

Management Issues in Ukraine

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Introduction

With a population of almost 50 million, Ukraine is one of the largest consumer markets in Central and Eastern Europe (CEE). The country's considerable industrial base, highly educated and inexpensive labour force, strategic geographical location promise substantial business opportunities. The year 2004 was one of the best for Ukraine's economy - real GDP grew an amazing 12%.

The process of political leadership replacement slowed down economic growth in the first half of 2005. However, interest in Ukraine caused by the "orange revolution" made many multinational, as well as Russian firms, put Ukraine higher on the agenda.

It was this positive outlook for the Ukrainian market and the expected increase in Foreign Direct Investments that made Pedersen & Partners open its Kiev office in October 2005. Regional HR Managers / Business Managers who might be based in Prague, Warsaw, Vienna, Budapest or other locations are now likely to face the challenge of dealing with this exciting country. In some ways, these managers are well prepared due to some similarities to the other countries of CEE:

- Like in most CEE countries, the economy is doing well and business is expanding
- It is an emerging market – a manager's ability to lead during change is a must
- The culture has many common traits with some CEE countries

There are also large differences from CEE:

- Ukraine is bigger than most CEE countries combined
- The "Soviet Union" past, resulting in a different market situation and pool/cost of managers
- The culture has many differences, due to the historical connection with Russia.

Below we have highlighted a few differences and market realities that CEE HR Managers and Business Managers face when their region is expanded to include Ukraine.

Ukraine is Large

Ukraine has 50 million inhabitants. Anyone looking at the geographic size, strategic location and mere size of the population of Ukraine would assume that the country would be homogeneously developed by economic, cultural and other factors. Such an assumption will lead to quick disappointment, as one starts to see the substantial differences among even the top 5 cities in the country, let alone among the other 80+ "cities/provinces" in the country.

There is an immense concentration of economic activity, especially in Kiev, which is a city of over 3 million inhabitants. This mega-polis encompasses most of the commercial-trade, retail, and service-capacity in the country. Obviously, heavy industry is not in this zone, but conveniently located in the regions such as Donetsk, Dnepropetrovsk, Zaporozhie, Kharkov, Odessa, and Lviv.

Once one ventures outside of this region, not only does the concentration of activity decrease significantly, but the pool of qualified managers becomes small. A manager who assumes a higher availability of talent outside the top 7 cities, or a higher mobility of the workforce, would soon recognise that this is a battle against odds. In general, there is a high mobility of the workforce, but it is in the form of a migration to large cities, not vice versa.

Accordingly, businesses have to spend considerable resources to develop alternative and/or creative programs to internally encourage workforce mobility to meet the management talent needs of their operations across the country.

Soviet Union Past

Whereas one can say that many of CEE countries have the same communist past as Ukraine, Ukraine has a different communist past than countries such as the Czech Republic or Poland - Ukraine was a member of Soviet Union for 70 years. This cultivated many specific political, economic, social, and cultural features. What differentiate Ukraine are attitudes to issues like private property, democracy, corruption, which were inherited from the totalitarian period. That is why fundamental reforms didn't take place during the past fifteen years of Ukrainian independence. Ukrainian people spent this time being imbued with "simple" basic principles. The "orange revolution" has finally shown the maturity of Ukraine to start its way to become a "normal" European country.

Ukraine has been in the "emerging market" category for the last fifteen years. However, some other "emerging markets" such as Hungary or Poland have already emerged and attained a reasonable level of development, which has allowed them to enjoy a higher level of direct foreign investment, etc.

Ukraine has already been "emerging" for some time now, and yet the development has been rather sporadic. Certainly, some activities, professions, availability of services, legislation etc. have developed during the past fifteen years, but the challenge has been the lack of consistency across the market place. This combined with the effects of major catastrophic events, such as the Chernobyl nuclear accident ('86), a financial market crisis ('98), and long political crisis ('99-04) has had a significant impact on the country's ability to implement change.

It does not require an economist's experience to see the cyclical nature of such an economy. This would be yet another challenge for HR and business leaders, who are newly exposed to the Ukrainian market.

Those who are in leading positions and able to influence the performance of a business would ride these cycles and the total business performance would always be over- or under-impacted by those cycles. The HR leaders have to develop methods, tools and practices to be able to analyse the root causes of the over/under-performance and not to underestimate the impact of external factors on an individual's performance.

Availability of Talented Local Management

The collapse of the Soviet Union is also an important milestone in terms of the pool of executives. Experience gained before the break-up is not considered as being relevant any more. Hence we meet, broadly speaking, two generations of executives:

1. Executives older than 45, who gained their first experience in the Soviet system and might lack language skills. They may have strong contacts within certain industries, but tend to lack the classical leadership skills requested by multinationals, so they are often written off as yesterday's executives.
2. Executives 30-45 years old, who gained experience within multinationals. The positive aspect of younger executives is that they often bring refreshing dynamism to business. On the other hand, they might bring a certain immaturity, inexperience and arrogance.

This is very much a generalisation and executive recruitment is always a company specific task, but it is important to keep the history in mind. As a slight minus, the number of 100% owned foreign companies, which invest in developing their local talent is lower than in more developed markets in the Region. Many "international firms" are in reality joint ventures with local firms, and in-house management development programmes are unfortunately not always aligned with those in the rest of the world.

In Ukraine, the key demands at the executive level are for leadership skills, good business judgment, hands-on operational orientation, transparency, and pro-activeness. The shortage or limitations of these skills therefore require that organisations focus more on human capital issues and prioritise the selection and development of managers to a greater extent than might be necessary in countries like Poland.

Also, weaker problem solving and communication skills are frequently mentioned. A distinct lack of dialogue and information sharing tends to inhibit the kind of teamwork and unity of purpose that often distinguishes well-run companies. Foreign businessmen say this communication gap is frequently the root cause of production mistakes and delays.

The education system in Ukraine in the first part of the 1990's was not able to generate new young managers in a classic sense. Multinationals essentially represented the real institutional education system, which produced future managers. There are some MBA and EMBA private institutions, which try to change the situation, yet results remain to be seen in 2 – 5 years.

One of the answers to the lack of good local management is recruitment of Ukrainian nationals working abroad. When searching for Ukrainians abroad, it's not sufficient to look west. A number of Ukrainians have, during the 1990s, moved to Moscow where they are working for Western multinationals and might now be open to returning home.

Cost of Management

Management salaries in Ukraine are lower than in most other countries in the Region. Places like Moscow and Warsaw show far higher compensation levels than Kiev. Salaries for senior management are however rising rapidly due to the increased interest in Ukraine and the small pool of experienced managers.

Young and successful executives are aware of the shortage of managers in Ukraine. There is still significant 'job hopping' among younger executives. They are eager to try different company cultures, seeking new challenges that will strengthen their value as executives quickly.

Management Style

From a cultural point of view, Ukrainian managers tend to be strong individualists; this means they aren't always natural team players. Efforts to promote Western style teambuilding may work well during trainings; however, they often may not suit the realities of local culture and do not translate easily into daily practice. At the same time, Ukrainian executives are often very hungry to learn, and they are often tenacious about carrying out tasks the right way.

Most Ukrainian managers developed their skills while the business environment was transforming itself: in order to survive they had to be very flexible, able to adapt rapidly to frequently changing situations, be tenacious, able to take risks. Many managers do have these skills. They are in this respect well ahead of their Western peers who in a Ukrainian context, tend to be "high on analysis and slow on action".

There are several areas of needs in the general culture of management in Ukraine. Older autocratic management styles make it difficult for some managers to recognise that they need to change their style of leadership. Improving communication throughout the organisation is another such area identified. Many Ukrainian managers are often surprised to learn that communication is a problem. Finally, addressing delegation issues, local managers often do not properly differentiate between responsibility and accountability.

To summarise, managers who are responsible for Ukraine should be careful and sensitive. One should be proactive and ask local colleagues about cultural issues before taking irreversible actions.

Should you wish to discuss management issues in Ukraine in more details, please contact Igor Kabuzenko, Country Manager Ukraine at: igor.kabuzenko@pedersenandpartners.com

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