

Globalization and Entrepreneurship: Partnering with the New Russians

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Globalization is entering its mature stage. Many politicians and some academics reflect on this aging process as if it is slowing down or even getting reversed. But nobody could deny that this complex economic phenomenon has already changed many aspects of corporate management and operations, as well as having deeply penetrated the fabric of modern industrial relations everywhere around the world. There is no need to remind one that India, China, Vietnam and many other big and small countries are getting to know face to face all the benefits (and, yes, the worries) of the open international market regardless of their dominant social and political doctrine.

A part of this process – globalization of entrepreneurship - still represents a very obscure subject that many small business centers and even specialized academic departments might find ‘too fancy’ or totally disconnected from the ‘real’ needs of the dry cleaner around the block. (I personally experienced this misconception more than once in the U.S. academic world). Apparently, few, if any, customers of a dry cleaner store have ever asked where they got the hangers or plastic bags from. The answer to that question might well be – from a cheap labor country somewhere far away, and surely not from the nearby Container Store.

Can we continue to ignore the small business potential within the global world prospective just because it is too small? The true answer is: it is indeed a small world, but small business is indeed large! Small business that provides the overwhelming share of a national employment in any more or less developed country is actually very big. The army of small entrepreneurs working many times from home (like myself) represents the immeasurable intellectual potential and wealth of risky business expertise that will ultimately be digested by some global behemoths like Wal-Mart, Tesco, or Carrefour.

So, why is globalization of entrepreneurship just a dessert dish on the menu of survival so generously offered by many international NGOs and small business development agencies? We think that it takes a little bit more knowledge and

exposure to incorporate global vision in the brains of a bureaucrat that reports in terms of the number of dry cleaning stores that have been opened this month, or of some self-obsessed street activist driven by the whim du jour of a funding agency.

The mystery of globalization is in its invisibleness, universality, and in its omnipresent socio-cultural sensitivity. Among entrepreneurs globalization brings less B2B experience and more H2H (human-to-human) experience. On the way to success, globalization actively destroys socio-cultural barriers, and brings a wealth of new inspiring ideas to the business owners. Direct interaction of the small entrepreneurs via Internet ignites big projects and great expectations. Of course, we need more stars and role models here--glossy magazines and unbelievable success stories--to promote the idea around the globe. This part is yet to come. Today global business media is still obsessed with the good and bad stories of the giant companies.

Now, more about how globalization impacts on regional entrepreneurship, particularly in the emerging markets with the focus on the FSU region.

It is well known that each country's environment usually suggests some unique set of synergies and its own country-specific path to boosting up the process of small business development within the context of globalization. While Central European economies and former close business partners of the Soviet Union are struggling to find their place and take full advantage of the pan-European economic expansion, Russian small business owners are still fighting the initial stage of the business set-up by reaching only limited success. A huge part of this situation is the ever changing, and not quite practical, small business concept conceived in a great hurry by various Russian government agencies to take immediate care of the collapsed government-run industries. No resources have ever backed-up any of these undertakings. Though the number of entrepreneurs in the country is steadily growing (from nothing just a decade ago, small business currently employs 12% of the Russian labor force and is responsible for about 12% of the GNP), the majority of them are still learning by doing, and considering instant survival beyond any merits of long-term vision or simple expansion even to the desperately disadvantaged nearby regions of the former Soviet Union.

What drives people in Russia to become some kind of entrepreneurship geniuses per se? Definitely a need: sometimes very vulgar, like having no means to support the family, or often, quite pragmatic, to live larger than life. Without saying, both are very viable reasons to make a dramatic life-style change that previously had always been denied by years of government totalitarianism and multiple

propaganda campaigns to make the population believe in global supremacy, while the real Russian families kept counting pennies until the next payday.

Global needs and expectations of the Russian small business owners have never been widely discussed, supported by the government, or simply defined. They just did not exist since globalization had been publicly condemned as an ‘American invention’, and treated by Russian ideologists as the area of the ‘shadow interests of transnational corporations’. Russians traditionally viewed small business as a local phenomenon and quite limited by its neighborhood nature. The ‘evolutionary’ approach was predominant in social studies until now. It suggested that anything had to be conceived, developed, established locally, and only after that, grown outside the borders. In application to a small business, this type of philosophical reasoning taught business owners to develop all stages of the business growth internally- - way before even thinking of its international applications. Obviously, that was not happening in the post-war Japan, ‘Asian Tigers’ or modern China where globalization actually triggered local economic growth and development.

Opportunities to cooperate and take care of more socially important societal responsibilities have never been officially suggested, encouraged, or permitted for small businesses in Russia. The economic history of the country demonstrated ‘love - hate’ relationships in regards to the outside world. On one hand, the country was always proud of its self-sufficiency and ‘independent’ (and wasteful) large-scale ways of dealing with ever-lasting economic troubles in this richest country of the world (e.g., the virgin land campaign, the BAM campaign, the national food-stuffs program, the ‘overtake and surpass the West’ campaign, etc.). On the other hand, there always was, and still exists, a huge desire to always ‘mimic’ many Western patterns and business formats (often even beat them up in terms of glamour, chic and scale) just for the sake of simple vanity. For instance, it was not unusual that overwhelmingly luxurious personal care or entertainment/restaurant establishments were created without any market need or simple consumer reality check in Russia. To survive, some of them had to cooperate with the shadow economy, and many just evaporated very quickly.

It should be noticed that cosmopolitanism as a concept of individual self-actualization has always been popular among the ‘best part’ of the Russian intellectuals from tsarist times on. Unfortunately, the ‘best part’ of them had never been entrepreneurial enough to move cosmopolitanism from the pages of poetry and theatrical stages into the prose of everyday business routine. Stalinism made all efforts in this department criminal, prosecutable, and treacherous. And the possessed characters in such epics as Sholokhov’s “Virgin Land” had replaced the

confused cosmopolitans from Chekhov's play "Cherry Orchard". The same applied to real life: openness to the West meant betrayal of the Country's ideals. Though the Western appeal survived mainly as a forbidden fruit or a nostalgic toy.

Well, how can small business in Russia open up after all these years of economic transition to somewhat economic freedom? Is too early or too late? International experience recommends introducing the idea of globalization at the very early stage of small business origination. It is rather difficult to achieve this without having broad discussion among Russian economists and business owners about true Western 'business appeal', service standards, inter-cultural differences and norms of business ethics. Besides popular and everlasting TV discussions, many simple things can be introduced via a strong educational system in easy terms of "you are a mouse-click away from dealing with consumers around the world". The key factor is simplicity and practicality of the concept, demonstration of the ways to find a foreign partner, and demonstrating benefits for the business owners.

It could bring a stronger response when, early on, less capital-intensive approaches are being suggested first. For instance, the country is well equipped with strong mathematicians, chemists, and physicists. Many of them are PhD holders with excellent knowledge of English, French or German. The opportunities of global online tutoring are endless. This tutoring industry is shifting now to English-speaking India. It has rarely occurred to Russian instructors that they can profitably sell their brains to many desperate American or British students right before their seasons of the many nightmarish standardized tests. All it takes is familiarity with the subject setup and an inexpensive credit card registering device. Huge potential hides in Russia's underdeveloped tourism and hospitality industry, some retail outlets and many IT outlets. Later on, parts manufacturing, seasonal labor migration, and R&D enterprises might complement the actively internationalizing Russian service sector.

How to institutionalize the process? There are many organizations from various countries that are working hard to ignite the spark of entrepreneurship among the usually economically passive and ever complaining Russian population. One of them is the U.S- Russia Center of Entrepreneurship (CFE). The Center is a catalyst organization advancing the role and scope of entrepreneurship in Russia through a network of learning events that target the needs of Russian entrepreneurs. The effort today is concentrating around major cities of European Russia, but soon will possibly spread much broader. There are also plenty of joint business schools, institutes and dual degree establishments that promote entrepreneurship, leadership and teach basics of marketing, finance and human resource management. Some

Russian regional power centers (oblast authorities) have established business development centers that promote entrepreneurship and small business development regionally. This is a powerful resource to rely upon.

Finally, we must consider the human nature of the business owners; that is, their mentality, ignorance and demographic shifts in the country on the way to globalization. The fact is that the Russian population is both shrinking and aging. Young entrepreneurs that are destined to lead the process of international openness are in a short supply. The original business owners have been mainly middle-aged and associated with the 'cooperative movement'. Later some of them formed a social stratum ironically called the "new Russians". The phenomenon stems from their affiliation with nouveaux riches. Aplomb and ignorance of the "new Russians" has been extensively portrayed in numerous Russian anecdotes. Their lack of intellect and culture are compensated by their natural wits, links with the criminal power structures, and indecent amounts of money made within a year or two on sharp market imperfections and black market transactions during distress.

As soon as the currency became freely convertible and the borders were opened, consumer market competition forced the majority of the original 'new Russians' out of business. Only the educated ones survived by introducing new technologies to offer competitive quality goods and services. Big money still can do anything in the country, but 'new Russians' have now chosen to become a more serious business people with long-term vision and openness to technological innovations and knowledge. Their global expertise is quite constrained by circumstances, but existing market opportunities suggest thinking outside the box and investing in the future. This type of the 'new Russians' is quite susceptible to change with recognition of the global opportunities and a new economic morality. This is a very important growing group of successful young foreign-educated business owners that are looking for partners and projects overseas. They should be carefully identified and recognized by the international business community. For instance, the Moscow Club of Young Millionaires is one of many Russian organizations to start with.

Globalization presents many new entrepreneurial opportunities as well as new challenges. Since Russians are coming out relatively late, they have to better understand their foreign partners' expectations and needs. Western European companies received access to cheap labor opportunities in Asia somewhere around the 80s. Will they be interested in looking for labor closer to home? Yes, of course. Despite logistical costs that are dropping year after year, Turkey and Slovenia, as well as the Baltic countries, have become huge business successes during the last

decade. Is it the right way to go for the Russian small businesses? Probably not. Positioning only on cheapness is a quite limited business strategy; plus the competition from the developing countries is accelerating. Many Chinese companies do not want to continue this way any longer. They are working now on their own global market identity, and not without impressive results. Indian-made, and soon, Chinese-made cars, are becoming acceptable in the streets of many European cities.

Deciding on what should be offered by Russian small business comes to a detailed evaluation of the country and firm specific advantages. As a country, Russia is very rich in mineral resources, allows for sustainable agricultural processes, is famous for many engineering and technological innovations, and has, though outdated, a much better infrastructure than any developing country. It also has a strategic position in being very close to both Europe and Asia. But the most important resource is a well educated population with great strength in engineering, medicine, construction, aviation, chemistry, physics, biology, linguistics and other fields that are not that well developed in many neighboring countries. This is a unique opportunity to find their place in the R&D area (pharmaceuticals, health care, architecture, engineering, design, fashion, entertainment, education, cosmetics, etc.).

The main firm, specific advantage is probably the flexibility and nonconformist approach to the idea of business organization that currently exists in Russia. Structures, rules, priorities, and 'inspirational' type of business management produce not only chaos (that pushes efficiency back), but also liberate business formats for implementation of the new management ideas. It reminds one of post-war Japan wherein having no prior history of corporate business structures; the unique phenomenon of keiretsu was created. Russians also have a very specific understanding of firm competition. They never think of it as a healthy challenge; they always blame and try to destroy a competitor. This vindictive nature of Russian entrepreneurship creates oases of market control, and also significantly fragments the consumer market. Assuming that internal Russian market is practically endless, it is much easier to turn certain market segments to international opportunities without the need to consolidate the entire market place first (like it happened in China), or just invade it with the foreign affiliates to set a business tone. The process currently goes in both directions: some areas proclaimed themselves free economic zones that significantly intensified the internationalization process in some regions, and other areas readily opened their markets for the foreign capital investments (e.g., Ford Russia near St. Petersburg).

Small businesses under these economics conditions can easily find foreign partners at home.

It looks like both country-specific and firm-specific advantages are mature enough to allow Russian small business to begin the process of their active international engagement. It could take time and additional efforts, but bring a new level of business thinking and management in return. Partnering with new Russian should become a slogan of the day in a country that had been ruled by slogans for so many years. This time – we truly believe that it is a great one!

Now, let us consider Russia's place in global outsourcing and off shoring. Outsourcing usually means contracting out a job overseas by sharing organizational control, while off shoring typically deals with the foreign affiliate of the same company. Can Russian business benefit from both phenomena? The answer is a positive with certain restrictions. Call centers in Russia? No. Lack of customer service skills could be easily replaced by speech-recognition software. Exportation of cheap labor to Europe? EU immigration restrictions and quotas will effectively prevent this. In addition to that, many businesses cannot be moved abroad in accordance with their nature: hotels/restaurants, education/health care establishments—these belong to the places where they are located (except franchising). What should not be discounted is the Russian pessimism in regards to finding another Western savior of their everlasting economic problems.

Would global off shoring/outsourcing be dangerous for the Russian labor market? The U.S. reality shows that it does not significantly impact the internal labor market in a big country. When it comes to Russian small business, the nationwide labor market impact will be even less visible. Regardless of this prospective, outsourcing in the previously mentioned specialized industries and especially in R&D areas will significantly benefit Russian small business development. Traditional forms of initial international entry like exporting, licensing, strategic alliances, and later FDI should be actively explored and adjusted for the specifics of this sector. Many Russians now try to understand why the future belongs to 'outsourcing of each other' globally. World economic centers have been developing this approach for at least fifteen years, and reached many impressive heights in strategizing of the small business concept within the global technological and socio-economic context. Asian entrepreneurs have already successfully followed the suit.

New Russian small businesses still have a long way to go to finally realize the need of becoming equal participants in the global economic game. World-known talent,

skills, hard work and the passion of the Russian people should be better diverted by themselves into a discovery of their real place in the world that suddenly has become so flat....