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Russian Managers in the New Europe: Need for a New Management Style

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THE NEW EUROPEAN MANAGEMENT ENVIRONMENT

Europe's changing business landscape is challenging even for those managers experienced in doing business there over the past decades. That evolving arena, however, poses even greater challenges for the managers of most Russian companies, who have limited experience, at best, in such environments. These managers have been preoccupied primarily with getting used to doing business in the erratically emerging market economy of their own country. Those with long management experience have even more obstacles to overcome, having been trained primarily in the centrally planned system of the former Soviet economy.

Managers familiar with the evolving European business environment recognize that to function effectively, they will require substantial changes in their management style and business strategies. Many such managers have gained most of their experience in their national markets, even though they may have conducted some business in other European countries. Even managers in the very largest Western companies may have difficulties adapting their products, marketing, and management practices to different countries, each of which still has its own legal and other institutional infrastructure, business practices, and particularly, cultural distinctiveness.

The New Europe is sometimes looked upon as a monolithic market, partly because it is often characterized as a market similar in size to that of the United States. Such a view, however, is at best partially correct, since it does not take into account the differences we noted. Navigating among these differences, however, is crucial to managers who hope to work effectively within the diverse countries of Europe. Some of these major differences, as noted in the article in this special issue by Kets de Vries and Korotov, are national culture, religion, language, educational systems, the role of government, socio-economic system, and relationships with other countries. Those authors conclude that, within the expanding European Union, there is vast diversity that must be taken into account by companies and their leaders who hope to operate effectively in that environment. Additionally, the level of competition is likely to be fierce, with domestic companies operating in most country markets, some of which receive favorable treatment from their governments. Large and strong regional companies, as well as multinationals, will also be among those competing for consumer loyalty and market share.

THE LEGACY OF SOVIET MANAGEMENT

It is clear that managing businesses operating in the dizzying complexity of the new Europe will be difficult for many managers, regardless of their backgrounds. Russian managers will be no exception, but those who will encounter the most difficulty will be the ones who developed their views of management and business during the Soviet era. Many such managers are still running Russian enterprises, tend to be older, and still exhibit the vestiges of those experiences. This is particularly true in manufacturing companies and enterprises located outside the major cities. Not surprisingly, most multinational corporations (MNCs) operating in Russia, as well as many Russian companies, prefer younger employees because they do not have to unlearn knowledge and practices, nor put aside values acquired during the 70 years of the Soviet system.

Many managers who obtained their basic experience in state-owned enterprises carry prejudices from their past, which include avoiding risk and accountability, mistrusting others, and lacking initiative. They find it difficult to change their mentality, accept new ideas, and adapt to new work systems. Westerners should not underestimate such traditional values, nor history and past experiences, since all are of great importance to Russians. Those managers may recall, for instance, the Communist Party's railing against capitalism as being exploitive, saying that profits and competition occurred at the expense of the general population, and that maximizing profits was unethical. In their earlier management careers, they were given objectives by central ministries that required meeting mandated plans rather than operating profitably. This type of central command caused them to focus on meeting planned targets, protecting their enterprises and positions, hoarding supplies of all sorts, overstaffing their workforces; and withholding and manipulating information. They were masters of circumventing rules and directives and worked in underhanded ways, displaying behaviors that reflected a lack of trust. They exhibited a disdain for accounting and output measures and controls, real numbers, and truthful reports, as well as a lack of respect for laws they saw as making no sense to them. Their basic lack of trust is, in most senses, not surprising – since it reflects Russian society as a whole, and stems from the highly arbitrary, punitive conditions of the communist and tsarist periods.

Given the restrictive and warped view of management that Russian managers developed during their working experience before perestroika, many are likely to find it difficult to change, or to develop an appreciation of the need for continuous learning to succeed in new environments. They are less likely than their younger counterparts to accept the fact that what was successful in the past is not likely to be appropriate for the new market-oriented conditions. In fact, the most successful managers under the old Soviet system could well be the least successful under the new, even in the domestic Russian market, as the country continues its transition from a command to a demand economy. Most of the managerial experience, practices, attitudes, and values that were developed in that earlier period are antithetical to Western management practices, and even to an evolving Russian management style that can be successful in new environments.

THE GLOBAL ARENA

Russia is fast becoming a very attractive market for increasing numbers of foreign multinationals like General Motors Corp. and Gillette of the U.S., and Renault and Danone of France. Service providers have also realized the opportunity of this potentially huge market. For instance, Hypo Real Estate Bank International, Europe's leading provider of commercial real estate financing, completed its first Russian property transaction in March 2005 for a major office center in downtown Moscow. In the insurance field, the Bermuda-based global insurer ACE was approved to do business in Russia, joining over 40 other foreign-owned insurers, including majors from Europe and the U.S.

One area in which Russian companies are gaining substantial experience is the software industry, where they partner with Western and Asian companies that outsource the development of applications to the sophisticated technologists found in the growing number of Russian software companies. These include Auriga, Inc., EPAM Systems, GGA Software Services, and Spirit Corporation. These companies and others like them export nearly $1 billion in software services annually. To access Russian technological talent, Western companies like Intel Corp., Texas Instruments Inc., and Motorola Inc. have located in Russia. These are the types of companies with which Russian firms will eventually have to compete. Many Russian managers will gain their managerial competencies from working with such leading international firms.

Still, most Russian managers, with their extremely limited experience operating in international markets, will continue to have a very difficult time succeeding in the global arena, although some Russian companies have succeeded and will likely continue to do so. These are primarily specialized raw materials companies and the managers who operate them. Russia, with its abundance of natural resources, most notably petroleum, is already the second largest producer, almost equal to Saudi Arabia. Its stated reserves are likely to double this year, according to the BP director for Russia. Russian exports of minerals, base metals, and wood pulp also have a strong presence in world markets. In 2004, energy accounted for 57% of all Russia's exports, and was largely responsible for the country's $88 billion trade surplus.

This financial position does not necessarily attest to the managerial acumen of managers, but more to the fact that their companies operate in commodity industries where ready markets exist on a worldwide basis. The companies are not necessarily operated efficiently or effectively, since even in Soviet times, energy companies were able to operate and export to many other republics of the Soviet Union. Currently, Russian companies export oil, gas, wood, and metals to many European countries and to the United States.

Some of these companies are even beginning to acquire Western firms and expand their operations in Eastern and Western Europe as well as the U.S. These include Lukoil, which acquired Getty's operations in the U.S., and in 2005 purchased a controlling stake in two Finnish companies with retail networks of filling stations and diesel pumps. It also has plans to build several hundred gas stations in Hungary. Additionally, Lukoil was in 2005 developing its new fields in northwest Siberia that held enough gas to supply the European Union for over 3 years, increasing its importance to that market. Gazprom, the Russian energy giant, has ventured outside Eastern Europe by acquiring a major stake in the Greek oil company, Depa, and also expanded its partnership with Egyptian Natural Gas to build an underwater gas pipeline from the Sinai Peninsula to Israel.

Although these Russian companies have succeeded in becoming major players in the global business arena, it is not necessarily due to their management practices, but more likely to their wealth of natural resources. As they operate for longer periods in this complex environment, the managers of these companies will probably develop more sophisticated and effective management skills and techniques. However, this will happen only if they exhibit a willingness to learn and an openness to change, and do not fall victim to the hubris that can follow rapid success.

RUSSIAN COMPANIES AND MANAGERS IN EUROPE

Even Western managers with extensive experience in their own and other market economies face a weighty challenge adjusting their businesses and management practices to the level of diversity found in the complex European landscape. That Russian managers will also face this situation is becoming ever clearer as closer ties develop between Russia and its European neighbors. European Union countries accounted for 45% of Russia's trade activity in 2004, with Germany being the country's largest trading partner and largest creditor. Additionally, President Putin met in March 2005 with the presidents of France, Germany, and Spain, discussing economic and political issues of common interest. At the same time, the European Union trade commissioner assured Russia's economic minister that the EU is eager to see Russia become a member of the World Trade Organization by the end of 2005. Also in mid-March, Russia's Central Bank doubled the euro's share of the currency basket used for intraday targeting of the nominal exchange rate, a move that was part of a broad effort acknowledging Europe's increasingly important role in Russia's foreign trade. Another positive sign for Russia's increasing involvement in Europe is the March 2005 statement by the organization's secretary general that Russia should be included in the Organization for Economic Cooperation and Development (OECD).

Even Russian managers who launched their business careers during the country's transition to a market economy, however, still have far less relevant experience for venturing into Europe than Western managers. The development of a market economy in Russia has been erratic and highly disruptive for companies and their managers. In the decade and a half since perestroika, there have been many different and often chaotic environments affecting companies and management practices. Russian managers thus have never had the luxury of a consistent environment in which to hone their skills, practices, and values. The country's financial crisis of 1998, for instance, changed the business environment dramatically, and made it extremely difficult for businesses and managers to survive, let alone prosper. Still, many managers who were able to steer their companies through this difficult period are now leading increasingly successful firms. In Eastern Europe as a whole, with many countries now in the EU, nine of the 10 largest companies in 2002 were Russian. Of the 100 largest companies, in fact, 35 were Russian, of which half were in the oil, gas, and energy sectors.

Difficulties still remain in the Russian business sector, and these are exacerbated by erratic government policies. For instance, the country's corporate governance, which was virtually nonexistent until the 2002 Code of Corporate Conduct was unveiled by the Federal Commission for the Securities Market, began to positively affect the activities of directors and managers in large companies such as Yukos, Ilim Pulp, VimpelCom, and Wimm-Bill-Dann. But after a positive start, the attitude toward good corporate governance changed dramatically for the worse when the Russian government imprisoned Yukos's chairman Mikhail Khodorkovsky. It claimed that the company owed substantial back taxes, and in 2005, had Yukos's most valuable operating assets sold at auction to a shadow company of a government-owned oil company.

Partly as a result of this chaotic business environment, most of the country's managers developed limited competencies in their managerial repertoires to bring into the broader European environment. Additionally, they often face a confusion of values and business ethics, being affected at times by the values of a market economy and at other times by traditional Russian values. Many managers are now beginning to understand the requirements of competing in the 21st century, and have started preparing their businesses to succeed within the increasingly competitive domestic Russian market, as well as outside the country's borders. Many of them are owners and managers of private companies who have come to realize that the market-oriented economy has strengthened their organizations and motivated them to become better competitors.

These managers are in many respects better equipped for the task awaiting them in the new Europe than compatriots who gained virtually all of their business experience in the centrally planned economy of the Soviet era. Perhaps the days are ending that produced the situation described by a well-known but unnamed Russian businessman, who said in the March 24, 2003 edition of *Kompanyia*: "Oil, weapons, and vodka are selling best of all in the West."

Soviet-era managers, like all Russian managers intending to operate beyond the country's borders, must be prepared to become involved in the changes sweeping through the evolving landscape of Europe. Russia itself, in addition to its own growing domestic market, is becoming more of an international economic force, with recent gross domestic product (GDP) growth of around 7% annually. And although its industrial structure is grossly imbalanced, with manufacturing companies lagging badly, the continuing increases in world oil prices have brought financial strength to the government and the ruble. Unless oil prices sink drastically, Russia will continue to grow its economy, repay its foreign debts, balance its domestic budget, enjoy a positive balance of payments, and have a relatively strong currency. All of these factors bode well for the country's economy, its accession to the World Trade Organization (WTO), and increasing economic involvement with the new Europe.

In addition to these positive developments for business and investment in Russia, the most important development might well have occurred in March 2005. President Putin seemed finally to have realized that the Yukos affair had not only hurt Russian oil production, but also the country's reputation as a place for business and foreign investment. GDP growth was only 4.4% in the first 2 months of 2005, a significant downturn from 2004s 7.1%. Another worrisome sign was the slowdown in the growth of capital investment at just 7.8% in early 2005, versus a solid double-digit growth rate for the first half of 2004.

Seemingly in response to these negative outcomes, Putin initiated legislation to change the statute of limitations on contesting privatization transactions to 3 years from 10. This effectively assured Russian businesses and foreign investors that, from this point on, there would be no repeat of Yukos-type intrusions by the government. Putin said at the time: "This means safeguarding against administrative arbitrariness and fully guaranteeing property rights." He also went out of his way to further pacify business leaders, noting that they had "quite a few justified complaints" about the behavior of fiscal [and tax] authorities (quoted in "Putin Calls for Swift Reforms" *Moscow Times*, 29 March 2005, p. 6, no byline). Putin clarified his objective noting: "the aim is to . . . bring long-awaited reassurance to the business community that property rights will be guaranteed" (quoted by Christopher Granville and Yaroslav Lissovolik in "Dusting Off a Difficult Amnesty" *Moscow Times*, 30 March 2005, p. 10). Potanin of Interros and others, however, said the government must do even more to remedy the damage done by the Yukos affair, and at least stand by this latest Putin announcement (noted in "Business Briefs," *Moscow Times*, 25 March 2005, no byline).

Putin's initiatives, when implemented, should have a very positive influence on Russian business, and encourage both domestic and foreign investment. But even before his positive actions, a number of Russian companies successfully developed products that succeeded in the West, primarily in niche markets. For instance, the Moscow-based company Grishko is one of the three top international producers of clothing for dancing. Its products are sold in 32 countries, and have attained the number-one position in Italy. In the U.S., the product line is available in 150 specialty stores in competition with Capezio, having gained its foothold through an exclusive distribution contract with the American company, IM Wilson. Another Russian company, Lomo, exports around 30,000 compact photo cameras to Europe annually, a diversification from its primary business of supplying military optics. Its success is based on the reputation of Soviet optics, which have been well respected throughout Europe as leading-edge technology. Yet another company, Sukhoi Design Bureau, diversified from designing only warplanes into sport planes, competing with companies from Germany and France. Through its subsidiary, Advanced Airplane Building Technologies, the company sells its planes internationally primarily to private buyers from Europe, as well as other parts of the world, including 50% of its production to the U.S.

Another successful exporter, Night Owl Optics, sells its night vision devices, used primarily for hunting, fishing, and tourist activities, through the Russian company, Lank. Night Owl Optics's product line is sold in the U.S. through Wal-Mart Stores and on the Internet through Amazon.com. Finally, Kaspersky Laboratory, which produces anti-virus programs, is growing faster abroad, particularly in Italy and France, than in Russia itself where it controls around 60% of the market. These Russian companies have succeeded in expanding beyond the country's borders, and have exhibited the qualities of management that can succeed in an increasingly diverse Europe.

THE NEW MANAGEMENT REQUIREMENTS

In spite of these examples of successful firms, numerous changes are required in the Russian management style in order to facilitate the prospect of more Russian companies competing successfully at home as well as in Europe. We call these five fundamental changes the new management requirements. Although, many of them might not seem new to Western managers, they are not familiar to most Russian managers. Yet, it is essential that they understand and implement such changes in their management style to achieve competitive success. It should be clear from the successful Russian firms described in this article that some managers have already adapted to these requirements.

The new requirements were formulated primarily by the Russian coauthors of this article. They have been deeply involved in Russian management from both academic and practitioner perspectives for the past several decades, as management thought leaders, consultants and practicing business executives. The nature of the new requirements should help Western managers understand what to expect from Russian managers when working with them, or even when competing with them. One thing Western managers can expect is that their Russian counterparts have already come to understand the necessity for operating their businesses profitably if they are to survive and succeed, a drastic change from past management practices. They must, however, embrace the new management requirements described below if they are to compete effectively and achieve that profitability.

Develop a Customer-oriented Culture

In the 1950s, Peter Drucker explained that the customer was the reason for the existence of a business. Since it took decades for American and other Western executives to fully appreciate his insights, it is understandable that Russian executives will also need time to digest the implications of Drucker's message. Certainly, managers who gained experience during Soviet times had little interest in or association with customers, since customers were assigned by central ministries. But even those managers who entered business during the last 15 years have had little opportunity to develop a customer-oriented culture. In a period of shortage, lack of clarity or support from the government, and general uncertainty, most managers took a short-term approach that emphasized survival, rather than focusing on long-term growth that would have required building credibility and satisfying their customers.

With relative stability under the current Putin government, however, more companies have been able to operate with a longer-term horizon. The increasingly competitive domestic Russian market, which includes numerous foreign competitors as well as a growing number of Russian companies, makes it crucial that successful companies put the customer at the center of their business strategies. In Moscow, elegant new stores have opened, including Carrefour of France, that compete with Russian retailers. The products in many of these retail outlets carry the familiar international names of Gucci, Rolex, and even McDonald's. Russia, for instance, has become the sixth-largest perfume market in Europe, and is growing at more than twice the pace of the rest of Europe. Russia has one of the fastest growth rates in the world for that product.

One reason for the greatly expanded attention toward consumer preferences is the fact that annual growth in consumer spending in Russia over the past five years has been at the rate of 20–25%, higher than almost anywhere else in the world. Russian companies may not be able to compete with international powerhouses in the foreseeable future, but they can build their reputations and forge links with customer segments that appreciate their products. Many companies have done so, including those involved in candy, chewing gum, and other consumer products.

Among notable examples are Wimm-Bill-Dann, a New York Stock Exchange-listed company, with its dairy and juice products, which reported better-than-expected 2004 profits of $23 million, and announced plans to invest $30 million in its agriculture business. Additionally, the company's two major shareholders, with other partners, were moving into real estate development in 2005, recognizing that consumer tastes and resources were changing fast. They planned to develop some of their valuable agricultural holdings in a prestigious area that commanded land prices of up to $10 million per hectare. The entrepreneurs' project would include a $70 million downhill ski complex, as well as a large business center and shopping mall.

Lebedyansky, which became the country's leading juice maker on the basis of its attention to the special tastes of Russian consumers, launched a very successful initial public offering in 2005. At the same time, one of the country's leading discount grocery chains, Pyaterochka, was in the process of acquiring a competitor; it would be Russia's biggest retail takeover, and produce a potential total annual revenue for Payterochka of $3 billion by 2006. Another example of a Russian producer, although in this case mostly foreign-owned, is the brewer Baltika, which improved its products and distribution. In doing so, the firm grew from a modest position to sales of nearly $1 billion in 2004, and reached a prominent position in the European beer market. Russia itself is one of the world's fastest growing beer markets. Molson Coors Brewing, the world's fifth-largest brewer, began selling beer in Russia in 2005 under license to the Russian company Pit, of Kaliningrad.

As the consumer market economy continues to progress, some Russian managers have begun to heed Drucker's advice about the importance of the customer. However, such insight is still relatively rare, and many more Russian managers must come to understand and embrace that concept if their companies are to succeed in Europe, and even in their own domestic market. After decades of central planning that virtually ignored customer needs and certainly consumer preferences, this is still the most essential new requirement for Russian managers.

A critical aspect of a customer focus is the development of a marketing perspective within the organization that aims at understanding customer needs and finding ways to attract customers and retain their loyalty. Advertising has become more important, particularly for consumer products, and channels of distribution have emerged after the destruction to the country's logistics infrastructure. In fact, around a dozen Russian consumer products companies are listed among the country's 43 Superbrands, an advertising book produced by an international global rating agency of trademarks, which launched its first Russian edition in March 2005. Russian managers must make marketing an integral part of their firm's culture, and some have begun to do so.

Create Business Strategies that Emphasize Differentiation

Differentiation has long been signaled as the hallmark of an effective competitive business strategy by many practitioners and academics, including Harvard University's Michael Porter. But again, many Western managers, and certainly many Japanese managers, have been slow to embrace that idea. Russian management, particularly during the Soviet period, paid little attention to differentiating products, since mass, low-cost production and centralized thinking drove the entire process.

The increasingly competitive domestic market, however, and the prospect of entering other European markets, has brought the idea of differentiation to the stage of a competitive necessity. Russian managers will no longer be able to rely on large volumes of products that are seen as only commodities, unless those commodities are extremely scarce on the world market. They must find ways through technical innovation or emerging marketing acumen that allow their companies to provide products and services that add clear value. Each company will have to devise its own particular approach for differentiation – which might be found in its products, services, reputation, business processes, or the use of information that helps the company better understand its customers. In fact, the increasing level of domestic competition was noted by managers of small and medium-sized Russian companies in a 2004 international survey, as a major cause of concern and stress.

In contrast to those suffering from competition, some Russian companies have been able to translate their differentiation advantages into a product, market, technology, operations and service mix that provides a basis on which to compete. Although the mix will likely change depending upon the markets being served, some companies at least have adopted differentiation as a strategy. For instance, RBC, Russia's only publicly traded media company, tripled its profits in 2004 to almost $11 million on revenues of $75 million. Part of its success was due to its unique differentiation strategy of uniting Russia's first business television channel, a news agency, and various smaller information technology (IT) companies; its overall strategy is seemingly targeted at becoming an integrated information provider.

On an international scale, a medium-sized Russian nanotechnology company, NT-MDT (NanoTechnology-Modular Devices and Tools), established a subsidiary in Limerick, Ireland, in order to meet increasing demand from non-Russian firms the company served, as well as to source many subcomponents from companies in Ireland. At first, the company's Irish operations were expected to concentrate on assembly, testing, and after-sales service, but eventually to evolve to research and development (R&D) projects.

Another firm that has succeeded in international markets is Power Machines Group (PMG), the country's leading producer of power generation equipment. It has been fairly successful in both developed and developing world markets. The company has succeeded by developing a niche for low-end, low-priced products and services, rather than competing head on with leading Western power machines companies such as Ingersoll-Rand Co., Ltd. Currently, PMG has 80% of all Russian export contracts with many European, Asian and Latin American counties. The company, however, is still developing new strategies for operating more efficiently and profitably, planning to develop new foreign markets and technologically advanced power machines, and even entire power plants.

So some Russian companies have adapted quite well to the requirements of the international market economy. Still, most have a long way to go before reaching a position of differentiation based upon some combination of resources and strengths that can be effective in multiple environments.

Redesign Business Processes

Russian companies have traditionally been designed on a functional basis, much as most Western companies did until fairly recently. Many of those Western companies, however, became deeply involved in business process reengineering during the 1980s and 1990s and became vastly more efficient and effective competitors. The transition from a functional orientation to a process orientation stemmed from a recognition that, to serve the customer well, the internal operations of a business had to be looked upon as an integrated set of processes. The starting point of process redesign should be the customer, and all business processes should support a customer orientation.

After decades of a production-driven approach, similar to Western companies until the last few decades, Russian managers need to realize that being customer-oriented must permeate their company operations. In the past, their functional orientation produced structures that were created for mass production, and at the same time, led to the growth of administrative work and huge redundancies. These organizational structures also led to functional barriers, as well as complicated interactions between functions, and difficulty introducing advanced technologies that could increase administrative efficiencies.

In contrast, Russian managers now have to understand that creating and managing effective processes are key to satisfying consumer needs, since these reduce inefficiencies, as well as barriers to customer communication and satisfaction. They need to accept the realization that their present functionally oriented processes must often be reengineered, and that the results of doing so should be an increase in cross-functional orientation and communication within their firms. These measures should hopefully increase product quality, new technologies, new products, and customer satisfaction.

In the course of reorganizing business processes, hierarchy should be reduced, and cross-functional teams should be established. Both of these characteristics are antithetical to the old Russian management style, which emphasized strong reliance on a command-and-control hierarchy. If utilized at all, teams existed only within isolated functions. The new organizations that hopefully emerge can bring creativity from anywhere in the organization, a concept foreign to the traditional Russian management style. But here again, Russian managers might look to the wisdom of Peter Drucker as they consider such changes. He noted in 2002 that managers have to stop living in the past, and that it is impossible to create a tomorrow without discarding yesterday.

In revamping their processes, Russian companies can look to some Russian firms that have successfully mastered new approaches. One company that has turned its experience into well-accepted consulting and systems integration applications is IBS, the highly successful leader of the Russian IT-consulting market. That firm, in its consulting practice, introduced its growth formula process of changes based on its own experience. It covers a business through all phases of its processes from customers to product development, supply, systems support, and implementation. IBS's approach to process change is based upon its own 10 successful years of experience in becoming the leader in this important segment of Russian business.

It is certainly easier for such new entrepreneurships, or smaller companies established by younger managers, to understand these new requirements and to implement them, since there is no need to unlearn or undo. The founder of Maxus, a chain of mobile phone retail stores, focuses on people as his primary resource. He emphasizes communication to facilitate mutual respect among himself, employees, and customers. He developed a team-oriented staff with team-based bonuses rather than individual ones. His focus on teams is fundamental to his company's success in the extremely competitive mobile phone market around Moscow. He has been described by the cofounder of Ward Howell International Russia as "a local phenomenon, representative of a young generation who believe in values. He believes in the team he is building, . . . and values, after all, are not subject to cheap imitations" (quoted by Yuriy Humber in "Team Spirit Motivates Mobile Wunderkind," *The Moscow Times*, 14 March 2005, p. 11).

BusinessLink is another entrepreneurship, established soon after perestroika, that engaged in advertising, public relations, and executive search. Due in part probably to the nature of its business activities, the company focused all activities around its clients and developed internal processes to satisfy their needs. With a minimum of hierarchy, and with creative team building and individual incentives, the company utilized client-centered teams that jointly developed and implemented BusinessLink's internal functional requirements in ways that served the customer well. A motivating factor was the fact that BusinessLink often found itself in competition with international firms. It was the willingness of senior managers to accept new management approaches and company structures that allowed the firm to operate successfully. For instance, the company early on instituted a management-by-objectives program, formal appraisal systems, and a pay-for-performance compensation and bonus plan. The head of the company's advertising group, its largest division at the time, developed a strong culture of delegating authority to people who were not accustomed to accepting such responsibility. At the time, these practices were fairly revolutionary for a Russian company. They are not common even today, and most Russian managers must design or redesign in their companies business processes that were unknown a decade ago.

Manage Knowledge and Information

Russia has been relatively slow to enter the information age, but that situation is changing fairly rapidly. Computers, and information technology on a broader basis, have made their way into major Russian companies, and spilled over into some medium-sized and smaller organizations. E-mail, databases, and computer-based information systems are no longer the novelties they were only a few years ago. The need to develop an IT infrastructure is appreciated by many managers, even though they may lack the financial resources to implement their ideas. Still, those companies that succeed in becoming serious domestic competitors, much less compete well beyond the country's borders, must be able to accumulate IT resources in order to utilize information in all their management processes. These resources will help Russian managers to appreciate that information and knowledge are critical assets for their organizations. Although this might be obvious to Western managers, it has not been the case in transitioning economies like Russia, due to lack of those resources as much as to deficiencies in management style.

As they develop their information infrastructures, Russian managers must assume an approach to the management of knowledge built on an appreciation of the importance to their businesses of that critical resource. That approach goes beyond utilizing information systems. These systems must be integrated into other management processes that encourage knowledge sharing throughout the organization. One company whose top managers clearly understand the importance of knowledge building and sharing is IBS, the leading Russian information technology consulting company. Its deputy director general noted the importance of his company's employees, emphasizing that their knowledge and skills were ultimately the company's primary offering to customers.

Leveraging of knowledge can become a competitive advantage for those companies whose managers are willing to change their management styles to help motivate employees to pool their knowledge from all areas of the organization. By so doing, knowledge can ultimately be retrieved by those who need it to define the proper problems on which to work, as well as to make decisions that enhance the company's competitiveness. They might take their cue from Microsoft's Bill Gates, who expressed this advantage as making the right data available to the right people, at the right time, in order for them to take the right decisions and actions.

As Russian managers take steps in this direction, they will find a strong advantage in continuing this process, and move toward the creation of learning organizations. They will also have to develop management systems and organizational designs that encourage group activities to break functional barriers and contribute willingly to the development of the firm's knowledge base. Western companies have not found this to be an easy task. Many are still grappling with the issues and problems involved in developing this potentially key competitive advantage. Success in this area, however, will facilitate the abilities of managers and employees of Russian companies to adapt to new situations and embrace change, characteristics not found in the traditional Russian management style.

For Russians, this can be especially challenging, since it requires a fundamental trust among all parties, and trusting relationships have traditionally been reserved for personal networks. This limitation, in fact, begins at the top in many Russian firms, whose senior executives are often major shareholders, and who do not share information with their employees, or with outsiders. Their reluctance is sometimes misguided, but often the result of well-founded fears of disclosing information that will alert tax authorities, bureaucrats, or even criminal groups that could threaten their firms' resources, or even existence. In spite of these pressures, if they are to develop their firms as serious competitors, Russian managers must create cultures that allow the development of trust, by facilitating relationships among themselves and employees, which simulate personal networks of mutual benefit and respect.

One firm that has overcome the resistance to share information and has introduced transparency within and outside the company is the country's first and largest investment bank, Troika Dialog. Its founder, Ruben Vardanian, understood the value of information to other companies, investors, and even to his own internal organization. His personal values emphasized openness and trust, which he saw as the underpinnings of the investment banking industry. He adopted international standards in his business philosophy and management practices that enabled him not only to succeed in Russia, but also to open a New York office in a relatively short time. His successful management style at Troika Dialog led to his appointment as chief executive officer (CEO) of Russia's largest insurance organization, Rosgosstrakh, formerly a state-owned enterprise.

Develop New Leadership Styles

There is a need for new leadership styles in many Russian organizations. Russian leaders have typically been highly directive strong leaders who centralized decision-making within themselves and operated with rigid hierarchies. They often perpetuated a punishment-oriented culture, while also being paternalistic and protective of their workforce. They closely guarded information and did little to engender mutual trust within or outside their organizations. Many of these characteristics, originating in the Soviet period and even earlier, continued during the uncertain and even chaotic 1990s.

As we noted earlier, some Russian leaders have begun to develop new leadership styles and move beyond the legacies of the past. Some of them are gradually becoming attuned to the requirements of operating their firms in the expanding and highly diverse European Union countries. Many have already succeeded within Russia and even beyond, and those firms are likely to be the early entrants or first movers beyond the country's borders into the broader European arena.

For instance, Anatoly Karachinsky, who founded the previously mentioned IBS in the early 1990s and continues to lead it, represents the best of Russia's new leaders. He was named the most respected person in the Russian computer industry 10 times, one of *BusinessWeek*'s top 50 European stars, and Russia's entrepreneur of the year in 2002 by Ernst & Young. His company has emerged as the leader of Russia's information technology and consulting market, with sales of around $500 million. Karachinsky's vision of building an integrated information technology and consulting company is the foundation of the company's success, with recent annual growth rates of nearly 50%. In addition to developing new products and services for the domestic market, one of his company's subsidiaries, The Business Systems Company, has represented Dell Computer Corp. in Russia since 1996. Another subsidiary, Luxoft, is Russia's largest software exporting company. With its already impressive array of large international clients like Renault, Royal Dutch Shell, and British American Tobacco, Karachinsky's company is clearly well positioned to operate beyond Russia's borders. It is even clearer that the company's success is due to Karachinsky's leadership, which embraces the new management requirements described in this article.

Although the resilience and flexibility of Russian business leaders and managers developed during the last decade can be valuable assets, operating in the expanded European arena will require a longer-term vision and time horizon for most of them, as well as more consistency within their strategies, structures, policies, and practices. They should not, however, cast aside the quick thinking and rapid decision processes that often assured their past successes. These can be positive resources in a highly diverse, uncertain, and fast-changing environment – in other words, the new European business environment. As their companies grow, the leaders will need to move beyond their individual capabilities and build organizations of people who can contribute to their firms' success. Only by so doing will they position their companies to take advantage of the collective knowledge of their organizations, and compete against an ever-increasing array of strong opponents.

As noted by many experts, they, like all leaders, will have to provide a clear vision of where the organization is going, to provide guidance to all managers and employees and reduce their apprehension. They will have to allay the fear of change so prevalent among employees in hectic circumstances, and provide a culture that is supportive and conducive to learning, allowing employees to feel more confident and empowered. They will also have to become more adept at building relationships with other companies based on trust, since many will need strategic alliances to grow and compete successfully. These are only two aspects of the appreciation for multiple stakeholders they must develop, particularly since most European countries operate on a stakeholder-based managerial and governance model.

THE MANAGERIAL GAP

Russian managers and companies have begun to taste the fruits of success within their domestic market, and to some degree, within Europe and even beyond. Most notable successes, however, have occurred within the extraction sectors and have resulted primarily from the country's vast resources and favorable pricing of commodities. These successes should not necessarily be seen as an indication that Russian managers in general are ready to compete outside the country's borders, and many still struggle to compete domestically. The picture is certainly changing, however, and we have provided in this article numerous examples of company successes and managerial acumen exhibited both within and outside Russia.

The vast majority of Russian managers and company leaders will be called upon to change their management styles to embrace the new requirements, particularly those whose managerial and leadership experience was acquired during the Soviet period. Even younger managers who began their careers during the turbulent years of the country's transition to a market economy will find enormous differences in the highly diverse environment of a broader Europe. They may have proven their adaptability and flexibility by successfully adjusting to the usually chaotic Russian political and economic environments. That approach, however, may not have allowed them to hone their managerial competencies beyond reacting opportunistically to circumstances. Their strategies were often completely opportunistic and their horizon totally short-term. Everything within their firms, including management structures and practices, had to be highly flexible, even to survive.

As their environments continue to become more competitive both domestically and abroad, and particularly as they increase their operations in Europe, Russian managers will find that they must close the gap between their present management styles and a more effective approach. The new requirements will not be easy for many managers to assimilate and implement, but they provide a helpful road map for those managers who understand that changing their management style is necessary to their companies' futures as well as their own. To close the gap, most will have to look beyond their own companies and experience and seek additional avenues for help.

CLOSING THE GAP

Some fortunate Russian managers will gain valuable experience working for Western companies in Russia, while others will bring Western managers into their companies and learn alongside them. This idea is certainly not new, but until fairly recently, misunderstandings and unrealistic expectations on both sides became roadblocks to mutual learning. With the further development of the Russian economy and Russian businesses and the country's increasing relationships with Europe and beyond, such roadblocks will likely be diminished. Facilitating these improvements is the greatly enhanced likelihood of a more stable business climate after President Putin's strong support for what amounts to government acceptance of privatization transactions and the resulting guarantee of private property. The Yukos affair seems unlikely to be repeated.

Most managers will still need to supplement their ongoing practical experience with additional education and training. The new requirements are complex and will require a near quantum leap for many managers, just as they have for those managers in the West who have been willing to change their management styles. Russian managers' ever-increasing experience in doing business in Eastern and Central Europe should ease this transition somewhat. Still, company leaders will often need to take advantage of specialized leadership programs in Europe, and perhaps Russia, that focus on critical aspects of leadership in the rapidly changing European marketplace.

It is clear that many enlightened Russian companies are already providing the opportunity for their managers to develop the skills and other assets necessary for the rapidly changing environments with which they are now dealing, primarily in the domestic market. Many, however, could soon be dealing in the broader European arena. These companies are making available specialized, as well as more broadly based management development offerings. The deputy director general of IBS has stated that the company's value depends upon the total potential of its employees. That realization requires every employee to have a new level of opportunity for self-development, and requires the company to continually invest in training. Some companies have gone to the level of developing in-house corporate universities, which in fact, have become a growing phenomenon in Russia. These companies understand that their managers and other employees need extensive education and development opportunities to allay their fears of the seemingly constant changes they face. They also recognize the need to equip them with new managerial skills, attitudes, and values.

Many managers will acquire characteristics needed to meet the new managerial requirements from attending executive programs within their own companies, but many will attend M.B.A. programs, sometimes going overseas. Russian institutions themselves, however, have become extensively involved in training future managers, as well as business executives. One notable example of a highly selective M.B.A. program available to a limited number of students is the Graduate School of Management at Moscow State University, directed by the two Russian authors of this article. The school emphasizes the highest quality in its students, curriculum, faculty, and teaching technologies. That institution is intimately familiar with Western curricula, offers some courses taught in English, and employs some faculty members from Europe and the U.S. to ensure that their materials are up-to-date and relevant to today's management needs.

Another leader of the country's management education efforts is the Academy of the National Economy. The largest postgraduate management training center in Russia, it has graduated, from different management training programs, around 50,000 participants during the past 10 years. Across the country, it is estimated that hundreds of thousands of these present and future managers have already completed business school programs over the past decade. The curricula to which these student managers are being exposed mimics those found in most Western business schools; accordingly, these graduates should be fairly familiar with the new management requirements discussed in this article. It will be many years, however, before the vast majority become influential in Russian companies, so the necessity remains for today's senior managers to find ways to improve their management styles.

Given this reality, many Russian faculty members have joined the ranks of the numerous consultants who work with Russian companies to help accomplish the necessary changes discussed in this article. Although substantial numbers of such consultants still come from the West, an increasing number are Russians who have gained substantial experience in new management practices and techniques during the last 15 years. This is the case with the Rayter Group, a consulting firm that focuses its training around strategic issues and planning, emphasizing a longer-term focus than has been traditional for Russian managers during the transition to a market economy. The consultants attempt to build upon the strengths of the Russian client managers, but also emphasize many aspects of the new management requirements, and utilize interfunctional teams with participants drawn from many managerial levels. The entire process is developed with and signed off on by company CEOs, who often are also the company's major owners. Initially, Western consultants were very active in all phases of the planning and training within Russian companies; currently, Russians conduct most of the on-site training. In summary, Russian managers have many avenues to follow to develop their management styles and incorporate the new requirements described in this article.

CONCLUSION

It is clear that most Russian managers still have substantial gaps to fill in their managerial styles, whether they received their experience during the Soviet period or the later transition to a market-oriented economy. They now have numerous opportunities to develop their competence to meet the new managerial requirements so needed as Russian companies compete domestically and expand abroad. Despite the constraints from 70 years of the centrally planned Soviet system, as well as the chaotic business environment of the 1990s, substantial progress has been made since the beginning of the 2000s. Although many positive signs have emerged that some Russian managers are ready to change, compete domestically, and move into highly competitive arenas like the new Europe, most still have far to go before being fully prepared for those challenges. This article has provided a roadmap to that change through new requirements that would bring to those managers a managerial style comparable to their Western competitors and partners.

For those Westerners, this article should provide insights into the Russian management style, as it has been, as it is changing, and as it might become if Russian managers are successful in adapting to a new style that would make them better partners, but also better competitors. Are Russian managers ready to compete in the new Europe? Although they may not be ready yet, continuing to adapt their managerial styles to the new requirements should set them on their way to becoming effective players in the evolving European business arena.

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