



AVENIR Group / Hellevig, Klein & Usov - Attorneys at Law

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For Information:

Jon Hellevig

Office: + 7 495 2253038

Cellular: +7 495 5170969

hellevig@hku.ru

AVENIR GROUP TO MODERNIZE RUSSIAN CORPORATE CULTURES

Avenir Group with Hellevig, Klein & Usov Announces a New Service to Advice and Assist Russian Firms to Modernize their Corporate Cultures

The most important condition for innovation is to have in place a corporate culture that encourages and enables innovation. Innovation is a market driven activity, therefore the innovative company has to be organized toward the market, that is, toward meeting customer needs. Such a company promotes all the characteristics of an ideal corporate culture which is attainable with our program. Poor leadership, poor organization, poor communication, low level of empowerment, and poor knowledge management – all stifle innovation. It has to be prepared to thrive in increasingly competitive environments. The company has to adapt to the market by making some fundamental choices concerning the most important elements of business: vision and strategy, corporate structure, staff organization, product and service portfolio, IT-systems, accounting procedures, internal and external communication processes and systems, and the system of rules and procedures. Avenir can help you achieve this.

Modernization, Innovation, and Efficiency Require New Administrative and Corporate Cultures

During the last two decades Russia has made a spectacular leap from its Soviet past into a market economy. Now the country abounds with successful entrepreneurs who have created impressive businesses and reaped huge rewards on that. This past success is largely due to the extraordinary opportunities to earn super profits in the new market economy following the fall of the Soviet Union. The past success is based on many conditions that have now ceased to exist or will do so soon. The business environment has changed and companies need to change with it. During the

international market boom from the late 1990's to 2008, Russian companies earned super profits from the export of oil, energy resources and other raw materials. The revenue from these fueled the boom on the internal market where first-comers were able to establish a dominant position in the yet uncompetitive market. At the same time foreign competition was relatively low due to the real and perceived risks on the Russian market. For the nation as a whole, these flaws in the competitive environment spelt a chronically high-inflation while the companies due to the relatively low level of competition were able to continually push cost increases into the prices they charged from clients. But now, especially after the financial crisis, the Russian market is facing increasing competitive pressure both from within and without. The old ways of doing business will have to change. Now companies will have to focus more on strategy, productivity, operating efficiency, and building organizations that are capable of creating and implementing innovative business solutions to thrive in the increasingly competitive market.

Russian companies have to be able to adapt to changes in customers preferences, technology, and, the competitive forces. There are a number of factors that should create urgency for change. These are, for example, the increased globalization and freer flow of capital and other resources, technological changes, development of IT solutions, market maturation, global increase in management efficiency, more efficient global logistics and transportation solutions, and Russia's impeding access to the WTO.

Up till now there has been no need, no incentive, and no urgency for companies to renew their operations, organizational structures, and business practices. Having been for decades immune to normal competitive and economic forces many Russian companies continue to be managed on models that stem more from the hierarchical Soviet bureaucracy than teachings of modern business schools. We can see that only a few firms have made a real commitment to put the customer first in all their organizational endeavors. Firms are run like political bureaucracies. Most are hierarchically organized which makes decision making slow and prevents the free flow of information from the operational level upwards to the top level and between departments. Free communication is not encouraged but prevented as employees are afraid to challenge their superiors on each level of the hierarchy. People are not empowered to make the business decisions that normally would fall under their competence; instead the typical Russian company runs a spider web of checks, approvals and validation. This all leads to top executives being forced to micromanage even very elementary processes. In a micromanaging culture no organizational capital is created and rather meaning that the processes requiring creative expertise are repeated over and over again with the participation of the managers. These organizations are risk averse except on the highest level of the CEO and owners, who can be very prone at taking risks, but without efficiently consulting the organization to find out what is its readiness to act. The strategy behind the risk is not communicated through the organization, and this often leads to failures. In this kind of organization all innovative thinking that the company may utilize are the ideas that the top management generates, while on the level of operations all innovation is suppressed by bureaucracy and fear. (Although, we shall note that people in such bureaucratically run firms are prone to invent practices to secretly avoid the rules – often so for personal illegitimate benefit). The multileveled and rigid hierarchies of Russian firms are characterized by policies and complicated procedures that form the tools for the

executive micromanagement. The system does not bring up leaders but managers who themselves are motivated only by the fear of their boss and the power over their subordinates.

A modern and innovative business environment would instead allow for the establishment of a nonbureaucratic and level matrix organization, with fewer rules and procedures. In such an organization management consists of leaders who lead lower level employees instead of micromanaging them. In the modern organization policies and procedures are limited to the minimal to cover in detail merely those issues that concern the most important physical and business-security related concerns. Most other issues are managed by principles, guidelines and instructions which all aim at one single goal: to profitably serve clients' business needs. In this connection we would like to share our ideas on *the ideal corporate culture*, by outlining the features of a modern and innovative corporate culture.

To create a modern innovative economy both the state and the individual companies have to finish with the stultifying old bureaucracy and throw off the old rigidities and behavioral patterns. The old Soviet chain-of-command system will not work for a modern business. It is not only too slow for the pace of modern business, it suffocates change and innovation.

A modern corporate culture with open communication, flat organizations, proper reporting and real empowerment of people, will also serve best to counter such malpractices as bribery and kickbacks.

We shall illustrate some of the defects of the hierarchical chain-of-command organization by listing some of its main detrimental characteristics:

1. The executives do not lead but micromanage by meticulous processes of control.
2. Employees are not empowered but assigned highly specialized functions (narrowly defined jobs).
3. Formal structures create barriers to empowerment, improved customer service, and innovation; they produce old-fashioned and inflexible hierarchies, where matrixes are rarities and self-organization is unheard of.
4. The organization delegates up, not down.
5. Employees are made to adhere to fixed rules and a hierarchy of authority, which prevent proper reactions to every new situation and innovative thinking.
6. Risk-aversiveness. Risk-taking and challenging the status quo is punished.
7. Uncertainty is avoided
8. A culture of blame. The managers ask 'Who is guilty?' but rarely 'Who made this possible?'
9. Open communication is discouraged in an atmosphere of killing-the-messenger-of-bad-news. Frank feedback is absent. Employees are expected to please others (particularly superiors) and avoid interpersonal conflict.
10. There is an atmosphere of distrust.
11. A lack of proper reporting systems. Because the reporting is not right – the CEO screams.
12. The organization is preoccupied with internal politics. The bureaucratic system leads to protection of turf instead of promoting collaboration.
13. Corruption flourishes (bribes, kickbacks). Often managers run their firms within firms.