

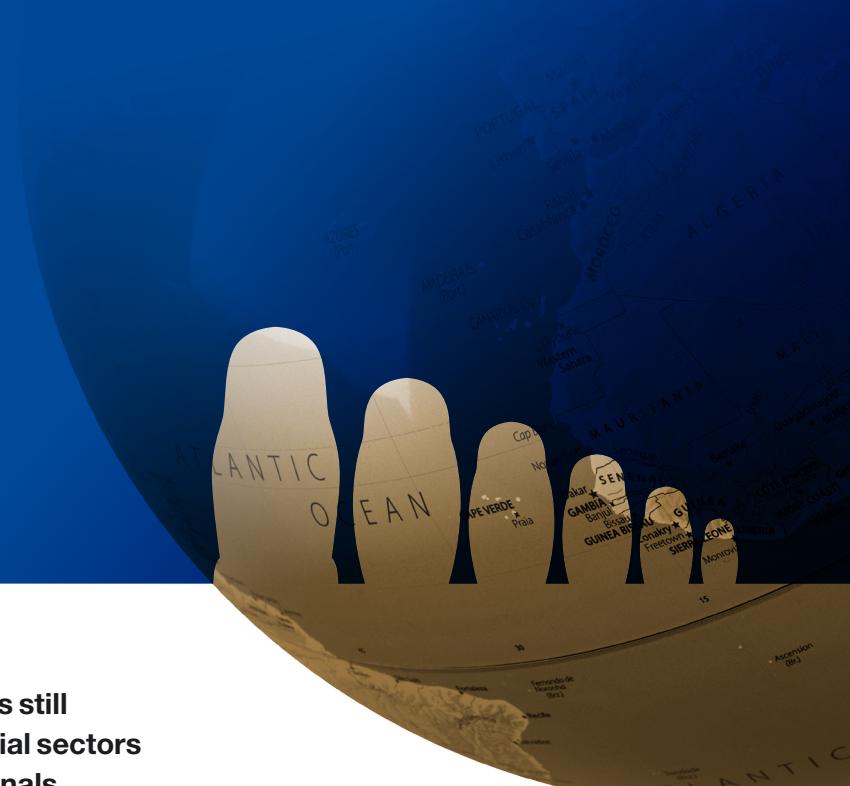
*As part of our Tomorrow's Executive series of articles
we bring you: an overview of the opportunities and
risks involved in doing business in Russia*

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How to successfully play the Russian game

Russia's vast natural resources and its still underdeveloped financial and industrial sectors make it an alluring place for professionals looking to grow their business.

But achieving long-term success in Russia requires high levels of cultural insight. Indrek Pajumaa, Mercuri Urval's International Business Manager for Russia, explains how foreign investors can succeed.



After the collapse of Communism in the early 1990s, Russia was in turmoil. However, since then the political, financial and social situation has become relatively stable, and in the past decade Western businesses have shown an increasing level of interest in the country.

According to the World Bank, foreign direct investment shot up from USD 2.7bn in 2000 to a pre-downturn peak of USD 75bn in 2008.

The IMF estimates the GDP growth rate for Russia to be 4.5% for 2011. If that growth continues, Russia may again become the 7th or 8th largest economy in the world – the position it held in 2008. The continually high oil prices may only speed up Russia's growth.

The prospect of great return on investment

The prospect of great return on investment. If you do things properly, the bottom line generated from setting up business in Russia can be very rewarding.

There is great potential in Russia across a range of business fields including retail, various areas of production, and business-to-business sales. Russian consumers and

businesses buy into brands and prestige, and are prepared to pay a fair (or even high) price for quality products.

But international media reports make it clear that doing business in Russia is not always a straightforward process. However, it is possible to do business in a sound and profitable way in Russia. But how?

Taking control of operations in Russia

Having already operated successfully in Russia from overseas, more and more companies believe that it is the right time to go directly to market. They calculate that they can access more growth and poten-

tial, and cover more territory by taking control and setting up in Russia themselves, rather than relying on local distributors and representatives.

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How to successfully play the Russian game

The importance of networks and trust

It is vital to respect Russia's social customs and consider its unwritten code of conduct when doing business there.

Having a network of trustworthy partners is crucial. Russians have started to rely on close-knit networks, since the wider business environment can sometimes be challenging.

It is very important to get under the skin of your business partners, to truly know who they are and what their values are. You can do this by investing time in cultivating friendships with them, socialising and interacting with them outside the office.

Russia is BIG – don't forget its regions

Foreign investors must not overlook the geographical hard facts: Russia is vast – no other country covers 9 time zones.

Know where your customers are while taking into account that economic power and investment are centred in Moscow. So your strategy should reflect both the scale of Russia, the distribution of your customers and the central role Moscow has in external investment.

Petroleum, mining, finance and manufacturing businesses are located in distinct hotspots across Russia, and navigating these different regions effectively will contribute to your success. Operating in these regions can be significantly different from working in Moscow or St Petersburg. Also the salary expectations of local staff vary considerably from place to place.

So before opening an office in Moscow, understand where your customers really are. Because you need to be within easy reach of your clients and near industry-specific business clusters with relevant service providers and support systems.

For instance, think hard about where to locate a production plant, since infrastructure and transport systems may not be functional or practical, even in areas that on the map might look close to main business centres.

Be cautious and don't assume that Russia's vast territory automatically equates to a market with potential and purchasing power. Take one step at a time, hire the right people and establish the first sales channels or find the right distributors. If the business goes well you can then take the next steps.

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Navigating the legislative labyrinth

Don't risk going it alone through Russia's rules and regulations. Employ competent lawyers and auditors to handle audits, registration and legal issues.

Foreign business leaders and investors may discover that they can not run their business according to the laws in other markets. Russia's legal environment is complex, and the nature of many laws means that they can be interpreted in several ways.

Always consult legal experts with local knowledge before launching a strategy. If

you step on someone's toes and aggressively take market share, irritated competitors may make life complicated for you. So make sure you know who has a vested interest in the market you are aiming at. Maybe you can do business there, but should you? A good way of securing your interests is to recruit employees who can navigate this maze.

It can be advantageous to officially register your company's subdivision as a Russian entity. Employees seem to prefer this as they benefit in terms of social security and taxation issues.

Respect the smart people

Russia is an intelligent, well-educated nation with many highly qualified young people. The country is full of talented and decent people who are ready to work hard and give a lot – truly putting their heart into their job. You just need to travel on the Mos-

cow underground to see this illustrated: you may see people spend their commuting time reading poetry or advanced physics, reflecting the characteristic intellectual aspect of Russian culture.

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The social structure in the workplace



Russian society and business life is distinctly different from, for example, the social and organisational structures of Northern Europe. This has several implications for foreign businesses.

Power distance (the relative distance between the position of the superior and his or her subordinate) is quite high in Russia. It manifests itself in many ways:

In Russian corporate life, workers are expected to address their superiors using formal language, using the first name and surname. Workers typically expect to be told what to do by managers, rather than

follow an independent course. They also anticipate more control over their actions compared to staff in the Northern European countries. Therefore, lack of control (or less control) can be interpreted as a weakness of management. As a consequence many organisations tend to be centralised, and even small matters may be decided by the CEO.

Status symbols are important. For example, your Russian executives will often expect to get a car as a part of their remuneration package – and not just any model – and they might even expect it to be chauffeur-driven.

Choose talent carefully



Don't make the mistake of thinking that recruiting the specialist or executive you need will be relatively cheap. In general, do not go for cheap labour in Russia.

The best people know their own worth, and salaries are comparable to those in the West. Be prepared for managers to ask for the same remuneration package as in, say,

Germany. What's more, setting up business in Moscow, for example, will require substantial investments, as it is one of the world's most expensive cities.

Make sure you attract the best and select your people carefully – doing so will ensure success.

* IMF, World Economic Outlook Database, April 2009, GDP in USD Current Prices and IMF World Economic Outlook, Update, June 2011)

Mercuri Urval in Russia



Mercuri Urval has more than ten years' experience of doing business across Russia's diverse regions, and has excellent local knowledge to help companies succeed in this challenging but exciting market.

Our staff are well-placed to assess the needs of a Western company in light of the current Russian context.

Business in Russia – in brief:

1. OBTAIN CULTURAL INSIGHT: Violating Russia's unwritten code of conduct can be damaging. As a manager, you should show that you are present and in control of things, but do not try to impose your own foreign culture on your Russian colleagues. Learn Russian culture and respect it as it is.

2. EMPLOY SKILLED LAWYERS AND ACCOUNTANTS: Russia's legal environment is complex – employ skilled lawyers to handle registration and legal issues. Employ an experienced accountant. These two are an absolute must.

3. BUILD RELATIONSHIPS: Understand the value of relationships. Get to know your business partners and show your employees respect. When negotiating in Russia, Western business people often overestimate the power of money or the importance of getting a "good deal", whereas for Russians relationships are more important. (But don't be misled – this does not mean that they are not capable business profes-

sionals; many Russian business people and bankers between the ages of 25 and 40 have studied at the world's best business schools.)

4. DO A FEASIBILITY STUDY: Take the time to do a feasibility study and investigate what competition you will face, before you open up a business in Russia. If there are local companies competing in your business segment, learn which individuals have personal interests in those companies. You should carefully evaluate whether it is worth going head to head with a competitor in Russia. Your lawyers and consultants can probably advise you here.

5. SELECT THE BEST PEOPLE: A sound investment in talented and dedicated people is the best investment you can make for your business. Take time to select your employees. And of course – do not hire someone just because he "radiates positive energy", or your gut feeling is good after a 20-minute interview.

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Further references:

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