Unknown Russia:
Powered by Entrepreneurs

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- Pavel Demidov, Adviser to Chairman, Kudrin Foundation
- Aleksander Ilyev, Country Managing Partner, Russia, EY
- Alexei Kudrin, Professor and Dean, School of Liberal Arts and Sciences, Saint Petersburg State University (Head of Steering Committee)
- Denis Morozov, Board Member and Executive Director, European Bank for Reconstruction and Development (EBRD) (Vice-Chair)
- Andrey Nikitin, Director, Agency for Strategic Initiatives of Russian Federation (ASI)
- Andrei Sharonov, Dean of Moscow School of Management SKOLKOVO
- Stanislav Shekshnia, Professor, INSEAD and Senior Partner, Ward Howell
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- Aleh Tsyvinski, Arthur M. Okun Professor of Economics, Yale University (Chair)

We would also like to credit supporting authors to the report:

- Alexey Kalinin, Director of the SKOLKOVO Institute for Emerging Market Studies (co-author, Discovering the Strategies of the Leaders)
- Vladimir Korovkin, Head of Digital Research at the SKOLKOVO Institute for Emerging Market Studies (co-author, Discovering the Strategies of the Leaders)
- Ekaterina Molchanova, Project Lead at the SKOLKOVO Institute for Emerging Market Studies (co-author, Discovering the Strategies of the Leaders)
- Veronika Zagieva, Research Associate, Ward Howell Talent Equity Institute (co-author, Revealing Entrepreneurial Leaders)
- Natalia Zaitseva, Head of Sustainability Lab at the SKOLKOVO Institute for Emerging Market Studies (co-author, Discovering the Strategies of the Leaders)
- Andrei Zavadski, Researcher and Editor, MGIMO-University (curator of the project and co-author, The Voice of Russian Business)
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Ekaterinburg Hub:
- Dmitry Gubkin, CEO, Brave Communications Group
- Ivan Vozmilov, Associate Professor, Department of Marketing & International Management, Ural State University of Economics

Ivanovo Hub:
- Dmitry Maslov, Head of the Research Centre for Effectiveness and Quality in Public Administration, Kazan (Volga Region) Federal University

Moscow Hub:
- Daria Arkhincheeva, CEO, Nurba Diamonds
- Alena Dolgova, Chair, Russian Association of Economic Clubs; Founder and President, Oeconomicus, MGIMO-University
- Ilya Kosykh, Board Member and Business Development Officer, Vantix Diagnostics Inc.
- Taras Polischuk, Investment Associate, Talent Equity Ventures
- Alexey Potemkin, Partner, Funaction
- Anton Yaremchuk, Deputy Head, Investment Climate Development Division, Agency for Strategic Initiatives
- Lilia Zakirova, Corporate Communications Director, NP RTS
- Maxim Zhurilo, Founder, I LOVE RUNNING LLC

Novosibirsk Hub:
- Natalia Kallestinova, Marketing Specialist, Owner, Kallestinova.ru
- Andrey Kovalev, Owner, English Big Apple School
- Evgeny Levitsky, Regional Director, Roscandles Group
- Pavel Vostrikov, President, Social Innovations Foundation
- Anastasia Zhilina, Photographer, Owner, TOPhoto Studio

Saint Petersburg Hub:
- Olga Kalinina, Marketing and Community Manager, Uber
- Anastasia Kosnikova, Co-Founder, Teach For Russia

And also to:
- Assel Alieva, Research Associate, Moscow School of Management SKOLKOVO
- Timur Aliev, Student, MGIMO-University; Member, Oeconomicus
- Ekaterina Boychuk, Intern, NP RTS; Student, MGIMO-University
- Maria Burlakova, Student, Ural State University of Economics
- Aleksandr Kanunnikov, Student, MGIMO-University; Member, Oeconomicus
- Ilya Tarachanov, Graduate Student, University of St Andrews
- Anna Kurilenko, Intern, NP RTS; Student, National University of Science and Technology MISiS

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- Kirill Androsov, Chairman, Aeroflot

The project team includes the following at the World Economic Forum:
- Andrew Chakhoyan, Associate Director and Head of Eurasia
- Salvatore Freni, Senior Community Associate, Eurasia
- Anna Koch, Project Associate, Eurasia
- Liana Melchenko, Associate Director, Global Knowledge Networks

Editing:
- Fabienne Stassen, Director, EditOrProof

Layout and illustration:
- Ruslan Gaynutdinov, Publications, World Economic Forum
Dear friends,

This is the third report prepared by the Global Agenda Council on Russia. In our first report in 2013 we explored scenarios for Russia’s development. The second report, published in 2014, investigated the Russian regions’ best practices of attracting investments. This year, we have gone further in our top-down approach by placing entrepreneurs at the centre of our research. The main goal of this study is to introduce an unknown Russia, a land powered by dynamic, proactive, non-oil based, successful entrepreneurs.

There is an old stereotype of Russia as an economy that is totally dependent on oil and gas and where corruption is the main barrier for a weak private business sector. Our report shows that there is also a yet unknown Russia, where inspired entrepreneurs create competitive products. It is not corruption that these new champions see as the main barrier but a lack of competent staff. That is why they value their human resources more than anything else. Also, they are proactively implementing programmes of corporate social responsibility to change the environment in which they operate.

Successful Russian companies are adopting global best practices and the most effective business models. They launch globally competitive products with the help of human capital, the most valuable resource of the 21st century.

The state of the Russian economy leaves much to be desired. As we predicted two years ago in our first report, the lack of long-needed reforms has led to a serious slowdown in the economy. The sanctions and lower oil prices have contributed to the recession. These circumstances are increasing the role of dynamic and successful Russian companies in the non-oil sector. As we show in this report, these companies provide us with a vision of an economy that could emerge in Russia in the coming years provided that necessary institutional and structural reforms are implemented. This is the future Russia that we would like to show you.
Introduction

The word “unknown” has three definitions. The first: **not known**; not within the range of one’s knowledge, experience, or understanding; strange; unfamiliar. The second: **not discovered**, explored, identified or ascertained. The third: **obscure**, not widely known; not famous.

For an outsider, many of the best qualities of any country are strange and unfamiliar, they are not yet discovered, and they are obscure. For few countries is this truer than for Russia.

At the same time, below the surface of the bleak image of the country, a vibrant entrepreneurial culture is creating true entrepreneurial leaders. People and companies are building world-class organizations and developing world-class products, they are competing locally and globally with established leaders and outperforming them, and they are leading and inspiring change. The people and companies of Unknown Russia are the focus of this year-long project of the Global Agenda Council on Russia, with the mandate of “fostering a multistakeholder dialogue on new sources of growth in Russia across industry and sector to ensure economic stability and inclusive growth”.

This project is the continuation of two previous year-long projects of the Global Agenda Council on Russia and the World Economic Forum. The first report of the Council (2012) presented three scenarios for Russia’s future development. One of those scenarios described regional growth as an important driver for the whole Russian economy. Thus, the second report of the Council (2013) was devoted to regional drivers of growth. This third report continues with the top-down approach, descending to the level of the firms and their leaders: not just any firm or any leader, but successful and innovative firms. In other words, the analysis moves from the country to the region to the company level, magnifying and revealing the hidden aspects of Unknown Russia. More broadly, the report contributes to the World Economic Forum’s agenda of providing strategic insight that leverages its unique combination of access to global business and government leaders, the insights of the community of experts in the Global Agenda Councils and think tanks, and the energy and fresh views of the Global Shapers and Young Global Leaders.

As this report is a year-long project, it started before the current difficult economic situation in Russia. While one can argue that the message of the report is less relevant in the context of the unfolding economic crisis, we believe that now is precisely the time to discover the companies and entrepreneurs who can become the primary engines of growth. One of the key issues that the country faces is the unknown direction of its economy as it is evident that the sources of growth of the past decade and a half in Russia
are exhausted and that a new economic model has to arise. This is why the crisis presents an opportunity for these companies and entrepreneurs to power the economy.

Specifically, this report on Unknown Russia consists of three large-scale projects that focus on key aspects of entrepreneurial leaders in the Russian context.

The first chapter, “The Voice of Russian Business”, provides the results of detailed survey-based interviews of 54 dynamic Russian companies. These companies were chosen from a long list of nominations from the members of the Global Agenda Council and Global Shapers in Russia, as well as partners at the Agency of Strategic Initiatives, Ernst and Young (EY) - Russia, and the Moscow School of Management SKOLKOVO. This part of the report had three key aims. Firstly, it aspired to identify the challenges that these companies face while operating in the Russian business environment and to analyse how they address these challenges. The main findings completely change how to think about the problems Russian businesses face today. No matter how complex the macroeconomic situation and business environment, the biggest obstacle for entrepreneurs is the lack of a competent workforce. It is also surprising that only 15% of companies mention corruption as a barrier, whereas red tape is viewed as a key barrier by almost twice as many of the companies surveyed. Another important message is that deregulation per se is not necessarily a remedy; on the contrary, some industries are not regulated enough.

Secondly, it sought to determine how the companies who took part in the survey view the factors behind their success. The most interesting finding from this section is that more than half of the companies speak of the utmost importance of human resources. This is even more remarkable, since the quality of the labour force was highlighted as the main barrier to success.

Finally, it explored how companies understand corporate social responsibility and how they implement this vision into their business strategies. This issue became an important part of the analysis, reflecting the World Economic Forum’s emphasis on social responsibility. The analysis presented some interesting results. Surprisingly, the majority of companies view social responsibility as being important. This contrasts with the often held view that Russian businesses are solely profit driven and often uncaring about the social good. In fact, many companies argue that social responsibility is a normal business practice rather than a luxury. At the same time, there are quite a few companies whose understanding of social responsibility is limited to paying all their taxes and taking good care of their employees. This may seem paradoxical at first. However, it can be argued that the largest problem companies face is the lack of a competent workforce, and a competent workforce is their most important success factor. Thus, when companies educate their employees, develop their skills and pay high and competitive salaries, they see themselves acting where the state should be acting: as truly socially responsible.

The second chapter, “Discovering the Strategies of the Leaders”, is based on a comprehensive research project “The Selected 15: Winning Strategies of Russian Entrepreneurial Champions” conducted by the Moscow School of Management SKOLKOVO for the Global Agenda Council on Russia. The research showcases the success factors behind the strategies of 15 private, dynamic companies outside the natural resources sector: in retail, consumer goods, high-tech, consumer finance and telecom. These companies have grown to outperform, or at least challenge, international players not only in Russia but also in the global marketplace. The study finds that the success of these companies is attributable to their ability to address challenges or leverage market factors that are specific to Russia. They then establish themselves in the market and develop a competitive advantage as compared
to their rivals. **Local Offering Leaders** leverage a deep understanding of Russian consumers and their shifting needs to create tailored offerings. **Best Adaptors** develop unparalleled operational capabilities to tackle Russia’s infrastructural deficiencies and lack of reliable outsourcing options by building in-house competencies or eliminating the weakest operational links. **Global Niche Leaders** tap into the local pool of highly qualified technical professionals to develop innovative offerings for a global marketplace. **Global Citizens** jump-start their growth in Russia and then extensively globalize not only their sales but also their operations.

However, the business landscape in Russia is changing. What once sufficed as a business model will be increasingly challenged in the future market conditions. With consumers becoming increasingly demanding, competition intensifying, and economic conditions worsening, even the Selected 15 will experience growing pressure to reinvent their strategies and approaches. Today, their strategic repertoire is quite limited and primarily focused on product innovation, brand identity and distribution networks. In contrast, strategies that are underpinned by creative business configurations, taking into account evolving client needs and shifting market conditions are often overlooked. It is, therefore, a decisive moment for many of these companies and, now that they are established market leaders, they must continue to think entrepreneurially in order to find new sources of growth in an increasingly competitive and challenging marketplace.

The third chapter “Revealing Entrepreneurial Leaders” is a set of two in-depth case studies (Kaspersky Lab and Aeroflot), focusing on leaders and leadership strategies conducted by Stanislav Shekshnia at INSEAD, with support from the Agency for Strategic Initiatives. Two major findings emerge from this study. Firstly, leading Russian companies embrace the logic of global competition of the 21st century: they are customer-oriented, eager to learn and entrepreneurial. The main source of their competitive advantage is talent, not oil. Secondly, leaders play the central role in the development of these enterprises. People who lead these organizations combine a global business mindset and an entrepreneurial ambition with a distinct style reflecting their Russian roots. More specifically, this research identified six common attributes of leadership that distinguish them from other Russian business leaders and are responsible for the spectacular growth of their businesses. **Global ambition** is one of the key driving forces for their companies, meeting world-class benchmarks and world-class standards. **Learning-based leadership** is a belief that the world is changing and the only way to stay ahead of the game is to learn and learn faster than others. **Experimentation and liquidation** is a combination of the exceptional speed of implementing an idea and innovation, and the constant and sometimes ruthless cleaning of the house: getting rid of outdated products, processes, and people to free room for innovation. Three other attributes of their leadership are inherently linked to the Russian context, but have played a serious role in the development of their companies. **Centrality** is a trait meaning that these leaders are larger-than-life for their companies, and they occupy a central place and lead from the front. **Role-modelling** means that in Russian organizations employees at all levels relentlessly watch and copy their bosses. Leaders effectively help their followers embrace virtues that are critical for business growth. Finally, these leaders cannot imagine themselves disconnected from their country and want to make a contribution to its development by building **global companies with distinctly Russian faces**. This strongly resonates with the organizations they head, and gives them an additional leadership lever that their competitors do not have.
The Voice of Russian Business
The Global Agenda Council on Russia, together with its partners, identified and surveyed 54 Russian companies. Detailed interviews were conducted with senior executives, and key aspects of the survey results were provided in their own words. This chapter is divided into three parts. First, the main challenges that dynamic, competitive, and innovative Russian companies face while operating in the Russian business environment are identified. Second, the analysis shows how these companies account for their success and explains what makes them unique from other businesses. Finally, it determines how companies understand corporate social responsibility and how it is implemented into their business strategies.


Summary

The participants of the survey were asked to name three main barriers their companies faced in the Russian business environment. The main findings of this section completely change how to think about the problems that Russian business faces today. Firstly, no matter how difficult the macroeconomic situation is and how business unfriendly economic policies are, the main obstacle that entrepreneurs face is the lack of a competent workforce. Secondly, it is surprising that only 15% of companies mention corruption as a barrier, whereas red tape is viewed as a key barrier by almost twice as many of the companies surveyed. Thirdly, it is important to stress that deregulation is not necessarily a remedy: on the contrary, some industries are not regulated enough.

Based on these answers, the most severe barrier that Russian companies face is the lack of a professional workforce. Interestingly, this is typical at all levels of employment, according to the respondents. “Poor education, low qualification of top management and rank-and-file members of staff” was a typical response, summarized neatly by GofroMaster, a Novosibirsk-based packaging company. This is synonymous with what a retail company from Ivanovo (that wished to remain anonymous) had to say. Others cite similar reasons: “lack of qualified personnel and managers” (InfoSoft, an IT company from Novosibirsk), “difficulty in finding cool and motivated people” (Nebo v Almazakh (Nebo.ru), an online jewellery retailer based in Moscow), and “the low culture of management” (DoDo Pizza, a restaurant chain headquartered in Syktyvkar).

Top Barriers: In numbers and in the words of the companies

Table 1 summarizes the statistics of the participants’ replies to the question asking them to name the three main problems facing Russian companies today.

Table 1. Ten Challenges for Entrepreneurs

<table>
<thead>
<tr>
<th>Barriers</th>
<th>% of companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of competent workforce</td>
<td>30</td>
</tr>
<tr>
<td>Red tape</td>
<td>28</td>
</tr>
<tr>
<td>Inefficient legal frameworks, with either over-regulation or under-regulation of particular economic sectors</td>
<td>26</td>
</tr>
<tr>
<td>Unstable macroeconomic situation in the country</td>
<td>26</td>
</tr>
<tr>
<td>Lack of financial resources</td>
<td>18.5</td>
</tr>
<tr>
<td>Immaturity of the market in general</td>
<td>17</td>
</tr>
<tr>
<td>Taxes</td>
<td>15</td>
</tr>
<tr>
<td>Conservative thinking, of both business people, consumers and officials</td>
<td>15</td>
</tr>
<tr>
<td>Corruption</td>
<td>15</td>
</tr>
<tr>
<td>Poor infrastructure</td>
<td>7</td>
</tr>
</tbody>
</table>

Note: more than one answer was possible
Three main barriers

The building company Fora (Yaroslavl), while also pointing to a “low efficiency of management skills”, highlights another important aspect of the problem: “narrow-mindedness and egotism when making decisions on strategic issues” and “incomprehension of personal responsibility for the success” of a company’s performance.

The problem, however, does not seem to be only with the people. As SuperJob.ru, the online recruitment service, phrases it, one of the key barriers for business operation in Russia is that the country’s “educational system in its current state has exhausted and even discredited itself”.

The issue of bureaucracy is deliberately separated from corruption in this report, for no such connection was made by the respondents. When speaking about red tape as a major barrier in the Russian business environment, respondents specifically meant civil servants’ ineffectiveness, such as their “unwillingness to see into a situation” and “superficial approach” to problems (in the words of a Saint Petersburg-based company offering medical, social and household help to elderly and physically challenged people); and bureaucrats’ unproductive decisions (Debate Night, a communications and public relations agency from Moscow).

Other companies have highlighted the “long chain of approvals” by regulatory agencies (Transervice, a multi-service company from Novosibirsk); lots of paperwork (ShokoBox, a Saint Petersburg-based company producing and selling souvenir chocolate); and the specificity of their activity that manifests itself in continuous tender and competition procedures, certifications and so on (the Saint Petersburg-based Rakurs, a scientific production company working in the field of hydroelectric and thermal engineering).

Some companies (such as Novosibirsk’s construction firm Otelit Development) see the “abundance of paperwork and approvals” not only as a barrier, but also as “a way of eliminating rivals”: those who have more experience in tackling this challenge will gain a competitive advantage. Others (SuperJob.ru, for instance), while pointing to “first paperwork, then inspections”, conclude that civil servants “do not do it out of spite: they have to show that they are working”.

Inefficient legislation works twofold as a barrier. On the one hand, there is over-regulation. For ShokoBox, which emphasizes that for operation within the country “there are no administrative barriers at all,” complicated export procedures present a major problem. Baby Club, a company offering early intellect development services with main offices in Samara and Moscow, points to “too rigid licence requirements” for setting up new “baby clubs”.

The Moscow and Yakutsk-based jewellery production company Apple Diamond also notes “the over-regulation of precious metals and gems market in Russia”. Transervice finds it difficult that “when norms are morally outdated but continue to be in force, we have to follow them.” R-Pharm, a pharmacological company based in Moscow, mentioned “the regulatory environment”, both generally and in the pharmacological sector, as a problem.

On the other hand, under-regulation of particular economic sectors and, more generally, flaws in the Russian legal system, present major barriers as well. Respondents’ answers include mentions of “a complete absence of regulation on the market of online payment service providers” (PayOnline, an electronic payment service provider from Moscow), “the inadequacy of laws” in the field of PR and marketing communications (SPN Communications, a communications agency from Moscow) and small businesses (Brave, a design and communications agency based in Ekaterinburg) and regulations “changing too slowly in the IT sphere” (Alawar, a Novosibirsk-based video games design firm). Some even go as far as “the instability of the legal system” in general (the F1 Group of companies headquartered in Novosibirsk), “frequent and, at times, unpredictable change of rules” (Rocketbank, a financial service provider from Moscow) and “worsening legislation” (a media company from Moscow). In its extreme manifestation, one has to deal with “the total ‘greyness’ of the Russian economy”, as described by a retailer of digital devices from Vladivostok.

As for the unstable macroeconomic situation in the country (although, for some businesses, this creates additional opportunities), companies named a whole range of interconnected problems. Some simply referred to “the economic crisis” (for instance, the logistics company ALIDI based in Nizhny Novgorod and Beer Gamer House, a restaurant chain from Ivanovo), while others pointed to “the unstable economy” (Obuv Rossi Group of Companies, a producer and retailer of shoes based in Novosibirsk), “the unpredictability of the economy” (the Factor Group, a Novosibirsk-based industrial investor) and its “volatility” (Debate Night).

For Jey Study, a Moscow-based company sending Russians abroad to study foreign languages, the instability of the rouble presents a major problem. The Saint-Petersburg Exchange names “the high dependency of the Russian financial market on the political environment” as a key barrier. Several companies (for instance, the Saint Petersburg-based SBR Corporation that owns, among other things, the supermarket chain Metrika, and Atlant-M, an automobile dealer holding) pointed to a slow-down of the economy, while a Vladivostok digital device retailer put it more bluntly: “The Russian economy has stopped.”

Policy recommendations from business

When asked to name one policy recommendation at the regional or federal level that would address one or more of the challenges discussed above and have the largest impact on their business, companies provided different answers.

The most common reply, however, was a call for stable, comprehensible and transparent “rules of the game.” As the F1 Group puts it, “Business is a conservative environment. Give us straightforward rules, give us preferences – and it works. Why do businesses go offshore? Because rules are clear there.” For the Factor Group, predictability is crucial: “We cannot make predictions [and are working as if we] are moving through a minefield.”
The issue of education also concerns many companies. For Magram Market Research, a Moscow-based market research agency, it is important for university graduates to be able to apply their theoretical knowledge in practice. InfoSoft thinks that universities need to produce more IT specialists. ShokoBox calls for the authorities’ attention to vocational training. According to the company, this educational sector is in a deep crisis: “Ten out of ten of my friends do not work within the fields of their specialization.” The Saint-Petersburg Exchange claims it is vital to raise Russians’ financial literacy.

Companies would also be interested in reducing administrative barriers and improving legislation. ALIDI, for instance, claims that, “…There is a restriction for transportation of food and non-food goods in one van. These goods are stored together in warehouses before transportation, and after delivery they are located in supermarkets side by side. […] And it has negative consequences for us because meeting this requirement doubles transport costs. [In the end, it is] the consumer [who] pays for this inefficiency.” Other changes which would make the Russian business environment friendlier include the simplification of licensing procedures and reduction of taxes (Baby Club), loosening of export and customs regulations (ShokoBox, Rakurs), and making the state procurement system more transparent (Brave, Himmetall), a Novosibirsk-based construction and metal production company, thinks that “easing administrative barriers is a question of political will. Ceasing to multiply additional inspections that inspect other inspections” would be helpful. On the other hand, Obuv Rossii wants to avoid additional barriers: “In our sector excessive regulation weakens economic activity”. Thus, this section of the report can best be summarized with PayOnline’s conclusion: “The business is ready to cooperate with the state. The state needs to communicate with the business more actively, hear it.”

Part 2. Factors of Success: People, Product, Creativity

Summary

The most interesting finding of this section is that more than half of companies highlighted the utmost importance of the human resources factor. This factor leads by a wide margin as the most important factor in success. This is even more remarkable as the quality of the labour force was also named as the main barrier to success (see previous section). Also, and perhaps less surprisingly, roughly a third of businesses put special emphasis on product competitiveness, as well as innovation and creativity.

It is remarkable that while the lack of a professional workforce on the market is seen as a major barrier in the Russian business environment, most of the companies that have been interviewed for this study have managed to build and maintain teams of hard-working and highly qualified professionals who significantly contribute to the success of the business. ALIDI has a strong team of managers ready to implement the most complex innovations; DoDo Pizza, too, has “a regular management team,” which, according to the company, constitutes “a systematic approach”. Factor Group, in no uncertain terms, declares that their “main driver of growth is personnel.” Viasun.ru, a tourism web portal headquartered in Novosibirsk, praises its coordinated team and the efficiency of each employee, while Jey Study and PayOnline give credit to the young spirit, energy and qualifications of their staff members.
**Success factors: In numbers and in the words of the companies**

**Table 2. What Contributes to Success**

<table>
<thead>
<tr>
<th>Success factors</th>
<th>% of companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff/Team</td>
<td>59</td>
</tr>
<tr>
<td>Competitive product</td>
<td>35</td>
</tr>
<tr>
<td>Innovativeness, creativity and flexibility</td>
<td>31.5</td>
</tr>
<tr>
<td>Being in the right place at the right time</td>
<td>22</td>
</tr>
<tr>
<td>Deep understanding of the existing market</td>
<td>20</td>
</tr>
<tr>
<td>Customer-oriented approach</td>
<td>20</td>
</tr>
<tr>
<td>Consistency/long-term strategic planning</td>
<td>20</td>
</tr>
<tr>
<td>Competent leadership (able to take risks and constantly learn from experience)</td>
<td>17</td>
</tr>
<tr>
<td>Mission and values</td>
<td>13</td>
</tr>
<tr>
<td>Conservative financial control</td>
<td>7</td>
</tr>
<tr>
<td>Well-executed organization of workflows</td>
<td>7</td>
</tr>
<tr>
<td>Help from professional associations and partners</td>
<td>7</td>
</tr>
<tr>
<td>Reputation</td>
<td>7</td>
</tr>
</tbody>
</table>

Note: more than one answer was possible

2GIS, a Novosibirsk-based IT and media company that creates interactive city maps, Atlant-M, Debate Night, and the Moscow-based digital PR agency Snow-Media think it is imperative to hire like-minded people who are enthusiastic about and sincerely interested in the work that they do. SuperJob.ru, too, admits that they have done their best to employ “people who would take pleasure in what they do. Besides, we ourselves have aimed to work hard and enjoy ourselves”.

Lampyris, a producer of LED-based lighting from Novosibirsk, Magram Market Research and others say they have achieved a lot because of their staff members’ hard work. GofroMaster has found its team members all over Russia, while a Moscow-based media company is very strict about hiring new staff. SBR Corporation is systematically engaged in the improvement and development of their management team. “Even when there are enough financial resources, it is impossible to achieve success without a strong and professional project team,” says Obuv Rossi. Or, in the words of Fastlane Ventures, an investment company from Moscow also crediting its entrepreneurial team, “If a plane does not have a pilot, it will not fly.”

At the same time, many companies attribute their success to the product they bring to the market. For some, the distinctiveness of the product comes first: for instance, Baby Club has created a “unique product that allows [the company] to stand out in the crowd”. 2GIS points to the distinctiveness of its up-to-date city maps, and Beer Gamer House brings “a fundamentally new product” to the market. For others, it is the product’s quality that makes the difference: the Seymovskaya Poultry Farm, an agricultural holding headquartered in Nizhny Novgorod, delivers “a high quality product that people need”, the retail company from Ivanovo attributes its success to “the ‘right’ product”, while InfoSoft manages their product’s quality very carefully. Special attention to quality is crucial for Apple Diamond, Revizto, an IT company from Moscow, and Devpocket, another IT company from Saint Petersburg. Changlelenge, an HR training and marketing company from Moscow, says its attentiveness to detail and quality allows the company “not to lose [its] old partners and, as a result, reduce the cost of sales”, which, in turn, “helps invest into further quality improvement”. Mir-Detyam, a Petrozavodsk-based company that constructs children’s playgrounds across Russia, explains its success through the “wish to do what they enjoy doing, do it in a quality manner, and do not be satisfied with what has already been achieved.” D.Craft, a woodworking company based in Saint Petersburg, is especially keen on keeping the price-cost ratio constant and reasonable, while Gen Engineering, a construction company based in Ekaterinburg, attaches special importance to a “fanaticism, belief in yourself, belief in the product”.

Innovativeness is another crucial success factor for companies operating in Russia. It can be understood as a search for new points of growth (SBR Corporation), the “implementation of innovations in all spheres of our business” (Beer Gamer House), “innovation in manufacturing and sales” (D.Craft) and “aspiration to achieve technological perfection” by “developing new unparalleled products” (a medical company based in Kazan), or simply as a “focus on innovation” (Debate Night).
**Part 3. Social Responsibility and Success**

Acting not only to make profit but also to benefit wider society is becoming an important aspect of business today. For this reason, participants of the survey were asked to explain what social responsibility means to them: is it a “luxury” or a “necessity” in the current business environment? Is being socially responsible important for the success of their businesses and for doing business in Russia in general? In what way, if at all, are the respondents’ companies socially responsible?

**Summary**

The analysis has shown some quite remarkable results. Surprisingly, the majority of companies view social responsibility as being important. This contrasts with the often held view that Russian businesses are solely profit driven and uncaring about the social good. In fact, many companies argue that social responsibility is a normal business practice rather than a luxury. At the same time, there are quite a few companies whose understanding of social responsibility is limited to paying all their taxes and taking good care of their employees. This may seem paradoxical at first. However, it can be argued that the largest problem the companies face is the lack of competent workforce, while it is also the most important success factor. Thus, when companies educate their employees, develop their skills and pay high and competitive salaries, they see themselves acting where the state should be acting: in other words, as truly socially responsible.

**Defining factors**

Seven companies that participated in the survey consider themselves to be social businesses. By this they mean that social responsibility is not an addition to what they do; it actually is what they do. The Moscow-based company Changellenge, for instance, phrases the idea the following way: “At its very inception, our company was conceived as a business aimed at solving an important social problem – raising the level of education in Russia. Therefore, social responsibility is part of our DNA.”

**Normal behaviour, not a luxury**

Many more companies have made social responsibility an inherent part of their work. Among the 31 replies expressing full support for social responsibility as an important part of contemporary business, there are those voiced by big market players (like SBR Corporation, with its more than 4,000 employees, and ALIDI, with 5,000 people), medium-sized companies (for instance, Himmetall, with its 100 members of staff), and small businesses (for example, Otelit Development, with 25 employees).

ALIDI is sure that “every business should be socially responsible in Russia or any other country”. Speaking of its own social work, the company provides targeted assistance to orphanages in its presence regions and “always try[es] to engage ALIDI employees in social projects”.

Social responsibility: In numbers and in the words of the companies

Table 3 summarizes the responses to the question of how the surveyed companies pursue social responsibility.

**Table 3. How Companies Pursue Social Responsibility**

<table>
<thead>
<tr>
<th>Attitude to social responsibility</th>
<th>% of companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social responsibility lies at the core of business</td>
<td>13</td>
</tr>
<tr>
<td>Advocated social responsibility is very important for a contemporary business</td>
<td>57</td>
</tr>
<tr>
<td>Social responsibility is creating jobs and paying “white” salaries and taxes</td>
<td>50</td>
</tr>
<tr>
<td>Sceptical towards social responsibility</td>
<td>5.5</td>
</tr>
<tr>
<td>Social responsibility is little more than window-dressing</td>
<td>0 (!)</td>
</tr>
</tbody>
</table>

Note: more than one answer was possible
2GIS, in cooperation with a range of NGOs, has developed additions to its city maps that help people with movement disorders. Another project of the company, implemented with the support of road safety authorities, has led to the creation of special maps highlighting dangerous areas: this has helped to decrease the number of traffic accidents. SBR Corporation, while providing orphanages with building materials, has also developed and is now implementing a regional strategy which entails building Metrika supermarkets in small cities and towns. This allows Russians living in remote locations to obtain top quality products.

Fora says it is an “unquestionably socially responsible company. We are initiators and partners of many events [in Yaroslavl] aimed at enlarging civic engagement and creating a modern urban environment. […] We believe in the necessity of civic education and development of a civil society”.

Developing social responsibility programmes is, according to SPN Communications, “quite a rare practice for a communications agency,” yet the company is engaged in several NGO SOS Children’s Villages, implements blood donation projects, annually holds blood donation days for its employees, and regularly organizes charity events.

“Our basic principle is win-win, for you cannot win when society loses: in this case we also lose, for we are part of this society,” Transervice claims. Rakurs emphasizes, “Business does not live in an ivory tower separated from the environment in which it operates.” The company supports various educational, cultural, and sports events.

For the Moscow-based construction company Stem Stroy, social responsibility means working "to promote the development of the Russian regional economies."

Alawar extensively supports the IT activities of Novosibirsk’s science campus. “We provide help to Academgorodok’s summer school, a few projects concerning business incubators”, says Alekandr Lyskovskiy, Founder and Executive Director of Alawar. Similarly, education is the primary concern of Otelit Development. The company’s Chief Executive Officer Evgeny Burdeniuk says, “I am an orphan, […] and from the very start of our company, we have been helping orphanages. We pay for young people to study in business schools; some of the graduates work in Otelit Development. […] In our case, it is not about PR or tax cuts. We do not even upload information about it onto our website.”

For the F1 Group of companies, it is also important to offer help to those “of whom the state, unfortunately, cannot take full care. That is why we do our best to help orphanages and foster homes; we hold competitions and support young talents.” Magram Market Research closely works with the sociology faculties of several universities, including the Moscow State University. The main objective, according to Marina Malychina, the company’s Founder and Chief Executive Officer, is to contribute to the preparation of applied specialists: “We [do not want graduates] to be in some sociological astral state. We want them to be able to actually do something practical.”

Salaries and taxes

Quite a few companies, however, limit social responsibility to caring for their employees and paying taxes.

The Vladivostok-based retailer of digital devices that took part in the survey adheres to the principal that “we should not have low-wage jobs. We have a large employee stock option plan directed at the company’s various levels.” InfoSoft, while mentioning the company’s support of an orphanage, elaborated on employees’ benefits: “We offer gym memberships to our staff, We hire a swimming pool lane for our employees, […] I also think that our corporate university definitely has some socially responsible mission about it.” I’Way too, a Novosibirsk company offering transfer services across the world, points to employment in accordance with Russian legislation and the social benefits package received by each employee. However, the company also does its best “to help society”: each year it buys theatre tickets for WWII veterans for the May holidays, it financially backs a children’s sports company in the city of Ob, and it is currently in talks regarding possible participation in the construction of a chapel in Saint Petersburg.

For Nurba Diamonds, a diamond mining company with the head office in Moscow, social responsibility is represented by the creation of work places. Atlant-M, too, mentioned the creation of jobs as a key example of their socially responsible behaviour, before ecological sustainability: “We create about 480 jobs annually. Each place is an opportunity to feed one family, i.e. three persons minimum.” Paying taxes is seen as a social responsibility by many

“Social responsibility is “normal behaviour these days, not a luxury.”

Jey Study
businesses. Atomstroykompleks, a full-cycle construction company based in Ekaterinburg, argues that “in today’s business climate a company that pays all its taxes is undoubtedly socially responsible.” Alawar, before speaking about its educational activities, also specified that it was “a completely white company” (i.e. it fully pays taxes and does not engage in any shadow economy schemes). For both Marya, a furniture manufacturer and retailer headquartered in Moscow, and GofroMaster, paying taxes is the primary social responsibility of a business, with the former also emphasizing the importance of a “sensible HR policy” (“good salaries, decent work conditions, a normal stable income”) and the latter engaging in a number of other socially responsible activities.

“I create vacancies for which people queue,” Andrey Sharkov, Founder of ShokoBox, said. “I believe that any business is socially responsible because it takes on itself the function of the state, [that consists of] taking care of its people by not only satisfying their material needs but also by building trust-based relations,” he added.

Or as the Founder of SuperJob.ru Alexey Zakharov concludes: “I absolutely dislike the term ‘social responsibility of a business’. I think it is rubbish and does not have the right to exist. As I understand it, social responsibility of a business is to make sure that my team enjoy what they do, go on holiday regularly, rest. Only my employees and nobody else. […] There cannot be any other social responsibility.”

Lastly, most small businesses support the idea of social responsibility, but consider themselves unable to participate in it because “survival remains of higher priority” for them, to quote Brave’s words.
Discovering the Strategies of Leaders
It has been almost 25 years since Russia transitioned to a market economy in the 1990s. The transformation of the economy opened up previously non-existent opportunities for new businesses and ventures. As a result, the last two decades have seen the rise of many new dynamic firms with not only domestic but also international ambitions.

Little is known about entrepreneurship in Russia. It has been largely overlooked and is viewed as a side effect rather than a driving force. Meanwhile, Russia’s image continues to be defined primarily by natural resources. Indeed, Russia is high on the global oil, gas, coal, metals, forestry and other commodity export rankings. These industries collectively account for almost 95% of Russia’s $500 billion in exports. What is less well known is that their share in the country’s $2 trillion GDP hovers around 15%. This is according to Russian Federal State Statistics, which is sometimes criticized for its transfer pricing mechanism; however, the World Bank gives a similar number of 18.7% in its estimations, which are based on resource rent.

The story of how these companies became market leaders is particularly impressive as evidence of the positive economic forces at work within Russia. While the Russian economy still faces a number of well-documented and persistent challenges, there are important positive developments taking place nationwide that can be attributed to the success of companies such as these. One of the major highlights is that Russia has been continuously improving its position in prestigious global rankings such as the Global Innovation Index, Global Competitiveness Index and the Ease of Doing Business Index (see Figure 2). Among its BRICS counterparts (Brazil, India, China and South Africa), Russia is the leader in terms of how it has improved its relative position within two of these three rankings. In the Global Innovation and Global Competitiveness Index, Russia is second, after only China.

The results of these indices reinforce each other. The Innovation Index and Competitiveness Index tout Russia’s human capital as its key strength. Russia has the world’s highest tertiary education enrolments with a high proportion...
of students going into science and engineering. In the Competitiveness Index, factors such as the size of the market, the macroeconomic environment, higher education and training, health and primary education drive Russia up in the rankings. The country has also implemented a number of effective reforms to ease the terms of doing business. These primarily concern the notoriously troublesome property registration and electricity market. While there is still room for informed policy-making initiatives and targeted efforts to increase the efficiency of regulatory agencies, successful individual businesses can themselves serve as engines of growth that drive Russia’s innovation, competitiveness and market terms. Rather than being imposed top-down by the state, these changes are being effected from the bottom up. This report aims to explore examples of these businesses.

The stories of these companies are particularly interesting because, ultimately, they have the power to shape the broader landscape of doing business in Russia. Their positive examples inspire young entrepreneurs, their increasing lobbying power challenges the traditional agenda of regulators and policy-makers, and their strong market position shapes (and sometimes even creates) the industries in which they operate.

As a result, the study of these companies provides a thrilling insight into what makes these new Russian entrepreneurial leaders so successful.

In Search of Russian Champions

This section seeks to showcase examples of established success stories and to uncover further examples of successful companies that may not be as well known. These companies are private, entrepreneurial businesses that are not dependent on natural resources for their success. Although companies from different industries and of different sizes are studied, the study focuses on mid-size technology firms. The selected companies meet one or more of the following criteria:
- The company is a top performer in its field, both domestically and abroad
- The company has invented a new business model
- The company has successfully adapted and scaled an existing business model
- The company has outcompeted global players in the domestic market

The selection process was structured as an original research study, where both top-down and bottom-up approaches were deployed. The logic of the top-down approach is that companies of interest can be found within industries that are traditionally the most conducive to innovation and competitiveness. The bottom-up approach selected companies based on the given set of characteristics by scanning existing ratings, professional contests, awards, industry news, as well as other sources, and resulted in a list of over 100 companies for further study.

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**Figure 2: Russia in Key Global Indices**

<table>
<thead>
<tr>
<th>Country</th>
<th>Global Innovation Index</th>
<th></th>
<th>Global Competitiveness Index</th>
<th></th>
<th>Ease of Doing Business Index</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rank 2013</td>
<td>Rank 2014</td>
<td>Δ</td>
<td>Rank 2013</td>
<td>Rank 2014</td>
<td>Δ</td>
</tr>
<tr>
<td>China</td>
<td>35</td>
<td>29</td>
<td>↑6</td>
<td>29</td>
<td>28</td>
<td>↑1</td>
</tr>
<tr>
<td>Russia</td>
<td>62</td>
<td>49</td>
<td>↑13</td>
<td>64</td>
<td>53</td>
<td>↑11</td>
</tr>
<tr>
<td>South Africa</td>
<td>58</td>
<td>53</td>
<td>↑5</td>
<td>53</td>
<td>56</td>
<td>↓3</td>
</tr>
<tr>
<td>Brazil</td>
<td>64</td>
<td>61</td>
<td>↑3</td>
<td>56</td>
<td>57</td>
<td>↓1</td>
</tr>
<tr>
<td>India</td>
<td>66</td>
<td>76</td>
<td>↓10</td>
<td>60</td>
<td>71</td>
<td>↓11</td>
</tr>
</tbody>
</table>

*Year of rank is the year of when the index results were published
Source: Cornell University, INSEAD, WIPO, World Economic Forum, World Bank
### Figure 3: Profile of the Selected 15

<table>
<thead>
<tr>
<th>Logo</th>
<th>Industry</th>
<th>Established</th>
<th>Origin</th>
<th>Capital Markets</th>
<th>Revenue, $ MLN</th>
<th>Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>QIWI</td>
<td>Consumer Finance</td>
<td>2009</td>
<td>Kemerovo, Moscow</td>
<td>NASDAQ</td>
<td>188(^1)</td>
<td>&gt; 1,000</td>
</tr>
<tr>
<td>Tinkoff Credit Systems</td>
<td>Consumer Finance</td>
<td>2006</td>
<td>Moscow</td>
<td>LSE</td>
<td>1,100(^2)</td>
<td>&gt; 6,000</td>
</tr>
<tr>
<td>OZON.ru</td>
<td>Retail</td>
<td>1998</td>
<td>St. Petersburg</td>
<td>Venture Capital</td>
<td>−750</td>
<td>&gt; 2,400</td>
</tr>
<tr>
<td>MARKIT</td>
<td>Retail</td>
<td>1994</td>
<td>Krasnodar</td>
<td>LSE</td>
<td>18,202</td>
<td>&gt; 230,000</td>
</tr>
<tr>
<td>Telemark</td>
<td>Consumer goods</td>
<td>1998</td>
<td>Moscow</td>
<td>-</td>
<td>−140</td>
<td>&gt; 2,000</td>
</tr>
<tr>
<td>SPLAT</td>
<td>Consumer goods</td>
<td>2000</td>
<td>Moscow</td>
<td>-</td>
<td>−100</td>
<td>&gt; 700</td>
</tr>
<tr>
<td>Prognoz</td>
<td>High-Tech</td>
<td>1991</td>
<td>Perm</td>
<td>-</td>
<td>−120</td>
<td>&gt; 1,500</td>
</tr>
<tr>
<td>Yandex</td>
<td>High-Tech</td>
<td>1993</td>
<td>Moscow</td>
<td>NASDAQ</td>
<td>1,207</td>
<td>&gt; 5,300</td>
</tr>
<tr>
<td>NT-MDT</td>
<td>High-Tech</td>
<td>1989</td>
<td>Zelenograd</td>
<td>-</td>
<td>−80</td>
<td>&gt; 300</td>
</tr>
<tr>
<td>ABBYY</td>
<td>High-Tech</td>
<td>1989</td>
<td>Moscow</td>
<td>-</td>
<td>−200(^3)</td>
<td>&gt; 1,200</td>
</tr>
<tr>
<td>Luxoft</td>
<td>High-Tech</td>
<td>2000</td>
<td>Moscow</td>
<td>NASDAQ</td>
<td>398(^4)</td>
<td>&gt; 8,000</td>
</tr>
<tr>
<td>Transas</td>
<td>High-Tech</td>
<td>1990</td>
<td>St. Petersburg</td>
<td>-</td>
<td>−300(^3)</td>
<td>&gt; 2,000</td>
</tr>
<tr>
<td>Ascon</td>
<td>High-Tech</td>
<td>1989</td>
<td>Kolomna (Moscow region)</td>
<td>-</td>
<td>−30</td>
<td>&gt; 650</td>
</tr>
<tr>
<td>Aviasales</td>
<td>High-Tech</td>
<td>1999</td>
<td>Novosibirsk</td>
<td>Venture Capital</td>
<td>−30(^5)</td>
<td>&gt; 400</td>
</tr>
<tr>
<td>Meqno</td>
<td>Telecom</td>
<td>2002</td>
<td>St. Petersburg / Moscow</td>
<td>LSE</td>
<td>8,400</td>
<td>&gt; 33,500</td>
</tr>
</tbody>
</table>

Note: revenue data is provided for full year 2013 unless specified; for listed companies official financial reports are used, for non-listed companies approximate figures are given based on secondary sources.

(1) Adjusted net revenue
(2) Interest income
(3) For full year 2012
(4) For FY2014 ended on March 31, 2014

The final stage of the selection process was to merge the findings of the top-down and bottom-up approaches, to produce a final list of companies for the case studies. This approach resulted in a list of prominent, as well as lesser-known, entrepreneurial success stories. Overall, 15 firms – “the Selected 15” – from five different industries were chosen. The companies have been studied based on secondary information from public sources such as company websites, industry reviews, professional databases and public media. Figures 3 and 4 provide a short profile of the companies and their management.

Winning Strategies

The companies in this study, the Selected 15, managed to survive and to obtain outstanding results despite a rapidly changing environment for Russian business. The reasons behind their formation and their strategies for success were to a significant extent determined by local Russian market conditions, which included all the advantages and disadvantages of a young developing market economy.

Context

The political and economic crises of the early 1990s left Russia with relatively undeveloped market institutions, high unemployment, low regard for legal institutions, low purchasing power for citizens and a weak currency. Basic market institutions such as a banking sector, capital markets, intellectual property legislation, and private property protections were unavailable for the Russian business at this time. However, loopholes in legal status, tax and industrial regulations provided room for interpretation for both entrepreneurs and authorities.

The Russian economy was equally restrained by deficiencies in the local infrastructure and the immaturity of markets. These included impaired transportation and logistical systems, both of which are crucial given Russia’s vast territory. A deficit of commercial real estate was also a business deterrent. Companies often suffered from an insufficient or unreliable supply of professional services and components. Against this background, some industries developed faster, while others developed only gradually, leading to a general misalignment in the overall business environment, and hindering the implementation of otherwise proven business models.

In addition, the Soviet legacy acted as an impediment to the development of a vibrant business sector: for many years, entrepreneurial activity of any kind was perceived in a negative way. A lack of trust within the broader Russian business community also created a “family and friends” culture of doing business, based on maintaining a high level of control for a narrow set of insiders. This also meant that less attention was paid to developing best-in-class industry practices, and more to motivating and rewarding top managers.

Thus, the adverse markets conditions, regulatory gaps, infrastructural deficiencies and lack of good business practices make the success of the Selected 15 even more impressive. These companies have managed to attain market-leading positions in local and even global markets, notwithstanding these challenges and often thanks to them. The next section of this report considers their creative strategies, which respond to and harness the specifics of the local market to their benefit.
Strategies

Each company is unique, and it would be impossible to aggregate their success stories into an ultimate winning strategy. However, some similarities can be identified that can then be integrated into a simplified picture, which represents generic strategies deployed by the companies in this study (see Figure 5). The key idea was to separate the different approaches that the Selected 15 have undertaken while addressing or taking advantage of the specifics of the Russian business environment. Some considered the specifics of the Russian business environment a threat and successfully found a way to circumvent them, while others viewed them as an opportunity to create value and to differentiate themselves from their competitors.

Additionally, this report explores the approaches of these companies to market positioning (either global or local) that they used to eliminate threats or benefit from opportunities. Within the diversity of the strategies below, there is one common feature: rapid deployment and a preference for market penetration strategies targeting the long tail of the market first.

Figure 5: Matrix of Winning Strategies

<table>
<thead>
<tr>
<th>Ambition</th>
<th>Attitude to Local Context</th>
<th>Opportunity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global</td>
<td>Global Citizen</td>
<td>Use global talent for a global product</td>
</tr>
<tr>
<td></td>
<td>Luxoft</td>
<td></td>
</tr>
<tr>
<td></td>
<td>ABBYY</td>
<td></td>
</tr>
<tr>
<td>Local</td>
<td>Best Adaptation</td>
<td>Adapt existing business models to the Russian context</td>
</tr>
<tr>
<td></td>
<td>OZON</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Magnit</td>
<td></td>
</tr>
<tr>
<td>Global</td>
<td>Global Niche</td>
<td>Use local talent to develop a global niche</td>
</tr>
<tr>
<td></td>
<td>SPLAT</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Ascon</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Alawar</td>
<td></td>
</tr>
<tr>
<td>Local</td>
<td>Local Offering</td>
<td>Develop unique product tailored to local needs</td>
</tr>
<tr>
<td></td>
<td>Teremok</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Yandex</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Qiwi</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Megafon</td>
<td></td>
</tr>
</tbody>
</table>

SKOLKOVO Institute for Emerging Market Studies (IEMS) analysis
**Best Adaptation**

These companies exclusively focus on the Russian market and use innovative operational strategies to successfully adapt global best practices, despite the shortcomings of the local infrastructure or the general immaturity of the market. In other words, they have implemented operational models that have allowed them to adapt global business models to Russia’s specific local conditions.

The creative operational strategies deployed by the most successful companies in this group have helped them to bridge infrastructure and market gaps, and to build a competitive advantage. The most common solution was “in-sourcing”: building an in-house competence as a substitute for outsourced services. These in-house strategies typically evolved over time, as companies found innovative ways to use digital technology to improve and strengthen existing capabilities.

By applying a best adaptation model, Russia’s largest retail chain Magnit has outperformed not only its local peers but also global players competing within Russia. It has done this by relying on its in-house logistics and in-house programmers. The company maintains a home-grown, tailor-made enterprise resource planning (ERP) solution that is responsible for ensuring sufficient quantities of fresh goods on store shelves. In combination with a strategic decision to focus on small cities first, while competitors were targeting more obvious opportunities in large cities, Magnit managed to secure the trust of customers and gain market share, while being almost invisible to competitors.

In a similar way, Ozon also used operational and logistical excellence to become a market leader. Back in 1998, with the Russian postal service still quite unreliable and a cash-based economy, people could hardly imagine buying online. To overcome these problems, Ozon (the Russian version of Amazon.com) developed its in-house transportation unit and rolled out its own network of collection points all over the country, to ensure that people received their orders on time and could pay cash on delivery if they wished.

Once Ozon’s and Magnit’s in-house logistics reached critical mass and high performance levels, the companies started to provide logistics services to third parties. This was not only a way to leverage existing assets, but it also encouraged both companies to remain constantly attuned to the competitive needs of the market.

There is also a proven alternative to in-sourcing: the removal of the weakest link from the chain. For example, Tinkoff Credit Systems, a consumer finance bank without a single branch, overcame the lack of a viable commercial real estate market within Russia by adapting its business model accordingly. It simply delivers credit cards by courier and provides all customer service online and via call centres.

**Local Offering**

These companies also concentrate on the local market and outperform their global and local competitors by offering distinctive value propositions tailored to Russian consumers. Their success has been determined not only by their creativity but also by a deep understanding of current needs and future expectations of Russian customers.

Qiwi is one of the most prominent examples of how the inefficiency of the local market and a lack of infrastructure can be converted into a promising business opportunity. In a predominantly cash-based Russian economy with rapidly growing cellular phone penetration, many people struggled to keep their accounts funded, as payment points were rare and usually very busy. Qiwi installed tens of thousands of cash payment terminals across the country where people could immediately top up their accounts with cash.

As well as Qiwi, the following examples stand out not for their ability to overcome local shortcomings, but for transforming local specifics, such as the Russian language and Russian cuisine, into a platform for building competitive advantage.

As the “Russian Google,” Yandex successfully differentiated its search engine through its search efficiency in the Russian language and the rapid introduction of locally relevant services. What made these innovations possible was not just the sophisticated mathematical algorithm created by Yandex, but also the fact that the leaders of this company were sharing the same local environment as their customers.

How local can a global fast food chain be? Perhaps never as local as Teremok, a Russian chain that successfully challenges McDonald’s and Burger King by focusing on traditional Russian blini (pancakes or crêpes) instead of the Western hamburger as a base for sandwiches and rolls. In addition, the company has adapted its interactions...
with customers to reflect Russian traditions and styles, an important complement to the excellent quality of the product.

Anticipating future customer needs was probably the only choice for MegaFon, a late entrant to the Russian cellular market. MegaFon outperformed two other entrenched competitors by prioritizing data rather than voice traffic, and focusing on providing fast and reliable connections where people usually use mobile data.

**Global Niche**

The companies within the Global Niche category are dedicated to world-class single product excellence. They outperform their competitors in the global market by developing a strong and constantly improving core product and then offering multiple variations and versatile applications to their customers globally. Regardless of whether a company deploys a cost-leadership or highly focused product strategy, the key success factor is attracting highly qualified people with strong academic backgrounds. As Anatoly Karachinsky, Founder and Chief Executive Officer of Russia’s leading IT systems developer and integrator IBS Group, once remarked, engineers offer Russia the same type of competitive advantage as oil (Vedomosti, 2013).

It is the unique mix of engineering talent nurtured by the Soviet Union’s scientific schools, and the entrepreneurial drive of specific individuals that are the key factors in delivering a competitive advantage built on world-class performance at a reasonable cost. To document this model, this report examined a number of high-tech players originating from remote cities that are home to Russia’s foremost research centres, with some of them originally being part of Soviet-era military and defence clusters. Alawar, now a top global player in the publishing and distribution of casual games, started as a game developer in Novosibirsk, which is home to some of the best engineering schools in Russia. Ascon, sprung from the military-industrial complex in Kolomna, challenges the global leaders in computer engineering and design that provide solutions in computer-aided design, computer-aided manufacturing and product lifecycle management. Prognoz, founded by a team of economists and scientists from Perm State University, successfully challenges Oracle in the creation of business intelligence applications. Transas, started in the late 1980s by sailors who enjoyed programming as a hobby, is today number one globally in navigation systems. NT-MDT, number two globally in sophisticated testing solutions based on atomic microscopes, was founded by researchers from Zelenograd, which is sometimes referred to as the Soviet Silicon Valley. Examples of the Global Niche strategy don’t only come from the Hi-Tech industry. For example, SPLAT is a premium organic toothpaste supplier with a seemingly endless list of product variations: edible products for kids, non-allergic products for pregnant women, and products for VIPs featuring tiny gold particles. It successfully challenges brands such as Colgate, Blend-a-Med and Oral-B in Russia, as well as in 50 other countries around the world.
Global Citizen

In addition to product or service excellence, market acumen and best-in-class operational performance, the Global Citizen strategy involves setting up multiple locations and hiring talent worldwide: all of which is unexpected from a Russian company.

Indeed, the examples of the Global Citizen strategy are very rare. Perhaps one of the best examples is Luxoft, which provides offshore software development. The company outperforms low-cost Indian competitors by focusing on developing sophisticated solutions for Western blue-chip companies. Most importantly, the company has service and delivery offices not only in cost-effective locations like Russia or Vietnam, but also in locations with immediate proximity to the customer, such as the United States and the European Union. This is a model that the company calls “near-shore” software development.

Another bright example is ABBYY, which initially developed as a Global Niche player. However, the product soon required local expertise in targeted markets. Thus, ABBYY has transitioned to a Global Citizen strategy, based on establishing subsidiaries in foreign markets and then hiring local staff.

Challenges Ahead

These strategies, built upon the capability to leverage local specifics, have helped the Selected 15 to achieve their principal competitive advantage and to develop a winning value proposition. Moreover, the companies have proven their global competitiveness, as they either outperform or at least challenge their international rivals in the Russian market, and sometimes even globally. This raises the obvious question: to what extent can these strategies be a source of a long-term competitive advantage?

Toughening market. The overall economic context in Russia is not as favourable as it was a few years ago. Along with other BRICS countries, Russia demonstrated rapid growth in the 2000s, but the economy was then severely hit by a global financial crisis. Although the economy picked up again quickly, its growth has slowed down, demonstrating a lowering rate of increase: 4.3% in 2011, 3.4% in 2012, 1.3% in 2013\(^6\) and with projections close to 0% for 2014 and 2015\(^7\). Perhaps the economic downturn by itself would not be a game-changer for these companies. However, it goes hand in hand with a general maturation of markets and the intensification of competition both domestically and overseas.

Narrowing capability gaps. Over the last decade, business in Russia has experienced the effects of a gradual development of institutions and public infrastructure, as well as the emergence of greater competition between service providers and other intermediaries in the companies’ value chain. Consumers have also become increasingly demanding. These factors narrow the gaps between market leaders and market laggards and eliminate the competitive advantage of the Selected 15. The improvement of the business environment over the last decade has also attracted new international players, which puts additional pressure on Russia’s entrepreneurial champions.

Competing for talents. Many of the Selected 15 have achieved their position in the global market based on their access to highly qualified, but relatively inexpensive, professionals. This competitive advantage is slowly eroding and is particularly alarming considering that hiring and retaining highly skilled personnel has become one of the biggest challenges for Russian companies. It is even more so for those competing in market niches where intellectual capital is paramount. The inevitable increase of overall human capital costs could potentially lead to the loss of the competitive advantage based on access to low-cost, highly skilled talent.

Considering these trends, current advantages will be no longer sufficient for sustainable long-term development. In fact, they may even turn into a tyranny of past success, with strategies that worked in the past becoming less and less relevant for the future, and causing the company to contract rather than grow.

Tougher challenges call for innovative solutions: not creative quick-fixes, but an integrated and systematic strategy built around innovative capabilities. To evaluate to what extent the Selected 15 are up to the challenge, their strategies were screened through the Ten Types of Innovation framework\(^8\) developed by Larry Keeley and his partners.

This shows that half of the companies take advantage of less than a third of their innovation potential. The most underutilized innovation areas are related to services, business models and customer engagement, while the most leveraged ones pertain to product, brand and distribution. Putting it differently, most of the companies in this study tend to rely on inside-out strategic thinking, which places the product front-and-centre while undermining business configuration and keeping customer experience on the periphery. In order to achieve further growth and create greater value in tougher economic conditions, the companies will need to consider the outside-in approach, which calls for more sophisticated business systems and puts customers and market opportunities first.

The fact that the Selected 15 collectively use all 10 types of innovation illustrates that the overall Russian strategic landscape is relatively diverse. At the same time, business models built only around local specifics will be not able to provide long-term growth, and the companies will be increasingly pressured to introduce more sophisticated types of innovation.

Pushing existing capabilities and rethinking innovative planning will certainly challenge the organizational routine and skill sets. Undoubtedly, the future will belong to those companies that manage to develop sophisticated strategies, while their existing advantages remain relevant and their current market niches are still profitable. Given the complexity of the transformation and the hostile market conditions, there is no doubt that the challenge is daunting. Yet, in a rapidly globalizing world, there is just no alternative.
Conclusion

Despite the country’s well-documented challenges, positive economic forces have been at work in Russia. Private business, which has grown almost unnoticed, is just one such example. No matter how fledgling, entrepreneurship in Russia has made its way through and yielded a multitude of examples of successful and competitive private companies. While generally being off the radar, particularly to the international audience, these companies represent a new generation of Russian business leaders that have made entrepreneurial culture and behaviour part of their very core.

The Selected 15 companies studied in this report are remarkable for several reasons. With the majority of them launching in the turbulent 1990s, these companies have managed to survive economic downturns and post outstanding results despite the continuously evolving and often unpredictable landscape of Russian business. The country’s regulatory gaps and infrastructure deficiencies did not impede these companies from developing. In fact, if anything, they pushed them to become more resilient and creative. Many of the 15 companies highlighted in this report come from industries that did not even exist in the 1990s, including many in business-to-consumer (B2C) industries. Having established themselves as market leaders, these companies have often played a key role in shaping their industries, sometimes even creating them from the ground up.

The analysis of the strategies of the Selected 15 shows that these companies have managed to succeed in spite of the challenges of the Russian reality and often thanks to them. Despite their different industry affiliations, these companies have one thing in common: an entrepreneurial mindset, which is highlighted by their creative approaches to building and growing their businesses.

The actual strategy that the individual companies have pursued is defined by how they have chosen to respond to the specifics of the Russian business environment. Some have considered these specifics to be a threat and successfully found a way to circumvent them, while others have viewed them as an opportunity to create value and to differentiate themselves from competitors.

The entrepreneurial mindset also explains these companies’ international aspirations. Global ambitions, not to mention global presence, are rarely observed among Russian mid-size companies. There is no cultural model or business mindset to follow such pursuits, and this is where the Selected 15 could be role models for other companies in Russia.

However, the companies’ winning strategies, which once were their strengths, could actually make them more vulnerable in the future. Given the relatively undeveloped market conditions that existed in the late 1990s, these companies have done well by focusing mainly on product, brand and distribution in their innovation repertoire. However, such inside-out thinking, which puts the product at the centre of the business model, might not work well in the face of today’s challenges: unstable economic conditions, growing competition, and increasingly demanding consumers. All of these factors can place serious pressure on the performance and growth prospects of these market leaders. The bigger challenges call for more sophisticated innovations, and necessitate outside-in thinking that relies on creative business configurations and enhanced customer experience. Going forward, these companies need to continue to think entrepreneurially and deploy creative, flexible, and consumer-centric business models that will help them to overcome the market hurdles of the future.
Revealing Entrepreneurial Leaders
Russia has not produced its own Haiers, Embraers or Infosys. However, this research has identified a few dozen Russian companies from non-commodity industries that could be classified as world-class candidates. These businesses consistently perform at the top of their industries, command international recognition, attract customers, talent, and capital from global markets, and directly impact their sectors through product, process and business model innovations. To shed some light on what differentiates them from thousands of Russian companies lagging behind international competition, this report explores two in more depth: Kaspersky Lab and Aeroflot.

In anticipation of the key conclusions in the closing part of this chapter, two of the most important findings of the research project include:

- Leading Russian companies embrace the logic of global competition of the 21st century: they are customer-focused, learning-oriented and entrepreneurial. The main source of their competitive advantage is talent, not natural resources.
- Leaders play the central role in the development of these enterprises. People who lead these organizations combine a global business mindset and entrepreneurial ambition, with a distinct style reflecting their Russian roots.

Kaspersky Lab: From Hobby to a Global Cyber Security Powerhouse

Eugene Kaspersky, Founder of Kaspersky Lab, looks more like a programming genius than a chief executive of a global company. But in his public appearances all over the world, he talks about global challenges rather than software code. Kaspersky says that the world is full of hackers, organized crime, rogue businesses and governments. They are very sophisticated and their negative impact on the global economy is becoming more tangible. It is not possible to eradicate them all together, but Kaspersky sees his mission as making their lives more difficult. Eugene and Kaspersky Lab are engaged in three types of activities: developing and distributing endpoint protection software, assisting governments and the international security bodies Europol and INTERPOL, and conducting joint investigations of cyber-warfare operations involving cyber-espionage or cyber-sabotage malware. The first activity creates positive cash-flows, the other two require cash disbursements, but all three create moral satisfaction for the founder.

This story begins in 1989, when a young man at a closed scientific research institute detected a virus on his desktop computer. Eugene Kaspersky tried to fix his machine and... he succeeded. Defeating viruses became not just a hobby, but a real passion.

The company officially started in 1997, but by that time Kaspersky and his partners had created antivirus AVP, which won the University of Hamburg’s recognition as the best in the world. In 1999, Kaspersky Lab opened its first representative office abroad. They chose Cambridge, in the United Kingdom, but the attempt did not succeed.

The market was too conservative, they knew little about doing business there, and they made some hiring mistakes. Soon the company made its first attempt to launch in the US, but the locally recruited manager was dishonest, and the second manager, sent from Russia was unsuccessful. However, Eugene and his team did not give up on conquering an increasingly appealing US market, and continued to broaden and strengthen the partnership network.

In 2000, the company held its first partner conference in Moscow, which was attended by 15 international partners. Kaspersky Lab negotiated exclusive distribution on its partners’ territories in return for increased discounts. This model turned out to be beneficial for both the company and its partners.

In 2003, it opened an office in Germany. That became the first confident step into the future explosive international expansion. Over the next 2 years the company opened offices in France, Italy, Spain and Japan. In 2003, Kaspersky Lab had 250 employees, most of them based in Moscow, but Russia generated only 40% of revenue.

In 2005, Kaspersky Lab decided to attack the competitive computer-security market in the US, and hired a local manager, Stephen Orenberg. Challenging such industry giants as Symantec, McAfee, Trend Micro did not seem likely; most retailers considered antivirus software a commodity and already had multiple vendors. On 7 July 2005 Businessweek published an article “Does the US need another antivirus company?” In it, they mentioned that Kaspersky Lab had something different to offer. First of all: speed. Kaspersky Lab was the first company in the world to have scheduled daily updates, and in 2004, hourly updates. In comparison, Symantec, Trend Micro and McAfee had an average of 30 updates per month. Kaspersky targeted a new market, by focusing on the end consumers and small and medium sized businesses (SMBs), practically ignored by large competitors who worked with large corporate clients. The company also took a bet with its pricing strategy. Orenberg decided to stay away from price wars and simply charged the highest price. He thought that the market was looking for a premium product, and he was correct. Kaspersky Lab’s market share in the US reached 4.6% in 2008. By 2010, it became number one in retail sales in the US, having out-performed its notable competitors.
Despite these remarkable results internationally, Kaspersky Lab faced some internal problems. The new version of Kaspersky Anti-Virus 4.0 launched in 2004 was not up to standard. As a result, the launch of the new version 5.0 was cancelled. The company fell into a trap: the high quality product they were proud of had failed. The reasons behind this collapse can be found in the company’s growth. When the number of employees increased dramatically, the company tried to implement new management structures, which led the “community of free programmers” to grow into a corporate bureaucracy. Kaspersky Lab pulled itself out of the technological crisis by restructuring R&D development with a complete redesign of the product architecture. In 2006, Kaspersky Anti-Virus 6.0 was successfully launched.

By that time, the company had decided to shift to a holding structure with offices around the world. Local partner offices were to be bought out or closed. The previous business model, with a focus on strong partnership networks was very successful for a small company. But with the revenue growth, local offices began to compete with each other. In 2007, all offices were divided into five macro regions (Western Europe, EEMEA, America, APAC, and Japan), each reporting to headquarters in Moscow.

Currently, Kaspersky Lab is represented in almost 200 countries and territories, with 33 regional offices. It employs 3,000 people and provides protection to over 300 million people worldwide. According to the company’s 2013 unaudited financial results, Kaspersky Lab’s revenue grew by 6% and reached $667 million. Kaspersky Lab continued to deliver strong growth in the corporate IT security segment: 9% growth in the corporate segment overall and 18% in the enterprise segment in particular.

At Kaspersky Lab, software programmers working on new endpoint protection products sit in the area adjacent to the chief executive officer’s suite. The message is clear: employees are the most valuable resource of the company. And, “they are fun to talk with”, Eugene confesses. According to him, Kaspersky Lab is a talent and values driven company.

Global company with a strong Russian accent

From day one, Eugene had an ambition to create the best antivirus company in the world. In the 1990s, when the Russian economy was in ruins, it may have sounded like an impossible dream, but not for him. One of his and his company’s secrets is that they view disadvantages as opportunities. Kaspersky Lab believes that being an international company with Russian origins is a huge advantage. The reason is simple: the leaders in the cybersecurity industry are big American companies that focus on the largest US market. On the contrary, the underdeveloped Russian market was too small for Kaspersky Lab and it had to look at the foreign markets. The shortest definition of the company’s key to global success was provided by Stephen Orenberg, former President of Kaspersky Lab Americas: “Localability”. The company relies heavily on local knowledge to find ways to market, and it adapts to local culture in each of the territories it has expanded to, as opposed to the “one size fits all” philosophy of most large companies.

Were the company’s Russian roots an obstacle on its way to international expansion? The management does not think so. Since day one, Kaspersky Lab promoted not just itself, but also Russian R&D engineers in general. Certainly in some countries, a Russian background was helpful. In Germany, the professionalism of Russian scientists and engineers is widely recognized. Kaspersky Lab has 74% brand recognition in Germany in the B2C products market. In the US, the company was not as active in promoting its Russian origins, but never made any attempts to hide them either. Asia, however, was more open to a Russian company. Asian consumers pay attention to references from local companies, so developing a strong local network was a crucial step in conquering the Asian market. In Latin America, on the other hand, the best results were achieved through PR campaigns, with references from big international companies. Latin Americans also seemed to like the Russian roots of Kaspersky Lab.

Kaspersky’s leadership

Eugene describes his strategy as the following: “First, I sometimes guess trends in the world of viruses, trends in computer-related risks and we manage to react faster than others. Second, our capacity to develop software which allows to catch viruses better and faster than others. Third, my ability to put together a team. And, of course, pure luck”. Kaspersky considers personal humility a fundamental trait of a successful business leader: “Megalomania is the biggest risk… It can be cured only at the early stages… Good friend of mine caught me at the second stage and cured me. Since then I have developed immunity to it”.

Kaspersky considers tenacity to be his core competency: “I am not so much talented but rather persistent. If I want to do something I will do it no matter how much time and effort it will take. I will be hitting and hitting the same rock until it cracks.”

Kaspersky Lab employees agree that their boss is pretty persistent, but they consider his social intelligence, technical competency and ambition as three other major traits that made him an outstanding business leader. A 2014 Forbes article10 ranked Kaspersky Lab 16th among the most attractive international software companies to work for, ahead of Microsoft. 79% of its employees would recommend Kaspersky Lab to their friends, and 85% say that the chief executive officer of Kaspersky Lab is the best role model for the company.
Aeroflot: From Airline to Avoid to Passenger Favourite

In 2006, a columnist for The Financial Times wrote an article about Air India. He compared Air India to Aeroflot: “Only Aeroflot is likely to come up more often in competitive dinner party tales of worst air travel experiences”. In 2013, the New York Times published a lead article about “a new Aeroflot” after it had been named the Best Airline in Eastern Europe. The man behind that spectacular turnaround, Vitaly Saveliev, Chief Executive Officer of Aeroflot, confesses: “Before my appointment I was always trying to avoid flying Aeroflot”.

Taking charge: Saveliev and his team

Aeroflot is one of the oldest carriers in the world, founded in Soviet Russia in 1923. In 1990, Aeroflot, as the only Soviet airline, carried 139 million passengers (more than all American airlines combined) and flew to 102 countries. After the breakup of the Soviet Union, Aeroflot lost almost 80 percent of its fleet and became just one of many in the crowded Russian market. When Vitaly Saveliev became the Chief Executive Officer of Aeroflot in April 2009, the company was losing passengers and money.

At the age of 55, the dynamic new chief executive officer had held many important managerial jobs, but had no airline experience at all. “But by that time I flew millions of miles with all major airlines as a customer” says Saveliev, sitting in the Aeroflot head-quarters in downtown Moscow in September 2014, “and it was not about aviation at that time. It was business survival and I knew a thing or two about crisis management. We created a crisis management headquarters, centralized and froze all payments, sorted out priorities and managed the company manually for some time. Our initial actions saved around $1 billion and saved the business. Then we started to learn what civil aviation is all about”.

Before Aeroflot, Saveliev had a bright managerial career, and spent four years as a Deputy Minister of Economic Development and Trade. In the country renown for young executives, he expected “to be the oldest guy on the block” in his new company, but instead he met “29 deputies aged from 60 to 67 years”. The new chief executive did not rush to fire the old guard. He complemented the existing executive group with five managers who had worked for him at Sistema and began to assess potential of older group. Some of them became key members of Saveliev’s team: Vladimir Antonov, who joined Aeroflot 20 years ago after a military career, is Saveliev’s First Deputy today, and Igor Chalik, who was one of the first Russians to fly Airbus planes, is Commander of Aeroflot flight operations today. Speaking of his management style, Saveliev says: “I always listen to people, I encourage them to speak up, but I made them learn that the final decision is mine and it’s not up for discussion. I make it and I assume the risks that come with it”.

Saveliev made many unorthodox decisions at Aeroflot and stood firmly by them. He fired 12 staff members who refused airplane access to passengers with home-printed boarding passes when that serviced was newly launched; he lobbied hard and fought the Russian pilots’ union to allow foreign nationals to fly in Russia. One of the most controversial decisions was to keep the Aeroflot name and logo. Saveliev believed that each company should respect its roots. Today the Aeroflot brand is valued at $1.55 billion. Saveliev continues to describe his leadership style: “I manage by variances. If I don’t see negative variances – I sit still. If something goes wrong, I dive in. General manager should create a team, allocate roles and let people work.” Saveliev loves data and he turned Aeroflot into a data-driven company. They adopted and created dozens of indicators, which highlight where the company stands in customer service, customer loyalty, fleet efficiency, food quality, etc. The chief executive officer compares Aeroflot to other industry players and his own targets rather than its past: “I am not interested in celebrating old victories, I want to win new ones”.

However, in April 2009 the operating mode was different. Saveliev and his “young wolves”, the managers that came from Sistema, immersed themselves in the Aeroflot reality. One part of their anti-crisis strategy was generic: freezing all payments except salaries, taxes and interest rates. They then moved on to reducing the headcount and other costs. They let 2,500 people go and generated a media frenzy. Journalists, union activists and politicians accused the company, whose major shareholder is the Russian state, of things ranging from neglecting passengers’ safety to destroying a national symbol. But Saveliev continued with his reforms.

The second part of the anti-crisis program was industry-specific. The new team applied advanced analytical tools, such as cost accounting and net present value (NPV) analysis, to different aspects of the operations. This led to actions such as removing 26 TU-154 airplanes from service due to inefficiency, and re-thinking the whole routing map, as 40% of Aeroflot routes were NPV-negative. The newcomers introduced a centralized treasury function and an SAP-based IT system.

While busy cutting costs and optimizing Aeroflot’s operations, Vitaly and his team made learning the new industry a part of their working routine. Every Saturday, they spent four hours listening to strategy consultants and applying acquired knowledge to Aeroflot. According to Saveliev, a number of initiatives came out of these “classes”: “We learned that newspapers and magazines have significant flight weight and cost us extra fuel, so we limited the choice and saved $17 million a year. The same was true for fuel and water charges.”
**Turnaround**

Saturday workshops confirmed what Saveliev knew from his passenger experience: the airline industry is a service business. After stabilizing Aeroflot’s financial situation, its management team focused on service quality. They started with the company’s face: stewards.

Saveliev turned to Asian airlines in search for the best practice in preparing flight attendants. He sent 60 carefully selected stewards to a Singapore Airlines education centre. Twelve of them became coaches at the Aeroflot Staff Training Center in Moscow. Today Aeroflot’s Training Centre is the largest in Europe, and future flight attendants study for 20 weeks, learning a variety of skills from “slow service” to delivering babies on board.

Secondly, Saveliev’s project was to dress Aeroflot up: in 2009, the company announced a tender to design a new uniform. All interested designers were invited to a meeting with Saveliev, who showed them a Virgin Atlantic video clip (“25 years, Still Red Hot”), said: “I want better than that”, and left the room. Two Russian designers won the competition and produced a collection in two colours: “red mandarin” (summer) and “navy” (winter). In 2012 the Aeroflot uniform was voted the most stylish in Europe by a passengers’ survey.

Another important issue was food. Saveliev took his management by surprise when he invited them to taste the Aeroflot food offerings together. The effect was overwhelming: everyone admitted that the food was not acceptable. Vitaliy: “We had what I call ‘shot in the stomach’ — overcooked beef with cheese and mayonnaise on top. It turned out that at that time senior stewards decided what the menu was going to be and where to buy the food. We centralized it and attracted top talent — chefs and sommeliers — to develop menus for Aeroflot”. Today there are 16 menu choices at Aeroflot (vegetarian, kosher, halal, etc.), which change every 3 months in business-class, and twice a year in economy class.

**New strategy**

By the end of 2010, Aeroflot entered a growth phase, regained market leadership in Russia, improved its financial position and began to receive some positive press. However, the management team knew that only the low hanging fruit had been harvested and the company needed to define its longer-term strategy.

Aeroflot management had done a great deal of industry analysis and benchmarking. Saveliev: “I am not inventing a bicycle – I look for the best practice and adopt it”. Kirill Androsov: “We took a hard look at the industry and we realized that traditional airlines – British Airways or AirFrance – will not survive, low-costers will kill them. In the future you can be either a low-costier or a premium airline”. Aeroflot decided to be a premium carrier.

To become a premium airline, Aeroflot, first and foremost, had to provide premium service: to ensure safety, great planes, friendly onboard service and seamless ground support. Having a great safety record, Aeroflot had to focus on upgrading its fleet and its customer services in a profitable way. Russia’s geographic position provided a unique market opportunity, linking Europe with East Asia, which became a pillar of the new strategy.

Aeroflot made significant investments into its fleet, acquiring new Airbuses, Boeings and Sukhoy Superjets to constitute one of the youngest fleets in the world: 3.8 years (in comparison, for KLM and AirFrance the average age is 10.8 years). The company built a modern terminal at Moscow Sheremetevo airport to serve its Europe-Asia links, and enjoys high growth in this segment.

Innovation is another element of the Aeroflot strategy, and the management team believes that a premium airline should constantly surprise its customers with pleasant novelties. Saveliev sets an example in this constant search for innovation, by scanning the world for good ideas. He talks to friends, customers, experts, and reads passengers complaints on Twitter. Saveliev is proud that “we managed to insert a new content into the old form. Aeroflot is one of the oldest airlines in the world, but we are a dynamic innovative, company”.

In his innovation quest, he is not only a visionary who shows the way, but an active creator: “I don’t like when people put their shoes on our blankets, but I can’t prevent them from doing it. I ordered blankets’ dry-cleaning after each flight. It costs us millions of dollars, but customers love it,” Aeroflot spent 8 months developing wet towels: the team was looking for special materials and technologies to provide the ideal combination of temperature and moisture. Saveliev considers this to be a sign of premium customer care. Innovation is not limited to its services and products. Aeroflot was one of the first airlines to apply NPV methodology to route analysis; it created an Aeroflot group that combines four airlines operating under separate brands, serving segments without a premium airline service; its first non-Russian pilot flew in September 2014. Aeroflot invests 10% of its profits in R&D: $22 million a year. According to Saveliev, Aeroflot has become a “strategy-driven company”, and this pays off. In the last five years, it increased passenger turnover from 8 million to 21 million per year, while its headcount went up from 17,000 to 18,000 employees. Its revenue rose from $2.8 billion to $7 billion, and its net income from $122 million to $281 million. According to Saveliev, Aeroflot has become one of the most efficient European airlines, behind only RyanAir and EasyJet.

Aeroflot consistently wins international awards for service quality and gets positive international press reviews. Today, the Russian carrier has the highest customer loyalty index NPS among all European airlines (67%), and in 2013 it was listed in the top-10 world airlines, according to World Airline Awards.
Ever the shrewd businessman, Saveliev understands that *Aeroflot* is more than a commercial airline: it is the Russian national carrier, in which the government owns the major stake. The company actively participates in programmes to improve the lives of underprivileged Russian citizens. It has its own charity programmes, “Heart with two wings” to transport seriously ill children from remote locations for medical treatment in Moscow, and “Train of Hope”, to fly prospective parents to Russia’s orphanages. His network helps to bring rich and famous Russians to join such initiatives, and he plans to increase their scale. *Aeroflot* also helps Russian citizens caught in hot spots like Syria or Yemen, by dispatching their planes to bring their compatriots back home. Such actions affect the bottom line financially, but nobody at the company questions them: they are significant elements of *Aeroflot*’s mission.

**What’s next?**

Saveliev signed a new five-year contract with the *Aeroflot* board in 2014. His vision for 2020 is crystal-clear: “We will be in top five European companies and top twenty in the world (based on passengers). And we will be the most profitable one, at least in Europe”. He adds with a smile, “I am an athlete and I like clear goals, then I just go for it, like a machine”. *Aeroflot*’s strategy states the following goals for 2020:

- 67 million passengers
- $1 billion operating profit
- 383 liners
- 45% market share in Russia

On the question of his personal legacy, Vitaly Saveliev does not hesitate: “I work to make sure innovation spirit is preserved when I am gone, and I find myself proudly flying Aeroflot”.

**Conclusion**

The leaders that have been studied have strong and unique personalities, which have an undeniable impact on the organizations they head and the people they lead. At their core they do what other effective leaders do: develop and communicate their organization’s vision and strategy, select, motivate and mentor people, improve organizational norms and rules, innovate, and link the company to the outside world. They master some roles better than others, but that is not what makes them and their companies special. This report identifies six common attributes of their leadership, which distinguish them from other Russian business leaders and are responsible for the spectacular growth of their businesses.

**Global ambition.** Computer geek Eugene Kaspersky of Kaspersky Lab is not content with domestic championship, he wants to win globally. This attitude leads to one of the key driving forces for their companies: world-class benchmarks and world-class standards.

**Learning-based leadership.** The leaders believe that the world is changing and the only way to stay ahead of the game is to learn and learn faster than others. They learn from multiple sources and constantly upgrade their leadership mental models.

**Experimentation and liquidation.** Although the companies they run have long passed the start-up phase, these leaders act as entrepreneurs. They do not spend months and millions on planning innovation; they get an idea, try it, receive swift feedback from the market and roll it out or kill it quickly. They constantly and sometimes ruthlessly clean house: getting rid of outdated products, processes, departments and people to free room for innovation. Three other attributes of their leadership are inherently linked to the Russian context, but have played a serious role in the development of their companies.

**Centrality.** In contrast to Jim Collins “Good to Great”, William Collins, 2001 concept of “humble leadership” these leaders are larger-than-life for their companies. They occupy the most central place, and lead from the front. Other employees project their personal leadership and life ambitions onto them, which creates significant organizational traction.

**Role-modelling.** The Leaders’ centrality amplifies the importance of the traditional role-modelling function of a chief executive in any company. In Russian organizations, employees at all levels relentlessly watch and copy their bosses. By being consistently customer- and performance-oriented, innovative and obsessed with learning, leaders effectively help their followers to embrace these qualities, which are critical for business growth.

**Global companies with Russian faces.** None of the leaders studied would consider themselves nationalists, and their “globality” makes them balanced and even critical towards Russia as a state. But they all cannot imagine themselves disconnected from it, and they want to make a contribution to its development by building global companies with distinctly Russian faces. This strongly resonates with the organizations that they head and gives them an additional leadership lever that their competitors do not have.
Conclusion

As we observe the increasingly difficult macroeconomic conditions, continuing geopolitical tensions in the Eurasia region, and the continued deferral of structural and institutional reforms, there is the ever-growing risk of persistent economic deceleration in Russia. At such critical juncture, it is especially important to go beyond the immediate roadblocks and stifling policy constrains and to focus on the long-term sources of the country’s growth.

This report has sought to highlight the success of innovative entrepreneurs as well as acknowledge the power of the leaders of successful established companies to turn around and reinvent Russia’s businesses. Thus, our analysis seeks to support the country’s economic transformation by identifying the unexpected and often unnoticed sources of inspiration for sustainable and inclusive growth.

Spanning one year, the report is a compilation of surveys, interviews and focused discussions at the Open Innovations Forum in Moscow and the World Economic Forum Summit on the Global Agenda in Dubai. The theme of entrepreneurship continues the momentum of the Global Agenda Council’s work in Russia, with the aim of triggering a strategic and future-looking dialogue that supports policy practitioners and business leaders.

Despite the challenging business climate in Russia, select entrepreneurial leaders have emerged by adopting innovative business models and leadership strategies, combining Russian traditions with global best practices. Collecting insights directly from business leaders of start-ups, SMEs and large corporations outside of the natural resources sector, the report has provided a new perspective on how these companies, not satisfied with the business-as-usual approach, succeed in the complex Russian market.

Now, more than ever, a multistakeholder approach facilitating cooperation between the public and private sectors is needed to develop a strong vision for Russia’s economic growth.
References


Reports


Doing Business 2015: Going Beyond Efficiency, World Bank

The Global Innovation Index 2014: The Human Factor in innovation, Cornell University, INSEAD, and WIPO

Survey Participants

We would like to thank the following companies for their participation in our survey:

- 2GIS
- Aeroflot
- Alawar
- ALIDI
- Apple Diamond
- Atlant-M
- Atomstroykompleks
- Baby Club
- Beer Gamer House
- Brave
- Changellenge
- D.Craft
- Debate Night
- DevPocket
- DoDo Pizza
- F1 Group of Companies
- Factor Group
- Fastlane Ventures
- Fora
- Gen Engineering
- GofroMaster
- Himmetall
- I’Way
- Infosoft
- Jey Study
- Kaspersky Lab
- Lampyris
- Magram Market Research
- Maraquia
- Marya
- Mir-Detyam
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- Nurba Diamonds
- Obuv Rossi Group of Companies
- Otelit Development
- PayOnline
- R-Pharm
- Rakurs
- Revizto
- Rocketbank
- Saint-Petersburg Exchange
- Sberbank
- SBR Corporation (Metrika)
- Seymovskaya Poultry Farm
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- Snow-Media
- SPN Communications
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- SuperJob
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- Transervice
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