

# **Doing Business in Russia: Understanding Russia**

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## DB and RZD Center for International Logistics and Supply Chain Management

**Formed in early 2009 with funding from two sources:**

- Russian Railways (RZD)
- Deutsche Bahn

**Three academic partners:**

- EBS University, Wiesbaden, Germany
- Graduate School of Management, St. Petersburg State University, St. Petersburg Russia
- Petersburg State Transport University, St. Petersburg, Russia

**When fully functional:**

- Director, Full Professor
- Associate Professor
- Four time instructors

**With a joint focus on:**

- Instruction, both at GSOM and development of logistics at regional Pgoops
- Research: Applied and theory driven

## Doing Business in Russia: Understanding Russia

Some quick facts about Russia		
	Russia's Rank	Highest or next highest ranked
Land and water mass	R = 1 (6.60 mm square miles)	Canada= 2 (3.86)
Military strength	R = 3 (80,00 land based weapons)	USA = 1 (30,000 land based weapons)
Fresh water reserves	R = 2 (8.16% of world supply)	Brazil = 1 (14.49%)
Natural gas production	R = 1 (21.0% of world production)	United States = 1 (18.4%)
Crude petroleum	R = 2 (12.5% of world production)	Saudi Arabia = 1 (13.2%)
Platinum and palladium production	R = 2 (28.1% of world production)	South Africa = 1 (61.0%)
Nickel	R = 1 (18.1% of world mined output)	Canada = 2 (17.0%)
Iron ore	R=5 (4.6% of world production)	China = 1 (37.7%)
Gold	R = 6 (7.5% of world kilograms mined)	China =1 (12.4%)
Diamonds	R =1 (22.3% of world carats mined)	Congo =2 (20.2%)
Lumber	R = 6 (5.0% of world cubic foot production)	United States = 1 (13.5%)
Beef	(10.5% of world production)	United States = 1 (21.0%)

Some quick facts about Russia		
	Russia's Rank	Highest or next, plus USA
Life expectancy	R = 135 (61.8 years)	Japan = 1 (82.6); USA = 36 (80.8)
Suicide rate	R = 2 (31.7 per 100,000 residents)	Belarus = 1 (35.1); USA = 40 (11.1)
Homicide rate	R = 14 (14.9 per 100,000 residents)	El Salvador =1 (71.0); USA = 40 (5.0)
Road fatality rate	R = 53 (25.2 % per 100,000 residents)	Eritrea =1 (39.0); USA = 131 (12.2)
Per capita income	R = 51 (15,807)	Qatar = 1 (88,232); USA = 6 (47,123)
Debt / GDP	R = 122 (6.30%)	Zimbabwe =1 (286.2%); USA = 47 (52.9%)
GDP Growth rate (2009)	R = 176 (-.7.9)	Afghanistan = 1 (22.5%); USA = 159 (-2.6%)
GDP 2050 Projection	R = 6	China =1; USA = 2
Corruption ranking	R = 154 (out of 178)	Denmark = 1; USA = 22

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Major state owned enterprises			
Enterprise (Rank)	Industry	State Share	Comment
Gazprom (1)	Natural gas	50.1%	Largest gas firm in Russia
Rosneft (2)	Petroleum (includes distribution)	84.6%	Largest petroleum firm in Russia
RZD (3)	Railways	100%	1,000,000 + employees
Sberbank (4)	Banking	60.6%	Largest bank in Russia
Sovcomflot	Maritime: Oil and LNG	100%	Largest oiler company in the world
Comments:	40% of stock market capitalization owned by federal and regional governments		
	Strategic sectors: MIC; Radioactive materials; Mineral resources of federal importance; Media		

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Hofstede's Dimensions	Power Distance	Individualism	Masculinity	Uncertainty Avoidance	Long-term Orientation
USA	40L	91H	62H	46L	29L
Germany	35L	67H	66H	65M	31M
China	80H	20L	50M	60M	118H
Russia	95H	50M	40L	90H	10L

- **Power distance index** : The extent to which the less powerful members of organizations and institutions accept and expect that power is distributed unequally (defined from below and not above).
- **Individualism** : Ties between individuals are loose; everyone is expected to look after him/herself and his/her immediate family. This has no political meaning; it refers to the group and not the state.
- **Masculinity**: The values of males with high = males are assertive and competitive (masculine); and low = males are more modest and caring (feminine). Scale essentially shows the gap between male and female values
- **Uncertainty Avoidance**: Extent to which a culture programs its members to feel uncomfortable or comfortable in unstructured situations. Uncertainty avoiding cultures minimize uncertainty through rules and laws and in the belief of absolute truth (and they have it), and tend to outwardly express more emotions. Uncertainty accepting cultures are tolerant of diverse opinions and tend to express fewer emotions.
- **Long-Term Orientation**: Long-term orientation values are thrift and perseverance; values associated with a short-term orientation are respect for tradition, fulfilling social obligations, and protecting “face.”

**What do all these facts (and others) mean?**

Large, resource rich , militarily strong country

State owned-enterprises continued drag on economic growth

Low population growth and continued urbanization

Moscow and St. Petersburg development – remainder of country?

Russia – Belarus – Kazakhstan common customs union – impact?

Customs issues: Reliance on inspection and variance in timing of paperwork completion

JIT systems remain a challenge due to variance in the timing of material flows

EDI?

High speed trans-Asia rail – currently lacks visibility, information, security, and lack of variance

Infrastructure investment requirements

Centralized bureaucracy versus the decentralized informalized organization – connection to culture: i.e., power distance, uncertainty avoidance

Patience, patience, patience!