
Russia's Best-Known Investment Banker, Ruben Vardanian, On Building Trust In A Fast-Moving World

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Troika Dialog is the oldest and largest private investment bank in Russia, with core lines of business in capital markets, investment banking, asset management and alternative investments. Ruben Vardanian has been chairman of the board of directors and CEO of the Troika Dialog Group since 1992. The company was founded in 1991. Born in Yerevan, the capital of Armenia, Vardanian graduated from Moscow State University in 1992, and completed post-graduate training with BANCA CRT in Turin, Italy, and Merrill Lynch's Emerging Markets Training Program in New York City. In 2006, he became the founding president of Moscow School of Management Skolkovo. Wharton management professors Valery Yakubovich and Michael Useem spoke with Vardanian about entrepreneurship and education in Russia. An edited version of the conversation follows.

Yakubovich: Where did Troika Dialog come from?

Ruben Vardanian: I was a student in Moscow University's economics department in 1990 when everybody realized something was going to change in our country. I said to myself, "We are changing from one system to another system. Which element are we missing?" That's when the government planning system was replaced by the financial system's markets. I said, "It's a new industry, and nobody knows what will happen and how the markets will develop, but the Russian financial industry will be like a normal international industry."

I wanted to do something around this, and my vision was very simple: Russia will become part of the global world. Foreign investors will invest in Russia. We need to find out how to provide services to them, because they need us to understand what's going on in Russia, and there are not so many people who can do that. It was not just a question of knowing English. There was also a mental difference [to explain to clients], especially in Russia in the 1990s.

I was young, and I saw I had a unique opportunity, because international businesses are built around reputation and professional skills, not around your political assets or capital assets, which I didn't have any access to at that time. I said to myself, "I can build the right company with the right vendors." This is one of the basic principles I used in the beginning.

Yakubovich: How did Troika Dialog capture that vision?

Vardanian: We put forward three principles in 1991, which continue today in our business. They are all very simple, nothing scientific. First, we said we are long-term oriented, which was quite unusual in Russia, especially at that time. For example, we are the only ones in Russia who hired Coopers & Lybrand [now PricewaterhouseCoopers] in 1991 to perform an international audit confirming our losses in the first year. That was the kind of long-term commitment we made to ourselves and our industry. We did lots of things people did not usually do in Russia in the 1990s. We ran the company using international standards, not benchmarking ourselves against [companies] around us in Russia.

The second principle says we are a client-service company. It's unusual to explain in Russia that you are a client-service company, because client service was never a key aspect of our country; industrial production was the key.... Our proprietary position was very small [at that time], and I continued telling my people, "We are servicing the client." It's a very important point, which again, in the 1990s, was not so obvious when everything was unstable, and nobody cared about the client.

The third principle was this: I said to myself, "I want to respect myself, and I want to respect my people, my country, my competitors, my clients." So I want to build this respect, and I want people to enjoy working together. It took us a lot of effort to convince people to trust each other in business, because the level of trust in Russia in the 1990s was very low, when the old system collapsed. Building a partnership in Russia, where nobody believed in partnership, was a challenge.

I wanted to change that perception, that you can trust a 24-year-old Armenian guy and operate in a professional, international way. I think it was good motivation for all of us to try to convince people this was possible.

Useem: So having built Troika Dialog from the start, you created a skill set, but when you took over the former Soviet insurance company, Rosgosstrakh, presumably you needed a different set of leadership tools. What were the similarities and differences in the leadership styles you used for both organizations?

Vardanian: It was a very unique experience for me. This former Soviet company had 30 million clients and 1,000 employees, and the average age [of employees] was 53. The company had basically lost its market; it was close to bankruptcy and it was alive only because the government allowed it to be. It was a challenge for us, saying to ourselves and others, "We believe it can be recovered," while other people said, "There is no chance." So we had to change perceptions.

It was important to say, from the first day, what is the goal? What will be our rules of internal relationships? What will be our channels of communication? What will be our motivation and compensation system? It was very different from Troika. I will be honest; it was challenging for me to understand that the system of partnership [we used in Troika], the system of collegial consent, didn't work [in Rosgosstrakh.] It was organized much more like an army or a bureaucratic system. At Troika I have a meeting every Monday morning with all my colleagues, and we know everybody personally. At Rosgosstrakh, it was different. People worked in other regions of Russia, and they didn't know each other at all.

But what I did was the same. I traveled a lot, and I remember I went to one of the biggest cities in Siberia, Krasnoyarsk. The director there said it was the first time in the 85-year history of the company that the general director came to that office, and it was not a small city.

I took the whole management team to travel around all of Russia's regions, trying to explain what we were doing and how we would do it. I remember the business planning process: It took me two months, with my management committee members spending all weekend with each region, going line by line with them. They were shocked when they saw the level of communication and commitment from our side.

The key element was committing ourselves fully to the ambition of being number one. And it happened very quickly. When I came to work with Rosgosstrakh, it had \$200 million in premium collections a year, for a

company with 30 million clients. When I left in two-and-a-half years' time, it was \$1.3 billion in premium collection. Of course the market was much more favorable then; it was a good market. But it was interesting for me to learn that even with a different system and different people, you can continue if you have a clear goal and a clear vision, and you are constantly delivering what you promised.

It is a long process: It's still not over. My partner who worked with me at the time has continued struggling to change the company, and I think he's doing great. But I see what is possible to achieve even in old Soviet-system institutions, just by building trust and constantly delivering on that trust.

Yakubovich: You said you wanted to build Troika Dialog as a clean, trust-based business, and it seems like that effort was recognized pretty quickly.

Vardanian: I think it was seven or eight years, so not very quickly.

Yakubovich: Maybe for Russian standards that is a long period, but here I think it is very fast in terms of how you managed to establish yourself. To many observers, you proved that a businessman in Russia doesn't need to be a criminal; at least, here in the West, that stereotype exists. Did you face pressure to become a criminal, and if so, what skills did you use to deal with those pressures?

Vardanian: First of all, I want to say I'm not an angel, and I live in Russia, where everything is transforming, and I have not done everything perfectly. But I am proud I have continued to live, all 17 years, without bodyguards, never fearing that my life or my family's lives are in danger. I always know I can become more transparent, more public; for example, I always pay my taxes immediately. In the 1990s that was difficult because you paid cash salaries to people. Otherwise you'd be out of the market.

What standards you set is always your choice. I remember in 1993, we didn't have too much revenue, and one of my sales people came to my office and said, "Ruben, we have a couple of clients who want to get from us a guaranteed return, around 50%." Other banks were providing 300% or 600% return at that time because there was huge inflation and everybody was promising that. But these clients were asking for only 50%. I said, "We can never guarantee a return -- even at 50%."

Looking back today, that seems easy to say, but at the time it was quite tough. We didn't know if we would have money to pay salaries at that time. But I knew it would be wrong, and I knew sooner or later we would be paid back for it. This is why you need to have a dream. You need to have a vision. You need to understand why you're saying "no." You need to understand what kind of things you will do and what kind of things you will not do.

It's very important to be honest with yourself and with your colleagues. Again, people ask me often about the mafia or the government. I can tell you: Seventeen years I've been in business in Russia, dealing with lots of cash, and we never had any people who came to us with crime, and we never had any tax police problems. Part of it is, in the early days, we didn't make too much money. Honestly, if you compare us with some of our competitors in that period, we were not very well known; we were not even number two. I think we've always looked like strange people doing strange things at the wrong time. A client once told me, "Ruben, you're a smart person, but you're doing the wrong things. Now is the time to take assets, not plan for the long-term."

It's very important to believe inside yourself that ethical behavior will pay you back. The 1998 default was very difficult for me, not because we lost

money, but because I realized how it would impact society, how people would leave Russia. You can't screw everybody and not think about the long run. It was a very difficult time for me to manage.

Useem: When you joined Troika back in 1991, you were age 22, so you did not have a lot of experience, either in Russian industry or in banking. In major Russian companies these days, I understand there is still a tendency to avoid hiring managers over age 40 because they had come of age in the state-run economy and couldn't adjust to the demands of the free market. Yet last year you hired a new bank executive director, Andrei Sharonov, who was in his 40s and had worked for most of his life for the government. Could you talk about these generation gaps and how you put people of different ages to work at Troika?

Vardanian: I started working at Troika when I was 22, and I was one of the youngest people; I think the average age then was 27, 28. Now Troika has 1,500 people working for it, but the average age continues to be 27, 28, and I am now one of the older people, close to 40.

But I believe the Troika model is still correct. I've always hired people with a high experience level. I was very lucky to get good managers. I got people who trusted me, who liked my ideas and who then brought in much more experience than I had. They came from Wall Street and McKinsey and different industries, and they have been my mentors and partners. I learned a lot by working with people with gray hair: In fact, it's a very good combination.

One of the elements of Troika's success has been multiculturalism. We always have 30 to 40 nationalities working in the local company. So we've always worked with people of different ages and cultures. One of my biggest challenges has been how to bridge the culture differences so we can accept each other and work together. Because we always had two models. One was the Russian company saying, "These Westerners don't know anything about Russia." And Westerners came to Russia saying, "We're trying to teach them, and they don't want to listen." So I would say it's not just the generation or age issue, it's more about cultures and nationality and experience.

But back to your question. Our basic model is, "Bring young people." We just started our summer class for trainees with 170 people, of which I assume about 60% will stay and work in Troika. Most of our partners started at a young age. We have a guy running a key business who is 28, and that is fine with us, absolutely.

Yakubovich: What's interesting about your hiring of Andrei Sharonov is that he's coming from the government and, to the best of my knowledge, he worked for the government all his life.

Vardanian: Fifteen years, yes.

Yakubovich: What does he bring from that government experience? The perception is your bank is different and doesn't want people with a lot of baggage from the old system or bureaucracy. Could you clarify?

Vardanian: The first time we hired a person from government, which was quite unusual, was Oleg Yuguin, who was the deputy minister of finance, the best chief economist. We have been lucky to hire the best professional people -- who are honest and have high ethical standards and are well-known in the market.

Hiring Andrei Sharonov was a big advantage for us because he was one of the most dynamic ministers trying to reform our country. He brings a systematic

view about the government and how it is trying to convert the country to a more open market economy. He's also experienced at managing many projects and different groups of clients. We choose people not always by the position they hold, but also by their personal chemistry, so we find people who accept Troika's way of doing things.

I remember I had to fire one of the most professional people we had in our office, because she was not accepting that culture. She told me [that on] the Chicago Bulls basketball team, people hate each other, that Michael Jordan and Dennis Rodman never spoke to each other, and they still win games. To be honest, I would prefer not to win, if it meant souring relationships. So people like Oleg Yuguin and a couple others are unique. We all knew they were Troika people - very professional with a lot of loyalty. Not so many Russian government officials are like that.

One of my goals has always been to bring different parts of the elite together, to interconnect the government elite and the industry elite in Russia, because right now, it's very badly organized. The same with the educational elite and the cultural elite. I think we've been isolated from one another for the last 15 years. A lot of obstacles and slowing down of good opportunities for Russia comes because of not knowing each other, or not trusting each other. We have these perceptions: Every government official is corrupt, and every business person is a jerk. These perceptions are very difficult to change if you don't know each other. I let people know: You can come and work at Troika, and maybe five or 10 years later, you can go back and work for the government; there will be no problem for you.

Yakubovich: You also have an ambitious vision to build a premier Russian business school. You want Skolkovo, the Moscow School of Management, to become one of the top 20 business schools within 10 years, and you want to establish very high standards for students and faculty. Of course there are many Russian students at business schools here in the U.S. now. How would you convince a Russian student to study at Skolkovo instead of the top business schools in the U.S. or Europe?

Vardanian: The people who want to go to America for their studies are not the people we want to attract, because we're trying to send a message that the world is changing. Before, the model was very simple. All the best people in the world wanted to study in America or Europe because they wanted to study at top schools and get the opportunity to stay and work in those countries.

Now what's happened during last five years, the schools that attract our people realize they are attracting people who want to get rich on the down side, not the people who want to take a risk and build something. Secondly, most of those people now want to come back, and the key measure is they are sending, not just Russian students, but [all kinds of] business students. If you want to learn how to operate in emerging markets, like China, India or Russia, it does not make sense for you to go to Stanford or Chicago, because you will never learn it there: Less than 10% of the cases in those schools involve emerging markets. If you go overseas to study, you will not be ready when you come back, because the country is changing, transforming.

So if you want to build your career in the emerging markets, come to Moscow, or spend time in China or India. You will learn how to live in an environment where not everything is clear and clean and ethical. You will learn how to operate on a day-to-day basis, not only in your classes but in the projects you work on. It's an option for people who want to take risks ... who are 20 years old, who say, "I want to do something." This is why we are more entrepreneurial.

I am a very strong believer in this school. Business schools will change in the next 20 years dramatically because of the changes in demand and the changes in the infrastructure. People are not scared anymore to go to Singapore or live in India. Before, people wanted to go to America and Europe because it was safer, and the job opportunities were higher, and because of the professors those schools could hire. Now people can easily be hired to teach in Kuwait or Dubai or other places.

And then there is the interactivity of the Internet. Before, information was collected exclusively in a library in Harvard, but not anymore. The question now is not about getting information, but about how to use it, how to make judgments about risk, and how to work with cultural differences. So it's a unique time, because Russia is changing and the industry is changing worldwide. Sometimes I think we are at an advantage building from zero.

Useem: Looking ahead to the next decade or so, what are the key leadership capabilities companies will need to operate within the Russian context? Can one now begin to talk about an emerging Russian model of business leadership?

Vardanian: One thing we are facing is everything in the world is changing faster and with more intensity. The price of some materials goes up or down much more extremely. This is why leaders of the new age need to have a model for making sound decisions and adapting quickly in a world where everything around you changes everyday. Who would have believed the subprime debt crisis would hit America so hard, allowing Chinese companies to buy that debt? Such changes create new opportunities.

I think leaders of today need to be more open minded and ready to learn and have a global vision. Being able to accept cultural differences is crucial to operating in countries like Russia. For example, many people come here not even knowing the Russian holidays. So operating in a country with a different culture, and accepting that, is one of the key challenges for a leader today.

In Russia, I think, the value system is also a key problem. People live in a difficult world, and money becomes the measure of success. But everybody is lost, because the religion is gone, the government is not in control so strongly anymore. So you have to build a company with strong values, with a strong model for decision making and motivation and compensation. This is crucial for success because in some ways the company is replacing other institutions we had before. Working 14 or 16 hours a day, you don't have much time to go to church or to spend time with some political party. So having a company with its own internal conscience becomes a crucial element for a person, not only for their earnings but in their decision of how they will live, and what is right and wrong.

The question for leaders is how we can create a system to attract the best people, because the main fight of the 21st century is not about assets. The main struggle in the 19th century was about the land. In the 20th century, it was about industrial assets and natural resources. In 21st century, the main fight will be for the best people. Because people need to believe they want to work for you, that they can realize themselves in your company. To attract them, we need to have the right system in place and develop them for the long term. Many companies are not ready to do this because they hire people, but they don't spend enough time or effort in developing them. I think leaders need to be very, very committed to these types of things.

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