

Interview with Dr. Heike Pfitzner

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Would you say that the investment climate on the Russian market has improved in the recent years?

— This is a very difficult question. The amount of investments has increased. More and more German companies invest in Russia. But from my point of view, the investment climate did not highly improve in the last two or three years. I think that companies are simply forced to adjust to this business climate. Issues such as corruption, legal security have neither improved nor worsened. It is simply at the same stage as it was before. —

So, firms are then prepared to deal with the difficulties?

— I think that companies have realised that it does not function the other way on the Russian market and try to be prepared to those difficulties. But an investment climate is something that is created from a country itself. From my point of view, the investment climate within the energy sector has worsened, since Putin tries to nationalise it. However, in the machine construction and automobile industry, almost every company operates on the market now. Generally speaking, the main concern was not the investment climate, since companies in these industries have to establish a presence in Russia in order not to miss the important market development and to give up the potential market share to its competitors.

The question therefore is whether the investment climate will improve with more Western companies in Russia or will it not. I think this is a very difficult question. I would say that the foreign direct investment increases even though the investment climate does not improve. —

And in which form is the most common form of foreign companies operating on the Russian market?

— The form of Joint Ventures is not attractive anymore on the Russian market. In was more common in the 90s. Now, firms realise that there are a lot of disagreements

with the Russian partners, especially if the ownerships structure is based on 50-50 %. Therefore, the number of Joint Ventures is in decline. Most of the companies establish their fully owned subsidiary. —

Doesn't the idea of Joint Ventures work in Russia?

— No, this is a problem which can not be solved. If partners have the same amount of investment, then everyone wants to establish own rules and strategy. And in most of the cases, it is hard to come to one agreement. This is what I know from my experience. But I am sure that some companies managed to establish a Joint Venture with a Russian partner successfully. —

Does anything change in on the organisation structure of the companies after the entry on the Russian market?

— The general tendency is towards a hierarchy. Often, companies establish even more hierarchy than in their home country. More emphasis is put on monitoring and control. And usually, there are more employees as in Germany. Generally speaking, the productivity and efficiency of Russian workers did not reach the same stage as in Western Europe. There are some facts that the Russian economy has reaches the efficiency of 15% of the German economy. As a result of this, it means that companies require more employees in order to perform the same business activities which would need fewer personnel in Germany, for instance. —

Would you say that it is only based on cultural differences that companies tend to focus on a more hierarchical structure or is this rather not the case?

Yes, this is a criterion as well. For instance, the organisation of project groups is less common in Russia. Respon-

sibility for certain business transactions is less known. And here, again, is this issue about control. If you do not control the workers, then the work will not be done. —

How important are business relations within the business environment in Russia?

— Without them, nothing works. Russia is a "network market". The crucial point about it is the physical presence. It is not sufficient to call from time to time. You have to be there and you have to cultivate the personal relationships. This means of course, that maintaining relationships is time consuming. Russia is in general a market, where time has a different dimension than in Western Europe. Thus, many business aspects are very time-consuming.

But if you do maintain good relationships, it is really worth the effort. —

Is there a general differentiation between the groups that are the most important to keep good relationship with?

— Public institutions and public authorities are really important. If you compare it with Germany, businesses and public institutions are separated. They coexist within the market and have their functions. From time to time tax authorities or the building inspection or the hygiene inspection come in order to control the requirements. But there is no frequent interrelation within public institutions and companies. Whereas in Russia, relations to these institutions is necessarily. Important is the local fire brigade, the local hygiene inspection, the labour bureaux and tax authorities. If you do not keep good relationships with them, they will let you feel the effect of it, that they are more important than you.

For instance, they are able to close entire buildings if they feel that the fire protection requirements are not met. —

Since you have a lot of experience with intercultural issues, what are the most frequent problems concerning intercultural areas?

— One of the big problems is the usage of time. In Russia things are very different concerning the understanding of time. This is due to the fact that every business transaction in Russia takes very long; I think 30-40% longer than in Germany. And the fact that business relations require also some time in order to establish them makes everything even longer.

The second issue concerns the understandings of contracts. For Russians it is often nothing more than a printed paper. This is in this case a big difference.

On the other hand, the role of commitment is treated differently. For instance, if you have good business relationships, some things which seem impossible, even in Germany, are made possible. This applies for instance to contracts and different regulation and laws. Consequently, these are not only cultural differences, but also differences in the understanding and applying economical and political issues. But political issues are often interconnected with the cultural values.

Another point is the differences in the role of leadership. The way of including people in the decision making process is different. Usually, the head of the company decides on his own.

These are the main differences which have to be taken into account. —

Which are the main difficulties of companies when they are looking for employees?

— Russian labour market is an employee market in contrast to Germany which is an employer market. In Russia, the employees have a lot of rights. Employees have for instance the right to give notice within 14 days. At the moment, the labour market in Russia experiences many job fluctuations. So, for instance, engineers, managers, qualified employees are scarce according to the needs of the market. Thus, companies try to poaching qualified people from other firms. And if

they speak English, the wages are almost as high as in Germany. Broadly speaking, companies can save money only on the assembly-line workers. But generally, companies can not save money on qualified personnel anymore. —

Do the companies establish further training for the employees internally?

— Meanwhile the demand for further training internally is increasing. There are many companies which have established further education and training internally, for instance language skills. So, I think that there is the need for more investment in this area and companies understand this. In Germany, people try to acquire different skills and knowledge on their own initiative, in order to qualify themselves for the needs of the companies. In contrast to that, people in Russia do not take this initiative. As a result, companies have to take care of the further development of the skills of their employees. Furthermore, the people would never invest their own money in order to obtain further knowledge or skills. —

As far as I understood it, companies have to invest in further training. There is no other way. Is this right?

— Yes, more or less. Since companies will not find enough qualified labour on the market which meet their requirements. —

Do firms try, in order to overcome this problem, to send employees from the home country?

— Yes, many expatriates work on the Russian market. But this means more costs to the companies. But I think this is also a question of loyalty, since companies expect more loyalty from expatriates. Of course, companies would not admit, but this is my assumption. But in those cases, it is not a high quantity of employees. Usually, these are two or three, maybe up to ten. It depends on the company and the industry the company works for. And of course, this is a question of how much expatriates can the company afford to have. Most of the companies have

usually one German CEO and the rest are employees from Russia. —

And what are the most mentioned qualifications that are lacking on the Russian market?

— What I have noticed from companies is that companies complain about the lack of engineers, who are able to innovating new items. More emphasis is put on the skill of leaders who can also motivate employees and not only punishing the employees. A big problem is to find employees with skills concerning the customer service.

But, as you see, it is not a question of knowledge. The emphasis is put more on soft skills and to find the employees who are able to learn those. Companies struggle to find people who can focus on customer service. A big problem as well is own initiative, since employees often comply with the orders from the top, but do take the initiative in creating own ideas. On the whole, the focus is more on soft skills which are deficient. —

Is there a tendency to job hopping on the Russian market?

— Yes, this is one big problem that companies face. —

How do companies try to retain the employees? Which methods are the most useful?

— The main incentive for the employees is money. Usually, the incentives are only "hard facts", for instance, social payments, additional holidays, company car and so forth. Many firms have introduced the so-called bonuses, which are especially used in the sales or service areas. The firms try to establish a motivation for the employees. Which means that the more you sell, you more money you get, additionally to their usual payment.

It is rarely the case that the people are binding to the company through

personnel development and career programmes, but in most cases it is a question of money. —

What is the most used method of companies to recruit personnel?

— There are big job exchanges within big exhibition halls. Much emphasis is put on the internet. Furthermore, there are three main magazines, where it is more tightly focused on the search of employees. Generally speaking, these are the usual ways of recruitment as known from Western Europe. So, a lot is done through announcements, but also through internet. —

Do companies also try to poach employees from other companies?

— Yes, headhunting is certainly an issue. Especially in the areas where is a lack of qualified personnel, which I mentioned before, is the case that usually these people are recruited through headhunting instead of being recruited from the free market. You can hardly find qualified personnel on the free market. —

And are there cultural issues from the Russian point of view which causes a lot of confusion when working together with German colleagues?

— If we go back to the issues of time and planning, the Russians often do not understand why the German side often put much emphasis on acting in accordance with the schedule. It is not that they do not know that project plans exist. But Russians do not understand why Germans often do not take into account the country specific characteristics. Germans often come to Russia with the

expectation of doing business in the same way it works in Germany. And then they are surprised why it does not work.

I do not think that Russians are not intelligent enough for understanding things. Sometimes I think they are even smarter. So, if it comes to the knowledge specific issues, they are on the same level. And if they see a benefit for themselves, then they really catch up fast. I think, in this case, the cultures are not really apart from each other as comparing with China or Japan. —

From your point of view, are there any issues which foreign companies do wrong when working on the Russian market?

— From my point of view, many German companies do not understand the issue of how the Russians are proud of their nation. And many companies have gone to the Russian market with the attitude that Russians merely waited for them and their investment and that they have to be happy and thankful for this. Here, I have often experienced a colonialist mentality, less openness to adjustment. So, this is a crucial issue when dealing with Russian partners. Questions such as the background and history of the Russian nation are crucial. These are the main obstacles, which are experienced.

Moreover, I think that in comparison to American companies, German companies are more cautious within the Russian market. So, whereas Americans have a universal market strategy, the Germans tend to be more cautious with such solutions. —

Thank you very much for your participation.