

# Russian Entrepreneurship: A Question Of Ambiguity Or Certainty, Risk Taking Or Risk Averse?

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## **Abstract**

*This article stems from a case study based on a series of in-depth interviews carried out on the All Russia Association of the Blind (VOS). It traces how two of the most successful VOS enterprises, Enterprise 13 in Moscow and Revda in the Urals, responded to the dynamic changes (both economic and social) that confronted them after the introduction of the free market economy. It examines the strategies, developed and emergent, created since 1991 by these two enterprises. In particular it traces the emergence of the entrepreneurial manager and his adaptation to the catalyst of change - growth, through the development of creative and proactive solutions to these environmental changes. In essence the contention is that in a period of flux where turbulence is high and change inevitable strategic leadership, driven by an entrepreneurial spirit, comes to the fore as a natural consequence of market forces. Risk taking and high tolerance of ambiguity mark the innovative leader.*

*For hundreds of years the Russians had lived under centralising, autocratic regimes. In April 1985 Gorbachev's Perestroika changed this. Perestroika introduced the seeds of a democratic political system and the beginnings of a market economy which was to supplant the failing Marxist model. Inevitably, the outcome was a situation of unparalleled complexity. Perestroika broke the Russian business mould. It created uncertainty by introducing ambiguity in the form of competition. The environment became increasingly unstable and the future uncertain. Enterprise directors had to take a step into the unknown. It was a period which started in 1991 with great expectations and aspirations but by 1997 had, through the erosion of the economic base, progressed to fear and trepidation as earlier dreams were unfulfilled. Finally, after the currency collapse of 1998, came the unexpected windfalls of import substitution and enhanced exchange rate benefits which led to the re-emergence of hope in the future as the expected economic deterioration failed to materialise.*

*By 1998 the relationship between strategy, structure and performance was rewritten to capitalise on the emerging opportunities. But this entailed a deliberate destruction of the old business methodologies and relationships, the bending of rules, and the creation of a new culture based on risk. In essence it meant the emergence of a new set of core competences driven by a strategic leadership geared to handling ambiguity and oriented towards risk taking. A breed not readily found in Russia or the VOS enterprises.*

## **The Enterprises**

*V*OS, established in 1925, was structured around 180 'enterprises' that were training and manufacturing centres employing visually impaired workers. These enterprises also acted as the focus for the delivery of the organisation's welfare services. The level of provision varied from enterprise to enterprise and included health services, schools, recreation and leisure facilities, housing, holidays and free or subsidised food. The enterprises were engaged in production and teaching and had both an employment and a social welfare role. The welfare activities were financed jointly by the government, VOS itself and the employees'

pension fund. They employed over 200,000 people in 1995, 50 per cent of whom were visually handicapped. Government aid was conditional on at least 50 per cent of the employees being registered as visually impaired.

Thus, any change process was made even more difficult as VOS enterprise leaders were bound by the purpose and ethos of VOS:



**Figure 1**

**To provide employment and welfare services for the visually impaired to ensure their full participation in life.**

Consequently, strategy and strategic change were conditional on both purpose and ethos.

Considering that we live in an era of evolution it is surprising how rarely people think in evolutionary terms. We tend to look at the world around us as a snapshot when it's really a movie, constantly changing. Of course we know it's changing but we behave as if it wasn't. We deny the reality of change. So change always surprises us. This happened to the majority of the VOS enterprise directors to the extent that over ninety per cent were ultimately declared bankrupt.

To put it simply, in the case of the VOS enterprises their extant core competences were found wanting. The emergence of unrestricted domestic competition was augmented by that of the developed countries through both imports and foreign direct investment. The majority of the VOS enterprises failed to respond, to adapt their core competences, to see the wider picture.

According to Hamel and Prahalad, Core Competences (C.C) can be defined as the combination of complementary skills and the knowledge embedded in an organization which enables it to perform better than competitors in one or more critical processes.

Moreover, adding to this definition, *"A Core Competence represents the sum of learning across individual skills sets and individual organizational units"* (Hamel&Prahalad, 1994).

One of the most debated aspects of C.C. is that competences can lead to internal "rigidities" (Szulanski 1996, Johnson & Scholes 1999, ), or as Lieberman and Montgomery see it the creation of "incumbent inertia". This is because C.C. are a set of different "skills", "assets" and "routines", which may lead to the creation of a competitive weapon especially the "routines" that associate "tacit" and "explicit" knowledge (Nonaka 1991) which cannot be easily imitated by competitors. On the other hand, the adherence to these "routines" can prevent the learning and the development of new C.C. that the conditions of the external environment demand.

The C.C. approach tends to define strategy according to the outcome of underlying competencies that exist inside the organization whereby rational and intentional adjustment as regards the different dynamics of the external environment are often ignored. Peter Drucker, recognised that C.C. should "fit reality" and be in alignment with the mission and the external environment of the organisation.

In the case of the VOS enterprises the majority, in the light of fluid environmental changes, were locked into both internal "rigidities" and supported by the "incumbent inertia" of the pre-perestroika era. Strategic leadership failed to recognise the sum of the whole in terms of individual skills sets and failed to act on embedded knowledge.

Two enterprises stand out and are examined in depth. One located in South Eastern Moscow (Alexander Ovtin) the other in Revda (Ivan Boormatov), in the Central Urals.



The former, by 1997, employed 400 (1991: 400 employees) and the latter employed 1250 (1991: 400 employees) people. The collapse of the industrial base of the Commonwealth of Independent States (CIS) meant that where, prior to 1993, Enterprise 13 in Moscow could have expected 75% of its output to go to state industries by the end of 1994 this figure had fallen to 25%. The Revdan Enterprise suffered similarly with a shortfall of its state orders of 80%. Thus, from 1993 these enterprises were to operate on a free and competitive footing with all its concomitant opportunities and threats. The cosy, comfort of 'Say's Law', where supply creates its own demand, no longer held sway. With the cessation of guaranteed raw materials and markets the new order of the day was fluctuating demand and competitive pricing. Bad debt became a feature of business life. Change, therefore, required that VOS enterprises produce competitive products and introduce new processes and technologies. In other words, to develop new and sustainable core competences. However, these new orientations could not readily co-exist with the ethos of employing the blind.

*'The real voyage of discovery consists not in seeking new lands but in seeing with new eyes'* Proust

A new orientation for management had to be developed. The strategy/structure/performance relationship had to be redrawn. This meant that new cultures and organisational relationships which could adapt and implement the new philosophies and strategies had to be built. Juxtaposing the two enterprise directors and examining how they reacted to these changing conditions and relationships is illuminating. The contention is that where one tends to be reactive (see figure 1), the other, facing the same set of circumstances, tends to be proactive (see figure 2); where one operates and conforms to the structures imposed the other breaks the mould and develops expedient strategies and solutions; where one is organisational man the other is entrepreneurial in thought and deed.

Alexander Ovtin was steeped in the culture of the pre-Perestroika system being a party member and director of Enterprise 13 since 1980. He manipulated the structure from the inside, obtaining soft loans from the government by the threat of sacking the visually impaired at a time when the government was seeking foreign investment. At the same time he sought a new product and market base (Moscow, St Petersburg, Leningrad) whilst introducing Western marketing techniques. In essence, he displayed intra-preneurship characteristics. But did not challenge the fundamental strategy/structure/ and performance problems facing the industry.

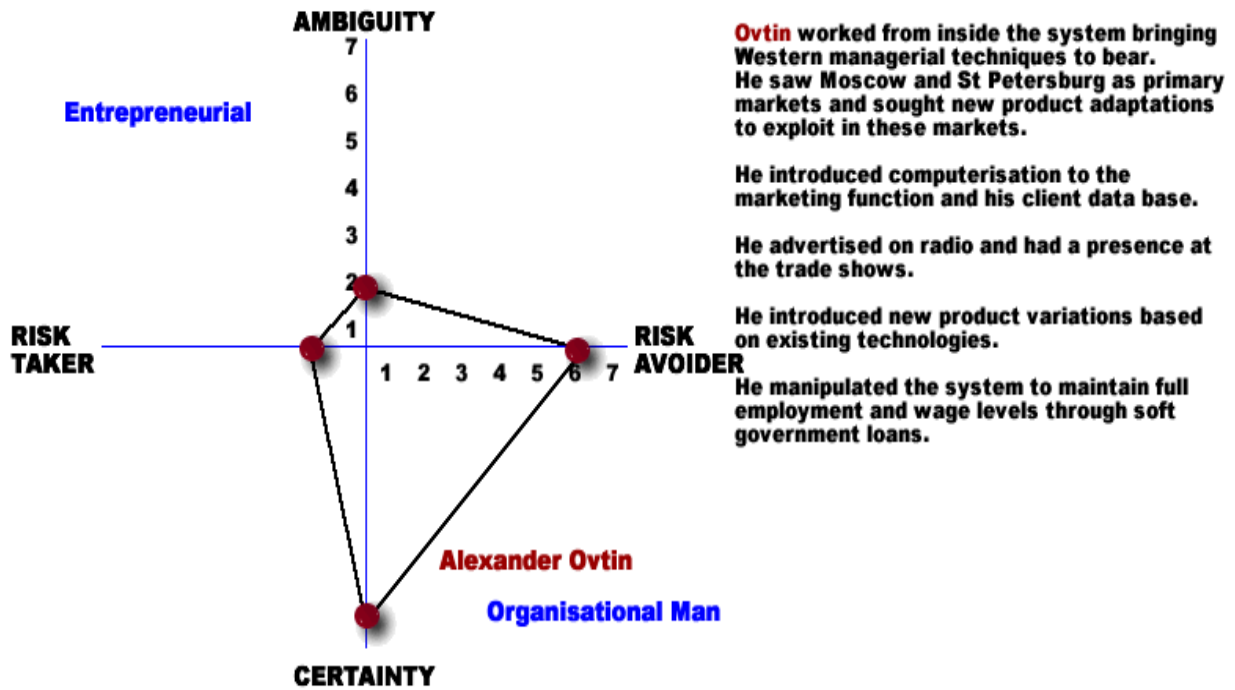


Figure 2

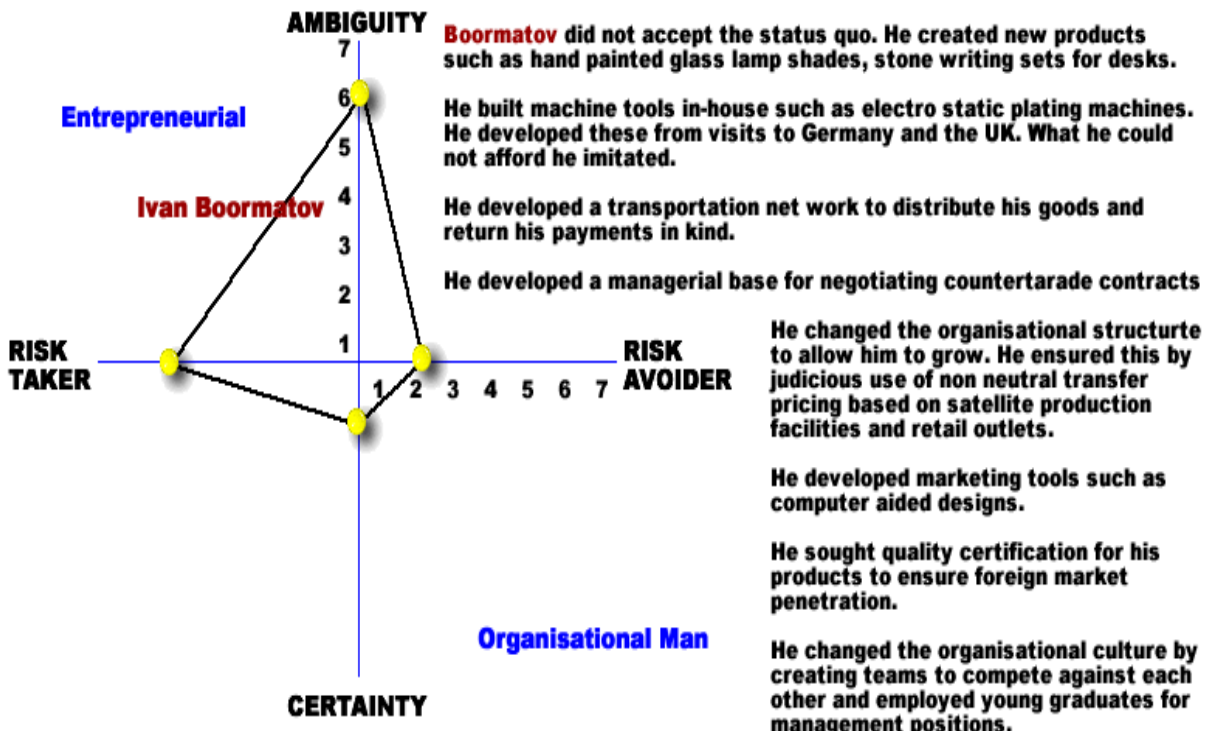


Figure 3

For one however, strategy/structure/and performance became a challenge and opportunity. For example, structure became a combination of information, communication and control systems whose development and manipulation underpinned the decision making process, a process moreover, dependent on the cult of the personality - this was the entrepreneurial director Ivan Boormatov.

**Barter and Transfer Pricing**

With over 70% of all transactions conducted by counter trade due to the rampant inflation and soaring bad debts, radical solutions had to be sought. The Entrepreneurial Director did this by force of personality. He restructured his organisation; changed the process of manufacturing by producing in-house 50% of the machine tool requirements; increased the product base from 2 to 160; manipulated the centre/subsidiary relationship through the creation of five satellite enterprises; controlled these on a transfer pricing basis; and recycled the bartered goods through the creation of wholly owned retail outlets in regional, and urban centres and when necessary substituted barter for wages.

**70% of all transactions conducted by counter trade**  
**Opportunity for manipulation of non-neutral transfer pricing**

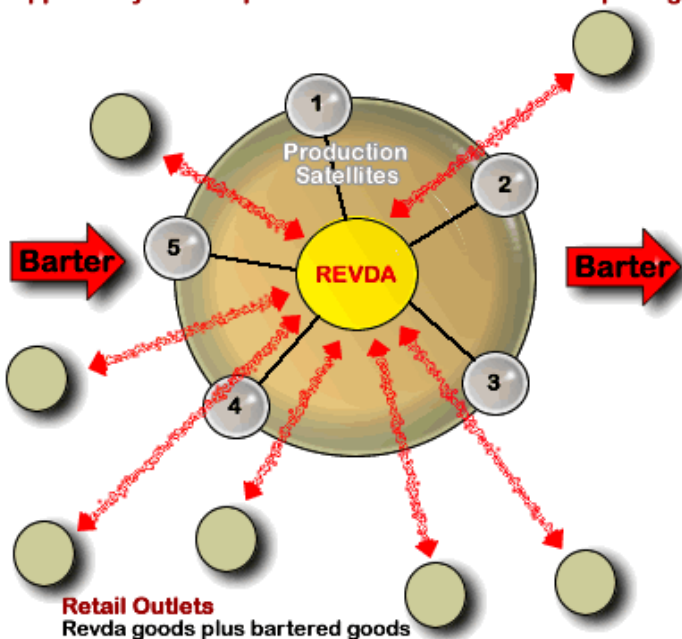


Figure 4

**BARTER**

**Transactions, both obtaining supplies and selling output, requires negotiating skills the more so as transactions cross borders.**

**Deal making becomes an integral part of the strategic development which requires a skilled workforce especially, when the transportation system extends both the market reach and product scope.**

**Production Satellites allow product expansion through employing able-bodied in response to market demand.**

**Retail Outlets allow bartered goods, of any nature and from any source to reach a potential buyer.**

**Revenue Remittance at what point should revenue be recognized? And for that matter, which subsidiary should recognize the profit, and for what amount?**

Government aid in the form of tax benefits, reduced rates and subsidies were maintained by keeping the visually impaired status through the creation of the satellite enterprises which employed able bodied whilst the centre retained the visually impaired. By such means the 50 per cent visually impaired criterion was not breached but, the overall size of the organisation was trebled. Strategic growth was aided through the creation of an in-house transportation system, an adherence to product quality certification for export (*See Map*), employment of university art graduates for the development of new products and as trainee managers, and the judicious use of transfer pricing. All of these combined to produce new core competences.

**Agents of Change**

“There is nothing more difficult to take on hand, or more perilous to conduct, or more uncertain in its success, than to lead in the introduction of a new order of things” Machiavelli 1513 The Prince.

Before the boss was the state now there was a new boss - the market. Decisions were made by the new management and if they made any mistakes then wages could not be paid.

Russia’s economic crisis brought many domestic manufacturers a second lease of life as imports collapsed in the wake of the rouble’s devaluation in August 1998. However, to capitalise on this windfall the strategic foundations had to have been laid.

Post perestroika a new business philosophy was called for to cope with the complexities associated with radical strategic change. Inevitably the spotlight falls on the primary change agents, the directors of the enterprises. Leadership requires certain actions, such as determining strategic direction, developing human capital, sustaining an effective corporate culture, exploiting core competences, establishing strategic controls, and emphasising ethical practices. Pre-perestroika most of these actions were not demanded of the directors. Strategic leadership in terms of its requirement to; anticipate, envision, maintain flexibility, and empower others to create strategic change was anachronistic. As a result the skills combinations of managerial resources were not effectively combined or harnessed into competitive management teams. The dearth of these skills combinations may, as can be seen in the Enterprises post perestroika, detrimentally impact on organisational performance, as the enterprises fail to successfully formulate and implement long-term strategies or engage in innovation that results in competitive advantage. It was critical for the success of the enterprise that managers at all levels of the organisation exhibit, to some extent, combinations of these skills (See *Figure 5*).

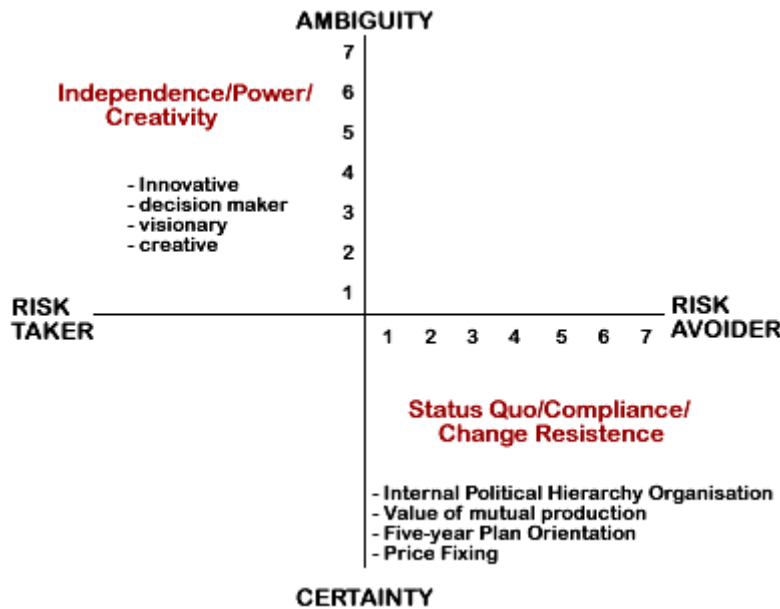


Figure 5

Emerging from this study was an awareness of not only the grass root problem of finding entrepreneurial managers in Russia but also the problem of changing the cultural norm of non-acceptance of responsibility, the desire for certainty and the reticence to cope with increased levels of ambiguity.

Diagrammatically, this can be represented in a non quantitative way:

However, both need to transform this early managerial life cycle stage into a core competence based not on the individual but rather on the creation of a strategic leadership skills set. This may mean that future development is (as indicated in Figure 7) likely to be more balanced, controlled and spread throughout the organisation as part of its culture. Ovtin (Organisational Man) will become more entrepreneurial whilst Boormatov (Entrepreneurial) will become more organisational.

In a period where ambiguity and risk taking is a major part of the Russian business landscape all businesses face the managerial challenge of turning risk averse management into a more systematic, professionally run decision making body which can drive their companies forward.



Figure 6

Both Boormatov and Ovtin displayed entrepreneurship, a desire to dictate their own future, to shape their organisations, and protect their employees by confronting change.

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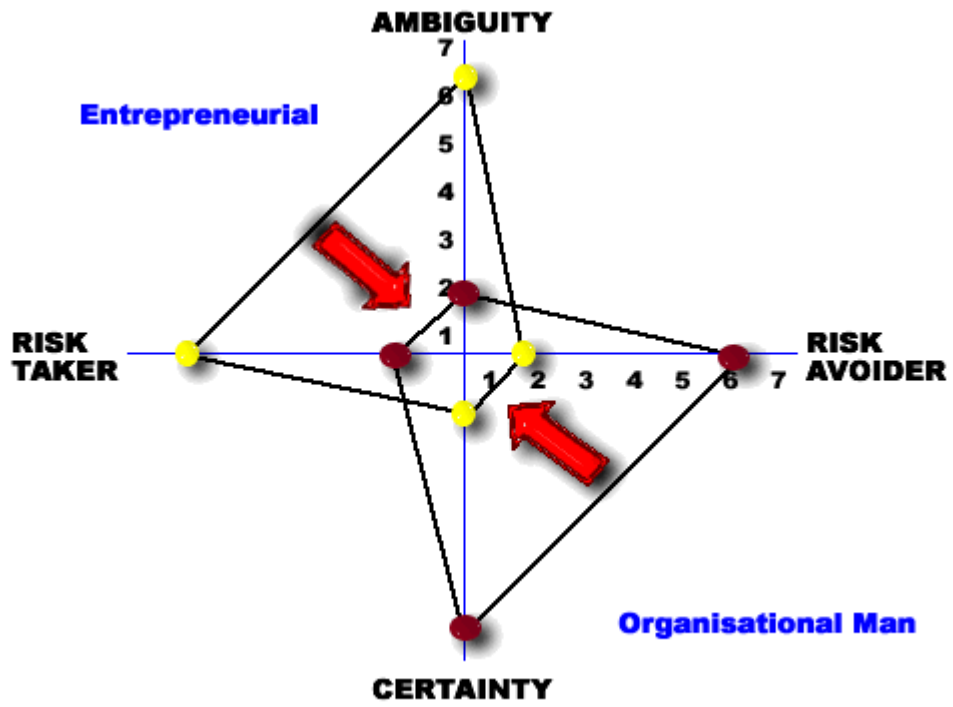


Figure 7