The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Q&A: The Key to Business Success in Russia? Karaoke

By Peter Hobson

June 05, 2014



Graham says investing your liver's time is essential to success in Russia.

Martin Graham's wealth management consultancy owns a karaoke club in London. Karaoke enjoys little popularity among the British, but Oracle Capital Group is focused on Eastern Europe's new rich, and Graham's Russian clients love it.

Graham's history is in investment banking and stock markets. From 2003 to 2009 he was No. 2 on the London Exchange, where as head of the AIM international market, a platform for smaller, growing companies to raise finance, he toured the world coaxing businesses to list in London.

Martin Graham

Education

1985 — Economics degree, London School of Economics, Britain

Career

2012 — present: Chairman, Oracle Capital Group
2009 — present: Chairman of financial services firm Secondcap Limited
2009 — present: Partner at financial consultancy Blue Jack Associates
2003 — 2009: Director of markets and head of AIM, London Stock Exchange
2001 — 2003: Managing director and global head of equity sales, West LB Panmure
1990 — 2001: Various positions, Dresdner Kleinwort Benson

Board Positions

2012 — present: Chairman of the Board Risk Committee, Moscow Stock Exchange
2012 — present: Chairman, Oracle Capital Group
2013 — present: Co-chairman, Third Rome Investment Solutions
2007 — 2009: Borsa Italiana
2004 — 2009: U.K.-India Business Council
2004 — 2007: FTSE International

Favorite book: "Snow Falling on Cedars" by David Gutterson (1994)
Reading now: "The Ballad of Peckham Rye" by Muriel Spark (1960)
Movie pick: "To Kill a Mockingbird," directed by Robert Mulligan and starring Gregory Peck (1962)
Favorite Moscow restaurant: Nedalny Vostok, or "Not Far East," serving Asian and Russian cuisine. 15 Tverskoi Bulvar, Building 2a.
Best weekend getaway: Piedmont, Italy

That role brought him often to Moscow, which he first visited in 1982 for a trip on the Trans-Siberian Railroad. In 2012 he came again, this time as a member of the board of Moscow's up-and-coming stock exchange. "So now I am slightly poacher turned gamekeeper, because I am telling companies that it is a waste of time going to London and they might as well go to Moscow."

Speaking quietly and measuredly as he leans back in his chair, Graham says he no longer does anything that he does not enjoy, and Russia for him is an interesting project. The country needs better capital markets and more efficient infrastructure, he said, and the Moscow Exchange is "the epicenter" of these developments.

In wealth management, apart from the obvious financial benefits, he sees another rapidly evolving business. Graham has two funds — London-based Oracle Capital and Third Rome, which has its head office in Moscow. Both funds target the super-rich of emerging markets, and through them Graham aims to bring something new to the table. The sector has become commoditized, he said, with impersonal, off-the-shelf management packages all around. Being client focused — which can mean anything from diversifying investment portfolios to getting children into British schools — is a monumental business opportunity.

Lapsing into jargon to describe the services his funds offer, he said, "we believe in solutions rather than just selling products to people." Broadening it out, he claimed, is about "just building friendships."

"You also have to be able to do karaoke quite well," he added.

This interview has been edited for length and clarity.

Q: What has kept you in Russia?

A: There are huge similarities between British and Russian people. Both believe in deep, trusting relationships. We are not as superficial as some other cultures. The first time you meet somebody [here] you are not going to go straight into business with them, which is the opposite of a U.S.-type culture where its bang, bang, bang; let's do a deal.

The way the City of London works — my word is my bond, those kinds of values. I believe in those values, and I think they have similar values here.

Q: How far along the path to developing a functional, modern capital market is Russia?

A: Russia has made great progress in terms of putting in the infrastructure — things like having proper custodians, a central counter-party. They are doing lots of goods things at the clearing level, such as enabling people to offset their margin — one of the biggest costs of trading — across correlated asset classes.

There are still issues. International investors are not going to come into the market until they see domestic investors coming in. In the long run, you want to see savers and the pension industry investing in stocks. But historically you have had laws that say pension funds cannot lose money for clients, so at the end of the year if you are showing a deficit you have to make it up yourself, so you would not risk investing in stuff like equities. Also, people will not invest in markets unless they are happy about regulatory stability and the rule of law. And, ultimately, companies are going to have to show good governance.

But all those things are changing. Corporate governance has improved a huge amount. There is a big commitment — from the people I work with, especially on the Moscow Stock Exchange — to do things in the right way. Because if you want to internationalize and globalize and to create more global economies, you cannot pay lip service to these things.

Q: What are the fundamental differences between Russian investment and business culture and other investment cultures you have experienced?

A: The differences are exaggerated. But Russian companies do tend to be quite hierarchical. You have got one dominant leader figure who makes all the decisions. You do not see enough delegation and escalation. I have worked with companies where I see a queue of people outside the office of the chief executive at 7 p.m., all wanting to get things signed off — quite small things — and I said to him, 'that is insane, how can you run your business and focus on strategy when you've got to sign off on $50 or something.' They see it as how they run the business. I think, 'how can you function?' You are just going to drown in detail.

It is changing rapidly. In newer companies with well-educated workers who have studied internationally this is less of an issue. Often the people I come across in Russia and Eastern Europe are better educated than their counterparts in the West. Very impressive people, and increasingly they are having more and more of an influence.

Q: What's the secret to successfully managing people in Russia?

A: It is the same as everywhere. It is about communication, clarity around objectives, proper delegation of authority. You need to give people responsibility. They need coaching. It does not happen overnight. The default mechanism is 'oh, I need to check with my boss.' But the principles are the same.

Q: How feasible is the project to make Moscow an international financial center?

A: I think it can easily become a regional financial center. In the world there is a huge pool of funds that can invest in companies and capital markets. That institutional investor pool can invest anywhere, at any time of the day, at the click of a mouse. But we only go to a place that we trust has good regulation, high standards of law, integrity and efficiency. Reputation is critical. We will ultimately go to the best regulated markets, with the best opportunities and the lowest cost of trading. The things that Moscow is putting in place — having a central counter-party, having t+2 settlement — have made a big difference to international investors. There has been a very good job in terms of putting the right infrastructure in place. It is better than what is happening in the West, where you have got quite a lot of vested interests who don't want to reduce the cost of clearing because they make a lot of money out of the margin payments.

The macro truth is that there is a massive mismatch between the size of the economy — not just in Russian, but in the whole of Eastern Europe — and the size of the capital markets. That cannot go on for ever. London is the other way round — the capital market is way bigger than the economy. There should be an equilibrium. Unless all business gets done outside the economy, the capital market will ultimately grow or the economy will contract.

Because Russian companies are getting increasingly global, the capital markets should by definition be larger than the actual size of the economy. That is why it is a big opportunity. And it [Russia] should become the magnet for most of Eastern Europe. Poland has done a good job as a stock exchange, but local stock exchanges are usually pretty irrelevant. There is no reason why a company from outside Russia should not want to come and list in Russia, with its growing middle class that wants to invest in international companies. All sorts

of international companies have gone to Hong Kong and London, where they can access capital from international investors as well as domestic, retail-type investors.

Q: What is the impact of the Crimean crisis on Russian markets and their integration into the global financial system?

A: Anything that creates uncertainty is bad for markets. At the moment we have got a lot of uncertainty. It is a very complicated situation. U.S. banks have increased their margin requirements for Russian counter-parties, so it is more expensive to do business.
The sanctions have not actually made much of a difference, but there is the potential for them to be more draconian. Ultimately you could have Iran-type sanctions where Russian companies cannot hold dollar assets and you go back to the days of the Soviet Union, when they had to have their currency reserves in Swiss franks and sterling, which increases the cost of trading.

If somebody is brave and takes a risk ... The reality is that Russia's political risk is overpriced in the market. I called it on my Twitter account [on March 25, nine days after the referendum in Crimea, Graham tweeted "Russian market still incredibly cheap and private equity looks stunning"]. It is a great opportunity to buy Russian markets. But I was a bit pre-emptive. A bit brave.

There is misunderstanding on both sides. Ukraine is complicated. But ultimately there is not a huge conflict of interest. We will reach a solution, and once the uncertainty is removed, we will see dramatic improvements in the market.

Q: Russia appears to be approaching a recession. How dire is the economic situation?

A: There are cyclical problems. Problems with banks with high levels of indebtedness. But Russia has got very significant economic growth, not just coming from the area of natural resources but from all these nascent industries, particularly in technology. We have got a growing middle class, increasing consumption. The economic fundamentals on a medium to long-term basis are very good. I am not too concerned about a one or two year slowdown.

Q: What sort of growth rate would be healthy for Russia?

A: We are not going to be in the Indian, Chinese 10-percent numbers. With a growing, young population, 3 to 5 percent is a healthy growth rate in the medium term.

Q: What advice would you offer a foreigner who wants to invest or expand in Russia?

A: Take your time to really assess the opportunities. Find strong local partners. Look at the new sectors. Everyone just thinks about getting into commodities, but some of the technologies here and the abilities, particularly to establish strong market positions in things like the Internet, are enormous. And pay very careful attention to good governance and management when you look at a company.

Q: What problems have you faced in Russia? Hew did you tackle them and what did you learn from them?

A: The mistakes I would make are partly due to being too close to U.S. culture — trying to do

business too quickly and not building a relationship with people.

You need to spend your first two or three meetings not necessarily talking about business. You need to go and get drunk with somebody before you really get to know them. My best Russian friends are ones I have been in a bar with until 2 in the morning. It takes me the weekend to recover, but they led to very good long-term relationships. That does not mean that I am a dodgy alcoholic. You have to invest some of your liver's time.

Q: Who or what inspires you?

A: I like emerging markets and the people I meet in these kinds of economies. They have got that drive and ambition. They are not just sitting back and thinking they can live a life of entitlement.

Contact the author at p.hobson@imedia.ru

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