helpful in achieving these goals and facilitating this flexibility.

The Swedish white goods company Electrolux, which in 2005 started a factory to assemble washing machines in St. Petersburg, is one company that recognizes the importance of such an approach. As Nicolas David, the factory's general manager, indicates if the company had not followed this commandment, it never would have managed to get started. Electrolux is

in a pilot phase that will last 3-5 years during which the key goal is to assess if having manufacturing in Russia is a feasible business proposition. Electrolux wants to evaluate the market reaction in Russia to Electrolux products made in Russia, Electrolux's ability to produce good quality products in Russia, its ability to cope with local regulations and to develop needed government contacts, and its 's ability to develop a good local supplier network. As a pilot project, Electrolux is trying to conduct the project with minimal investment and thus rents the building which they use for a factory. Prior to the start, the European region and Russian top management drew up the minimal characteristics needed for the St. Petersburg factory building. It was impossible, however, to find a building to rent meeting all of the requirements. Thus, in the end Mr. David decided that it was best to stay focused on the key goal of assessing whether Electrolux could create a factory that could work well in Russia and be flexible on the details of the characteristics of the factory building which they were to rent. Thus, Electrolux rented a building despite the drawback of having space on several floors as opposed being on one floor.

Another way to think about the above issue is to indicate that one needs to focus on the important goals rather than spending time on issues that add little value. For example, the Russian market is such that sales are very unstable month to month. Western multinational corporations (MNCs), however, focus on stability and are built around working towards stability and carefully monitoring all short-term changes in sales. Thus, MNCs have a tendency to take action when sales figures go down for just one month. Electrolux is convinced that reacting to such short-term changes does not add much value in Russia's unstable environment.

VimpelCom is another company that has benefited from following a policy of staying focused on key goals and being flexible on the details of how these goals are reached. This focus has allowed VimpelCom to grow from the idea of a young American Augie Fabella II in his 20s and an older Soviet radio engineer Dimitry Zimin--both of whom had little capital--to become one of the two largest mobile telecommunications companies in Russia. In VimpelCom's case, the key goal was to develop into a large, rapidly-growing, and modern mobile

telecommunications provider in Russia while providing good working conditions for its employees (many of whom, especially in the beginning, came from the Soviet Applied Radio Research Institute). To reach this goal, the company has shown great persistence in sticking to its key goal while at the same time exhibiting great flexibility in how this goal was to be achieved. For example, VimpelCom switched from the Amps 800 MHZ standard to GSM. VimpelCom also switched from a totally technology-driven company to one of the first Russian companies to develop a serious brand (backed by a bee as a trademark) when it became clear that more than good technology was needed for success. VimpelCom also managed to fight off Systema, one of Russia's most powerful financial groups that also owned VimpelCom's largest competitor MTS, which had acquired the majority of VimpelCom's shares from sleeping Soviet-era institutional shareholders. It was clear that VimpelCom's goal of significant growth was not going to occur with Systema owning it due to Systema's focus on competitor MTS. VimpelCom managed to regain control of its destiny with the help of the significant political negotiation ability of CEO Zemin and the fund raising efforts of Fabella. VimpelCom raised funds for this first from a select group of US investors and subsequently by being the first Russian company to list on the New York Stock Exchange. VimpelCom then attracted a strategic investor in the form of the Telecom Telenor when growth required having knowledge about international best practice in mobile telecommunications. VimpelCom then brought in the Russian financial group Alfa Group to help the company survive and thrive in modern day Russia in which CEO Zimin's contacts and charm were not going to be enough and further funding was needed quickly to take advantage of the opportunities at hand especially relating to regional expansion. In this transition, founders Zimin and Fabella voluntarily left the company realizing that they had done what they could for VimpelCom and that the further growth of VimpelCom would be best served by professional management. All of these significant changes occurred while keeping the key goal of the firm in mind--to develop a large, modern, rapidly-growing mobile

telecommunications provider in Russia while providing good working conditions for its employees. It was how this goal was pursued, and not the goal itself, that had changed.

Commandment 6: Learn to Live and Manage in Crisis

We sometimes joke that Russia is a very predictable place—something unexpected will happen every day! Indeed, there is something to this statement and thus learning to manage in crisis is an important skill to gain to be successful in Russian business. Our research has uncovered that there are several actions that firms can follow to better deal with crises. First, it is important that firms are open to change and view change as a potential opportunity and not only a threat. Indeed, crises normally emerge in Russia from a change in the external environment and while such change often initially lead to problems as it interrupts the status quo, change can also lead to opportunities. For example, many firms in Russia such as local food production companies, took advantage of the 1998 financial crisis and as a result gained significant market share when imported foreign food became much more expensive. Other local Russian food companies were so focused on the crisis that they did not realize this opportunity until it was too late. Second, it is important that firms be prepared to act quickly in response to crisis. Third, it is important that senior managers in firms in crisis stay calm and portray a confident face for employees (they should acknowledge that the crisis exists, but be confident that it can be dealt with successfully). Fourth, it is important to ask multiple people from different organizations their perceptions of how bad the crisis really is and their suggestions for response to the situation. In crisis, some people's emotions overshadow analytical ability. Finally, steps should be taken to prevent crises such as developing sophisticated early warning and control systems to minimize surprises.

The Swedish business school Stockholm School of Economics Russia (SSE Russia) is an example of an organization that has benefited from learning how to live and manage in crisis. SSE Russia had worked hard to sell its first corporate EMBA program in early 2004. Its client

was the company that most people at the time would have dreamed of—the Russian oil company Yukos. However, few would have guessed that not long after the corporate EMBA program started, the Russian government would decide to go after Yukos' founder Khodorkovsky, allegedly for inappropriately acquiring assets and for Yukos' improper filling of taxes. These actions brought Yukos to the verge of bankruptcy. In such a situation, the firm was not even able to pay for transportation for its employees to attend all of the first group of modules which had already been paid for before the financial problems began much less pay for the later modules in the program.

Many advised the leadership of SSE Russia to consider this a lost cause and close the program. However, SSE Russia was persistent and came with many different innovative proposals. In the end, the program was successfully converted into an individual EMBA program--a program where individuals paid for the program rather than their firms. Most of the participants chose to stay on and pay for the EMBA themselves (some getting their employers to pay for it as many of the employees had now started to work for different companies due to Yukos' financial troubles). To compensate for a few lost students, SSE Russia recruited additional participants who joined the group after taking part in a crash catch-up course. In the end, the outcome seemed to be good for all involved. In fact from the SSE Russia perspective not only did SSE Russia get to deliver another section of an EMBA program, but in fact one unexpected positive outcome of these changes was that since former Yukos participants were now actually working not just for Yukos, but for many different top Russian companies, SSE Russia gained access to some additional companies that proved useful in selling other programs. Thus, by being open to change, remembering that change can be an opportunity as well as a threat, acting quickly, and staying calm and confident, SSE Russia turned the crisis into a success.

The American oil company Chevron is another company that has learned much about managing crisis in Russia. The CEO for its Russian operations Trem Smith indicates that the

most important secrets to doing “OK” in crises are to stay calm, remain analytical, and seek opinions of people from different groups--e.g., government (ideally someone from the Kremlin since government power is increasingly concentrated there today), other foreign firms, local Russian businessmen, independent analysts, professors, etc. Ask these people’s views of how substantial the crisis is and what they think would be good to do. Indeed, people who perceive they are in the midst of a crisis tend to be very emotional especially in Russia and it is important to stay calm and analytical in Russia’s frequent crises and carefully to analyze the situation based on input from multiple people. Not following this policy previously hurt Chevron in its efforts with the Caspian pipeline project. Following this approach more recently is helping Chevron with other projects.

Above we have discussed how to minimize problems when one finds oneself in a crisis. However, it is also useful to try to prevent crises. Russians have historically been severely punished for mistakes, such as completing projects late. As a result, there is still a tendency today not to be open about mistakes. For example, if there is a risk a project will be late (sometimes as a result of unexpected external events), many Russians may not inform superiors in advance, but instead work very hard at the end to try to solve this problem and be on time. While Russians may not be so good with steady work, they are amazing with last moment accomplishments. Sometimes however, despite the best efforts a project is late. In most cases it would have been preferable for the responsible manager to know in advance that the project had a 50% chance of being late such that the manager could inform the customer, make alternative arrangements, or take corrective action.

Several strategies can help to deal with this problem. First, it is important to create an atmosphere where employees will not be punished for honest mistakes and that employees believe this statement. Second, in Russia, it is important to break up larger projects into smaller pieces than one might do in other places to have more check-points or mile stones along the way. Third, it is important to spend more time explicitly discussing all possibilities that could go

wrong from the perspective of involved parties and getting some estimate of what the chances are of the different problems occurring such that all involved start to think about these risks and thus evaluate time and alternative plans more seriously.

International Paper's plant OAO St. Svetogorsk, about a three hour drive from St. Petersburg, is one organization that has worked to try to deal with this problem. The realization that some changes were needed came to HR Director Steve Derrick when a new multimillion dollar paper machine was being installed recently and a delay occurred because of a problem with the foundation. Later Derrick learned that the Russian employees had known about this problem several months before, but they were afraid to say anything. As a result of this problem, International Paper has now started a program to advertise that employees will not be punished for honest mistakes and that it is much better to inform in advance that a project might be late rather than waiting until it is late. In addition, the company has started breaking up projects into smaller pieces with more check-points along the way. Derrick indicates that International Paper has made some progress and that this progress has been helpful, but that it still has further to go. Motorola Russia is another company that follows a similar strategy with good results.

Commandment 7: Recognize that corruption is omnipresent in Russia and must be managed¹¹

Foreign businessmen who have been working in Russia for some time and who claim to have never dealt with corruption are either lying or completely misunderstand the environment in which they operate. Business practices that appear corrupt by Western standards are still omnipresent in Russia. Such practices run through the fabric of the whole society from school teachers taking cash from parents to give students better grades to the federal ministers and parliamentary deputies' running private business empires¹². Some estimates put the size of Russia's "corruption economy" at 10-15 % of the GDP but this number is conservative and

reflects only traditional cash bribes and does not include more sophisticated practices such as using a government job to promote private business interests¹³.

The fact that practices that seem corrupt by Western eyes are extensive does not mean, however, that foreign companies and individuals must compromise their ethical standards when working in Russia. We know quite a few examples that demonstrate the opposite. Telenor, a public company with a majority stake belonging to the Norwegian government, has been active for over 10 years in the Russian telecom industry that is infamous for its non-transparency and murky deals. Yet Telenor has created much value for its shareholders without compromising its ethical standards. To achieve this result, the company had to compromise in other aspects of its business, e.g., in ownership, management control, and cash dividends. In Russia, Telenor has adopted a business model it would not have chosen in other countries. To buy into existing operations instead of trying to obtain a Greenfield license; Telenor partnered with local investors or outsourced certain activities and had to settle for non-controlling stakes. Following this approach helped Telenor avoid corruption that is almost unavoidable at the stage of obtaining a telecommunications license in Russia.

Telenor did what other successful foreign companies have learned to do in Russia--adjust its business model but not compromise on ethical standards. We found three factors that are critical for implementing this approach: awareness, flexibility, and firmness. Effective management of corruption in Russia as everywhere else in the world starts with a clear understanding of one's own ethical standards. One American entrepreneur recalled to us that when as a young man in the early 1990s he started a business in Russia, he soon was in trouble and had to leave the country for six months. He explained, "I was not careful and did some things I would not have done back home. They backfired on me and I could not defend myself because I lost my moral ground. I learned the lesson to stick to my principles and it worked out beautifully for me."

The second step to deal with the ethics issues is to understand the current Russian reality and identify potential risks to one's values as well as opportunities to mitigate these risks. Corruption has many faces in Russia. Foreign businesses entering the country have to be aware of the widespread practice of "kickbacks," both in the case of public and private companies for large-scale multimillion dollar projects as well as for routine purchases. "Grease money" is paid to all kind of "deal facilitators" acting on behalf of important figures or to the important figures themselves. These "kickbacks" come in the form of "voluntary" contributions to special projects or funds of regional and local administrations or government departments (police, emergency, etc.); traditional bribes and more sophisticated schemes to influence courts and prosecutors; extortion demands from power ministries (police, secret services, etc.); bribes in return for needed approvals from various agencies (fire inspection, building safety inspection, etc.); commissions to high-level officials in the case of high-profile deals requiring their authorization; and petty corruption such as bribes to traffic inspectors, doctors, teachers, etc¹⁴. Companies who make a conscious decision to stay in Russia despite these practices inevitably recognize corruption as an important issue to manage that requires clearly defining acceptable limits, allocating suitable funding, and planning and executing specific actions.

Awareness of corruption and its consequences enables corporations to plan how to deal with such risks. The most ineffective strategy is to say "that's the way we work back home and therefore that is the way we will work in Russia." In fact, companies and individuals with such attitudes should stay out of the Russian market. A number of strategies, which combine firmness of thought and flexibility of execution, enable Western companies to do business in Russia and still preserve integrity and prosper. One strategy is to outsource corruption. Firms can subcontract some activities (e.g., bidding, dealing with regulatory authorities, and acquiring land and property) to local companies who are willing to deal with local customs and are good at it. A company may be able to make more money by performing such activities in house, but it is advantageous to outsource them to stay clear of corruption.

Another strategy for dealing with Russia's corruption is preempting. Instead of waiting for local officials to come to the company with an ugly request, one can take the initiative to offer to cooperate on one's own terms. For example, the Ford factory in the Leningrad region gave away its cars to the local police, but Ford asked the police to test them according to Ford specifications and report on the performance of the cars each day—testing Ford benefited from. The aggressive variation of this strategy is educating one's counterparts in ethics and openly explaining to them what is acceptable and unacceptable. To be successful, such a strategy requires courage and authority on the part of the foreign company's representative who in this case should be the most senior person in the organization.

A third strategy for dealing with non-conventional practices is to enter business at a later stage when the situation is more transparent and stable. That has become BP's approach after its early attempts to become part of some exploration projects failed. A company that follows this strategy usually pays a premium for an asset, but such a premium is often justified by transparency and lower risk.

The fourth strategy for dealing with corruption is simply to abstain. Telenor turned down several lucrative deals because it did not feel it could handle the business according to its ethical standards. Telenor may have sacrificed some quick gains, but it preserved two conditions important for long-term success in Russia—integrity and consistency.

Most foreign companies, which have been successful in Russia use the above-mentioned strategies to deal with corruption. However, as is the case with business strategy, the key to success is effective implementation. While flexibility is important at the design stage, firmness and consistency are critical for successful implementation. After drawing a line, it is extremely important not to cross it. Russians will continue to test foreigners' commitment to their values and proclaimed ethical norms. When the reaction is always consistent with the declared approach, Russians will most likely eventually find ways to work with companies on the company's terms. Companies such as Telenor, United Technologies, BP and many others have

been successful in operating in this manner. When foreigners submit to pressure and compromise their positions, they step into the vicious circle of corruption. To get out of this viscous circle is difficult. According to one French entrepreneur, it is like “consciously hand-feeding the beast that will soon grow big enough to eat you.”

Commandment 8: Cultivate Relationships with Government Agencies at All Levels in Businesses and Civil Society

Relationships are especially important in Russia¹⁵. Since the times of the ancient Kiev Rus, the law has not been separated from the person in power in Russia. Even though the legal institutions and the rule of law have significantly improved over the last decade, government and government agencies continue to have significant arbitrary power that can help or hurt one’s business. This arbitrary power applies both to the highest and the lowest echelons; The local fire inspector can be as painful as a federal minister. IKEA learned this lesson the hard way. On the opening day of its store near Moscow, its top management, including the legendary Ingvar Kamprad and hundreds of special guests, had to look at the closed doors of its new store near Moscow because at the last moment a regional bureaucrat decided that the building did not yet pass inspection.

To be successful in Russia foreign companies have to build and maintain relationships with all levels of administrative power. These relationships allow several goals to be achieved-- to provide information, to facilitate development, to receive required authorizations, and to protect the company from unpleasant surprises. Developing such relationships does not necessarily imply making cash payments to persons in power or to their representatives, even though recently the central government is increasingly using the tactic of “requesting” “voluntarily business contributions” to diverse funds such as the ones for St. Petersburg’s restoration, the Olympic games, or anti-terrorist fight. Large Russian companies, however, suffer more than foreign subsidiaries from this practice.

Indeed, a company is often served by such simple actions as paying regular visits to government officials, inviting bureaucrats to visit the foreign company, and helping to administer local programs such as work-force retraining or upgrading health care facilities. For example, Microsoft, acting from day one according to the logic of “respecting local rules but playing its own game” refuses to pay any money to government officials, even for gifts of foreign trips to government officials, but enjoys a high level of respect and influence in the corridors of power at both the regional and national levels. The company achieved this success by focusing on the aspects of the relationship that do not require money. Instead of money, social skills, preparation, and patience were used. Microsoft’s executives deal with the government officials from a “win-win” perspective, demonstrate their loyalty to the country, and explain how each specific program will benefit Russia. Microsoft executives also give credit to specific officials when projects are successful, and it shows respect to the people in positions of power using a variety of methods from properly addressing officials publicly and privately to sending birthday cards.

Building and maintaining relationships with governmental bodies in Russia implies dealing with people who probably have a different set of values and behavioral standards from global business executives. Some companies successfully delegate building such relationships to their Russian managers, but this strategy works only when the latter have an important status in the organization. In Russia, a country with a high power distance, many government officials expect to deal with the number one person in the organization. If a company does not yet have a Russian CEO, expatriate company leaders should exercise perseverance, an important competency of a global leader and try to engage in such government relationship building with support from their local staff. Expatriate company leaders should be patient and look at this as a development opportunity for themselves.

Social capital is also a critical asset at the business level¹⁶. When SAP started to expand its operations in Russia in the mid-1990s, it realized that its sales people could not successfully

penetrate industries such as oil and gas or banking. Having no background or contacts in the sectors, sales representative were not regarded as credible. The company swiftly moved on to recruit people with industry background and with the help of its networks won many important contracts. We find that “borrowing” social capital by hiring people with appropriate social networks such as former government employees or industry insiders is a more effective and efficient way to accumulate social capital in Russia compared to traditional networking at conferences, industry fairs, or social gatherings. Developing relationships takes time in Russia where people do not always draw straight lines between professional partnership and personal friendship. Thus, patience and perseverance are critically important for success.

Conclusions

Doing business in Russia will remain a challenging undertaking for the foreseeable future. Some recent moves by the Russian central government suggest that foreign companies may face new formal and informal hurdles such as restrictions on investing in certain industries without presidential approval. The economic potential of Russia, however, warrants the interest and presence of international companies, who we believe can create a great deal of value for themselves and the country. Although doing business in Russia is difficult, the fact that it is challenging also has some advantages. The current challenging atmosphere creates a situation where companies without specialized knowledge of how to operate businesses in Russia are unlikely to be successful. Thus, this creates greater possibilities for those firms that acquire this knowledge to reap greater profits since their unique competence will be harder for competitors to copy.

Examples of successful businesses in Russia show that in Russia, as elsewhere in the world, leaders distinguish themselves by engaging actively and intelligently at the same time. They act, reflect on their experience and that of other firms, and continue to act with a new level of awareness. Most foreign firms in Russia, however, have had to engage in trial and error

testing to develop an understanding of what works best in Russia. This approach is time-consuming and expensive. The above commandments for doing business in Russia summarize the collective experience and recent learning of many foreign companies operating in Russia. This knowledge should facilitate the process of understanding the unique facets of how to do business in Russia and thus improve the effectiveness and efficiency of foreign companies and individuals as they enter the Russian arena. Hopefully, these principles will allow foreign companies entering Russia today to skip much of the trial-and-error learning of many of their predecessors. Our commandments create a general framework that we believe can help companies to navigate the Russian business landscape successfully. And, yet, on top of this framework, each company has to discover its unique operating model combining its core competencies with an understanding of the local specifics. This unique model can be uncovered only by reflection and experimentation. Companies, however, can reap greater success intelligently building on the collective knowledge of those who have gone before them. As Russians say: “Knowledge is power.”

Table 1: Companies Interviewed as Part of the Key Commandments Project

British American Tobacco
BP
Chevron
Cisco
Citibank
Delta Bank
EFES Brewery
Eghon Zender
Electrolux
Ericsson
Ford
Goldman Sachs
Huawei
Herbert Smith
Gillette
IKEA
International Paper
Kone
Lieu Commun
Mars
Marsh
McKinsey
Microsoft
Motorola
Nokia
NewsCorp
Otis Elevators
Raifaissen Bank
SAP
Stockholm School of Economics
Telenor/VimpelCom
United Technologies
UPM
Unilever
Wrigley
Alcoa

Table 2: The Key Commandments of Doing Business in Russia

<p>1. Practice authoritative not authoritarian leadership</p>	<p>Russians expect strong leaders, but they want leaders who lead based on competence not just position and who are also caring. Effective leaders in Russia start by assuming responsibility for company results and its people. They communicate a compelling vision; they deliver superior results by focusing on people; they respect employees as human beings; they involve followers in the process of deciding where to go and how to get there; they share information, responsibility and success; they develop trust by walking the talk and having others accountable for their words and deeds also; they develop, support, and personally mentor followers; and they instill a culture of development and innovation.</p>
<p>2. Build a strong one-company culture with visible foreign elements</p>	<p>It will take some slack time to build a strong one-company culture, but then Russians will work twice as hard the rest of the time. Human capital has historically been an under priced resource in Russia and creating a transparent culture where people can use their full potential, feel part of a team, and be respected will make your employees feel different from the rest and they will like it. In an uncertain environment like Russia, having a strong culture which guides action is helpful in providing some additional security and facilitating faster action. In addition, since many Russians come to foreign firms to work especially because they are foreign, it is important that they maintain some foreign elements in their organizational cultures even as the number of expatriates decreases.</p>
<p>3. Work to create an empowered organization step by step</p>	<p>Russia has historically had very strong authoritarian leaders and employees have traditionally had very little power. Further, employees have historically been severely punished for making mistakes. As a result, both leaders and employees may resist empowerment in Russia. However, working to create an empowered organization in Russia is an important task, but also a very difficult one to achieve. It is also important to recognize that creating an empowered organization is a process not an event and that an important first step is creating an organization where employees will not be punished for honest mistakes.</p>
<p>4. Respect local rules, but play your own game</p>	<p>Do not try to copy your Russian partners or competitors – you will never beat them at their own game. Build on your competencies and strengths, or focus on something they don't know how to do. However, do keep the local rules in mind and adapt some.</p>
<p>5. Stay firm on big goals and be flexible in details</p>	<p>In Russia's dynamic environment, some would argue that planning is impossible. We would argue that planning is even more important in such an environment so that firms are prepared for different developments and we suggest that contingency planning can be particularly helpful. Further, we argue that firms need to stay firm on key issues that add much value, but be flexible on details of how these issues are implemented. Clearly articulating key goals to employees helps guide them through Russia's sea of uncertainty.</p>
<p>6. Learn to live and manage in crisis</p>	<p>Long term thinking for most Russian business people is about getting through the next month. Therefore, incentives, plans, and feedback cycles should be much shorter than in the West. It is important to remember to stay calm and analytical in crisis and not be too emotional. It is also important to solicit opinions from multiple sources such that you get a full picture of the situation and make the most informed decision possible. Russians have a tendency to do much at the last moment and thus some crises which could be avoided are created. Thus, working to improve time management and implementing sophisticated early warning systems can be helpful in minimizing crises.</p>
<p>7. Recognize that corruption is omnipresent in Russia and must be managed</p>	<p>It is difficult to totally avoid corruption in Russia and thus it needs to be actively managed in some way. Four strategies that can be useful for dealing with corruption are: 1) outsource activities which are likely to be prone to corruption to other firms, 2) preempt corruption by coming with a suggestion how to cooperate on your own terms, 3) wait to enter the business at a later stage, and 4) pass on doing some business deals which can't avoid corruption.</p>
<p>8. Cultivate relationships with government agencies at all levels in businesses and civil society</p>	<p>While the rule of law is improving in Russia, government and government agencies continue to have significant amounts of arbitrary power. As a result, it is important to cultivate good relationships with them. It is important to note that in many cases this can be done without illegal payments. Showing respect and getting to know people is key. Sometimes hiring a former agency employee to perform certain tasks can be useful. People are much more important than rules in Russia. Personal relationships are critical for getting information, sharing opinions, and doing business. Thus, it is important to have a wide network of contacts to draw on (not only government officials). In other words, social capital is a critical asset in Russia.</p>

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Notes

¹ For these and other figures about Russia's economy see: CIA, www.cia.gov, viewed July 10, 2006; Goskomstat, www.gks.ru, viewed July 10, 2006.

² P.R. Lawrence, C.A. Vlachoutsicos, and S. Michailova, "From West-East Knowledge Transfer to Effective Working Relationships: Lessons from Commercial Capital S.A.," *Journal of East European Studies*, (forthcoming).

³ For statistics about how wage levels have changed in Russia see Goskomstat, op cit.

⁴ For more information about the type of leaders which Russians like please see: M.F.V. Kets de Vries, S.V. Shekshnia, K. Korotov, and E. Florent-Treacy. *The New Russian Business Leaders* (London: Edward Elgar, 2004).

⁵ For more information about the 3I model of leadership see: M.F.V. Kets de Vries et al., op cit.

⁶ S.V. Shekshnia, "Managing People in Russia: Challenges for Foreign Investors," *The European Management Journal*, 12/3 (1994): 298-305.

⁷ For a description of some challenges which modern Russian companies and their leaders face see Kets de Vries et al., op cit.

⁸ For a detailed study of the relationship between organizational culture and firm performance in Russia see: C.F. Fey and D. Denison, "Organizational Culture and Effectiveness: Can American Theory be Applied in Russia?" *Organization Science*, 14/6(2003): 686-706.

⁹ C.F. Fey, A. Pavlovskaya, and J. Tang, "Does one shoe fit everyone? A comparison of human resource management in China, Russia, and Finland," *Organization Dynamics*, 33(1, 2004): 79-97.

¹⁰ For more information about Russian organizations traditionally having little empowerment as well as the current situation in organizations in Russia today see: D. Granick, *The Red Executive* (Garden City, NY: Doubleday Press, 1962); M.F.R. Kets de Vries, The Anarchist Within: Clinical Reflections on Russian Character and Leadership Style, *Human Relations*, 54/5 (2001): 585-628; M. Mead, "Soviet Attitudes Toward Authority: An Interdisciplinary Approach to Problems of Soviet Character" (New York: Schocken Books, 1951).

¹¹ Some of the material in this commandment on corruption draws from an article by the authors of this article which is titled "The secret to success of doing business in Russia: Proactively dealing with corruption" and is under review at *Harvard Business Review*.

¹² For more information about corruption in Russia including what practices are common in Russia and what is considered acceptable by Russians please see: J. Roaf, "Corruption in Russia," (Washington, DC: International Monetary Fund publication, 2000); S. L. Myers, "Pervasive Corruption in Russia is 'Just Called Business,'" *New York Times*, (August 13, 2005): A3; S. Puffer and D. McCarthy, "Finding the Common Ground in Russian and American Business Ethics," *California Management Review*, 37/2 (1995): 29-46.

¹³ For more information about corruption in Russia including estimates of its size please see: S. Johnson, D. Kaufmann, J. McMillan, and C. Woodruff, Why Do Firms Hide? Bribes and Unofficial Activity after Communism. *Journal of Public Economics*, 76/3 (2000): 495-510.

¹⁴ For more information about corruption activities in Russia please see: The Economist, "Corruption in Russia: Blood Money From Terrorism in the North Caucasus to the Boardrooms of Moscow, Corruption is Russia's Biggest Problem. *The Economist*, 377(October 22, 2005): 41; Roaf op cit.; Meyers, op cit.

¹⁵ D. S. Elenkov, "Can American Management Concepts Work in Russia? A Cross-Cultural Comparative Study," *California Management Review*, 40/4 (1998): 133-156.

¹⁶ For more information about social capital in Russia please see: B. Batjargal, "Social Capital and Entrepreneurial Performance in Russia: a Longitudinal Study," *Organization Studies*, 24/4 (2003): 535-556.

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