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Pierre Frankel in Moscow (A): Unfreezing Change

In April 2007, Pierre Frankel – the Deputy Managing Director of Russia for H-IT, a global information technology company – reviewed résumés in search of a native Russian to help him lead the subsidiary's turnaround. A French national, Frankel considered the fact that he was engaging in such an activity in his current office as a small but notable victory since arriving three months earlier.

Corporate executives had sent Frankel from the company's headquarters in Zurich, Switzerland to Moscow, Russia in January 2007 with the difficult task of turning around a top-priority subsidiary – while not holding the top position. Days before flying to Moscow, the Deputy Managing Director of Central and Eastern Europe, who had convinced him to accept the assignment and to whom he would have reported, informed Frankel in Zurich that he had taken another position. Meanwhile, in Moscow, Sergei Lebedev – the Managing Director (MD) of Russia to whom Frankel would also report – considered Frankel a threat, as did the subsidiary's other 450 employees.

On Frankel's first day, Lebedev assigned him a work space on a separate floor from his office. Frankel, recognizing the symbolic and practical importance of this first encounter, refused. It later took him several weeks to convince Nadia Abramova, the head of human resources who was rumored to have had a close relationship with Lebedev, to help vet and hire someone for his team.

Upon accepting the assignment, Frankel made it clear that he wanted his next role to be as a regional executive, preferably in France, where his wife, also a rising manager, worked. Yet this would depend on Frankel's performance, and nearly three months into his assignment he had yet to show tangible results. The first quarter was disappointing and second quarter figures were due soon. Sitting at his desk, with the Managing Director in the neighboring office and the still frozen Moscow River below, Frankel weighed his next steps.

The Assignment

Pierre Frankel had lofty professional aspirations – and H-IT recognized his potential by offering him high-growth positions. He studied economics and business management at a respected European university. Shortly after graduation, Frankel, having traveled as a child with his parents

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and developed an interest in cultures and languages, embraced the opportunity to work in Switzerland for a major consulting company. He began in finance and then moved into IT. One of his clients was H-IT, who eventually hired him with the promise of rapid managerial promotion.

H-IT was a worldwide provider of technology and services with a strong global reputation. Its subsidiaries were largely involved in sales and customer service. Facing rising competition from Indian business process outsourcing (BPO) firms, the company had considered alliances with U.S. and Indian companies. From 2003 to 2006, Frankel served as an executive assistant to the President of Global Field Operations, and in late 2006 he was promoted to Vice President of Business Operations, reporting to the President of Europe, Middle East, and Africa (EMEA). At the time, EMEA operations were split into three regions – Southwest Europe, Northern Europe, and Central/Eastern Europe (CEE). CEE was based in Zurich, Switzerland.

Shortly after taking the new role, the Managing Director of CEE asked Frankel to lead a strategic project to develop operations in Russia, an underperforming subsidiary which, despite vast market potential and technology talent, failed to meet revenue and profitability objectives. (See **Exhibit 1.**) The H-IT Russia organization handled sales, marketing, distribution, and service for the country. Most of its employees had technical backgrounds and there was some support staff. Frankel visited Moscow several times in the fall of 2006 to craft the subsidiary's business plan before presenting it to EMEA and global executives. It was well received – so well, in fact, that it led to a new assignment.

In December 2006, a new EMEA President arrived. Russia remained a top priority, prompting the Deputy MD of CEE to sell Frankel on the idea of leading an on-site growth project in Moscow. Originally, Frankel was supposed to report to the Deputy MD of CEE, but upon returning to Zurich from vacation at the end of December 2006 – days before moving to Moscow – the Deputy MD announced that he had accepted a promotion to become the Deputy MD of EMEA. "One of the people who really brought me into the project and sold me the story left me alone," Frankel said. "At that point I could have said, 'Here is my badge, I will go home, do it yourself'." But Frankel had worked so hard that year as VP of Operations in Zurich and the years before, he felt compelled to build on that base and accept the challenge.

The business plan project had given Frankel some familiarity with the organizational dynamics in the Russia subsidiary. The company had fired the last two MDs due to opaque business practices. Sergei Lebedev, the current MD, had come from a direct competitor and, prior to that, had worked for over 10 years with the Russian secret service. He had studied at a respected university, possessed good communication skills, and was fluent in English, which eased interactions with corporate management in Zurich. Yet Lebedev had never held a top management position before. Although the subsidiary continued to underperform with his leadership, corporate executives were reluctant to replace him given the difficulty of finding another candidate with the requisite skills – an experienced leader in the industry with a good network of relationships with top Russian managers and officials. Furthermore, H-IT had a general preference when making changes to do so via evolution, not revolution. Corporate leaders encouraged Lebedev to hire a number two to help oversee operations and lead change, but he did not act on the request. After weak results in 2006, the company reached out in secret to headhunters, but Lebedev soon learned of the move from contacted candidates already within his network. Corporate executives thus decided to hire a number two themselves. The President of EMEA, Frankel's supervisor at the time, reached out to Frankel to convince him to take the assignment. Once Lebedev learned that Frankel was the designated candidate, he presented his own candidate, who was rejected by the CEE management.

Frankel's new position was Deputy Managing Director, the equivalent of Chief Operating Officer. He had a double-reporting line – to the MD of Russia and to the MD of CEE, since the Deputy MD of

CEE had left. The mission was to transform the organization in one year into a profitable and fast-growing subsidiary. Responsibilities included organizational development, the execution of corporate initiatives, and acting as the corporate point of contact. Frankel was a regular member of the EMEA/CEE Management Team, which Lebedev fought unsuccessfully to block. The assignment was originally planned to last a year.

Doing Business in the New Russia

Business culture in the New Russia emerged after the fall of the Soviet Union (USSR), a union of socialist republics which lasted from 1922 to 1991. By the mid-1980s, the strain created by the state-driven, command economy led to the announcement of *perestroika* – a restructuring program which loosened rules on foreign investment. But the political and economic challenges were too great, culminating with the disintegration of the USSR in 1991.

Russia, as a separate state, plunged headlong into market reforms, beginning in 1992 with price liberalization and privatization. The rapid nature of the transition in a society ill-equipped with market-supporting legal, judicial, and financial institutions created a long-lasting impact on the country's business operating environment. The voucher privatization process resulted in the amassing of enormous amounts of wealth into the hands of a select few, known as "oligarchs."[i] Corruption, already a problem in the Soviet era, worsened. Ultimately, the institutional vacuum was filled with new informal practices built on the ruins of Soviet era personal networks and organizational culture.[ii]

The country embarked on sustained economic growth after the 1998 financial crisis. Under the presidency of Vladimir Putin, who curbed oligarchic power and forged political stability, the country's nominal GDP expanded on average by 7% per year beginning in 2000. (See **Exhibit 2** for key economic and demographic figures.) Russia had invested heavily in science and technology during the Soviet era, which created innumerable economic opportunities. The workforce was filled with highly trained scientists, engineers, and mathematicians. More than 95 percent of the adult population had completed a secondary education and over half had a tertiary degree – the latter figure was double the average for OECD countries.[iii] The market was already big – with even bigger potential. The population, though declining, exceeded 140 million, while disposable household income was one-third higher than Brazil, four times that of China, and 10 times that of India.[iv]

Major industries in Russia included energy, large-scale manufacturing, finance, retail, and telecommunications, while the government remained a powerful influence. As a service industry, IT had expanded rapidly to meet both domestic and, increasingly, global demand. The IT market had grown over 30 percent annually since 2000 and Russia was behind only India and China as a software exporter. The Russian government actively promoted IT expansion via the creation of several Technoparks which enjoyed tax and customs benefits. Energetic local entrepreneurs entered aggressively to seize the new opportunities. Thus, the subsidiary competed against not only multinationals eager to supply the expanding Russian market but against local start-ups. Soon, global companies came to recognize the importance of finding Russian partners since the government often favored local businesses. Many foreign enterprises, such as H-IT, found it challenging to take advantage of these commercial opportunities.

The Soviet system left a deep legacy on organizations. Decades of central planning hindered the development of the strategic planning skills of managers, many of whom were trained first as scientists. Later, in leadership positions, they followed central government output and pricing dictates.[v] Given this, while people in managerial positions had technical competence, they often lacked managerial skills.[vi] However, they did become adept at managing through scarcity and securing needed resources through *blat* or informal, personal networks among firms or between firms and the government. Many of the new business organizations formed in the 1990s emerged via pre-existing *blat* networks of favors.[vii] The presence of these networks made it difficult for foreign firms to operate an efficient manner, unless they employed managers with existing relationships, prompting some scholars to refer to the operating environment as "network capitalism."[viii] In the early 2000s, formal institutions remained so weak that a plethora of additional informal practices, including the use of compromising information (*kompromat*), double accountancy and financial scheming (*dvoinaia bukhgalteriia*), and alternative enforcement and use of the law (*tolkachi*) became commonplace.[ix]

Within organizations, the Soviet system left a legacy of top-down hierarchy. The cultural leadership myth of a strong and decisive autocratic leader reached as far back as the country's pre-Soviet czarist past, such as Peter the Great, and was perpetuated by the experience with Joseph Stalin in the mid-20th century. Vladimir Putin, in the early 21st century fit into the same frame.[x] At the same time, these leaders were seen as paternalistic. Organizational leadership styles reflected this transactional approach. Managers kept a distance from workers and communicated "down" to employees, although they also sought to protect them with perks and defend them from outsiders. Few questioned one's supervisor in public and resistance was passive. In this context, knowledge and information equaled power and influence, thus hindering open sharing within an organization and fostering a lack of transparency.[xi] The transactional nature of relationships also fostered a zero-sum mindset. Frankel learned that some Russians he interacted with operated with the assumption that "if it's good for you, it cannot be good for them." This implicit threat created an environment of fear which hindered innovation and teamwork.

Russians, like citizens of many countries, had a deep sense of national identity – yet they could also exhibit a strong mistrust of outsiders.[xii] Post-Soviet Russia was gripped by the loss of its satellite republics, which damaged national pride. The growth of NATO and the European Union eastward was perceived as an encroachment on the country's historical sphere of influence. It was common for political leaders to reinterpret Russia as the spiritual heir to Byzantium, the Eastern Orthodox Empire whose downfall, some Russian scholars claimed, was attributed to its opening up to the West. The implication was that the New Russia would not make the same mistake.[xiii] This sense of national identity, combined with Russia's physical distance from the rest of Europe, created barriers for H-IT executives. (See **Exhibit 3** for a map of Russia.) Traditionally, H-IT executives flew from the heart of Europe to Moscow once a month to review operations and request corrective actions. Yet four weeks later, they observed little progress. In Russia, the term *kollectiv* referred to the sense of togetherness. Loyalty to one another and to one's supervisor mattered, especially in the context of the New Russia where one was protected not by the law – due to the weakness of institutions – but by those who had power and influence. The slogan *trust, but verify* was commonly used in Russia – and was later appropriated by Ronald Reagan in Cold War diplomacy with Mikhail Gorbachov.

A Frosty Reception

Although Frankel did not have time to learn further about Russian culture before arrival, his strategy was to observe, listen, and, whenever possible, read. "It was very important for me to understand the 'soul' of the Russian," Frankel said, referring to a Russian word "dushá" for soul, commonly invoked in Russian literature for explaining behavior. "Depending on the country, you need to understand the reality, you cannot do everything by the book," Frankel said. "You need to have very, very large ears."

Frankel landed in Moscow on a cold day in January 2007 and recalled the meaning of a "Russian winter" which he had read so much about in history and literature books: "Go to Moscow and it was -25 degrees Celsius and you are sitting there, you are exhausted because of the flight, two hours to get to central Moscow, you have no assistant, no staff, you have no budget, and the MD wants to give you an office somewhere on the first floor." In other words, Frankel would have been located on a different floor from the Managing Director. Initially, Frankel was told to speak to a facility person on another floor to request a new office. "I said to myself wait. If I lose this battle, I will not win anything else," Frankel said. He insisted on having an office next to the managing director.

The subsidiary's 450 employees – most of whom focused on the sales and distribution of corporate software solutions – saw Frankel as the man from corporate, an outsider, the only foreigner among them. In corporate communications to the subsidiary while working as the VP of Operations, he often signed his name. The employees knew who he was – but he did not know them.

Gathering Information and Laying the Groundwork

The first few weeks on the job, Frankel met with all relevant members of the organization, including the line-of-business leaders (LoBs), to learn more about the organization's operations and lay the groundwork for change. He also sought the support of informal leaders, such as Nadia Abramova, the head of human resources; it was rumored that she had a close relationship with Lebedev. "I tried to identify the people that were keen to learn from good practices to go and improve themselves," Frankel said.

Frankel met with people in every setting he could, often individually. He asked one employee, who he recognized as open-minded, to have dinner to hear his perspectives and get acquainted. But the employee appeared awkward during the meal. Later, Frankel learned that the employee was confused about the invitation. He waited the entire evening for Frankel to ask for a favor. But Frankel persisted in his outreach. "If I can convince one person, with this person we can convince two people, with these two people we can convince four then eight, then 16, then 100," he reasoned.

Initially resistance was passive. "Usually they would not fight proactively, they would just disappear, they would not support, they would not show up for a meeting, they would not speak up, they would not write the minutes, they would not execute the minutes," Frankel said. He put himself in learning mode. He came to interpret the prevalence of passive resistance as the result of the society's experience operating within the Soviet system. Local employees also offered Frankel an unexpected but telling explanation of the recurrent cycle of no action taken on corporate requests following visits from executives. "Anatoly, why was this not delivered on time? It was agreed and it was included in the minutes. I don't understand," Frankel asked. After a pause, Anatoly answered: "Pierre, it was agreed, but not promised."

Frankel continued to learn of the extent of the MD's organizational influence. He intimidated employees and "managed by fear," while line-of-business (LoB) managers operated in silos. For those activities and tasks that crossed the LoBs, managers typically had to go first to the MD before crossing into another LoB. This created bottlenecks and centralized the MD's authority, making it difficult to replace him, even in the context of weak performance. Frankel gradually began to understand why, in 2006, the Russia subsidiary had one of the worst employee survey results among EMEA markets. "No paper, absolutely nothing was moved within the organization without the knowledge and approval of the managing director," Frankel said. During one team building exercise, senior managers were asked to go around the table and ask where they would like to be in their role. The MD answered that he wanted to be fly on the wall so he could see and hear everything. In a meeting about whether to accept a Russian software solution from an outside vendor (and friend of the MD) or use the corporate software platform, Frankel openly disagreed with the MD, arguing instead for the maintenance of corporate standards. Later, in private conversation, the MD, angered by the public challenge, invoked nationalist arguments for why the Russian solution was better. It was also common for him to lapse into Russian during meetings. Yet in general, the MD rarely confronted Frankel, complaining instead to corporate executives in Zurich.

An example of Lebedev's influence and the challenge of overcoming resistance was Frankel's attempt to hire a native Russian to help him lead projects and interact with the rest of the organization. "I decided from the very beginning to hire someone, it was clear in my mind," Frankel said. But Lebedev sought to block the hire and tried to bring in his own candidate from the inside, connected to him. Frankel was already aware that existing employees passed word about many of his actions back to Lebedev.

Frankel focused on developing a good relationship with Nadia Abramova, the head of human resources. "I identified her very quickly as one of the key persons that I need to have on my side to be successful because she had an important influencer role within the organization – and since she was close to the managing director I could show her the benefits of having corporate on her side," Frankel said. He eventually informed her that he wanted to hire someone and, after numerous discussions over a two-month period, convinced her to initiate a search through a headhunter. After putting soft but continuous pressure on her and, at one point, requesting to meet the headhunters himself, she acquiesced and brought Frankel several résumés.

Frankel came to recognize the importance of symbols, especially after speaking to a sales director who had just come back from a trip to corporate headquarters. The director commented that he felt something was wrong. Frankel asked why. He said that a fountain in front of the headquarters was broken. Frankel knew that it was shut off periodically for cleaning but was struck by the employee's jump in reasoning. He concluded that it may be easier to communicate new concepts through symbols and metaphors. Through these numerous interactions and experiences, Frankel gained a better understanding of the subsidiary's underperformance.

The Issues As Frankel entered his third month in Moscow, he identified several key areas of business concern. The organization failed to adhere to many company processes and guidelines, especially in the sales area: Sales forecasting, pipeline building, sales bonuses, bad debts. A further source of tension included the requirement that, since the company was listed on the New York Stock Exchange, the subsidiary had to adhere to Sarbanes-Oxley requirements in Russia, which was difficult given the larger context of corruption in post-Soviet society. The U.S. law was passed in 2002 to raise reporting standards for company boards, accounting firms, and managers. Yet as with many standards and initiatives, listing them on paper or posting them online did not mean that the people at the H-IT subsidiary adhered to them. In sum, although H-IT had global standards and tools proven to enhance performance, the Russia H-IT employees failed to follow them – beginning with Lebedev. Corporate leaders had difficulty holding Lebedev accountable and Lebedev used his own form of accountability with employees, which discouraged information sharing, joint effort, and working toward shared goals, all of which manifested in fearful and dissatisfied employees lacking in initiative.

Getting Movement

Frankel looked up from the résumés he had just received from Abramova, the head of human resources, and turned his gaze toward the frozen river below. He had met almost everyone in the organization and had identified several priority areas – increase business predictability, improve the organization's sales efficiency, and focus on strategic internal processes. He had also convinced the Abramova to work with him to hire a native Russian.

Even though he had been in Moscow less than a quarter, pressure had increased from corporate as they questioned what Frankel was – or was not – doing. The subsidiary had missed its objectives the previous year and the first quarter of 2007 was disappointing. Corporate executives wanted to see progress toward company goals – the revenue growth target was fixed at 40 percent and the profitability target was high. Frankel's response was that "we are working on stuff, we are making progress. I know that this is not visible to you but we are working." Rumors had also grown within the subsidiary. Employees told Frankel that he communicated well internally but questioned the lack of results. "People said, 'You have been here 2½ months and we have seen nothing. What are you bringing to the organization?' It's a tough pill to take," Frankel said. "There was high risk of internal collapse due to lack of employee commitment, reluctance to follow company guidelines, or negative interaction in cross-line processes. The organization needed to start a more collaborative approach, avoiding silos," Frankel said.

Frankel needed an action plan along with the right colleague. How could he unfreeze the situation and get movement?

Exhibit 1 Performance Indicators of H-IT and H-IT Russia, 2006

		2006
Central Eastern Europe	**Total Revenue**	503
	Profitability	15.9%
France	**Total Revenue**	228
	Profitability	13.0%
South Europe	**Total Revenue**	355
	Profitability	17.5%
Nordics	**Total Revenue**	197
	Profitability	7.8%
UK	**Total Revenue**	384
	Profitability	15.2%
North America	**Total Revenue**	1398
	Profitability	9.9%
Germany	**Total Revenue**	1230
	Profitability	24.1%
Russia / CIS	**Total Revenue**	112
	Profitability	12.2%
China	**Total Revenue**	91
	Profitability	11.7%

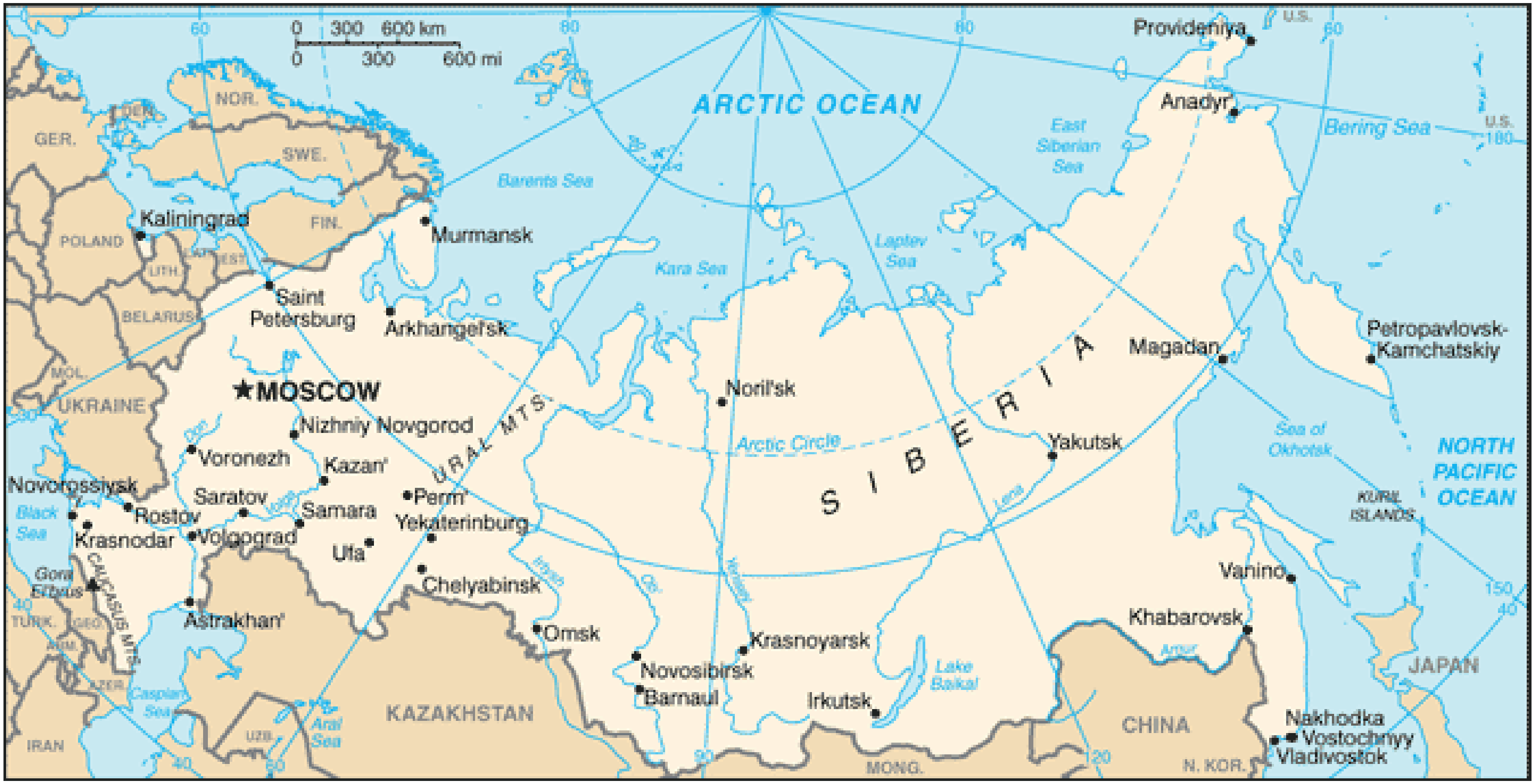
Source: Disguised and modified based on company documents.

Exhibit 2 Economic and Demographic Indicators

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
GDP (% Growth)	1.4	-5.3	6.4	10.0	5.1	4.7	7.3	7.2	6.4	8.2	8.5
GDP (nominal, in billion)	405	271	196	260	306	345	430	591	764	990	1,300
Inflation	14.8	27.7	85.7	20.8	21.5	15.8	13.7	10.9	12.7	9.7	9.0
Foreign Direct Investment (billion)	4.9	2.8	3.3	2.7	2.7	3.5	8.0	18.4	12.9	29.7	55.1
Population (million)	147.3	146.9	146.3	146.3	146.0	145.3	145.0	143.9	143.2	142.5	142.1
Poverty Headcount (% of population)	--	--	--	--	--	19.7	17.4	14.1	11.9	11.1	--
Internet Users (million)	0.7	1.2	1.5	2.9	4.3	6.0	12.0	18.5	21.8	25.7	35

Source: Casewriter, based on data from the World Bank, World Development Indicators, accessed on October 14, 2011 and available at http://data.worldbank.org/data-catalog/world-development-indicators?cid=GPD_WDI .

Exhibit 3 Map of Russia



Source: Courtesy of the University of Texas Libraries, The University of Texas at Austin, available at http://www.lib.utexas.edu/maps/cia11/russia_sm_2011.gif.

Endnotes

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[v] Angela Ayios, *Trust and Western-Russian Business Relationships* (Burlington, VT: Ashgate Publishing Company, 2004)

[vi] The lack of managerial skills is a common theme in research on Russia as discovered in interviews with a separate technology company discussed in Rosabeth Moss Kanter, *SuperCorp: How Vanguard Companies Create Innovation, Profits, Growth, and Social Good* (New York: Crown Publishing, 2009). See also Sheila Puffer and Daniel McCarthy, "Two Decades of Russian Business and Management Research: An Institutional Theory Perspective," *Academy of Management Perspectives* (May 2011): 21-36.

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[xiii] *The Economist*, "A Byzantine sermon: The drawing of inaccurate historical parallels with Constantinople," February 14, 2008