

*Center for Strategic and International Studies  
Russia and Eurasia Program*

**“Russian Tide: Building a Leadership Business in the Midst of Unprecedented Change”**

July 17, 2012

**Speaker:**

John Pepper, *Former Procter & Gamble Chairman of the Board, President, CEO*

**Introduction by:**

Dr. John Hamre, *President and CEO, CSIS*

**Moderated by:**

John Tanner, *Former U.S. Representative for Tennessee*

**Discussant:**

Dr. Andrew Kuchins, *Director and Senior Fellow, CSIS Russia and Eurasia Program*

---

John Pepper began by presenting an overview of his book, *Russian Tide*, and outlining the circumstances under which Procter & Gamble (P&G) entered the Russian market:

- *Russian Tide* presents only a small piece of a much larger story, the story of Russia’s opening to Western business. The experience of Procter & Gamble was not unique, nor was P&G alone in opening the Russian market. However, Procter & Gamble’s experience provides an essential perspective on this tumultuous period in Russian history.
- *Russian Tide* outlines the principles of business success and underscores the importance of leadership and values for doing businesses in complex, untapped markets such as Russia. Furthermore, it underscores the importance of developing personal connections and cultural affinity in such environments.
- Procter & Gamble decided that it was time to attempt to open the Russian market very soon after the fall of the Berlin Wall – in this way P&G was ahead of the curve. The first P&G trip to Russia resulted in the formation of a partnership with St. Petersburg University, a partnership that would prove invaluable in P&G’s Russian ventures.
- The early 1990s were extremely difficult for Procter & Gamble. After three years of operations in Russia, sales – which were only twenty-five million dollars – amounted to only half of costs.
- The ruble devaluation crisis of 1998 turned a projected profit of one million dollars into a loss of one million dollars overnight. Hyperinflation was particularly damaging to Procter & Gamble’s business interests. During this period, the personal relationships that the corporate leadership had

developed with Russian officials and other prominent figures were critical to keeping the vision for P&G's operations in Russia alive.

What did Procter & Gamble learn from its experience in Russia?:

- *The Power of Vision:* Procter & Gamble executives realized in the late 1980s that the Russia was going to be the major untapped market of the next decade. For this reason, they recognized that it was critical to enter the market first. By establishing footholds and forging relationships early, Procter & Gamble was able to become a major player in the Russian market.
- *The Necessity of Strategy:* Procter & Gamble understood that to succeed in the Russian market, it needed to develop brands that the general populace would value, a task in which it was aided by the poor quality of Russian-produced consumer goods at that time. Additionally, the executive leadership made the recruitment of high-quality local talent a core principle of their development strategy, the first phase of which was the partnership with the St. Petersburg University. The development of this local talent base allowed P&G to gain a more complete understanding of the Russian market and facilitated the development of Procter & Gamble's advanced distribution system, which remained critical to the company's success.
- *The Importance of Global Production:* Procter & Gamble was not only committed to the development of business and distribution networks in Russia; it also emphasized the importance of local production. When Procter & Gamble bought its first Russia plant, management realized they had purchased a town as well, with a population that was dependent on the plant's operation for their incomes. Yet the disparate business cultures of Procter & Gamble and the Soviet industrial complex at times presented stumbling blocks. This became evident when Procter & Gamble was forced to downsize this plant from 3,000 workers to 750, challenging the prevailing Russian belief that the company's top priority should be to preserve employment in the town. Procter & Gamble nevertheless continued to emphasize investment in domestic human capital, which became a critical aspect of P&G's success in Russia.
- *The Importance of Values:* The values and business practices that guided Procter & Gamble were at odds with the pervasive corruption that characterized Russian politics and business during this period. Procter & Gamble's stalwart commitment to its values contributed to the firm's ability to attract top-level domestic talent and limit the impact of Russian corruption on the company's operations. The values that allowed Procter & Gamble to be successful despite Russia's widespread corruption emanated from P&G's corporate leadership and permeated the company.
- *The Importance of Cultural Sensitivity:* Procter & Gamble's executive leadership quickly realized that it would be impossible to be successful in this market without a complete understanding of the forces shaping cultural and commercial norms. Furthermore, it was absolutely necessary for the entire Procter & Gamble enterprise to develop a sincere appreciation for Russian culture to be successful. Growth in this arena was facilitated by Procter & Gamble's emphasis on attracting and retaining local talent.
- *How to Deal with Crisis:* The tumultuous nature of the Russian economic and political system during this period forced Procter & Gamble to learn how to overcome significant challenges numerous times. The Procter & Gamble leadership recognized that in order to remain viable under such circumstances, they had to face up to the reality of any crisis situation squarely and

remain unfazed while focusing primarily on the few very specific issue areas where they could make a sizeable impact. Procter & Gamble's survival was facilitated by a policy of company-wide resolve to persevere in the face of problems created by the crisis and an emphasis on caring for their employees, particularly their domestic talent.

#### Conclusions:

- Above all, Procter & Gamble's experience demonstrates that it is possible to build a healthy, successful business in a developing market such as Russia's without succumbing to corruption. The development of this kind of business venture can also have a positive impact on the domestic market, the domestic political system, and the corporate culture of the host country.
- Any attempt to open a new market and build a thriving business in that market will be dependent on developing strong relationships and a partnership between the foreign company and the domestic political system. In particular, the cultivation and retention of a domestic talent base, especially through university partnerships, has a profound impact on the success or failure of a prospective foreign expansion or market opening.
- The value of the U.S. Department of State to Procter & Gamble in its attempts to open the Russian market is probably greater than those involved will ever truly understand. The linkages that the State Department had already cultivated and the guidance it provided were critical to Procter & Gamble's success. In particular, the emphasis on taking a long-term approach and the idea that the "[U.S.] government is behind the people in Russia" provided a strong foundation from which Procter & Gamble's business could grow. This advice encouraged Procter & Gamble to remain on the whole optimistic on the Russian future, while recognizing that there would be significant and often unpredictable ups and downs.

#### The Russian Future:

- Overall, Mr. Pepper remains optimistic about Russia's future, especially in light of the growth of a new generation and a burgeoning middle class that has begun to protest for political rights, respect, and the rule of law. Furthermore, the continued development of more linkages between Russia and the rest of the world should create positive changes over the long term. These linkages must be actively fostered, both through communication technology and in the political and cultural arenas.
- In a long-term perspective, it is unlikely that Russia and the United States will ever agree completely. However, it is absolutely critical that the two powers find a way to work together productively and to communicate more openly and efficiently. They must do so not only for their own sakes, but for the sake of the world.
- Russian accession to the World Trade Organization and U.S. extension of Permanent Normal Trade Relations status to Russia are both no-brainers.

Dr. Kuchins began his discussion of the book by emphasizing the parallels between Procter & Gamble in Russia and Stephen Covey's "The Seven Habits for Highly Effective People."

- “Be proactive” – Procter & Gamble was one of the first companies to attempt an expansion into Russia. It was able to be successful in part because it recognized the value of entering the market early.
- “Begin with the end in mind” – This habit perfectly parallels the power of vision that was emphasized in Mr. Pepper’s presentation. Procter & Gamble took a long view of its involvement in the Russian market, always operating with the vision of Procter & Gamble as a leader in consumer products as a unifying vision.
- “Put first things first” – In the early years, Procter & Gamble was very successful in laying a strong foundation that would later serve as an engine of growth in the Russian market. The emphasis placed on developing local production, local talent, and an advanced distribution network demonstrate the importance of early preparation in entering any new market.
- “Think win-win” – Despite the pervasive corruption that characterized the Russian market during this period, Procter & Gamble’s emphasis on values was a major driver of its success in Russia. The fact that P&G was unwilling to compromise its set of institutional values was critical to creating honest, open business relationships within Russia.
- “Seek first to understand, then to be understood” – This habit closely parallels the emphasis that Procter & Gamble placed on cultural sensitivity and the development of cultural understanding. The corporate leadership quickly recognized that to be successful in a developing market like Russia, it was critical to understand how that culture operated.
- “Sharpen the saw” – This habit places an emphasis on the importance of undergoing frequent self-renewal. The situation in which Procter & Gamble found itself in Russia during the 1990s was one that necessitated this type of continuous institutional change and flexibility. Procter & Gamble’s experience demonstrates how situations like these can, if met with the right willingness to adapt and change, produce enduring, resilient, and most of all successful businesses in developing markets.

Dr. Kuchins noted that the significance of the changing economic situation during this period in Russian history and its role as a driver for change throughout Russia is often underemphasized. The experience of Procter & Gamble in Russia demonstrates the extent to which these changes were absolutely critical in reshaping not only the Russian business climate and the Russian market, but also the political system and Russian society overall.

### **Question and Answer:**

Dr. Kuchins began the discussion by asking Mr. Pepper to comment on the reasons why his experience in Russia has stuck with him over the years. Being part of Procter & Gamble’s opening of the Russian market and subsequent success provided feelings of great personal achievement, not to mention extensive growth in leadership ability and management capabilities. Both during and after, there was an understanding that the work P&G was doing in Russia was contributing to the development of something very significant. Furthermore, spending a large amount of time in Russia fostered a great respect for and appreciation of Russian culture and history that has not faded over the years.

Dr. Kuchins then directed a question at Former Representative Tanner, asking him to outline how he would explain the benefits of Permanent Normal Trade Relations (PNTR) for Russia to his constituency. If we believe that the United States should be a nation that makes things, then PNTR becomes an absolute no-brainer, as the economic benefits for the United States itself cannot be denied. It all comes down to jobs and demonstrating how PNTR will lead to more American jobs. It would also be important to emphasize how economic partnership with Russia can translate into cooperation on a range of other issues, possibly including terrorism, non-proliferation, or military-to-military partnerships. Mr. Pepper noted that something often overlooked in the PNTR debate is that it is not Russia but the United States that would benefit from the extension of PNTR status. Russia will receive all the benefits of WTO membership regardless of U.S. action. He went on to say that this issue should not turn into one that embitters U.S.-Russia relations. The long-term goal should be to develop a relationship based on a win-win framework.

The third question asked Mr. Pepper to comment on the wisdom of pushing NATO's frontier towards Russia during the post-Soviet period. Pushing NATO closer to the Russian border was a mistake that soured relations at the worst possible time. It was perceived by the Russian government as a 'thumb in their eye.'

The fourth question asked the panel to comment on the recent Duma vote on WTO accession, which passed by a narrow margin, and on the place of companies like Procter & Gamble in helping further the conversation on U.S.-Russia trade issue, particularly on Capitol Hill. Mr. Pepper stated that it is absolutely critical to develop more robust personal contacts between Russian and American officials. While such engagement will not be any sort of panacea for the relationship, holding meetings at the working level could foster more constructive cooperation and understanding. Dr. Kuchins emphasized the curious nature of the Duma vote on WTO accession; it was very interesting that it was a pure party line vote, with United Russia voting in favor and all the opposition parties voting against. Mr. Tanner emphasized the influence of electoral politics on these issues in Washington. The fact that many representatives are in constant campaign mode leaves them hamstrung on the issue of Russia, as they can be easily demonized for supporting Russia or even traveling abroad during the campaign season.

The fifth question asked Mr. Pepper to comment on the leadership challenges of Procter & Gamble's opening of Russia and the introduction of a large expat management structure. The Procter & Gamble executive leadership intentionally chose to employ workers in Russia who were already the beneficiaries of a great diversity of experience because they were flexible, adaptable, and used to working in difficult conditions. Experience with other cultures was also a point of emphasis, as it allowed for the development of cultural sensitivity and understanding in the early stages of Procter & Gamble's business development in Russia. While expats were certainly very important, especially in the early days, native Russians quickly became an integral part of Procter & Gamble's corporate infrastructure, and they were swept up by the opportunities available and attracted by Procter & Gamble's emphasis on values.

The next question asked Mr. Pepper to comment on how the Russian market in the 1990s compares to other potential markets in the world today from a pure business perspective. The Russian market of the 1990s would stand as one of the most challenging markets compared to other present-day markets. Although it was very similar to China, the defining features of the post-Soviet Russian market such as political uncertainty and economic turmoil posed significant difficulties for firms at the point of entry while Russia also offered firms a proverbial gold rush following its initial opening.

A following comment noted that Procter & Gamble was able to assert and stand by its own corporate value system in the Russian context in large part because of its size and strong capital base. Mr. Pepper was then asked to comment on the path that should be followed by small- or medium-sized businesses in similar circumstances. It is certainly true that Procter & Gamble's ability to assert itself in that way was predicated on its size and the scope of its capabilities. This would be a problem for smaller enterprises. Without a doubt, word of mouth regarding business practices and values is the best way to assert a value system for any company. However, in order to get over the initial difficulties presented by pervasive corruption, it would be critical to ally with a partner or a series of partners in the country that share those values.

The last question asked Mr. Pepper to comment on the future of Russia and the uncertainty that seems to surround visions of that future. While there is certainly a large amount of uncertainty about Russia's future, we should remain both hopeful and happy about where we find ourselves today. Given the choice between going back twenty years to 'roll the dice' on a different future or embracing present-day Russia, one would have to be crazy not to choose the present situation. Leadership will undoubtedly be important for the Russian future, just as the leadership of Gorbachev, Yeltsin, and even Putin was critical to Russia's development over the past twenty years. The major question that remains, however, is from where that individual leadership will come over the next couple of decades in Russia.

*This summary was prepared by Oliver Backes and Natalia Izergina, research interns at the CSIS Russia and Eurasia Program.*