

# Russia

## International Business Report 2008 – Country focus

The Grant Thornton IBR 2008 reveals that privately held businesses (PHBs) in most economies remain optimistic about economic prospects for the year ahead. For the fifth consecutive year, India tops the league table as the most optimistic economy with an optimism/pessimism balance<sup>1</sup> of +95 per cent with the Philippines joining them at the top for the first time (also +95 per cent). Japan is still at the bottom this year with a balance of -49 per cent whilst PHBs in Russia are marginally more optimistic about 2008 (+58 per cent) than they were about 2007 (+57 per cent).

### The Russian economy

While most of the world's major economies slowed in 2007, Russia posted a record 8.1 per cent increase in GDP, with consumer and investment spending leading the way. Net export sales increased marginally while the government sector ran a surplus to extract demand from the economy and temper inflationary pressure.

Accelerating wage inflation and access to credit pushed consumer price inflation past the ten per cent mark for most of the last year. The central bank uses interest rates to stabilise the rouble's value, and the Russian government has been forced to introduce price controls on foods and reduce import tariffs to curb inflation.

Russia has weathered the global credit problems through the strength of its banking system, its limited exposure to the United States and its strong trade performance.



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<sup>1</sup> the balance is the proportion of businesses reporting they are optimistic less those reporting they are pessimistic.

### Business expectations/revenue

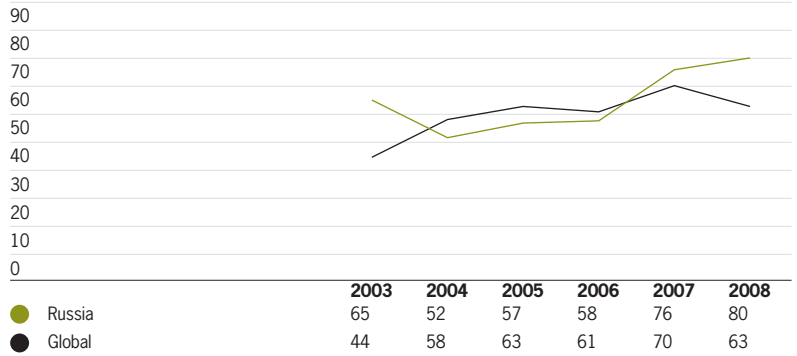
- PHBs in Russia are slightly more optimistic about their revenue prospects in 2008 (+80 per cent) compared to 2007 (+76 per cent).
- Their levels of optimism remain above the global average which dipped from +70 per cent in 2007 to +63 per cent in 2008.
- The level of optimism regarding exports (+12 per cent) is below the global average (+18 per cent), but is up by three per cent from 2007.

### Employment

- Expected employment growth in Russia fell marginally from +53 per cent in 2007 to +49 per cent in 2008. Although employment growth is expected to remain well above the global average of +33 per cent.
- Actual reported employment growth (+37 per cent) in Russia was lower than expected in 2007 (+53 per cent).

**Figure 1: Revenue expectations for Russia and the global average 2003-2008**

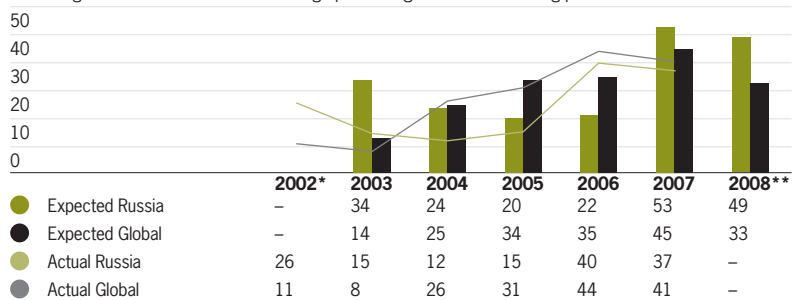
Percentage balance of businesses indicating optimism against those indicating pessimism



Source: Grant Thornton IBR 2008

**Figure 2: Employment history of Russia and the global average 2002-2008**

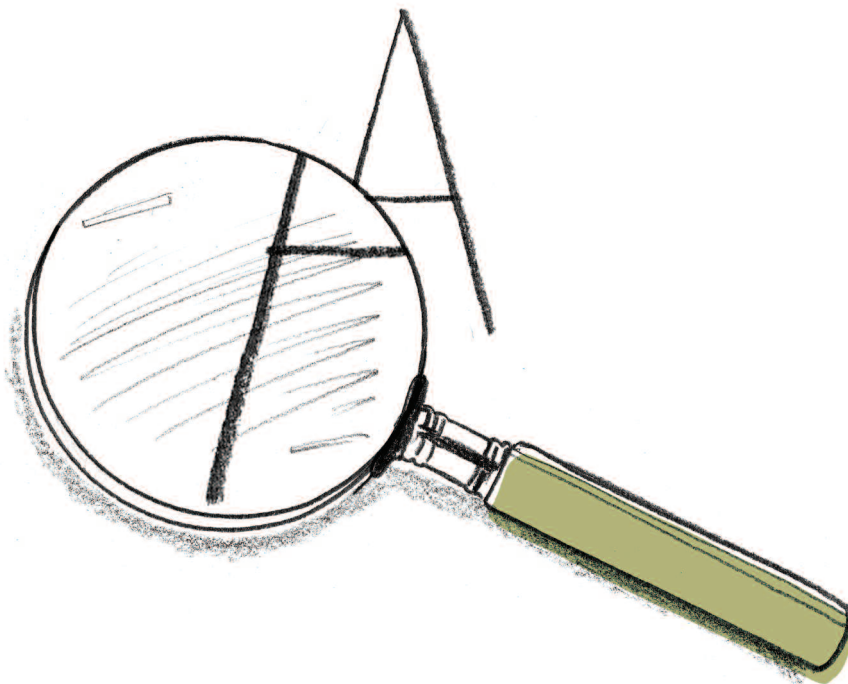
Percentage balance of businesses indicating optimism against those indicating pessimism



\*no data available

\*\*2008 data will be documented in IBR 2009

Source: Grant Thornton IBR 2008



### Constraints

- The availability of a skilled workforce is the constraint restricting expansion cited most by businesses in Russia (52 per cent).
- Shortage of long-term finance is cited by 34 per cent of businesses in Russia, this is slightly above the global business average of 21 per cent.
- Just 22 per cent of Russian businesses cite shortage of orders/reduced demand as a constraint, compared to 31 per cent of businesses globally.

### Emerging markets

- The most important factor for Russian businesses when determining whether to invest internationally is political and economic stability (68 per cent).
- The proportion of Russian businesses which export stayed the same in 2008 as in 2007 (18 per cent), this is well below the global average of 39 per cent.
- 25 per cent of Russian businesses import, compared to 39 per cent of businesses globally.
- 67 per cent of Russian businesses see their main competition coming locally compared to just 36 per cent of businesses globally.

### Competitiveness

- PHBs in Russia see their greatest source of competitive advantage as product service quality (73 per cent), as is true of businesses globally.
- 71 per cent of Russian businesses see workforce skills as a source of competitive advantage, compared to 55 per cent of businesses globally.
- International market links is cited by 31 per cent of businesses globally as a source of competitive advantage, but by just 19 per cent of PHBs in Russia.

**Figure 3: Largest constraints on growth for Russian businesses compared to the global average**

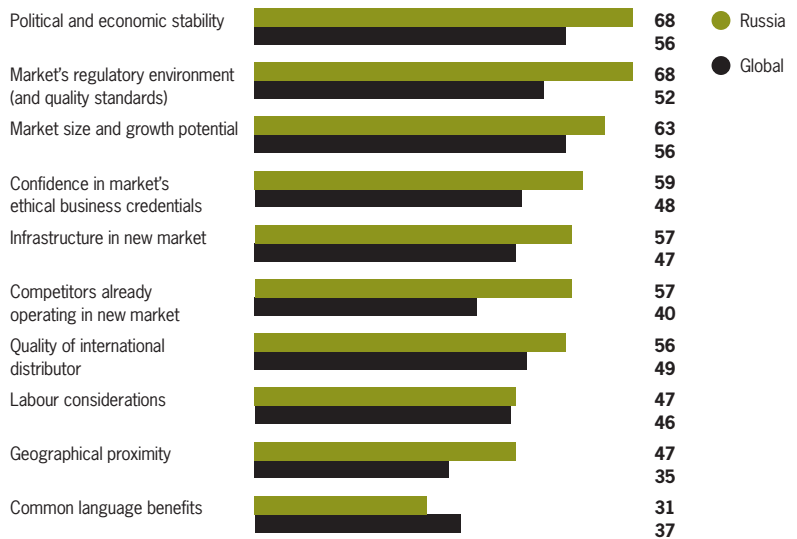
Percentage of businesses rating constraint 4 or 5 on a scale of 1 to 5 where 1 is not a constraint and 5 is a major constraint



Source: Grant Thornton IBR 2008

**Figure 4: Importance of factors determining foreign investment**

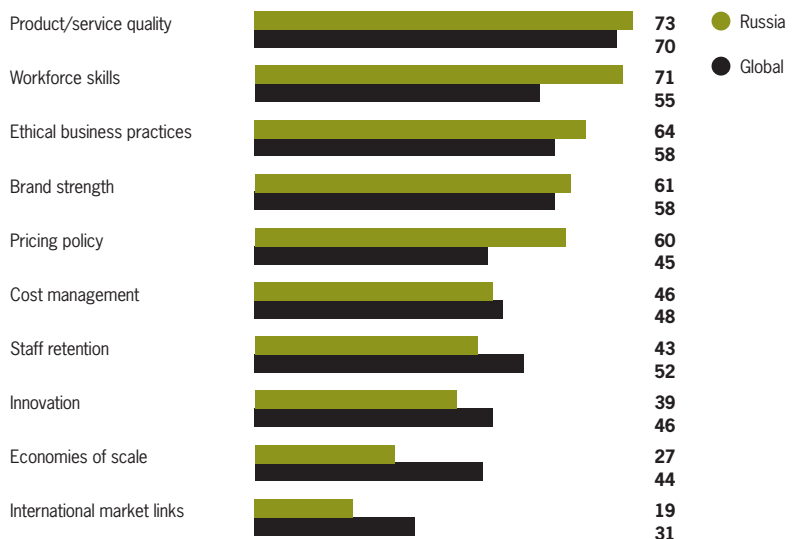
Percentage of businesses rating level 4 or 5 on a scale of 1 to 5 where 1 is a low priority and 5 is a high priority



Source: Grant Thornton IBR 2008

**Figure 5: Main sources of competitive advantage for Russian businesses compared to the global average**

Percentage of businesses rating strength of the advantage 4 or 5 on a scale of 1 to 5 where 1 is not very strong and 5 is very strong



Source: Grant Thornton IBR 2008

## Corporate social responsibility (CSR)

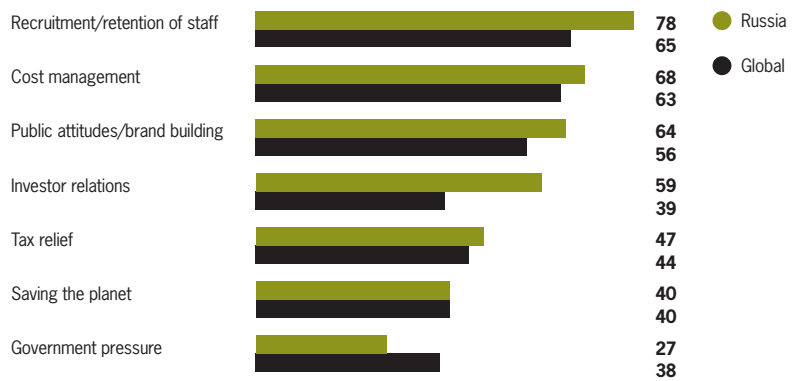
- Recruitment/retention of staff is viewed as the biggest driver towards more ethical practices by PHBs in Russia (78 per cent). This is higher than the global average of 65 per cent.
- Similarly to businesses globally 62 per cent of Russian businesses actively promoted diversity/equality at work in the past year.
- 47 per cent of Russia businesses have incorporated their policies in to a written CSR document, which is slightly lower than the global average (56 per cent).

## Recruitment and retention

- The balance of PHBs in Russia more focused on retention compared to one year ago is +61 per cent. This is slightly higher than the global business average (+59 per cent), and is up from +37 per cent in 2005.
- 73 per cent of Russian businesses develop competitive reward systems and benefit packages to aid recruitment/retention. This is above the global average of 55 per cent.
- Cited by 75 per cent of PHBs in Russia, an increased workload for remaining staff is viewed as the major problem staff retention issues have caused.
- It is costing 68 per cent of Russian businesses significantly more to pay their staff than it was 12 months ago, this is slightly above the global average (63 per cent).

**Figure 6: Importance of drivers to more ethical practices for Russian businesses compared to the global average**

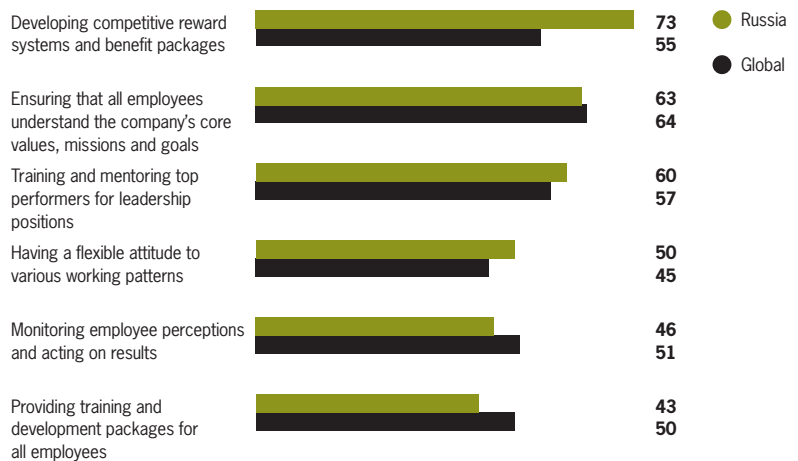
Percentage of businesses rating the importance 4 or 5 on a scale of 1 to 5 where 1 is not very important and 5 is very important



Source: Grant Thornton IBR 2008

**Figure 7: Usage of recruitment and retention tools for Russian businesses compared to the global average**

Percentage of businesses rating the level 4 or 5 on a scale of 1 to 5 where 1 is not at all and 5 is a great deal



Source: Grant Thornton IBR 2008

# Outlook for the Russian economy

Russia's economic growth will slow over the next two years, perhaps inevitably, after 2007's record performance. The global credit story will reduce confidence, curbing not only the excesses in household borrowing and slowing consumer market growth, but also reducing capital inflows for investment. But these are minor effects in what otherwise will be the continuation of Russia's economic renaissance.

December's election win for the United Russia Party and Dmitri Medvedev's ascent to the presidency in March 2008 should ensure a continuation of the policy mix of market-oriented legislation with selective state intervention. Reaction from businesses and the stock exchange suggest that the removal of political uncertainty will now encourage planning and investment decisions.

The Grant Thornton International Business Report (IBR) 2008 examines the attitudes, plans and trends of 7,800 privately held businesses in 34 economies across six continents. The Grant Thornton IBR builds on data collected in previous surveys and boasts 16-year trend data for European Union (EU) countries and six year trend data for international economies.

To find out more about the Grant Thornton IBR and to obtain copies of reports, including focuses on emerging markets, corporate social responsibility and recruitment and retention, please visit [www.internationalbusinessreport.com](http://www.internationalbusinessreport.com).

Focus reports are also available for each of the 34 participating economies, as well as regional and global summaries. You can also complete the questionnaire online and benchmark your answers against PHBs around the world by industry, size and geographical location.

**Participating economies**

Argentina	Hong Kong	Singapore
Armenia	India	South Africa
Australia	Ireland	Spain
Belgium	Italy	Sweden
Botswana	Japan	Taiwan
Brazil	Malaysia	Thailand
Canada	Mexico	Turkey
Mainland China	Netherlands	United Kingdom
Denmark	New Zealand	United States
France	Philippines	Vietnam
Germany	Poland	
Greece	Russia	



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