

Ward Howell

Talent Equity Newsletter

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Leadership in Times of Crisis:

The perspective
of successful
top-managers

Thinking, actions,
communication

Survey of 50
top-managers

Interview: Jostein Davidsen, Vladimir Rashevskiy,
Maxim Timchenko, Mikhail Fridman

Talent Equity Institute Team would like to thank everyone who helped to organize interviews with leaders and contributed their professional expertise to this publication. In particular: Senior Partners of Ward Howell Sergey Vorobiev and Pavel Kiryukhantsev, Managing Partner Anton Derlyatka, Head of Kiev office and Life Sciences practice Andrey Kardash, Director of Business Development in Central Asia Alexander Davydov, and Zest Leadership Associate Evgeny Smirnov.

In the first issue of Talent Equity Newsletter, members of academic circles and professors of leading business schools shared their ideas on leadership in times of crisis. In this issue, we will deal with the business realities of how leaders actually run their companies during hardship. This issue contains the results of a survey of fifty top-managers in Russia, Ukraine and Kazakhstan, as well as interviews with Mikhail Fridman (Alfa group), Maxim Timchenko (DTEK), Vladimir Rashevskiy (SUEK) and Jostein Davidsen (Nycomed) about leadership in times of crisis and comments from Talent Equity Institute.

We do not know whether the top-managers who participated in our survey read the first issue of Talent Equity Newsletter or came to similar conclusions on their own, but the survey results show that the majority of participants clearly have the right answers for running a business in crisis. This bodes well for how quickly the Russian, Ukrainian and the Kazakh economies are going to recover from the crisis.

However, we should not forget that there is always a gap between knowing and doing and that people in general and managers in particular have a tendency to exaggerate their own achievements and downplay their mistakes. Therefore, in addition to the survey and the interviews, we offer the reader our own viewpoint built on the knowledge of Ward Howell consultants and research carried out by the Institute. In our opinion the leaders were reasonably objective in evaluating the work of their organization as a whole and operational management in particular, but we found leaders to have certain blind spots in the evaluation of their own actions and soft skills.

For the reader's convenience we have divided our account of how leaders and companies behave in crisis into three parts. In the first part we talk about the software of business: what changes have occurred in the management

mindset, in how the environment is evaluated, and in the strategy and priorities of the companies. In the second part we discuss the actions of the leaders, their style and their focus. In the last part we consider how leaders inform their employees of their intentions and those intentions' fulfillment.

Thinking, actions, communication

Thinking

Based on the results of the survey and the interviews, the majority of the leaders has avoided or successfully overcome the unproductive defensive reactions discussed in the first issue of the Talent Equity Newsletter: they think first and only then do they act. In his interview, Mikhail Fridman mentioned that in a crisis it is essential to anticipate possible negative consequences and to preempt them with action. Other interviewees supported this view: taking a passive role, copying others or simply going with the flow is possible in a growing economy but extremely dangerous in present conditions.

An impressive 80% of survey participants stated that they had rethought the business environment, the business itself and its goals and created a comprehensive plan for working in new conditions (see Diagram 1). We are slightly more conservative in our estimation of the scale and depth of such rethinking. Though it certainly did take place in the majority of companies, many development companies and some banks failed to find satisfactory solutions and are still in confusion.

“...people in Russia and post-Soviet countries are used to working with plans that consider a single course of events, while the modern economy requires that businesses be prepared for various changes in the environment”

Interestingly, our interviewees were not surprised by the advent of the crisis after a period of rapid growth, but they did not expect that it would be so deep or so lasting. This indicates a fundamental weakness of local managers — lack of scenario planning skills. People in Russia

and post-Soviet countries are used to working with plans that consider a single course of events, while the modern economy requires that businesses be prepared for changes in the environment. Unwillingness to think about the worst-case scenario puts the leader in the dangerous situation of “being trapped by circumstances, losing control over the situation and acting only post factum,” in the words of Maxim Timchenko.

Unfortunately, even in times of crisis the majority of companies stick to linear planning. In his interview for Talent Equity Institute, Jostein Davidsen told us how a presentation he gave on “good,” “medium,” and “worst” scenarios and corresponding action plans was met with a lack of understanding and doubts that such severe damage to the market was possible. Almost half of the survey participants answered negatively or were undecided when asked if their companies had developed potential scenarios for how the situation can develop or action plans for them. Our own estimate is even lower: we believe that more than 80%

of the companies work without any scenario development.

Representatives of hi-tech industries who participated in the survey were more likely to report that they

work with scenarios than respondents from other industries. This is probably because the hi-tech industry is competitive, innovative and open to modern management tools.

We have a comprehensive plan of how to work in new circumstances, which involves adjustments to changing market conditions (products, pricing, marketing), cost-cutting and changes in management practices.

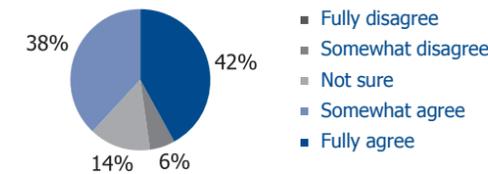


Diagram 1

Traditionally, crisis is considered to be a period for rapid acquisition and updating management knowledge. Our interviews with the leaders of successful companies support this idea: Rashevskiy and Timchenko were excited to tell us about the lessons they have learnt in the current crisis, while the more experienced Fridman and Davidsen spoke about how lessons from the 1998 crisis have helped them now. These lessons are concerned primarily with changing the leader’s mindset and vision of the business. For example, Vladimir Rashevskiy discovered for himself that the structure of a debt is much more important than its size. This might seem like a commonsense management maxim, but the crisis has filled it with concrete relevance for Rashevskiy and he has made it part of his operational mindset.

“...what are usually called hard skills – the knowledge of the industry, the technology and the competition – have played a massive role in overcoming the crisis”

Another lesson is in which managerial skills prove most crucial in crisis. What are usually called hard skills – knowledge of the industry, the technology and the competition – have played a massive role in overcoming the crisis. For example, Vladimir Rashevskiy commented that deep understanding of the banking sector helped find alternative sources of financing and was of great help in overcoming the crisis in SUEK. Maxim Timchenko highlighted the importance

We have discussed several scenarios of how the crisis might evolve and decided on several action plans.

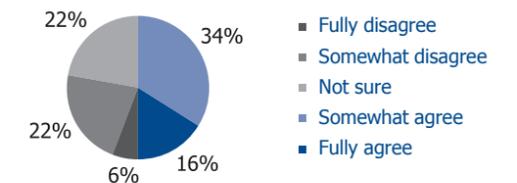


Diagram 2

of understanding internal business processes and the ability to adjust them to a new reality. Some companies managed to put together a balanced business model before the crisis and some reconsidered after circumstances changed, having gained a deeper understanding of how the company earns money and how it can increase its profitability.

Another essential element is trust. As Mikhail Fridman said, “there are too many nuances, too many details that you cannot take into account if you are far from the process.” Managers are required to exert very high level of independence and responsibility, and the leader needs to trust his team. Trust is especially critical during crisis as managers need to make more independent and unconventional decisions than in periods of stable growth. Vladimir Rashevskiy emphasized that he is proud of his deputies and those

who follow them; he is “inspired by their courage, their ability to solve most complex problems and take on responsibility in these turbulent times.” Maxim Timchenko believes

that one cannot ask people to make sacrifices that the leader is not ready to make himself. Sustainable results are ensured by equal participation from the whole team rather than the leader heroically taking the whole burden upon himself or, alternatively, shuffling it all onto his employees.

Actions

As we expected, the majority of the survey participants agreed that the main focus of their activity is operational efficiency and solving day-to-day problems (See Diagram 3).

We are concentrating on operational effectiveness and day-to-day tasks.

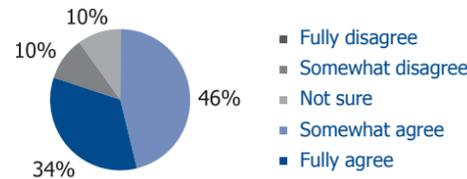


Diagram 3

The vast majority of the participants denied that they are merely pretending to fight the crisis while in fact doing things the way they used to. However, our expert judgment is that approximately half of Russian companies, despite a lot of talking about the crisis and running “anti-crisis” programs, are not making any fundamental changes. This gives us reason to worry about the competitiveness of local companies and the future of our economy. (See Diagram 4).

We are making a show of action, but in fact we keep working as we used to.

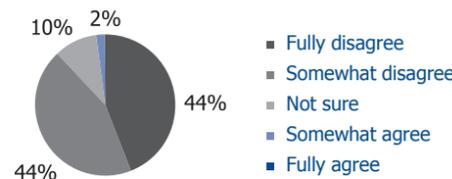


Diagram 4

Leaders in the professional services were more likely to answer this question negatively, than participants from other sectors. Professional services, as a rule, are “luxury goods” for their clients, and a lack of adaptability in crisis might mean a quick end to their business. Moreover, the main asset of such companies is people and the main source of costs is their salaries. Due to this and their relatively small size, companies specializing in professional services can change fairly easily depending on circumstances.

Undoubtedly, attention to current productivity, especially in an economic downturn, is a major component of effective management. However it should be supplemented with attention to people, however difficult combining these two paradigms might be. As Maxim Timchenko said, “It is hard to simultaneously be a leader who instills confidence and inspires people, and a manager in charge of anti-crisis measures. However, the CEO should be able to combine these two roles.” Based on the results of the survey, the majority of managers agree with Timchenko.

Our managers are open to questions and spend a lot of time communicating with employees.

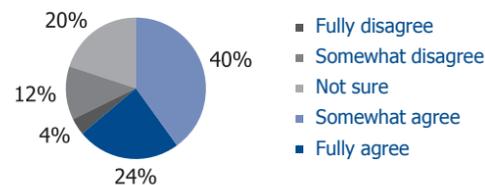


Diagram 5

This is one of the areas where the opinions of leaders and their subordinates are substantially different. The latter clearly seek more attention from their leaders in situations of high uncertainty and emotional pressure. An employee of a large Russian company told us, “Our leaders have fenced themselves off from us with their offices, secretaries and security guards and shifted all the work of overcoming the crisis onto us. The only things that we receive from them are increased efficiency targets that are a priori unfeasible.

Another key role of a leader is organizational building and creating a basis for the long-term growth of the company. As Vladimir Rashevskiy puts it: “We laid off many people – and by far not all of them belonged to what is sometimes referred to as ‘deadweight’ – but we kept our corporate university running. We did not stop investing money and time in developing our people. We could, perhaps, survive without it, but we could not build anything serious – there will be nobody left to build.”

More than three quarters of the respondents said that they also continue to invest in their people (See Diagram 6).

We have not forgotten 'corporate building' — embracing new opportunities for business and organizational development, bringing in new assets and talents, as well as improving processes and procedures.

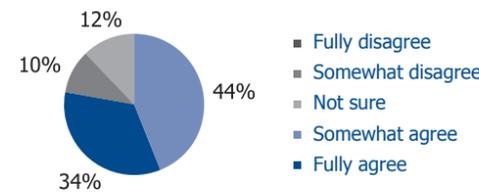


Diagram 6

Our assessment of this area is more modest than that of our respondents. In our opinion, about half of Russian companies do not give proper attention to corporate building and use the crisis as an excuse to freeze programs that could have brought benefits in the long run.

“...about half of Russian companies do not give proper attention to corporate building and use the crisis as an excuse to freeze programs that could have brought benefits in the long run”

According to our survey, members of multinational companies are more likely to engage in corporate building than members of other companies. This is to be expected,

as investing in the future is the basis of the competitive strategy for these companies.

There were only a few top-managers among the participants of our survey who admitted that they had fully discontinued all development programs. Notably the managers in real estate and construction have agreed more than others that development programs in their companies have been suspended. Such results are explained by the fact that the real estate market has suffered from the crisis more than others. As such, capabilities to continue development are extremely limited (another possible explanation is that the words “development program” can be interpreted differently in construction and real estate language).

One of the more surprising discoveries of our research was how highly the CEOs we spoke to value collective management in crisis. Contrary to the popular lay belief that a decisive, uncompromising and individualistic leader is the best option in a crisis, Mikhail Fridman emphasized that “individually, any person’s brain is imperfect, but if the right ‘chain of brains’ which oppose each other – in the good sense of this word – is organized, then, as a whole, the power of this collective brain certainly exceeds the power of any individual brain, even a very clever one, even one of a near-genius.”

The leaders whom we interviewed emphasized two fundamental stages: first, the leader needs to build up a team of people on whom he can rely, who are “on the same wavelength” and who understand the essence of the business and specifics of working in this country. Second, the manager needs to become a team player who, according to Mikhail Fridman,

“does not just subordinate others, but who can also comply with collective decisions if needed.”

There is a widespread opinion that the cohesiveness of a management team is its main advantage in the crisis. Contrary to this belief, we hold that an effective team is not so much a group of people who agree

with each other and think in the same direction, but rather opponents to each other who reach creative and balanced decisions together which they would not reach individually through constructive debate and reasoning.

Communication

It is always important for employees to understand a company's goals and actions. However, in times of crisis people feel a special need for answers to their questions, explanations about what the prospects are and what their personal contribution to further progress can be. We addressed this topic in the previous issue of Talent Equity Newsletter.

The current situation is unique in that many young employees are experiencing crisis for the first time in their professional career. During the last 10 years of economic growth they became used to frequent raises in their salary, promotions, and constant improvement of work conditions. As Jostein Davidsen mentioned in his interview, "they

"...the crisis turned out to be a complete surprise for young employees and an absolutely new life experience"

saw 10 years when it has only been going one way. But life doesn't go only one way!" The crisis turned out to be a complete surprise for them and an absolutely new life experience. How is communication within companies organized in these conditions?

The majority of survey participants believes that they devote a lot of time to communicating with personnel, are available for their questions, and frequently and openly speak about the reasons for the crisis and the prospects of overcoming it (See Diagram 7).

The leaders of companies working in the retail industry and consumer goods and services, as well as those in the media, advertising and entertainment businesses consider themselves more accessible to personnel than respondents from other industries; while the opposite was true about top-managers in manufacturing. These answers likely re-

We often speak openly about the reasons behind the crisis, its influence on the organization, and how we can overcome it.

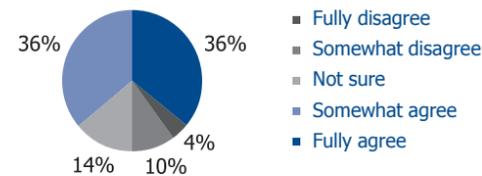


Diagram 7

flect the actual state of affairs as the competitive environment in retail trade (unlike manufacturing) forces managers to improve the quality of management, which is impossible without smoothly running internal communication. Organizational structures in media, advertising and entertainment are normally flat, people are quite mobile, and the final product is the result of creative collaborative effort.

The culture itself creates favorable conditions for effective internal communication. It is hard to say the same about manufacturing: as a rule, there is considerable physical and psychological distance between the management and the workers, and neither the structure nor the culture encourages openness or ease of internal communication.

Thus only 22% of the participants are absolutely sure that their companies have a plan of internal communications (See Diagram 8).

We have a system of internal communication, including messages to employees, communication channels, and distribution of responsibility.

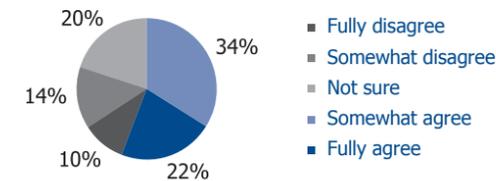


Diagram 8

In our opinion, communication is another "blind spot" of typical leaders and the respondents overestimate their own achievements in this area: by our estimation no more than 10-15% of companies are really effective in crisis communication. In all of these companies, internal communication is subject to the close attention of the CEOs as in SUEK and DTEK. You will find interviews with these companies' leaders in this issue of Talent Equity Newsletter.

Some conclusions

We do not wish to impose our own view of leadership in crisis on the reader; however, in conclusion we wish to draw attention to a few trends.

The first is that leaders in Russia, Kazakhstan, and Ukraine are learning more and more about how to manage in crisis. This is not simply abstract knowledge obtained from external sources but behavioral precepts resulting from making sense of their own and others' experience. These precepts do not always result in correct actions, but they create a strong basis for wise decisions in the future.

The second is that in crisis, the most effective leaders are the ones who combine a focus on results with interaction with people, who possess both professional and social knowledge and skills, and who are able to think, act,

and empathize. Leadership in crisis is not linear; it is multi-faceted and requires a number of professional and human qualities.

Thirdly, most leaders overestimate their achievements in managing their employees, and live in a fantasy world – staying impassive while they should be correcting their action. The absence of feedback culture in many Russian companies ensures that this potentially explosive situation will endure.

Finally: the crisis has proven that in the modern economy, no man is an island. Even the most ingenious leader needs like-minded people around, needs collaborative opponents, and needs people who share his goals and values and make their contribution. In other words, he needs a Team.

One of the important lessons for leaders today is that they have to learn to work in conditions which they did not expect.

Survey of 50 top-managers

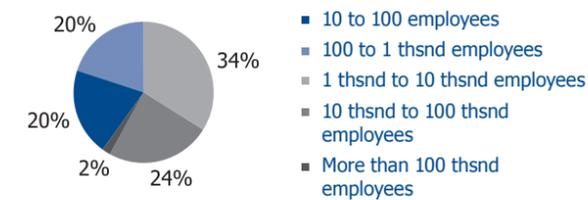
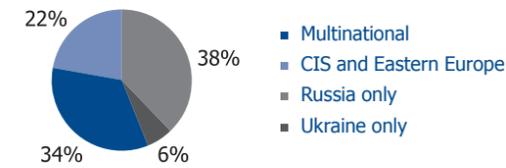
About the survey

The survey was carried out in July, 2009 among 50 CEOs and top-managers in Russia, Ukraine and Kazakhstan. The sample included respondents from a diverse set of industries: hi-tech, manufacturing, construction and real estate, financial and professional services, retail and consumer

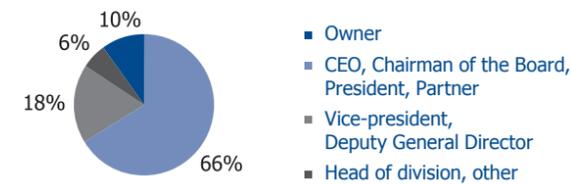
market, including pharmaceuticals, media, advertising and entertainment. The distribution of respondents among the industries was the following (some respondents specified that their companies operate in more than one sector):



The distribution according to the geography of operations and the number of employees was as follows:



The distribution according to position was as follows:



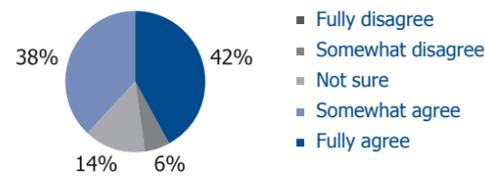
The survey was carried out online and consisted of nine statements. Respondents were asked to what extent they agreed or disagreed with the statements on a five-point Likert scale.

In addition to distribution analysis we performed a regression analysis – statistical research of correlation between variables that helps determine the contribution of an independent variable (for instance, the industry that the respondent belongs to) to the dependent variable (the degree of agreement or disagreement with a statement) all else being equal (for example, the size of the company). Such analysis helps distinguish groups of respondents who agree with a certain statement significantly* more or significantly less.

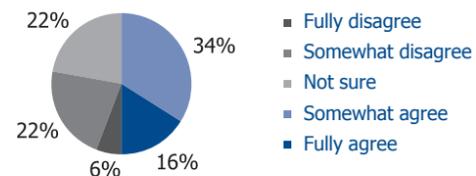
* i.e. the probability that our conclusions are a result of a random coincidence is no more than 5 %.

Aggregated survey results

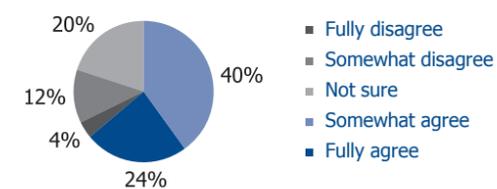
We have a comprehensive plan of how to work in new circumstances, which involves adjustments to changing market conditions (products, pricing, marketing), cost-cutting and changes in management practices.



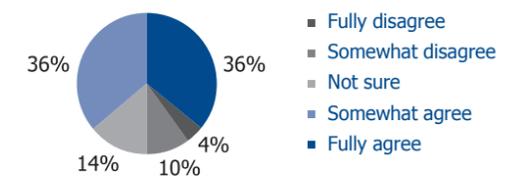
We have discussed several scenarios of how the crisis might evolve and decided on several action plans.



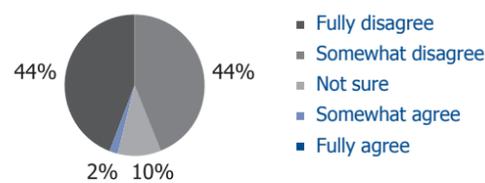
Our managers are open to questions and spend a lot of time communicating with employees.



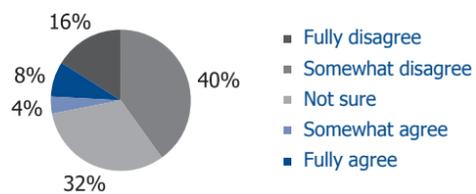
We often speak openly about the reasons behind the crisis, its influence on the organization, and how we can overcome it.



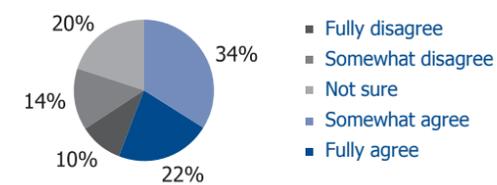
We are making a show of action, but in fact we keep working as we used to.



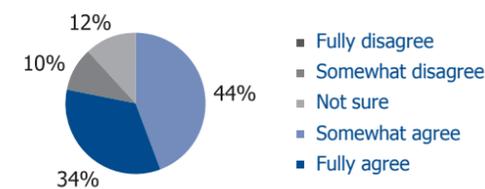
We have suspended all development programs.



We have a system of internal communication, including messages to employees, communication channels, and distribution of responsibility.



We have not forgotten 'corporate building' — embracing new opportunities for business and organizational development, bringing in new assets and talents, as well as improving processes and procedures.



We are concentrating on operational effectiveness and day-to-day tasks.

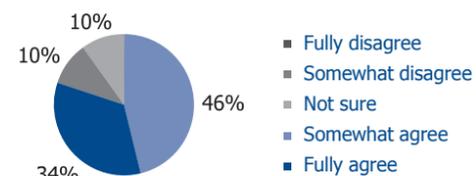


Diagram 3



President
of Nycomed
Russia-CIS

Talent Equity Institute conducted interviews with successful leaders, who told us about how they are living in the crisis, what they learnt from it, and how they see the leader's role in the changing environment.

TEI: Did you expect the crisis at all? How did you react to it?

Jostein Davidsen: We definitely did not expect a crisis like this one. Maybe, in the middle of last year you saw some tendencies – like issues with delay of payments from distributors or business partners – but those were merely indicators. Nobody could actually predict such a recession. If anyone could, we wouldn't have a crisis like this. So the answer is pretty much 'no'.

I remember we had a business review meeting October last year. Our CFO and CIO were there and I said that I expected a fall in 2009 due to devaluation of the Ruble and Hryvna and a similar situation in Kazakhstan. I presented them with "good," "medium," and "worst" scenarios, but their answer was: "We don't think that pharmaceutical business would be affected so much globally." Their reasoning was that in the US and Europe, medicine is mostly reimbursed; pharmaceutical products are mostly in state budgets and that funding is unlikely to be cut. But it is different in Russia where medicine is 60-70% out of pocket.

However, pharma itself has not been affected as much as other industries – people are still getting sick. They get even sicker in times of crisis... Of course the sales of vitamins and all kinds of products that are nice to have but not necessary are dropping significantly across the board and are in decline in Russia as well. All in all, it is about taking the market share to sustain a leading position – that's the philosophy that we have at this time.

You would have to be ridiculously stupid if today, in our position as one of the leading pharmaceutical companies, you dramatically cut back when you had been building this business for the last 15-20 years. This crisis is not going to last forever! We have earned a lot of money in the last 20 years in Russia and we have to accept now that we are going to have a reduction in profit this year and next year and we also have to say to ourselves that all industries, all

businesses are doing badly. It also depends on how the business is doing overall. Russia and CIS are about 10% of our global revenues which is pretty significant, so we are contributing to the improvement of the bottom line this year.

TEI: What helps you and your organization cope with the crisis? Which organizational competencies have proven most vital?

Jostein Davidsen: It is difficult to say if we are doing anything different than others, but I still believe that we have a balanced portfolio that is very well adapted to this market – price-wise and product-wise. We make products that are in high demand and their sales have not seen any decline at all but are rather growing. Of course we are cost-cautious; we have gone from our top-target to the medium scenario. Although I feel that these targets are pretty stretched anyway, they are still growth targets to the prior year. I think in this market it all depends on your portfolio in general terms.

TEI: How has your management style changed? Have your priorities changed? What skills do you consider most important at this time? What's missing?

Jostein Davidsen: 10 years ago I did much more by myself, I was much more operational, much more visible and I was the person everybody was waiting for to say this and that...And I was myself laying off hundreds of people in 1998-1999. I have a very good management team now, I am delegating much of the responsibility, and I am not as operational as I used to be. That has been the objective all the time – to have a good enough team.

In this time we are putting a lot of emphasis on internal communication – internal PR, newsletters. I am really focused on communicating the growth strategy, the values that we have in our company. Most of the people we have

in our organization are around 30 years old. They didn't experience the 1998 crisis in their career. They saw 10 years when it has only been going one way. But life doesn't go only one way! I was asking myself, "Maybe it will be difficult in this crisis because we have so many people who have never experienced this before?" But there is no panic around. It is business as usual. Of course, when business units have serious investment budgets for their products or their brands and you go in and you cut them – it is painful. It's about the dreams, it's about how they see these brands are going to develop and they are afraid... Of course then you need to use your management skills and your human skills and underline that this is short-term and this is not going to affect the long-term.

I think first of all you have to have some sort of intuition for what can happen. In 1998-1999 you reacted quickly, you had full action in place, and you monitored, controlled and met your targets. You have to follow up. You have to make sure that your scenarios are implemented and you

"...you need to use your management skills and your human skills and underline that this is short-term and this is not going to affect the long-term"

have to be tough enough to cut costs and eventually, if you have to, lay off people and restructure.

Sit down and say, "I don't have to reduce my board's expectations" if you have an expectation level that you think is stretched but realistic, you do not "panic cost-cut", you have your coverage in place, you have the investment that you need behind your brands and products, you continue to launch new products – and you do this because you think it's coming back in 2011.

TEI: What did you have to sacrifice in this crisis? What have you learned? Has your idea of what a CEO should be like changed?

Jostein Davidsen: It is difficult to identify if I learned something in particular. I learned much more 10 years ago. Then in was tough, it was a 50% lay off. You had to fight



Chief Executive Officer of SUEK (Siberian Coal Energy Company)

TEI: Did you expect the crisis at all? How did you react to it?

Vladimir Rashevskiy: I suppose the crisis as such was not unexpected, but the scale, depth and its key characteristics were quite surprising. I was amazed at how heavily the financial industry was affected.

Internally, I was ready to face the crisis, but sometimes, at the most difficult times I wake up in the morning and understand that this day may become decisive. But I have experience working in a crisis – I recall 1998 when I often thought “everything is coming to an end,” but I would come back home from work and get over this feeling. In this crisis I often remind myself of Churchill’s words “Never, never, never give in.”

TEI: What helps you and your organization cope with the crisis? Which organizational competencies have proven most vital?

Vladimir Rashevskiy: I would list three fundamental competencies that help us resist the crisis. First, we managed to create a well-balanced and reasonable business model. Strategic decisions that we had made prepared us for the crisis; we thought of it in advance. In spite of the fact that our approach to business is progressive rather than conservative, we assessed each step very responsibly.

Second, we quickly figured out where the money was. We prepared and carried out an anti-crisis program, carefully and creatively answered the question of how we earn money and put our cash flow under strict control.

Third, we historically had a deep understanding of the banking sector. When the financial world titans who had always been rated AAA began to default on their obligations we managed to find alternative solutions. One must understand that in the business world, when leading financial institutions default it is almost like using nuclear weapons...

We had had almost no relations with the Russian banks, so when international banks stopped working with us we had to find Russian counterparts quickly. Our knowledge of procedures and immediate ties to key people within the sector proved very helpful. I suppose we were much faster and more effective in doing so than others.

TEI: How has your management style changed? Have your priorities changed? What skills do you consider most important at this time? What’s missing?

Vladimir Rashevskiy: Crisis is good because all changes and fundamental decisions can be made without lengthy explanations. Where has all the unnecessary coordination and paperwork disappeared to? Crisis is like war: the enemy is obvious – the people are mobilized.

The main priority in crisis is cash. You can have a company that is profitable on paper but if you have no cash to pay the salaries you are practically bankrupt. The focus of my attention has naturally somewhat changed: I am more involved in day-to-day management. This does not mean that I have pushed my deputies and other managers away. I am proud of them and those whom they lead, I am inspired by their courage, their ability to solve most complex problems, and to take on responsibility in these turbulent times.

We keep working as a team and I believe that together we can make prompt decisions even in high uncertainty, find mutually acceptable solutions, stay in the network and understand our counterparts’ difficulties. This gives us certain advantages. What we lack are capable people, as always. This problem is becoming more and more critical.

TEI: What kind of managers in your organization turned out to be most effective? What is special about their style?

Vladimir Rashevskiy: The whole team got engaged very quickly and decisively, nobody got lost or stood away. These are the best managers of their kind, true leaders.

Some of them, for example those who are in charge of production and coal mining, have not seen much change. Their work is like war, it is heroic at all times, regardless of whether there is a crisis or not.

Based on our experience I can suggest two simple rules for living through the crisis: the first one – never, never, never give in and do not try to “embrace the unembraceable.” Choose three of your top five priorities and work steadily towards achieving them. The rest of your goals will somehow be related to them. The second rule is psychological: do not fall into “brain freeze” as the world’s top 150 bankers did. Some of them, if not all, had the chance to avert disaster, but they could not take advantage of it because they simply stopped thinking.

TEI: What did you have to sacrifice in this crisis? What have you learned? Has your idea of what a CEO should be like changed?

Vladimir Rashevskiy: By and large, the crisis has added to my energy and desire to take this company to the top. Working in crisis is a very interesting experience. I see what I could never see before and I have really learned

“...never give in and do not try to ‘embrace the unembraceable’. Choose three of your top five priorities and work steadily towards achieving them”

a lot; however, what I’ve learned are not some universal managerial formulas, but rather more specific and subtle things. The crisis helped me feel them deeply, and make them part of my mindset.

For example, I have gained the understanding that the size of debt is not as important as its quality. The crisis tested us in this and demonstrated that we had done a good job well before hard times came. Moreover, we have started looking at new opportunities that we had previously ignored. For instance, previously we would choose 3 out of 10 best options where and how to get a loan and would not even look at other options. Now we understand that these

options themselves are dynamic and need to be diversified well in advance.

Another thing: we realized that reputation is not only a business notion for us, but our corporate value as well. At the end of 2008, we were discussing paying out bonuses to our employees. Maybe it was not a matter of life and death yet, but it was a very difficult question. And we did pay out those bonuses! We laid off many people – and by far not all of them belonged to what is sometimes referred to as “deadweight” – but we kept our corporate university running – we did not stop investing money and time in developing our people. We could, perhaps, survive without it, but we would not build anything serious – and there will be nobody left to build. In that sense our reputation and our faith in people and their value are part of our business pragmatism.

My idea of what a CEO should be like has not changed. I have become firmer in my belief that he should be able to change his ways, to mobilize quickly, to be creative and open-minded.



Chief Executive Officer and Member of the Board of Directors of DTEK (Donbass Fuel-Energy Company)

TEI: Did you expect the crisis at all? How did you react to it?

Maxim Timchenko: There are always some people who claim that any crisis can be predicted and unfavorable course of events can be anticipated. However the majority of the most authoritative economists in the world could not predict the scale of this crisis.

In my opinion, forecasting is difficult, because today there are too many variables to be considered due to global integration. The current crisis has become the first complex shock for the Ukrainian economy in the age of globalization.

A manager cannot predict the future, but he can and should model how the situation might evolve. One has to make decisions quickly, but base them on thorough analysis. This helps avoid the danger of being trapped by circumstances, losing control over the situation and acting only post factum. Besides, crisis also means new possibilities, one simply needs to adapt and start living in a new reality. We have seriously reconsidered key business processes in our company in order to be in sync with the new circumstances. We have also looked at our profitability in a wider context.

The most important thing, however, is to look at the company's future instead of concentrating on the crisis period, and to keep the strategic projects running. One must remain cool-headed and not give up on good activities.

TEI: What helps you and your organization cope with the crisis? Which organizational competencies have proven most vital?

Maxim Timchenko: First of all, it was the strength of our team. It is useless to rely on external consultants, internationally recognized methods or standard algorithms of decision-making. There should be people around who truly understand the nature of the business, are able to work in the local conditions, and are on the same "wavelength".

I follow several rules. First, one must act quickly and decisively, but base their decisions on careful analysis. Therefore, the role of internal expertise and analysis in our company is very significant. Second, it is necessary to work out action plans in case of the most unfavorable circumstances – nobody knows how much worse the situation will get. Forming the company's strategy is a joint effort between all divisions, not a single department. This approach allows us to consider not only financial and economic factors in modeling the company's future, but also technological, social and personnel-related factors. It is extremely important for us, since one of the key values at DTEK is people.

Thirdly, apart from the speed of decision-making their disciplined execution is essential. Above all, it is important to secure the trust of the key people (the shareholders, personnel, the management team, etc.) Their trust is a fundamental asset in times of crisis.

TEI: How has your management style changed? Have your priorities changed? What skills do you consider most important at this time? What's missing?

Maxim Timchenko: I have sought to become more open in discussing the problems of the company with my team and have benefited from doing so in a number of ways. The crisis has increased the need for current information about what is happening in the company's plants before these data get aggregated in official reports. This allows me to stay informed about the actual situation and to make decisions flexibly and promptly. The role of the corporate center has changed a little. While it used to be the strategic center, now it is more involved in operational decision-making.

TEI: What kind of managers in your organization turned out to be most effective? What is special about their style?

Maxim Timchenko: I would like to repeat that the cor-

nerstone to the success of our company is a cohesive and effective TEAM. Naturally, each manager has his own management style that distinguishes him from others. However, when we collaborate and supplement each other we are able to make quick but well-balanced and effective

"...A manager cannot predict the future, but he can and should model how the situation might evolve"

management decisions. I consider this one of our major advantages.

TEI: What did you have to sacrifice in this crisis? What have you learned? Has your idea of what a CEO should be like changed?

Maxim Timchenko: Above all one must learn to make decisions in times of uncertainty and at the same time take responsibility for drawing the final line. One needs to learn to balance intuition and calculation.

I have identified for myself that a real leader is not a rock that difficulties and problems break upon. Oftentimes firmness is confused with stiffness, and stiffness eventually turns into fragility. A leader should be flexible and adaptive. However, while keeping up with the trend and changing the tactics, one must remain true to oneself and the values that one has always advocated.

I have learned that openness within the company allows even the most difficult decisions to be executed. I am convinced that you cannot demand any sacrifices from your employees unless you are making them yourself. This "only together" principle helps to strengthen the team and enhance the sense of unity. Today our organization is working as a single organism and as a result difficult but necessary decisions are supported not only by the corporate center, but also by the employees at the plants.

It is hard to simultaneously be a leader who instills confidence and inspires people, and a manager who is in charge of anti-crisis measures. However, the CEO should be able to combine these two roles.



Chairman of the Supervisory Board and principal founder of Alfa Group

TEI: Did you expect the crisis at all? How did you react to it?

Mikhail Fridman: I can say I could see the crisis coming because it started earlier in the West than it did here, so it was clear that somehow Russia would be affected. The extent to which it was affected, though, has exceeded my expectations, as well as those of analysts and other people concerned. Overall, however, since we (Alfa-group) have already seen several crises we reacted to it more or less calmly, without panic. I would say that the approximate plan of action was clear to us straight away: cost reduction, efficiency enhancement, switching to a more conservative policy, trying to foresee possible negative consequences of this crisis in advance and to preempt them with action. To tell the truth, I have not noticed anything radically new in this crisis.

TEI: What helps you and your organization cope with the crisis? Which organizational competencies have proven most vital?

Mikhail Fridman: We are quite a conservative organization in every respect. We have never made excessively risky stakes. For example, we have never overpaid for assets – we have always paid what seemed to us a reasonable price. Basically, we have always bet not on our relationship with the government, but on internal resources. In a crisis, the one who is most mobilized and most prepared to fight is in the best position.

The major element of our business culture is conservatism; this also applies to our corporate governance. The truth is that in the companies where corporate governance is shifted towards individual decision-making, all risks are assessed quite subjectively. Whereas in the companies with a more or less developed corporate structure, a culture of decision-making and different institutes that balance each other, it is possible to avoid excess risks – not always, of course, but as a rule.

I would say that individually any person's brain is imperfect, but if the right "chain of brains" which oppose each other – in the good sense of this word – is organized, then, as a whole, the power of this collective brain certainly exceeds the power of any individual brain, even a very clever one, even the brain of a near-genius.

TEI: How has your management style changed? Have your priorities changed? What skills do you consider most important at this time? What's missing?

Mikhail Fridman: The managers who are used to relying on their own opinion and their own capabilities are the ones who win. The model in which the manager executes the orders of a boss is no longer relevant in a crisis. There are too many nuances, too many details that you cannot take into account, if you are far from the process. The closer a person is to the process and the more developed is their skill of making independent decisions, the more effective they will be in times of crisis. By the way, I believe our corporate culture supports this kind of people even in affluent times.

TEI: What did you have to sacrifice in this crisis? What have you learned? Has your idea of what a CEO should be like changed?

Mikhail Fridman: The organization has sacrificed some of its assets, just like the market did, but we could not change that. We are certainly going to suffer some financial losses – in the bank, elsewhere... This is a fact. My personal sacrifice was a trip to India that I had to cancel due to some difficulties that required my attention in Moscow.

I would not say I have learned anything particularly new, to be honest. I would say the following: my ideas – not only mine, but also our corporate ideas – about life as such, about business, about the proper management structure of a company, about the structure of human relations,

about delegation of responsibilities – have by and large proven true. Therefore, we were helped by what we had done before. I guess we had the right idea of how the world is organized. It is difficult to operate without such an idea in the crisis – or even without a crisis... In times of growth, even a fool can manage – even if he has an absolutely misguided picture of the world. Whereas when everything is falling down, only those who see life more clearly remain afloat. That's all there is!

“...individually any person's brain is imperfect, but if the right 'chain of brains' which oppose each other – in the good sense of this word – is organized, then, as a whole, the power of this collective brain certainly exceeds the power of any individual brain”

As far as the CEO is concerned, I only became more confident in my idea of what he should be like. He must be a true leader of the organization, not a singlehanded leader, but a team-playing leader; a leader who does not only subordinate others, but who can also comply with collective decisions, if needed.

Ward Howell

“We value talent”

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