

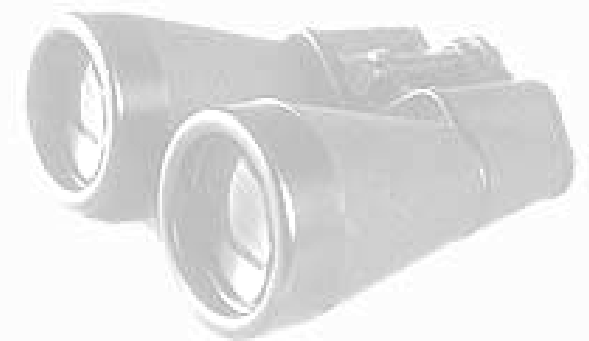
A large, orange-outlined map of Russia is centered in the background, showing regional boundaries. The text is overlaid on this map.

Russian – Western Business; The Human Factor of Success

Yekaterinburg April 2006

We are talking about:

- 1. What is the “human factor” of success in Russian-Western cooperation?**
- 2. Why is the human factor so important in the Russian-Western cooperation?**
- 3. How can Russian companies use the human factor to their benefit?**



What is the human factor of success in Russian - Western cooperation?

Emotion:

- **Trust**
- **Comfort**
- **Confidence**
- **Enjoyment**



Why is the human factor so important?

The West's perception of Russia is predominantly negative

- Mafia – Oligarchs - Corruption
- Cold
- Russian bear
- Risks and danger
- Unreliable
- *Positive perception mainly connected with culture!*

The West sometimes forgets the significance of Russia:

- Necessary partner
- A market and a source of natural resources
- Geopolitical significant area



Justified concerns of Western companies

- **Poor enforcement of contractual and ownership rights**
- **Administrative and legislative uncertainty**
- **Small SME sector and weak financial sector**
- **Lack of management skills in many sectors**
- **Strong entrenched “informal” networks between legislative, executive, judiciary and business**
- **Protectionist attitude**
- **Corruption**

Cultural differences

- **Language**
- **Trust and personal relationships vs. formal relations**
- **Informal networks vs. formal (official) networks**
- **Short term vision vs. long term vision**
- **External appearance vs. substance**
- **Intent vs. agreement**
- **Russian businessmen can be imposing. Weakness is not shown**
- **Russian businessmen think, speak and act fast!**



How can Russian businesses use this negative perception and these concerns to their benefit?

COMMUNICATE (and establish positive emotions)

- **Make clear what the potential of the Russian market is**
- **Be aware of what concerns your Western counterpart and address these concerns**
- **Provide a realistic picture - no surprises**
- **Be transparent! (Prove them wrong and you'll have made a double strong impression)**

Potential

- A growing **market of 143 million consumers** with strong demand both for consumer and industrial goods
 - 15% of population has an increasingly high purchasing power
 - Moscow and St Petersburg areas
 - Western Russia (From the Urals to Western border)
 - Export and import volumes continue to increase
 - 100.000 millionaires and 33 billionaires (25 in Moscow)
- Stable economy (oil prices and low level of consumer lending)
- ***There are many successful foreign businesses already active in Russia!!***

Address concerns of your Western Partner

- **Make you partner enjoy Russia!**
- **Try to understand the Western perspective and be aware of cultural differences and language barriers**
- **Allow both parties to stay in control (of finances and management)**
- **Divide the shares/interests off-shore and agree on foreign arbitration and create win-win situation**
- **Use (general, tax and legal) advisors experienced in Russian-Western business**
- **Be aware of your partner's exposure**
- **Dedicate and commit sufficient financial & human resources**

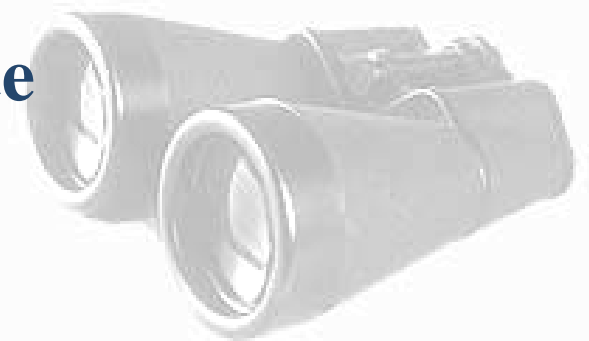
Provide a realistic picture – no surprises

- **Russia is not always cheap**
- **Russia is a developed market**
- **Movement of capital and equipment subject to certain restrictions**
- **It is difficult to attract external financing for Russian projects**
- **Prepare for bureaucratic procedures**
- **Prepare to be flexible**



Be transparent and show that you have:

- **Good management**
- **Strategy and growth prospects**
- **Decent company infrastructure**
- **Sufficient transparency (tax, legal, finance, etc.)**
- **External advisors**
- **All in all: Good Corporate Governance**



Conclusion

- **Success comes through avoiding failure**
- **Business failure is most often caused by the “soft” Human factor of emotion**
- **Emotion can be positively influenced by clearly communicating the relevant issues**

The Human factor is one of the few decisive factors of success you really DO control!

Contact LIGHTHOUSE

Director	Jeroen Ketting	jeroen@thelighthousegroup.ru
Client Relations and Information	Birgit von Oehsen	birgit@thelighthousegroup.ru
Manager Haarlem office (The Netherlands)	Jim Jansen	jim@thelighthousegroup.nl
Manager Obninsk office (Kaluga Oblast)	Denis Kamensky	denis@thelighthousegroup.ru
Finance & administration	Elena Kabko	elena@thelighthousegroup.ru
Tel./Fax	+7-495-980 09 79 / +7-495-502 92 86	
Website	<u>www.lighthouseco.ru</u>, <u>www.thelighthousegroup.ru</u>	
Address	Mytnaya Ulitsa 3, office 41, Moscow, Russia, 119049	