# Russia's wealth creators

## Facing the challenges of succession and wealth management

UBS/Campden Research Russian Entrepreneurship Report 2012

UBS

Campden Research
A division of Campden Media

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# PRELIMINARIES
# ABOUT THE REPORT

The goal of this study is to capture a sense of significant Russian entrepreneurs' perspectives on the critical issues they, their companies and their families face in managing and building their businesses and wealth. This study provides insights into the issues that keep these entrepreneurs awake at night.

It explores three major dynamics of the Russian entrepreneurial experience: business development, family participation and wealth management. Business development covers the growth and professionalism of the company. Family participation looks at family involvement in the business, the transfer of ownership, control and wealth, the next generation and philanthropy. Wealth management looks at investment strategies and plans, onshore versus offshore portfolios, preferred asset classes, the role of wealth management service providers and family offices.

## ABOUT THE RESPONDENTS

The 22 entrepreneurs that participated in the survey are domiciled in Russia or have a core operating business that is domiciled in Russia. The majority of them have a personal net worth in excess of $50 million, and also own a business or businesses with annual revenues ranging between $50 million and $1 billion.

The respondents were selected to ensure industry diversity and operated within the following sectors: banking, financial services, manufacturing, mining, technology, telecommunications, pharmaceuticals, real estate and development, and retail.

There was no discrimination on where the entrepreneur resides in Russia. More than 70% of respondents says that they live in the country's capital, which generates 80% of the country's wealth.

# ABOUT UBS

UBS draws on its 150-year heritage to serve private, institutional and corporate clients worldwide, as well as retail clients in Switzerland. Its business strategy is centered on its pre-eminent global wealth management businesses and its universal bank in Switzerland. Together with a client-focused investment bank and a strong, well-diversified global asset management business, UBS will expand its premier wealth management franchise and drive further growth across the group. Headquartered in Zurich and Basel, Switzerland, UBS has offices in more than 50 countries, including all major financial centres, and employs approximately 64,000 people. UBS AG is the parent company of the UBS Group. Under Swiss company law, UBS AG is organised as an Aktiengesellschaft, a corporation that has issued shares of common stock to investors. The operational structure of the group comprises the Corporate Center and five business divisions: Wealth Management, Wealth Management Americas, the Investment Bank, Global Asset Management and Retail & Corporate.

# ABOUT CAMPDEN WEALTH

Campden Wealth is the leading independent provider of information, news and education for generational family business owners and family offices globally in person, in print, via research and online.

Campden Research is a business specially formed to further extend this information offering. Campden Research supplies market insight on key sector issues for its client community and their advisers and suppliers. Through in-depth studies and comprehensive methodologies, Campden Research provides unique and proprietary data and analysis based on primary sources.

Campden Conferences is the global leader in providing knowledge and private forums for significant business and financial families and their private offices. For over a decade, Campden has been bringing together families from throughout Europe, the US, Asia and the Middle East for exclusive closed-door meetings covering family business, family office and wealth management issues.

Campden also publishes the leading international business titles *CampdenFB*, *CampdenFO* and *CampdenNXG*. *CampdenFB* is aimed at members of family-owned companies in at least their second generation. *CampdenFO* is the international magazine for family offices and private wealth advisers. For more information visit: www.campden.com

The Institute for Private Investors, or IPI, is the pre-eminent global membership network for families of substantial wealth, creating an in-person and online community focused on the full range of investment and family sustainability issues.

Since its founding in 1991, ultra-affluent families and private investors in the US have looked to IPI for innovative educational and networking resources. Families of substantial wealth rely on IPI to provide a safe haven to learn from each other and leading experts while fostering lifelong relationships with like-minded peers.

## ABOUT SUPPORTING PARTNERS

### Svetlova LLP

Svetlova is an international law firm with offices in London and Moscow. Svetlova provides expert legal advice to private clients and their businesses with services spanning from tax structuring, estate planning, immigration in the UK and residency in offshore jurisdictions to real estate and corporate acquisitions.

The firm is known as a preferred service provider for individuals and businesses wishing to establish a presence in the UK. The firm is well known for facilitating a smooth transition for business and individuals from the Russian Federation or ex-CIS to the UK and Europe. Svetlova's lawyers are bilingual in Russian and English, which is often key to clients.

Svetlova is committed to philanthropy. They are delighted to be working closely with a number of outstanding artists, musicians and writers, providing free legal advice and supporting their projects. Svetlova acts as a pro-bono legal counsel for the New English Ballet Theatre and Kazakh Gala.

# FOREWORD

Russia's business environment is often understood, at least from the perspective of a foreign observer, in the context of the billionaire oligarchs that control large swathes of the country's industry. Although these individuals and families are still very powerful, an entrepreneurial class has risen in recent years that approach something like their counterparts in the west. They have succeeded by exploiting opportunities and hard work, rather than just relying solely on contacts. These individuals are increasingly leaving their mark on many business sectors throughout Russia. They are also helping to frame the debate on the future of the business environment in Russia and of course also influencing the political landscape.

It is this entrepreneurial class – their views towards business, family and service providers – that provides the basis of this report. Now in its third year, the Russia's Wealth Creators report offers a unique insight into their thinking and indeed how their thinking has evolved over a period of time.

Russian entrepreneurs are unique inasmuch as they are a new phenomenon, hardly existing before the ending of the command economy that prevailed for much of the 20th century in the former Soviet Union. So the insights provided in this report present a rare opportunity to understand the evolution of an entrepreneurial class in a large emerging market economy.

Campden would like to thank UBS for its generous support over the last three years of this report. UBS's recognition of the importance of a better understanding of how entrepreneurs think in the context of their business, family and wealth has made this project possible.

On a personal note, it has been a privilege to get to know and share the experiences of so many Russian entrepreneurs, to work with our project leader Natasha Svetlova and co-author Paul Golden, our sponsor UBS and all those who have helped with the research.

David Bain
Head of Research
Campden Wealth

# EXECUTIVE SUMMARY

## BUSINESS ENVIRONMENT IS A REAL CONCERN…

The UBS/Campden Research report on Russia's entrepreneurs provides a unique insight into the views of the people who run some of the country's most enterprising businesses. Now in its third year, the insights give not only a snapshot of the current thinking of a wide spectrum of entrepreneurs across the biggest country in the world, but also a historical comparison of how their thinking is changing.

A general theme running through much of this year's report is the rather difficult state of the business environment in Russia, especially for entrepreneurs. The research looks at a wide variety of entrepreneurs in terms of the size of their businesses – but regardless of their size the dominant theme coming across is that corruption is a big issue in doing business in Russia today.

## …OPPORTUNITIES EXIST, BUT FEW WANT TO PASS ON THEIR BUSINESS

That said, relatively strong economic growth, particularly in the oil and gas sector, a burgeoning middle class and a high per capita GDP, compared with other big emerging markets, still give entrepreneurs many opportunities to make money and prosper in Russia. Most of those interviewed are adamant about this. But, against the background of a very powerful state apparatus, where the rule of law is still arbitrary, there is little "dynastic will" among entrepreneurs. Few appear to be making long-term business commitments in terms of planning for succession. Indeed, only one of the entrepreneurs who responded to this year's survey has implemented a succession plan.

Nevertheless, as so often is the case in surveys, when entrepreneurs were asked a different question around the theme of long-term planning, Russian entrepreneurs suggested a different view. The majority (more than two-thirds) expect to hold on to their interests for at least the next five years.

Entrepreneurs also show a lack of enthusiasm towards investing in Russia, although this appears to be also the case in their investment enthusiasm outside of the country, as that desire has fallen off this year as well. Almost half of the entrepreneurs surveyed (45%) have no plans to expand their business within Russia. Fewer than 10% are considering local expansion, 27% are considering regional expansion, while 23% have targeted new opportunities in other parts of the country. Not one of those interviewed for the report is looking at expanding into either North America or South America, while Asia is only the target of 10% of respondents and only 5% are keen to explore commercial opportunities in the Middle East.

## ENTHUSIASM TOWARDS PRIVATE EQUITY GROWS…

Most of the west might be continuing its jaundiced view towards private equity, but Russian entrepreneurs' enthusiasm towards the source of funding continues to grow. The increased interest in private equity highlighted in last year's report has translated into action, with just under half of Russian entrepreneurs saying future growth will be funded by private equity. However, internal cash flow, according to two-thirds of respondents, remains the main vehicle for financing future growth.

## …AND ENTREPRENEURS LIKE FOREIGN BANKS…

Foreign banks remain a more fertile source of credit than their local equivalents, with just 13% of entrepreneurs sourcing funds from local banks compared to 47% who have tapped into foreign bank credit during the course of the last 12 months. But there is still concern towards wealth management services. Russian entrepreneurs often view their bank more as a wealth manger and don't necessarily distinguish between the two.

> Now in its third year, the insights give not only a snapshot of the current thinking of a wide spectrum of entrepreneurs across the biggest country in the world, but also a historical comparison of how their thinking is changing

## …WHICH ARE ALSO POPULAR FOR WEALTH STRUCTURING

Asset protection strategies (wealth structuring) were implemented by entrepreneurs' banks in 94% of cases, with international lawyers the next most influential group just ahead of local lawyers. The percentage of those who have established an estate plan fell from 68% last year to 38% in 2012. However, the percentage of those who have developed long-term personal wealth plans has gone up from 16% to 55% this year. All respondents have split their private assets into onshore and offshore portfolios, with Switzerland and the UK by far the most popular offshore jurisdictions. The number of entrepreneurs involved in philanthropy (just under 90%) is up from last year, with healthcare proving the most popular target for this activity.

# 1 BUSINESS DEVELOPMENT

- MOST RESPONDENTS DIDN'T FEEL THAT THE RUSSIAN BUSINESS ENVIRONMENT ACTIVELY ENCOURAGES A CULTURE OF INNOVATION AND ENTREPRENEURSHIP…
- …AND THE CORPORATE GOVERNANCE CULTURE IN RUSSIA ISN'T EVOLVING POSITIVELY, WITH FEWER THAN ONE IN 10 SAYING THAT CORPORATE REFORMS FIND SUFFICIENT SUPPORT FROM RUSSIAN COMPANIES IN THEIR INDUSTRY
- CORRUPTION CONTINUES TO BE A BIG CONCERN FOR RUSSIAN ENTREPRENEURS
- CASH FLOW IS THE NEXT BIG PROBLEM FOR ENTREPRENEURS, CLOSELY FOLLOWED BY SLOWING DEMAND
- HALF OF THE ENTREPRENEURS SURVEYED THIS YEAR HAVE NO PLANS TO EXPAND THEIR BUSINESS WITHIN RUSSIA AND FEW ARE PLANNING EXPANSION BEYOND THEIR HOME MARKET

# BACKGROUND

Russia's GDP grew by 4.3% in 2011, duplicating the 2010 figure, and is predicted by the International Monetary Fund to grow at a slightly slower rate in 2012. Russia's recent economic growth has been robust, in spite of the fact that output growth is slowing in 2012 in line with weaker growth in Europe and in a number of emerging economies, according to a World Bank research on the economy published at the end of March.

Other indicators of the health of the economy show a relatively strong position, with consumer price inflation under 5%, a current account surplus of $104.6 billion in the year to the end of June, foreign exchange reserves of $500 billion, and public debt below 10% of GDP. Per capita income in Russia is also rising faster than many other countries and Russians are already the richest of the so-called Bric (Brazil, Russia, India and China) countries, with a per capita income of more than $15,000.

Nevertheless, the economy's heavy dependence on extractive industries – particularly oil and gas – is a cause for concern. Economists often say Russia shows the classic symptoms of the phenomenon referred to as Dutch disease – whereby the over reliance on a single sector, like oil, forces up prices for other industries such as manufacturing, making them uncompetitive. That view is born out of statistics with the non-oil current account deficit reaching 13% of GDP in 2011.

And although per capita income is the highest among the Brics, Russia still remains a land of extremes, where there are more billionaires than anywhere else in Europe, but also deep-seated areas of poverty, little changed since the end of communism in 1991.

The World Bank also refers to weaknesses in the economy including slowing manufacturing growth and sluggish foreign direct investment, while inflation is expected to rise later this year when delayed increases in utilities and fuel prices come into effect.

In June, Standard & Poor's affirmed its 'BBB' long-term foreign currency sovereign credit rating. Standard & Poor's and the other major rating agencies do not anticipate recent parliamentary elections, and the election of Vladimir Putin to a third term as president, to lead to a significant

**FIGURE 1:** GDP GROWTH RATES

Source: World Bank

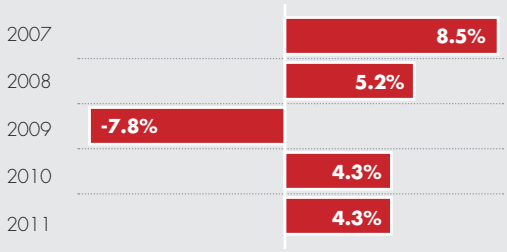



**FIGURE 2:** RUSSIA'S TEN WEALTHIEST

Source: *Forbes*, March 2012

| | | | |
|---|---|---|---|
| 1 | **ALISHER USMANOV** | NET WORTH (bn) **$18.1** | SOURCE OF WEALTH: STEEL, TELECOM, INVESTMENTS |
| 2 | **VLADIMIR LISIN** | NET WORTH (bn) **$15.9** | SOURCE OF WEALTH: STEEL, TRANSPORT |
| 3 | **ALEXEY MORDASHOV** | NET WORTH (bn) **$15.3** | SOURCE OF WEALTH: STEEL, INVESTMENTS |
| 4 | **VLADIMIR POTANIN** | NET WORTH (bn) **$14.5** | SOURCE OF WEALTH: METALS |
| 5 | **VAGIT ALEKPEROV** | NET WORTH (bn) **$13.5** | SOURCE OF WEALTH: OIL |
| 6 | **MIKHAIL FRIDMAN** | NET WORTH (bn) **$13.4** | SOURCE OF WEALTH: OIL, BANKING, TELECOM |
| 7 | **MIKHAIL PROKHOROV** | NET WORTH (bn) **$13.2** | SOURCE OF WEALTH: INVESTMENTS |
| 8 | **VIKTOR VEKSELBERG** | NET WORTH (bn) **$12.4** | SOURCE OF WEALTH: OIL, METALS |
| 9 | **ROMAN ABRAMOVICH** | NET WORTH (bn) **$12.1** | SOURCE OF WEALTH: STEEL, INVESTMENTS |
| 10 | **LEONID MIKHELSON** | NET WORTH (bn) **$11.9** | SOURCE OF WEALTH: GAS, CHEMICALS |

change in economic policy. As a result, S&P reckons economic and fiscal reforms will occur gradually and that state capitalism and the close links between politics and business will continue to prevail. Respondents to the survey back this concern with none saying they believe this link is changing for the better.

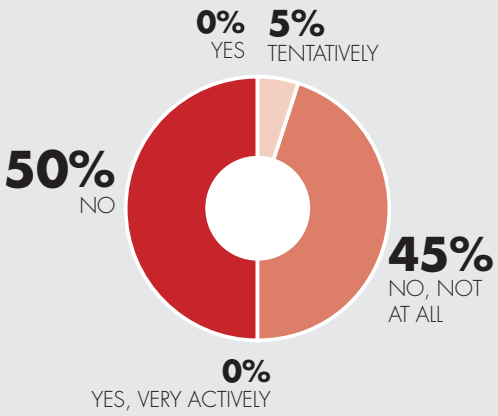
Russia's now familiar reputation as a big incubator of some of the wealthiest individuals and families in the world continues – with many of these people gaining a reputation beyond Russia, especially in the UK, Monaco, Switzerland and the south of France. But the economy's ability to continue to create billionaires appears to be slowing, with *Forbes* listing 96 Russian billionaires this year, compared to 101 in 2011. Their total wealth has also fallen since last year. Nevertheless, the 96 figure is considerably up from the 62 recorded in 2010. The steel and telecoms billionaire Alisher Usmanov, with a fortune estimated at $18.1 billion, is Russia's wealthiest man. He replaces Vladimir Lisin, whose fortune fell nearly $10 billion last year, according to *Forbes*.

The wealthiest Russians are often referred to as "oligarchs", a word first used to describe the successful Russian business people who emerged during the Boris Yeltsin-era in the mid-1990s. But these oligarchs are no longer the dominant force in Russia. They have increasingly been replaced by associates of the country's strongman Vladimir Putin, who recently was re-elected as the president of the country after a period as prime minister following his two previous terms as president.

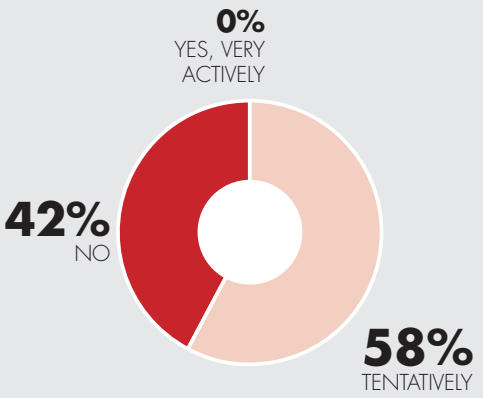
The link between big business and the state is prevalent in Russia. Dmitry Medvedev, the current prime minister and former president, was previously chairman of Gazprom, the world's biggest gas company. Igor Sechin, the influential current deputy prime minister, is the chairman of Rosneft, Russia's largest oil producer. However, the role of the state in business affairs does net reflect a return to the Soviet era days when all economic decisions were made by central planners. A more corporatist state has emerged under the Putin/Medvedev regime, whereby businesses not only work closely, and are closely connected, to the political elite, but also have far greater autonomy than it did under the communist system.

**FIGURE 3:** DOES THE RUSSIAN ENVIRONMENT ENCOURAGE A CULTURE OF INNOVATION AND ENTREPRENEURSHIP?

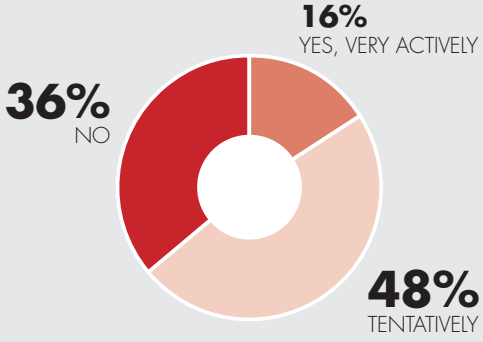
**2012** Source: UBS/Campden Research Russian Entrepreneurs Report 2012




**2011** Source: UBS/Campden Research Russian Entrepreneurs Report 2011




**2009** Source: UBS/Campden Research Russian Entrepreneurs Report 2009



> “The number of civil servants regulating business is higher than the number of regulated businesses”

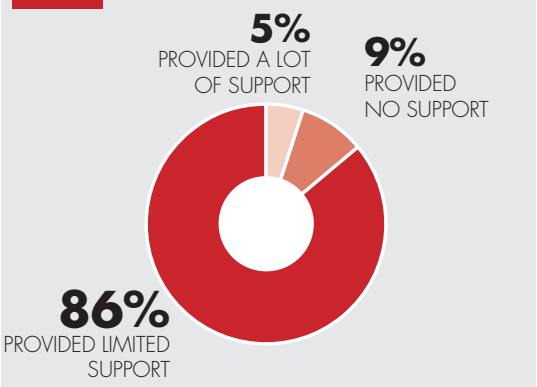
As this report will show, the family business model – at least as it is known in the west – is very underdeveloped in Russia. Often business relationships are much more about friends rather than family. For example, Vladimir Potanin and Mikhail Prokhorov built the large holding company Interros following the widespread privatisation that took place from 1992 onwards. University friends Mikhail Fridman, German Khan and Alexei Kuzmichev founded Alfa Group, the biggest financial and industrial group in the country. Mikhail Fridman also heads the holding company AAR with Viktor Vekselberg, German Khan and Len Blavatnik and AAR co-owns the oil company TNK-BP with BP.

Russia made a modest advance in the “Doing Business” 2012 rankings published by the World Bank and the International Finance Corporation, moving from 124th place to 120th in 2011 out of 183 countries (Russia stands at 111th position on the ease of starting a business).

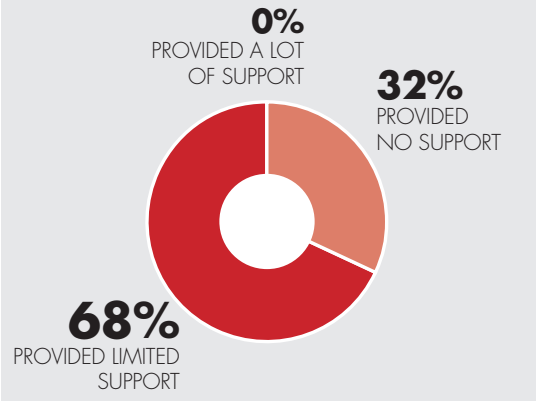
Eighty-six percent of the entrepreneurs surveyed this year say the Russian government has provided limited help to small and medium-sized private businesses and that it has devoted most of its efforts to supporting large companies (see Fig. 4).
Eighteen percent of our entrepreneurs claim they run their businesses “alone” without support from partners or other business professionals.

**FIGURE 4:** HAS THE RUSSIAN GOVERNMENT HELPED SMALL AND MEDIUM-SIZED BUSINESSES?

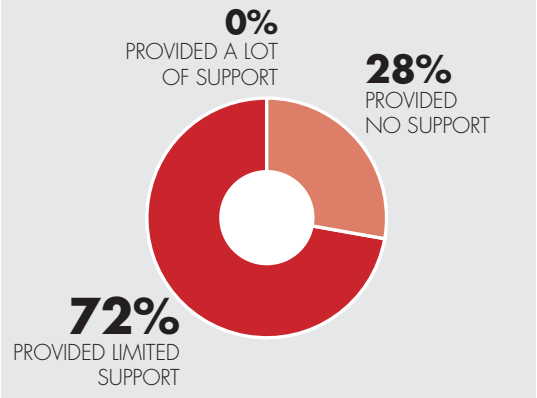
**2012** Source: UBS/Campden Research Russian Entrepreneurs Report 2012




**2011** Source: UBS/Campden Research Russian Entrepreneurs Report 2011




**2009** Source: UBS/Campden Research Russian Entrepreneurs Report 2009



# NATURE AND CHARACTERISTICS OF THE ENTREPRENEUR

Just under two-thirds (64%) of the entrepreneurs surveyed are operating businesses with annual revenues of $50 million to $100 million (see Fig. 5). Nine percent have a turnover of between $100 million and $250 million and the same number generate revenues of $250 million to $500 million. One business has a turnover in excess of $500 million.

Fifty-nine percent of respondents have family wealth of between $50 million and $100 million with 14% having between $100 million and $250 million, as shown in Figure 6. One in 10 belong to families worth between $250 million and $500 million, with one family worth in excess of half a billion dollars.

The entrepreneurs that participated in the survey are domiciled in Russia or have a core operating business that is domiciled in Russia. The majority of the businesses surveyed were established in the 1990s following the collapse of the Soviet Union and they operate within the energy, real estate, financial services, telecommunications, technology, manufacturing, consumer goods, media, mining, retail, pharmaceuticals, public relations, metals, education and travel sectors (see Fig. 7).

Eighty-two percent of respondents are male and a similar percentage have children. Of these, 18% have a single child, 45% have two children and the remainder have three or more.

The percentage of entrepreneurs involved in philanthropy (88%) is up from last year's 74%, with healthcare proving the most popular target for this activity followed by social welfare and children's issues. Just under one in three describe themselves as patrons of the arts.

**FIGURE 5:** WHAT IS THE TOTAL REVENUE OF THE BUSINESS?

Source: UBS/Campden Research Russian Entrepreneurs Report 2012

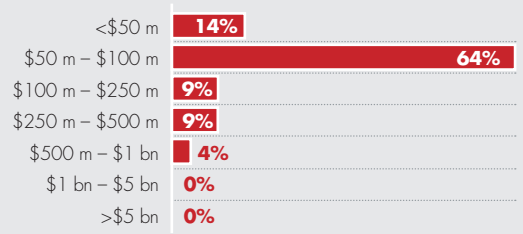



**FIGURE 6:** WHAT IS YOUR FAMILY'S WEALTH?

Source: UBS/Campden Research Russian Entrepreneurs Report 2012

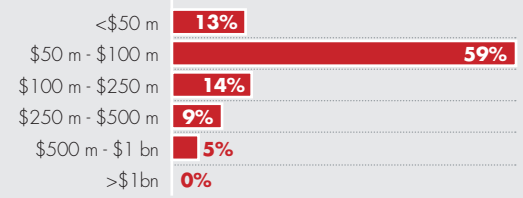



**FIGURE 7:** IN WHAT INDUSTRIES DOES YOUR CORE BUSINESS OPERATE?

Source: UBS/Campden Research Russian Entrepreneurs Report 2012

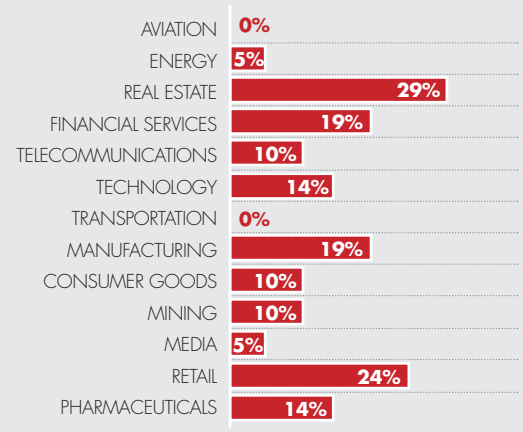
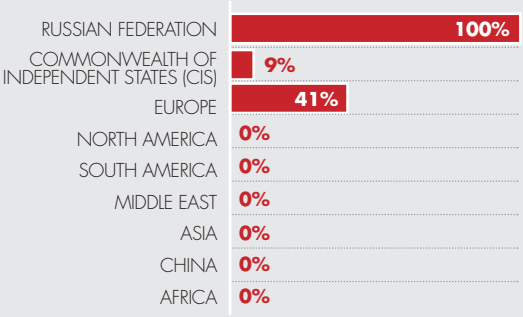



**FIGURE 8:** IN WHICH REGION DOES YOUR BUSINESS GENERATE REVENUES?

Source: UBS / Campden Research Russian Entrepreneurs Report 2012



# CORPORATE GOVERNANCE

Standards of corporate governance in Russia give entrepreneurs particular cause for concern. As with last year's report, only one in 10 reckon that Russian corporate governance reforms have support among the corporate sector as shown in Figure 10. This compares with more than 40% in the first year of the survey.

What is even more worrying is that the percentage of respondents adhering to a corporate governance code has fallen substantially to just 23% (see Fig. 11). Of the remainder, 41% say they are in the process of implementing a code, but 36% simply state that they do not comply with any corporate governance code.

This compares with last year's survey where 74% said they were adhering to a corporate governance code and a further 21% were planning to implement a code, with the remainder claiming to be in the process of implementing a corporate governance code in their company. This year's numbers are more in line with the first year of the survey when 44% adhered to a corporate governance code, with only 12% saying they were planning to implement a code.

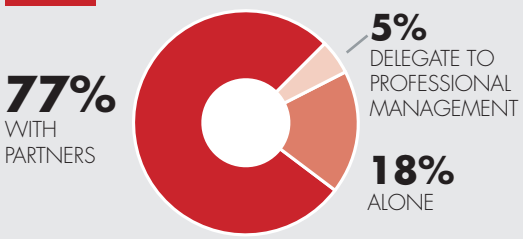
Still, the sharp deterioration in the culture of corporate governance among entrepreneurs is a worrying trend and a development that will probably affect the evolution of a thriving entrepreneurial culture in Russia in the years ahead. As one of the respondents flippantly says to illustrate a point about the corporate governance and wider business environment: "The current situation in Russia reminds me of the 1990s, when the number of racketeers was higher than the number of those racketeered."

He adds: "The number of civil servants regulating business is higher than the number of regulated businesses. After the collapse of Soviet ideology, Russian business developed its own value. The idea that 'honest business is the best business' does not resonate with Russian business. We do not see the correlation between success and values."

But on a more opportunistic front, he also says: "Things are bad, but that does not mean that it is impossible to change the current situation. It is very characteristic of Russia that the time of crisis becomes the time of mobilisation and the beginning of reforms."

**FIGURE 9:** HOW DO YOU RUN YOUR BUSINESS?

**2012** Source: UBS/Campden Research Russian Entrepreneurs Report 2012




**2011** Source: UBS/Campden Research Russian Entrepreneurs Report 2011

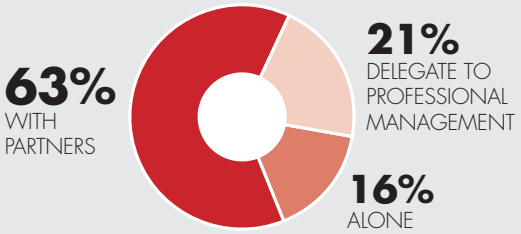
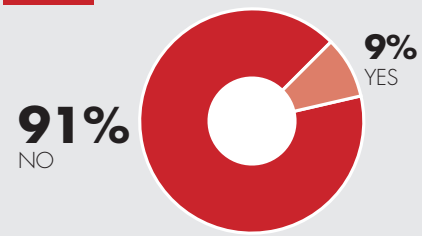
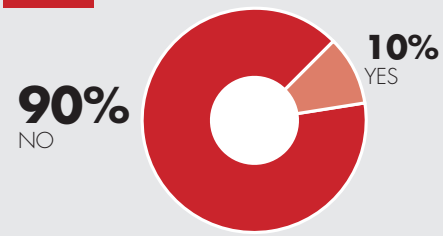



**FIGURE 10:** DO RUSSIAN CORPORATE GOVERNANCE REFORMS FIND SUFFICIENT SUPPORT FROM RUSSIAN COMPANIES IN YOUR INDUSTRIES?

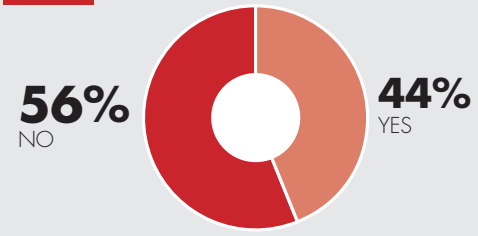
**2012** Source: UBS/Campden Research Russian Entrepreneurs Report 2012




**2011** Source: UBS/Campden Research Russian Entrepreneurs Report 2011



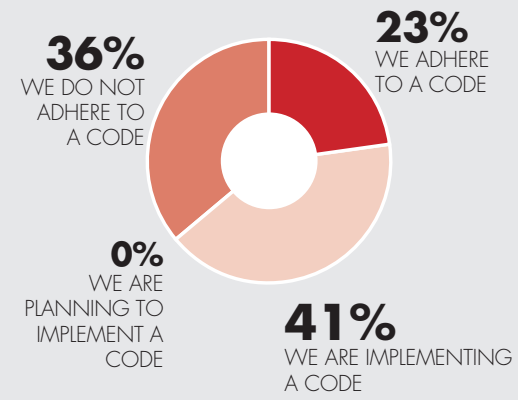

**2009** Source: UBS/Campden Research Russian Entrepreneurs Report 2009



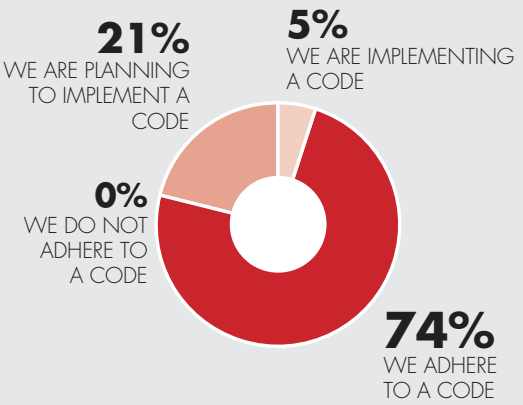
Also, international pressure might be a positive force in Russia adopting more robust corporate governance structures in the years ahead. The country's accession to the World Trade Organization this summer should help, but Russian companies' lax corporate governance culture is likely to be a feature of the country's economy for years to come – and there is little in this survey that suggests it will improve anytime soon.

**FIGURE 11:** DOES YOUR COMPANY ADHERE TO A CORPORATE GOVERNANCE CODE?

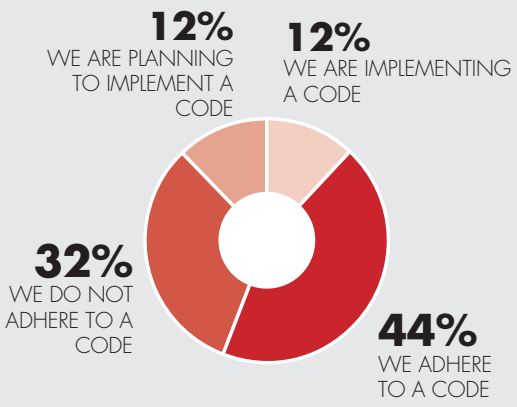
**2012** Source: UBS/Campden Research Russian Entrepreneurs Report 2012




**2011** Source: UBS/Campden Research Russian Entrepreneurs Report 2011




**2009** Source: UBS/Campden Research Russian Entrepreneurs Report 2009



# ENTREPRENEURIAL GROWTH AND DEVELOPMENT

Last year's report talked about two types of predominant entrepreneurial "types" – "entrepreneurs by opportunity" and "entrepreneurs by necessity". To a large extent, these two types are still predominant among this year's respondents. Nevertheless, the opportunity type is by far the most dominant, suggesting Russia's often "wild west" capitalism still exists 20 years after the economy began transforming from a command-style to a market-orientated one.

In the 1990s, opportunities were presented as markets opened up and proved highly lucrative for entrepreneurs, who were often well-connected individuals who saw a chance to make quick money without having to put up initial capital. In some cases they started buying and selling foreign goods that were impossible to get in Russia.

Typical of this profile is one 43-year-old respondent who, despite growing up in a military family, ended up with a fortune in excess of $250 million built from retail, property development and construction.

He says: "I come from a military dynasty and when I was growing up, I always wanted to become an officer. Unfortunately, when the Soviet Union collapsed this was no longer an option. But when I was still at university, I started buying and selling foreign goods. I was earning very good money and it simply did not make any sense joining a state entity and getting a job. With little support from my family, I started my own business. I had absolutely nothing to lose and saw vast opportunities around me."

Another respondent, a 53-year-old with business interests in retail, construction and manufacturing (who sold his stake in a regional bank in 2010) came from a similar background. "When the Soviet Union collapsed, I retired from the army and needed to support my family. The circumstances pushed me into business and I started a distribution company at the end of the 1990s. I did not really have much choice and I had nothing to lose. My first business proved to be a success. I saw an opportunity and I used it."

Another former member of the armed services – now 57 and the owner of the largest importer and retailer of foreign-made cars in Russia as well as being a member of the Russian parliament – says that after retiring from

> The idea that 'honest business is the best business' does not resonate with Russian business. We do not see the correlation between success and values

the Soviet Army as an air force pilot, he graduated from the Soviet Trade University and went into business. "I registered my company literally a couple of days before the collapse of the Soviet Union."

A 65-year-old with interests in energy, film and television, as well as being a leading politician, can remember what it was like to do business in the Soviet Union. He says: "In 1986 (under the reforms of Mikhail Gorbachev, the last leader of the Soviet Union), the Soviet Union enacted the law on co-operatives, which created a much welcomed opportunity for starting a small business. I was one of those citizens who started a business (a joint venture with the state) and the rest is history." He now runs businesses that have revenues of more than $100 million annually.

"The reason I went into business was that I always wanted to create a culture of capitalism in the restricted space in which I was living," says a 59-year-old entrepreneur and former member of regional government, who has made his fortune from retail, property development and construction. "That was an absolutely utopian idea when I was growing up. When the Soviet Union collapsed, I had a technical degree from a good university and excellent organisational skills. So when the first opportunity arose, I started my own business. I simply applied the knowledge and skills that I had and started to help build capitalism in Russia."

But another entrepreneur in his early 50s started his mining and communications business in the 1990s for different reasons. Here the "necessity" type of entrepreneur is plain to see. He says: "I was a young engineer, had a young family with two children, and had two jobs to support my family and never had any money. I started my business in order to create opportunities and a better lifestyle for my family. Starting a business was dictated solely by circumstances. Wanting to be successful was a deliberate choice. The competition in my industry is very tough. When spending money, I always subconsciously think that this is money I have snatched from my competitors."

One of the female entrepreneurs surveyed for this report – who in her mid-40s has amassed an estimated wealth in excess of $250 million from metals and manufacturing – says that she was actively involved in the development of her family's business from the 1990s. "I held a technical

> “Generally speaking, there are favourable conditions for the development of big businesses in Russia. But there are no such conditions for small and medium-sized businesses, which perpetually struggle to survive”

degree and our factories were using the most innovative and progressive technologies in our industry at that time, so joining the business, growing and developing it was a very natural decision. It was a very fruitful time.”

“I started my business 15 years ago,” says one 61-year-old respondent, a first-generation entrepreneur operating in the retail and technology sectors. “I saw an opportunity, a niche in the market. I was a highly skilled and very experienced engineer and I simply used this opportunity to start my own business. I was what you might say in the right place at the right time.”

A number of the entrepreneurs refer to the importance of having the right mentality to succeed in Russia. For example, one 49-year-old telecommunications and retail business entrepreneur with interests in Siberia, says: “I think that, in order to be an entrepreneur, it is necessary to have the right type of mentality.” He adds: “After obtaining a doctorate degree, I was working as a scientist, but hated my job, as the routine bored me. I was constantly thinking about what to do next and decided to go into business.”

Others refer to the fact that if they had said they wanted to run their own business when they were growing up under the command economy of the Soviet Union, the whole culture would have been against it – but this has changed very quickly. One says: “When I was growing up, I never even dreamt of running my own business. I was growing up in the Soviet Union and the time was very different then.” A 53-year-old public relations business owner and political consultant explains that he was a researcher, working at the Academy of Sciences, when he lost his job in 1989. “All doors automatically closed and the only way forward was starting my own business, which I did.”

It is a similar story for a 64-year-old with business interests in the production of petrochemical goods, mining technology, mining underground communication equipment, construction and retail. “I became an entrepreneur by necessity. In 1991, the state entity for which I was working collapsed. I was a highly skilled and experienced engineer and I did not have a job. Most of my colleagues were in a very similar situation – they had skills and were unemployed. So, to support my family and to stay afloat, I started my own business. Some of my colleagues

followed me and joined my business. Back then, it was very easy to start a business without initial capital."

"I always wanted to be my own boss," says another young female entrepreneur, who has built her fortune in property development and investment management. "I worked as an investment banker and, as soon as I saw an opportunity, I grasped it and started my own business. The last couple of years were quite good for the growth of my business, as most of my competitors chose the same approach of 'waiting and seeing', so there was a certain negative effect on competition. I chose to take a risk and I did the right thing."

One of the few second-generation entrepreneurs interviewed – and the joint-youngest at just 29 years old – says joining his father's business was an obvious choice. "I studied abroad and my family helped me with education especially. I joined the family business [biotechnology and pharmaceuticals] later – it was expected."

Another respondent stresses a common frustration among many entrepreneurs working in Russia. "Generally speaking, there are favourable conditions for the development of big businesses in Russia. But there are no such conditions for small and medium-sized businesses, which perpetually struggle to survive."

# KEY BUSINESS CHALLENGES

Unsurprisingly, many of the respondents to the survey had encountered corruption, and a lack of transparency among bureaucrats and local government officials. So when asked to identify the main challenges their business is currently facing, respondents cite corruption as the big issue (see Fig. 12).

Typical of the responses is: “One of the problems of running a business in Russia today is that confidentiality does not exist.” The 56-year-old entrepreneur adds: “What we see is that obtaining confidential information about anyone and anything is just a matter of paying the right price. It is understandable that this does not encourage an entrepreneurship culture, as people do not feel safe and they do not trust each other.”

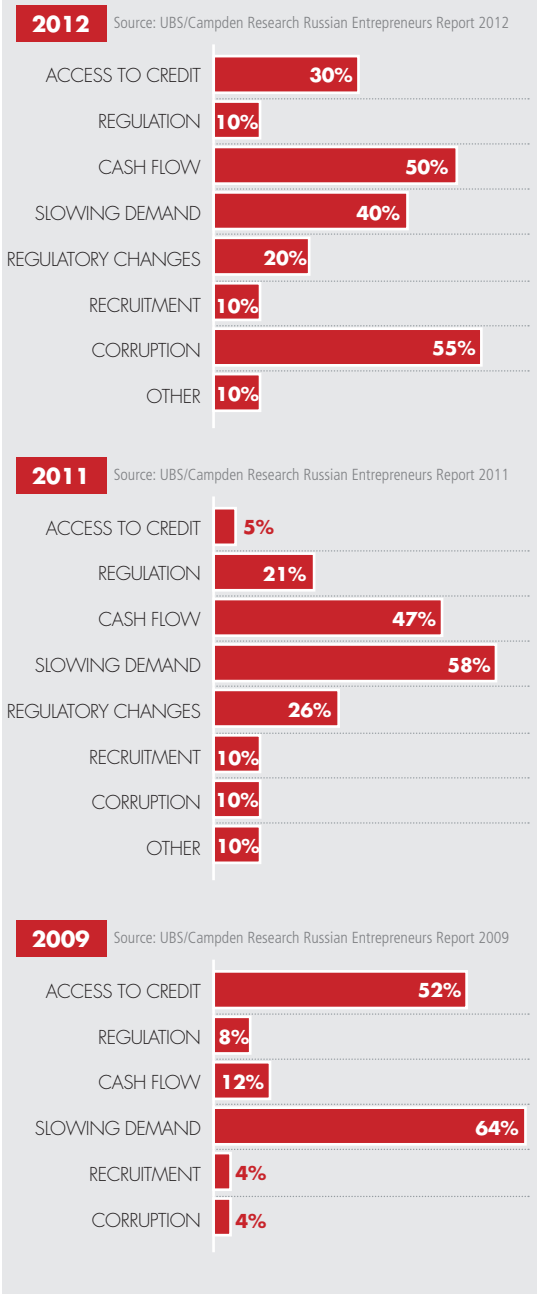
Another respondent feels that the pervasiveness of corruption is passing on to future generations. “Corruption affects Russian children as well. I would like my children to be proud of their national heritage, culture and their country, but in the current environment, I cannot see how that could be possible. It is very difficult to bring up people with solid moral principles in our current society.”

This concern about corruption among entrepreneurs is also shared among the next generation. As one of the youngest entrepreneurs says: “The investment climate in Russia is very poor, there exist a lot of bureaucratic barriers and the crucial problem, which reflects the Russian business environment, is corruption.”

After corruption, entrepreneurs operating in Russia cite cash flow as the next biggest problem, with 50% saying it is a concern. That concern is closely followed by slowing demand (40%) and access to credit (30%). Despite half of the respondents identifying problems with these factors, the situation has improved from 2009 when 64% said they were concerned about slowing demand and just over half said access to credit was a big challenge.

One in 10 say regulation is a big challenge and twice that number are concerned by the impact of regulatory changes. When asked whether new opportunities have arisen for their business from recent changes in Russian legislation, less than 15% say “yes” (see Fig. 13). Only

**FIGURE 12:** WHAT ARE THE KEY CHALLENGES YOUR BUSINESS IS CURRENTLY FACING?



> “The investment climate in Russia is very poor, there exist a lot of bureaucratic barriers...”

one entrepreneur says identifying and securing qualified management and staff is a problem for their business.

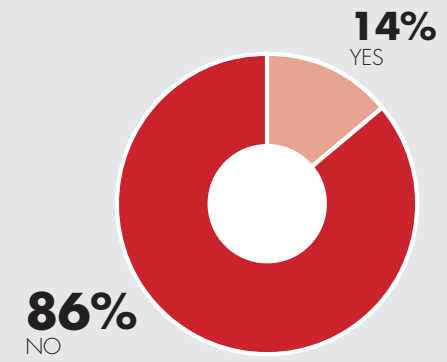
One-quarter have accessed credit via an existing credit facility over the last 12 months (see Fig. 41), while only one respondent has secured a new credit facility since 2011 and 20% are “unable to obtain credit as in previous times”. Foreign banks remain a more fertile source of credit than their local equivalents, with just 13% of entrepreneurs sourcing funds from local banks, compared with 47% who have tapped into foreign bank credit during the course of the last 12 months.

This is in stark contrast to the findings of the 2009 report, where over 92% of respondents had obtained credit from local banks and 16% worked only with Russian banks, compared to 12% who dealt exclusively with international banks. By 2011, 63% of respondents were using both local and international banks for their business needs (a slight reduction on the figure for 2009) and none worked exclusively with local institutions. In 2012, 74% of respondents are working with both local and international banks.

An entrepreneur operating in the medical devices industry says one of the challenges facing start-up companies in Russia is the need to run quickly in order to reach the next source of income. “Access to credit is a very subjective and selective process in Russia and is easy for companies affiliated with banks. As a rule, international banks pursue a business objective as their primary objective. Access to credit in Russia is very subjective and depends on connections.”

**FIGURE 13:** HAVE NEW OPPORTUNITIES ARISEN FOR YOUR BUSINESS FROM RECENT CHANGES IN RUSSIAN REGULATION?

Source: UBS/Campden Research Russian Entrepreneurs Report 2012



# EXTERNAL OPPORTUNITIES AND PRESSURES

With concern about the domestic business environment fervent among entrepreneurs it will come as little surprise that almost half of the entrepreneurs surveyed this year have no plans to expand their business within Russia, as shown in Figure 14. Only 27% are considering regional expansion, while 23% have targeted new opportunities in other parts of the country.

The respondents were asked if their company is listed on the Moscow, London, New York or Hong Kong stock exchanges and, if not, did going public form a part of their business plan. None are currently listed on these exchanges, although 9% say that listing is a part of their business plan and that they would consider doing so on either the London or Hong Kong exchanges (see Fig. 42). The London Stock Exchange was the most favoured market to list on, which is reflected in the surge of Russian company listings on the LSE in the last 10 years. Five percent say they had planned to list before the global financial crisis developed, while the remainder say they have no intention of listing.

One female entrepreneur admits that her business has faced serious lending issues over the last couple of years, triggered by the financial crisis of 2008/2009. She says: "The lending bank took charge of some of our key assets for a certain period of time, which significantly affected our production and resulted in big losses. It has been the most difficult time in the history of our business. We had plans to list our company but, unfortunately, the economic turmoil had changed our plans."

A property developer says he is "very lucky" that the financial crisis has not affected his business that much, but says it has ruined businesses of many of his competitors. "Russian business is still in the process of development. One of the peculiarities of the local business scene is that it does not have very much room for negotiation. That especially applies to small and medium business. As soon as the pressure increases a little bit, the business goes bust."

A 52-year-old entrepreneur operating in the mining and communication industries is sanguine about the effects of the global financial crisis. "It affected my business, in terms of the slowing down of demand and delays with payments. Luckily, this is now in the past. But looking on the bright

**FIGURE 14:** ARE YOU CONSIDERING ANY EXPANSION OF YOUR BUSINESS INSIDE RUSSIA?

Source: UBS/Campden Research Russian Entrepreneurs Report 2012

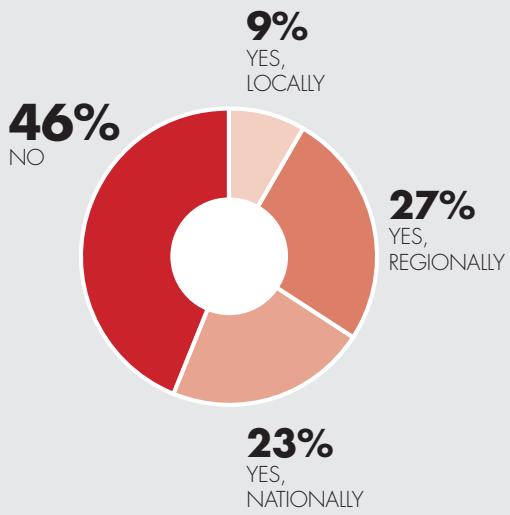
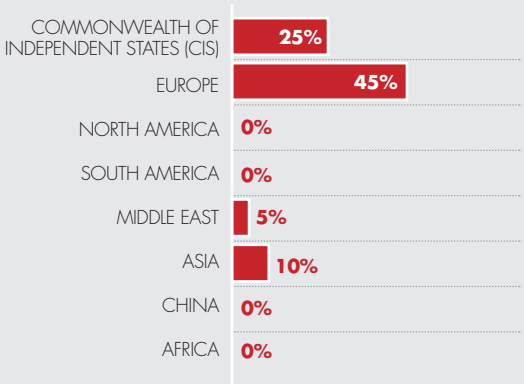



**FIGURE 15:** WHERE DO YOU PLAN TO EXPAND YOUR BUSINESS INTERNATIONALLY?

Source: UBS/Campden Research Russian Entrepreneurs Report 2012



side, the crisis has become an excellent opportunity to slow down a little, in order to think about what I wanted to do next, in what direction I wanted to develop, to revalue my existing values and to think about the meaning of success."

The World Bank has recently said that Russia "under-trades" with China and India, as well as several G-8 countries including the US, Italy and even Germany. It would also appear that the eurozone crisis has reinforced respondents' reluctance to move into new international markets. Not one of those interviewed for this year's report are looking at expanding into either North America or South America, while Asia was the target of 10% and only 5% are keen to explore commercial opportunities in the Middle East (see Fig. 15).

These figures represent a sizeable shift from 2009, when 25% were considering developing a global presence in the near future and 20% referred to Asia and North America as target markets. By 2011, attitudes to expansion had already changed, with interest in North America and Asia down to 5% each.

# 2 FAMILY PARTICIPATION

- THE FAMILY BUSINESS MODEL REMAINS VERY WEAK IN RUSSIA, WITH NONE OF THE RESPONDENTS SAYING THEY WOULD BE CONCERNED IF THEIR CHILDREN SHOW NO INTEREST IN BEING INVOLVED WITH THE BUSINESS…
- …BUT WHEN THEY THINK ABOUT PASSING THE BUSINESS ON TO FAMILY, 40% SAY THEY WOULD CONSIDER DOING SO WITHIN THE NEXT 10 YEARS
- FEW ENTREPRENEURS CONSIDER BRINGING THEIR SPOUSES INTO THE BUSINESS, PARTICULARLY WHEN THE SPOUSE IS A FEMALE. A MALE BUSINESS CULTURE STILL PREVAILS IN RUSSIA
- THE NEXT GENERATION IS VERY DIFFERENT FROM ITS PARENTS, HAVING USUALLY BEEN EDUCATED ABROAD AND WITH A MUCH MORE INTERNATIONAL OUTLOOK; THIS CREATES ITS OWN SUCCESSION ISSUES
- THE LEGACY OF THE SOVIET SYSTEM CONTINUES TO UNDERMINE THE DEVELOPMENT OF A CULTURE OF GIVING AMONG RUSSIA'S ENTREPRENEURS. CONSEQUENTLY ONE-THIRD HAVE NO INVOLVEMENT IN SUCH ACTIVITIES

# FAMILY INVOLVEMENT IN THE BUSINESS

As indicated in Section 1, family businesses have been slow to develop as a concept in Russia. Indeed, Campden has found in other research, including its recent report on family businesses in central and eastern Europe, *Creating Value: Family Businesses Meet the Challenges of Corporate Structures and Wealth Creation*, that the family business model is developing much faster in eastern Europe – particularly in Bulgaria, Poland and Romania – than in Russia. This suggests that the legacy of a command economy isn't holding back family business development – a feature of the former Soviet Union and the so-called eastern Bloc countries prior to the 1990s. So the model in Russia is being held back for other reasons.

Typical of the type of responses about family businesses in Russia are the following: "We don't want our kids to work as hard as we did. We want them to have an easier, more enjoyable life in a safe place. Therefore, most of us dream of selling our business, which is a very worrying situation that needs more attention drawn to it."

This general observation appears to be reflected in the statistical responses. For example, the respondents are asked whether they currently, or would in the future, involve any immediate family members in their business. One third of those surveyed said their spouses are currently involved, with 17% having daughters and brothers involved (interestingly, only 8% say they have a son involved in the business).

In 2009, 72% of respondents said family members did not currently hold a stake in the business or have the option of doing so in the future – by 2011 that figure had risen to 84%.

One Siberia-based entrepreneur says that his wife used to work for the company before they decided that business and family should be totally separate. He describes this as one of the wisest decisions and says it was unlikely that members of his family would hold a stake in the company in the future. He says: "I do not want my family members to be involved in my business. I want them to have a peaceful life. I prefer to separate my family and my business although my children are still very young and I am not excluding the possibility that I will change my mind at some point, when they are a bit older."

> “I do not want my family members to be involved in my business. I want them to have a peaceful life”

Another one says: “I do not involve my family in the business and separate work and family because, when your family is involved in your company, the problems in business can easily translate into problems in your family.” He adds: “When you work with family members, you have a ‘business’ relationship with them on a totally different level. You also have totally different expectations of them. That is also one of the reasons why I would never do business with my friends.”

Yet another says that the majority of his friends who are also entrepreneurs live, run their businesses and make money in Russia, while their families live in England or Switzerland because of safety issues, quality of life and education. “They travel between two countries on a weekly basis in order to spend time with their families. This is quite a common phenomenon for Russia today,” he says, adding that he is planning to develop his business in the UK. “I invest in personal and commercial residences in the UK. Prices for prime properties in London are much lower than in Moscow.”

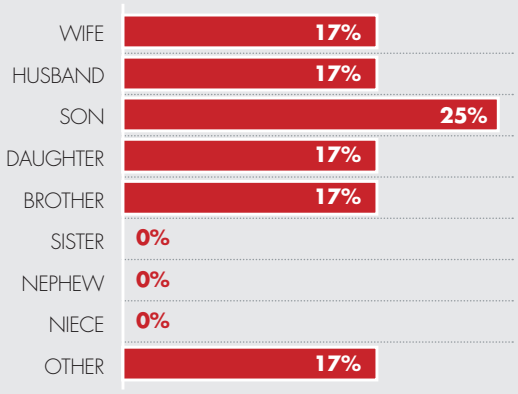
One entrepreneur, whose business operates in public relations and political consulting, says that he has not thought about the issue of succession. “My business is very specific and I do not think that my children would be willing to join me.”

One of the themes that emerged from the 2009 report was that the matriarchal tradition in Russia meant that women influenced husbands and offspring on some, if not all, aspects of decision-making. Yet, one of the female entrepreneurs interviewed this year feels that it remains very difficult for a woman to break through in business.

“It is possible for a woman to develop a successful business in beauty or fashion, which effectively provides services and produces goods for consumption by other women,” she says. “But, if a woman decides to start a business in most other sectors, it would be practically impossible to sustain competition with businesses run by men. Women are not formally integrated in business society.”

**FIGURE 16:** WHO DO YOU CURRENTLY INVOLVE IN THE BUSINESS OR WOULD YOU INVOLVE IN THE FUTURE?

Source: UBS/Campden Research Russian Entrepreneurs Report 2012



# THE TRANSFER OF OWNERSHIP AND CONTROL

> “Wealth succession is quite a dangerous thing ... If the inherited capital does not have a purpose, it becomes a burden”

None of the respondents say they would be concerned if their children showed no interest in being involved with the business, as shown in Figure 23. One 56-year-old entrepreneur, whose fortune is derived from property development and art dealing, says that a father does not necessarily have to transfer the business to his son. “The son should deserve the right of running the business and should prove to his father that he has the skills to run the business. I do not believe in industrial or business dynasties. I believe that we are all free to make our own choices and that my role as a father is to offer that choice to my child. My son has chosen his own career path and I am happy to support him and respect his choice.”

Another says that his son used to work in his business before starting his own company. “I can say that education does not prepare children for working in a business – talent and ability matter much more than anything else. Being a talented manager is very different from being a talented entrepreneur. These sets of skills are very different.”

One of the younger entrepreneurs interviewed sends his children to school in Russia. “They go to a good school and I am happy with their academic achievements. I believe that the purpose of educational institutions abroad is to prepare children for ‘good’ professions, such as being a doctor or a lawyer or working in finance. That education negates a possibility for becoming an entrepreneur.”

“Wealth succession is quite a dangerous thing,” says one older entrepreneur. “If the inherited capital does not have a purpose, it becomes a burden. I believe that a father should be a mentor, leading his children in the right direction and pointing to the right doors, not a provider.”

# THE TRANSITION OF WEALTH

Entrepreneurs are asked if they would consider transferring the business to immediate family members and if so, what would be the likely time frame for such a transfer. Sixty percent of those surveyed say this might happen after 10 years, while 25% of those who expressed an opinion refer to a six to 10-year period and just 15% say they would expect to hand over the reins in the next five years. Only one has adopted a family governance code or family constitution.

These figures suggest Russia's first-generation entrepreneurs are spending more time thinking about the future than was the case even 12 months ago, when 87% said they would be unlikely to transfer the business to immediate family members in the next decade.

One female entrepreneur says that while she wishes her sons would join the business, it was highly unlikely they would. "They are being educated abroad and I think that by the time of their graduation from university, they will have different aspirations – and will be very ill-equipped for working in a Russian business."

The role of parents is highlighted by a leading property developer who admits that if his children did not join his business it would not be the end of the world. He says: "It is up to my children to choose the right profession or career and realise their potential. My role is to prompt them and guide them in the right direction."

# FAMILY VALUES

Russian entrepreneurs almost uniformly consider parental guidance to be the most important means of instilling values in the next generation, although 57% also refer to the role of educational institutions (see Fig. 19). Fourteen percent mention involvement in philanthropic initiatives. Religion and peer mentoring are highlighted by 9%.

The comments of one entrepreneur illustrate the lengths to which she and other successful business people have gone to try and provide a balanced upbringing for their offspring. "It is very difficult to instil values in children of wealthy parents, especially when the children grow up abroad. We try to get our children interested in literature and culture. We also encourage them to achieve academic success, as a starting point."

The entrepreneur, who earlier referred to a "glass ceiling" for women in Russian business, says her son went to school in Russia and the UK and is now completing his undergraduate degree in London. She does not believe that he would be able to get the same level of university education in Russia.

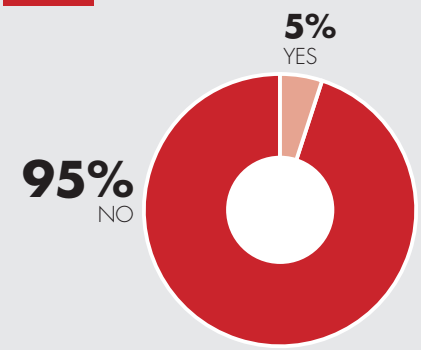
She also claims that most entrepreneurs would like their children to follow in their footsteps, although not necessarily working in the family business. "I am not an exception. I think that parents should talk about business with their children and explain how it works, but should not put any pressure on them. If my son chooses to join my business at some point, I would be very happy. If not, I would be happy for him to pursue his own career and would support his choice."

But she adds: "I think that the majority of children of wealthy Russian entrepreneurs do not have the skills necessary for running a business in Russia. Their parents create the 'hothouse' conditions and make most decisions for their children – the choice of country of living, the choice of school and university – and as a result, their children lose the ability to be independent and make independent decisions."

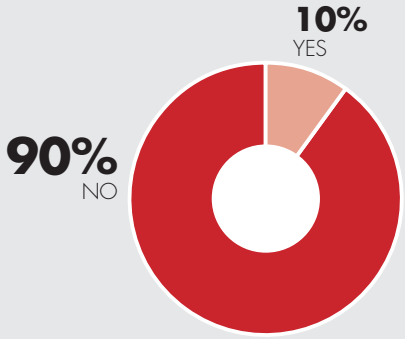
The entrepreneur, who earlier expressed his reservations about having a business relationship with family members, describes instilling values in children as a serious problem for wealthy parents in any country. "When children have

**FIGURE 17:** HAVE YOU ADOPTED A FAMILY GOVERNANCE CODE OR FAMILY CONSTITUTION?

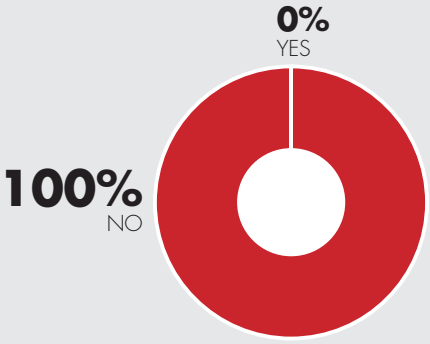
**2012** Source: UBS/Campden Research Russian Entrepreneurs Report 2012




**2011** Source: UBS/Campden Research Russian Entrepreneurs Report 2011




**2009** Source: UBS/Campden Research Russian Entrepreneurs Report 2009



everything and do not really need to make any effort to get what they want, they do not understand the value of things. So, I think that a personal example is the best way – do as I do, not as I say."

This rather pessimistic view is shared by a female property developer and former investment manager, who says that Russian people are so used to the free education, healthcare and housing of the Soviet era that they have almost lost the ability to make an effort to achieve something and instead totally rely on government services – which, of course, have diminished substantially since the demise of the Soviet Union. "The modern Russian mentality totally excludes the concept of hard work. If somebody has money, I want it too - but I do not want to work for it. Unfortunately, this is the post-Soviet reality."

**FIGURE 18:** HAVE YOU IMPLEMENTED A SUCCESSION PLAN WITHIN YOUR BUSINESS?

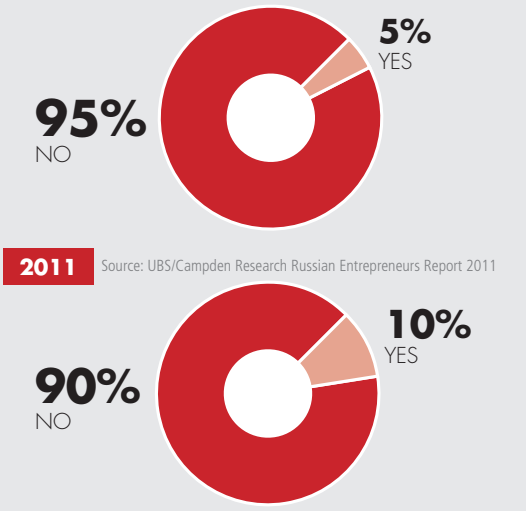
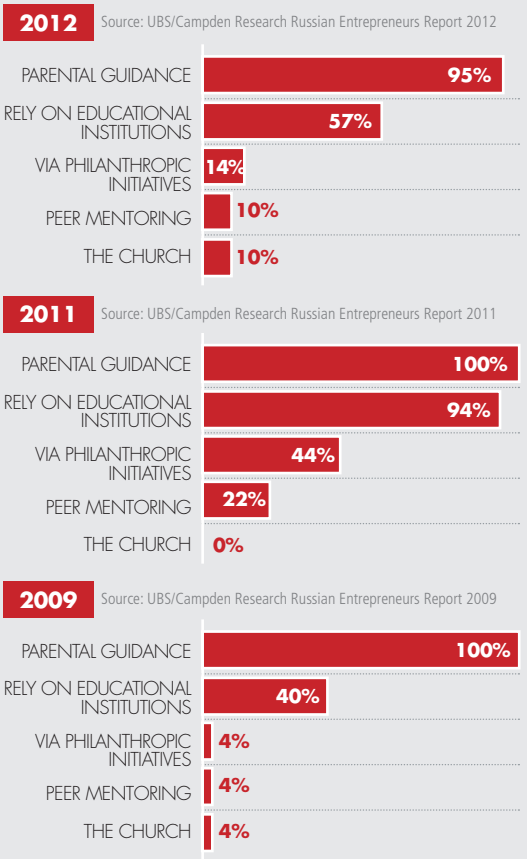



**FIGURE 19:** HOW DO YOU INSTIL VALUES IN THE NEXT GENERATION?



# EDUCATION FOR THE NEXT GENERATION

In 2009 and 2011, 88% of respondents said that a university degree would be essential to their children for becoming involved in their business and 82% of last year's respondents said that one to three years of work experience was essential for their children to help them make a meaningful contribution to the business.

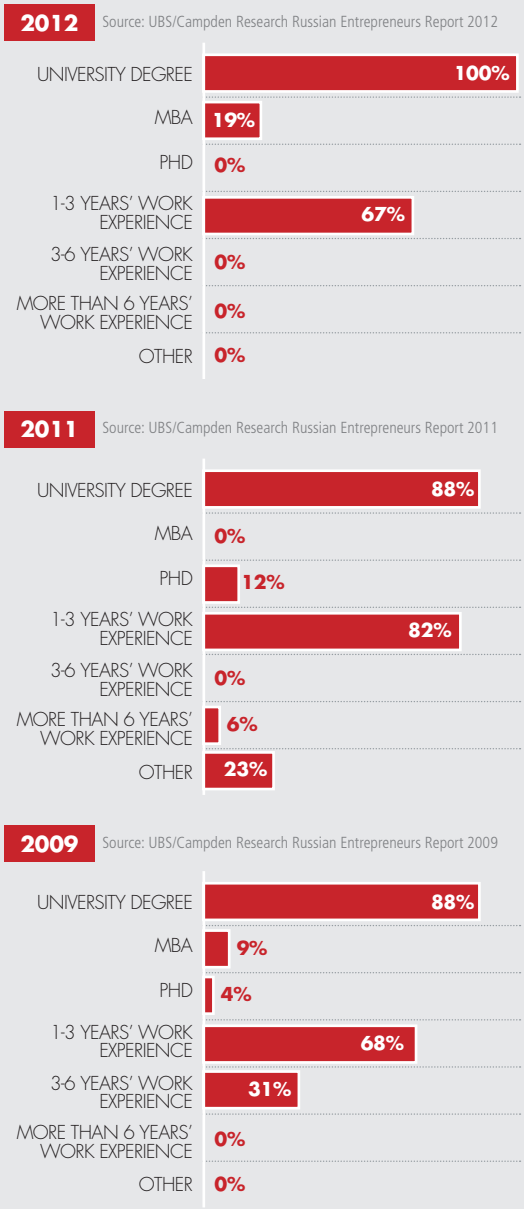
This year, every respondent felt that a university degree is essential to the education of their children, in terms of enabling them to make a meaningful contribution and get involved in their business (not surprising given that they all have a university education themselves). But, as Figure 20 shows, only 19% feel an MBA is a prerequisite for their children's success. Two-thirds would also push their children to spend between one and three years working in business if they wish to become involved in the family enterprise.

Just over one-third of respondents educate their children exclusively in Russia (see Fig. 21), while 58% have also sent their children to international schools (in most cases for their university education, having completed their first and second-level studies in Russia). The UK is, by some distance, the most popular destination for Russian entrepreneurs' children, with only 17% favouring the US (see Fig. 22). Unsurprisingly, two-thirds say location is an important requirement in respect of an education provider and 29% consider the international profile of the establishment a vital factor.

One 43-year-old entrepreneur with four children says he wants them all to study in the UK for reasons of language and safe environment. "I find English private education very appealing, because it teaches children to learn and to be independent. I also like the fact that at private English schools, all children are equal – they wear the same uniforms, live at the same dormitories, pretty much in the same conditions. So the only way they can distinguish themselves is through academic and sports achievements. This is not the case with most children of wealthy parents in Russia."

Another one says: "My wife and I chose London for education of our younger children, because of its convenient geographical location. We also have many friends in London and feel at home there."

**FIGURE 20:** WHAT DO YOU CONSIDER TO BE ESSENTIAL TO THE EDUCATION OF YOUR CHILDREN THAT WOULD ENABLE THEM TO MAKE A MEANINGFUL CONTRIBUTION/GET INVOLVED IN YOUR BUSINESS?



One of the older entrepreneurs interviewed points out that his children are educated in Russia but that he would like his grandchildren to be educated abroad. “I would like them to get a professional education in England and spend some time living and working there. I think that would be a very useful experience.”

“I believe children should be educated to a minimum of a university degree, in order to enable them to make a meaningful contribution in the business – be it a family or any other business,” states another entrepreneur. “I also believe that having business acumen and vision is a must. Parental guidance is very important as well.” A female entrepreneur whose son went to both school and university in the UK says she did this because she wants him to live in the west and to have better opportunities in life.

She adds: “I think that the general problem for most children of wealthy parents and the reason why it is so difficult for them to join the family business is that having spent eight to 12 years abroad, going to foreign schools and universities, they develop a mentality totally different from the mentality of their parents and of their country. They may speak the same language, but they find it very difficult to fit in because of their adopted mentality.”

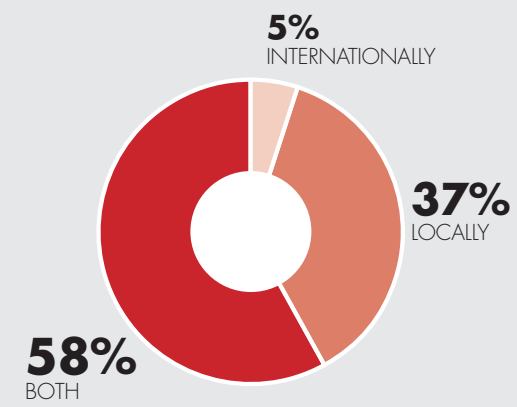
She also suggests that children of very wealthy parents in Russia are not interested in education and have neither ambitions nor values. “They know the price of everything but not the value, so to speak. I think that private English education is a very powerful tool, capable of changing such children and teaching them to be hard working, independent and responsible.”

Another entrepreneur agrees that simply holding a degree from a good university is no guarantee for success in business. “I believe that one definitely needs to have a certain talent for being an entrepreneur. My son is a serial entrepreneur and is successfully running his own businesses. He deliberately did not join my company and started his own business activities in a totally different sphere. Of course, as a father and an entrepreneur, I am very proud of his success and wish him the best of luck.”

A more relaxed attitude is also evident from this entrepreneur: “I have a philosophical attitude towards

**FIGURE 21:** DO YOUR CHILDREN RECEIVE THEIR EDUCATION IN RUSSIA OR ABROAD?

Source: UBS/Campden Research Russian Entrepreneurs Report 2012



education. I do not think that the choice of educational institution, the choice of the country of education or the level of education really determine future success. I believe that ambition matters more than anything else, as ambition will always break through, no matter what. I have seen a lot of examples of that during my professional life."

Given his relatively recent exposure to the education system, the comments of the youngest entrepreneur (29) are particularly interesting. "I do not think that education is the essential element for the successful running of a business - it is vital to have qualities such as leadership and vision. It is also very important to have a good relationship with the market leaders and a good reputation in the market."

Another entrepreneur in his late 20s agrees that instilling values in the next generation is not easy. "I think that a lot depends on the parents' values and on how they educate their children. The problem in Russia is that we do not have the culture of spending money sensibly. We do not have the continuity of wealth or wealthy people throughout generations, so we tend to waste money without making any plans for the future. Financial planning in Russia is an embryonic industry, which is just beginning to develop and which has a huge potential."

The owner of a big car importer and retail business says that his sons went to university abroad in order to be exposed to different cultures and ways of doing business. "I think it is very important for our children to spend some time studying and working abroad, as this gives them an excellent opportunity to absorb the different mentality, traditions and business culture, which would (hopefully) enable them to change the business culture in Russia. They would help Russia greatly when they are back."

**FIGURE 22:** IF YOUR CHILDREN ARE EDUCATED INTERNATIONALLY, WHERE ARE THEY EDUCATED?

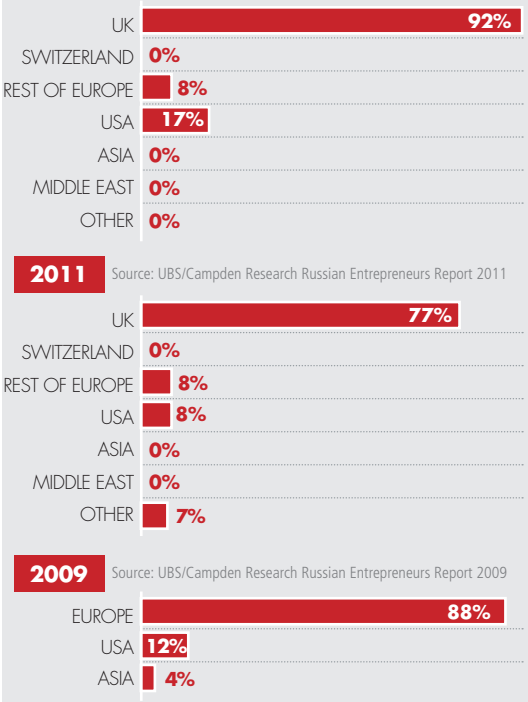
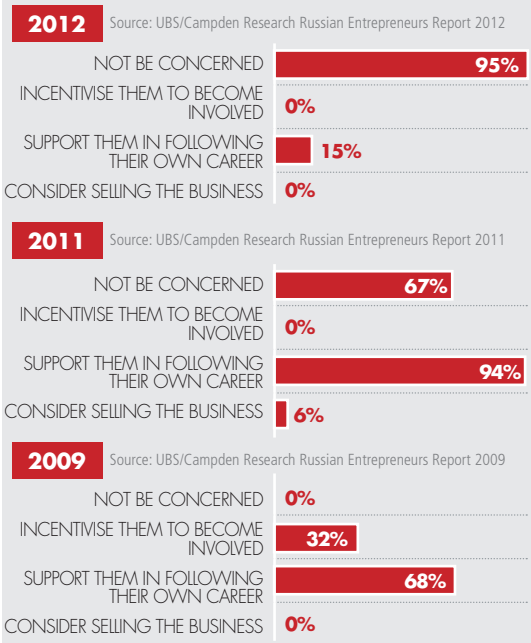



**FIGURE 23:** WHAT WOULD YOU DO IF YOUR CHILDREN SHOWED NO INTEREST IN BEING INVOLVED WITH THE BUSINESS?



# PHILANTHROPY

During 70 years of communism, the society became accustomed to a state that supposedly took all the work of caring for the "less fortunate" upon itself, so there was no reason for ordinary people to get involved. In short, communism and philanthropy are diametrically opposed to each other. Nevertheless, when the Soviet Union collapsed – and with it most social programmes – the long forgotten, pre-revolutionary concept of charity was revived.

There have been some notable philanthropic efforts on the part of prominent individuals like the Mikhail Gorbachev Foundation – a cancer charity set up by, among others, Mikhail Gorbachev, the last leader of the Soviet Union, with the support of Russian oligarch Alexander Lebedev. The Russian pianist Yuri Rozum has also set up the Yuri Rozum International Charitable Foundation.

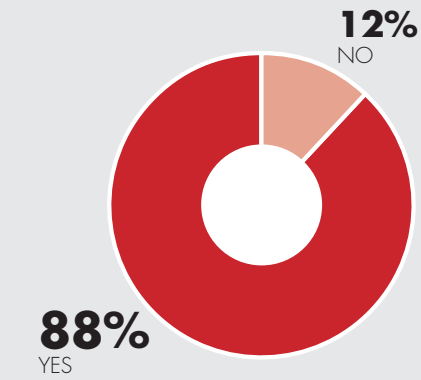
Only 12% of respondents have no involvement in such activities (see Fig. 24). Healthcare is the most popular area of involvement, closely following by social welfare (see Fig. 25). However, some of the comments made by our entrepreneurs suggest a certain ambivalence towards giving. Here are some of the more interesting observations:

- "My business is an important but not the principal part of my life. I support a number of projects connected with art and culture and social welfare."
- "I think that supporting your family is very much a Russian national and cultural peculiarity. If you have money, you always financially support the members of your family. So, supporting my family members is my philanthropy."
- "I do not believe in impersonal charities. I support real people, supporting my extended family and former employees."
- "I am not involved in philanthropy but, if I received an interesting proposition, I would be gladly involved."
- "I run a business in a healthcare and biotechnology sector and, in a way, my business is my philanthropy."

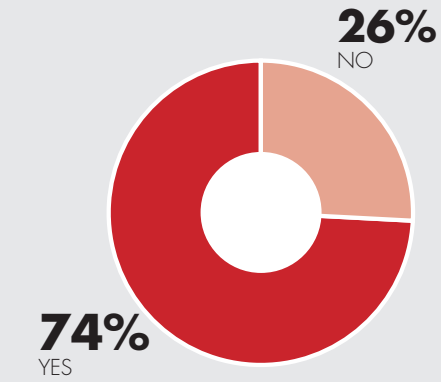
The most disturbing comments come from one 64-year-old entrepreneur, who suggests that businesses are deterred

**FIGURE 24:** ARE YOU INVOLVED IN PHILANTHROPIC ACTIVITIES?

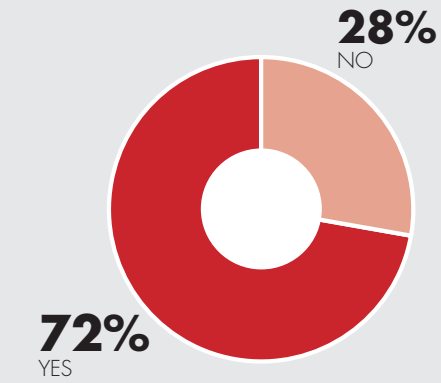
**2012** Source: UBS/Campden Research Russian Entrepreneurs Report 2012




**2011** Source: UBS/Campden Research Russian Entrepreneurs Report 2011



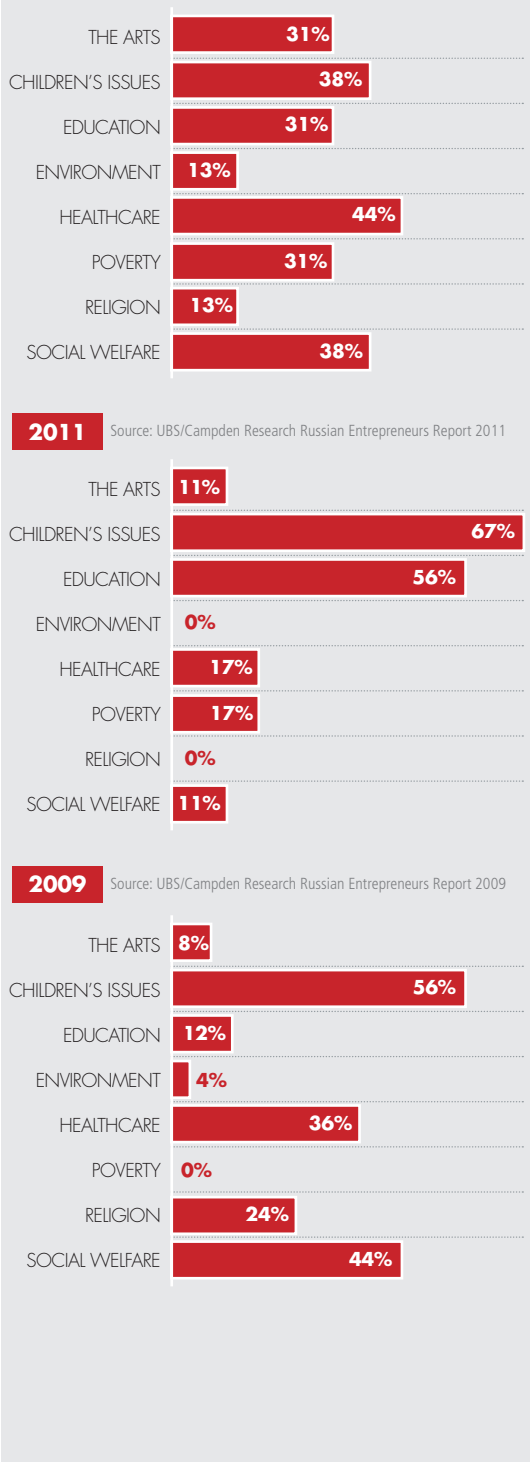

**2009** Source: UBS/Campden Research Russian Entrepreneurs Report 2009



> “Private giving is quite challenging in Russia, as giving attracts the attention of local and regional government authorities. As soon as you start giving, you become a potential focus of attention of these authorities”

from getting involved in private initiatives for fear of attracting unwelcome attention. He says: “We are involved in several philanthropic projects with Unesco but private giving is quite challenging in Russia, as giving attracts the attention of local and regional government authorities. As soon as you start giving, you become a potential focus of attention of these authorities.”

**FIGURE 25:** IF YES, PLEASE INDICATE WHAT ISSUES ARE IMPORTANT TO YOU?



# 3 WEALTH MANAGEMENT

- INTERNATIONAL BANKS ARE MUCH PREFERRED BY ENTREPRENEURS IN RUSSIA; MORE THAN THREE-QUARTERS OF ENTREPRENEURS REFER TO A DIFFERENCE IN COMPETENCE AND/OR PROFESSIONALISM BETWEEN LOCAL AND INTERNATIONAL BANKS…
- …BUT WHEN IT COMES TO WEALTH MANAGERS, RUSSIAN ENTREPRENEURS EITHER DON'T LIKE THEM, OR DON'T KNOW ABOUT THEM, WITH FEWER THAN 50% USING THEIR SERVICES…
- PROPERTY REMAINS ONE OF THE MOST FAVOURED INVESTMENTS FOR RUSSIAN ENTREPRENEURS
- INTERNATIONAL AND LOCAL EQUITY INVESTING FELL FROM LAST YEAR, SO TOO HAS INVESTMENT IN ALTERNATIVES LIKE HEDGE FUNDS AND PRIVATE EQUITY, BUT GOLD CONTINUES TO BE VERY POPULAR
- WHEN ASKED TO DESCRIBE THE MAIN INVESTMENT OBJECTIVE OF THEIR FAMILY IN RESPECT TO ITS WEALTH, MOST ARE CONSERVATIVE, OPTING FOR A BALANCED APPROACH
- MORE THAN HALF OF THE ENTREPRENEURS SURVEYED THIS YEAR HAVE DEVELOPED LONG-TERM PERSONAL WEALTH PLANS, A MARKED INCREASE ON THE 2009 AND 2011 SURVEYS
- SWITZERLAND AND THE UK ARE BY FAR THE MOST POPULAR OFFSHORE JURISDICTIONS, AS THEY WERE IN 2011

# RUSSIAN VS INTERNATIONAL BANKS

> “We only use international banks. Most major domestic banks are state owned and there is therefore a real risk of instability and assets appropriation by the government. International banks offer confidentiality”

In the 2011 report, four in five respondents reported a noticeable difference between the competence and professionalism of international and local banks, compared with two years earlier when only three in five did so. Since the financial crisis of 2008/2009, their view of international banks, ironically some might think given the difficulties many big international banks continue to experience, has become much more positive. As a result, the percentage of entrepreneurs working only with international banks increased considerably to 37% in 2011 from 12% in 2009.

This year, 26% of respondents are dealing with international institutions exclusively. When asked whether they perceive there to be a difference in competence/ professionalism between local banks and international banks, 84% answered in the affirmative (see Fig. 26). One respondent says: “Russian banks look at your connections; international banks concentrate on business objectives.”

Interestingly, very few respondents say their view of the large banks have changed either positively or negatively after the financial crisis. Only one managed his dealings with his bank through an adviser rather than directly and none have changed their business bank over the last 12 months.

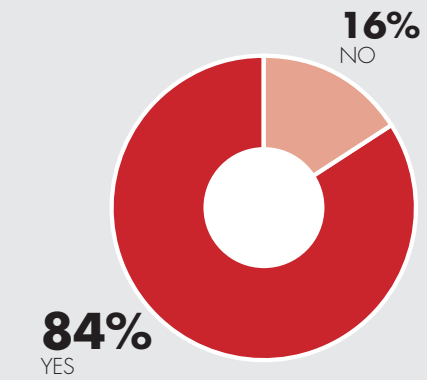
One biotechnology and pharmaceutical entrepreneur says: “Historically, we have been using the services of three Russian banks, most of which offer practically identical services. The factors that determined our choice were the degree of reliability, rating and convenience.”

Trust remains an issue for many, as is evident in comments from respondents: “I use international banks only for personal purposes, as I can trust them – most domestic banks are owned by the government, so I am trying to avoid dealing with them.”

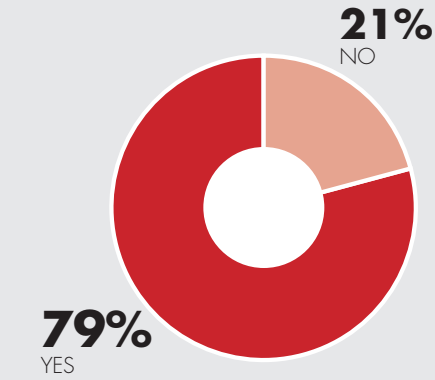
Another one says: “We only use international banks. Most major domestic banks are state owned and there is therefore a real risk of instability and assets appropriation by the government. International banks offer confidentiality.”

**FIGURE 26:** DO YOU PERCEIVE THERE TO BE A DIFFERENCE IN COMPETENCE/PROFESSIONALISM BETWEEN LOCAL BANKS AND INTERNATIONAL BANKS?

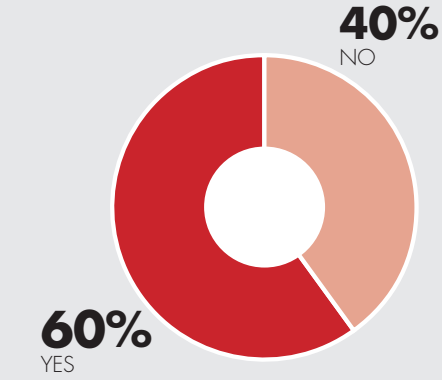
**2012** Source: UBS/Campden Research Russian Entrepreneurs Report 2012




**2011** Source: UBS/Campden Research Russian Entrepreneurs Report 2011




**2009** Source: UBS/Campden Research Russian Entrepreneurs Report 2009



But not all feel that Russian banks couldn't compete with their international counterparts. A respondent says: "I think that, in the recent years, Russian banks have been actively improving their services. Our banks are becoming competitive in comparison with international banks, particularly in the introduction of modern online banking systems and other hi-tech elements."

# WEALTH MANAGEMENT SERVICES

> “I very rarely use the services of wealth management companies ... Even if I [do], I tend to always double check the information I receive from them. I think that is very much a part of the Russian mentality – trust, but double check”

The personal wealth of the average Russian is rising faster than that of any other nationality in the world, according to Boston Consulting Group. BCG found that Russians’ personal wealth rose by 21% in 2011 to $1.3 trillion; overall global personal wealth rose by only 1.9% last year.

Russia has one of the highest numbers of billionaires anywhere, and in terms of the number of households with assets worth more than $100 million, Russia ranks below only the US, the UK and Germany. But wealth management services – at least when it comes to asset management – appears to be less popular then ever among entrepreneurs in Russia.

Wealth management services are used ‘rarely’ by 32% of respondents and ‘occasionally’ by just 10%, with the remainder not using wealth managers at all (see Fig. 27). Niche specialists are favoured over independent asset managers by almost four to one and in almost all cases the respondents say these professionals have helped them to achieve their financial goals.

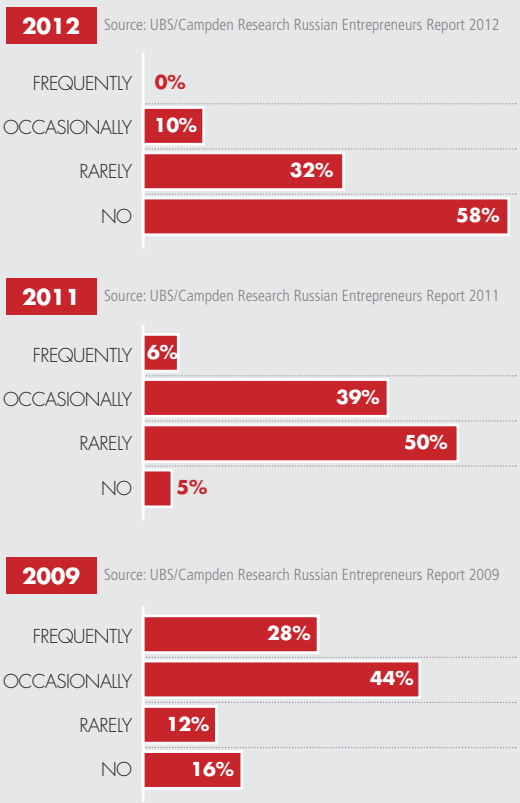
These findings represent a shift in attitudes to external wealth managers from last year (when 45% respondents said they used wealth management services) and a continuation of a trend away from such service providers. Seventy-two percent of respondents to the 2009 survey said they used wealth management services.

The comments of one 56-year-old entrepreneur are not untypical: “I do not have a long-term wealth plan – making money is a habit for me, not an objective. I do not use wealth management services either. If I need professional advice, I usually speak with my banker.”

At the other end of the age spectrum, a 29-year-old entrepreneur with interests in biotechnology and pharmaceuticals says he does not use the services of wealth management firms because of a “negative experience” in the past, preferring to manage his assets himself.

Trust remains an issue for many. That was amplified by one Siberia-based business leader. “I very rarely use the services of wealth management companies. If I have a specific question, I usually research it myself and I then seek professional advice. Even if I use the services of

**FIGURE 27:** DO YOU USE WEALTH MANAGEMENT SERVICES?



wealth managers, I tend to always double check the information I receive from them. I think that is very much a part of the Russian mentality – trust, but double check – which goes back through our history."

An entrepreneur whose background encompasses both financial services and construction says: "Given my background in investment banking, I do not use the services of wealth management firms. I have sufficient knowledge to look after my assets and capital. If I need any specific advice in the area, in which I do not have any expertise, I usually rely on recommendations of my friends and other professional advisers."

Another entrepreneur with a background in the financial services sector says he also relies on his own knowledge. "I do not use services of wealth managers. Since my background is in finance, I manage my assets myself. If I do use the services of professional advisers, the factors which determine my choice are recommendation, reputation, track record and trust."

"The choice of our professional advisers usually depends on a structure of a particular transaction," was another comment. "As a rule, we use services of reputable international companies which have a presence in Moscow."

One of the wealthiest entrepreneurs interviewed says her business does not use the services of wealth management firms, because: "We have a non-discretionary arrangement with our bank but generally, we reinvest all our capital back in our business. Since our business is based in Russia, we used to use Russian banks. But, as we have had a very bad experience with local banks at the outset of the financial turmoil, we now prefer using the services of international banks."

Another respondent says: "When it comes to wealth management and other professional advice, I totally rely on the advice of my legal and financial advisers and tend to follow their recommendations."

Surprisingly, the ability to integrate legal structures is the most commonly expected service from a wealth management firm according to 78% of respondents, with only 22% expecting a focus on asset management (see

Fig. 28). Selection of a wealth manager, say respondents, is based without exception on reputation, recommendation, confidentiality, investment track record and trust. Other important qualities include flexibility (89%), cultural empathy, cost and the ability to execute cross-border deals. Just over half refer to the importance of communication skills.

**FIGURE 28:** WHAT BREADTH OF OFFERING DO YOU EXPECT FROM YOUR WEALTH MANAGEMENT FIRM?

# PREFERRED ASSET CLASSES

When respondents are asked which asset classes they invest in, just over one third opt for international stocks and 32% say they invest in local stocks, as shown in Figure 29. Interest in international stocks is largely unchanged since 2009, when 36% of respondents identified this as an investment area. However, there has been a pronounced decline in investment in local stocks – down from 60% three years ago.

International commodities are part of the portfolio of 32% of entrepreneurs, while 26% have invested in local commodities. Investment in these areas has inevitably fluctuated over the last three years – for example, international commodities were favoured by none of the respondents to the 2009 survey while local commodities found favour with only 8%. These figures were almost reversed last year, with 5% favouring international commodities and no one putting money into their local equivalent.

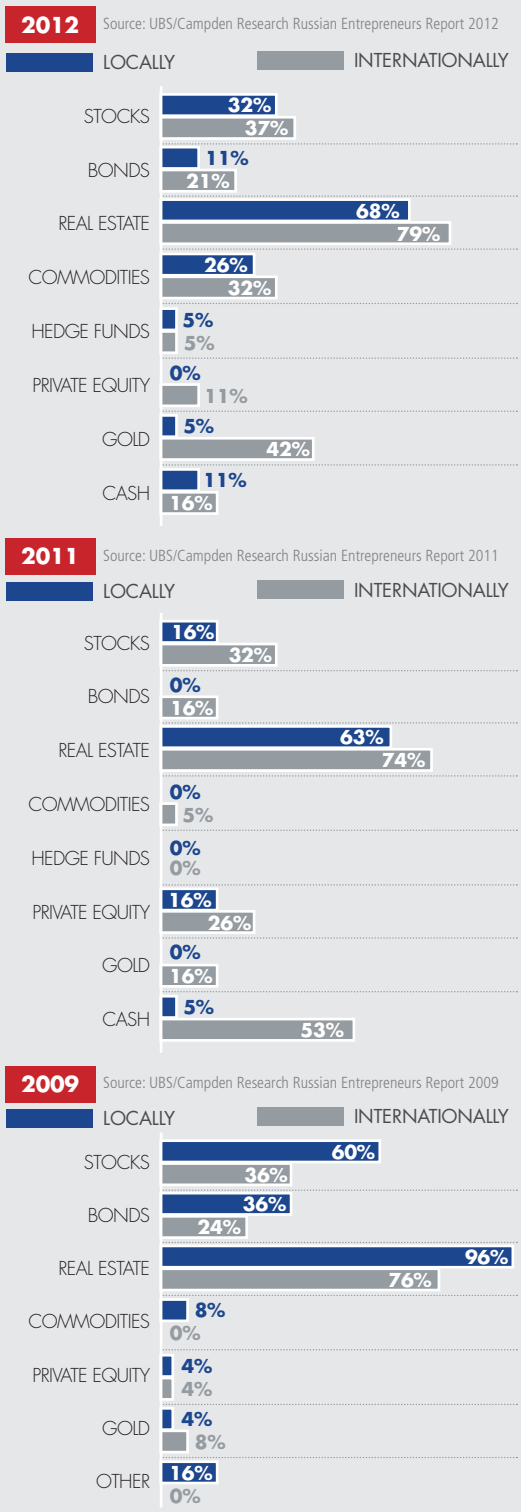
International bonds have attracted interest from 21% of this year's respondents, while local bonds are favoured by just half that percentage – an improvement on 2011 when none of the survey respondents had interests in local bonds and 16% invested in their international equivalent, but a sizeable change from 2009 when the figures were 36% and 24%, respectively. Interest in hedge fund investment is minimal, as it was last year.

"I am gradually selling my assets in Russia," says one entrepreneur. "I may start a business in Europe at some point, if I see an opportunity."

Gold, the traditional safe haven in times of economic uncertainty, is the most common single asset class after property among our entrepreneurs, with 47% having some holdings in this area. This growth continues a trend first observed in the 2011 report, when 16% said they invested in the precious metal compared to just 12% in 2009.

Local and international private equity investment rose to 16% and 26% respectively in 2011 compared to just 4% for both in 2009. Yet just 12 months on not a single respondent is invested in local private equity and international private equity finds favour with only 11%. This is in contrast to respondents' desire to use private equity

**FIGURE 29:** IN WHICH ASSET CLASSES DO YOU INVEST LOCALLY AND INTERNATIONALLY?



as a funding source for their business, as illustrated in the Outlook section.

Property continues to be very popular as an investment option among Russians. Although 94% of survey respondents claim that property rights are not respected in Russia, one in five has 30% or more of their wealth tied up in property, which is the most popular asset class. International real estate is favoured by 79% of entrepreneurs, ahead of local real estate (68%), compared to 74% and 63% respectively last year and 76% and 96% in 2009.

The psychological allure of property remains strong in Russia and is summed up in the comments of an entrepreneur who has not made her fortune in property but is nonetheless convinced that the asset class is the best place to invest her wealth.

"I do not have much knowledge or understanding of financial products, so I invest in real estate (both residential and commercial) in Russia, eastern Europe and the UK. I prefer investing my money in tangible assets, something that I can see with my own eyes."

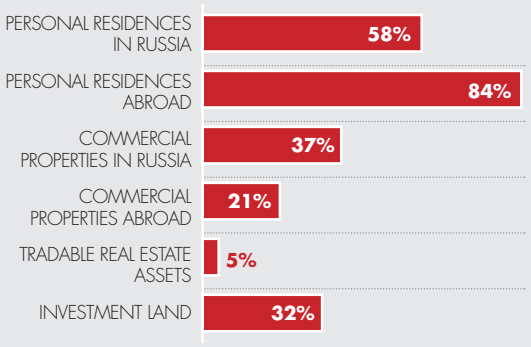
One of the youngest entrepreneurs interviewed says he is selling high value real estate assets (in excess of $30 million) at the moment. He says: "We have serious doubts that there will be a market for such real estate in Russia in five to 10 years' time, since most wealthy Russian people tend to buy big houses abroad now. Also, given the fact that there is no protection of property rights in Russia today, it makes sense to sell real estate in Russia."

Return expectations for this asset class vary widely, with half of respondents anticipating a 5% to 10% annual return, while 14% expect in the region of 10% to 20% return and 29% expect a return of between 20% and 50%. One respondent says he expects to at least double his money annually on property.

Almost all those surveyed (95%) describe international real estate as a "safe harbour" in the current environment, compared to 32% in 2009 and 89% last year (see Fig. 31). This compares to gold, with a sizeable 86% of respondents saying the precious metal is a safe haven, compared with

**FIGURE 30:** IN WHAT REAL ESTATE ASSETS TO YOU ACTIVELY INVEST?

Source: UBS/Campden Research Russian Entrepreneurs Report 2012

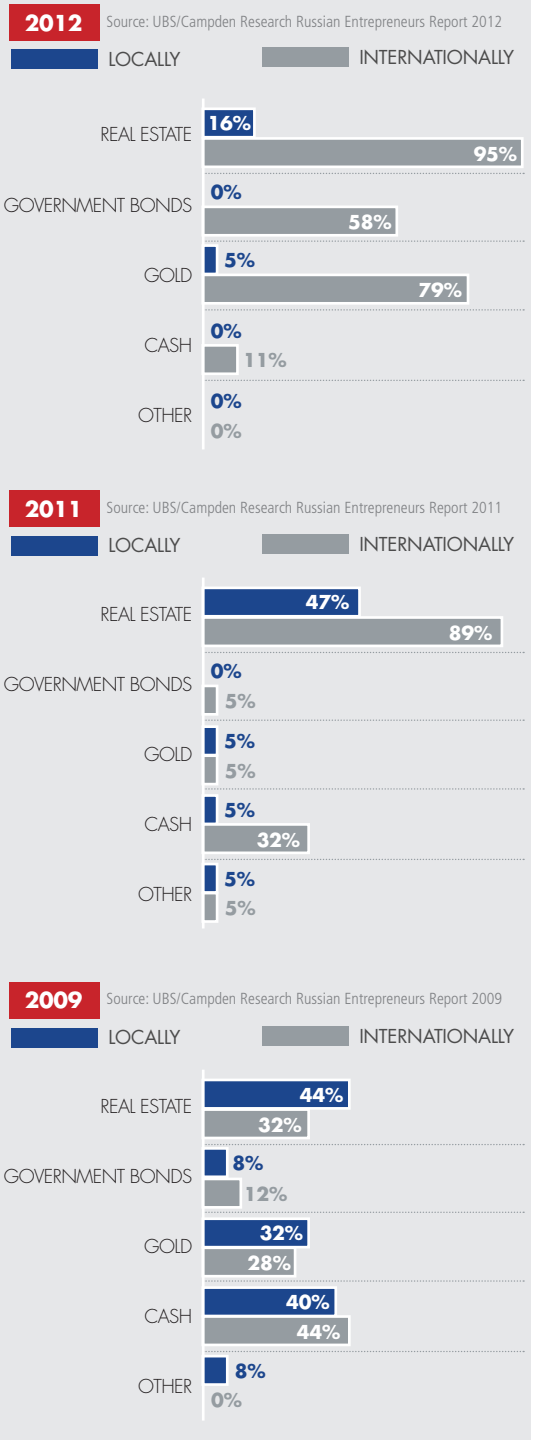


just 5% last year. But international government bonds, despite very low yields, have seen the biggest increase in safe haven popularity, with 58% saying the asset class is a safe haven, compared with just 5% in 2011.

More than 84% of our entrepreneurs have invested in personal residences abroad (almost exclusively in Europe) and more than half have put their money into personal residences in Russia. More than a third have invested in commercial premises in Russia, compared to 21% who have invested in commercial real estate outside the country.

Investment in so-called "passion" assets is reasonably high, with 50% investing in art, 38% in watches and smaller numbers in antiques, wine and automotives.

**FIGURE 31:** WHAT AREAS DO YOU CONSIDER AS "SAFE HARBOURS" IN THE CURRENT MARKET ENVIRONMENT FOR MAKING PERSONAL INVESTMENTS?



# CURRENCIES

Entrepreneurs are asked the question: “In what currency do you think in?” Almost three-quarters (74%) say they think in roubles and euros, the rest think in dollars, sterling and Swiss francs (see Fig. 32). The percentage who “think” in roubles has more than doubled since last year, while the profile of the US dollar is largely unchanged since 2011. The eurozone crisis has had a slight impact on the use of the European single currency, which was a “currency of choice” for 79% of respondents last year. Sterling has retained the 10-fold increase it recorded between 2009 and 2011, as Russians continue to see it as a safe haven currency against the background of the continuing turmoil in the eurozone.

The general feeling among most of the respondents is that they want to keep their rouble exposure to a minimum. Most do not reckon Russia is the best jurisdiction for safekeeping of cash and use Russian banks only for business purposes, preferring to use international banks for personal purposes.

“I tend to think in dollars and euro since I have a number of business contacts and activities in the US and Europe, I have assets and I travel in Europe,” says one respondent. “These currencies are ‘easy to understand’ and are also more stable in comparison with the Russian rouble. I predominantly use the services of international banks for personal purposes, as they usually have branches in numerous foreign jurisdictions, which is very convenient from a practical point of view.”

**FIGURE 32:** WHAT BASE CURRENCY DO YOU USE IE IN WHAT CURRENCIES DO YOU THINK?

# INVESTMENT OBJECTIVES

When asked to describe the main investment objective of their family in respect to its wealth, two-thirds opt for a balanced approach between capital preservation and growth, while 26% prioritise growth (see Fig. 34). This indicates a surge in interest in more pro-growth investment strategies in the last year. While the 2009 survey highlighted a diverse range of investment objectives, every one of last year's respondents said their risk profile, when it came to their investment portfolios, was balanced.

**FIGURE 33:** DO YOU SEGREGATE YOUR BUSINESS ASSETS FROM YOUR PRIVATE ASSETS?

Source: UBS/Campden Research Russian Entrepreneurs Report 2012

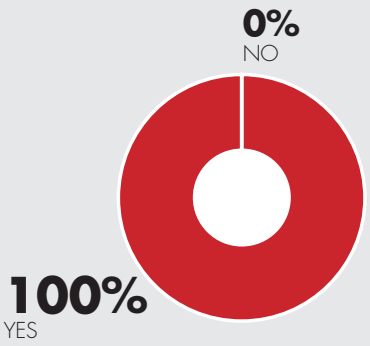
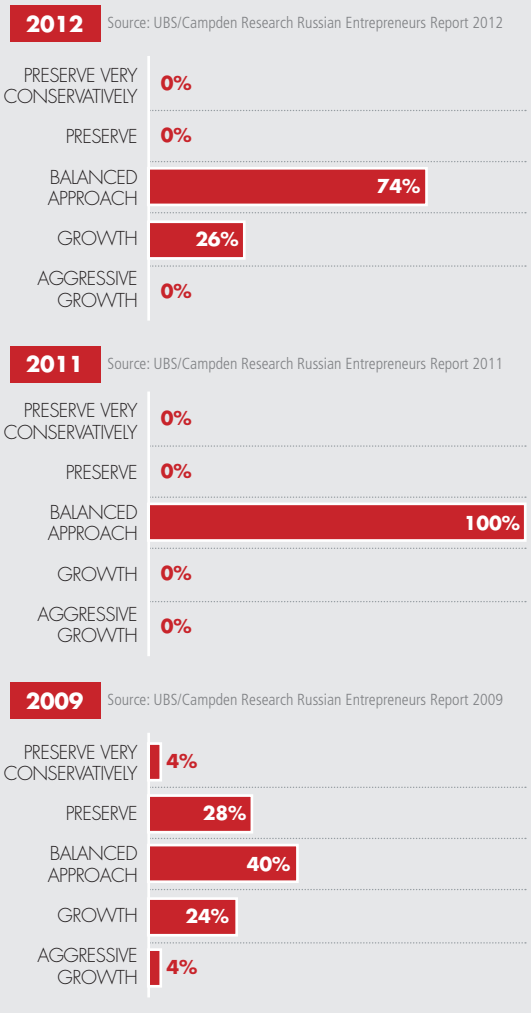



**FIGURE 34:** HOW WOULD YOU DESCRIBE THE MAIN INVESTMENT OBJECTIVE OF YOUR FAMILY IN RESPECT TO ITS WEALTH?



# WEALTH STRUCTURING

Wealth structuring (asset protection) is predominately left to banks, according to the respondents, with 94% saying they use banks for this purpose, as shown in Figure 35. International and local lawyers are the next most influential group. Local and international accountancy firms are used by 17% and 11% respectively, while one respondent says he takes responsibility for asset protection personally.

These figures represent a radical departure from the findings of the 2009 survey, where 92% of respondents said they used local lawyers to implement asset protection and only 8% looked to their bank for this function. Just under half (48%) used international lawyers and they also chose lawyers over accountants, with under a quarter (24%) using local accountants and 20% using international accountancy firms.

The trend away from local advisers was already evident in the 2011 survey, when the responses showed that Russian entrepreneurs were increasingly using international banks and legal advisers over local providers, motivated at least in part by concerns over issues of confidentiality and trust arising from the use of local players. By last year, banks had become the most important source of asset protection, followed by lawyers.

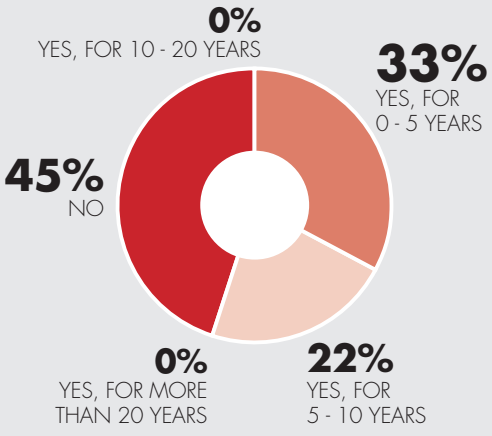
More than half of the entrepreneurs surveyed this year have developed longer-term personal wealth plans (typically covering at least a five-year period), which is a marked increase on the 2009 and 2011 surveys in particular – 84% of respondents last year said they did not have any formal structure in place (see Fig. 36).

Comments such as "the culture of long-term financial planning is alien in Russia" were commonplace just 12 months ago, whereas this year only one respondent suggests it is impossible to have a long-term plan in Russia. In terms of timeframes, 33% have formulated a plan to cover the next five years while 22% have planned for the next five to 10 years. All respondents say they have segregated their business assets from their private assets and 47% have invested between one quarter and half of their total wealth in their business, with the remainder investing less than 25%.

**FIGURE 35:** WHO IMPLEMENTS YOUR ASSET PROTECTION STRATEGIES?

**FIGURE 36:** HAVE YOU DEVELOPED ANY LONG-TERM PERSONAL WEALTH PLANS?

Source: UBS/Campden Research Russian Entrepreneurs Report 2012



# ONSHORE AND OFFSHORE PORTFOLIOS

Every one of the entrepreneurs surveyed this year has split their private assets into onshore and offshore portfolios, the same proportion as last year and an increase from 84% in 2009. The use of offshore structures in Russia is not generally for tax optimisation reasons but for asset protection. Entrepreneurs are wary of tax raids and do not want to disclose ownership. Asset misappropriation has been one of the main economic crimes in Russia over the past decade.

Switzerland (89%) and the UK (78%) are by far the most popular offshore jurisdictions, as they were in 2011 (see Fig. 37). Cyprus is also popular. Well-known offshore jurisdictions such as Lichtenstein, the Isle of Man, Guernsey and Bermuda are not favoured by any of our respondents, which indicates there has been a more circumspect approach to offshore jurisdictions over the last 12 months.

Risk/return expectations of respondents in terms of preferences expressed as a percentage for each asset portfolio were as shown in the figure 38.

These percentages represent some big shifts from 2011. For example, risk/return expectations for high risk/high return offshore assets have fallen from 37%, while low risk/low return onshore assets are down from 42% last year. But the most significant changes have occurred in relation to onshore and offshore assets with a high degree of liquidity, which have surged from 5% and 0% just 12 months ago.

**FIGURE 37:** WHEN WORKING OFFSHORE, DO YOU HAVE PREFERRED JURISDICTIONS?

Source: UBS/Campden Research Russian Entrepreneurs Report 2012

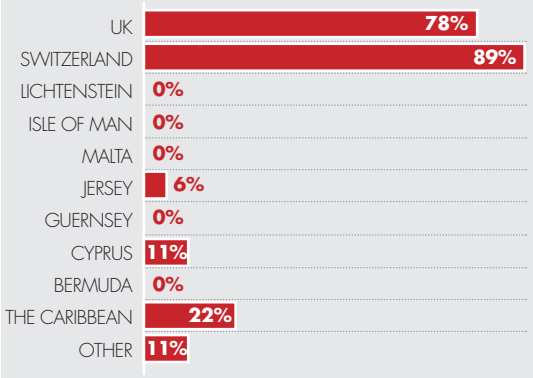
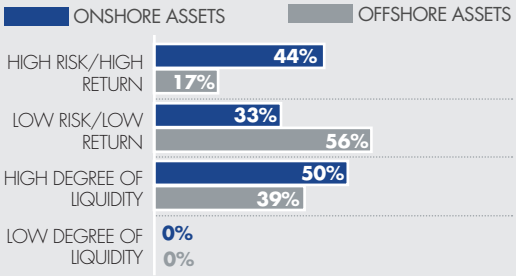
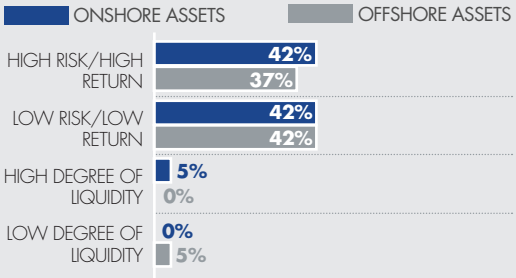



**FIGURE 38:** WHAT RISK/RETURN EXPECTATION DO YOU HAVE FOR EACH ASSET PORTFOLIO?

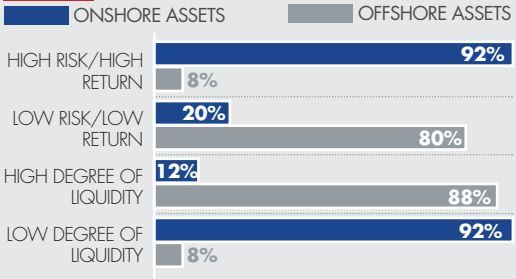
**2012** Source: UBS/Campden Research Russian Entrepreneurs Report 2012




**2011** Source: UBS/Campden Research Russian Entrepreneurs Report 2011




**2009** Source: UBS/Campden Research Russian Entrepreneurs Report 2009



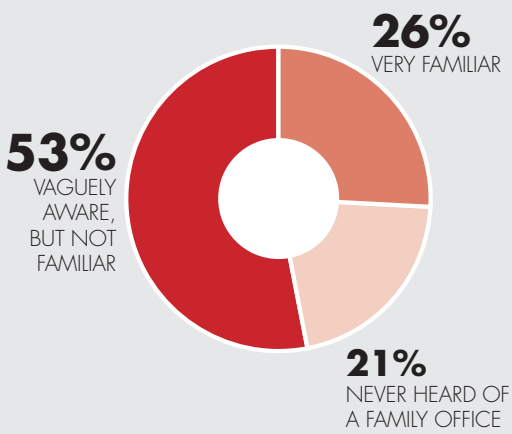
# FAMILY OFFICE STRUCTURES

Historically, many family offices have their roots in the need for administrative support to look after their families. The notion of wealth management services being provided by the family office pre-supposes that family members want to have some or all of their assets collectively managed. They may decide to do this for a number of reasons, ranging from the emotional to purely practical reasons, such as the existence of various jointly owned assets, family trusts and investment vehicles.

Just over one in four (26%) Russian entrepreneurs are "very familiar" with the family office concept, with 21% admitting they are unaware of what a family office is or what it does (see Fig. 39). When asked whether they would consider setting up a dedicated single family office or joining a multi family office, none of our respondents answer in the affirmative.

**FIGURE 39:** HOW FAMILIAR ARE YOU WITH FAMILY OFFICE STRUCTURES?

Source: UBS/Campden Research Russian Entrepreneurs Report 2012



# OUTLOOK

**FIGURE 40:** HOW WILL YOU FUND YOUR BUSINESS FUTURE GROWTH?

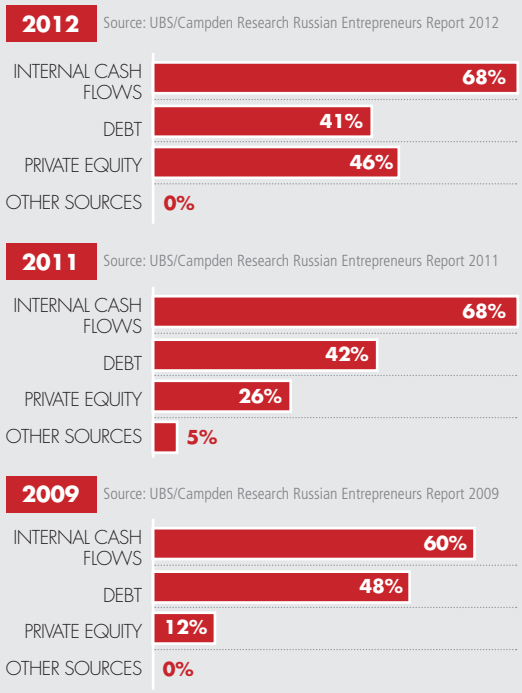



**FIGURE 41:** HOW HAVE YOU ACCESSED CREDIT DURING THE COURSE OF THE LAST 12 MONTHS?

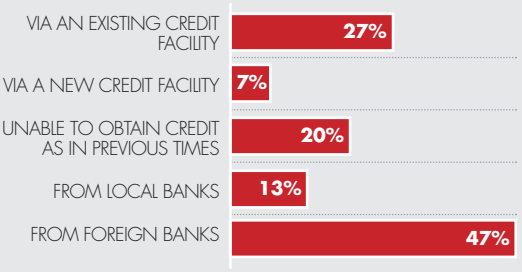



**FIGURE 42:** ARE YOU LISTED ON ANY STOCK EXCHANGE AND, IF NOT, DOES GOING PUBLIC FORM A PART OF YOUR BUSINESS PLAN?

There has been no noticeable improvement in the business environment in Russia in the last year, particularly for entrepreneurs. Policies favouring big businesses, especially those with good political connections, are as strong as ever in Russia and this isn't likely to change any time soon. This is best represented by the short-term dependency on mining industries, with oil exploration and production at the top of the government's concern.

Nevertheless, it is not all doom and gloom for entrepreneurs operating in Russia. The growth of a vibrant middle and consumer class presents many opportunities for those entrepreneurs willing to take risks and start businesses. The authorities are also talking more about the importance of stimulating a better environment for small and medium-sized businesses – although some entrepreneurs are sceptical of the government's commitment in this area.

# FUTURE BUSINESS GROWTH

Concern towards the business environment is shown by a slight fall this year in the desire of respondents to expand their businesses in Russia. Fifty-nine percent are looking to expand their business inside Russia, compared with 61% in last year's study. But international plans for expansion are less ambitious this year than last, with only 50% saying they plan to grow their business outside of Russia in the next 12 months. This compares with 56% in last year's research.

Eighty-two percent of those surveyed this year would consider selling if they receive an "attractive valuation", although the majority (70%) expect to hold onto their interests for at least the next five years.

These figures represent an increase in commitment from 2011, when 95% of respondents said they would consider selling their company if they received an attractive valuation. However, whereas 25% of this year's respondents are looking at selling rather than transferring their business in the next two to four years, none of last year's respondents thought that they would sell within a four-year period.

Half of the respondents are thinking about their next venture. More than 85% are prepared to work through periods of slow growth and only a few are sufficiently concerned about the ability of the next generation to run the business that they would look to sell to avoid generational transfer.

# FINANCING GROWTH

> “We have a good working relationship with our bank and access to credit is never a problem”

One indication of the ability of Russia’s entrepreneurs to adapt their funding strategies in response to shifting market conditions is increased willingness to consider private equity to fund future business expansion. Forty-six percent of respondents say future growth would be financed via private equity, while 41% refer to debt funding as a funding option (see Fig. 40). The proportion who see cash flow as the prime source of funding is 68%.

The figure for private equity represents the continuation of a trend that emerged in last year’s report, where interest in private equity was 26% compared to just 12% in the 2009 survey.

Three years ago, debt was seen as an attractive option, with almost half of respondents suggesting it would be a vital component behind internal cash flow (60%). In 2011, Russia’s entrepreneurs found that internal cash flow had strengthened its position as the key source of funding for growth (68%) as debt funding fell to 42%.

“We prefer funding the business growth from internal cash flow, but occasionally, we get short-term loans for specific projects,” said one entrepreneur. “We have a good working relationship with our bank and access to credit is never a problem.”

“It has been easier to obtain loans since the beginning of the economic crisis, as the requirements became less stringent,” said another.

# MERGERS, ACQUISITIONS AND DISPOSALS

> “Russians are unlikely to change their views on the need for substantial state involvement in the economy in the near or medium term”

Although the Russian economy has been growing, the prospect for the medium and long term is uncertain. Many questions remain about potential weaknesses and the threats these hold for its future prospects. Among these are the demographic decline and the recent tendency of the wealth creators to relocate abroad, which has implications for both Russian economic and security policy; the failure so far to diversify away from reliance on natural resources; and the failure to press ahead with market reform.

Russians are unlikely to change their views on the need for substantial state involvement in the economy in the near or medium term. They seem, however, to accept that large parts of the private sector should operate free from state control.

There have been some positive developments from the recent economic turmoil, with more respondents (82%, up from 63% last year) expressing the opinion that new domestic opportunities have arisen from their business out of recent economic turmoil. This marks a return to a rate close to that recorded in 2009 when the length and depth of the global downturn was still unclear.

Half say they would consider making an acquisition over the next 18 months. Sixty percent of respondents said the global economic crisis of 2008 had “greatly impacted” their business, while four in five said it had a significant impact on the Russian economy.

In 2011, 68% of respondents saw only limited merger and acquisition opportunities, compared with 48% in 2009, which again suggests that confidence is close to 2009 levels. None of last year’s respondents said they were considering potential acquisitions in the following six to 18 months, compared to 39% in 2009.

One of the entrepreneurs says the big problem last year was the availability of good deals. “The world is very liquid and there are lots of sellers, but there are too many buyers as well. We are actively looking for new acquisitions opportunities at the moment, although it is difficult to find a good deal as there are too many willing buyers in Russia.”

# OUTLOOK FOR SERVICE PROVIDERS

Unlike multi-generational families elsewhere in the world, Russian entrepreneurs are not wealth inheritors; they are still busy building their wealth. The second generation is more worldly – western in their outlook, well educated and multilingual. They also have greater knowledge and exposure to financial instruments and capital markets. Given the uncertainties of running a business in Russia, the second generation may be less effective or willing to sustain the same level of activity within the country. There is plenty of evidence that this is happening, whereby sons and daughters of oligarchs are increasingly opting to work outside of Russia, often running subsidiaries of their parents' businesses, or being set up in business by their parents.

With the gradual evolution of first-generation wealth creators and the second generation's international education and experiences, more of the wealth and liquid assets created in Russia is moving into international asset management.

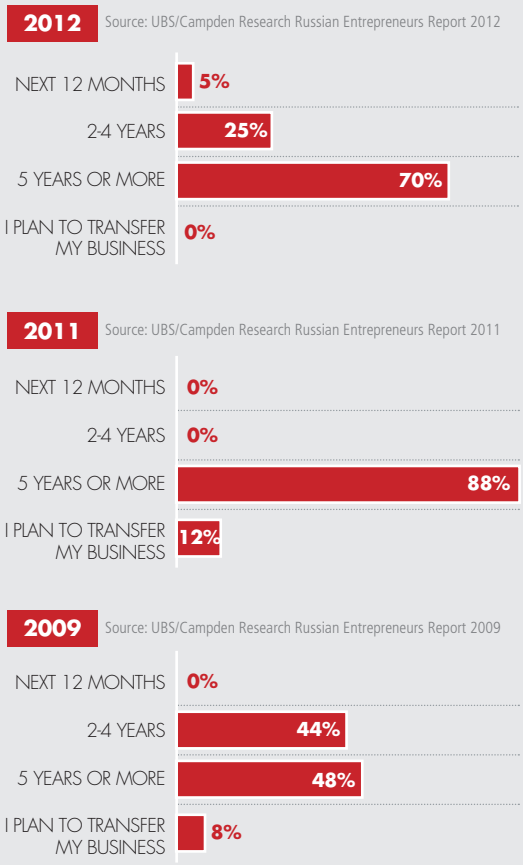
Wealth management practitioners looking for a share of this business will often develop relationships with Russians outside of Russia first, and only develop a local relationship – if indeed this is desired – after building up trust abroad. This is not just a wealth management issue – any service provider needs to be cognisant of the distinct needs of Russian business families and the different skill-sets required to serve both wealth creators and wealth inheritors/preservers.

They will need to think carefully about how to recruit the right team – a team that is simultaneously sensitive to the very different needs of the wealth creators and the wealth inheritors.

For the first generation, service providers will need to secure trust, respect confidentiality and establish a personal relationship with the clients. First-generation wealth creators tend not to trust people outside family and friends, who have long been their point of referrals and even their leading source of choice. This is not surprising considering their experiences and recent history.

Conversely, the second generation tends to be more financially sophisticated in their dealings with wealth managers and their expectations will have to be addressed accordingly.

**FIGURE 43:** WHAT IS THE LIKELY TIME PROJECTION IN WHICH YOU WOULD CONSIDER SELLING RATHER THAN TRANSFERRING YOUR COMPANY?



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# METHODOLOGY

The survey was distributed in two ways. First, structured in-depth interviews in Russia with a sample of successful entrepreneurs domiciled in Russia. These face-to-face interviews were carried out in early 2012.
Second, quantitative survey data was gathered in the first half of 2012. The translated interview transcripts were analysed by Campden and family business experts to identify business, wealth management and family issues. All currencies are in US dollar unless otherwise stated.

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1 minute 40 seconds on the future of wealth management
with Alexander Friedman, Chief Investment Officer UBS.
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