Business environment in Russia and CIS: Regional conditions of doing business

1.1. Economic situation in Russia

Since the financial crisis in the 90ies, Russia has gone a long way to growth and economic stability. During the last 10 years, a progressively and more stable political and economic environment could be established which led to economic growth and stabilization. This has several reasons.

First, Russia gets a lot of foreign currency due to the export of oil, gas and other commodities. Thus, debts are reduced and purchasing power rises. Foreign companies with export experience have many incentives of gaining profit in the huge market.

Second, Russia benefits from high commodity prices and the increasing dependence on oil and gas by Western countries. In the year 2006, Russia expected a balance of trade surplus of several billion Rubles. This has also positive effects on average salaries. As most of salaries and wages are paid without taxes (on the black market), people get gross for net salary. Instead of generating deficits, Russia reduces debts at industrial countries.

Thirdly, Multinational Enterprises have already recognized the advantages of the Russian prosperity and provide their services trying to gain high profits. MNE plan massive increase in sales and want to present their brands on the Russian market.

Fourthly, the regionalization of the Russian economy plays a crucial role. For instance, the Austrian construction company Strabag plans to be involved in the privatization of three regional airports and also wants to run the airports. Regional airports become more and more important in the country and Strabag strives for being the leading construction company for privatized airports in Russia in the medium term. The raw material comes from the Austrian clay building material company Wienerberger which has expanded to Russia in 2006.

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2 Interview with Strabag press officer, 12.5.2010
Table 1.1.

<table>
<thead>
<tr>
<th>Russia Main Economic Indicators</th>
<th>2008</th>
<th>2009</th>
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</thead>
<tbody>
<tr>
<td>Population, 1000 persons</td>
<td>141956</td>
<td>141902</td>
</tr>
<tr>
<td>GDP, EUR mn</td>
<td>1137796</td>
<td>884985</td>
</tr>
<tr>
<td>GDP per capita, EUR at PPP per capita</td>
<td>13200</td>
<td>12000</td>
</tr>
<tr>
<td>Gross monthly wages, avg., EUR</td>
<td>473</td>
<td>426</td>
</tr>
<tr>
<td>Annual inflation, %</td>
<td>14.1</td>
<td>11.8</td>
</tr>
<tr>
<td>Unemployment rate, (Labour Force Survey), avg., %</td>
<td>6.3</td>
<td>8.4</td>
</tr>
<tr>
<td>Current account, % GDP</td>
<td>6.2</td>
<td>4.0</td>
</tr>
<tr>
<td>FDI inflow, EUR mn</td>
<td>51490</td>
<td>27852</td>
</tr>
</tbody>
</table>

1.2. Business culture in Russia and CIS

There are fundamental differences in the way Russian and Austrian companies are run. In Russia, there is a lot more upward delegation and a lot of responsibility at the top. In Austria, hands-off-mentality is common, while this is completely unusual in Russia. As labour is much cheaper in Russia, a certain degree of excess staff capacity is common. The impact of cultural differences depends on various aspects like management styles, organizational values, locations, different aims and objectives or communication habits. There is a higher level of dynamics in everyday financial life, decisions are made much quicker. Doing business is supposed to be hard in Russia, but as well as in Austria, companies benefit from laws of a free market.

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Business culture in Russia has its roots mainly in recent history. During the cold war, capitalism and the whole Western style of business was rejected and Western managers were generally supposed to be spies for Western governments. “Russians look into their history and all too often see betrayal and abandonment by the West”\textsuperscript{4}.

Russian businessmen as well as clients thought that Western business methods and terminology which were applied in the market economy could not work in Russia and CIS as the Soviet system had built up a completely different economic structure. Also the educational system was geared to “produce” academics in various subjects, but not in business. Nigel J. Holden mentions in his book “Cross-Cultural Management” that the Russians were convicted that Western aid and investment, as well as Western-sponsored management training initiatives in Russia, were a ploy to weaken still further the Russian economy and keep Russia in a state of semi-colonial tutelage to the West\textsuperscript{5}. Many senior Russian businessmen have backgrounds in academia and have only entered the world of commerce since the collapse of the Soviet system.

There are big differences in mentality between Austria and Russia. In Austria, there are long negotiations on collective agreements with the works councils, even for 0.1% salary increase. In Russia, there are not even negotiations on compensation of inflation. Although this shows an extreme example, it demonstrates the cultural differences.

1.2.1. Partnerships

Europeans have been living in a long period of stable economic situation, whereas people from Russia and CIS had to face various difficult economic situations and are more used to dealing with crisis situations being taught to overcome obstacles and not to take anything for granted, especially not success. After the breakdown of the communistic system, people strove immediately for finding their place in the market


economy and took any upcoming opportunity with the aim of becoming successful entrepreneurs.

Generally, close personal relationships and networking play a crucial role in the Russian business environment. In order to find potential clients or business partners and to implement projects successfully, it is essential to deal with the right persons.

According to the interview with an Civil Underground Engineer of Strabag, the mentality like in Austria to cooperate with other construction companies in consortiums or working groups for many years does not exist in Russia. As soon as the Russian partner company conceives the proposed Western know-how, the new methods are implemented in the next construction project. Russians estimate Austrian quality, commercial correspondence and thoroughness. However, handshake agreements are not always trustworthy as contracts may be null and void over night.

In a nutshell, Russian attitudes to business can vary from industry to industry, from region to region and from dealing with a progressive entrepreneur or an old-style Soviet bureaucrat.

1.2.2. Legal affairs

The prevalent Russian law of taxation is supposed to be very contradictory and unclear, so that very often a fiscal offence does not seem do be on purpose. In order to by-pass those inexplicit regulations, many Russian firms do not enroll in the commercial register. Business is often conducted via several intermediary firms, partners are often not those who’s name is on the invoice. This does not say anything about the reliability of a business partner, it is just the kind of business arrangement.

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6 Interview with Strabag Engineer, 15.5.2010
All products for export have to be certified by Russian authorities. All products have to be listed on invoices so that the whole delivery passes the Russian customs. Legal recourses may take a long time in Russia, very often the duration is not assessable. A Strabag engineer advises to keep records on every step, to conduct correspondence with constructors accurate, to be extremely insistent on claiming services such as planning, authorizations or payments and not to give any non-contractual confessions.

It is always worth bearing in mind that for centuries, even long before the break down of the Soviet system, the state has always been seen as an organ of oppression and repression. Laws and regulations are therefore seen as the 'enemy' and to be avoided at all costs, law-breaking and rule avoidance is still order of the day.

Contracts are valid only if supported by a close personal friendship and taxes are left unpaid on both a corporate and personal level. The legal status of many Russian companies is very dubious, being incorporated under the old laws of the Soviet Union which no longer have validity. It is not always clear, who actually owns the assets of an organization. The laws are being rewritten constantly and not enforceable in practice. Many agreements have to be made on a trust basis. Furthermore, the legal basis of arrangements will probably mean very little once the relationship breaks down.

1.2.3. Russia as nation

The Russian nation is very proud and considers itself as a superpower like the United States. Criticism on the current government is incumbent on the Russians themselves. Also, comments on the Second World War or on the situation in Chechnya or Georgia are not appreciated. Russia is a quite fragmented society, which is still in a transition period. People from Russia and CIS countries are often

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9 Interview with Strabag Engineer, 15.5.2010

more flexible and open to changes than Western Europeans. This became evident during previous economic crisis years, when Russians managed difficult situations very well. However, although the old Soviet era is over, there are still many political and economic challenges to cope with. Business is therefore carried out more on a day-to-day basis.

1.2.4. Communication

Language is a barrier, many firms enable employees the attendance of Russian courses. Nevertheless, it is recommended to have a Russian interpreter while negotiating. There is a different conversation culture in Russia according to a Strabag engineer, who states that meetings often start delayed, telephone conversations during the meetings are common as well as participants leave the room or do something else during the meeting, which takes some getting used to

Russian managers are supposed to be autocratic in style, in meetings there are no discussions about actual business, meetings have more an informative purpose. Real decisions are taken behind the curtain among very few managers. Foreigners hardly get the opportunity to take part in such decision making circles. Formal meetings have the tendency to be hold in a very serious and structural manner, humorous remarks are not appreciated. Participants of meetings mostly listen silently and don´t give feedback, it seems that they were not interested, but in fact this is a typical cultural characteristic.

English language levels vary enormously in Russia. Young managers and entrepreneurs in the cities like Moscow and St Petersburg have a fluent command of English and often have basic knowledge of other European languages. In other smaller cities and places, people have less foreign language skills and interpretation is inevitable also, because outside Moscow signs are written only in Cyrillic letters.

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11 Interview with Strabag Engineer, 15.5.2010

12 Interview with Strabag Engineer, 15.5.2010
1.2.5. The factor of Vodka in meetings and negotiations

Russia has always had the reputation for having a hard drinking culture. Going for lunch or dinner with Russian business partners means either getting to know each other better without discussing business issues or starting with detailed negotiations with the pressure of finishing a deal. During the 90ies, for an anti-alcoholic it was more difficult to make good deals and business, because drinking Vodka together with business partners belonged to politeness\textsuperscript{13}. Expensive meals were accompanied by Russian vodka and Russian champagne and Russian hosts insisted on long toasting sessions in order to complete finally a good deal. Nowadays, times have changed and Vodka plays not that important role anymore.

1.2.6. Organizational issues

Centralised decision-making processes were demonstrated by Russian presidents not only during Soviet Union times, but also recently and this autocratic approach was taken over by Russian businessmen, entrepreneurs and business associations.

Companies are governed by a central mostly male person, who makes all strategic decisions with little consultation. Consultation is seen as weakness and little decision-making ability\textsuperscript{14}.

A strict hierarchy, where subordinates follow the instructions of supervisors without discussion is common. Middle management has little influence on strategic decisions.

Western managers often face the problem that Russian staff is too passive and does not take initiative. Foreigners encounter general suspicion in Russian society and expats have to deal with many organizational challenges. Western managers who are used to the “hands off” approach are confronted with local staff expecting clear directives\textsuperscript{15}.

\textsuperscript{13} Interview with Strabag Engineer, 15.5.2010
\textsuperscript{14} Interview with Strabag Engineer, 15.5.2010
\textsuperscript{15} Interview with Strabag Engineer, 15.5.2010
1.2.7. Gender issues

During Soviet Union, sexes had an equal status by law, but not in practise. Although a high percentage of women are active in the labour market, very few are in senior management positions. Women from Western countries are often ignored and not taken seriously, but treated inferior in Russian business life.

1.2.8. Customers

Russia and CIS is a group of countries where customers have different views and desires in each country. This can be seen in respective consumer behaviour. A company can’t just transfer a branch concept from Vienna to Moscow as this is bound to fail.