



### 3. Russia Is Like the Ocean — You Need to Know How to Swim

by Noritsugu Uemura



Noritsugu Uemura, born in 1957, has been a representative office head at Mitsubishi Electric Europe B.V. in Moscow since 2007. He has been working for the company almost 30 years, after his graduation from the Economic Faculty of Kobe University.

To Mr. Uemura, this new business in Russia is not only an exciting business project, but also an opportunity for personal growth. His motto is to be always active and inquisitive, and you can just as easily find him in the Pushkin Museum of Fine Arts as in a nightclub.

**Swimming in the Russian Ocean** Doing business in Russia is both risky and lucrative, which makes it both challenging and interesting. The business environment here is rapidly evolving, but sometimes the market environment can be even hostile. It is like the ocean — for those who sail it is the easiest way from one place to another, for those who cannot swim it is very dangerous. That is why I see Russia as one of the most exciting opportunities that I have ever come across.

From my experience, I would say that the nontransparent legal environment is the key challenge to doing business in Russia today. It will remain like this for the next couple of years. Unclear things here, frequent changes in laws and government policy, unclear interpretations of policy changes, undeveloped market schemes and so on — all these certainly have a negative influence on businesses in Russia. Foreign companies like ours are often confused by some undeveloped laws or scheme of laws. Laws still include a lot of unclear positions, definition-wise and also interpretation-wise. A legal interpretation can be totally different depending on the official, the judges and the people, so this creates a big confusion in society, and companies from foreign countries are particularly affected.

**Struggling With the Law** The legal environment in Russia is still far from being fully transparent and obvious to all participants. Moreover, often legal provisions glaringly contradict each other. So companies can find themselves fined for both noncompliance and compliance with a confused legal requirement! This leaves large loopholes in the legal business environment and gives compromised federal or local municipal officials, or unfair competitors, the legal grounds to sue or hound a fully compliant company abiding by fair competition and other ethical principles. Despite the preventative steps being taken by Russian federal and regional authorities, corruption is still a great prob-

lem, although not everywhere in Russia. The bad thing is that if corruption and the other problems mentioned are deeply rooted locally, it will take a long time for the government to manage them. Such a situation will not be improved quickly. It will take time to develop mature laws that match the state of the developing Russian society.

Doing business in the developing Russian economy always contains risks, regardless of the kind of business or activity, and risk management is an essential part of business preparation. This is Russia. We cannot eliminate all risks. So it is crucial for all who come to Russia for business to detect what kind of risks they may face, from where, and to analyze and understand them, to prepare hedge plans against risks and, most importantly, to have the courage to step forward. In this sense, a Russian proverb immediately comes to my mind: “Кто предупрежден, тот вооружен” (“Forewarned is forearmed”). When you know the risks in detail it is easier to find preventative measures.

For example, as a risk hedge measure, if you find some unclear points on tax or customs issues and the like, it is useful to send questions officially to the appropriate federal authority and to receive an official answer. It takes time to get official answers — a month to six weeks from our experience — but federal authorities, in my experience, do finally reply. Such official answers can often be very strong evidence, which you can use, although often only to a certain extent!

However, this is only one side of the coin. Even though business in Russia has to operate in an under-developed legal environment, it is impossible to miss the importance of human connections both in daily life and business. I can speak about a lot of cases which prove my assurance of the importance and efficiency of human relationships. I am not speaking about the monetary side of such cases, but about the mutual understanding between people that they demonstrate.

**Negative and Positive Experiences in Personal Dealings** So, here is a little personal “negative to positive” experience to illustrate both how Russian regulators can discourage business or foreigners and the importance of personal understanding.

First, here is a business case experience based on the importance of being fair and doing the right thing.

We once faced an unexpected investigation by a Russian authority at our office in connection with one of our business partner’s serious legal troubles. We ourselves were not involved in actual business transactions with these partners but investigators suddenly arrived at our office with an official investigation notice to search for some evidence relating to the business with our business partners. They stayed in our office for more than 12 hours, and we called for our lawyers. Of course, the investigators could not find evidence useful to them but took several files and a PC. After a couple of days, they approached us unofficially and made a proposal or offer — they would smoothly close off this case if we paid a certain amount, which was not clearly defined although their indication was clear. We were actually afraid of annoying them, lest this prompt them to investigate us further. But we were very confident we were clean and had nothing to hide. In addition, our corporate compliance spirit did not allow us to make dubious payments such as that requested. So we just ignored the investigators’ proposition, and did not reply. We expected that I or some other senior managers would be inspected by them again. However, there were no further approaches from their side.

According to our colleagues in Moscow who had the same kind of experience, we should not respond to such a dubious offer, notwithstanding that the investigators were government officials. Had we responded to the offer, we were told, we would have faced continuing requests in the future.

What is the lesson from this? It is crucial for us to be brave and to decline such unclear and dubious proposals, and always to be fair in complying with Russian legal requirements and practice. That is the best way to protect ourselves in the end. We should adopt Russian ways of business but should not adopt grey schemes.

How to deal with government officials in a potentially compromising situation at a personal level? Well, I arm myself with a memo pad and pen. This is my way of protecting myself in uncomfortable encounters with officials.

Many expatriates such as myself have probably had the experience of being stopped by police officers or officials at an airport or in a town. Some of those officials may have charged us with some form

of misdeed or corruption through what we might kindly call “unreasonable logic.” They could well have threatened to take us away to some other place for “inspection” or “checking,” if we did not pay a certain fee.

Unfortunately I have faced this situation twice in Moscow. Once at an airport, I was stopped by a customs officer. He started to check my wallet and bag to find cash — he was trying to say that I had a certain amount of cash exceeding the limit that a foreigner can take out of Russia without a declaration.

I had been informed and warned by my country’s embassy that there had been such cases in the past. I understood that the officer might be trying to extract money from me in a corrupt way. So I asked him to show me his ID number and his name badge, holding my memo pad and pen ready to write down his details. I showed him my motions of writing the information on my memo pad, referring, as I did so, to warnings from my embassy that I might experience some troubles at the airport customs and to the embassy’s request to report any such cases for further action.

Immediately, the customs officer started to excuse himself, saying that he was only performing his duties of checking. I said, “If that is so, then it is also OK for you to show me your ID and name. Should I open all the other items in the bag?” Then he said, “No, no, thank you. You can go.”

I experienced another similar case in town with an officer of the traffic police. I was able to deal with it in the same way.

I believe that carrying a memo pad and pen with you all the time is a very necessary self-protection preparation for your activities in Russia!

**This Mysterious Country Solves Human Problems** Now for a personal example, showing another, and very positive, side to Russian bureaucracy.

Those who have been staying in Russia for one year with a working visa know well how exciting the visa prolongation procedure for expats is: At least one month before your visa expires you have to submit your passport to receive a new visa. It is not that bad, but the fact that you are living in a foreign country without your passport can make anyone ner-

The market is historically formed as an objective economic and social reality.

Alexander N. Yakovlev

vous even though you get some notification instead which can be shown to an authority if needed.

This temporary document does not allow for traveling, however, except for on the Moscow metro.

So, last year, shortly after I submitted documents for my visa prolongation to the responsible state authority, I declined or set aside any plans to travel anywhere for one month. Then I suddenly received grievous news from my wife who resides in Japan: Her mother had died from Alzheimer’s disease, and, in accordance with our customs, I had to return to Japan for the funeral. It was an absolute obligation for me. I needed my foreign passport back.

The only way to do this, I found, was to talk to the head of the authority responsible for visa issues. I made an appointment with him. Unfortunately, he could not speak English. However, even through the intermediary of a translator, I could feel that there was a mutual understanding between us. The head appeared to me to be quite a Soviet-style character. He showed his respect to me as to all other foreign businessmen in Russia. He promised to do his best to help me and expedite my visa issuing process.

What happened? He did help. I received my passport back within a couple of days and immediately departed to Japan. When I told my Japanese colleagues in Moscow about my experience, they could not believe that such a thing could ever happen. Some of them can not even imagine such an unofficial way of managing the situation — probably due to our Japanese character which is so used to compliance with law, order and traditions. In Russia we can rely more on people rather than on laws, orders and regulations. That is what I learned from my experience of doing business in this mysterious country.

**My Russian Family** I would say the same thing about Russian staff. When I came to Russia, I was the only Japanese manager in the company, but I was always surrounded by good people, our Russian staff in the company, and our Japanese colleagues in Moscow society. They are just like my family. Even though I live alone separated from my family here, I do not have big problems mentally or physically. Everybody supports me, it is as though I have a big family here. My personal life and my business life, both of them are enriched by those human relations with the people around me. This is a big merit of Russia. I can say that this makes a difference from other countries where I have lived. Also, professional and capable Russian staff makes a real difference. They treat business as not simply doing work processes, managing costs and revenues and making money in the end, but as something they devote their lives into. Business is a kind of a lifestyle.

**Daring in Business and in Life** A successful businessman in Russia should be daring both in business and in life. So, keeping your eyes open, not being afraid of taking steps forward — that is good advice for any expat manager located in Russia. Expand human relations, participate in local community life, go where the Russians go, and you will be rewarded with an encouraging excitement to your stay and work here, in this country. Life here is both hard and promising — like anywhere else in the world, but with a unique flavor. So, try to feel this flavor instead of simply doing business. Russian colleagues are the ones who may help you to feel this unique flavor.

That is a very important point. Good internal human relationships in the company are what any manager, foreign or local must try to reach for efficient and successful business here. Reliable and loyal staff is a heritage for any manager, especially for a foreign manager. Besides, different ways and approaches of management and views of the market create new challenges and opportunities both for foreign managers and local staff. We should contribute to each other's success in order to reach common goals.

I am not a renowned scholar of Russian business culture or extremely well-seasoned in doing business particularly in Russia, but I think I have been working here for long enough to make judgments that could be interesting to any expat manager working in Russia.

**Influence of Culture and History** Russia has a long and rich history, and the very glorious era of the Russian empire that still influences the everyday life of its people, to a great extent defines behavior and approaches to business. Russians in general are very proud of their history and accomplishments — and they have the right to be so. So, first of all, a foreign manager should have a full understanding of why Russian people in general or the staff in the company's Moscow facility behaves one way, and not another. The key thing is to pay respects to and handle personnel as human beings, with their own aspirations and ambitions. As expat managers, we should learn to have serious discussions in business situations without hurting the Russian people's pride.

Russians historically have been very good at learning the best things from foreigners — from taking technological lessons early in the 20th century to borrowing foreign best practices now. Russian people also respect other nations' accomplishments. I remember, the Russians were greatly interested in Japanese business in the 1980s, when Japanese corporations were much spoken about in the world for rapid technological progress based on deep societal traditions, coupled with hi-tech production. I still sometimes feel part of this respect when talking to my Russian colleagues.

Judging from my experience, the best way to mentor Russian colleagues is to lead, literally lead the way. Set personally the highest standards for your business, show your own aptitude and business qualities. Russians like to compare two popular sayings: "Do as I do" and "Do as I say." I would rather take the first notion to explain how I myself manage my colleagues. I try to show Russian staff another way of management and the experience of Japanese companies.

**Helping to Globalize Russia** So, the best contribution from a foreign manager should be education and developing Russian managerial structure for the next generation. There should be a good opportunity for us to contribute in Russian business skills development from the globalization point of view. Helping local staff to learn best ways and practices of Western countries and developing business aptitude will raise future generations of Russian business people, educating them to work in the new global business environment, speaking one business language with their foreign counterparts.

This is also a kind of mutual contribution between our foreign companies and Russian local society. Russia has run a capitalism-based society, like Western countries, for less than 20 years. Russia has definitely made great progress in this new system in such a short period, achieving things that took Western countries more than 100 years.

We feel that Russia still needs more globally experienced business people, especially at the managerial level, to take positions of responsibility in the global business arena. Active Russian companies have many young and capable businesspeople. Foreign managers should bring their international global experience to local managers who should absorb the new experiences, because the global economic crisis made the Russian government and the Russian people understand that Russia is also a member of the interdependent global economy: Russia cannot be independent and separated from the global economy.

Russia, as a potentially leading member of the global economy, should act as much as possible based on the global standards on which most global businesses operate. There is much talk in Russia about whether Russia has its own way of development or should it follow the Western style. I think that national feature should not be ignored, but that some Western experiences should be utilized too, so that Russia can integrate more smoothly and closely into the global economy.

That is what has been done by successive presidents of Russia and their governments during the last decade. Trying to strengthen the country's position on the worldwide arena, they have undoubtedly succeeded in making Russia a key player. This image must be supported by positive changes in the economy, politics, finance and society generated by a single strong center. Efforts made by former President Putin and continued by President Medvedev have clearly aimed to build a strong and centralized structure to facilitate economic growth and improve welfare. Stimulating business by increasing investment volumes and making bank loans more affordable can become one of the solutions for managing the consequences of the financial crisis.

In addition, business and finance, which always tend to catch up with the global stream, should come forward and suggest what is nec-

essary for Russia to become a more active global key player. Further, deeper discussions with the government are needed, and for its part the government should be fair and open to these discussions. Such processes will surely increase the world's trust in Russia, and also upgrade the status of Russia in the world.

**Business and Social Responsibility** Since Russia is still on its way to establishing a society governed clearly by law, as President Medvedev says, we foreign business people should show the spirit of legal compliance and Corporate Social Responsibility, or CSR. Somehow, these two aspects are often ignored in Russia. As mentioned previously, bribes are quite common in Russian society, as are unclear procedures by officials, although in developed countries we rarely see them.

I have already touched on the difficulty of achieving legal compliance. With respect to CSR, I would say that as a concept it is still a bit underdeveloped, but it is quickly gaining grounds with Russian business. People everywhere, and Russia is no exception, now tend to have more expectations of business in terms of social events and needs. Business should not be concentrated only on making money and creating additional working places but should respond to trends of social needs worldwide.

Charities, eco-promotion events and the like are the ways for business to retain the so-called "public license" for their local operation. That is why we pay so much attention to promoting CSR principles while doing business in Russia. Foreign companies and world organizations are still leading the trend and setting good examples, but I hope in the next decade we will see Russian companies overtake the world for leadership in social responsibility.

**Perspective on the 2008 Crisis** This article was written in late 2009 when, as Finance Minister Alexei Kudrin reported, Russia came out of recession after the global economic crisis of 2008/2009. Notwithstanding the minister's statement, Russian and foreign companies in Russia are still suffering from the results of the crisis, shown by low demand and sales and lack of investments. I have been living in Russia for two years and was able to see Russia before and after the crisis. I could understand, on the one hand, the reason why the global

economic downturn influenced the Russian economy so badly and why, on the other hand, the crisis in the Russian economy was so unavoidable.

After the Soviet Union era, when most industries inherited by the new country, Russia, were in decay, the new government should have directed capital for investments into the local economy through policies aimed at local production support, real income growth, stimulation of domestic consumption, and balancing exports and imports. Since the Russian economy has been traditionally largely supported by the exports of natural resources, oil and gas, Russia had the earning capacity to support such investments, making use of increasing prices of oil and gas on the world market.

By using the earned profits, the government did try to nurture and develop the real economy through supporting mostly the manufacturing and industrial sectors. What happened in reality, however, was the diversion of capital investments into a money game in Russia. Huge investments and growing welfare as well as new market opportunities attracted foreign companies to establish business in Russia. So the government invited foreign companies and foreign direct investment (FDI). The automobile industry serves as an excellent example — many European automobile producers and also Japanese ones, including Toyota and Nissan, came to Russia to start production here. This was positive for Russia: It is difficult to overestimate the advantages which Russia got from such interest, first of all, the opportunity to strengthen its position on the world market.

A mutual consensus emerged between the Russian government, taking on an obligation to provide the lucrative conditions for foreign operations, and foreign producers, interested in expand-

Many people are surprised to hear that we have comedians in Russia, but they are there. They are dead, but they are there.

Yakov Smirnoff

ing into new markets. Thus, the government tried to install a kind of real economy based on foreign capital inflows, because such developments are accompanied by the appearance of additional, wide-ranging industries. Before the government had managed to succeed in its goal, the global crisis arrived. By that moment, the Russian real economy sector was still undeveloped and the Russian economy was still boosted by natural resource prices. The fall of these prices led directly to economic crisis in the country.

Actually, this global financial crisis has greatly influenced all businesses. Russian consumers are wary, the market is shrinking and sales are declining. Unfortunately, these are common market phenomena all over the world. It is not a secret that the global crisis knocked Russia to one of the lowest levels in the world. Getting out of the recession GDP-growth-wise will be faster than other countries because of the recent rises in oil prices, but recovery of Russia's real economy and its further development will take more time. The commodities-oriented extracting economy needs not only a full recovery to pre-crisis levels of production and consumption, but also the long-awaited modernization.

**An Economy in Transition** Today, the Russian real economy sector renovation is suspended, the Russian government is struggling just to reach pre-crisis levels to provide some funding to human lives and also to some sectors of the industry or economy. So, today's Russian economy is still in the middle of the transition road — the industrial Soviet past is already over, and a new modern-age economy has not yet been established. The fact that the global economic downturn had hit Russia more severely than some other countries has clearly reminded us that the economy urgently needs modernizing. That is why President Medvedev urged modernization of the Russian economy in his recent annual state-of-the-nation address. The Russian economy must become diversified and competitive. The need for transition from the current model of heavy dependence on natural resources to a more sustainable growth model is evident. Still, views of the ways in which this might happen differ greatly.

There is also another worrying point in modernizing the Russian economy that has now become obvious — there is less cash in hand

to invest in developing innovation and modernizing production. On the other hand, as the president pointed out, Russia is deeply interested in the inflow of capital, new technologies and modern ideas. It had demonstrated its intentions in practice. Before the crisis, the government took the first steps towards providing comfortable conditions for western industrial companies to operate in the country, expecting that they would later help the economy with technology, knowledge and innovations.

**Innovating out of Economic Crisis** The current main task of the Russian economy is to get back on the track of innovation, as some experts also mention, but not in the old way that led the country into the current recession. Getting a real economy in place remains a very important target for Russia. The emergence of the global economy from recession is a good ignition for the Russian economy to start spending on innovations and manufacturing development again — preparing the country for the next technological leap forward. The post-crisis environment has provided an opportunity for economic reforms. Russia should continue working on getting a real economy in place in the coming five to 10 years. Russia will surely manage it by utilizing the experience accumulated in the last decade.

As almost all global companies are suffering from the crisis in Russia and everywhere in the world, many of us have cut costs and saved resources, temporarily switching to short-term planning of resources, production and sales in order to surmount our current difficulties and to secure our survival. We have had to postpone our business expansion plans in local markets for a couple of years. What we have not done is to give up our general strategic policy of expanding business through cooperation with Russia.

The analysis of Russia's economic prospects for the coming decades convinces us: The crisis in Russia will end in another surge of consumption and rising needs for industrial development leading to economic recovery from around 2012, which is 1 1/2 years from now. These 1 1/2 years should be used for preparing the next jump in 2012. The coming 1 1/2 years could be very crucial for our future expansion. It is noteworthy that despite all the trouble ahead in Russia, large multinational corporations like Payless ShoeSource, John Deere,

The Russians will try all the rooms in a house, enter those that are not locked, and when they come to one that cannot be broken into, they will withdraw and invite you to dine genially that same evening.

Winston Churchill

Unilever, Novartis, Ford, Kraft Foods, Volkswagen, Nestle, Danone and many others are considering widening their business in this country, either by opening new businesses or localizing production. Even those corporations which have already encountered the notorious Russian corruption are not quitting this market.

Russia is also fortunate in having an excellent workforce. The old Soviet education system is still in place and Russia roughly equals European Union countries in the proportion of its workforce (20 percent and more) in higher education.

So, as soon as the surrounding conditions become more favorable for us here, we will surely continue expanding our business in Russia. We have kept our strategy but have pushed out the implementation timetable by one to two years. This is the current situation.

Russia has already shown successful examples of doing business here before the crisis, so companies like ours have just postponed our business plan and timing for starting new business. We see the Russian economy very positively. However, Russia is Russia.

**A Personal Note — Moscow Dance Contest** As my hobby and for my health, I often participate in the dance program at the gym near my office. I love street dances such as hip hop and house as well as my beloved oldies' disco. My first encounter with dance was at the age of 17, 35 years ago, in the mid-1970s. It was just the beginning of the first disco boom in Japan. At that time there were only two discos in my home town Osaka (the 2nd largest city in Japan), and I often went to one of these, even though I was so occupied with the preparation study for the entrance examination to university.

Since then I have always enjoyed dancing and dance music is always with me. So when I found the hip hop & house dance program at my fitness club in Moscow, I was so happy and immediately started to join in. Well, I am the only Japanese member in my gym and, of course, I am always the only man in the program, and I find myself surrounded by ladies, which is the same situation I experienced in the gym generally in Japan. But I really enjoy these programs and I try to attend them as many times as possible. It is good both for physical and mental health. And, of course, you can also release negative mental stress by dancing.

Anyway, one day in August last year, I was approached by the staff of the fitness club and was asked to join a dance contest team from our fitness club. It turned out that the team was to participate in a Moscow dance contest held during a Fitness & Health exhibition.

I can not dance professionally but I am somehow confident that I am a bit more than an amateur. So I decided to join the team, although I cannot speak Russian well. The team consisted of six ladies and me (again, only one guy!) We practiced several times together at our fitness club from 21:00 until 24:00, together with our instructor, a professional dancer. During our practice sessions the members of our team started to talk to me in English and I tried to use my poor Russian. What we found was that we could understand each other as far as the language of dance was concerned.

The contest was held at the Manezh Exhibition Center next to the Kremlin and I was surprised by the big crowd there. There were so many kinds of dancers and teams, with various kinds of costumes. Of course, I was the only Japanese there. We wore an all-white costume from top to bottom and danced on the centre stage with hip hop and robot dance motions.

I do not know the result of the contest, and I do not care! What I really enjoyed was the process of being close to the other team members and staff of our fitness club. At the end of the contest, I felt that I had become a real member of the team as well as a member of the fitness club. It was a very precious experience in Moscow.

What this showed me was that we expats should not hesitate to step forward into the Russian world. Even if we can not communicate well in the Russian language, we can understand each other to some

extent, as long as we show our sincere attitude towards the Russian people.

That is the real Russia. Russians have a very deep and hospitable attitude towards foreigners if foreigners can also show their intimate feelings towards Russians. I would like to say, "Be encouraged to enter into the Russian world and there you will find something valuable."

**The Last Word — Common Sense, Russian-Style** One thing that I understood from the first days of my stay in Russia, and which is being proved by every day of my stay here, is that common sense in Russia presently is not what common sense is in developed countries. Common sense in Russia may even seem sometimes nonsense in developed countries (for example, the manners of the drivers on the road). This difference should be recognized by foreign businessmen because we are aware of the situation in other countries, whereas most local Russian people do not have such criteria due to their lack of experience in other countries.

We have to understand that there is a big difference. We have to think about our business based on this understanding. Everything new to us means new opportunities to develop and learn; and everything difficult for our understanding is just challenging us to do better.