The New Global Russian Business Leaders: Lessons from a Decade of Transition

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To illustrate the transition that has occurred in Russia since 1992, the authors studied Russian business leadership and entrepreneurship in a range of situations, from the transformation of a Soviet-era biscuit factory, to high-tech start-ups modeled on Western business practices. This article describes organization and leadership practices in Russia, and focuses on an emerging leadership style the authors termed “global Russian.” The purpose of this research is both hindsight and foresight: by analyzing the rapid changes of the recent past, the authors seek to provide lessons on leadership that will be valuable for Russian business leaders and for those who seek to engage in working partnerships with them. © 2004 Elsevier Ltd. All rights reserved.

Keywords: Russian Culture, Russian National Character, Entrepreneurship in Russia, Russian Leadership Styles, Human Resource Management in Russia, Change and Decision-Making in Eastern Europe, Communist system and its cornerstone, the centrally-planned economy, when the Soviet Parliament approved the so-called Law on Cooperative Movement, authorizing the creation of cooperatives. The cooperatives were to be private enterprises, owned by at least three people. That law unleashed the entrepreneurial energy of the Russian people, and led to a dramatic transformation in Russia in the 15 years that followed. The early cooperatives were hot-houses for young Russians fascinated by the idea of a free-market economy. Some of them were to become future billionaires—among them, Mikhail Khodorkovsky and Mikhail Friedman—hundreds of thousands were to become millionaires, and millions were to become entrepreneurs. The cooperatives also fostered the creation of industries new to Russia, such as investment banking and cellular telephony. By 2003, only 15 years after the Law on Cooperative Movement went into effect, the private sector represented 70 percent of the Russian economy (Handbook of Russian Statistics, 2003).

Introduction: From Cooperatives to Capitalism

In 1987 Mikhail Gorbachev, then General Secretary of the Communist Party, dealt a mortal blow to the

One can hardly overestimate the importance of private entrepreneurs’ contribution to the recent history of Russia. Today, however, as their businesses grow and mature, the entrepreneurs face new challenges in transforming loosely structured start-ups into large-scale, efficient organizations (Puffer and McCarthy, 2001; Kets de Vries, 2000). These challenges are to
some extent similar to those of entrepreneurial ventures elsewhere in the world, and therefore the experience of business leaders from developed countries can and should serve as worthwhile case material for their Russian peers. However, Russia has a long history of according itself special status in the world, and one result of this is the common assumption in Russia that “foreign things do not work in this country.”

Fascination with Western management practices of the late 1980s and early 1990s was followed by disillusionment for many when those practices failed to produce quick results, reinforcing the traditionally negative attitude of Russian entrepreneurs and business executives (Puffer and McCarthy, 2001). Some of them embarked on the process of creating a specific “Russian business model.”

The suspicion was often mutual. Business and political leaders outside of Russia also had a tendency to put Russian entrepreneurs in a special category, but a far less complimentary one. The entrepreneurs were often called “new robber barons” or, more simply, “robbers.” Their success was chalked up either to the dubious support of a Russian Mafia or to less violent but equally pervasive government corruption. The term “new Russian” was almost universally considered to be derogatory, denoting wealth built on the backs of exploited and befuddled Russian workers tricked out of their heritage during the time of mass privatization of State-owned properties in the early 1990s.

Our idea for a research project on the new Russian business elite grew out of our preliminary study in 1998 of Russian business organizations and their leaders in the post-perestroika era. We felt that the conflicting perspectives described above, though common, were in most cases inaccurate. We identified the emergence, beginning in 1993, of a group of business leaders whose success has drawn on their own efforts and drive more than on political connections. They have created organizational systems and structures that draw on Western (or Asian) best practices, and yet remain uniquely Russian.

As we studied Russian organizations, we realized that we were seeing two kinds of leaders at the top of successful companies. In the first group were “Russian” Russians, who in fact retain a faintly-xenophobic attitude toward Western organizations. These Russians were convinced that they should move into relationships with Western partners only with great caution. They sought to build 100 percent Russian organizations. In the other group were people we call “Global” Russians, leaders who have gained respect both within the Russian business community and internationally, building intangible bridges over which knowledge and products can travel both to and from the West. Many of them trade actively with foreign partners, acting as both vendors and buyers of goods and services. Some of the organizations led by new-generation executives are actively pursuing foreign investment, attracting shareholders globally. Some of them remain quite idealistic (perhaps too idealistic), believing that Western management practices are the answer to all ills—and they are very disappointed when this idea proves (as it inevitably does) to be wrong.

We have also noticed significant changes in the Russian workforce. As Russian business practices have matured, so has the Russian laborforce. There are more and more individuals with Western business education and experience; and even those with no international experience have been exposed to Western business ideas and concepts, now included in educational curricula at universities in Russia. As the challenges of organizations become more complex, the growing corps of talented young managers may become both a blessing and a curse for top executives. New ways of doing business are necessitating new ways of managing talent. The leaders of organizations that we have studied embody a wide range of approaches to managing their human resources. Some treat their workers as “disposable” commodities, while others see their people as their most important capital and treat them accordingly, investing heavily in their training and development, both in financial and emotional terms. The concept of “human resource management” is itself new to Russia (Jukova and Korotov, 1998), and we found it quite interesting to hear about some of the mistakes made and lessons learned by the executives we talked to.

As we move more into a global economy, the need to become familiar with executive behavior in Russia is increasingly apparent. In order to effectively work with Russian organizations, it is essential for potential Western partners and shareholders to go beyond received biases to fully understand the leadership style, organizational practices, and expectations typical of both “Russian Russian” and “Global Russian” business leaders. Furthermore, the identification by Westerners of salient management values and attitudes helps predict and increase shareholder value when dealing with Russian organizations. A comprehension of cross-cultural differences and the corollary institutional configurations contributes to greater success for those doing business in Russia and/or with Russians, and by extension those doing business with many of the former Soviet-bloc countries in Eastern Europe.

We believe that the Global Russian business leaders we observed are developing best practices that could be useful to other members of the Russian business community. In this article, we highlight some of the challenges they face in the case summaries presented below. We conclude by arguing that some Global Russians may well become positive role models for a new generation of entrepreneurs and managers. However, we also point out that the Global Russians are not superhumans, devoid of sins or shortcomings; we discuss potential traps for them and their
businesses, and we present some of the leadership challenges they are struggling with now, or will face in the immediate future.

Deciphering the New Russian Business Leadership Style: Learning from Case Histories

Because leadership is a highly contextual phenomenon, anyone seeking to understand modern Russian business leaders needs to comprehend the national culture and character (and the organizational practices that those elements foster). We have been analyzing Russian companies and their leaders for over a decade (Kets de Vries, 2001a; McCarthy et al., 1993; Korotov et al., 1995), using Kets de Vries’s three-dimensional model, which combines a clinical paradigm to analyze leaders’ behavior, and strategic and cross-cultural approaches to describe the collective behavior of their followers. We built on our first author’s early research on Russian national culture, organizational practices, and leadership style (Kets de Vries, 2000) and drew on the personal experience of the two co-authors who are Russian. In developing the factual case studies that follow, we had unprecedented access to information about the personal background and professional development of every leader in our study group. We conducted dozens of open-ended interviews with the leaders, their followers, and their counterparts; observed the leaders’ behaviors; and worked with some of them as managers or consultants. From these interviews and our observations, “thick” descriptions (i.e., descriptions that are very data-rich) emerged, which allowed us to explore our theories about a new Global Russian leadership style. From this we developed a description of the current and future leadership challenges facing Russians who hope to succeed in the new global economy (Kets de Vries, 2001a).

We should add that Russian business leaders often find it difficult to open up to researchers (due to mistrust, xenophobia, etc.)—so this research project may serve as a good example for the rest of the business community in Russia. We hope in this way to contribute to “breaking the ice,” helping other researchers and business professionals to understand and access top-level executives in Russian organizations.

Case Studies: A Portrait in Heterogeneity

One could hardly find a less predictable group than the Russian business leaders we studied. Our group includes a 40-year-old former junior Komsohol official (Mikhail Khodorkovsky of Yukos); a 70-year-old former rocket scientist (Dmitry Zimin of Vimpel-Com); a former world-class fencing champion (Olga Sloutsker of World Class); and a research-oriented computer programmer (Maria Ilyina of Frontstep). The remaining three leaders in our group are “outside insiders,” in a sense. One is a Russian who emigrated to France in the 1970s before returning to Russia in 1994 to lead the transformation of a newly-privatized company (Jacques Ioffé of Bolshevik). The second left his native Tartarstan to seek his fortune in Moscow, and with a group of old friends created a brand management organization with similarities to Richard Branson’s Virgin (Koustam Tariko of Russian Standard). The third man is an Armenian who went straight from his university studies to an internship in a small consulting group, which he later transformed into the first Russian investment brokerage firm, eventually becoming CEO (Ruben Vardanian of Troika Dialog). These leaders have different social and professional backgrounds, come from different regions and ethnic groups, and belong to different generations. Some of them work 15h a day. Others spend only a fraction of their time in the office. Some excite their followers with constant walkabouts and pep talks (and even, in one case, a passionate flamenco dance!); others prefer to deal with them at a distance, through formal systems and layers of management. Their leadership styles and the organizations they have built reflect their personalities and their early life experiences.

Jacques Ioffé and Bolshevik

In designing our research strategy for the book on which this article is based (Kets de Vries et al., 2004), we decided that the best way to show the incredibly rapid pace and scope of the transformation in Russian business leadership would be to begin at the beginning—that is, to follow and analyze the implications, within one specific company, of the massive and unprecedented transfer of equity from the Soviet State to private owners.

The Bolshevik biscuit factory was one of the first ex-Soviet factories to be privatized, and one of the first to be acquired by a Western corporation. The purchaser was Danone, the French multinational producer of sweet biscuits, bottled water, and dairy products. Over the four years that we studied Bolshevik, we saw an archetypical Soviet factory, formerly run by a “Bolshevik” director according to the dictates of a planned central economy, transformed into a subsidiary of a global organization (though that subsidiary was not fully integrated).

Jacques Ioffé, the General Director appointed by Danone, is Russian but lived for many years in France, obtaining an MBA from INSEAD, in Fontainebleau, and working at the executive level for French corporations before returning to Russia. Bolshevik at the time of Jacques Ioffé’s arrival in 1996 was a rigidly hierarchical organization—but it would have been a mistake to force massive change upon Bolshevik’s workers and managers in the early days of Ioffé’s
tenure; they were not ready for any other organizational paradigm. Ioffe’s approach to change-management was rather spontaneous and intuitive. His gradual, as opposed to revolutionary, technique proved to be appropriate at the beginning, ensuring continuity of corporate policies and activities and avoidance of otherwise inevitable resistance and conflict. Haste, at least in the early days of Ioffe’s tenure, might have been counterproductive and could have led to serious problems and confrontation within Bolshevik and also with Danone.

**Roustam Tariko and Russian Standard**

Roustam Tariko got his start in business as a very young man working for a student travel cooperative. After earning some money, making travel arrangements for foreigners who wanted to visit Moscow, Tariko decided to risk the capital that he had earned to start his own import and distribution business.

Assuming that, like himself, most Russians were tired of the monotony and scarcity of food products available in the early 1990s, he approached representatives of Ferrero, the Italian chocolate manufacturer, whom he had met through an Italian contact in the travel industry. He convinced Ferrero that they should offer for rubles goods that, in Russia, had previously been available only in hard-currency stores. Agreeing to test Tariko’s theory, Ferrero provided him with a consignment of chocolates, which sold very quickly.

Tariko never looked back. News of this young Russian traveled fast in the Turin area of Italy, where the Ferrero headquarters were located. Executives from the nearby headquarters of Martini & Rossi soon approached Tariko and negotiated an agreement with him to distribute Martini vermouth in Russia. When the first consignment arrived by truck at the Eliseevsky supermarket in Moscow, an energetic young man was there to unload it: Tariko himself. Extremely pleased with sales results, Martini & Rossi signed a deal making Roust Inc., Tariko’s company, their importer for Russia. By 1994, Roust had established itself as Russia’s leading importer of premium alcoholic beverages.

Next, Tariko focused his energy on creating a brand management organization. Targeting the consumer market with his new Russian Standard brand, he promoted products and services that recalled the high standards of Russia’s pre-Revolutionary past, while at the same time becoming a symbol of a new Russia. In 1999, Tariko took his brand into a new venue, establishing the Russian Standard Bank. By 2003, the fledgling bank had a leading position in consumer lending and had earned the approval of the International Finance Corporation (IFC), the private-sector division of the World Bank Group. With the brand firmly established, Tariko continued to seek ways to build his brand management empire. Some of his early ideas did not pan out, but by 2004, others—including a life-insurance start-up and a launch of Russian Standard vodka in the United States—were becoming reality.

**Mikhail Khodorkovsky and Yukos**

As CEO of Yukos, the second largest Russian oil producer, by the early 2000s Mikhail Khodorkovsky had developed a squeaky clean reputation that overshadowed a rather murky past. He had become Mr. Corporate Governance of Russia, promoting principles of transparency, protection of minority shareholders’ rights, and separation of executive and oversight bodies.

Then, on 26 October 2003, masked commandos from the Russian Ministry of the Interior stormed Khodorkovsky’s plane, which had just landed at Novosibirsk airport, and arrested him. He was rushed back to Moscow and put in jail. The prosecution charged him with tax evasion, embezzlement of assets, and fraud. From his prison cell, Mikhail Khodorkovsky expressed his resolve to prove his innocence and announced that he was resigning as CEO of Yukos. A page had turned in the life of Mikhail Khodorkovsky, and yet his presence could still be felt both at Yukos and at gatherings of top Russian business leaders.

As a young man in the 1980s, Khodorkovsky had no outsized business idea along the lines of Amazon.com, Starbucks, or Windows. Instead, he was very opportunistic. While still a university student, he began exploring loopholes in the Soviet centrally-planned economy and was able to generate quite a bit of cash with his consulting and import-export businesses. Later he opened Menatep, the first private bank in Russia. Initially Menatep financed Khodorkovsky’s trading and currency businesses, but later it became an authorized intermediary for dispensing government financial credit to State-owned companies. Playing to both sides of the house, he also became skillful at maintaining excellent relations with government authorities. During the period of privatization in 1994–1996, Menatep managed to gain control over 120 different companies, including Yukos. In 1997 Khodorkovsky became CEO of Yukos at the age of 34. Six years later the company, which had gone through extensive restructuring and the introduction of professional management under Khodorkovsky’s guidance, reached a market capitalization of $30 billion.

A billionaire by the end of the decade, Mikhail Khodorkovsky was one of the great success stories of the 1990s. Ultimately, however—and ironically, as Khodorkovsky was at the forefront of a new trend towards corporate transparency—he was accused of transgressing the boundaries of the Russian govern-
ment's tolerance, and his career at Yukos ended in a jail cell as he awaited trial.

Dmitry Zimin and VimpelCom

Dmitry Zimin, whose father had perished in the Gulag, worked for 30 years in a tightly-controlled environment as a research scientist developing radar systems. Zimin was steeped in the influence of Soviet military production values, and by the time of perestroika in the late 1980s, he was obsessed with a need for freedom and control over his own destiny. More than anything, he sought a business opportunity that would put his and his engineers’ skills to productive use and liberate their creativity.

Zimin told us, “In those days we had great engineers working for the military. I wanted them to work for the general population, to design and make things useful for everyday life. I also wanted them to have freedom to do things their own way. Of course, I wanted this freedom for myself, too.” Zimin assembled a team from among his research colleagues and formed VimpelCom, a company whose purpose was to find practical applications for the radio technology they were experts in.

Partnering with American entrepreneur Augie Fabela II, VimpelCom launched its cellular network in 1994, in a limited area of downtown Moscow. In one day they sold 100 telephones—their entire supply—at $5,000 apiece (not including subscription fees). Gangsters, politicians, and businessmen alike begged Zimin for a phone. At the year’s end, VimpelCom had 3,000 customers and a severe capacity shortage. In 1996, VimpelCom became the first Russian company to be quoted on the NYSE, making Zimin the first officially recognized Russian multimillionaire. By 2003, VimpelCom was the second largest GSM (the European standard for wireless telephony) operator in Russia, with market capitalization of $3.5 billion.

In line with his vision of “independence,” Zimin fiercely fought all attempts at hostile takeover, turned down very lucrative offers from strategic investors interested in acquiring a majority of his stock, consistently refused to subordinate himself to the board of directors or any other body, and fired executives who, in his opinion, had gained too much influence.

On the other hand, he had a very close relationship with his 25-year-old American partner, Augie Fabela II—despite the fact that the two men communicated through interpreters. The partners mentored each other in their own areas of expertise, Zimin specializing in the corridors of power and in the technical details of wireless communication, and Fabela advising his partner (behind the scenes) on the intricacies of the market-based global economy. Together, they were able to make breakthrough moves such as taking VimpelCom to the NYSE, adopting the GSM network standard, introducing mass cellular telephony to the Russian market, and bringing Norwegian operator Telenor in as a strategic partner.

Maria Ilyina and Frontstep

Frontstep began as a typical “garage” start-up, founded by three technically brilliant software specialists and computer programmers who decided to test their entrepreneurial capabilities in the early 1990s. The only real difference between this start-up and others that popped up in Silicon Valley during that period is that Frontstep was created in the former Soviet Union, a different context entirely.

The founding trio saw a great need for enterprise resource planning systems for Russian industrial organizations. Unlike many other Russian entrepreneurs, who were interested primarily in making quick cash, the Frontstep entrepreneurs sought a way to contribute to the resurrection of Russian industrial potential, an endeavor that could offer payback only over a much longer period of time.

Frontstep did not have a connection to the Communist Party or Soviet assets. Frontstep’s initial capital included the personal savings of its founders, a couple of computers installed in one founder’s apartment, and a French management software product that the trio adapted to the Russian market. The three entrepreneurs got their initial management exposure working for one of the first Western-Russian joint ventures. Although this experience was an excellent learning opportunity, it left the entrepreneurs with a bitter aftertaste from the authoritarian and despotic leadership style of their first Western boss. Still, that Western-style experience helped the founders of Frontstep to avoid dysfunctional management behaviors that are still typical for Russians—such as psychological inertia, habitual dependence on instructions from the top, and fear of risk-taking—which could have jeopardized their organization.

After the initial excitement of the first few successful sales and installations of management systems at client sites, the company faced a need for an expanded laborforce. They hired technical university students, the only potential job candidates they could afford. When the increasing business needs of clients and the changing nature of software capabilities forced the organization to hire individuals with an understanding of modern business, the company turned to students of the economics department at Moscow State University. Having a high level of theoretical preparation in business subjects, these graduates challenged the owners of the company (who possessed no formal business training) with strategy-related questions and with requests for executive career-path management. The owner-managers realized that, being untutored in modern HR practices...
in doubling of revenue from insurance premiums in both years. In 2004, Vardanian stepped down as Rosgostrakh’s president, saying he wanted to concentrate his attention on his “baby,” Troika Dialog.

For many years, the common denominator in all the organizational structures at Troika—those governing strategy and the hiring, controlling, and rewarding of employees—has been Vardanian himself. Vardanian is philosophical: “Sometimes people tell me that I’m a dictator here. The good and bad thing about Troika is that people sometimes think I’m like a father who will take care of them—in the sense of chiding them as well as looking after them. I never yell at people,” he says, laughing, “but I can speak in a very quiet and terrible way.”

Olga Sloutsker and World Class Fitness Centers

The concept of fitness was never a marketable commodity in Communist times. Generations of Russians had grown up accustomed to Soviet-era exercise experiences. They all had been—at least once—to state-owned sports facilities for the masses. Though inexpensive (or even free), these were permeated with what were called “Soviet horrors”—i.e., they were small, dirty, and infested with cockroaches. Not surprisingly, only the hardest people would put themselves through such an arduous experience, so the word “fitness” itself was a riddle to most Soviet-era Russians.

And yet World Class Fitness Centers, the first of which was opened in 1993, caught on very quickly. It was obvious that Olga Sloutsker—fencing champion, entrepreneur, lobbyist, and founder of these fitness centers—had tapped into a pent-up demand for fair practice—both inside Russia and in the international investment community. In 2004, it quoted nearly 150 securities on the Russian Trading System, which it co-founded, and managed portfolio investments of around $10 billion.

The strongest red thread that runs through the tapestry of Sloutsker’s life is her desire to elevate herself, her staff at World Class, and the Russian people in general to the status of “hero”—free of extra kilos, complexes, and fears, as she puts it. She has shaped her own role as that of the undisputed boss and head coach, who speaks with a firm voice of reason for the good of her team as well as society at large.

There are many similarities between Olga Sloutsker and Maria Ilyina, the general director and founding partner of Frontstep. Their underlying system of values encompasses twin desires—to mother their clients and employees, and to “seduce” them. Their leadership style involves dispensing calibrated doses of maternal concern and correction. They try to motivate their employees to excel not by offering extravagant material rewards, but by telling them that each
A person’s efforts will contribute to the greater good of the Russian people.

Finding Commonalities

Despite the apparent diversity of background and leadership style among the entrepreneurs we studied, we found that entrepreneurs in Russia are, in essence, like entrepreneurs everywhere: they are energetic opportunists. In addition, they exhibit many competencies of so-called global leaders, those who have successfully made the transition from national to international leadership: they are future-oriented; they systematically question and change the status quo; they are open to new ideas and quickly grasp new concepts; they create vision for their organization and transmit this vision clearly to their employees; they frame events in a positive way and see change as opportunity; they are emotionally intelligent (Kets de Vries, 2001a).

In addition to their global competencies, we found that many Russian entrepreneurs have adapted their talents in order to thrive in a difficult environment. (Contrary to popular stereotypes, however, it appears that relatively few of them have ever overtly benefited from Mafia or Soviet-era political connections.) Their leadership competencies have a very distinct Russian accent, and yet to a large extent their success is a result of behaviors that contradict many features of the traditional Russian national character. In short, Russian entrepreneurs are similar to each other in that they are all different from the norm. They are outliers who, through hard first-hand experience, have learned a number of valuable lessons.

Eight Leadership Lessons

Lesson 1: Be flexible with Self and Environment

The leaders we studied are unusually flexible (for Russians). This is in part because they tend to have an internal “locus of control”; in other words, they feel able to control their environment and have a strong sense of self-efficacy (Rotter, 1966; Bandura, 1989). In addition, they are motivated by a desire to continually develop their potential. Khodorkovsky’s ability to assimilate and then replicate an evolutionary model of capitalism so quickly, and at a very young age, typifies one of the main strengths of the Global Russian business leaders. They have a capacity to reinvent themselves, and reorient their organizations, with a rapidity rarely seen at the top of modern corporations outside of Russia.

Lesson 2: Create Leadership Networks

In a collectivist culture such as Russia, relationships are far more important than rules. This cultural meta-value extends to business relationships. Global Russian business leaders are exceptionally good at creating and maintaining networks of all kinds, in which they position themselves as the essential hub. This ability is one reason why some of them are able to form successful partnerships with foreign partners.

Leaders of conglomerates (e.g., Khodorkovsky, Tariko, and Zimin), as well as smaller-scale entrepreneurs (e.g., Ilyina and Sloutsker), create and maintain sophisticated networks of relations with government officials, lawmakers, regulatory bodies, customers, suppliers, and competitors. They are willing to accept initially minor roles in order to profit from these relationships. Zimin, for example, was ready to become a junior member of a hunting team because it included potential partners; he patiently waited in lines to hand birthday gifts to government ministers; he worked as a rank-and-file member of a radio association. Roustam Tariko, as an “outsider,” relied on Russian friends to set up networks with their highly placed contacts, and he never hesitated to give elaborate parties for the friends of his friends.

These networks add enormous value for the leader and the business. Vardanian, for example, positioned himself at the edges of tight social networks and then served as the linchpin among them, creating new networks with greater value.

Lesson 3: Strive to be a Catalyst of Change

The internal locus of control of many Russian entrepreneurs, combined with their skillful use of relationships and networks, gives them significant influence. Not content to simply adapt themselves to changes in the turbulent political environment, the new Russian business leaders proactively shape the environment, establishing the rules of the game for business organizations, rather than waiting for the government to do it for them. Zimin forced the Ministry of Communication to accept an additional cellular communication standard for Russia; Vardanian drafted the first securities market regulations for the Russian government and pushed them through the legislature into law; Sloutsker met with President Putin to promote greater emphasis on fitness for all Russians.

In the early days of capitalism, a handful of entrepreneurs pushed hard for accelerated privatization. They ended up with extremely valuable assets for...
there is a uniquely Russian twist to the concept of

Lesson 4: Develop Tenacity

The flexibility of the Russian business leaders we studied did not develop at the expense of tenacity; once they had decided on a course of action, these leaders were persistent and resilient. Our research showed that it is not easy to derail a Russian business leader. Dmitry Zimin worked almost three years to obtain an invaluable GSM 900 license for his company; in the process, he spent entire days at the Telecom Minister’s offices, funded research into frequency spectrum, sought help from competitors, and negotiated license fees to the government. Nobody believed it was possible before it was done; very few believed it was possible even after it was done. Roustam Tariko likewise showed (and still shows) incredible persistence, especially as exemplified in the development of his relationship with Italian companies in the early days of perestroika. The persistence and resilience of these leaders go hand in hand with an ability to frame events in a positive way and to regard failures as opportunities. When, after the August 1998 financial crisis, Troika Dialog and its CEO, Ruben Vardanian, faced the harsh reality of a disappearing market, Vardanian saw it as an opportunity to recruit great talent and create a solid lead in market research.

Lesson 5: Cultivate Emotional Intelligence

Russian business leaders “stage” their own behavior, though they’re not always conscious of that staging. Having become accustomed to scanning and reacting to an unstable environment under the Soviet regime, they are good at reading the emotional state of their counterparts and using it to their own personal advantage. Vardanian, who as he said never yells at people, can be a caring older brother for a new hire lost in the system, an emotionless professional banker negotiating a contract with an old friend, or an iron-willed CEO firing a successful executive for unethical behavior. Maria Ilyina attracts clients, investors, business partners, and employees by virtually “seducing” them with her enthusiasm. Jacques Iloffé, Mikhail Khodorkovsky, and Roustam Tariko aren’t loudly domineering, but their subordinates still fear failing their expectations. This application of emotional intelligence skills by Russian business leaders may be manipulative, when done consciously, but it works extremely well.

Lesson 6: Use a Council of Boyars

Behind most successful global leaders of any nationality, there is a well-balanced executive team. But there is a uniquely Russian twist to the concept of executive role constellations: Russian leaders often work with a handful of trusted collaborators who operate quietly, out of the limelight, to support the leader’s position. (This inner circle is sometimes called Boyarskaya Duma, or the Council of Boyars, after the influential advisory body to the tsar, later dissolved by Peter the Great.) Within the shadowy protection of the Council of Boyars, leaders can discuss their ideas, concerns, and doubts in private, thereby preserving their highly self-confident public image. This Russian inner circle often works according to the model of “democratic centralism”: everybody has a say in the discussion, the leader makes the final decision, and that decision becomes a law for all.

Lesson 7: Foster a Charismatic Leadership Style

Whatever a Russian leader’s competencies and management style, he or she has an enormous amount of power within the organization, simply by virtue of position. Steeped in a long tradition of authoritarianism, the Russian people have a need for powerful charismatic leaders. As a result, they tend to create them, assuming that their leaders are superior beings who have unique rights and, by definition, deserve compliance. In all the cases studied in the course of our research, we witnessed attribution of charisma to the leaders by their followers, sometimes irrespective of the leader’s will. This attitude on the part of Russian workers gives Russian business leaders far greater room for maneuvering than their Western counterparts have.

Lesson 8: Manage Meaning

Despite the difference in the scope and complexity of businesses headed by the leaders mentioned in this work, all these men and women have one thing in common: they are actively employing the concept of a mission, an overarching goal, in mobilizing the efforts of their people. Roustam Tariko with his Russian Standard brand and Olga Sloutsker with her “heroes for a new Russia” are typical examples of a leadership trend that is proving effective.

Challenges for Global Russian Business Leaders

The collective wisdom generated through the eight leadership lessons outlined above has enabled many Russian business leaders to make unprecedented advances, and enormous profits, in the newly opened market economy in Russian. However, as we mentioned earlier, there are still many demands on Russian leaders, as they and their organizations mature—challenges that they should prepare them-
selves to face in the near future. Let’s look at the challenges that top the list:

**Challenge 1: Identify and Develop Successors**

Leadership succession represents the single largest challenge for Global Russian leaders. Mikhail Khodorkovsky’s sudden imprisonment should serve as a cautionary tale. His organization was not fully prepared for a leadership vacuum at the top.

Russian business leaders could learn something from the rest of the world about effective succession planning. None of the entrepreneurs we met were planning to hand their organizations over to their own children eventually, nor had they shown much interest in preparing younger employees to take over as business executives (possibly because the top Russian executives as a group are quite young themselves). However, time marches on, and professional management succession is becoming a more urgent challenge for all these leaders. Whatever form that succession takes, it will be successful only if the leader him-or herself takes the issue seriously and regards it as the number-one priority, personally as well as professionally.

**Challenge 2: Build Trust**

The general level of trust in today’s Russian organizations is quite low; we feel distrust is the second largest threat (after poor succession management) to Russian organizations. Russian leaders have to learn to instill a climate of trust in order to foster creativity.

In addition, Russian organizations must become more open to the outside world. Rather than thinking of themselves as fortresses besieged by enemy armies, they need to develop open systems that benefit from give-and-take within an ever-changing environment. To foster this, continuous learning and development should be part of the organizational architecture.

**Challenge 3: Protect Assets and Manage Government Relations**

The Russian prosecutors’ investigation into Yukos and Menatep, and the arrest of Mikhail Khodorkovsky, pushed the issue of dealing with the government to the top of the Russian business leaders’ agenda. President Putin and his entourage from the secret services have consolidated unprecedented power in Russia. As a result, the owners of large businesses are seriously concerned about the protection of their assets, and smaller entrepreneurs fear a new wave of power abuse at the regional and local levels. New power dynamics have created important challenges for individual entrepreneurs, but this issue tests the stability and maturity of Russian industries and markets within the whole business community in Russia.

**Challenge 4: Build 21st-Century Organizations**

The leaders we studied are, in many ways, the front-runners in the process of business development in Russia: transforming the prevalent organizational model from the old “command and control” paradigm to a new 3-I organizational structure in which Information, Innovation, and Involvement are key values (Kets de Vries, 2000). This work is not complete, but the trend is impressive and encouraging for others. The experiences of these leaders can be distilled into some key objectives for future development:

- To be competitive, businesses should be designed for long-term value creation. If in the past most Russians saw every business as a cash-producing black box, the new Global Russians have learned to create organizations that see transparent relationships with stakeholders and respect for the social and physical environment as prerequisites for steady growth.
- To compete in the global world, Russian businesses should also develop the organizational competencies mastered by their international rivals—speed and flexibility, customer-orientation and productive innovation, information-sharing and continuous learning.
- Russian business leaders need to practice empowerment and delegation. Employees must learn to be more autonomous, no longer relying on hundreds of rigid procedures to regulate all aspects of internal life. Networks, virtual or otherwise, should replace hierarchy.
- Information has always been regarded as a sacred source of power in Russian organizations. It has been secretly collected, stored, classified, and traded for very high stakes, including human lives. These practices have resurfaced in many new Russian companies, creating enormous barriers to information flow. The real challenge is to create information systems that support the sharing of data and best practices, and that strengthen corporate values. Cross-functional projects, job rotation, and geographical moves should encourage communication and cooperation at all levels.

Adapting a new organizational model will require abandoning some of the well-ensconced practices and behaviors of executives, middle managers, and employees. This fundamental transformation will require strong leadership from the top and effective change agents at all organizational levels. Successful entrepreneurs turned corporate executives will likely
provide high-level leadership. They should look for support to Western executives and professionals with experience in Russian organizations; to so-called “hybrids”—that is, Russian managers with Western experience returning home; and to Russian graduates of Western business schools. Eventually, Russians should establish their own well-functioning system of management education. Finally, the learning process can be accelerated via the exchange of “best practices”—in other words, via benchmarking with successful companies, both domestic and international. While there is no tradition of benchmarking in Russia, it is a tool that holds great promise.

The End of the Beginning

One can hardly over-estimate the importance of leadership in Russian society. Previous generations of Russian leaders largely failed to provide their people with positive direction and a productive organizational environment. They led them into bloody wars and revolutions, devastating political and economic experiments, intellectual oppression and physical destruction. Now, as the center of gravity in Russian society moves from politics towards economics, new business leaders are emerging as a principle force shaping the society and its future. Are these people, who built their wealth and influence on the ruins of the Soviet empire, capable of leading their nation to prosperity, civil society, personal freedom, and openness?

The signals are mixed so far, as traditional behavior and attitudes still act as a strong undertow. Russia has not fully mourned its past, and influential forces in the society push it towards chauvinism and federalism. However, one thing is clear: young Russians who decide to take control of their destiny and to embark on an entrepreneurial career will no longer have to do the hard labor of path-breaking. There is now an impressive diversity of successful Russian role models for them to emulate. Global Russians have collectively created a hybrid leadership model, flexible enough to reflect the requirements of different types of organizations, that will serve not only a new generation of Russian entrepreneurs, but also other business professionals engaged in creating organizations that will provide sustainable returns in global markets.

Future Research Directions

Given the competitive business environment and a legacy of secrecy and xenophobia, Russian executives and entrepreneurs, particularly those at the head of their organizations, are not generally eager to participate in business research projects. We hope that our recent project, which engendered a lively exchange of information in a context of mutual trust among executives and researchers, will encourage other business leaders in Russia to become more open to working with business researchers from both inside and outside Russia.

Without any doubt, Russia is playing an increasingly large and important role in the business world. Despite that, we Westerners know relatively little about Russians as business people. This lack opens a world of almost endless opportunities for further research for students of organizations. However, given the international importance of understanding the behavior of people at the top of Russian organizations, and given that those leaders are the ones who establish the agendas that may be relevant to their Western counterparts, we recommend in particular the following four lines of research:

1. We think that it is important to look further at the inner theater of Russian leaders in order to understand what drives and motivates them personally. Because individuals at the top of Russian organizations often play a larger-than-life role (as the earlier discussion of attributed charisma suggests), understanding what makes them tick will be important for their business partners and subordinates.

2. In the same vein, it is important to look further at the role of the executive constellation—the Council of Boyars, as we called them in this article—to identify what leverage these behind-the-scenes colleagues have on the leader (and vice-versa).

3. As time passes, it will be increasingly useful to look at how organizations in Russia solve the succession conundrum.

4. Finally, it will be essential to look at the issues of leadership development in those talented young managers who are currently viewed as the future of Russian business.

Looking at these and other issues will have both practical and theoretical implications. The major practical implication for Westerners is fairly obvious: the more we know about Russian leaders, the more effective we can be when dealing with them as business partners, colleagues, and subordinates or superiors. As organizational scholars, however, we will also want to see, from a theoretical perspective, if Russia is developing a new leadership model—a new “Russian Standard” of leadership, if you will. After all, Russia has been staging an “experiment” unprecedented in history. Taking the time to observe and learn from this experiment is undoubtedly a wise move for the rest of the world—and, of course, for Russians themselves.

Notes

1. The clinical paradigm is based on a number of premises. The
first premise argues that a rationale lies behind every form of irrationality. Though resistances may obscure interpretation, all types of behavior, no matter how strange, have an explanation. The second premise on which the clinical paradigm is based is the belief that much of people’s motivation is unconscious; in other words, that many behavioral triggers which have an effect on human functioning lie outside of conscious awareness. The third premise of the clinical paradigm maintains that our behavior is very much a product of previously learned behavior patterns (Kets de Vries, 2001b).

2. Our research project is described in detail in the book on which this article is based.

References


Further Reading


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