
POST-CRISIS WORLD AND MANAGEMENT PROBLEMS. VIEW FROM RUSSIA

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fecha de recepción: 27/07/2011
fecha de aceptación: 19/09/2011

Resumen

Este artículo propone el modelo conceptual que describe los requisitos previos más importantes del nuevo paradigma de gestión aplicable a Rusia en los inicios del siglo XXI. Se trata de una reflexión sobre alguna de las características de la gestión moderna, sobre los problemas que enfrenta la gestión en Rusia en esta nueva realidad y sobre el papel de esta nueva gestión en la resolución de los problemas de la modernización rusa.

Palabras clave: Paradigma de la gestión; Revolución en la gestión; Eficacia de la gestión; Modelo de negocio; Gobierno corporativo; Gestión en Rusia.

Abstract

This article suggests the conceptual model describing major prerequisites of new paradigm of management at the beginning of XXI century applicable to Russia. It is a reflection on some characteristics of modern management, on problems which Russian management faces in the new reality, on vision of new management to solve problems of Russian modernization.

Keywords: Paradigm of management; Managerial revolution; Effectiveness of management; Business model; Corporate governance; Russian management.

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*«Despite being rather significant,
an ideas of reality are seldom analysed,
scrutinized and reconsidered -
they are even seldom given precise wording»*

P. Drucker

1. Problem statement

The world has gradually, though with a different degree of success, overcome perhaps the most difficult and widespread economic crisis of the latest period. However, there still remain a great number of problems. Many of them resemble a sleeping volcano, which is sure to erupt some day, and the consequences are unpredictable. And this day may come very soon.

Are the people in charge of making managerial decisions ready to face new challenges, the growing uncertainty of the future and new numerous incalculable risks? Are the management systems of different levels –from state to business– able to foresee these risks and adequately react to them, to create more efficient business models, to guarantee a stable and secure development of business itself and the world economy on the whole, to take into account and concert interests of different stakeholders and whole society? Nowadays these issues are to be constantly thought about.

For Russia with its economic growth and outer relative economic stability of the 2000s, reached due to the comparatively bright starting conditions of the beginning of the millennium, big stabilization resources accumulated in the period of profitable raw materials exports and available commercial loans, the crisis turned out to be a very serious trial, primarily a testing for management effectiveness. With its basic index numbers worsened in the crisis period but held within reasonable limits, Russia, to a great extent, lost its investment attractiveness, which is testified by the massive outflow of private capital (in the year of 2008 about 134 billion U.S. dollars, 2010 –more than 38 billion dollars, 5 months of 2011– 35 billion dollars). Here we have a number of factors: bad investment climate, huge corruption, administrative hurdles, faults in the law system, undeveloped systems of corporate governance, etc. During 10 years there hasn't been achieved any progress in the competitiveness of economy and business, which is proved by the ratings of the world competitiveness made by World Economic Forum (see the article by D. Kuzin in "Pecunia", nº 4, 2007).

As it was noticed at the recent round table "Russia after Crisis: Challenges and Opportunities of the Decade", held by the most influential Russian newspaper "Vedomosti" (sharing partner of "The Financial Times"), "having passed the test of the crisis, the Russian economy has lost a third of growth potential: the engine, which worked without fail, has broken down and won't start. Run-out means that the country will lose its share in the world economy and its citizens' welfare will decrease. Economy

has found itself on a crossroads with no evident way-out. It has survived the crisis but faced a dead end”².

We'll try to focus our attention on at least two groups of the problems brought out by the world economic crisis.

The first group – have we witnessed a management crisis or is it more correct to interpret the contradictions, ineffectiveness and mistakes in the systems of government administration and corporate governance, which showed up during the global crisis all over the world, in terms of incongruity between the used concepts, principles, mechanisms and practices, and new conditions and tasks? Is it possible to view the events taken place as 'a one-moment failure' of different management mechanisms?

The views on these problems vary. Some people speak about a really severe management crisis (one of the management guru of the last decade Gary Hamel even labels it as “management apocalypse” and puts forward a question about the 'end of management' in F. Fukuyama style). This viewpoint is justified by such phenomena as a) deep distortions of ethical basis of business, for the first time displayed in the world corporate scandals of the beginning of 2000s, which changed the atmosphere of turning 'business leaders' into myths to the public 'disgust' of 2009 towards many of them, practically like in the time of the Great Depression of the 1930s; b) most serious miscalculations and imperfection in the systems of risk management, noted by almost all outstanding experts; c) business-model inefficiency of many companies in different industries because of the drastically changed competitive conditions; d) incongruity between bureaucratic organizations and knowledge economy; e) contradictory assessment of different types of assets, of the results of management actions, behaviour, etc.

Others prefer less categorical wording realising that this management crisis is one of many crossing modern crises: the technological model of the world development; the global economy structure including its finance system and regulation; the system of values, etc. Anyway, the challenge of the crisis is a challenge to old concepts and approaches which later should transform into new practices, management ones among them.

The second group of problems – should we speculate about a new management paradigm both for the whole developed world and for Russia and do we have any reason to speak about preconditions of a new management revolution as far as a deep modernisation of Russia declared by the state authorities is concerned? If it refers only to Russia, then what are the goals of such revolution in the context of the enacted but being badly turned into practice modernisation policy of Russia and last tendencies of the post-crisis development of the world? Who is to become “drivers” of Russian modernisation, its leaders and organizers? Creators, thinkers and ideologists are, as a rule, bad managers, and traditional managers are bad innovators and are not always leaders. But I speak about management in its broad sense, as a management class which is to become the engine and organizer of all transformations.

² «Vedomosti» № 97, 31.05.2011.

This class is, of course, non-homogeneous, where there are completely different people with different culture and education, interests and motivation, intentions and actions. Moreover, when dealing with Russia the following circumstances should be taken into consideration. Firstly, Russia has a great property concentration, here owners and managers are often the same people, though recently there has been an increase in the amount of professional hired managers. Secondly, there is a second category of managers, whose interests are close to those of owners, who per pro of the latter (or as minority stockholders) manage quite big assets and resources. If we collectively call these groups the highest management class, leaders really capable to act, perform and make changes appear from this very environment.

Here appear a number of additional questions. Is this leading part of Russian management basically ready for changes? Do they realize the necessity of these changes? Do they need these changes and are they motivated towards them? Do they realize their responsibility for their own actions, its results or for inaction? Is this part of management loaded with specific experience and values of the environment of its functioning able to put these changes into practice and to solve complicated modernisation problems?

The answers to all these questions are far from being obvious, but they enable us to more clearly understand what management modern Russia needs to solve modernisation problems, why we face scarcity of such management, where from and how it can appear. The only thing is obvious – there is a great need in, resorting to the popular modern term, 'reset' of Russian business and management, i.e. a certain management revolution.

The history of professional management and corporate governance in Russia is very short, less than 15 years. And of course, for Soviet, post-Soviet and early Russian management it was a revolution as a certain management class was created, there appeared the profession of manager and a corresponding market of managers. But during all these years not all new managers have learnt to manage business really effectively.

If the issue of management crisis in the world remains to be debatable, as for the crisis of Russian management everything is unfortunately more or less clear. The total majority of Russian (as well as Western) experts and practitioners definitely declared about bad readiness for the global crisis and management ineffectiveness in the major part of Russian business. There are a lot of examples: car industry, housing and community amenities, development, transport and infrastructure, energy production, science, education, medicine and finally sport. There exists business restructuring, profit growth against the background of favourable business environment, outer attributes of corporate governance corresponding to the world principles and codes. But there is no or little development of new values, effective investments, productivity growth, effectiveness and quality of production, innovations, competitiveness and development.

The modern crisis has become a steam test for the whole economic system of Russia, and unfortunately it has revealed quite a great number of problems, which were not solved in the period of plentiful growth of the beginning of the 2000s. The questions "Who is to

blame?" and "What are we to do?" are eternal in Russia and often it's really difficult to find answers to them.

2. A new paradigm of management – is a revolution to break out?

At the end of the XXth century P. Drucker, a patriarch of management theory, in one of his last works defined a new paradigm of management as a system of notions based on reality representations³. As a backbone of his reasoning P. Drucker used several essential, to his mind, changes in modern management practice connected with a) the expansion of management objects (business, state, non-commercial sector); b) a variety of organisations and their structures; c) a new conception of personnel role as a partner, bearer and owner of new knowledge and competence; d) swiftness of technological changes, a kind of advanced technology spreading, increase in the performance of intellectual work; e) business globalization changing not only its economical, political and legal subject matter; f) more vivid business orientation towards the perception of new values and demand of society.

On this basis I suggest discussing modern management in terms of the model which I called – **REVOLUTION**. It consists of some more significant (though, not exhaustive) constituents (notions), which are interconnected and complete each other and serve as keys to understanding of the new management of the 21st century. Provided that much got a new meaning in the period of the global crisis. What are the triggers of the revolution in Russian management?

- R – Reality/Rationality
- E - Efficiency/Effectiveness
- V – Values/Value
- O – Obligations
- L – Law
- U – Uncertainty
- T – Time
- I - Innovation
- O - Organizations
- N – Needs

2.1. Reality and Rationality

Conditionally the business world around us exists in three conditions. It's a *real* material world of techniques and technologies, production and consumption, organisations and systems; a world *reflected* in our mind through our knowledge, values, expectations, ideas about possibilities of influencing various processes; and a *virtual* world – a world of symbols, virtual values, non-tangible assets, related business and even a way of living. How does management in these worlds change?

³ Peter Drucker "Management Challenges for the 21st Century", 1999.

It seems possible that the first world needs a usual arsenal of management concepts, technologies and instruments, which change together with reality, but still basically remain the same. The things that do change are goals, interests, objects of management, policies, mechanisms, criteria of assessing results and many others. Changes have become the main invariable of development. Many traditional branches of the industrialisation epoch are passing through stress and against this background brand-new industries are appearing, as well as serious and powerful players, about whom nobody in the world have heard a decade or so ago.

But hierarchies haven't become a thing of the past. Plans, budgets, decisions are still worked out at the top, employees still depend upon employers and so on. Yet rather fundamental changes do take place. G. Hamel states: "Right now, your company has 21st-century, Internet-enabled business processes, mid-20th-century management processes, all built atop 19th-century management principles. Without a transformation in our management DNA the power of the Web to transform the work of management will go unexploited"⁴. Herewith, management, which was earlier *operating* economy-oriented, is gradually turning into *network* economy-oriented.

The second, so called *reflected*, world is even more complicated as it is a world of our images of the contemporary life, our intelligence and knowledge, imagination and possibilities, wishes and desires, senses and benefits. On the one hand, this world is personified (knowledge is personal asset). On the other hand, it is really global knowledge is free, there are no limits to spread it. Knowledge (competences) is now corporate (collective) strategic asset, which means it is the main object of global competition. Accordingly, new knowledge management needs quite different approaches. In a nutshell, the methodological chain of changing approaches behind management in these "worlds" is as follows: operations research –system analysis–system dynamics –critical approach– synergism.

The third, *virtual*, world isn't completely understood, mysterious to a great extent, but full of new business opportunities, and thus, full of new real money. Basically it is a world of imaginary values which very often replace real ones, it is a world of new senses, demands and expectations, casualities and risks, it is a world of imagination and irrational behaviour. As it was stated by Nassim Taleb, a well-known American professor, in an interview to "Vedomosti" newspaper: "We should learn to live in the world which we are not able to understand"⁵. And if we do not understand it, how can we manage it?

In the present global crisis these conventional "worlds" overlapped and clashed, thus formed 'a heady brew' out of wishes, aspirations, possibilities and risks. Economic theory, to put it mildly, turned out not to be ready for that. It means that there emerged a breach in the analytical and predictive constituent of management activity.

⁴ G. Hamel, B. Breen «The Future of Management». Harvard Business School Press, Boston, 2007, p. 255.

⁵ http://www.vedomosti.ru/video/3_303. 16.02.2009.

The 'intellectual fermentation' of the leading economists of the world split even such a monolithic and influential economic school as that of Chicago, which had been defining the ideology of economic behavior over the last 25 years, and the postulates of which had been axiomatic for very many people in the world. And in the long run, any economic theory influences management mechanisms. For example, an outstanding representative of this school James Heckman claims that people (including decision-makers) react to stimuli. But before the crisis these stimuli made people act not for the benefit of society. The market sent them signals which were false from society's point of view and led to particular actions profitable for these particular people but not for the whole society in general. Judiciary representatives of this trend of economic science (another Nobel Prize Winner Paul Krugman among them) believe that we need a new balance in understanding the way market works: money should be paid for such decisions which are well-minded from the whole society's point of view and not only from that of separate people or companies. It means further reassessment of rationality principles in management and a necessity to realise what is rational for the whole society and a wide range of stakeholders in the long-term. Thus, rational approach to management limits the real modern world – the world of other tastes, expectations, interests, preferences and human behaviour. As soon as we plunge deeper into it, the rational often falls by the wayside.

In this respect remarkable is the analysis of 42 research topics of all macroeconomics professors who got their PhDs after 1990 in 17 best universities of the world. It showed that many of these researches were devoted to deviations from ideal models (as a rule, at the expense of information restrictions and distortions) and rational human behaviour⁶. We have to forget a rational human. The society of consumption and overall well-being to a great extent undermined the basics of its behaviour where rational choice and the former system of values ruled.

Modern reality is new fast-developing technologies, markets and competition, institutes and infrastructure, which challenge management. It's estimated that the developed world is rushing towards next "VI-th technological mode (structure)", where the role of locomotives will be played by biotechnologies, nanotechnologies, full scale technologies of virtual reality, robotics, new medicine, new environmental management, high humanitarian technologies, etc. In the nearest 5-10 years the main competition will be within these fields (and correspondingly relative businesses). But Russia basically remained to be within the limits of industrial "mode IV", and the far-reaching possibilities of "mode V" (microelectronics, advanced computers, telecommunication) were mostly taken up from the world leaders but with a great delay.

Classic examples of successful modernisations of the 20th century were built beginning with the production of low-technological production and moving towards more technological products, from copying samples to copying technologies and then institutes of development. The main institutional capital obtained in that process was the very ability to produce competitive goods and services, i.e. to manage costs in the highly-competitive environment and gradually distribute this know-how to more and more

⁶ «Vedomosti», 29.09.2009, n° 183, p. A4.

technological product niches. This order allowed seeing specific results of each stage, to plan and monitor its indicators.

The things are far more complicated for Russia because the goal to enter the markets of the future means orientation to quite unobvious or rather specific competition conditions. In other words, having no skills of controlling investment effectiveness we are going to make a breakthrough in the fields where such control seems especially difficult. That is why in value, culture and management spheres very complicated tasks are put forward: how to skip a development stage and to get from the raw-material-driven stage of the competitiveness model suggested by M. Porter to the innovation-driven stage quickly passing the investment stage?

2.2. Efficiency/Effectiveness

What is today effectiveness of business in general and that of management in particular? What are the assessment criteria? Are they the same as they used to be? In fact, it's a complex of complicated and multi-valued questions.

In economic terms the Russian notion practically equals *efficiency* (costs / results) and not *effectiveness* where the degree of reaching the result and profit for a great number of stakeholders are implied.

The impetuous pursuit for "efficiency" led to a huge variety of goods and services, to a growth of their supply and mad, immense consumption which before the crisis was considered as a norm all over the world. This growth was, in its turn, provoked by a growth of demand for desires and tastes of people. And it is well-known that a variety is more difficult to manage. The hypertrophied orientation on "efficiency" resulted, in turn, in "casino-mentality" of very many managers, and not only of those in the financial sector.

As it was found out, many postulates of "the Chicago school" have appeared false. Markets have shown their inefficiency as regulators without state intervention, and state regulation, on the contrary, has proved its efficiency provided there is a correct and timely choice of tools of influence in certain conditions. Competitive advantages appear not steady and variable, well-being isn't created in the financial sector, risks are not that distributed, etc.

There is also one more aspect. Even J. M. Keynes believed that one's determination to incur a risk appears not due to good judgement, but thanks to euphoria or «pleasure of existence». Calculations of businessmen, understanding of factors which will define the returns of committed finances a decade later are also often very approximate. Despite all this people, nevertheless, make decisions, and there is only one explanation – irrational optimism and pleasure of existence.

Besides, the majority of Russian managers always have a temptation to give simple enough answers to the question about what is efficient. And it occurs this way as they search for simple and fast ways of obtaining maximum (monetary) result (for example, simply at the expense of rising prices for raw materials). What for to invest in complicated

and risky innovative projects when it is possible to get good profits with the help of much simpler operations. Such managers don't always take into consideration different factors which are not on the surface, especially, if it is required to consider interests and behaviour of a great number of interested persons and society as a whole, and to estimate results from the point of view of a long-term sustainable development.

The factors mentioned above are:

- dynamic characteristics of modern competitiveness (knowledge, competence, creative skills, know-how, etc.);
- efficiency of the existing business models (business-concepts/policies) which are based on the way of introducing the created value to concrete consumers, thus providing the base of incomes, market positioning and competitiveness;
- risks and the future return from investments;
- investment prospects of business and *strategic trust* to the company from investors;
- social and ecological expectations of business activity results and *social benefits* of its contribution to the creation of well-being and quality of life.

Hence, there appear oppositions of criteria of business and management efficiency and also a new paradigm of the financial analysis of the company, based on the opposition of:

- *accounting* (profit/losses) and *financial/cost* (economic profit) models of the company;
- *allocation* (distribution and use of resources) and *creative* efficiency, which is connected with management of non-material assets (human, intellectual, social, structural capital);
- *efficiency* only for *proprietors* or for other stakeholders.

It is also necessary to pay attention to the following aspect of the problem of business and management efficiency – interpretation of success and success recognition. Economic behaviour of people is known to be substantially based on existing stories and legends. These "fairy tales" and myths, for example, about successful managers, investment bankers, founders of various "bubbles", as it was then found out, can happen to be more convincing than rational calculations. Many works on management by Western authors, which have been written during the last 10 years, are, to some extent, devoted to exposure of such myths. They use the examples of some companies well-known in the world to show that we often interpret the effect of the result and deal with an opposite assessment of the same policies, people and decisions on the basis of the results the company has at present. Therefore, many foreign cult companies of previous years can't be treated in the same way nowadays. Hardening in the old «profit zones», which have been successfully working throughout a number of years, is fraught with loss of not only competitive positions, but of business as a whole. Consequently, it is necessary to place stake not on the success formula (do this or that, copying competitors and their last achievements), but on successful managers-creators, understanding logic of their choice and actions concerning management of business processes and certain business models adequate to time and consumers' expectations.

Coming back to different understandings of business and management efficiency (performance and utility), it is necessary to bring into the limelight G. Hamel's very precise

and clear explanation of differences between two basic models of business existence, accordingly, of two different systems of efficiency assessment, which, as he stated, divide «captives of history» from "revolutionaries-innovators". The former follow the paradigm *how* to do something efficiently, the latter focus their attention on *what* it is necessary to do to create new values and to be more useful, competitive and finally rich due to it. The former aim at doing something *better* (to produce more, faster, more cheaply, more qualitatively, etc.) and he calls them 'incrementalists' (from English –to increment– to improve something gradually), while the latter aim at doing *differently*, creating absolutely new concepts, business models and different market space, and in the long term they become leaders⁷. In the end, they win, which he proves with numerous examples of various companies. The majority of managers are 'incrementalists' since they were brought up with basic management ideas of industrialism epoch in mind.

2.3. Values (1)

The modern crisis is a crisis of the former system of values. First of all, and there has been much said about it, the crisis revealed "erosion" of the morally-ethical bases of business. And if management was able to make business more efficient (productive), there is doubt that it was able to make it more ethical. That is why the crisis makes us reflect on value foundations of economical life. These foundations more like creativity and creation, and not just making money and consumption. In one of his latest books «The Economy of an Innocent Deceit, 2004», J. K. Galbright wrote: «Eventually I have come to a conclusion that in economic and political life –a little more than in other spheres– reality is captured by social and settled preferences, or by personal and material benefit. ... The predominating system of the truths of the economic world has considerably lost contact with reality».

Besides well known criticism of tremendous bonuses of managers in the West the situation in the Russian business was also very demonstrative. In the crisis many Russian companies and banks received a considerable aid from the state, actually to cover their inefficiency. Though salaries of their top-managers were reduced in the crisis, yet by some estimations, they are frequently almost 1/4 higher than an average European one⁸. «The ratio of internal corporate inequality» (relationship between an average compensation of a member of the board of directors and an average salary in the company) for the companies with state participation is twice as big in comparison, for example, with Germany. If to compare Russian "Gazprom" and Brazilian «Petrobras» it is more than 6 times higher (while the latter had a much better efficiency in 1993-2009). In Russia compensations of \$10-20 million a year were not considered shameful at all in many industries (telecommunication, development, metallurgy, power production, financial sector). The problem is not that competent top-managers shouldn't obtain a corresponding reward. The problem is quite different - whether those payments always corresponded to real results, and not according to the formal financial data reporting, but

⁷ Gary Hamel. Leading the Revolution. Harvard Business School Press., 2000 (Russian edition, 2007, p. 28.)

⁸ <http://www.smoney.ru/print.shtml?2009/03/23/10145>.

taking into account an increase in efficiency of business, productivity growth, innovations, finally, taking into account the value of all these results for the whole society.

But it concerns not only business ethics but the basic dilemmas which have been defining the systems of values, thinking and activity of managers since ancient times: power and freedom, control (safety) and risk (development), optimization and innovations. If to give them a vaster look, it is possible, as it was offered by G. Hamel, to oppose two models of organization and management (or two value models), which he called "Management 1.0" and "Management 2.0"⁹. In his opinion, they are based on different «management DNA», i.e. a set of certain principles and characteristics. M 1.0 is characterized by standardization, specialization, hierarchy of purposes and organizations, power, planning and control from above, a corresponding system of motivation and compensation. All this is aimed at maximization of operational efficiency of the organization. And it existed and worked in the XX-th century. However, if we focus on adaptability, variety, humanization of organizations, creativity and innovation freedom, the principles given above become obviously insufficient, or even "toxic".

Then appears M 2.0 with a different set of values and principles – absence of hierarchy and decentralization, involvement of many interested persons, experimenting simplicity, absence of authorities, voluntariness of obligations, mobility of powers and responsibility, self-organizing, competition of ideas, simplicity of their resource security, etc. Numerous examples, and not only of the new high-tech companies, prove that more effective and attractive (for example, for investments, for application of talents or simply for work) are those who invent a new management DNA. They are better adapted for new realities, create essentially another architecture of business (by analogy with web), they are more innovative, as besides a business climate they also create an attractive human climate.

2.4. Value (2)

What is the value and cost of assets and whole business for different stakeholders, why did market capitalization, as the main indicator of growth and a criterion of management efficiency suddenly become an object of criticism, how correctly estimate cost of different assets, what is efficient control of the company cost? All these questions also received a new theoretical judgment and a practical embodiment at the end of the last century and the beginning of the present.

It seems that there is coming the end of the paradigm of global financial capitalism with no reference to real costs. In R. Matthew's quite fair opinion (he is President of the International League of Strategic Management) in the world market, «securitisation grew exponentially. The financial Babylon tower was constructed with building blocks of symbolical assets. Symbolical means that they had speculative cost, instead of the cost based on their ability to create wealth»¹⁰.

⁹ G. Hamel, op.cit., p. 150-151, 252-254.

¹⁰ «Economic Strategies» 01/2008-01/2009, p. 87-88.

Accentuation of value creation (which gives this or that benefit) and value-based management are perhaps one of the most notable tendencies in the theory and practice of management on the turn of the century, also connected with «redefining the corporation». In the modern dynamically developing world functional management is being replaced by value-based management, and the final success greatly depends on management of the system of interests.

A group of the American researchers from the so-called Sloan Project has revealed: (a) that shareholders don't own the company in full sense and that the «*shareholders model*» of the company neither theoretically nor practically reflects the reality of modern business; (b) that the modern corporation is a network of cooperating interests and their holders and each of them brings this or that contribution to its development¹¹. Besides, value for consumers and other stakeholders and their contribution to its creation become the key competence, the basis of formation of new business models and policies (transformation from so called «management of stakeholders model» to «stakeholders' management model»).

A new understanding of value, logic of its creation (from a value chain to a value network or "constellation") demands constant reconsideration and integration of professional competences of the company and its stakeholders, with primary emphasis on *knowledge* (competences, intellectual capital) and *relations* (communication skills of the organization with its environment). It again concerns a change of the firm's model: in the first case the development model is based on knowledge; in the second – the focus is on «behavioural estimation», i.e. it is not simply management of the client base, for example, on the basis of its assessment, but estimation of the interaction contribution which is even more difficult.

Therefore, one of the main challenges of the new economy is *integration of knowledge and relations*, and it generates, in its turn, both new opportunities, risks and necessity of constant reconstruction of business models.

Changes occur in several directions: a) redefinition of the roles of the participants in the process of value creation, their relations and behaviour scenarios, which serves as the basis of goods and services supplied; b) it causes changes not only in the production technology of goods and services, but also the control system of value creation; c) value becomes richer in information quantity, knowledge and other resources economic players have.

There are three strategic circumstances in this connection:

- besides the creation of value for the consumer, the motivation of the latter is involved, allowing to benefit from a vast supply and to create an additional cost independently (IKEA serves as an example);

¹¹ J.E. Post, L.E. Preston, S. Sauter-Sachs. *Redefining the Corporation. Stakeholder Management and Organizational Wealth*, Stanford Business Books, 2002, p. 8.

- a separate manufacturing company becomes an element of the network creating values or of a configuration of collective participants whose behavior forms a steady cluster or another object of interaction management;
- the concept of dialogue with clients and partners becomes more active: companies create value when they make their offers more intellectual, as well as their clients.

Speaking about the Russian management, it is necessary to acknowledge that an overwhelming majority of companies live and operate within the limits of an "accounting" paradigm of the financial analysis, decision-making and an estimation of efficiency. The value-based thinking isn't typical either of the analysis of the companies, or of their strategy formulation. And the matter is not that the "accounting model" should be replaced by the "value-based" one (it is ridiculous to urge to cancel the economic categories and principles of accounting), but that it is very bad when strategists (whether it is a role or a position) think as accountants and bookkeepers and with such thinking try to "operate" innovations and development. In this respect it is appropriate to quote the statement of one of the best managers of the XX-th century, the head of «General Electric» company Jack Welch. Once he noticed that «traditional systems of budgeting are one of the most harmful inventions of the mankind» since, in his opinion, *«the wrong things are discussed»!*

2.5. Obligations

The value-oriented approach to management essentially changes the system of obligations of business and its responsibility for society and stakeholders. The global crisis aggravated this problem. Before it numerous stimuli made the persons making decisions act disregarding the interests of society - the market sent them false, from the point of view of society, signals which led to certain actions favourable to these very persons, but not useful to society as a whole. Whatever strong and independent business is, however successfully it develops, an indispensable condition of its survival is, on the one hand, contribution to society well-being and quality of life, and on the other, social recognition and trust.

The global crisis became an original "test" for corporate social responsibility (CSR) in the performance of its different obligations and many companies failed this "test". It is especially obvious for modern Russian business, where practice of CSR has less than ten-year history, and CSR model essentially differs from the known models in the developed world. Financial problems of many even rather more socially responsible Russian companies, the "compulsory" in its basis (set from above by a regulator) and, accordingly, in many respects demonstrative CSR model are most likely to lead to deceleration of increase in business responsibility, and even to closing up of social expenses and to the transformation of CSR into rhetoric to a great extent. Such scenario is quite real and, moreover, we are witnesses to that: prices and quality of sold medicines, goods and services, the growing tariffs of monopolists, mass lay-offs, still urgent environmental problems, problems with accessible accommodation and qualitative life necessities, etc.

The fact that business fails to fulfill its own obligations to society and stakeholders calls forth mistrust first of all to owners-managers, and this quickly destroys one more

extremely important value asset – their personal and corporate reputation and trust. Perhaps, for the majority of our heads it isn't a subject of serious concern yet (in their opinion, our on the whole undemanding market isn't so sensitive to it), but in the world market reputation is a very sensitive factor, including value of the company and the attitude of society to it.

The global crisis revealed the erosion of *trust* as one of key assets of the company. The enquiry of 1198 business leaders from 50 countries of the world, annually prepared by PricewaterhouseCoopers, the public trust to business has essentially fallen in 8% of the global companies and approximately in 1/3 of banks. The majority of top managers (64% CEO) speak about the necessity «to reset business», based on a “new normal” – the end of mad and immense consumption, absolutization of financial indicators of business performance, virtual values, restoration of the atmosphere of trust, strengthening of ecological and social responsibility of business.

Also they directly connect the value of business with its reputation. To strengthen the latter 64% consider participation in industry-wide initiatives on trust strengthening; 63% - activation of dialogue with regulators; 51% see necessity in the regular approach to reputation management, 50% - expansions of CSR programs, 49% - improvements of relations with mass media, 37% - revision of investor relations , 31% - strengthening of mutual relations with NPO, 30% - changes in payment practice of heads.¹²

We can talk about three types of trust: a) *intracorporate trust*, creating and accumulating the social capital of the company – interpersonal and intergroup communications and organizational climate and culture; b) *strategic trust* – perception of activity and obligations of the organization (company) by external stakeholders and c) *external trust* - the company's trust to the external stakeholders (to the government, creditors, investors, auditors, advisers, etc.).

Despite certain theoretical discrepancies in the problem of the influence of trust on results of the organization performance, it is possible with a sufficient degree of confidence to state that, for example, investments in *strategic trust* to the company do not simply pay off, but are extremely important for its development¹³. The factors of such trust are: activity and strategic potential of the company, its information policy, trust to management, quality of corporate governance, morale of workers. Also a high correlation of trust and increase rates of the company's capitalization, higher indicators of the M/B ratio in the companies with a high degree of strategic trust were singled out.

2.6. Law

Large-scale corporate scandals in the world at the beginning of the XXI century had a number of sequences. Probably one of the main was the enactment of several quite similar national laws seriously restricting ways for machinations, manipulations, and

¹² “Result Smarter Growth” 13th Annual Global CEO Survey, PWC, January 2010, pp.18-23.

¹³ R. Higgins. Best Practices in Global Investor Relations. The Creation of Shareholder Value. 2000. Russian edition: M., Alpina Business Books, 2005, pp. 25-38.

falsification of corporate information, anti-corruption and anti-bribery laws. The start for them has been given by the famous American Sarbanes-Oxley Act of 2002. Enacting of such laws strengthened the requirements related to transparency, accountability and audit but, as the global crisis showed, it didn't solve all the problems including the ethical ones.

The situation in the Russian business law is rather controversial. On one hand over the last 20 years of market reforms business legislation has improved dramatically being developed almost from zero. It is changing all the time but still doesn't fit the needs of modern development and current business practice. In this brief article it's almost impossible to give even an overview of this legal system. That's why I'd like to stress just a couple of most important issues related to our topic.

The major problem is that the law is not respected in many ways; it is often almost ignored or interpreted in specific circumstances and by different stakeholders according to their interests. The fixed and rather stable dominance of the major shareholders controlling over 50% of the companies (which is specific feature of Russian corporate governance model) allow them very often to ignore the minority interests and to violate the corporate law not to speak about declared Codes of Conduct. It also imposes serious restrictions on hired managers who are not able to act against their will.

Thus the problem of Russian legal system lies not in the field of law development process but in the field of law enforcement. How to force all these acts to work, how to change the social and business practice according to them – that are the serious questions. If we just look at the corruption in business it became a systematic phenomenon affecting everyday practice of management and decision-making process. The anti-corruption law itself being even well enforced and monitored could hardly solve the problem. But as much as possible effective decision of this problem could be a kind of a revolution itself.

According to the assessment of the Russian business environment made by foreign businessmen and experts key legal and regulatory frameworks factors influencing this environment are: investor rights protection (5.6 out of max 10); dealing with tax authorities (5.0); quality of interaction between business and government (4.6); starting business (4.6); law enforcement practice (4.2); obtaining licenses (4.0)¹⁴.

Thus judging these results foreign experts do not rate too high the current state of Russia's legal environment and regulatory practice in relation to business. This once again emphasizes the extreme relevance of the recent intensification of efforts by government authorities to improve the legal framework of corporate governance.

2.7. Uncertainty

Uncertainty (particularly in the global crisis) has turned into basic and more and more significant characteristic of the present and future, influencing decision-making in very

¹⁴ Modern Corporate Governance in Russia as Seen by Foreign Businessmen and Experts. National Council on Corporate Governance and Russo-British Chamber of Commerce. 2010, p. 7.

many areas. People are afraid to lose control over reality and current processes, but even more questions arise concerning the future. The economic crisis of the last years showed that the period of globalization of possibilities had been changed by globalization of problems. This explains the increase of complexity and unpredictability of the modern world. The head of the World Economic Forum K. Schwab considers that «if we concentrate exclusively on crisis-management, we won't have spin recovery. The denial of unpleasant or inconvenient for political reasons truths, together with a gregarious instinct (all search for standard decisions) made us rely on the systems characterized, first of all, by unreality and instability ... It is obvious that the year of 2010 is a turning-point in the world history and that the future demands from us, first of all, reconsideration of values, reorganization of systems and transformation of institutes... »¹⁵.

Uncertainty means bad and ambiguous expectations, these are difficulties of long-term forecasting and planning, it is the disability of rigid hierarchies to solve many problems, and, as a result, an increase of errors and worst results (Merfysm). It is known that about 70% attempts to introduce changes are unsuccessful. To lower this figure we need a deeper and more intelligent understanding of the process of changes and their costs. In other words, heads should decipher «a code of changes», reset management, having adjusted it to "anti-merfysm", minimization of risks and increase of probability of positive results.

Effective risk management became the most vulnerable sphere of management in the crisis period and it was recognized not only by almost all analysts, but also by the majority of businessmen in the world. Accordingly, the problem of quality of risk management is put considerably closer to the top of the list, than other elements of their policy and organization. In the research made by Ernst&Young and Economist Intelligence Unit at the beginning of the crisis it was noticed that only 57% out of the interviewed 337 heads of the global companies used the systems of risk control while accordingly 78% and 70% respondents spoke about an increase in the level of strategic and operational risks in their own activity¹⁶.

According to a later PWC research, 41% of world CEO's speak about basic changes in the system of risk control. 89% of those mentioned above believe that such systems should be integrated into the general control system of business, penetrating the whole organization and its business units, instead of being involved only in crisis situations.

There are two opposite groups of business leaders. In the first group called «consolidators» (those conservatives relying on the existing policy, relations and operations – about 1/3 of the interviewed) 76% are changing their attitude to risks 75% - relations with consumers, 74% - investment decisions, 57% their attitude to reputation. In the other group of "adaptors" (those searching for radical changes of business models – approximately 1/6 of all) 92% are changing approaches to risk management, 92% - to consumers, 89% - to investments, 75% - to reputation¹⁷.

¹⁵ <http://www.vedomosti.ru/newspaper/print/2010/01/27/223879>

¹⁶ <http://www.ey.com/opportunities-in-adversity>. Ernst&Young и Economist Intelligence Unit. M.: January, 2009. p. 8.

¹⁷ PWC, 2010, pp. 4,34,41.

«Strategies of risk minimization, realized by joint efforts, are frequently the unique means accessible to organisations, allowing to foresee the unknown and to guarantee safety of the assets, particularly in situations when there are no historical precedents. In the interconnected world benefits and risks, connected with the type of activity, are naturally interconnected. Thus, effective ways of reacting to network risks should themselves have a network character»¹⁸.

In Russia the problem of uncertainty and business risks is even more topical, since a) the Russian business environment is always uncertain; b) the systems of risk control are much worse developed. As for the Russian non-financial sector (financial sector is a special topic), according to the research of large Russian companies of different sectors, fulfilled in September-October, 2008 by the company «Baker Tilly Rusaudit», only 20% of the investigated companies had their own systems of regular risk management, the quantitative assessment of risks was done in 55% of the companies, only 10% of the companies had formalized liquidity management, 5% – formalized policy of currency risk management, 30% – formalized policy of investment risk management¹⁹.

It is no wonder that in the research cooperatively done by the National Council on Corporate Governance (NCCG) and KPMG, the overwhelming majority of the Russian managers interviewed declared that the main problem of corporate governance in the conditions of the crisis is an absence of an effective system of risk control in the Russian companies (87%). Accordingly, the main thing that, in their opinion, should be changed is the system of risk control (90%), the system of internal control (48%), processes of strategic planning (42%), responsibility of management and board of directors (39%), information transparency (35%)²⁰.

2.8. Time

The problem of time management, which has been developed since the 70s of the last century, is becoming more and more urgent for the solution of individual management problems, for reengineering of separate business processes and models in companies, for management of business- and technology cycles. This is related to the past, present and future of business. And it concerns not only the speed of decision-making (including strategic) but also their focus, duration, rate, risks, changes, and consequences. Herewith, time is ruthless, in business as well. Researchers of companies' business models and the best managers asserted ten years ago that to save competitiveness these models should be reconsidered each 5-7 years. How fast have these processes become nowadays?

Social time –the period of social processes duration– stretches, compresses and flows, as in S. Dali's pictures. And all this reveals itself in «the flat world», where there are no more time breaks in the work of financial markets, offices of the global companies, in logistics and transportation systems or in work via the Internet.

¹⁸ PWC, 2009, p. 18.

¹⁹ Kommersant. 2008. December 17, n° 230. p. 2.

²⁰ Corporate Governance in the Time of Financial-Economic Crisis. NCCG and KPMG. M., 2009. June, pp. 3-4.

Time acceleration is a new super-problem for management, especially, if a great deal of problems are to be solved simultaneously: life cycles of technologies, products, industries, policies and business concepts; changes of tastes and preferences, a way of life and their transformation into a business model; changes of rhythm of business processes or transition to a more progressive model of development (as in Russian case). New global and system risks are also characterized by the fact that the scale and character of their influence on business is very difficult to define and assess in the course of time. They reveal themselves very quickly and, at times, even unexpectedly. And their consistency also lies in the fact that they considerably surpass possibilities of single organizations.

Today in economy and management, especially in Russia, time is the critical factor. We basically live for today or the near future. The business planning horizon is extremely narrowed. The majority of decisions are short - and medium-term as we don't know or aren't sure what will be tomorrow, we don't have a sufficient motivation for making long-term decisions. We live, if it is possible to say so, in the condition of certain «economic impressionism» – a momentary sensation of reality and similar, often spontaneous intuitive irrational (or quite rational, but quickly occurring and easily counted) actions. We have traditional mass deficit of strategic thinking (naturally in management as well), i.e. predictive and alternative, taking into account the vision of the future, time factors, future conditions, risks, scenarios, long-term consequences of our present actions. And this explains the simplicity of many decisions.

We haven't got used to transform images of the future into real practical actions. That is the way we have been acting historically, despite a number of strategic successes of the USSR in the XX-th century. We haven't still got true culture of strategic analysis and management either at the state level, or at business one. Owners-managers seldom possess the long-term vision of their business development especially in terms of its sustainable competitiveness. They pursue figures, without having vision. They create risks, without having any systems of risk control and minimization. Meanwhile, the new reality is so that it is simply naïve to count on any serious place in the modern world without such culture of time management.

Time is the defining factor of the Russian modernization. What everybody speaks about is we don't have any time stock, in case of continuing "fermentation" in minds and actions, according to different estimations, in 3-10 years the most pessimistic forecasts for the country seem quite possible. History proves that Russia was always behind and had to catch up, and it also makes impact on our mentality, including administrative one. The modern developed and even more developing world is extremely fast; we are nevertheless quite slow. To justify it let's turn to the opinion of one of the most respected and influential Russian businessmen, the head of the Joint Stock Financial Corporation "Systema" Vladimir Yevtushenkov. He said: «As far as China is concerned, we have already passed the point of non-return. It is senseless to arrange our business there – they are already ahead of us in economy, technologies, mentality, speed of decision-making and so on»²¹. How much time do we need so that potential modernizers come to consensus how to carry out changes and who is to do it?

²¹ «Expert» n° 16-17, 2010, p. 71.

2.9. Innovation

Time sets a direction, contents, speed and rate of development. And its essence is defined by constant innovations. The unity of all this can be found in the succinct statement: «It is impossible to win race F1 driving a tractor»²². But only few people can construct a competitive F1 bolide, and even a good modern tractor is to be worked at a lot.

In Russia innovations have been much spoken about for a long time, but the results are tiny in comparison with the country's potential. Many have got used to think of innovations in terms of the industrial epoch, to think of them as about individual, isolated or discrete actions/products or as only technological innovations, but not as about a constant process and internal properties and abilities of systems. The idea about gradual continuous improvements was symbolic for the industrial era. In the new nonlinear and flat world the new wealth is created only by nonlinear ideas and radical innovations, capable to change consumer expectations and values, shape of the whole industries based on dynamic competitive advantages. These innovations are a result of not only competition, but also of certain "social ability of the nation" and its business. It is difficult to say precisely and unequivocally, how this ability appears and develops (though many researches are devoted to it) because it is a product of culture, mentality, creativity, freedom, dreams, hazard, passion and even adventurism, but, at the same time, in many cases also a product of correct state regulation or at least proper business-government-society relations.

The global crisis is in a sense an innovation crisis, and the innovation itself is a complication. The universality of this thesis, in my view, is in the fact that a lot of businesses in the world are constructed on certain simplification.« Probably, mankind has relaxed. The idea of the end of history has played a malicious joke – people have believed that we have reached a perfection limit ... We have grown lazy, and even the crisis hasn't given intellectual acceleration yet»²³. Many have forgotten herewith about "dope" of accident (according to N. Taleb), and about relativity of success, and about nature borders. What is the use of innovations if there are stable incomes from conventional businesses and everything connected with them. In Russia it is easier to trade raw materials, instead of process them or creating new real values, it is easier to receive the state budget money and to use so called "administrative resource", instead of creating new dynamical competitive advantages. That is why, according to one of the last reports of the Higher School of Economics in Moscow, the innovative development has involved no more than 25% of the companies of the processing industry²⁴. In the West it is also easier to speculate in the stock market and to build debt pyramids; in the East – to copy somebody else's novelties and to make fakes. But the world is changing, as it understands its errors and aspires to novelty.

The results of the annual poll of 1600 companies worldwide by Boston Consulting Group have revealed that 82% of the respondent heads of the developing countries (first of all,

²² G. Hamel, 2007, p. 336.

²³ <http://www.vedomosti.ru/newspaper/print/article/2010/02/02/224354>.

²⁴ <http://www.vedomosti.ru/newspaper/print/article/2010/04/13/231124>.

from BIC without Russia) named innovative development as one of three main priorities for 2010, 36% consider it as their most important priority (accordingly, 68% and 22% in the developed countries). 52% of respondents from BIC countries named innovations as the key factor in obtaining strategic advantages when overcoming their economic crisis (31% in the developed countries). 85% of the companies from developing countries (53% from developed) planned to increase expenses on innovations in 2010. Almost 72% of the interrogated from BIC countries (49% from developed) are satisfied with the ROI in innovation projects²⁵.

In one of the last large-scale researches of the innovative activity of the large Russian business, fulfilled cooperatively by PWC, Russian Economic School, "Rusnano" Corp. and Russian Venture Company²⁶, the following data are given. In 2008-2010 39% of the surveyed companies launched new products, 73% –new technologies and 66%– new business processes. However, only 14%, 17% and 18% of the companies accordingly lay claim to global leadership in these directions. In other words, a great part of innovations is meant for home market (far from being competitive and demanding), and approximately in 25-30% of cases – only for their own companies, besides 80% of innovations are put into practice at the expense of internal resources of companies without resorting to external intellectual and financial resources, i.e. without the developed system of interactions (see Links). As the interviewed estimated, the under run from the world competitors in innovative activity was revealed in 39% of the companies, and the under run in their own industries – in 52% of the companies.

Estimating the elements of the system of innovation control, the interrogated noted that they have specialized divisions of research and development (55%), top-managers responsible for innovations (35%), special processes aimed at gathering innovative ideas in the company (17%), systems of financial incentives of employees encouraging innovative activity (7%).

The basic hurdles to innovations in the companies, somehow connected with management, are stated to be superfluous bureaucratism (66%), absence of formalized risk assessment and return of investments (66%), complexities of attracting financing (66%), shortage of the necessary administrative personnel (53%), shortage of the employees capable of innovative activity (47%), and absence of innovation culture (43%).

For Russia management of innovations is a new paradigm since it is an organization of another type badly fit into the existing system. It means an absolutely different innovative way of life with a different control system. The guarantee of long success and one of the main objects of competitive struggle tend to become not simply new technologies, goods or services, but *institutional innovations* (or innovation business-concept) – new ways of

²⁵ <http://www.vedomosti.ru/newspaper/print/article/2010/05/14/234221>.

²⁶ Innovation Activity of Big Business. M.: PWC, Rusnano Corp., Russian Venture Company, Russian Economic School, May, 2010. 100 heads of big companies were interviewed (the majority of them are international) with the turnover more than 100 bln dollars, and about a half of overall sales in 2008.

mobilization of talents, knowledge, resources, capital, new ways of forming strategy. The modern organizations need administrative innovations more than ever. This results from the fact that the administrative paradigm of the last century was focused on control and traditional efficiency, but it doesn't work anymore in the world, where the keystone to success is not only competition, but also adaptability, creativity, trust, interaction and consent.

When we start discussing innovations, even from mouths of heads of the highest level we sometimes hear such terms as «attraction of innovations» or «compulsion to innovations». Such statement of the problem (as well as the notorious «introduction of innovations») isn't correct as a matter of fact. The innovation can't be involved or introduced, in my opinion, as a kind of invocatory or power action, it can be given birth to, grown up only in the corresponding competitive environment and used for commercial or social purposes. Innovations arise where they become a way of life, requirement, instead of an order or someone's wish. Thus it is a serious mental problem for Russia.

Besides, it has been revealed that traditional owners of businesses, hired managers or other hired personnel seldom are good innovations. It is rather some other class of people – inventors and creators, as well as some entrepreneurs. If obligations of proprietors to them are limited only to material compensation, while trust, recognition, attention, partnership, fellowship move to the background, it's a waste of time to expect creative contribution from them.

2.10. Organizations

In innovative economy modern organizations undergo dramatic changes. From tools of power, compulsion and control they turn into those of interaction, partnership, joint motivation and creation, thus changing its traditional for the industrial epoch type.

First. The hired worker changes: he ceases to be an «organization function» or «walking duty instruction». He leaves his rigid submission to the technical things and his chiefs as he is a proprietor of his own capital (knowledge and skills) and becomes much freer and more mobile. In other words, it is the concept of the worker's contribution that changes when he sells to his organization not only his work, competence or knowledge, but also his attitude, trust and loyalty. In fact, there happens one more essential adaptation of relations between property and management.

Second. A man as one of the main objects of management in the organization changes. A refusal of one of the fundamental theses of management theory takes place – the principle of division of labour and coordination of the divided process into a new unit, providing higher labour efficiency and efficiency of functioning of the firm. The elementary unit of the organization is no longer a technological or functional unit, but the business process aimed at a result, creating a value and having its own consumer both inside and outside the company. Moreover, this business process is beyond the limits of a single organization and can grasp the whole world.

Third. The Resources (assets) of the organization change. Knowledge becomes the major resource, and the organization is considered to be a certain set of knowledge. Integration and combination of knowledge and other strategic resources allows to strengthen the company's competence in comparison with its competitors. Some knowledge becomes the company's property (its non-material assets), which can be operated (client bases, patents, licenses, know-how, etc.). Another kind of knowledge can't be viewed as property of a firm as it is inseparable from its carriers-proprietors (scientists, inventors, producers or managers). The cumulative organizational knowledge embodied in the so called «*wisdom of the organization*», is different from that of separate individuals and is a strategic asset itself.

Fourth. The company itself as an organization changes. The company is more and more perceived as not simply a hierarchical structure, but as a certain sum of relations and contracts between stakeholders. Hierarchical organizations turn to flat structures like alliances, networks, horizontal (regional) partnerships, etc.

Communications and interactions in business and management have always been important; in the new reality, especially in the crisis, effective communications, alliances, partnership become crucial since they restore trust, form new expectations, promote generating and implementation of new ideas, concepts and policies. New age gives to top-managers fewer possibilities for purely administrative control; therefore they have to more carefully trace the environment in search of alliances. Complex products and markets (innovations in modules and architecture of products and services) demand another responsibility, control and motivation systems. In other words, to manage effectively one have to "conduct" a network of relations, supervising it, but not necessarily owning it. Thus the company defines its own business and unites two most significant modern economic resources: knowledge and relationship or competences of the company and its clients.

For example, in modern pharmaceuticals the value chain is getting more and more intertwined, since numerous stakeholders –clients, regulators, researchers, manufacturers, suppliers, marketers, doctors, insurers– are joining it. Key social, economic and technological changes in this industry (medicine as a whole) inevitably lead to development of multinational and multidisciplinary networks based on a much bigger scale (volume) of competences and qualifications than those available in the industry itself, not to mention separate companies.

According to the research of PWC mentioned above, 35% of the world's leading companies created new alliances during the year 2009, and 46% planned to create them in 2010. Despite all financial and other problems, 20% carried out M&A deals in 2009; they were planned among 30% of companies in 2010, and the termination of strategic alliances - only in 14% of all companies surveyed²⁷.

The attention of heads of many large companies is focused not on opposition, intensity and conflicts, but on interaction for the sake of obtaining common benefit. The majority

²⁷ PWC, 2010, p. 29.

considers that only productive interaction of business and state can minimize system risks of the present. According to the earlier enquiry held by PWC in 2008, devoted to achievement of long-term success, companies most actively use methods of interaction with the following persons and organizations: with workers and trade unions (83% of the interviewed), with partners in a supply chain (75%), with creditors and investors (67%), with state organizations (61%)²⁸. In large hierarchical organizations, as calculated, up to 80% of all time is spent on interaction of people, i.e. business processes instead of operations are optimized. Especially it spreads to network organizations, open business models, etc.

Fifth. We have stated above that the system of social regulation of business organizations changes, an essential part of which is developed under the influence of civil society by business community itself, and not set by a regulator (including international). We can refer for example to the Codes of Conducts, active working-out of which actually began at the very end of the XX-th century, together with tools of social and ecological reporting of business, or recently developed with the help of the World Economic Forum «Principles for Bribery Prevention» and other.

2.11. Needs

It is possible to treat differently the essence and components of modern conceptual business models, but one thing in them is doubtless - their basis is revealing of demands and focus on the consumer. In the period of the global crisis it became an axiom in the world business community, but, unfortunately, not in ours. If during the crisis the overwhelming majority of the higher managers of the world leading companies carefully trace changes in consumer preferences and focus their attention on consumer behaviour, we have a completely different situation. As it was noticed by one of famous Russian business consultants D. Shusterman, «to simple questions like –who is your buyer, what does he buy?– none of the organizations known to me give any precise answer ... If there is «nothing else» and people want the same thing as «I do», there is no necessity to study the client ... When there is «nothing else», the world is simple and language of its description is primitive»²⁹.

«Demand for simplicity» preserves thinking of managers. On the contrary, demand for a variety, for various convergent services costs much and is difficult to operate. However, those companies win who choose cooperation as a way of satisfying their clients' demands and desires, who can generate an integral image of their clients and their individual behaviour. Especially it is typical of the most advanced areas of modern information technology. «In the history of business development there has come a turning point when the merging rate of technologies, content and possibilities of its distribution have reached a record point, and the innovative transformations have

²⁸ Research of New Risks. PWC, 2009, c. 18.

²⁹ <http://www.vedomosti.ru/newspaper/print/2010/04/09/230888>.

changed power relation» in favor of the consumer. Such a development of the situation is comparable to a social revolution», conclude the authors of PWC research³⁰.

But business itself gets many new demands, including those connected with modern information technology. The demand for operative, as full as possible, authentic, exact and reliable data is constantly increasing. It, in its turn, especially in the conditions of excessive uncertainty and risks, gives rise to demand for a better business analytics (BA). While for the reason of the crisis demand for many kinds of complex information decisions (for example, ERP) decreases, interest in BA systems, on the contrary, grows. It, among other things, was declared at The 2009 Premier Business Leadership Series Conference, organized by one of the largest world manufacturers of BA systems – SAS company. The conference program included the report of the analytical company IDC, according to which the annual world volume of the market of software products of BA class is estimated to equal now approximately 25 billion dollars. If before the crisis the sales of this kind of products was stated to have an increase of approximately 30% a year, now the growth has though slowed down, still it remains at a rather considerable level – 15% a year. In Russia modern BA-decisions also get more and more demand, but still only among business leaders³¹.

In the crisis period in Russia the demand for qualified, especially administrative, personnel, became more acute. The crisis demonstrated that owners need real and capable managers - assistants and allies, but not their replacement. As one of headhunters noticed, if yesterday shareholders searched for people, who told them how they were going to increase the company's capitalization (in the conditions of a rise in prices for raw materials!), and shareholders believed them, today they are searching for people who are ready to work, try something new and do not rely on notorious success³². While in the first half of 2009 demand of private business was focused on anti-crisis managers (conventional managers were a subject of interest of only small firms without debts and «start-ups», as well as state companies and banks), since the summer-autumn of 2009 a steady demand for those developing a new product, new concepts in marketing and sales, for technical directors, capable to modernize manufacturing, HR heads and development directors has been noticed. But the quality of such managers is rather low, as well as the number of true professionals in the market. According to different estimates their numbers range from 5% to 30%. All the rest are the so-called functionaries, having got used to work in the growing market and to use a minimum of additional creative or entrepreneurial effort.

Demand for heads is caused not only by new business projects, but also by the desire to raise the efficiency of the old ones. Those are in great demand who are not simply able to operate assets efficiently, but those «who have their eyes on everything, those who can lead people and are afraid of nothing», considers S. Vorobyov, the Chairman of the

³⁰ <http://www.pwc.com/RU/ru/communications/open-business-model-convergence-impe...02.03.2010>.

³¹ http://www.expert.ru/printissues/expert/2009/45/analiticheskiy_podhod/.

³² http://www.expert.ru/printissues/expert/2009/45/ne_tyanite_odeyalo_na_sebya/.

Board of directors at Ward Howell³³. The things that were unimportant against the background of the growing market became quite significant in the conditions of the reduced sales.

A break in business is impossible without attraction and use of talents, the demand for which is constantly increasing, especially in the innovative sphere. However, according to the research of the consulting company «Hay Group», very few Russian firms have learned to operate talents properly –20% of the interrogated employers do not have an official process in this field of activity at all, and 32% haven't structured it. It is especially common in such spheres as construction and real estate, chemical industry, finance, retail trade and motor industry. Only in 8% of the interrogated companies managers of the medium level are responsible for this and in 12% - top-managers³⁴. In other cases it is a routine secondary task of HR department, whose primary activity is connected with personnel optimization (M 1.0 model thinking).

One more very important integral requirement of modern business, especially in the conditions of crisis, is the demand for *corporate strategic communications* which cultivate corporate social dialogue, provide revealing of the information and risk management, and, finally, raise business efficiency and its innovativeness. It concerns both traditional enough areas of these communications like investor relations (IR) or government relations (GR), or more new one – scientific relations (SR). The essence of the latter is a particular system of relationship of business, government and scientific community allowing to foster commercialization of the results of science.

All of them together also increase another important demand (and value) of modern business mentioned above – need to increase trust in it. As it has been revealed by National Council on Corporate Governance in the poll of foreign businessmen and experts, among the factors which promote strengthening of trust of foreign investors to Russian companies the leading one is a higher level of their transparency (9 points out of 10), i.e. in the conditions of considerable uncertainty the demand for the fullest and trustworthy information about business and its environment increases³⁵. Russia fully proves the conclusion drawn by F. Fukuyama in 1995 –if there is no trust in the country– there is no large-scale independent private business and, on the other hand, state one dominates which is far less efficient. Here again we come to the opposition of demands for control and trust, i.e. management models - M1.0 and M2.0.

3. A new Russian paradigm of management

In my opinion, preconditions of managerial revolution are quite obvious for Russian business, since much of the discussed above is especially topical for Russia. The «revolution» that took place at the beginning of the 2000s, thus having created, in fact, a certain narrow layer of professional managers and their market, and also a certain system

³³ <http://www.vedomosti.ru/newspaper/print/2009/12/30/222472>.

³⁴ <http://www.vedomosti.ru/newspaper/print/2010/06/22/238112>.

³⁵ NCCG, 2010, p. 13.

of corporate governance, hasn't solved the main problem – on a mass basis there hasn't been formed an effective manager, ready and capable not simply to make money for himself or for the shareholders, but to create new values and provide development (but not just growth). The new reality has already emerged, it is around us, but we are far from being ready to it.

All the results of the researches described above, opinions and estimations, in my view, testify to an extremely serious mental problem the Russian management class faces (and not only it), especially if we try to discuss our future. In this case I intentionally resorted to the opposition of two absolutely different paradigms of management reflecting different reality. They are clashing now in the highest echelon of the world business, but it also concerns the long history of scientific management and enormous stories of successes and failures of different companies, including super innovative ones. When we compare the world of this business with the Russian one, there is a great difference in culture, perception of reality, system of values, environment, etc.

One part of the world is directed to search for innovations in the spirit of diversity - and that is «a management DNA» of the XXI-st century. The other part sees management in our reality which is succinctly reflected in the phrase «there are offices but there is no management ... Suddenly it was found out that the best world practices are unnecessary, nobody is going to either realize them or use. Both properly constructed organizational structures for optimization of the company's management hierarchy, and distribution of responsibility zones have turned into a mere screen for dealing with political, hidden intrigues, which has nothing to do with perfecting of the company's management systems». This is a conclusion of the authors of an entertaining book about Russian pre-crisis business «Business in Chocolate», which is a summary of long-term experience of consulting companies rather different in size and industries³⁶.

And there is a huge cultural gap between these types of thinking and practice which is simply impossible to leap with one jump no matter how hard you wish. But you need at least attempts to build bridges across this abyss, otherwise it is senseless to utter, as if they were charms, the following words: "modernization", "competitiveness" and «innovative business and economy». To achieve all this, «management in chocolate» and "manual management" (the term widely used by the top-leaders of the country to overcome the consequences of the crisis) won't work, there should be another management in different environment. The model of diversity is not pragmatic makers, but dreamers and inventors, it is new institutes, and it is necessary to measure efficiency by development of these institutes and their competitiveness, which are one of the main criteria of competitiveness in modern global economy.

If we look at Russian business, in my view, most of it is in the zone of «incrementalism» (a classic example –the largest and still not so competitive Russian motor-car manufacturer "Avtovaz"– Lada brand) and corresponds to the model M1.0. Neither mentally, nor culturally, nor economically, nor psychologically has it got used to act in a different way, to perceive

³⁶ Fedoseev A.V., Karabanov B.M., Dobrovolsky Y.Y., Borovkov P.S. Business in Chocolate. M, 2009, pp. 16-18.

notion of "another" (opinion, belief, behaviour, desire, interest, demand, etc.) or "complex" (innovative and highly competitive). It just hasn't learnt up to the end yet and isn't motivated for it. This results in simple management methods, and desire to compensate uncertainty with power without taking into consideration stakeholders' interests.

Let's consider only one indicator – a labour productivity level. Its increase today is one of the main strategic challenges for the heads of Russian companies. As different data show, labour productivity increase is the matter of concern only in 2–7% of Russian companies (in the USA — in 35–80% depending on the industry). Herewith, 70% of heads think that they operate labour productivity growth (introduce quality systems, etc.) but, by and large, it is an error since there is no result.

According to the data of one of the latest most notable researches of McKinsey & Co³⁷, today labour productivity in Russia varies within 20–30% (depending on the industry) compared with similar American figures. And from 30% to 80% (again depending on the industry) of lacking behind is due to inefficiency of business processes or bad management.

There is one more reason. Russian management is ready to perceive and use all «trappings and ritual» of civilized corporate governance if the latter gives an access to the markets of capital and, ultimately, provides some financial result. It means much is done not because it is a normal culture of business in the civilized modern world, which is already becoming a way of life, but because it is simply impossible to survive without it if you want to attract financing and foreign investments, to improve investor relations, to provide trust and secure sources of income, etc. As many business people, including international ones working in Russia, emphasize, if it were possible to make "easy" money without it, if there were no need in foreign loans, etc., most likely there wouldn't be a demand for a new culture of business in the majority of companies. Moreover, all over the world, and in Russia especially, it became clear that, for example, principles (codes) of corporate governance as such don't rescue from crises and aren't fully observed by all players in difficult situations. On the other hand, it is possible to have a normal formal system of corporate governance, but still lack the necessary financial result owing to the same crisis circumstances. Then this outer side of business becomes a superfluous burden for the main shareholders.

All noted above proves that to modernize the country we need a revolution of management as an institution. «Modernization, - as it was quite fairly noticed in one of new books on this theme by two popular analysts, - is a national revolution against ourselves ... The thing meant is not violence, but that innovative and competitive factors will replace specifically political ones in the decision-making process»³⁸. Such revolution needs good diagnostics of Russian management, understanding of the "ideal model" (of the modern world theory and the best practice), understanding of directions of its reforming or a new creation (values and culture, the institutional environment, motivation, education and training, distribution of the advanced practice, standards of regulation and behavior). But one thing is obvious – it is impossible to solve the country's

³⁷ Efficient Russia. Productivity as a Foundation of Growth. McKinsey & Company, M., 2009.

³⁸ Solovyev V., Zlobin N. Putin – Medvedev: What's Next? M., 2010, p. 344.

problems without a new management class and new leaders interested in changes and motivated for them.

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