Russian managers on a steep learning curve

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The chaos occurring in Russia today is partly because the business landscape has changed so drastically, so suddenly, that managers have not been able to adjust their mindset to a free-market system. Nor have they had time to acquire the management and marketing skills that such a system demands, said Mikhail V. Gratchev.

To illustrate this point, Gratchev talked about a Russian manufacturer of jet fighters and helicopters. In the '80s, it was easy for this company to plan its production because it knew exactly how many units would be purchased by the Ministry of Defense. But in the '90s, the government became a less reliable customer as the ministry severely curtailed its purchases.

"When in 1996 several Russian companies were given the right to go to international markets and sell their products, the companies had to redesign their strategy," said Gratchev.

"But first, the company leaders and executives had to redesign their view of the market. They needed to understand what it means to go global - to compete in international markets against the French or the Americans.

"They needed to understand that they would not get business simply because they have made the best jet fighters. They would have to understand the market and customs of buyers.

"They had to redesign their competencies and they had to build a team, and they had to think about how they would be in the future."

The transition - from passive order taker to market aggressor - continues to be a challenge.

American companies doing business in Russia are facing different problems, such as legal and labor problems, said Gratchev.

"Some multinational companies had a 70 percent turnover of their key personnel in Russia, and they could not handle the situation because they did not have a clear human resource policy."

Other companies, like 3M, have addressed the problem through the use of sophisticated selection procedures, along with benefits and perks to help retain workers.

**Management profiles**

The behavior of Russian managers is influenced by the business culture, which in turn is influenced by factors such as:

- national history, tradition, religion,
- Totalitarian roots -- mistrust stemming from the brutal Stalinist era,
- Society-in-transition challenges.
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So what does a manager in Russia sound like, think like and act like?

Gratchev referred to a research study from the early ’70s, which tried to establish profiles of management behavior in foreign countries. The purpose was to help corporations design human resource training and to prepare its executives for working in international environments.

Questionnaires were developed and translated into 20 languages, targeting managers in 60 countries. In order to establish a baseline and to be able to compare the answers, the managers chosen belonged to three industries: telecom, finance and computers.

"The results helped us to draw the profile of managers in each country, and then to compare those profiles with the profile of Russian business people or managers of large enterprises," said Gratchev.

"We found out that there were six countries clustered together with Russia, and those were the countries of the former Soviet Union.

"There was only one country that was close to this group in terms of a management profile, and that was South Korea."

Don Stevens, managing director of the Institute for International Business, offered some insights on behavioral differences gained from related research:

- Asians tend to be group oriented and risk-averse.
- Americans, Australians and Canadians tend to be independent and more risk-tolerant.
- Asians are very tolerant of hierarchy; Americans are egalitarian - anybody can be president. Not so in Asia.

Gratchev agreed that Russians in the former Soviet republics fall outside of these profiles. "They form their own cluster." According to the study:

- Russian managers’ score low in future orientation - the lowest of the 60 countries.
- Russian managers score very low in uncertainty avoidance, meaning they can work in a highly uncertain environment.
- When it comes to "power distance" or authoritarianism, Russians score very high.
- When compared to the whole list of countries, Russia was on the low end in human orientation.

And the conclusions? "Russian management mentality is very unstable," said Gratchev, adding that it is a poor fit with the business culture in other countries. The differences are not in intelligence, but in those behaviors that are linked to society-in-transition factors: uncertainty avoidance, human orientation or power distance.

The research cited by Gratchev was "the first attempt to put Russian reality and Russian empirical analysis into a much broader international setting, and to find out whether Russia is different." But before the differences could be determined, the similarities had to be established.

"There is now solid research showing that management behaviors in Russia and the former Soviet countries are different from those in other countries."
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The old vs. the new

In an attempt to understand the background for leadership in Russia and the link between the cultural profile and the leader's behavior, the researchers analyzed articles in high-circulation newspapers.

"We researched all the articles related to leadership and then tried to learn how many expressions and what kinds of words and characteristics were used by media to describe a Russian business leader."

"Action-oriented," "visible" and "energetic" appeared most frequently. At the other end of the spectrum, the Russian leader is also...

- not charismatic,
- not cooperative,
- not a visionary,
- not culturally oriented,
- not creative.

The next step in the research study was to try to understand the Russian business culture and to differentiate the backgrounds that lead to particular behaviors. Several types of entrepreneurship were identified: those that were rooted in the old, government dominated system, and those that are part of the new wave which champions economic independence. Included in the latter are the success-oriented younger generation and a determined cadre of entrepreneurs who work 25 hours a day, risking everything as they fight for survival.

"So the roots are either in the old system or in the new ways of doing business; either in the Soviet Diaspora or in the international way of corporations," said Gratchev.

Predatory culture

Russia is a big country and it cannot be painted with one cultural brush. Gratchev talked about several different cultures:

- Traditional business culture, in which companies are quite successful under a paternalistic, state-run system. "They are not interested in any kind of social policy. They focus on prosperity and on survival of their businesses."
- Predatory culture - cheating on the state, cheating on partners, cheating on consumers. Growth at any price. "The people who carry on this predatory culture are very often linked to democracy."
- Socially responsible culture. "There are businesses in Russia that are trying to build loyalty and support their employees," said Gratchev.

"These people understand that first they have to protect their business with some socially responsible measures; second, they have to interact with their investor partners. They cannot be a robber baron and deal successfully with their western partners."

Cultural differences notwithstanding, "the research did not produce a black-and-white picture of good guys and bad guys, of Russians vs. Americans," said Gratchev. The differences that exist are not because of the institutions, the system or economy, but because of the totalitarian background against which the current crisis is being played out.
Dealing with the hard reality of free-market reforms

As Russia continues to transition to a market economy, the government is finding it easier to make new laws than to implement them. The reasons are many, Mikhail V. Gratchev told the Global Executive Forum, but at the heart of the problem "is a lack of civic mindedness and a lot of corruption."

According to intelligence agencies, Russia has 12,000 organized crime groups, and their sophistication in financial institution fraud and transnational money laundering is growing.

In the public sector, there has been a revolving door of cabinet ministers, a shaky ruble, and unkept promises on the part of the government. Consequently, Russian citizens have lost faith in their leaders.

To a large extent, Russians are being driven by their own self-interests, and this seriously affects both economic and political stability. Gratchev said he was "pessimistic" about his country's revitalization efforts. "The situation in Russia can be described by words like inflation, bankruptcy, unemployment, poverty and social unrest."

Once the centerpiece of the Soviet system, labor and trade unions have been in serious decline since the collapse of communism. Unemployment in Russia is more than 10 percent, and in some industries workers will not be paid for eight to nine months. But statistics do not tell the whole story; many people do not register as unemployed, nor are there any records on the underemployed.

The result is "the degradation of the nation," with suicides, crime and drugs mounting. The life expectancy for Russian males is now at 58 years.

In terms of political dynamics, the lines are well drawn between opposing forces. The oligarchs - well-entrenched, well-connected business leaders - are able to influence the political process, while the New Russians, those who are pro-reforms, are trying to level the playing field.

Amidst the turmoil, Prime Minister Primakov is trying to manage interest rates and currency reserves, and restructure private debt. In spite of his pessimism, Gratchev thinks that over the long term there are reasons to be optimistic.

"Fundamental change in Russian society is occurring at a more stable time in our world history. You don't have Russians going through major revolutions, or a Europe which is trying to escape the travesties of the world wars."

"The changes going on in Russia and Europe and the rest of the world are coming together around a real consensus for open markets, better government, greater tolerance for peace."

"I think all of these forces that are coming together at the end of the 20th century will pull Russia towards integration into the world of democratic nations."

"It's a very powerful force of history that ultimately will prevail in Russia."