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Breaking Down the Walls: The West's Challenge Operating in Euro-Asia

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**BREAKING DOWN THE WALLS:
THE WEST'S CHALLENGES OPERATING IN EURO-ASIA**

by

EKATERINA V. MARCHENKO

A thesis submitted in partial fulfillment of the requirements
for the Honors in the Major Program in Business Administration
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at the University of Central Florida
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Thesis Chair: Dr. Dean Cleavenger

ABSTRACT

Russia today presents potentially lucrative business opportunities and markets for any company interested in expanding internationally. Together with the opportunities and potential profits, however, Russia also presents formidable challenges and risks to any Western or American company considering doing business there. The purposes of this thesis are: to explain how Russia's unique and tortured history has impacted the business culture of modern Russia; to describe the primary business risks that any Western company entering Russia will face; and to offer recommendations to any Western company considering doing business there.

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1. INTRODUCTION

The impact of national history and culture on doing business in Euro-Asia, Russia in particular, is widely recognized among American managers. Many of them find that the significant differences between Russian and Western cultures make the functioning of multinational companies in Russia more difficult. This paper will examine the impact of historical and cultural traditions on the business norms and behaviors among Russian business people. Moreover, this paper will provide guidance and broad recommendations to Western companies planning to successfully enter the emerging Russian market.

This thesis is divided into three sections. The first section presents a historical overview. This overview demonstrate that Russia's long and tragic history has influenced the development of a "survival mentality" and certain patterns of business behavior. The second section describes the obstacles that Western companies can expect to face when entering Russian marketplace. Finally, the third section provides business recommendations and approaches to successfully operate in this unique part of the world.

2. RUSSIA THROUGHOUT HISTORY

2.1. The Russian Empire

The vast territory known as Russia today has been known historically by different names, including Rus, Kievan Rus, Tsardom of Muscovy and the Russian Empire. Until 1917, Russia was a monarchy with rulers known as tsars. Russia's history is long and tragic. Russians have suffered at the hands of invaders, but also at the hands of their own rulers (Wilson & Donaldson, 1995). Most Russians know their history well and proudly tell others about their motherland's victories and sacrifices. A deep understanding of Russian history is essential for Western partners to understand and navigate the governmental bureaucracy, frequently changing laws and evolving social structure of the country. Western business ventures in Russia are advised to understand this history and its influence on the challenges of engaging in business in Russia's emerging marketplace.

From the eleventh to the fourteenth century, Russia was relatively undeveloped and disengaged from European innovations. Though it was considered a European country, Russia did not have access to navigable seas, nor did it have abundant productive soils, a long agricultural growth season or a large population of workers per square mile. Therefore, Russia had more obstacles to economic growth than many of its European counterparts. Western innovations usually reached Russia after a lag of several centuries. In agriculture, the three-field system, widespread in Europe by the ninth century, became the dominant agricultural form in Russia only at the end of the seventeenth century.

In addition to slow agricultural innovation, government and private institutions also developed more slowly than Russia's European counterparts. As a result, many of Russia's biggest cities (such as Novgorod, Pskov, and Kiev) were not major centers of commerce until the twelfth century.

In the thirteenth century, Russia began strengthening economic and cultural interaction with the rest of Europe. Then, the Mongol Empire, with a brutality rarely witnessed in history, invaded Russia and destroyed major cities, including Moscow, Ryazan, Kiev, and Kolomna. After three years of resistance, all Russian states were forced to submit to Mongol rule and tax burden, and became a part of the Golden Horde Empire. This lasted until the fifteenth century. Large tribute payments to Mongols drained money from the country, destroyed many commercial centers and delayed economic growth in Russia. The invasion also diminished Russia's position on the international stage. Weakened by the Mongol attacks, Russia lost control of the important Dvina River trade route and the Western territories in the west of Lithuania and Sweden which led to the erosion of Russia's international power. (MacKenzie, 1999).

The Mongol invasion of Russia also influenced the language and the form of government. Even though Russia never completely lost its European heritage and influence, the political and social systems of Russia were significantly affected by the Mongol invasion. In some ways, Russia became a more Asiatic nation, particularly in terms of governmental policy; but its deep Christian roots helped maintain a strong cultural link with Europe (Hosking, 2001).

After the bloody and burdensome Mongol period, it took several decades for the economy to begin to rebound. Indeed, during the next four centuries, even during periods of substantial

economic growth, there were always substantial lags in socioeconomic development in Russia compared to other European countries. Economic and cultural growth in Russia would have proceeded more rapidly if peace had prevailed in the country for a prolonged period. As Petr Stolipin, one of Russia's prime-ministers, stated: "Give Russia twenty years of external and internal peace and it will change beyond recognition" (Yanov, 2012, p.5). Unfortunately, that never happened. Between 1700 and 1940 Russia fought in 34 wars and in 392 battles. Every war resulted in millions of people being killed and the destruction of numerous Russian cities.

In the seventeenth century, during the reign of Peter the Great, Russia became one of the leading European powers. After winning access to the Baltic Sea, Peter the Great founded one of the most beautiful European cities, Saint Petersburg, and moved the Russian capital from Moscow to St. Petersburg. Peter also promoted education and the Enlightenment. He replaced some of the traditionalist and medieval social and political systems with systems that were modern, westernized, and scientific. Foreign know-how and technology were prized. Despite the distaste most Russians felt for "heathen foreigners," the Russian government employed numerous foreign engineers, craftsmen, military advisors and others at high salaries and with good career opportunities in Russia. This was an effective strategy to transfer knowledge from the highly trained foreign employees to eager Russian apprentices (Wilson, Donaldson, 1995).

Peter's main goal was to get Russia involved in the diplomatic and military affairs of modern Europe. Catherine the Great followed Peter and continued these efforts, but with a focus on exposing Russia to Western educational methods. During the reigns of Peter and Catherine, western advisors and business people arrived in Russia in increasing numbers. Many young Russians were sent abroad to study and bring back their knowledge to serve their country.

By the eighteenth century much was changing in Russia. French was used more than Russian in upper-class households. As Russians learned how to read French, German, and English, they became familiar with the ideas of Western philosophers. Catherine the Great's reign, often called the Catherinian Era, is considered the Golden Age of Russian Nobility. It is quite clear that the reforms of the sixteenth, seventeenth, and eighteenth centuries had a long, positive impact on Russian society.

In the eighteenth century, after Napoleon's unsuccessful invasion campaign, the Russian Empire had the third largest population in the world. Russia extended from the Arctic Ocean in the north to the Black Sea in the south, and from the Baltic Sea in the west to the Pacific Ocean in the east. Demographically, it remained heavily rural with low productivity on large estates worked by serfs, who were peasants irrevocably tied to their landlords, until they were freed by Alexander the Second in 1861. Despite its progress, however, Russia embarked on modern economic growth two generations after most European countries. Hence, the weaknesses found in domestic entrepreneurship in Russia are directly related to the country's history, and hindered Russia's early development (Gaidar, 2012).

In the nineteenth century, the government realized that the financial and military strength of the country could only develop with more proactive economic initiatives. Proactive economic policies of those years included protectionism in terms of high tariffs which led to high consumer prices for goods and services within the country.

The government also faced risk factors that increased the probability of the tsarist regime's collapse. In the rural areas peasant dissatisfaction was rising due to the unfair distribution

of land which eventually led to the upheavals of 1905-1906. Moreover, Western European political organizations and civil societies were evolving. Western European governments guaranteed individual and political rights and expanded suffrage (Gaidar, 2012). The European model undermined the Russian model of an enduring absolute monarchy in the eyes of the educated population (Mitchell, 1998). At that time, socialist ideas became popular and had a strong influence on people who had no opportunity to take an active part in public politics. The tsarist regime, however, was inflexible; it could not implement in an orderly manner the deep reforms that were necessary (Gaidar, 2012).

2.2. “Iron Curtain”, The Era of Bolsheviks

November, 7, 1917 is a date deeply engraved in history. It marks the death of the old tsarist regime and its replacement by the Bolsheviks. In March 1917, revolution broke out on the streets of Saint Petersburg and Tsar Nicholai Romanov, the last tsar of Russia, was forced to abdicate the throne. That November, the radical socialist Bolsheviks, led by Vladimir Lenin, seized power and established the world’s first communist state. But for Lenin, Nicholai was still a major problem. The tsar, appointed by God, had many loyal followers. Many Russians considered Romanov, while alive, to be the legitimate ruler of Russia. Therefore, Lenin decided to get rid of the tsar and his family.

After a secret meeting in Ekaterinburg, where the tsar’s family was held, the Bolsheviks decided to sentence them to death. Late on the night of July 16, Nicholai, Alexandra, their five children and four servants were awakened and ordered to dress quickly and go down to the basement of the house where they were being held (Rosefielde, 2007). They were told to arrange in two rows for a picture to be taken to quell rumors that they had escaped. Suddenly several armed

gunmen burst into the room and shot the servants and the entire imperial family. Those who were still breathing were stabbed to death (Kushnirsky, 1982). The remains of Nicholai, Alexandra and three of their children were found and positively identified in a forest near Ekaterinburg in 1991. Alexey and Anastasia, the other two Romanov's children, were believed to have survived the execution. The execution of tsar Nicholai's family was the end of the Romanov's three-century reign in Russia.

The reason the Bolsheviks resorted to such extreme measures was to ensure total compliance by the people to the will of the government. The Bolshevik ideology led to a radically different form of government than previously experienced under the tsars. Soviet Bolsheviks ideology was based on Marxist social theory. According to Marx, a socialist society was the first step to communism. The term "transition society" was used to emphasize the temporal differences between the socialist and communist stages. Socialism requires only a short period of rapid growth in order to achieve Communism, supposedly, the highest form of productivity and morality.

The Marxist social theory of communism describes collective labor as a fundamental social and moral value. All social relations should be based on collective labor and high social consciousness for the mutual good of society. The essential condition for moral progress to the Bolsheviks was a complete elimination of the market economy, status differences, and private property rights with communal labor being at the top of mutual good. Collective enrichment was deemed superior to any individual activity and personal motivation. Communist ideology claimed that a man working for himself was an egoist, a disgrace, someone who could not live in a communist society (Wilson & Donaldson, 1995).

Communist philosophy was the major influence on ethics in Russia. For over 60 years, managers operated in a centrally planned economy where virtually no judgments regarding ethical behavior were considered. The government mandated who, what, where, when and why as to how all business practices were conducted. For all the communist years, Russian business men and women had no significant moral discretion to exercise other than to “obey” or “disobey”. Accordingly, Russia suffers from an undeveloped moral or ethical code for commerce.

In 1962 the communist ideology was distilled into a 12-point moral code serving as a guide for loyal communists. The code, however, failed to control the behavior of the communist elite, who were among the first to violate it; they justified their actions by rationalizing that the end result would justify the means. The regime created no incentives to work hard or take personal responsibility for one’s actions. Power and privileges were the exclusive rights of those who were loyal to the party; therefore, party loyalty was more important than the 12-point moral code.

Lack of freedom, lack of opportunity, centralized dictatorship, and oppression of individual expression created a passive population that placed little value on individual accomplishment or entrepreneurial activities. Laws and edicts were dictated by the Communist authorities with little opportunity for impartial resolution dispute, and no opportunity for a trial by jury (Puffer & McCarthy, 1995). A plethora of meaningless and contradictory laws governing business, and no independent judiciary, made the laws easy to circumvent. Widespread violations of these laws left them virtually impotent to regulate business; the priority for business remained focused on the achievement of goals set by the Communist government.

One of the most devastating consequences of Communism in the Soviet Union was the total destruction of all competition for power. Virtually every institution was owned and run strictly by the state, and no single business, farm, church, newspaper, or voluntary organization competed during the reign of communism. By the end of the 1980s it was evident that the communist model had failed. A flawed ideology with corrupt and immoral leaders, a lack of personal realization, a defunct economy and empty grocery store shelves led to the inevitable conclusion that communism is dead.

2.3. Capitalism Arrives

In 1985, Mikhail Gorbachev started the process of Perestroika, referred to as a complete rebuilding of economic and political systems. The goal of Perestroika was to bring the Soviet economy up to par with Western European countries by introducing reforms. The most significant of Gorbachev's reforms in the economic sector allowed foreigners to invest in the Soviet Union through joint ventures (Gaidar, 2012). In the political sector, Gorbachev democratized the system by launching Glasnost, which literally means openness. Glasnost encouraged inclusion of the populace in the political process, and allowed freedom of expression. The initiative that had the most far-reaching effects was Gorbachev's decision to abandon Soviet control of the communist nations of Eastern Europe. He declared that all nations should be free to choose their own course without outside interference. In 1989, Communist regimes fell in Poland, Hungary, East Germany, Czechoslovakia, Bulgaria, and Romania. Gorbachev's reforms partially decentralized the economy, although price control remained, as did the government control over means of production.

Hard-line communists attempted to remove Gorbachev from power in 1991 by staging a coup. The revolt failed due to the efforts of Boris Yeltsin, who emerged as the country's most powerful political figure. On December 25, 1991, Gorbachev resigned from the presidency, handing over control to Yeltsin. One day later, on December 26, 1991, Yeltsin and other reformers formally dissolved the Soviet Union. That day the Soviet Union flag was lowered from the Kremlin for the last time and replaced with the Russian Flag.

Yeltsin announced an economic reform program that would become known as “shock therapy” (Pirani, 2010). The main elements of his plan included abolishing price controls, making the ruble convertible at market rates, liberalizing trade, and privatizing state property. Yeltsin appointed Egor Gaidar and Anatolii Chubais, known as the founders of market institutions in Russia, to push through the “shock therapy” reforms.

Yeltsin's market-oriented “shock therapy” had some negative effects, including a decrease in real wages, the rise of corruption, and rapid inflation produced by price liberalization. Privatization was a major enabling factor in the rise of organized crime, known as “Mafia” and corruption. Mafia had the ability and financial resources to acquire state companies and enterprises. In 1994, a report for President Yeltsin stated that 80 percent of private banks and businesses had to pay 10 to 20 percent of their revenues to organized crime coalitions (Kotz & Weir, 2007: 178). The Mafia presence in the society was very visible and violent. Gang-style executions were common; 120 bank employees, including 15 directors, were killed and 780 arson attacks were made on banks in 1993 alone (Greal, 2010).

Although the radical changes of “shock therapy” were not as successful as the reformers had hoped, in the long run they generated more important and wide-spread positive results. In the economic context, Russia began to emerge as a strong economic power. By eliminating high tariffs and quantitative restrictions the government encouraged international trade and foreign investment in Russian economy. Many multinational Western companies, with their superior marketing and financial power, entered Russian markets, thereby creating incentives for local companies to be more competitive and produce more efficiently. The ruble, the domestic currency of Russia, was made fully convertible - that is, anyone holding them would be free to exchange them (Greal, 2010). By August 1996, monthly inflation dropped from the January 1992 peak of 245 percent to close to zero. Exports were rising-from about \$54 billion in 1992 to about \$88 billion in 1996, and Russia ran a \$28 billion trade surplus in 1996 (Russian Economic Trends, 1997). Perhaps most impressive, “shock therapy” also succeeded in calming the fears of those who worried that communism would rise again. The “shock therapy” approach effectively sealed the coffin on the communist past.

Clearly, “shock therapy” was radical, but in the long term, it was the most beneficial approach the government could enact.

2.4. From Yeltsin to Putin

On 31 December of 1999 Boris Yeltsin announced his resignation, leaving the presidency in the hands of his successor-Prime Minister Vladimir Putin. Putin, a former KGB agent, was the President of Russia from 2000 to 2008. Then, from 2008 to 2012, he served as the Prime Minister and was reelected as President in 2012. Although Russia was formally headed by Dmitriy Medvedev (President from May 2008 to 2012), Vladimir Putin was the most influential leader

during that time period. During Putin's first premiership and presidency (1999-2000), Russia's economy was rapidly growing, real incomes rose by a factor of 2.5, while real wages more than tripled (Sakwa, 2007). Gross Domestic Product (GDP) grew by about 68 percent from 2000 to 2008. Putin's first presidency was marked by a rise in living standards; average wages rose more than fivefold (Pirani, 2010). The high-profile improvement in living standards is one of the primary reasons why (in electoral terms) Putin has been one of the most popular presidents in recent history.

Many economists and politicians identify Putin's past in the KGB as the key to his successful achievements. While his background in the main security agency of the Soviet Union played a significant role, the 2000s commodities boom, increases in world oil prices, and the progressive reforms of Egor Gaidar were probably the major catalysts for the economic progress of the period.

Russia has always been one of the largest energy producing countries in the world and is heavily dependent on the export of oil and natural gas for revenue. Natural resources account for 65-70 percent of total exports and account for half of the federal budget. The Russian government relies on the export of oil and natural gas to an unhealthy degree. It fails to address other economic weaknesses, specifically the poor state of agriculture, and the lack of machine-building and processing industries. Economists dispute whether Russia is prone to what they call the "natural resource curse," a situation in which abundant natural resources produce short-term benefits, such as big export revenues during periods of skyrocketing prices, but potentially damages long-term economic development (Pirani, 2010).

Although the oil boom improved living standards overall in Russia, it also widened the gap between the rich (oligarchs) and the poor, leaving Russia as one of the world's leaders in inequality in income and property distribution. The State Statistics Service's Funds Coefficient, an indicator that measures the richest against the poorest segments of the population, indicates that the rich continue to grow richer while the poor remain more or less in the same position (Balmforth, 2013). From 1995 to 2011, the coefficient was steadily increasing. Furthermore, from 2009 to 2013, the capital of Russia (Moscow) held the title as the billionaire capital of the world. Eighty-four of the world's richest people, whose combined wealth is over \$366 billion, called the Russian capital their home in 2013. This tiny group of multi-billionaires control up to 40 percent of the nation's wealth, and these statistics may understate the problem because the rich are notorious for taking their wealth out of the country or keeping their savings out of the banks and therefore off the radar. This problem has no simple solutions. Economists point to the need for more political and market competition, enforcement of property rights, the rule of law, systemic change in labor market institutions and stronger social protection for the ones in need (Parfitt, 2011). In the meantime, analysts say nothing has been done to narrow the gap that continues to grow.

The political system in Russia during the periods of Putin's presidencies is often called Putinism. From the 1990s, after the collapse of the Soviet Union, Russia was viewed as one of the most important test countries for a transition to democracy. During Boris Yeltsin's presidency (1991-1999), most Western and American academic specialists regarded Russia as a democracy and believed that Russia was in an early stage of transition, with some imperfections that did not negate the fundamentally democratic character of the political regime (Evans, 2010). However, within a few years after Vladimir Putin's presidency began, many analysts began to refer to the

political system as authoritarian because former military and security officers brought into government (called “Siloviki”) took control of much of the political and economic power (Hahn, 2004). Stephen Whitefield noted that, under Putin, there is an “increasing consensus among scholars, journalists, and policy-makers in the West” that the Russian political regime has moved “significantly off a democratic pathway,” (Whitefield, 2009, p.93). Considering both the undemocratic features and the components of democratic pluralism remaining in Russia, it is fair to call the existing political system in Russia “semi-authoritarian”.

In a semi-authoritarian political regime, democratic rights such as freedom of speech, freedom to organize, and freedom of assembly are no longer recognized. In respect of freedom of speech, Putin’s rule began with the campaign to bring the national television stations under state control. Doing so ensured that only sanitized news reached most Russian households, thereby safeguarding Putin’s electoral majority (Pirani, 2010). The widespread emergence of the Internet has made the situation better for those seeking alternative sources of news. On the other hand, freedom of the press has also been undermined by closing down or taking control of some of the most outspoken newspapers, such as Segodnya and Kommersant.

Russia’s record of murdered journalists is worse than that of any country except Iraq and Algeria; between 1993 and 2008, 81 journalists died doing their job; 40 more were killed under suspicious circumstances and 13 disappeared (Pirani, 2010). In October 2006, international attention focused on the murder of Anna Politkovskaya. Politkovskaya was a human rights activist and, the heroic writer for Novaya Gazeta about the war in Chechnya. After a five-year trial, three men were sentenced to prison, two of them for life. Nevertheless, it remains unclear who ordered or paid for the murder of Anna Politkovskaya and several other prominent investigative journalists.

3. RISKS IN THE BUSINESS ENVIRONMENT

Although Russia is struggling to evolve into democracy with guaranteed freedoms for its citizens, the emerging Russian market is still enticing to both American and European businesses. However, the unstable political and economic environment creates uncertainties for companies considering Russia as a market for their goods and services. Yet, the size of the market and the potential for international expansion are tempting.

Of all of the challenges facing Russia, perhaps none is more complex than reducing corruption and strengthening the rule of law. Corruption has often been identified as a major source of problems. Corruption is perceived to be considerably greater in Russia than in Poland, Brazil, India, and China, on par with Ukraine, but less than in Venezuela or Uzbekistan (Aslund, Guriev & Kuchins, 2010). Given Russia's highly educated populace and relative wealth, its level of corruption is surprising. One explanation is that while corruption and weak support for the rule of law impose significant costs on society at large, they also produce concentrated benefits for powerful constituencies within Russia. It is critical to recognize the underlying political nature of the problem. Each sweetheart tax deal to companies owned by relatives of powerful state officials, each government contract directed to the major political party supporters (United Russia) rather than to the best qualified firm, and each call from a governor to a judge to decide a case in a supporter's favor is enabled by political capital that incumbents are loathe to abandon (Aslund, Guriev & Kuchins, 2010).

It seems a herculean task to combat corruption in a country where, apparently, no institution or agency is free from it. As a result, it has become an accepted view that the Russian

economy is non-transparent - that is, it is an economy where the “rules of the game” are not easily understood (Ledeneva, 2001). The “rules of the game” can be understood, however, if one knows and takes into account the so-called unspoken rules and unwritten policies. There is a common saying in Russia: “V Rossii zakon - vse ravno, chto dishlo, kuda povernul , tuda i vishlo” (one law for the rich and another for the poor). It is not that the components of the rule of law lack transparency; rather, the ability of the law to function coherently has been subverted by a powerful set of informal practices that have evolved in Russia. Tax evasion is one of the many examples that illustrate how unspoken rules operate. There are many informal and commonly known ways of reducing tax liability and evading taxes; this is detrimental to the efficient functioning of the economy (Ledeneva, 2001). On the other hand, “saved” taxes are oftentimes used to reinvest in the economy.

A popular folk saying, “Do not have a hundred rubles, but have a hundred friends,” illustrates another striking example of unspoken rules - the phenomena of “blat” and informal systems of networking. The word “blat” is practically impossible to directly translate into English. It is commonly referred to as the use of personal networks and informal contacts to obtain goods and services in short supply and to find a way around formal procedures (Ledeneva, 1998). “Blat” networks include personal, occupational, and educational ties in the allocation of resources. Blat is widely used in the spheres of state education and employment. Most of the prestigious and well-paid jobs are only obtained by acquaintance, even where the market trends are supposed to take over (Ledeneva, 1998). American and other Western companies working in Russia put a lot of effort into resisting blat employment, but often with no success. Some enterprising Western companies, however, manage to turn blat relations to their advantage. One of the chocolate

factories in Samara provides a good example. Since being privatized by Nestle, it has become one of the most sought out companies to work for. One has to have a connection to obtain a job there - either a relative working there or an influential person already employed. One of the main goals of the company was to make the factory somewhat similar to a family-run business; therefore, the top management implemented a policy of hiring only by recommendation. They created a waiting list of all relatives of their workers, with their credentials, who were interested in employment with the company. When a vacancy arose, the most qualified candidates from the list were invited for an interview. As a result, employment by blat was rationalized and institutionalized into a somewhat formal and recognized procedure. The informal and blat networks ensure trust and reduce hiring risks. Therefore, blat networks are indispensable in a variety of contexts in today's Russia. Understanding the constructive effects of blat can help Western companies overcome its negative implications. The fundamental issue, however, remains how to deal with a society in which loyalty to one's connections means more than loyalty to the state and where unwritten codes and social conventions dominate the law (Ledeneva, 1998).

Despite Russia's uncertainty and instability in many aspects of the economy, it still represents attractive business opportunities for Western companies. A survey among 42 U.S.-based companies conducted by Puffer (1996) revealed some interesting findings. The chosen companies ranged from small businesses to Fortune 100 corporations. Four of them were just preparing to enter the Russian marketplace. The 38 firms that had already established themselves in Russia entered the market in the following ways: with a local partner (16), directly (10), through a broker or facilitator (8), or with a Western (or American) joint venture (4). Despite the inherent riskiness of foreign business activities in Russia, only four respondents evaluated the success of

their firms as poor. The majority rated their companies' success as either "good" or "very good", while eight rated it as only "fair" and three reported achieving excellent results. As these overall evaluations illustrate, business ventures in Russia have been relatively favorable for most companies.

This does not mean, however, that there are no obstacles or risks. To get an overall assessment of the risks, the survey asked two general questions. First, respondents were asked to rate the uncertainty of the business environment in Russia on a 4-point scale. The 19 respondents judged the business environment as being highly uncertain and risky, while 21 evaluated the conditions to be somewhat uncertain and moderately risky. Only two described the environment as having either low or little risk. "Only put in what you can afford to lose. Decide up front what you want- profits, market share, and the like," advised Erich Zarnfaller, Senior International Treasury Analyst at EG&G, Inc., the Wellesley, Massachusetts provider of environmental management services and manufacturer of radiation and security devices. Added Kathy Crecelius, a Vice-President at BayBank in Boston: "The former USSR presents ... great risk. However, for those with ethnic and linguistic ties to the C.I.S. countries, with solid business experience and capital to invest- and risk, there are now opportunities" (Puffer, 1996, p.217).

The second general question was related to the role of the government of Russia and its attitude toward American companies entering the marketplace. The 12 firms rated the host government as being supportive of their efforts, and 17 evaluated it as neutral. Furthermore, six respondents were in their first year of business activities in Russia; therefore, they had limited exposure to the government officials. Seven firms did find the government to be a major obstacle to doing business. One of them was Intertech International Corporation, a Boston-based firm

whose Austrian subsidiary was involved in a joint venture to install air conditioning systems in new constructions. One of the managers, Richard Saint-Amant, provided insight into the complex web of bureaucracy existing in the former Soviet Union. First, the Russian Embassy in Washington D.C. refused to provide work visas based on a letter from the Russian partner. The Russian Embassy in Vienna, home of Intertech's joint venture partner, however, did find the letter sufficient to provide work visas. Nevertheless, in an attempt to send air cargo to the Black Sea via Moscow, Intertech lost six weeks waiting for bureaucrats in Moscow to "locate" the shipment.

To help understand the extent of the major risks and obstacles that companies face doing business in Russia, the respondents were asked to rate nine specific risks on a 5-point scale from "no risk" to "extreme risk." The identified areas of greatest risk were political instability (3.6), lack of infrastructure (3.6), and the lack of laws protecting business interests (3.5). Difficulties in obtaining supplies and raw materials were also rated as a serious risk (3.2). Other risks, considered to be less serious, included undeveloped financial markets and institutions (2.8), lack of suitably experienced partners (2.7), difficulty repatriating profits (2.5), work force issues (2.5), and corruption and bribery (2.1). We will discuss each of these issues separately.

3.1. Political instability

Given Russia's frequent change of political regimes, political instability was noted by many respondents as an important source of risk. Western and American companies are simply afraid to invest their money into an unstable political environment. The political environment can affect the economic environment, thereby impacting companies' profit margins and bottom line. Nevertheless, Peter Hemingway, Program Director of Russia Operations at Polaroid Corporation in Cambridge, Massachusetts believes that it pays to be patient: "We still have hopes Russia will

emerge as a major trading partner in the international environment. The current problem is lack of focus on where they are going” (Puffer, 1996, p.218). Despite the political risks, the Russian market is full of potential and foreign companies willing to take risks can exploit the potential found there.

3.2. Lack of infrastructure

Most of the physical infrastructure is highly undeveloped in Russia. The transportation system is inadequate for conducting business efficiently. “Lack of distribution,” insisted Henry Quinlan, President of BosMosco, a Boston-based company marketing food, sporting and medical goods in Russia, “presented a tremendous opportunity to create our own distribution system. The entire retail and wholesale network is rising from nothing” (Puffer, 1996, p.219). Recently, however, this issue is less of a major problem because the physical infrastructure has been developing rapidly. According to the Business Monitor’s forecast (2014), infrastructure development in Russia is the most important component in order to unlock its economic growth. Furthermore, their data illustrates that over the last 10 years the construction sector has been playing a far more significant role in the overall economic output in the emerging Russian economy. Between 2004 and 2007, the construction sector’s contribution to gross domestic product (GDP) was approximately 5.4-5.5%. Moreover, preparations for the 2018 World Cup prompted the government to increase its spending on new infrastructure projects, including new transport investment and commercial construction.

3.3. Lack of laws governing and protecting business interests

Arguably, one of the most important barriers for entry into Russia is the lack of laws or weak laws governing and protecting businesses. Furthermore, many of the existing laws are vague

and can be interpreted in multiple ways. As previously discussed, laws tend to be applied selectively as local authorities see fit. According to another study conducted by Radaev (2002), over 70 percent of entrepreneurs in Russia experienced broken contracts. Consequently, weak institutions combined with vague, inconsistently applied laws result in the chronically weak rule of law in Russia. This sense of lawlessness affects domestic and international companies alike. In another survey of 50 major foreign companies investing in Russia (McCarthy, 2001), 24 of them estimated their annual losses from intellectual property violations to be at least one million dollars.

Moreover, there are some laws and regulations from the Soviet Union era that are still in force. As a result, it is sometimes unclear and quite confusing which regulations apply in a specific case. In fact, “No one really knows which laws and regulations are implemented and observed, although it is clear that many are not implemented at all, or only partially” (OECD, 2005, p. 5). Given the current situation, “Entrepreneurs fear bureaucrats more than criminals” (Smolchenko, 2005, p. 1). It is not surprising that all these factors combined form barriers for Western companies attempting to learn Russian laws and prepare action plans.

3.4. Difficulty obtaining supplies and raw materials

This issue generated the most disagreement among the people polled in the survey conducted by Puffer (1996). The majority of respondents claimed that obtaining supplies and raw materials was not a problem. These respondents represented service firms involved in banking, consulting, and sales and distribution activities that did not rely on Russian suppliers. A near equal number of respondents said the issue presented “some,” “much,” or “extreme” risk. These respondents mentioned problems associated with obtaining equipment and raw materials for manufacturing.

3.5. Undeveloped financial markets and institutions

With little money available from the few existing lending institutions in the former Soviet Union, obtaining financing for business ventures has proved to be difficult. American companies are reluctant to back businesses in such an unstable environment. As BayBank's Kathy Crecelius claimed, "US banks will not be committing their capital for a long time, and rightly so" (Puffer, 1996, p. 219).

3.6. Lack of suitably experienced Russian partners

In Puffer's survey (1996) most of the respondents rated this obstacle on the less risky end of the spectrum. It reflects that some companies entered the marketplace directly, without any assistance from their Russian counterparts or third party brokers. Other companies who had established business relationships with their Russian partners expressed satisfaction with them. This group included companies such as Baird Corporation, which had been approached for a joint venture by a firm in St. Petersburg. Overall, relationships initiated by the Russian side have become fairly common.

Some of the issues associated with finding appropriate partners in Russia included filtering the opportunities that were presented, and ensuring that those making claims and promises are capable of backing them up. Ralph Sherman, Corporate Counsel at Innovatech International, Inc., a stainless steel manufacturer in Lexington, Massachusetts, added "filtering opportunities" to the list and rated it among the most extreme risks (Puffer, 1996). Ernst & Young, a prominent international consulting and accounting firm, also reported to have issues in screening potential partners and opportunities on behalf of several clients.

3.7. Difficulty repatriating profits

Repatriation of profits did not rank among the highest risks. Some companies, including Nyrpo Corporation and Intertech, stated that it did not represent any problems for them. Nyrpo, a Massachusetts based company that manufactures molded plastic products through a joint venture in Moscow, earned their profits in the local currency-rubles. Conversely, Intertech's representative stated: "If somebody really wants to buy, they will find a way to pay in hard currency" (Puffer, p. 220). Nevertheless, some of the firms indicated that repatriation of profits was one of the major concerns while conducting business in Russia. Given the fact that the emerging economy of Russia has been growing at a rapid rate over the last few years, it is not surprising that the government takes initiatives to encourage Western companies to reinvest their revenues rather than sending them back to the home country.

3.8. Work force issues

According to Puffer's survey (Puffer, 1996), work force issues did not present a lot of risks according to the respondents. A few, however, ranked this problem as having "much" or "extreme" risks. To further understand this important issue, I referred to a Meirovich and Reichel (2000) study regarding American and Russian employees. According to it, there is a cross-cultural conflict that demonstrates the differences in the norms and practices of the two groups. For example, Russians do not always support the basic American concept that "the customer is always right". Another workforce problem that American managers face is the workers' mentality formed under the system of the total centralization. They are looking for instructions from the boss in every situation even when they can be in charge of the decision-making process. Clearly, they are not used to delegation of responsibilities, decentralized decision-making, and initiatives of middle

managers. Therefore, cultural values and norms of the majority of Russian workers still adhere to the socialist economy ideology.

Another study conducted by Beekun et al. (2003) explored how U.S. and Russian employees differ in evaluating what constitutes ethical behavior and what does not. Respondents were given scenarios and were asked to make their decisions based on ethical judgements. The study concluded that U.S. employees have stricter guidelines when it comes to assessing ethics. Furthermore, the researchers discovered that ethical assessments varied widely with different scenarios. There was a significant correlation between scenario type and national cultures.

American stance towards ethics is clear; the U.S. passed the Foreign Corrupt Practices Act more than a decade ago, and the U.S. Department of Justice has been actively pursuing violators. Russia's tumultuous history and unique culture, however, have contributed to less certainty among Russian employees about what constitutes ethical business behavior.

Moreover, unlike their American counterparts, Russian managers and employees have very vague ideas about business honesty, bribery, proprietary information, etc. Such differences in approach create misunderstandings. A Western company entering the Russian marketplace may find it advantageous to hire local employees, but the potential risks involved due to different ethical standards must be taken into consideration. As previously discussed, the significant differences in cultural norms, values and ethics cannot be underestimated.

3.9. Corruption and Bribery

Surprisingly, in the survey by Puffer (1996) most companies had not been exposed to corruption and bribery. In a more recent interview (Hsu, 2005), however, the executives of

international companies doing business in Russian ranked this issue among the most important ones. Furthermore, this study showed that networks between companies and government bureaucrats seem to be indispensable to survive and grow in the Russian marketplace. When starting a business, some companies were given a choice of the “slow way in” without payoffs or “fast track”, with the associated corrupt payments (Karhunen & Ledyeva, 2012). Thus, investors from non-corrupt countries view corruption and bribery as one of the key barriers of entry into the Russian market; moreover, it is a huge obstacle to gain and sustain a competitive advantage.

4. THE FLAVOR OF SUCCESS AND FAILURE IN RUSSIA

4.1. An improving marketplace

Clearly, there are considerable obstacles that Western companies face doing business in Russia. Lately, however, Russia has been making significant progress toward improving its investment climate, as shown by the most current data from The Doing Business report. The Doing Business report evaluates over 180 countries on 10 criteria, such as ease of opening a new business, ease of securing a construction permit, access to the distribution infrastructure, registration of ownership rights, ease of securing loans, protection of investors' rights, tax payments, and a country's role in international trade. According to the 2013 annual report, Russia has significantly improved its business climate by climbing 20 positions to the 92nd place. Two years earlier, in 2011, Russia climbed four places, and it improved its position in the 2012 rating from 120th to 112th place (Interfax, 2013). Hence, Russia has been becoming a more business-friendly country. Moreover, Western companies are willing to pursue opportunities in the face of significant risks in this ever-changing and potentially productive market.

According to a 2012 report from the non-profit International Research and Exchanges Board and the U.S.-Russia Foundation, several major US-based companies have a large presence in the country. PepsiCo was the first American company to enter the Russian market in 1974 (Rocco, 2014). Over the last 40 years, the company has created more than 30,000 jobs and invested more than \$3 billion in Russia. General Motors and Ford manufacture cars in Russia, while Caterpillar and John Deere have several plants that build their respective equipment. Operations in Russia produced \$1.7 billion in revenues in 2014 for John Deere. Even though that is less than five percent of John Deere's total revenues, it is still significant. John Deere is represented by 70

dealers and has two factories and two offices in Russia. IBM, Microsoft and Apple also have a large presence in the country. Mars Inc. entered the Russian market in 1991 and it has recently built its second chocolate factory. Procter & Gamble opened its first Russian unit in 1991, and it has become one of the largest players in the consumer goods segment. Boeing and Chevron have a large presence in the market also. Most of these companies faced some of the obstacles discussed earlier. Nevertheless, they managed to overcome them and become major players in the Russian economy.

4.2. Coca-Cola: A Model for Success

Coca-Cola is among the most successful companies in Russia. Coca-Cola entered Russia after the collapse of the socialist regime. It began by selling Fanta prior to the introduction of Coca-Cola in 1985. When Coca-Cola was introduced to Russia, the company had only a small presence in comparison to PepsiCo, which by that time had established a strong position in the bottled drink industry. The situation soon changed due to an innovative strategy initiated by Coca-Cola management in 1990 (Rolfe & Woodward, 1997). At that time Russian economic and political situations were uncertain. Soft drinks companies still reported to the State Agricultural Industry Committee, a vestige of the socialist past, and, therefore, a large investment carried a large potential risk for the company. Nevertheless, Coca-Cola's executives made the decision to expand rapidly and widely in Russia. They gave the company's representatives in Russia a mandate to establish an entire and complete system of production, marketing and distribution centers throughout Russia all within six months.

One of the most critical tasks for top management was to establish open channels of communication with government officials and to persuade them that the production, marketing

and distribution systems would indeed work and would generate millions of dollars in revenues over the long term. The next obstacle they faced was finding the land to build the first factory. It turned out to be a longer process than they had initially anticipated. However, in building the first Coca-Cola factory in Russia Coca-Cola truly became a pioneer. In 1991, they were the first American company to lease land from any government in Russia. They had to explain to the Russians what a lease was. This process took longer in Saint Petersburg; where it took over 30 months just to get all the necessary approval documents from the local government. Furthermore, St. Petersburg could not provide the basic infrastructure for the first plant. Coca-Cola had to make a deal with government authorities, whereby it received tax rebates that covered capital costs for infrastructure development.

Innovation and flexibility were hallmarks of the company's investment strategy (Rolfe & Woodward, 1997). Coca-Cola expanded in Russia through different entry models, such as joint ventures, building new plants in place of old, refurbished ones. In addition to direct investments by Coca-Cola, its other investment partners have invested in Russia as well, including the Inchcape and Leventis Groups (conglomerates from the United Kingdom), and EFES (Turkey). These companies helped Coca-Cola expand its facilities beyond Moscow and St. Petersburg.

When Coca-Cola decided to locate in Russia its strategy implementation began by building the basic infrastructure for soft drink production (home office, plants, and distribution channels). In the first phase, the major challenge was to be able to meet customer demand. In the second phase the strategy focused on developing an extensive distribution network and establishing a supplier base that would ensure high quality while containing costs.

Finding reliable and flexible suppliers for raw materials and components was critical to Coca-Cola. According to Michael O'Neil (Rolfe & Woodward, 1997, p. 3), the Coca-Cola manager in Russia, a key strategy to overcome the internal barriers that hindered other investors, was to get their production and distribution infrastructure established locally as quickly as possible. This was not always been easy; simple supplies like glass bottles initially were not up to Coca-Cola's standards. Finding a supplier to make Coca-Cola's icon contour bottle was a challenge, but eventually, a local supplier was secured.

4.3. Lessons learned from Coca-Cola's experience

Why was Coca-Cola successful while others we not? The key success factors were their short-term advantages and long-term strategies. In the short term, Coca-Cola received a substantial two-year tax exemption from the Russian government which held down costs while Coca-Cola's strategies were being formulated and implemented. One of Coca-Cola's key strategies that they implemented as soon as possible was to localize production. Whereas other American companies, such as IBM, set up an assembly plant that remained vulnerable to import duties and tariffs, Coca-Cola decided to localize its supply chain. Having flexible local suppliers was the key to reducing the risks of increased taxes and import tariffs.

To avoid corruption problems, Coca-Cola carefully chose its business partners and worked only with ones who are not engaged in any questionable practices. Furthermore, its employees were trained according to the company's code of conduct which is known to be stricter than the Foreign Corrupt Practices Act.

The incredible success of Coca-Cola is evident to anyone in Russia today. The company employs over 3500 local workers, including prominent managers who form the core leadership for the company's future growth and expansion. Coca-Cola has always paid close attention to hiring and retaining top talent. In part because of its highly trained personnel, it has quickly achieved market leadership in Moscow and St. Petersburg.

Coca-Cola's experience in Russia highlights the strategies and tactics that improve the chances for success for a company making a direct investment in Russia. It was crucial for Coca-Cola to establish a market-oriented and customer-driven supply chain in a country that previously lived under a command system with production quotas. Coca-Cola recognized that Russians knew relatively little about marketing, production efficiency, and consistently high quality. On this score, Coca-Cola was a key market player in the transition to capitalism.

To summarize, Coca-Cola proceeded deliberately but quickly to overcome significant obstacles when it entered the Russian market. Its key success tactics included localizing production, establishing reliable supply chains, finding the best possible labor, and working closely with federal and local authorities on taxes, land and other potential problems. Most importantly, Coca-Cola operated with integrity in all circumstances.

4.4. Other successful American companies in Russia

Another US-based company, ice cream maker Ben and Jerry's, has also been extremely successful in the Russian marketplace. The company, known for its proactive charity practices, first considered opening a store in Russia in 1987 during President Mikhail Gorbachev's perestroika reforms. Three years before opening its first store, the company formed a joint venture

to open an ice cream factory and parlor in Petrozavodsk, 175 miles from St. Petersburg. “We quickly learned that to do business here, you cannot just have Plan A and Plan B. You will need Plan C, D, E, F, and G,” said Greg Quinn, general director of Ben and Jerry’s Russian operation (Knobel, 1993). “You have to expect things not to go right and then be flexible to take advantage of it.” It took several years to find reliable suppliers of ingredients and locations for its café-factories concept. The first retail store was opened in July of 1992. According to Quinn, the major problems they encountered were undeveloped infrastructure and the lengthy process of finding dependable supply sources. Despite the challenges, their hard work is paying off. The business is turning a profit; furthermore, their rapid growth has allowed them to expand into sales of pre-packaged pints and even multi-gallon tubs of ice cream in Moscow and St. Petersburg.

Ben and Jerry’s, like most other foreign companies in Russia, pays in rubles for the ingredients, equipment, and employees’ salaries. The profits are wired back home. They use the simple mechanism of buying dollars at Russian banks and then wiring them to the U.S. Therefore, repatriating profits was not among the obstacles that they faced doing business in Russia. Other barriers they faced, however, according to Ben and Jerry’s executives, are a lack of basic business laws and finding partners you can trust. One piece of advice they give is to have an incredible amount of patience because it takes much longer than anticipated to start making a profit.

Caterpillar is also among U.S. companies with a significant presence in the Russian market. Caterpillar’s history in Russia began in May 1913 when Holt Caterpillar exhibited at the St. Petersburg Auto Show. The Auto Show was set up to celebrate the 300th anniversary of the dynasty of the Romanovs and Holt Caterpillar won all first-prize gold medals during the contest. Since then, Caterpillar equipment has been an inevitable component of the Russian industrial

landscape. According to CEO Doug Oberhelman, Caterpillar's presence in Russia today is larger than ever, with 700 employees and five offices in Russia and Kazakhstan, and a fully-owned Caterpillar Greenfield facility in Tosno, a small town near St. Petersburg. Moreover, Caterpillar's 20 dealers employ approximately 5,400 people who are responsible for delivering equipment and services to the most distant parts of the country. There are approximately 27,000 Caterpillar machines and 14,000 units of power systems equipment in Russia today. The Group President, Stu Levenick, claimed that their success in the Euro-Asian market would not be possible without the reputation of the best lifetime value. He emphasized the importance of the long-term customer-oriented business activities that ultimately enabled them to gain a substantial market share. The company has been making large investments in this growing market and intends to continue doing so.

Another American company, Marco, on the other hand, has not been as successful as Ben and Jerry's or Caterpillar. Marco was started in 1991 by a group of private investors from St. Louis and Kansas City who saw a big potential in exporting Russian lumber. According to Bartow Shaw, one of the key investors, they wanted to help bring Russia back into the mainstream of the world economy (Knobel, 1993). Karelia, a Russian region stretching along the Finnish border, had an abundance of lush forests of pine and birch, with one lake for every five residents. At first, the local government seemed supportive. It even undertook substantial steps to encourage foreign investment. However, the local authorities were particularly sensitive about industries involving natural resources. Because Russian laws favor joint ventures - and give them tax exemptions and favorable export quotas - Marco began a search for partners. The search was challenging. Indeed, potential candidates bargained so hard that Marco's top management eventually decided to not to

form a joint venture but remain solely a U.S.-owned company. As a U.S.-owned company, however, Marco could not get permission from government officials to export some of their products, such as cut lumber boards. They have compensated by moving into products that they can get the right to export, but Marco continues to face significant and frustrating challenges.

5. RECOMMENDATIONS

As the foregoing discussion demonstrates, any Western company considering entering the Russian marketplace should realize that it is moving into a unique environment that has risks not necessarily found in other markets. These risks cannot be avoided, but by rigorous analysis of the marketplace and adopting appropriate strategies and plans, the risks can be reduced. The following recommendations are presented to assist any Western companies considering doing business in Russia in facing the challenges and risks they will experience.

5.1. Do your homework and determine whether the Russian market is a good fit for your company given the differences in culture and business ethics

Because companies are often attracted by the unusual opportunities and huge potential profits available in Russia, they frequently underestimate the so-called liability of foreignness (Rothaermel, 2013). This liability of foreignness includes the costs of doing business across national borders in an unfamiliar cultural and economic environment. For the reasons discussed above in this paper, any company considering entering the Russian marketplace should first consider whether that market is a good fit for the company given the cultural, workforce, infrastructure and legal differences they will encounter. It is far better for a company to decide up front that Russia is not a good fit rather than to reach that conclusion after several years of failed operations and the expenditure of considerable capital.

5.2. Plan your action before you enter the marketplace

Even if a company determines that Russia can be a good fit, it is critical that the company develop appropriate strategies and implementation plans (with alternate plans also ready to be

implemented) to achieve their objectives. The strategies should take into account: (i) actual or potential political instability; (ii) a lack of infrastructure or inadequate infrastructure; (iii) vague or inadequate laws and legal system; a dispute resolution mechanism such as arbitration should be considered in all contracts; (iv) availability of supplies and raw materials; (v) underdeveloped financial markets and institutions; (vi) possible lack of suitably experienced Russian partners for the business; (vii) a plan for repatriating profits earned in Russia; (viii) work force issues – how you will acquire, train and retain a capable workforce, including managers; (ix) how the company will avoid or deal with issues of corruption and bribery, keeping in mind the Foreign Corrupt Practices Act or its equivalent in other Western countries; and (x) any other issues unique to the particular business the company is in.

5.3. Be ready to invest more capital and time than anticipated

There is a significant cost of doing business in Russia, and the required investment is not only for equipment. Recruiting and retaining top talent will require substantial amount of financial resources and time. Given that the workforce issues are among the top obstacles when operating in Russia, it is not surprising that extensive training and customized training programs will be advantageous, particularly in the service industries which are generally known to be labor intensive.

The research also suggests that the entire process of entering the marketplace in any given industry usually takes longer than anticipated due to the bureaucratic structure. Every decision has to be approved by an appropriate state authority which usually takes a considerable amount of time.

5.4. Spend significant time developing relationships with those with power and influence

“Greasing the wheels” prior to entering Russian market is critical in order to establish amicable relationships with authorities and those who are in charge of the decision-making process. As previously discussed, formal and informal networks play an important role in conducting business in Russia. It would be helpful to establish a reliable network to ensure collaborative partnership while conducting business in Russia. The folk saying “It is not what you know, it is who you know” particularly holds true for Russians.

5.5. Send the right people to Russia

It is especially important to select carefully the expatriates to make sure they have not only their professional expertise, but also communication skills, a willingness to go “the extra mile”, and the ability to teach and learn from others. The goal is to send people who have the necessary talent to execute a business strategy and are capable of adjusting to the host country’s cultural standards, and who can educate locals about American core competencies and procedures. The research indicates that in some cases American managers sent to Russia to introduce new organizational culture simply vanish into the ocean of resistance (Puffer, 1996). Others are indifferent and do not even try to change anything. They perform their operational functions, but they do not educate Russian employees to work in compliance with a company’s standards. As one of the expatriates explicitly expressed it: “I am here to do my job, not to teach others to do theirs. I am not getting paid for that.” (Puffer, 1996, p. 245). Clearly, not many experienced business managers are willing to relocate to Russia; therefore, companies’ executives tend to send

younger managers who often do not yet have appropriate skills and experience to introduce a new business culture and management style in Russia. Nevertheless, the research suggests that by providing language and cultural training for Russian employees, companies managed to increase organizational trust and to motivate and retain local competent employees (Koveshnikov, 2012).

6. CONCLUSION

Despite the opportunities Russia presents to a company looking for a significant new market and huge potential profits in the long run, Russia also presents formidable challenges and risks to any Western or American company considering doing business in Russia. Russia's unique and sometimes tragic history has influenced the business environment and the ethical standards of the workforce. When that is combined with sub-par infrastructure, weak adherence to the rule of law and inadequate legal protections, and potential shortages of adequate supplies and raw materials, among other challenges, any Western or American company must carefully weigh whether the challenges and risks are worth the potential rewards. What is clear, however, is that some companies, such as Coca-Cola, have successfully navigated all the challenges and have reaped the rewards that are available to a successful company in Russia. Moreover, Coca-Cola has achieved success without compromising its ethical standards, which means that other companies can do the same. However, any company wishing to join the successful Western and American companies doing business in Russia must have plenty of capital and lots of patience. If those companies consider the risks described in this paper and follow the recommendations provided above they will reduce the risks they face and enhance the chances of a successful entry into the Russian marketplace.

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