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Opportunities and Risks for Newcomers on the Russian Market Recommendations for Swiss companies

Opportunities

- Even in the aftermath of the financial crisis Russia remains a rapidly growing sales market for western exports and holds innumerable investment opportunities.
- Russia's business environment receives significantly better ratings from companies that have invested in Russia as compared to non-investors.
- Productivity of the Russian economy is only a small fraction of western benchmarks. This is due to factors such as poorly organized business processes or a lack of competition in many sectors. It opens up business opportunities for western companies able to introduce efficiency gains to the Russian economy

Market Research

- Russia's dynamic markets often lack transparency. Specific research tapping expert know-how should be conducted, in order to evaluate the potential of one's specific market.
- Official statistics are often of limited use, as figures are distorted by the large shadow economy, unregistered imports and transfer pricing.

Choice of Partner Companies

- Swiss companies should refrain from entering exclusive cooperation agreements from the beginning. Carefully select a few partner companies and later focus on the ones with the best results.
- A thorough due diligence process, taking up references, as well as personal on-site visits are recommended in a context of oftentimes intransparent company structures.
- Long contracts stating all aspects in detail, even those that would be considered obvious in Switzerland, are common.
- Prepayment remains common in many sectors and is recommended unless you have been cooperating with a partner for several years.
- Fully-owned subsidiaries or loose cooperation agreements are preferable to joint-ventures, as the expectations of Russian and Swiss businessmen may substantially differ. E.g. Russians may expect quick returns from a business venture, whereas Swiss are accustomed to think in a longer-term perspective.
- In the case of failures Russians can be skilled at blaming others, in order not to lose their face. It is therefore advised to document every step in written.

Personnel

- The choice of personnel is a key moment. Don't choose your staff on the sole basis of foreign language fluency. A systematic search and recruitment process allows to find the people with the needed competence and motivation.
- It takes time to introduce a participative company culture in your subsidiary, as Russian management style is traditional and hierarchic. You should push staff towards responsibility, but be tolerant in the case of failures.

State Organs

- Administrative power in Russia should not be taken for a western-type state administration. Vague and sometimes contradictory rules confer great discretionary power to administrative bodies.
- Surveys show an increase of corrupt practices during the past 20 years. Up to 30% of responding companies said that bribery is frequent for such tasks as obtaining business licences and permits, dealing with fire and building inspections and tax collectors.
- The judicial system has improved in recent years, but it is often difficult to execute court rulings. Western companies have a great interest to make the necessary provisions that allow to avoid legal disputes.

Conditions for Success

- The Russian market cannot be conquered by remote-control. Invest time to acquire country-specific competence and actively minimize potential risks.
- Don't work on the basis of prejudice, but take cultural differences in serious.
- You need to find the right mix of adaptation to the Russian environment and pushing through procedures that have proven to be successful in your company.

Recommended Support

- You should seek the advice of a legal expert in the context of a prolific production of laws and administrative prescriptions.
- Also rely on professional advice for tax and accountancy matters, as the requirements of the Russian tax authorities and Russian accountancy rules substantially differ from western practice.

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