



Doing business with the Bear

IN THE FIRST OF TWO ARTICLES, **SERGEY FRANK** LOOKS AT DOING BUSINESS IN RUSSIA, THE WORLD'S LARGEST COUNTRY WHERE, DESPITE ALL THE KNOWN DIFFICULTIES, THE RUSSIAN MARKET REMAINS ATTRACTIVE, ESPECIALLY BEARING IN MIND ITS HIGH MARKET POTENTIAL AND WEALTH OF RAW MATERIALS

Russia is a magnet for investment. More than 900 US and Canadian enterprises and more than 700 German companies as well as many European companies are registered in Moscow. They do not simply act as commercial subsidiaries but are also involved in production, distribution and, increasingly, in services. Such development of economic growth, fostered in part by foreign investment, has created a new social class, known as *Novyy Businessmeny*—new business people, primarily encountered in Moscow and St Petersburg. In a very short time, they have become very wealthy, dealing in particular in sectors such as financial services, production and distribution of consumer goods, and IT. But this development does not only have a positive side. Life has become very expensive over the last few years, especially in the bigger cities. Because of price inflation ordinary citizens can afford less now than before, which has led to bitterness. Also, chaos and corruption—linked to tortuous regulations and red tape—have had a serious negative influence on business life. Moreover, crime has been increasing and organised crime has reached an alarming state in some parts of the CIS (the former Soviet Union).

Business communication

Communication in Russia follows different rules when compared with other countries. A first encounter is usually calm and formal, but further negotiation can turn out to be vivid and spirited with occasional emotional outbursts.

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Russian business partners tend to focus on relationships rather than on deals and visiting business people are recommended to establish a pleasant personal relationship in addition to an efficient business relationship. For historical reasons, most Russian business partners are very suspicious of public authorities and red tape. They will be mistrustful of alterations of contracts which have to be made because of laws and regulations. In such cases, a substantial demand for explanation exists. Personal relations are very important in Russia. In many cases, the success of a venture does not depend on official petitions or

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applications but on relationships in terms of reciprocity. Russian negotiators generally do not expect any help from bureaucracy.

The dress code is rather formal and conservative, taking into account cold winters when people dress appropriately. The new generation of Russian business people, the *Novyy Businessmeny*, commonly address each other by their first names since this is the fashionable American way of communicating. During a meeting business visitors will be well advised to have an ample supply of business cards in reserve which ideally display position and academic degree.

Social invitations for lunch and/or dinner by business partners usually take place in restaurants. Since invitations at home are not very common, you should appreciate these and not refuse such an opportunity. Some Russian business people enjoy a drink, primarily vodka. Drinking is done on every toast: be careful only to take part in such toasts which are important. Thankfully it has now become acceptable to touch the vodka glass to one's lips rather than down the contents in one. The host is entitled to make the first toast. Think about a well-considered and honest toast in reply. The tradition of toasts has existed for many years in this culture and is a good device to create a positive climate. It allows the opportunity to summarise points in the discussion process or to transmit positive messages. Once you have won the sympathy of your potential partner, you have established the basis of a potentially long-lasting relationship.

Careful thought should be given to the proposed structure of operations. At an early stage in planning, the western investor should decide whether to operate through a Russian branch office, an accredited representative office or a fully-fledged Russian corporation. If a joint venture is contemplated, the western partner should recognise from the outset that the personal attention of senior western management will probably be needed to keep the business on course.

Negotiations concerning communication and infrastructure can be more complex compared with other countries in eastern Europe. In general, the knowledge of a foreign language is not as common in the countryside as it is in metropolitan areas like Moscow or St Petersburg.

In other parts of Russia, as well as in the middle

Asian countries belonging to the CIS, your negotiating partner may not speak English. Interpreters play a very important role when doing business in Russia and investing time and money in finding an appropriate interpreter is justified. In the role of a local agent the interpreter may also establish some initial business contacts.

Take time for your negotiations. Meetings sometimes start up to one hour later than scheduled, which can delay proceedings. Often negotiations are interrupted, and sometimes two or more talks are held at the same time (e.g. via telephone), which can affect the attention of the negotiators. Nevertheless, your negotiating partners will take all the time they need to consider all the information. They usually believe that one can never gather enough information about a prospective deal. So it is important to provide them with all the information you can.

According to a survey in the *Harvard Business Review*, many enterprises working in the CIS for a period of years encountered similar problems: fiscal obscurities, legal issues, and dealing with the Russian public authorities may be obstacles when doing business in the CIS. A good example is the development of the Swedish furniture group IKEA: it took many years finally to realise the plans of IKEA's management in Sweden to launch a project in Moscow. This delay was primarily due to the complicated concession procedures of the Russian public authorities.

In general, a significant level of suspicion exists about legal aspects of deals, since lately many new laws and regulations have become operative. But because of uncertainty in the political environment, it is unclear whether the current ministry will remain in charge of implementing those regulations in future. The same applies to fiscal issues. Despite recent attempts to simplify aspects of the tax system, businesses face a complex array of federal, regional and local taxes. Also, certain licences, especially for export, are hard to obtain. As with other eastern European countries, many public agencies are demotivated or not interested, but even here a certain amount of corruption may exist. Hence, it is good advice to involve trustworthy and internationally experienced specialists like attorneys and chartered certified accountants. For further information you may contact the International Chambers of Commerce.

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The next article will present specific negotiation recommendations with Russian business partners.