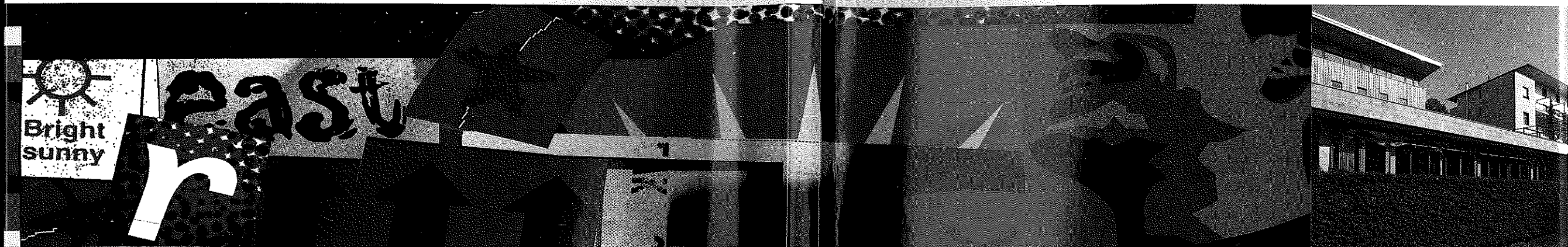


2011

# The EU and Russia: Business Opportunities and Leadership Challenges

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In cooperation with  
Slovene-Russian Business Council  
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Russian Association of Business Education (RABE)  
Centre for Leadership Studies, Exeter University, United Kingdom  
International Leadership Association (ILA), USA  
Institute for the Danube Region and Central Europe (IDM), Austria

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*Franziska Frank*

## **Organization and Leadership Contrasts: the European Union and Russia**

There was a time when I wanted to learn Russian in order to be able to read War and Peace. It proved to be a hard start: it took me a whole weekend to learn words like "xudozhestvennaya literatura": the Russian term for fiction. It took me another weekend to learn a sentence like "Roditeli volnuyutsia": "The parents are agitated". Then things progressed sufficiently and I eventually managed to read War and Peace. That made me very happy.

I then discovered that there were plenty of other words beyond Tolstoy. There were hundreds of new and difficult words in Solzhenitsyn, hundreds of new and difficult words in Bulgakov. There were also words that had gone out of use, such as "vegscha", a term for the congealed layer of fat on the top of old cabbage soup. I think it is very impressive to have a special name for every single bit of what one eats.

My talk today about leadership is about a kind of "vegscha" a thin layer on a huge and tasty dish. There are so many things to know, to learn, to research, and to teach in the area of cross-cultural leadership. But you can only look at one layer at a time, and therefore I would like to say a bit more about the thin layer we have been working on.

Before we started our research on Russian management styles, there were many things that had already been established by research. It was known that there was a focus on authoritarianism. The tsarist regime was authoritarian, so was Lenin, even more so Stalin, and so are most of the Russian business leaders of today. It was also known that Russian managers tend to use very strict control systems. There is a clear focus on top management decisions without much top-down delegation: top managers like to surround themselves with a very small group of trusted advisors and include only those in their decision-making processes.

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That is what we knew. We also knew that changes are taking place. There is a fine article written recently by Sheila Puffer about the behavioural convergence amongst entrepreneurs. Those of Russia, just like everywhere else in the world, have become much more people-oriented than before. They are also more open and democratic because that is what their job requires. You will not elicit creative ideas by shouting at your employees that they must come up with creative ideas. As a result, leadership styles have generally started to focus on the empowerment of their teams, all across the world.

There is also some move towards new, more democratic styles when it comes to international companies working in Russia. They have introduced a leadership style that is more participative and integrative. This is also happening inside a number of more modern-oriented Russian companies.

We paid significant attention to the relevant findings of Project GLOBE. During the 1990s, members of this project studied 62 countries regarding "culturally endorsed leadership profiles". 17,370 middle managers in 951 companies were asked how they perceived their national society and the work environment and how these should be. GLOBE looked at nine concepts altogether, some derived from Hofstede, some expanded beyond:

- 1) Power distance: to what extent do leaders give their subordinates orders and expect them to obey? This is juxtaposed with a more consultative style on the part of the superior.
- 2) Uncertainty avoidance, which refers to the perceived degree of orderliness and planning in the national society and work environment.
- 3) Humane Orientation, "the degree to which individuals in organizations encourage and reward individuals for being fair, altruistic, friendly, generous, caring, and kind to others". This dimension may reflect a perceived interest in people.
- 4) In-Group collectivism: how much people identify with being part of a group such as family, company, department
- 5) Institutional collectivism focuses on a collectivist outlook on society.

- 6) Assertiveness, which is about the perceived degree of personal toughness versus softness in the environment.
- 7) Gender egalitarianism, which is self-explanatory.
- 8) Future orientation has a somewhat different conceptual basis than uncertainty avoidance: it concerns the degree of planning for the future that a society is comfortable with and striving for.
- 9) Performance orientation: focusing on whether a society rewards individual performance.

What were the relevant findings for Russia and some groups of expats? Russia has the lowest future orientation and the lowest uncertainty avoidance of all the 62 societies. It has very high power distance and high in-group collectivism. Linked with this is a very low performance orientation and – not surprisingly once the in-group collectivism is seen – a very great need for humane orientation.

Germany, on the other hand, has one of the highest scores for uncertainty avoidance and future orientation, a very high performance orientation, a low score for in-group collectivism and the lowest score of all countries in humane orientation. This uncovers some of the key issues for Germans working in Russia – they like to plan and stick to the plan via exertion of authority; they like to separate work from private life; and see little need for human contact. On the other hand, because their individualism is stronger they expect to be recognized for their individual performance and expect others to be as motivated as they are.

Northern European countries score higher than Germany on collectivism and humane orientation, while southern and eastern countries such as Italy and Slovenia are somewhat similar to Russia in their high scores for power distance and low scores for future and performance orientation and uncertainty avoidance.

We also had a look at time perspectives. Cottle asked various individuals to draw three circles in order to depict the past, the present and the future. Looking at these circles and their positions you can analyse the sizes and whether they overlap or not. The German drawings suggest that we do not focus on the past; in fact, we want to forget it and we want everybody else to do so as well. We like the present but the really important thing is the

future. For Russians it is the other way around. They see a big and important past, followed by an increasingly small present and future. It is no surprise, then, that Russia has a low future orientation. If the future is not that important and we are living in the present, why plan ahead?

If you look at Belgium's and Sweden's circles, there is continuity. Being at peace with their history and feeling confident for the future, all circles have the same size and are interlinked.

At the extreme opposite end of the spectrum are countries like China and Nigeria, where people see the past, present, and future as one single circle, suggesting that in their mind all periods are interlinked and co-exist in time.

We also looked at differences in organizational structures according to Schneider and Barsoux. The American organizational chart is an organigram with an extra element giving credit to the meritocratic approach: the key power is at the top, but there are many links from the bottom upwards. In France, there are also links upwards but they are informal, based on individual personal connections, and not institutionalized.

In Russia, we see a strong circle of power around the CEO, with a clear line of command to the lower levels. There are no connections upwards.

Italy follows clan, the Arab world tribal structures.

Finally, Gesteland showed that there are also large differences in the way that people make deals. Some countries, such as Russia, focus on building a relationship before striking a deal. Others, such as Germany, are deal-focused, preferring to interact via a deal before becoming closer as individuals.

Some societies are polychronic and focus on numerous things and issues at one time – such as Russians, who, as one example, like to discuss totally unrelated matters on the phone with third parties while they are in a meeting. Germans, on the other hand, work in a monochronic manner and like to focus on one thing and finish it according to a solid agenda before moving to the next one.

Finally, there is a difference in the degree of formality and expressiveness. People from countries such as the UK, the US, Germany,

and the northern European states are less formal in their interaction than Asian and Middle Eastern countries. Russians, for example, are more formal than, but at the same time more expressive than the more reserved Germans.

All of these differences in outlook and behaviour do not suggest that any type of attitude is better or worse. Nor is everyone in each country exactly as described. But there are tendencies to act and feel differently that can cause problems when individuals from different cultures need to work together.

As to our research: in 2007-2008, we (ESMT) carried out a joint research project with ESCP Europe, Amrop-Heaver, and HBR Russia. We interviewed 20 west European expatriates (superiors and employees) in Russia and 15 Russians managers (superiors and employees). The answers were coded and analysed according to the Project GLOBE dimensions. The findings were published in HBR Russia in 2009.

Unsurprisingly, Russian leadership was described as authoritarian, whereas the Western style was viewed as more participative. Both leadership styles were seen as having advantages and disadvantages. In the Russian context, leadership behaviour was described as frequently unpredictable. Meetings are hard to schedule in advance as there is no tradition of long-term planning. The Russian leadership style was also seen as allowing nepotism, as well as involving no clear development opportunities. Those who are liked by the leader progress, while others fall behind.

On the positive side, this type of leadership assigns clear tasks. The control that Russian leaders exercise relieves their subordinates of assuming responsibility for their own actions.

The participative leadership style, on the other hand, was depicted by the participants as ensuring fairness and trust through reliable leadership behaviour. It was said to create a friendly working atmosphere and generate motivation through clear personal development opportunities. But employees feel challenged by unclear task structures, unclear roles, and the continuous consultation between superior and employee that is inherent to that leadership style.

And what do people want? As it turns out, they want the advantages of both. That is what expatriates in Russia are struggling with, even if they want to deliver it. If the expatriates have to exercise stricter control than they are used to, they can expect a greater workload due to the many check-ups they are required to make; in addition, authoritarian leadership often contradicts their personal Western values.

In summary, we found that expatriates do need to take the middle road between the two leadership styles in order to be successful. On the one hand, expatriates claim, "the expectation of our staff is to have a clear leader. I have to show that I am their boss. This is not my favourite kind of behaviour but it is what is expected. Otherwise, they will laugh at me". On the other hand, the Russian employees also want more: "I prefer some elements of Western leadership. There is more professionalism, fewer personal likes and dislikes, and more freedom. Life becomes more predictable".

As a result, expatriates have to find their way in between. They have to act more authoritarian than at home. In addition, coming from the West, they are expected to bring something new to the table. They should not become authoritarian like a typical Russian; that would not work. That means that they both need and must not try to replicate the Russian style, which anyway, seems to be impossible – even if Western managers think they have become "Russianized" and authoritarian, Russians still see them as outstandingly democratic but good and powerful leaders.

Additionally, Western managers need to make a compromise between authority and people orientation. Russian society appreciates loyalty and the forging of bonds. To achieve that, managers need to spend time with their people. "Here it is much more about relationships and much more about who is above you. People have a very close link to each other. Even if a person is not an ideal or competent leader, even then they are loyal to that person." Another view expands on this: "In Russia, you have to celebrate birthdays with your team if you want to succeed, which is not the case in Europe. If you want people to follow you, if you want to have a very good team, if you want to have results, you have to somehow also give something from you to them."

But this forging of bonds creates some dangers: "The thing is that I have found that it is hard for Russian employees to switch from business to

personal matters and to separate the two. Say you are having a nice conversation with someone. The next thing you know this person calls and says, 'I can't come to work today, because remember I told you about all these problems I have with my husband'. So you feel trapped. On the one hand, you need to establish a relationship and you can't just focus only on work. But it is a trap because when you do, it might backfire. So, finding a perfect balance would be good." The striving for a balance is what expatriates need to focus on.

The next question is how expatriates should motivate. An expatriate describes the issue: "I think for Russians, there is a lot of black and white. Even if a German is not very motivated, he will still do his job at least 90 per cent. The Russian in this case would go down to 50 per cent. On the other hand, if he is motivated, because he believes in the task and he has the heart and the blood for the company, and he likes the environment, then you can get him to do 120 or 140 per cent." But if you manage to instil loyalty in your Russian employees, Russia is an excellent place to work. "Once you get trust, I think it is fantastic because they give you delight. Unfortunately, they sometimes throw away their families for you and the company. They are ready to jeopardize their lives. This is actually what I love Russia for. If you stay long in your office, they stay long. If you come early, they come early. If you go early, so do they. If you come late, they will come late, too."

Apart from motivating via personal interaction, a key issue is to have a greater focus on control systems. We were told that Russian management styles place far greater emphasis on written policies and procedures. So expatriates have to both adapt to the Russian system of control as well as close those loopholes in the official policies which can be easily exploited. "When I entered this company, there was a rule in the motivation system that if you achieved your target less than 80 per cent, you would be fired. So, I found that there were a lot of people achieving 81 per cent all the time. How did we change that? We put the motivation system above 100 per cent. We are now firing people not for achieving 81 or 79 per cent but for continuous bad performance, no matter what their percentage is."

Summing up our key findings: Expatriates should become more authoritarian, but not as authoritarian as the Russians. They need to strike a deal between authority and people orientation. Finally, they must motivate through both better control and reward systems.

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Are things changing in most Russian companies nowadays? Since completing our research we have run numerous projects in Russia and are seeing indications that the authoritarian leadership style amongst Russian managers is beginning to recede. Increasingly, Russian managers believe that it may be useful to involve more people in the decision-making process and give them more freedom to act. In addition, we are finding that there is a growing willingness to challenge decisions of top management and insist on giving bottom-up input.

This leads us to a very Tolstoyan conclusion: there are so many elements in societal relationships that can be run one way or the other, so many paths a company can take as to its culture, organization, and processes, that it is a plausible assessment that all happy companies will be alike, whereas every unhappy company will be unhappy in its own way. But finding the right leadership style for Russian and foreign employees may serve as a thin layer of solid and even congealed happiness on the great soup each company cooks.