



Doing Business in Russia

Introduction

In the last decade, the Russian market, together with the markets of Brazil, India and China, has been among the fastest developing markets in the world. Starting from the early nineties, many European companies have established themselves in Russia and have since built up thriving businesses. In spite of the many apparent successes, the first steps of doing business in Russia are never easy. Whether you start in Russia as an individual entrepreneur or as an established business you will come across a number of difficulties that may seem hard to deal with. These difficulties may include differences in business culture, stereotypical ideas or the language barrier. This chapter explains what the main difficulties are that you may face and how to overcome these difficulties. The information in this chapter is by no means exclusive. One could write and talk endlessly about Russia and her relationship with Europe. The chapter

merely tries to indicate a number of the issues that arise regularly in Russian – European business cooperation. I hope that this information will help you to understand Russia better and that through this understanding your quality of life in Russia will improve and your business will be successful. One thing is certain; Russia will not leave you unmoved and the chance is very big that you will come to admire and love this country and its people.

Perception and stereotypes

Russia still has a negative image in Europe, which is largely caused by negative international media attention and the stereotypes about Russia that we take for a certain truth. Most Europeans who have no or little experience in Russia still think of Russia as a country where the mafia walks the streets wielding big machine guns. One thinks of oligarchs and polonium poisoning. Russia is seen as a cold, harsh country, where vodka drinking people

are rude and grim and where you can expect to be cheated at every corner. One of the few positive exceptions to this negative image is the Russian culture. Every European values Russian opera, ballet, music and literature.

As a consequence of this negative image, many Europeans experience a sense of fear when thinking about Russia. I often see them sitting next to me in the plane; the Western business people who, while landing at the airport in Moscow, are staring out of the airplane window with eyes wide open and palms sweating with fear. These are the people who will not succeed in Russia, as every little difficulty will become an insurmountable obstacle to them. And when doing business in Russia, there is an abundance of little difficulties that may arise.

Contrary to its negative image, Russia is not a dangerous country and one can walk around its cities undisturbed. Stories about the mafia are routinely exaggerated and when you get to know Russian people personally, they are among the warmest, most caring and most hospitable people around the world.

One also shouldn't forget that Russians have a certain perception as well, when they look at Europe. Europeans seem pampered and weak to the Russian eye. Europeans are often perceived as being condescending towards Russians and as having an interest in Russia purely out of short term financial gain. Many Russians believe a certain antagonism exists between the Western world and Russia and see the relationship with Europe in terms of competition.

Our differences

Russia doesn't seem to differ much from Europe to the novice eye. People look the same, sound the same and do the same, so we automatically assume they will be the same. But such a notion may be misleading. The Russian understanding of trust, authority, time,

society, relations, agreements, and of a range of other issues, differs fundamentally from our European understanding. The differences between Russia and Europe can be divided into three main groups; differences in

- a) national character,
- b) business culture and,
- c) language.

a) Differences in national character

Building of trust and personal relationships is of crucial importance in Russia, whereas in Europe, relations suffice to have successful business relationships. Russians tend to depend much more on informal personal networks to get things done, whereas in Europe, we address ourselves more easily to formal networks such as those provided by business associations, chambers of commerce and various networking platforms.

In our European societies, we have less and less interpersonal cohesion and we live our lives in ever increasing individuality. Russians, on the other hand, are very strongly bound to their relatives, friends and close ones. It is practically as if the Russian lives inside a micro cosmos that consists of his or her family, relatives and close friends. All the challenges of daily life are dealt with within this micro cosmos. You are referred to the doctor who is a friend of a friend, you are guided through bureaucratic procedures by a relative who has the right contacts and if you're short of money, there is always someone ready to help. In Europe one is much more left to one's own devices. However, the European has much more formal organisations he can use to solve his problems. A European business person in Russia, not having this microcosmos to count on and not having reliable and transparent formal institutions and organizations to work with may feel a certain unease and helplessness when starting to do business in Russia.



One of the consequences of this micro cosmos is that in as much as the Russians feel a high degree of responsibility for their close ones, they feel less responsible towards the society in general. Russians do not feel as strongly as Europeans that their actions will affect the society as a whole. It's the European idea of "change the world, start with yourself" versus the Russian idea that "whatever I do, or do not do, will not affect society, as the country is too big and its people too numerous". A good example is the traffic in Moscow. As long as a driver in Moscow can get away with breaking the traffic rules he will do so. The average Russian driver will say that "he would be ready to abide by the traffic rules if everyone would do so, but since no one does he won't do so either".

One thing that the European should always keep in mind is Russian pride. Russians are very proud and their pride is easily hurt, especially when Europeans try to lecture Russians about what they think is best or better or when Europeans criticise Russia as a country.

Connected with this sense of pride is the fact that it is much more important in Russia to convey a sense of power, wealth and success than is the case in Europe, where one often

values modesty over public display of power, wealth and success.

Although one wouldn't say it at first sight, emotions play a rather big role in Russia, especially when compared with the North-West European ratio.

A first time visitor to Russia should be prepared to see a country that is more defined by its extremes than by its average common denominators. Russia is a country defined by the extremes in weather, social status, emotional depth and general outlook: hot versus cold, rich versus poor, beauty versus ugliness and harshness versus empathy and nostalgia. These, and many others, are usually the extremes that attract the foreign visitor who is used to a calmer and more or less average environment.

Another undeniable characteristic of Russia is that the country never ceases to hold surprises in store. Not one day is like the other and when you have ten things to do in one working day, you may end up doing none of them, but you would have done twenty other things. This daily lack of predictability may be unsettling to the European business person starting in Russia, who has been used to planning years ahead in other markets.

Russians are also very practical thinkers who are quick to adapt to changing circumstances. A well planned and outlined formalistic approach to things is something that works in Europe, but often fails to produce the right results in Russia.

One other big difference between Europe and Russia is found in the way time is regarded. Russians think in substantially shorter terms than Europeans do. Business projects need to have a pay back time of a few years to be interesting. Don't try to set dates for meetings that are to take place several weeks later as your Russian counterpart will say: "let's live up to that moment and than we will see". Another



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manifestation of the short term thinking and the constantly changing environment is the “control phone call”. When you have fixed a meeting for a certain date you still have to call on the morning of the day of your meeting to verify if the meeting will actually take place. This phenomenon is called the “controlniy zvonok” or the “control call”.

One of the most unique features of living in Russia for most Europeans are the friendships they strike up with Russians. Although Russia ranks low on the international ratings for transparency and ease of doing business it actually ranks among the highest ranked countries for the depth and merit of the friendships that foreigners create with Russians. For many Europeans it is actually the friendships with ordinary Russians that are the main reasons for them to want to stay in or return to Russia.

b) Russian vs. EU Business Culture:

The management culture in Russian companies usually delegates relatively little mandates to lower management and is built around a vertical power structure that allows the top management to exercise an all encompassing level of over even the smallest details. A consensus management style and corresponding company structure is not something that is very common in Russia.

When dealing with Russian staff or business partners one has to be ready to dedicate more time and attention to the relationship and to managing set targets and deliverables.

Russian businessmen can be . A Russian business person will not show weakness and will more likely try to negotiate on the basis of a position of power instead of on the basis of the desire to reach a mutually beneficial agreement.

In line with this tendency to try and come across as strong and powerful, the Russian business partner may more than can actually be delivered. However, this is without bad intent and follows purely from the desire to make a strong impression!

Also stemming from the desire to make a good external impression. External plays a major role in Russia. The car you drive, the suit and the watch you wear, whether your shoes are polished or not is by far more important in Russia than it is in large parts of Europe.

When you make an agreement in Russia, make sure that your interests are very well aligned with the interests of your business partner. Don't rely only on the literal wording of the agreement when you want to be sure that what you want and expect to happen will actually happen. In Russia, the intent of an agreement and the conditions under which the agreement was made are more important than the actual formal wording and conditions of the agreement. In Russian understanding it is also normal to change agreements when the circumstances – such as prices, demand, regulations – have changed. In Europe, one would stick more closely to the contract regardless of circumstances. In Russia, life changes continuously, whereas in Europe, life stays the same for years on end. When a Russian starts a discussion with a European business person about contract conditions because one or more circumstances have changed, then this follows simply from normal daily busi-

ness practice. Business in Russia is subject to continuous change because the Russian business environment changes all the time. The European business person however, who is less used to reacting flexibly to a changing business environment, is often shocked by the mere fact that his Russian partner questions the validity of an agreement. I have often been called to mediate in conflicts, where the Europeans accused the Russians of deceit; whereas, the Russians accused the Europeans of hard-headedness. Often, I have been able to solve conflicts between Russian and European businesses by taking them all the way back to the moment when they had their first negotiations and by identifying their initial intentions, expectations and conditions at that time. Russians are reliable, but have their own way of thinking and reasoning and may have a different view with regard to what their interests are. However, when you take into account the Russian way of thinking and heed the interests of your Russian business partner, you will not be disappointed about the trustworthiness of your Russian counterpart.

Russian businessmen think, speak and act fast! Do not come with a plan that you do not expect to execute in the near to medium



term future. If a Russian is interested in a certain project, then his interest is focused at executing the project in a relatively short time period. There, where a European may think for months or sometimes years about the possibility of engaging in a certain project, a Russian will want to implement the project within the shortest time-frame possible.

c) The language barrier:

The Russian language is hard to master; this includes even the simplest expressions and idioms. Unlike languages with Roman, Anglican or Germanic origins, the Russian / Cyrillic alphabet is a major obstacle to obtaining a basic understanding of the language. As a result, the Russian language seems more difficult to understand than many other foreign languages. Even when engaging the services of an interpreter, problems often arise in meetings between Russians and Europeans. In business, it is crucial to understand nuances, intentions, tactics and strategies that almost no interpreter can understand or convey. Most Europeans expect Russians to speak English and actually, more and more Russians do speak English in business; many Russians now travel abroad and have a chance to practice their English, German or French. But in spite of the fact that Russians increasingly have international exposure and experience, it will be hard for them to compete with the average European. Europeans are exposed to different cultures from childhood onwards. In most European countries, it only takes a few hours to find yourself in a different country with a different language, a different culture and different habits. In Russia, you can travel for days and days and still be in Russia. So, even when the English language proficiencies of a Russian and a European are similar, the European, having lived in a culturally diverse setting, will be much more comfortable speaking English than the Russian.

DOS and DON'TS

The many differences between European and Russian business cultures necessitate a special approach to doing business in Russia. This special approach can be expressed in a number of dos and don'ts for doing business in Russia.

DOS

It is advisable to make sure you do the following things:

Advice number one is enjoy Russia! Doing business in Russia often requires more effort and energy than is the case in many other countries. You may also face small discomforts and setbacks. Enjoying being in Russia and doing business here will give you just that extra dose of energy that you will need to deal with the daily challenges that will come your way when doing business. You have to be entrepreneurial, flexible and patient. You will have to be ready to adapt to ever changing circumstances.

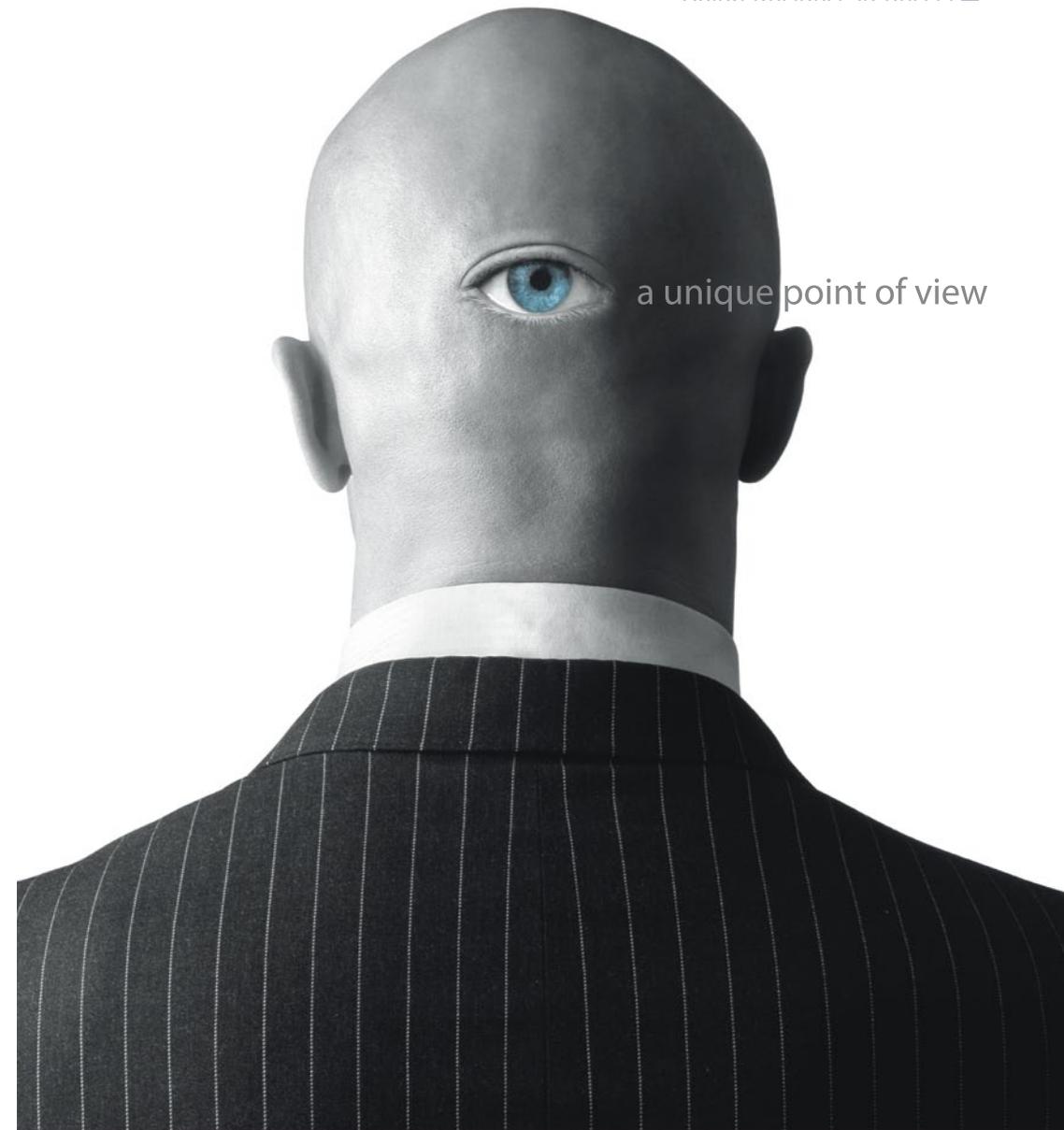
Another important recommendation is that you really try to understand, respect and be open to Russia and its cultural peculiarities. You will gain a lot by understanding the perspective of your Russian partner. Just reading Russian literature will already open up a small window into the Russian soul.

Gaining some knowledge of the Russian language is also something that will help you feel comfortable in Russia. Simply by learning the alphabet you will find out that many words are actually recognizable to the western eye. A restaurant is "restoran", business is "bizns" and stop is "stop". Russians really appreciate it when you make an effort to say a few words in Russian, so it is advisable to learn a few words such as: thank you "spasiba", hello "zdrastvujte" and please "pozhalujsta". The best thing you can do before starting to work in Russia is to dedicate a few weeks to learning the basics of the language. It is an invest-

ment of time that will pay off immediately you commence work and will continue to pay off during your stay in Russia. Only very few people are capable of learning Russian once they have already started working in Russia. Usually, jobs in Russia are so demanding in terms of time and attention that no time is left for any language studies. When you do speak the Russian language, it will be much easier for you to build up your Russian network and that Russian micro cosmos that is so crucial to your well being and success in Russia. When working through interpreters, one should always be aware that many interpreters may correctly interpret the words that are exchanged, but they may miss the actual idea behind what is being said. Interpreting is an art that very few have a talent for. Therefore, it is advisable to never rely entirely on what your interpreter tells you. Make sure you have your company brochures in Russian and that you have a business card in Russian (check the translation of your name with a Russian native speaker as some western names may sound strange to the Russian ear).

It is not only the Russian culture and language that you should be familiar with. It pays off as well to do your homework and know your market well before becoming active in Russia. Product - market combination, sales and distribution channels and marketing approaches often differ considerably from what we're used to in Europe.

In order to be successful in Russia, nowadays, you will need to have a long-term strategy and you will need to be committed to being in Russia for several years. As a rule of thumb, one may state that business in Russia takes twice the time it takes to manage a similar business in Europe. Doing business requires continuous and a hands-on approach. Russia simply requires more investment of time, money and effort than you would expect based on your experience in Europe. The Rus-



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sian market is not the market that you enter in order to make a quick profit.

A type of commitment that is increasingly demanded by the Russian Government has to do with localization of production of – mainly industrial – equipment. Russian companies (especially with state involvement) are more and more required to buy “made in Russia”. In some sectors the demand for local content even reaches up to 80% of the value of the goods. This means that there is a strong increase in the number of European companies that establish joint ventures with Russian counterparts. As a rule of thumb it is safe to say that if you want to have a long term sustainable business in Russia you will have to think and act in the interest of the Russian economy.

When doing business in Russia, it is always important to stay in control of what you are doing and keep the initiative in your business venture. You cannot do business at arms-length in Russia and expect that you will understand what is going on and be able to manage the business as you desire.

When you make an agreement with a Russian business partner you have to make sure that your interests are aligned and that all

sides to the agreement stand to gain from it. You have to create win situations in which all parties have a clearly identifiable added value.

DON'TS

In addition to those things that you should do in Russia there are also a number of things that you should definitely not do:

First of all you should not be afraid of Russia. Fear is a bad advisor and will impede your business efforts in Russia. Russia is a safe country. You don't have to go out on the street with bodyguards and your business will not suffer from protection rackets as many westerners with no experience in Russia think.

On the other hand, one should never underestimate Russia or Russian business people. Many Europeans still think of Russia as an underdeveloped country where it is easier to do business than in Europe, but that is a misconception. Russians are very well informed and educated and travel all over the world, visiting all the important international trade fairs and exhibitions and know exactly what the international market has to offer. The time that you could sell cheap jeans and second hand computers in Russia has long gone by.

Never think that Russia is purely European. When we go to China everything looks, feels, sounds and tastes differently. As a consequence of these obvious differences we are ready to accept that China is a world apart from what we know at home. Russia in many ways looks, feels, sounds and tastes the same. This often leads us to think that Russia is just another European country and that Russians are just another group European people, but nothing is further from the truth. Russia is a Slavonic country with a mix of European, Asian and Slavonic characteristics and you would do well to keep this particular mix of features in mind when living and working in Russia.

Another misconception is the idea that Russia is a country where everything is cheap. The cost of living is high with Moscow regularly topping the list of the most expensive cities in the world. Also, salaries, rents and other overheads are among the highest in the world. The transaction costs of doing business in Russia such as costs for travel, brochures, certification, exhibitions and logistics are relatively high. The Russian market also takes more management time than European markets do. In general, one can take as a rule of thumb that each euro earned in Russia takes at least twice as much management time as the same euro earned in Europe. This is why it is important to clearly understand what the opportunity cost is of the time you spend on the Russian market. It could very well be that it is more opportune to spend your time on other markets, where with less effort you will achieve similar results.

It is possible that after reading all these things one should and shouldn't do, you aks

yourself – “Why Russia?” And you're right that, before thinking about moving, living and doing business in Russia you should first and foremost ask the question – “Why think of doing business in Russia at all?” One may choose Russia for many reasons:

Russia is the 8th largest country in the world with a population of 142 million. The country measures 17 million square kilometres and spans 11 timezones, which makes for a country with the biggest land mass in the world. More than 50% of Russia's external trade is with the EU.

Regardless of what one thinks of Russia's political system, one cannot deny that it is rather stable. The development and direction of Russia's political policy is clear and no great unforeseen changes are expected.

The performance of Russia's economy is closely linked with its large reserves of natural resources such as gas, coal, oil, metals and



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other precious materials. Oil and Gas contribute about 20% to 30% to the GDP. As long as these natural resources are well priced on the international markets, Russia will have growing wealth, increasing purchasing power and a relatively high disposable income.

Until the, Russia has seen a strong growth in many sectors of the economy. In the period 1999 to 2007, Russia had an average yearly GDP growth of about 7%. As a result of the global financial crisis, the economy **shrank** in the last quarter of 2008 and in 2009; but for 2010 a certain recovery is expected. Although the crisis has dampened that growth, there still is and will be a lot happening in Russian business. The Russian market still has opportunities as before the crisis, although with possibly smaller volumes and lower margins. However, local production will continue to be to meet local demand for consumer goods and equipment. Even though a shift to cheaper products will occur, Russians will continue to .

The difference is that now, it will require more, hard work and to be successful on the Russian market. In some ways, it has even become easier to do business in Russia: Costs for rent, wages and land have and it is now easier to find an office, a production site and staff.

No matter what your vision on the Russian market is, you would do well to heed German Chancellor Otto von Bismarck's statement: "Russia is never as strong or as weak as it appears to be". In Russia, always that will happen which you least expect and just when you start to think that the Russian market is in decline, the oil price will pick up and again boost Russia's economy, taking it to new heights. No matter what happens, Russia will always have a certain population size and a considerable reserve of natural resources including land, water and space. Maybe the most convincing argument in favour of doing business in Russia is the sheer number of suc-

cessful European enterprises in Russia. And if one tries to unravel the secret of success of these foreign companies in Russia, then it becomes clear that they have the following common denominators.

- They are based in Russia;
- They are committed to the market;
- They like being in Russia;
- They understand Russia and its market potential;
- They are ready to be flexible and they are entrepreneurial;
- Most of all, they understand and respect Russia's cultural peculiarities and understand the Russian perspective!

Doing business in Russia is like driving a car: You have to know where you are, where you want to go and how to get there. You need to keep your hands on the steering wheel and your foot on the accelerator (or the brake). You need to stay awake, pay attention at all times and understand when you are lost. It is cheap, but it can be a lot of!



Jeroen Ketting
 Jeroen is Founder and Managing Director of Lighthouse. He has been living in Russia for over 15 years giving him fluency in the Russian language and a thorough understanding of the Russian business culture. Jeroen has founded and operated numerous businesses in Russia and has assisted in the establishment of more than 20 Western-Russian business ventures. Jeroen's extensive experience in the Russian market is backed by a strong track record in strategic business advisory. He is an expert negotiator and mediator in the Russian-Western context and is a regular speaker at international events and seminars related to Russia. He frequently contributes to Russia related international publications.



Current Immigration Procedures in Russia

One of the most immediate considerations a foreign national will face upon coming to Russia is compliance with Russia's immigration system. This overview of the Russian immigration regulations sets out the procedures needed to be taken by a foreign individual, and his employer, to try to ensure that individual fulfils the requirements of the Russian legislation whilst he is visiting and/or working in Russia. However, the system is somewhat Byzantine in its complexity, and immigration regulations are evolving rapidly, both in technical terms and, more importantly, in how they are practically enacted. Hence, constant vigilance is required to keep abreast of the current status. There is significant risk in assuming that a process that has worked in the past will work again in the future, even where there are no formal technical changes to the regulations.

There are four main areas of compliance required for most foreign nationals and parties linked with them when coming to (and leaving) Russia. These are:

- Visa;
- Immigration card;
- Enrollment;
- Work permits/Residency permits.

Types of visas

Basically, the type of Russian visa is determined by the individual's purpose of visit; this, in turn, governs the scope of activities that an expatriate may be engaged while in Russia under the certain type of visa.

Business visas

A business visa is foreseen for foreign nationals coming to Russia for business purposes,