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Thomas R. Hummel, Maria S. Turovskaya (Ed.)

**Project Studies in Specific Business, Legal and Economic Topics:  
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## **Abstract**

Based on a first video conference: small and middle sized companies in Russia and Germany: A comparative view organized by University "Interregional Institute of Economics and Law", Saint Petersburg/Russia and the University of Applied Sciences – Faculty of Business, Fulda/Germany held on 20th May 2010.

Both institutes decided to organize a follow-up conference on January 27th 2011.

Again the focus was to compare both markets for international operating companies in reasons for going abroad.

The following papers are the outcome of this conference and were presented on the one hand by Fulda master students and on the other hand by Master Students from Saint Petersburg. The overall focus was again a comparative work from a company point of view. Hereby the main research question was to present different case studies based on a heterogeneous group of German-based companies in terms of size and branches. Success and failure in international management activities are discussed on an empirical and statistical basis. Furthermore the students from both institutes learnt also some practical matters like for example how can a foreign company establish its legal presence in Russia?

To summarize the experiences from both video conferences at this time we hope to continue this successful kind of cooperation to derive benefits from for at least our students but also for faculty members.

Thomas R. Hummel/Maria S. Turovskaya, Fulda/Saint Petersburg, May 2011

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# **1 Analysis of Success and failure of German companies expanding into Russia**

## **Group Members:**

Jörg Biedenbach  
Bernadett Birke  
Marc Gerlach  
Carina Ingerl  
Gresa Peci  
Nina Schäfer

## **1.1 Introduction**

The economic expansion stands for an economic upturn. The upturn is often a consequence of social changes, and economic innovations. Economic expansion is characterized by a low price increase, but a growing macroeconomic production and growing capacity utilisation. Additional effect is an increasing employment rate, whereby, the optimistic economic market sentiment also rises. Furthermore, in the course of the an economic upturn also the budget-arys' wages and the companies' profits increase which can lead to further investments.<sup>1</sup>

The globalisation trend is one of the most significant economic and social developments in the beginning of the 21<sup>st</sup> century.<sup>2</sup> This development can be measured by following quantitative data. International trade increased during the past few decades more than the world economic output (Gross Domestic Output) of all countries.<sup>3</sup>

However, globalisation accompanied by internationalisation is an economical phenomenon and therefore a challenge for a company's management.<sup>4</sup> Important for a company for being internationally successful is not the question of "if" and "why" to cross the borders, but more of "how" crossing the borders for the maximal success.<sup>5</sup>

Economical expansion can be divided into the following dimensions:

1. Opening up new/other markets / Opening new subsidiaries
2. Increasing employees / Increasing market shares
3. New products / New investments

In the following there is going to be discussed why more and more companies, especially German companies, are under pressure to look out for more profitable locations abroad occurred by the permanent development and globalisation of the offer driven and demand driven markets. There will be given different reasons for international expansions, especially, expansions to Russia. Furthermore, the obstacles expanding to Russia are going to be demonstrated.

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<sup>1</sup> Cf. Enzyklo, 2010

<sup>2</sup> Cf. Clement, R./Terlau, W., 2004, S. 35

<sup>3</sup> Cf. Jahrmann, F., 2007, S. 29

<sup>4</sup> Cf. Roehr, S., 2004, S. 27

<sup>5</sup> Cf. Schmid, S., 2006, S. 5

Finally, the paper focuses especially the advantages and disadvantages to expand to Russia by giving concrete successful (Claas) and unsuccessful (Siemens) examples.

## **1.2 Reasons for International Expansions**

### *1.2.1 Selection Criteria*

For about 88 percent of the German companies additional market growth is the main motive to expand internationally. Most important destinations are Eastern Europe, China, and India. Around 50 percent of the companies are planning to expand into the Eastern Europe market, and 42 percent want to invest into Asian market. 53 percent of the companies start with relocation of sales branches such as distribution, marketing, human resources, accounting, purchasing department, and IT into the target market. Beside the fact of gaining additional growth also the additional sales potentials are important. These data is the result of a collective survey of Roland Berger Strategy Consultants and European Business School, Oestrich-Winkel, where 120 German companies from different industry sectors were asked. 73 percent of the interviewed firms already expanded into Eastern Europe, especially, Russia and Hungary. Further crucial criteria for the choice of the target destination are besides market growth and sales potential, also political and economic stability as well as the achievement of a leading market position by being early present on the market. Summarizing, for most companies additional market growth is more important than cheap labour costs or specific know-how.<sup>6</sup>

### *1.2.2 Entering Strategies*

Companies entering emerging markets, such as Russia, often adapt their market entering strategies to the target market. Asian markets are dynamic growing. Therefore, companies prefer to enter these markets very early before their competitors. Whereas, in the less slowly growing markets as Russia, they enter into the market simultaneously with their competitors or even later.<sup>7</sup>

### *1.2.3 Reasons for Expanding into Russia*

Fact is that during the past recent years the Russian economic is growing between five percent and 15 percent each year in almost every branch of industry. As Russia is the sixth most heavily populated country in the world it offers also many financially strong customers. The Russian consumers are especially interested in consumer goods as well as in capital goods, as for example machines and facilities, electronics, cars, medical engineering, food and packaging processing machines. Finally, worthed to mention are also the compared to Germany lower production costs and lower taxes as e.g. the corporate income tax of 24 percent and the personal income tax of 13 percent.<sup>8</sup>

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<sup>6</sup> Cf. Berger, R., 2004

<sup>7</sup> Cf. Berger, R., 2004

<sup>8</sup> Cf. Huber, J., 2010

### 1.3 Obstacles

Expanding to Russia, German companies will face hidden obstacles they should be aware of because those obstacles can cost much money and consume a lot of time. First there are the economic framework and the legal framework, which strongly differs from the German one. One example is the Russian taxation system. In the past, some Russian companies found it to be so onerous that they began to not report all sales. This trend caused the Russian government to pass a law which should make it easier to track a business' sales by requiring it to register its POS system.<sup>9</sup> Another example is the raise of import tariffs in 2009, which protects the domestic production in Russia but at the same time is an obstacle for German companies that want to move parts of their production to Russia.<sup>10</sup> Furthermore it may be hard for German companies to predict the economic development and the future legal certainty in Russia and as long as Russia is no WTO-member, German companies will not be able to predict future tariff-changes in Russia either.<sup>11</sup>

The second obstacle is to choose the right location to run a business in Russia. Metropolises like Moscow or Sankt Petersburg may seem very interesting in the first place but German companies must consider the cost of setting up a business there. Because of its scarcity, labor is not only expensive but also hard to get. And once a company has found the labor it needs it has to put much effort in keeping it in the company because in the metropolises there is much employee turnover.<sup>12</sup> Additionally the costs of real estate are extremely high. Likely to the factor labor, the availability of real estate and parking spaces is poor while the prices are at a premium.<sup>13</sup>

The last and maybe the biggest obstacle is the strong cultural distinction. While German people tend to plan every little detail in order to solve problems very structured, Russians focus on the whole problem and take several steps simultaneously. To do business in Russia, German companies have to respond to the Russian culture. One mistake which often becomes a problem for German businesses in Russia is that Germans underestimate the value of the personal factor in a business relationship.<sup>14</sup> Anyway it would also be wrong to undermine one's authority and forget about the hierarchy. German managers must not lead their Russian employees without instructions and supervision.<sup>15</sup>

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<sup>9</sup> Cf. Gerson, K., 2004

<sup>10</sup> Cf. Hones, B., 2008

<sup>11</sup> Cf. Hones, B., 2010

<sup>12</sup> Cf. Pfeffer, G., 2008

<sup>13</sup> Cf. Gerson, K., 2004

<sup>14</sup> Cf. Audebert, F., 2009

<sup>15</sup> Cf. Pfeffer, G., 2008

## 1.4 Siemens - Unsuccessful expansion to Russia

To allegorize an unsuccessful example of an expansion to Russia Siemens is chosen.

### 1.4.1 Company Profile

The Siemens AG is an engineering company with its roots in Germany. With its three main business sectors: Industry, Energy and Healthcare is the Siemens AG the largest engineering company in Europe and very well known all over the world. Siemens operates in nearly 190 countries and employs worldwide approximately 420,800 people. In 2009 Siemens had total revenues of 76,651 billion Euros.

Siemens & Halske, how it was called in 1847, was founded by Werner von Siemens on October 12<sup>th</sup>. He became very famous for inventing a machine that used a needle instead of the Morse code to send messages. His company also built the first long-distance telegraph line in Europe, which was 500 kilometres long and stretched out from Berlin to Frankfurt am Main.

During World War II was Siemens a great supporter of the Hitler regime and many of their factories were located close to concentration camps to supply electricity.

In 1966 the Siemens AG was founded throughout the merger of the three companies: Siemens & Halske, Siemens-Schuckertwerke and Siemens-Reiniger-Werke. From that point on the success of the Siemens AG just went on growing. In 1997, Siemens was the first company to introduce GSM (Global System for Mobile Communications) cellular phones with colour display. In 2005 sold Siemens their mobile manufacturing business to BenQ, forming the BenQ-Siemens division.

In July 2008 the Siemens AG and the Gores Group announced a joint venture in which the Gores Group held a majority of interest with 51 percent stake and Siemens holding 49 percent.

Today Peter Loescher is the Chief Executive Officer of Siemens in Germany since July 2007 and OSRAM, Bosch-Siemens House Appliances as well as Nokia Siemens Networks are the most successful current affiliates in 2010.<sup>16</sup>

### 1.4.2 Expansion to Russia

Siemens tried to get in the Russian market over its business relation to the Russian Turbine manufacturer Power Machines. In the year 2007 Siemens was already holding 25 percent of the Russian company and the strategy to expand more to this market were given by trying to be the majority shareholder of Power Machines<sup>17</sup>. In general, Power Machines is Russia's biggest manufacturer of energy systems. The company was founded in the year 2000 and is the leading supplier of equipment for water-, heating-, gas- and nuclear power stations. Furthermore Power Machines produces conveying machinery for example for railways. Parts of the company are above others the "Leningrade Metallwerk", the companies "Elektrosila" and

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<sup>16</sup> Cf. <http://www.siemens.de/ueberuns/geschichte/Seiten/home.aspx>

<sup>17</sup> Cf. [http://www.welt.de/wirtschaft/article1210442/Warum\\_Siemens\\_in\\_Russland\\_gescheitert\\_ist.html](http://www.welt.de/wirtschaft/article1210442/Warum_Siemens_in_Russland_gescheitert_ist.html)

“Energomaschexport” and a manufacturer of turbine vanes and the research and production corporation “Polsunow”.<sup>18</sup> The company definitely needs the know-how of west companies, like Siemens, to reduce technological shortfalls. The cartel office in Russia pointed out that Power Machines still is a strategically important concern and that the Russian government does not want a foreign company to hold the majority of shares on a Russian company. Even though President Wladimir Putin gave his okay to this transaction the cartel office and the FSB, a Russian Intelligence, anticipated the implementation.

To come to a conclusion the unsuccessful expansion to Russia was not Siemens fault. The Russian government just not wants a foreign company to buy out a Russian strategic important company. After Siemens decline the Russian Alexej Mordaschow took 30 percent of Power Machines. Both interested parties arrange with a division of work. Mordaschow acts as the chief executive officer a Siemens as the chief operation officer.<sup>19</sup>

#### *1.4.3 Power Machines Today*

In the year 2009 the net income of Power Machines accounted 3.89 billion Rubin which is comparable to nine billion Euros. The increase in the net income is based on facts like diversification of charges, higher efficiency of production capacity and faster delivery of finished goods.<sup>20</sup>

## **1.5 Claas – Successful expansion to Russia**

### *1.5.1 Company Profile*

The Company was founded by August Claas in Clarholz/Westphalia in 1913. Together with his brothers Franz and Bernhard he established the firm “Gebrüder Claas” (German for “brothers Claas”). During the first years they developed and produced the “hay baler” and “fertilizer spreaders”. The breakthrough arrived Claas in 1921 with the field Binder "Nodes" to which they also had patent rights.

In 1936 Claas brought the first Combine on the European market. The development began in 1930 after the American models but it was optimized for the needs of Europe and their fields. In the Fifties the first self-propelled combine was introduced.

Today this traditional company is the market and technology leader in the harvesting branch, and in 2008 they had an export share of 77.6 percent. Claas is mainly active in the market for harvesting equipment, in addition to forage (world leader), especially with combine harvesters (market leader in Europe), mowers, large-rakes and balers. Since a few years they invest increasingly in further areas, for instance in tractors due to the acquisition of Renault Agricul-

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<sup>18</sup> Cf. <http://de.rian.ru/business/20091116/123991175.html>

<sup>19</sup> Cf. <http://www.webnews.de/80897/siemens-rueckzieher-russischer-power-machines>

<sup>20</sup> Cf. <http://de.rian.ru/business/20091116/123991175.html>

ture in 2003. In addition to the gain core business segments of the agricultural machinery, the manufacturing technology (CFT) and Industrial Technology (CIT) is increasingly important.<sup>21</sup>

According to the Corporate Annual Report from 2009, the company had a turnover of 2,900.8 million Euro (-10.7 percent). Around 78 percent of sales are generated outside of Germany. The profit before tax was 230.1 million Euro (+41.1 percent). In the same year the company employed 9,467 people.<sup>22</sup>

### *1.5.2 Expansion into Russia*

Since 1992 Claas is operating in the Russian Federation as a supplier of modern harvesters, forage harvesters and tractors. The first two offices were opened in Moscow and Kiev. However, farmers usually cannot pay an expensive combine (up to 300,000 Euro) from its own resources, the agricultural journalist Tatiana Kovaleva from the magazine "Krestianski Vedomosti" stated. According to export director Dieter Düringer Claas reacted, he mentioned, "unlike the West, we have to bring the companies together with the banks and control the funding." To conclude leasing contracts, the Russian law had to be changed. A few years ago there was no distinction between holders and owners - so bank does not hold rights on the machine.<sup>23</sup>

In 2005 Claas opened the first foreign manufacture for the production of agricultural machinery in Krasnodar. Therefore the subsidiary "OOO Claas Krasnodar", which is equal to the well-known GmbH in Germany. 2,000 combine harvesters and tractors for the Russian agriculture were produced there till today. Further locations in the future are possible. In the Russian Federation Claas has a modern sales network of service, a training centre and spare parts supply, and a solid and well-structured network of dealers. Claas employs about 150 people in the downstream supply chain and additional 2,000 employees worldwide.<sup>24</sup>

In 2006, another trading company "OOO Claas Vostok" was founded in Moscow. Its assignment is to manage the sales to Russia, Ukraine and Uzbekistan as well as to generate new suppliers. A production line for tractors named Technoparc was opened in 2008, so tractors could be manufactured in Krasnadoar now. Claas formed a joint venture with the Uzbek tractor manufacturer "Toshkent tractor Zavodi" whereas Claas holds a minority share.<sup>25</sup>

### *1.5.3 Strategy*

Claas wanted to be the first company which invested in the Russian market. Therefore, there were more possibilities to be successful.

Additionally, Russia is considered to be the market of the future with its so called "grain chamber", that means its crop wealth. So there are high opportunities to sell products which

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<sup>21</sup> Cf. Homepage of Claas (2010)

<sup>22</sup> Cf. Annual report of Claas (2009)

<sup>23</sup> Cf. Manager magazine (2010)

<sup>24</sup> Cf. Agrar heute (2010)

<sup>25</sup> Cf. Handelsblatt (2010)

are needed to harvest. Claas meets a ready market for its combine and forage harvesters and has good chances because of their very efficiently working tools. The Claas combines harvest 99 percent of the whole crop a field offers, that means 60 to 70 tons per hour. On the other hand, combines of other companies harvest only 75 percent.

A further strategical point is that Claas offers service achievements like spare parts storage regionally. So customers don't have to wait long for additional delivery.

#### *1.5.4 Manufacturing*

The manufacturing of the Claas products takes places in Germany and the prefabricated components are delivered to the establishment in Krasnodar where they are finished. Claas plans to manufacture the whole combines there in the next years.

To show its cultural openness and get a good image, Claas trains and employs Russian workers with technical background. The management structure in Russia can be compared to our one in Germany, so there are less problems than in other countries.

#### *1.5.5 Market Potential*

The market potential for combines in Russia are approximately 12,000 pieces per year. The Russian competitors of Claas – named Argomashholding and Rostelmach produce 8,000 pieces together. Claas manufactures about 4,000 pieces. So it grabs a market share of 38 percent in its area of combines. Forage harvesters are even at 78 percent.

#### *1.5.6 Outlook*

For the future Claas plans to invest and expand strongly and to get a higher market share of combines in Russia. So the firm is going to produce and sell 2,000 pieces of combines per year. Therefore, it will build its own production plant and combine bodies in Krasnodar.

Furthermore, Claas targets a joint venture with a tractor manufacturer in Uzbekistan. It is also looking for reliable suppliers in Russia and want to expand its operations in Kazakhstan.

## **1.6 Conclusion**

Many German companies which try to run a business in Russia fail to do so and then have to relocate their plants. These companies often underestimate the start-up costs and periods, and therefore are not able to handle the low volume of sales in the period until the required business confidence is set up. They often simply lack in contacts to their suppliers and service providers. So to be successful in Russia, German companies need a lot of patience and stamina plus a certain amount of personal commitment. And just like in every other culture they also need some cross-cultural competence and additionally it would be a huge bonus for them especially in Russia, to be on friendly terms with their Russian business partners. If they consider all of these factors, their expansion to Russia can be a great deal for them.

## **2 German Investment in Russia**

### **Group Members:**

Aida Aydin  
Aline Chienku  
Andrew Bankui  
Annegret Gebauer  
Ensan Hanafy  
Jianing Qu  
Lin Sun  
Marie Nienie  
Michelle Schütz  
Patric Kengne  
Saida Abdullaeva  
Yuxing Teng

### **2.1 Executive Summary**

Germany is one of the biggest economic countries in the world; it has so many conditions to attract many investors, and to lead any investment to a high profitability. But which reasons can push German companies to look for a new investment environment? And what actually they are looking for? Are they looking for increasing costs, high profitability, new markets, or for high competitive advantages?

This report will discuss which conditions enjoy Germany, and why German companies are investing in Russia.

First of all, we will have a look on Russian investment climate followed by a statistical analysis for the foreign direct investment in Russia.

After analyzing the both countries, which will also include a comparison between them, we will refer to what German companies consider before investing in Russia.

Before to finish our report, we will give a praxis example for a huge German company investing in Russia

Finally, our conclusion will explain the gains and benefits for both countries.

### **2.2 Introduction**

In last recent years the world's economic map is strongly changed with the appearance of a strong economic group called by economists BRIC countries "B refers to Brazil, R to Russia, I to India, and C to China".

Russia for example had an economic growth in the last previous years despite the world finance crisis, furthermore the Russian market are expected to have a highly growth in the next years, therefore Russia become one of the most important emerging markets of the present



time. One of the main reason of this growth is the extremely increase of the foreign direct investment in Russia, especially from EU.

Germany is an old trade partner of Russia and the Russian-German trade relationship becomes today more and more important for both countries that leads Germany to be one of the biggest trade partners of Russia.

This paper explores what attracts German investors to the Russian environment, and what Russian market offers to the foreign investors? On the other side, what German companies are doing while investing in Russia, and how they are investing in Russia?

### **2.3 Investment Climate in Russia**

Today, Economic development of any country is impossible without the active participation in global economic relations. Besides with international trade are becoming progressively important international flows of investment capital, through cooperation between the countries.

The investment climate can be defined as a set of factors specific to the country and to identify opportunities and incentives for firms to intensify and the activities through the implementation of productive investments, job creation, and active participation in global competition<sup>26</sup>.

In general, all factors of the investment climate can be divided into two large groups - it's Potential and Risk level. The Potential level can be attributed of (to) such factors as: natural resources, infrastructure development, state guarantees, etc. The Risk levels include: inflation, currency convertibility etc.<sup>27</sup>

The Russian market is one of the most attractive to foreign investors, but it is also one of the most unpredictable in the world. At the same time, foreign investors are oriented primarily on the investment climate in Russia, which is determined by independent experts and serves to indicate the efficiency of investments in one country or another.<sup>28</sup>

Most attractive to foreign investors are the following regions of Russia: Moscow, Sakhalin and Tyumen regions, Tatarstan, Moscow region, St. Petersburg, Krasnodar Region, Komi Republic, Nizhny Novgorod and Irkutsk regions.

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<sup>26</sup> Cf. Global economy, Efimov, p.94

<sup>27</sup> Cf. Global economy Efimov, p.94-96

<sup>28</sup> Cf. Terterov. M, Doing Buisness with Russia, p.38-47

The criterion for the attractiveness of its economy to foreign investors is the level of business risk and profitability investment projects. In this case, the foreign investor takes into account the following factors:

- Macroeconomics
- State government debt
- Governance and economic policy
- Intellectual property
- Legislation and judicial protection
- Compliance with contractual obligations
- Crime and corruption
- Taxes
- Banking system
- Monetary and trade policies
- Local authorities

Macroeconomic situation in the Russian economy contributes to improve the investment climate. Formed positive dynamics of GDP, manufacturing, improved financial situation of enterprises, improving external economic environment for a number of industries<sup>29</sup>.

Here we can make a conclusion about high investment attractiveness.

Russian Federation, however, is still the investment climate is still unfavorable, which is due to the following factors:

- Significant external and domestic debt, which limits magnitude of the investment process, which ultimately discourages foreign investor.
- A low credit rating and high investment risks constrain credit to borrow on world capital markets and attracting foreign investment<sup>30</sup>.
- Lowest form of profitability of most businesses in the real economy
- Slow pace of restructuring the banking system
- Insufficient amount of own capital

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<sup>29</sup> Cf. [http://invest.gov.ru/en/government\\_support/sectors/infrastructure/](http://invest.gov.ru/en/government_support/sectors/infrastructure/), visited 20.01.11

<sup>30</sup> Cf. [http://invest.gov.ru/en/government\\_support/sectors/infrastructure/](http://invest.gov.ru/en/government_support/sectors/infrastructure/), visited 20.01.11

## 2.4 Statistical Analysis

Many countries have developed interest in investing in Russia. This interest is due to numerous reasons, amongst which the fact is that Russia is one of the newly industrialized and fast developing economies. It is one of the BRIC (Brazil, Russia, India and China) countries. Being one of the BRIC countries, most Western countries are investing so much in Russia. These investments are in form of Foreign Direct Investments (FDI). It is necessary to analyze and depict a picture of the FDI situation in Russia in general and the situation of German FDI in Russia in particular.

As of March 2010, total accumulated foreign investment in the Russian economy amounted to 265.8 billion dollars, of which:

- Other investments made on a returnable basis accounted for 53.8% of the total FDI
- Direct investments - 38,7%
- Portfolio investments - 7,5%

As of December 31, 2009, the volume of accumulated foreign investment in Russia is located at 19th place in the world. The following information obtained from the Federal State Statistics Service shows 10 countries that have the highest FDI in Russia as of March 2010.

- Cyprus - 52.2 billion dollars
- Netherlands - 43.3 billion dollars
- Luxembourg - 36.4 billion dollars
- United Kingdom - 20.5 billion dollars
- Germany - 20.3 billion dollars
- British Virgin Islands - 15.4 billion dollars
- China - 10.2 billion dollars
- Ireland - 9.1 billion dollars
- Japan - 8.5 billion dollars
- France - 8.0 billion

Foreign investment in Russia per year in billion USD (according to the Federal State Statistics Service)<sup>31</sup>

Year	Foreign Direct Investment per year
1995	3,0
1996	7,0
1997	12,3
1998	11,8
1999	9,6
2000	11,0
2001	14,3
2002	19,8
2003	29,7
2004	40,5
2005	53,7
2006	55,1
2007	120,9
2008	103,8
2009	81,9

Table 1: Foreign Investment in Russia per year

The above information can be represented in the graph below to show the FDI development in Russia per year.

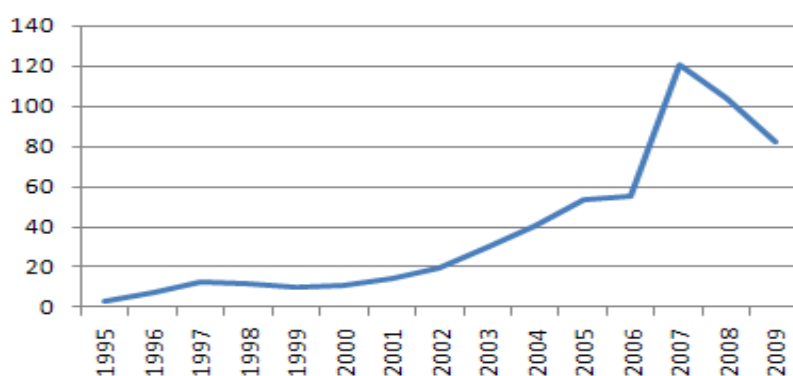


Figure 1: Foreign Investment in Russia per year

Foreign investments into Russian economy in 2009 amounted to 81.9 billion dollars, 21% less than a year earlier, according to the information from the Federal State Statistics Service (Rosstat).

<sup>31</sup> Federal State Statistics Service

When we take a close look, we notice that:

- Foreign Direct Investment per year decreased by 21.1% from 103.8 billion USD in 2008 to 81.9 billion USD in 2008.

We will go further to look at the statistical analysis of FDI in the Russian Federation according to the types of Investment. The three types of investment include:

- Direct investments
- Indirect investments and
- Portfolio Investments

Their various figures can be seen in the figure below.

Foreign Investments in the Economy of Russia by Types <sup>32</sup>

	2009		2010
	I half	Year	I half
	<b>Million US dollars</b>		
<b>Investments, total</b>	32163	81927	30384
<b>of which:</b>			
<b>direct investments</b>	6090	15906	5423
<b>of which:</b>			
<b>Contributions to capital</b>	3033	7997	2754
<b>Leasing</b>	50	103	57
<b>Credits received from foreign co-owners of enterprises</b>	2453	6440	2012
<b>Other direct investments</b>	554	1366	600
<b>Portfolio investments</b>	862	882	700

Table 2: Foreign Investments in the Economy of Russia by Types

Taking a close at the table above, we can notice that FDI reduced in the first half of 2010 with FDI of 30384 million USD as compared to the first half of 2009, where FDI investments amounted to 32163 million USD. Direct investments also reduced in the first half of 2010 with an amount of 5423 million USD as compared to 6090 million USD in the first half of

<sup>32</sup> Source: [http://www.gks.ru/bgd/regl/b10\\_06/IssWWW.exe/Stg/3/14-06.htm](http://www.gks.ru/bgd/regl/b10_06/IssWWW.exe/Stg/3/14-06.htm), visited 06.11.2010

2009. Furthermore, contributions to capital also reduced from 3033 million USD in the first half of 2009 to 2754 million USD in the first half of 2010. Portfolio investments also reduced as well, from 862 million USD in the first half of 2009 to 700 million USD in the first half of 2010.

A number of reasons contributed to the fast growth of Russian FDI. Foreign investors are attracted to Russia by its large natural resources, higher degree of economic liberalization, and favourable FDI legislation (Popov, 2006).<sup>33</sup> Further factors that outlined the attractiveness of investment in Russia included: liberalization and deregulation of business activities; a stable and predictable legal environment; improved corporate and public governance; removal of international capital and foreign trade restrictions; stimulation of the finance sector; reduction of corruption; minimization of political risks; country promotion and improved image; and investment incentives.<sup>34</sup>

On another aspect, it will be good to look at how Germany invested in other emerging economies or BRIC countries in 2007. The information from 2007 concerning Germany’s investments is the one available to this researcher at this particular moment. From the figure below, we can clearly see that Germany was the highest investor in Russia in the year 2007, with total investments amounting to about 6.3 billion EUR.<sup>35</sup> This shows how much interest Germany has in investing in BRIC countries, with important focus on Russia.

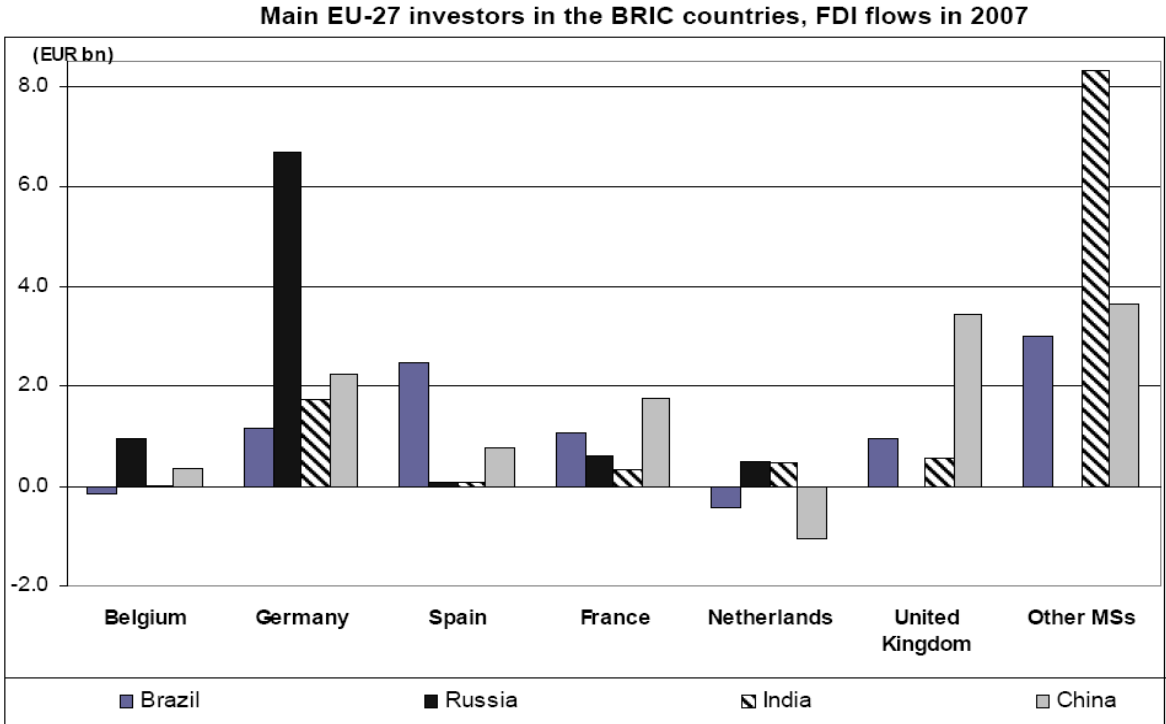


Figure 2: Main EU-27 investors in the BRIC countries

<sup>33</sup> Cf. <http://www.univ-lehavre.fr/recherche/cerene/InternationalConference/pdf/papers/Curtis-Griffin-Kornecki.pdf>, visited 07.11.2010

<sup>34</sup> Cf. Kenisarin & Andrews-Speed, 2008

<sup>35</sup> Cf. EUROSTAT Economy and finance Statistics in Focus, Konstantia PETRIDOU, 64/2008

Furthermore, Germany has provided large volumes of direct funding for Russia's wholesale and retail market, transport infrastructure, food and chemical industries, as well as electronics, construction and car production.

Around 4,500 German companies are currently operating in Russia, most of them representing small and medium-sized businesses. Around 50% of Russian-German joint ventures are engaged in trade and consulting, and another 15% provide banking services.<sup>36</sup> This shows the diversity of German investments in Russia.

## **2.5 Differences between investment in Germany and in Russia**

### *2.5.1 Reasons to invest in Germany and in Russia*

#### **Reasons to invest in Russia**

In this part of the paper we would like to notice the important reasons of investing in Russia by German multinational, small and medium sized enterprises and firms.

The main reasons are:

- **Huge natural resources**

Russia is well placed amongst the richest countries in terms of metals, minerals, timber, oil and gas and has tremendous potential for agricultural development

- **Vast market**

Strong internal demand for all kinds of goods and services and insufficient supply from local sources create a gap that is largely covered by imports.

- **Enormous investment potential in such priority areas as**

Oil, gas and petrochemicals, scientific and technical sectors, defence and conversion industries, machinery, transport and transportation, import substitution, consumer goods manufacturing, pharmaceuticals, telecommunications, general infrastructure, agriculture, food processing and distribution sectors are in need of new technology and know-how. Medical services and health are also priority areas.

- **Highly educated population.**

There is a highly educated population, which is ready for retraining. The work force is well qualified and keen to work personnel are well qualified.

- **Relatively low labour costs.**

Labour is relatively inexpensive and supply exceeds demand. The average wage is still a fraction of that in the OECD countries.

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<sup>36</sup> Source: <http://en.rian.ru/business/20080611/110109481.html>

- **Ideal natural bridge between West and East.**

Russia has the major transportation links connecting Scandinavia, Western and Eastern Europe with Central Asia and the Far East being strategically located between most developed countries and emerging markets

## **Reasons to invest in Germany**

Germany is a huge economic country, which has many reasons to attract the investors.

In this part we will discuss the important reasons to invest in Germany, such as following:

- **A great Business relationships**

Germany has a great business partners around the world, with a good relation in art of doing business such as trust in products quality, easy to get credits, and full trust in (Made in Germany) products<sup>37</sup>.

- **Huge Infrastructure**

High development in infrastructure and good geographic location is a great logistics advantages to reduce the time and money.

- **Economic growth**

Highly qualified and motivated people, world-class data infrastructure, political stability, and reliable legal system are the powerful and the reasons of the German economy growth.

- **Fertile ground for investment.**

A stable market, stable investment environment, highly know-how, and high technology are reasons to attract the investors to Germany

- **Excellent Workers**

Germany offers a highly educated, qualified and effective labour should be for any investors very helpful<sup>38</sup>.

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<sup>37</sup> Cf. <http://www.german-business-partners.com/?gclid=CMu-1YrCiqUCFZQK3wodl2ZMMg>

<sup>38</sup> Cf. <http://www.gtai.com> Germany Trade and Invest



The Comparison	Germany	Russia
Population	82 Million	142 Million
Area	357.021 km <sup>2</sup>	17.075.400 km <sup>2</sup>
GDP	\$ 3.352 trillion	\$ 2.109 trillion
GDP per capita	\$ 40.874	\$ 14.919
Total External Debt	\$ 5,208 billion	\$ 456 billion
Education	81% Highly educated	Literacy 99.4%
Labour costs	Very high 30.90 per hour In 2009 <sup>39</sup>	Relatively low 10102 roubles = 280 Euro In 2006
Qualification	High	High
Logistics	41.300 km Railways 7.500 km Waterways 19 International Airports 34 Seaports 250 Inland ports <sup>40</sup>	Undeveloped, has to be improved 150,000 km Railways 630 improved airport 50 international Airports
<u>Tax system</u> Income Taxes Corporate profit tax Capital Gain V:A:T	Stable and acceptable <sup>41</sup> Between (14% and 45%) <sup>42</sup> 30% 15% 19%	Complicated Resident 13% - Foreign 30% <sup>43</sup> 20% Resident 13% - Foreign 30% 18%
Productivity	Very High	High
Profit	Average profit (lower risk)	High (but risky)
Tariff Loan	Tariff regulation	No tariff regulations
Location	Centre of EU	Excellent location between Europe and Asia
Investment Management	Already high	Increasing

Table 3: Comparison of German and Russian Economy

<sup>39</sup> <http://www.spiegel.de/international/business/0,1518,686736,00.html> Visited, 20.01.11

<sup>40</sup> Investment Guide to Germany 2009 page 3

<sup>41</sup> Law investment in Germany 2004 page 53

<sup>42</sup> [http://www.worldwide-tax.com/germany/ger\\_other.asp](http://www.worldwide-tax.com/germany/ger_other.asp)

<sup>43</sup> [http://www.worldwide-tax.com/russia/russia\\_tax.asp](http://www.worldwide-tax.com/russia/russia_tax.asp)

## **How do German Companies invest in Russia and what do they consider by investing in Russia?**

Every successful growing company or firm is seeking for the new markets and more profit across its national boundaries. There is a wide variety of ways starting foreign activity, ranging from exporting to establishing wholly-owned subsidiaries or strategic alliances (licenses, franchises, and joint-venture) which differ in terms of the commitment of the investor's own resources and the risk it is willing to accept and the need to control foreign operations<sup>44</sup>

After a strategic decision on investing in Russia has been made, German firms begin gathering on formation relevant to investment appraisal.

According to the survey by Horvath and Partners Management Consulting (2006) more than 80% of German companies appraise investments with the help of the Discounted Cash Flows.

Important indicators by investment in Russia are:

- DCF (Discounted Cash Flow)
- Expected inflation rate
- GDP growth
- Country's level of corruption
- Quality of governance & economic policy
- Economic structure risks

7% of German firms start up their business in the form of joint ventures, 79%

Established a wholly owned or partially owned subsidiary the expansion of the German firms to Russia is often financed by their parent company or by German home banks or their Russian subsidiaries<sup>45</sup>.

The main barriers that German firms face in Russia are:

- Weak and changing legislation
- Frequent tax inspections
- Complex tax system
- Excessive tax rates
- High rate of corruption
- Undeveloped transport infrastructure

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<sup>44</sup> Cf. Douglas, S.P., Craig C.S (1983), „International marketing research“, Prentice-Hall, Englewood Cliffs NJ

<sup>45</sup> Cf. Kotov, D. (2008), „How Decisions on Investing in Russia are made by German firms“

Minor barriers are:

- Language
- Domestic competition
- Limited access to the strategic important industries

Despite of these barriers most of the German firms in Russia are successful and their business is very profitable.

The Russian government is improving its Investment Policy and is trying to make Russia more attractive for foreign investors.

## **2.6 Case study---Siemens**

### *2.6.1 Siemens in Russia*

#### **History**

The Siemens AG is the one of the worlds largest electrical and electronics companies. For nearly 160 years, Siemens is a pioneer in many industries, inventing new technologies and devices.

The founder of the famous company is a German named Werner von Siemens, were born Dec. 13, 1816 in a poor rural family. His father, Christian Ferdinand Siemens was the tenant of land, and the mother's name was Eleanor Deyhman.

Since 155 years ago Siemens has begun to do their Business in Russia. Until now offices, regional offices, bureaus and support centres of Siemens in Russia are in cities such as Moscow, St. Petersburg, Samara, Yekaterinburg, Novosibirsk, Tomsk, Ufa, Perm, Togliatti, Russia, Arkhangelsk, Omsk, Krasnodar and many others.

Saint Petersburg has played an important role in Siemens' History in Russia. In 1853, the company established the Siemens office in Saint Petersburg. This office became the basis for the first subsidiary of Siemens & Halske in Russia.<sup>46</sup> It was responsible for construction of Russia's first state telegraph network (Moscow – Sevastopol, Saint Petersburg – Kronstadt, Saint Petersburg - Warsaw).<sup>47</sup> From 1877, the subsidiary began to expand their investment in Saint Petersburg. Since then it has built several plants there, such as, the cable plant (1877), the electro-technical plant (1882), Association of Russian electrical plants (1898) and Dyna-

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<sup>46</sup> Cf. [http://www.siemens.com/about/en/worldwide/russia\\_1154669.htm](http://www.siemens.com/about/en/worldwide/russia_1154669.htm)

<sup>47</sup> Cf. [http://www14.informatik.tu-muenchen.de/konferenzen/Jass06/management\\_seminar/Siemens%20Russia.pdf](http://www14.informatik.tu-muenchen.de/konferenzen/Jass06/management_seminar/Siemens%20Russia.pdf)

mo plant (1912). In 1991, Siemens founded its first joint venture with local turbine manufacturer LMZ in Saint Petersburg.

### **Current situation**

Siemens has more than 3100 employees in Russia and 405,000 employees in the world in the end of 2009. From October 1, 2008 to September 30, 2009 domestic sales summed to about EUR 1.3 billion and new orders amounts to more than EUR 1 billion.<sup>48</sup> The company's business focuses on six major areas: Information and Communications, Automation & Control, Power, Transport, Medical and Lighting.<sup>49</sup> Until 2009 it has already six daughter companies and eleven joint ventures in Russia.<sup>50</sup>

The most successful and famous business in recent years of the subsidiary in Saint Petersburg was that the company got the order from Russian government for eight Velaro trains in 2006. The fast track was putted into use in December 18, 2009 from Moscow to Saint Petersburg and the free takes only 4 1/2 hours.

### **SWOT-Analysis**

From Siemens current investment in St. Petersburg, we would like to give you a SWOT analysis about it.

#### **Strengths**

- Low logistics costs because of approach to the EU border
- Professional employees
- High rate of industrial growth and innovation
- Huge local market potential
- Low cost levels
- Free production capacities

#### **Weaknesses**

- Growing salary
- Lack of quality management practices
- Difficult with the organization of technical control

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<sup>48</sup> Cf. [http://www.siemens.com/about/en/worldwide/russia\\_1154669.htm](http://www.siemens.com/about/en/worldwide/russia_1154669.htm)

<sup>49</sup> Cf. [http://www14.informatik.tu-muenchen.de/konferenzen/Jass06/management\\_seminar/Siemens%20Russia.pdf](http://www14.informatik.tu-muenchen.de/konferenzen/Jass06/management_seminar/Siemens%20Russia.pdf)

<sup>50</sup> Cf. <http://www.authorstream.com/Presentation/JJMiller-19354-Siemens-Russia-150-years-tradition-prog>

## **Opportunities**

- Russian is good at digital and communication technologies; production of equipment for communications; biotechnologies and microelectronics, Siemens should full use of this resources.
- Russian companies have leading positions in number of cases. Ex.: There are certain opportunities in nanotechnologies development and laser engineering. Maybe Siemens' product in Russia or in St. Petersburg can be developed in this direction.

## **Threats**

- Infrastructure saturation
- Heavy social acquirements and ethics challenges
- Scientific and research potentials are underused

In the above SWOT Analysis there are put the strengths, weaknesses, opportunities and threats together. Following possible strategies can be developed for further steps.

### **SO Strategies**

As the rapidly increasing demand and huge local market potential, Siemens would focus on maintaining their quality and efficiency along with plans for extensive market development.

### **ST Strategies**

In order to maintain their place in the market and stay ahead of the competition, Siemens needs to expand and continues to diversify their products. At the same time, as the Infrastructure saturation Siemens needs to take full advantage of scientific and research potentials.

### **WO Strategies**

Siemens has manufacturing factories in 190 different countries; this makes them very strong in terms of domestic sales for each country. In this condition, Siemens needs continue to develop its own products, because of certain opportunities in nanotechnologies development and laser engineering in Russia; maybe Siemens' product in St. Petersburg can be developed in this direction. This is a very critical strategy for them staying ahead in today's global competition.

## WT Strategies

When an industry became mature and not offered enough room for further growth, it is important for a company to change their strategy to keep growing continuously; Siemens in St. Petersburg is the same. At the same time, because of heavy social acquirements and ethics challenges, Siemens should take some measures to attract local highly-skilled employees in order to face of the highly-competitive industry.

### 2.7 Conclusion

Germany and Russia have a great advantages and opportunities to attract the investors; every country enjoys special positives, which is so urgent for any Investment.

Germany has a huge logistics, excellent workforce, and a great brand in the market; in the other side Russia has the natural resources, lower labour, and high technology.

German companies ignored some of Russia's disadvantages, like (country risk, unstable economy, and corruption), about the Taxes problem, Germany has signed in 1996 a Russian-German Treaty on Elimination of Double Taxation on Income and property, that helps to solve some of Russian's complex Taxes Law, and attract more German investors.<sup>51</sup>

Finally from above seems for us that booth countries complete each other, and that can lead for a huge profit for both sides as bellow:

<b>Germany</b>	<b>Russia</b>
<ul style="list-style-type: none"><li>• More profitability</li></ul>	Increasing the Economy
<ul style="list-style-type: none"><li>• High Competitive Advantages</li></ul>	More Employment
<ul style="list-style-type: none"><li>• Growth Market share</li></ul>	Making a relationship with the EU.
<ul style="list-style-type: none"><li>• Benefit of using the natural resources and Expectation</li></ul>	Filled the Consumer's Demand

So, for us it looks like German companies found the best place and environment to invest, and Russia found the greatest investors.

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<sup>51</sup> Cf. Adrienne Shannon 2008, „German Investment in Russia“

### **3 Management Approach of Bosch Siemens Household Appliances (B/S/H) in St. Petersburg, Russia**

#### **Group Members:**

Alexander Wolf  
Julian Schönfelder  
Timo Bebion  
Christian Heidorn  
Alexandra Goryainova  
Florian Gürbig  
Polina Kuzminykh  
Christian Lott  
Katharina Luft  
Toni Macary  
Sergio Mattos  
Anke Olteanu

#### **3.1 Introduction**

In the following report the authors discuss and explicate the reasons why a German company, in this case B/S/H (Bosch Siemens Household Appliances), chose the Russian market and in specific the region of St. Petersburg as a location for its production plant. It will emphasize what management approaches have been used and considered in assessing the target market and in how far these have influenced the decision of establishing a subsidiary in that region. Firstly, a short overview over the Russian market in general with potential challenges will be given, afterwards the chances for German companies in this market will be pointed out.

Moreover, the authors will give a specific analysis and description about the company Bosch Siemens Household Appliances (B/S/H) and the chosen region of St. Petersburg.

#### **3.2 Overview of the Russian Market**

In spite of the recent global financial crisis that affected the world economy, the Russian economy has been considered as one of the most attractive top investment targets and fastest growing market in the world.

Its numbers speak for themselves: the Russian market counts more than 140 million consumers and has the highest disposable income (\$4,830) and GDP (\$15,200) per capita in 2009 among the BRIC (Brazil, Russia, India and China) countries. Since 1998, the year of the Russian financial crisis, the country had a 7% average growth in the economy which indirectly resulted in doubling the income results of the middle class population. However, due to the global financial crisis faced last year, its GDP growth rate decreased to -7,9%.<sup>52</sup> According to

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<sup>52</sup> Cf. <https://www.cia.gov/library/publications/the-world-factbook/geos/rs.html>

the World Bank, until November 2010, Russia presented an inflation rate of 8, 1% with a GNI per capita of US\$ 9,340.<sup>53</sup>

On one hand Russia has never been one of the major goods manufacturer exports, on the other hand its concentration in natural resources lead the Russian economy to the top in this sector. Natural resources such as oil and gas are found in abundance throughout the country. These factors conduct Russia for being the second larger producer of Petroleum, staying behind only of Saudi Arabia, and also lead Russia to have the greatest reserve of natural gas in the whole world.<sup>54</sup>

Regarding its main business centers, Moscow and St. Petersburg are considered the cities where the biggest market opportunities can be found. Moscow has increased significantly as an important magnet for foreign investments while Saint Petersburg, which is actually the second largest city in the country, is also very attractive for foreign business people due to its close location to the Western European market. Among the market opportunities, the most in evidence at the time are in the sector of automotive parts, aviation, chemical production, electronics and electric power generation.

### *3.2.1 Russian Market Challenges*

Taking into account the Russian competitive advantages and disadvantages, the following items can be regarded as advantages:<sup>55</sup>

- High revenue per capita;
- Population well educated;
- High economic growth;
- Open market; and
- Natural resources.

But at the same time, Russia's foreign trade and its entire economy are also affected by weaknesses:

- High politic interference;
- Juridical insecurity;
- Poor financial system;
- High dependency on oil;
- Corruption;
- English not widely spoken.

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<sup>53</sup> Cf. <http://siteresources.worldbank.org/DATASTATISTICS/Resources/GNIPC.pdf>

<sup>54</sup> Cf. Energy: Natural Gas, The capitol.net, 2010, Alexandria, VA. Page 426

<sup>55</sup> Cf. The global emerging market in transition, V. L. Kvint, Fordham University, 2004, USA



### 3.2.2 *German companies entering the Russian market*

As discussed in the previous topic, the Russian market has been shown an attractive market to countries and international companies. Regarding Germany, besides the general reasons explicated above, there are a few of them that apply specifically to Germany and must be considered as motivation factors for German companies or even the government to decide to invest in the Russian Market.

One of the reasons is that the German products and “know-how” are indeed generally appreciated by Russians for the German products are considered to be synonymous of good quality. Therefore, these features are understood by the Russian consumers as goods or services with credibility.<sup>56</sup> In addition to that, despite of the negative historical political conflicts between them, the two nations have been experiencing since a few decades, a very stable economical and political relation which is a positive factor that enhance the possibility of doing business between Germany and Russia.<sup>57</sup>

In regards to trading partnership, Germany is by far the most important to Russia. Almost a quarter of Russian total imports (€20.8 billions) come from Germany, whereas Russian in the year of 2009 has exported €24,8 billions.<sup>58</sup>

Most of German Companies are concentrated in the region of St. Petersburg due to its favorable location, once the city is very near to the Western European part. Germany has already invested in terms of aggregate foreign direct investments more than US\$ 6,8 billion in the Russian market and has companies in different sectors performing in the market, such as Energy Companies, Auto Manufactures, Plant Constructors and large retail chains. Some famous companies' examples are Siemens, BSH, Dresdner Bank, VW, Open, Media Markt and others.<sup>59</sup>

## 3.3 **General Overview of the Company and Location**

### 3.3.1 *BSH Company Profile*

The Bosch-Siemens Household Appliances GmbH was created as a result of a joint venture between Robert Bosch GmbH in Stuttgart and the Siemens AG in Munich in 1967. It is the third largest producer of household appliances in the world and employs approximately 40 thousand employees. It owns more than 41 factories in 13 countries and possesses a worldwide network of sales and customer service companies. In the year 2009 it reached a global turnover of 8,4 billion Euros.<sup>60</sup> The company has a broad portfolio of products ranging from small and large household appliances to floor care and water heating systems. The brands range from its primary brands, Bosch and Siemens, to more specialized and local brands.

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<sup>56</sup> Cf. <http://www.sanktpetersburg.diplo.de>

<sup>57</sup> Cf. Germany & Russia: A Special Relationship, A. Rahr, The Washington Quarterly, 2007

<sup>58</sup> Cf. <http://www.reuters.com/article/idUSLL26158520091021>

<sup>59</sup> Cf. <http://epp.eurostat.ec.europa.eu>

<sup>60</sup> Cf.: [www.bsh-group.de](http://www.bsh-group.de)

Each brand has been adapted to its respective home market and customer preference. Being a globally active company, the corporation has devoted itself to a consistent innovation- and quality management in order to meet the demands of a worldwide market.

The majority of sales in 2010 were achieved in the home market, Germany, and Western Europe. In the recent years the growing markets of Asia as well as Eastern Europe have consistently increased in sales.

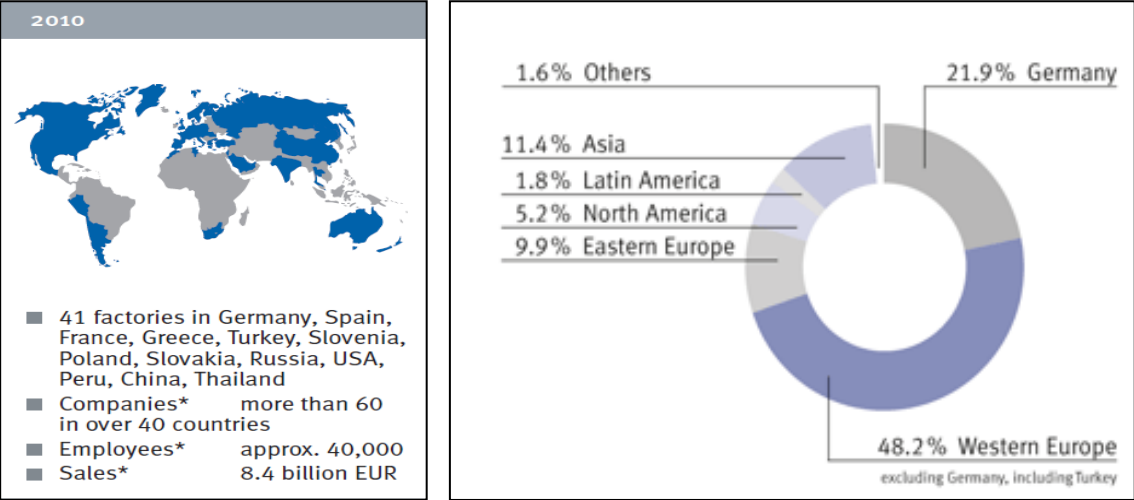


Figure 3: Major Sales of BSH in 2010  
 Source: BSH at a Glance 2010, Annual Report

3.3.2 St. Petersburg Profile

In terms of industrial output, St. Petersburg is ranked second after Moscow within the Russian Federation. Following post-Soviet deindustrialization, about one-fifth of the working population was still employed in industry, and the city attracted more industry than Moscow.<sup>61</sup> Due to its strategic location at the head of the Gulf of Finland on the Baltic Sea and after heavy investments in its infrastructure, the city became more attractive to foreign investments. In 2009, the foreign trade turnover amounted to 31.3 billion USD with exports being 13.4 billion USD and imports 17.8 billion USD.<sup>62</sup> In 2009, St. Petersburg has been trading with 179 countries with the ten major trading partners providing 61.9 percent of the city’s trade turnover. It is ranked first amongst all regions within Northwest Russia both in terms of exports and imports.

The major trade partners of Russia in 2009 were China, Netherlands, Germany, Italy, Finland and the USA.

<sup>61</sup> Cf.: <http://www.britannica.com/EBchecked/topic/518092/Saint-Petersburg/23996/Economy>  
<sup>62</sup> Cf.: <http://www.kvs.spb.ru/userfiles/file/2009/Trade2009eng.pdf>

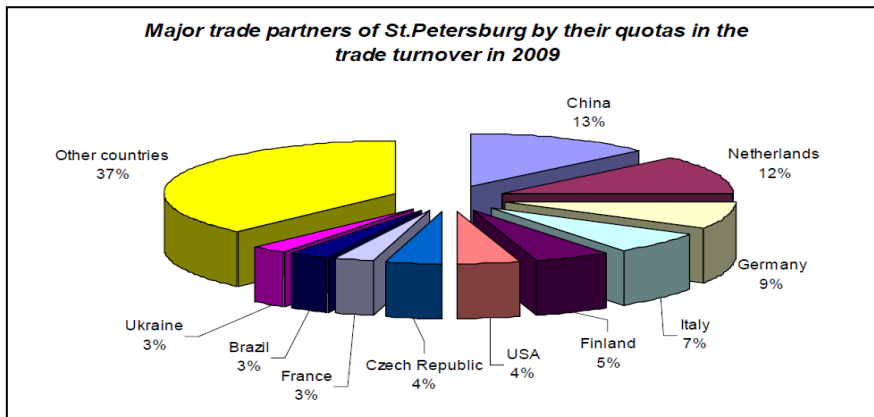


Figure 4: Major trade partners of St. Petersburg by Quotas 2009

Source: Committee for External Relations of St. Petersburg

St. Petersburg exported their commodities to 148 countries worldwide. In terms of imports the largest importers of commodities to St. Petersburg were China (20.1%), Germany (11.6%) and Finland (7%).

### 3.4 Management Process

#### 3.4.1 Market Analysis PESTEL

The PESTEL analysis is a strategic and qualitative method for analyzing the environment of a company. PESTEL stands for Political, Economic, Social, Technological, Environmental and Legislative analysis. In the following the Russian market and in some special points the Russian city of St. Petersburg will be discussed on the basis of PESTEL. This analysis is important to understand why BSH chose the Russian market to establish the company in Russia and on that way to expand in Eastern Europe and in parts of Asia.

#### Political Factors

The government of St. Petersburg supports international cooperation and encourages investments of all kinds. It works hard on development of a safe climate for foreign investments and also invests a huge amount of money into the upgrade of all economic zones around St. Petersburg inclusive the sector Neudorf-Strelna, which was chosen by BSH as a location for its first production plant and a logistics center. Furthermore St. Petersburg works on several projects for expansion of the road networks for these economic zones.<sup>63</sup>

But still Russia has some problems that are hard to overcome especially for foreign investors and entrepreneurs. The heavy-handed bureaucracy, difficulties in transfer of properties, its

<sup>63</sup> Cf. <http://www.russlandjournal.de/wirtschaft/regionen/st-petersburg/>, 22.12.2010

time-consuming registration and also the process of a firm registration make the entrance to Russian market difficult and complicated.<sup>64</sup>

### **Economical Factors**

Today Russia shows a stable economy. The average economic growth in the country is about 10% per year. The commodity sales between Germany and Russia increased to 17% and were about 4 billion Dollars in 2008. Growing real income of the population leads to an increase in purchasing power.

Furthermore St. Petersburg's government creates with advantageous conditions a favorable climate for investments and has the opinion that there is a lot more potential for economical cooperation. In 2008 the amount of foreign investments in St. Petersburg was about 800 Mio. Dollars.<sup>65</sup> International Rating Agencies evaluated St. Petersburg as a stable and safe finance center.<sup>66</sup>

In 2010 after a well economic year for Russia the inflation rate was about 8,006%, which showed that the market was relatively stable.<sup>67</sup>

One of the big problems that a foreign company faces in Russia is the lack of skilled workers. The education system has a high-qualified theoretical program but the companies miss any working experiences of the graduates. Above all for companies it is hard to find qualified craftsmen.

Even if Russia is one of the developing countries and does not count to the industrial countries it is a mistake to think that the costs for staff, logistics, rent and properties are low. On the contrary the costs for these factors are very high especially in the regions Moscow and St. Petersburg.

Another problem is the low developed suppliers market. For producing high standard products it is also necessary to get material with high standard. At the moment in Russia it is not possible to get such kind of materials because of the relatively low industrial standard of the country.<sup>68</sup>

### **Social Factors**

St. Petersburg is also known as the culture capital of Russia. It is the nearest big city to Europe and acts like a window to the western culture. It is the center of science with a high number of educational institutions. Russian people like qualitative products and they prefer

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<sup>64</sup> Cf. <http://www.ruslandjournal.de/wirtschaft/ratgeber/ruslandgeschaeft-risiken/>, 22.12.2010

<sup>65</sup> Cf. <http://www.ruslandjournal.de/wirtschaft/regionen/st-petersburg/>, 22.12.2010

<sup>66</sup> Cf. <http://www.ruslandjournal.de/wirtschaft/ratgeber/ruslandgeschaeft-risiken/>, 22.12.2010

<sup>67</sup> Cf. <http://de.globalrates.com/wirtschaftsstatistiken/inflation/verbraucherpreisen/vpi/rusland.aspx>, 03.01.2011

<sup>68</sup> Cf. <http://www.ruslandjournal.de/wirtschaft/ratgeber/ruslandgeschaeft-risiken/>, 22.12.2010

especially German products because they are sure that these products have high qualitative standards.<sup>69</sup>

### **Technological Factors**

The territory Neudorf-Strelna near St. Petersburg is a special economic area, which was developed by St. Petersburg's government to attract investors from foreign countries but also from Russia. It is a high-tech location with a special economic zone for innovative technologies and well developed infrastructure with supply of energy and water and also with a communicational network.<sup>70</sup>

### **Environmental Factors**

The Russian market is a growing market. Also, the market for household products is growing. To serve the market for effectively the location of its subsidiary had to be chosen carefully and was a very crucial for the companies' success. St. Petersburg offers an optimal and well developed location to start its first production plant in Russia. There are a lot of advantages of this location. Not only that the city has an access to the European market through shipment from its own port it also has a center of communication. Because of well developed infrastructure around St. Petersburg every important industrial point can be reached. This infrastructure will be further enlarged with the help of St. Petersburg's government.<sup>71</sup> But the closeness to the water causes one problem in St. Petersburg. It is permanent in danger of flood.<sup>72</sup>

### **Legal Factors**

To support small and middle sized companies the Russian government passed a special law in 2007. Also, the St. Petersburg's government promised to stimulate this sector. Foreign companies should only have 25% of foreign capital if they want to benefit from this law.

Further legal benefits were created for companies which are located in the special economic zone to which Neudorf-Strelna belongs. These are lower rates for taxes, partly omission of tariffs for import to the special economic zone and lower prices for renting properties.<sup>73</sup>

Foreign workers (with few exceptions) need, like in many other countries, a work permit to stay and work in Russia. Furthermore, the Russian government set annual quotas for recruitment of foreign workers. These quotas can differ from year to year and from region to region.

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<sup>69</sup> Cf. Ost-Ausschuss der Deutschen Wirtschaft, Investieren in Russland, p. 66

<sup>70</sup> Cf. <http://www.russlandjournal.de/wirtschaft/regionen/st-petersburg/>, 22.12.2010

<sup>71</sup> Cf. <http://www.petersburg.russland.ahk.de/region-nordwest/st-petersburg/>, 27.12.2010

<sup>72</sup> Cf. <http://www.petersburger.info/reiseinfos/klima-lage.html>, 27.12.2010

<sup>73</sup> Cf. <http://www.russlandjournal.de/wirtschaft/regionen/st-petersburg/>, 22.12.2010

That makes it difficult for foreign companies to plan for the future. The quota for 2008 was about 1.828.245 work permits for foreign laborers.

Another difficulty is the contradictory interpretation of legislation. That creates a free space for corruption and leads again to a clumsy bureaucracy and complicated and long administration ways.<sup>74</sup>

### *3.4.2 Organisation*

The OOO BSH Bytowije Pribory is a 100 % subsidiary of the BSH in Germany. OOO is the Russian legal form of the subsidiary and stands for Obshestvo s Ogranichennoi Otvetstvennostju. This form can be compared to the American legal form “Limited Liability Company” or to the German form of the GmbH. After BSH decided to pick Neudorf-Strelna the company built a production plant there and also invested money into the development of a huge logistics center. The total amount of investment since 2005 was about 50 Mio. Euro. All capital came from internal sources.

At the present BSH employs 380 workers. Nine of them are from Germany. Russian workers were recruited by Russian human resources management of BSH and by some temp agencies. Apart from well education of some workers the first Russian employees were instructed additionally in other European locations of BSH.

One problem that the subsidiary still faces is the labor deficit. Besides the problem above Russian employees are also inclined to fast changing their employers because of pleasant law conditions for workers. That leads to an increase in wages that cannot be covered by gain of companies.<sup>75</sup>

### *3.4.3 Production and Logistics*

#### **Production**

In 2007 B/S/H opened a new production plant for refrigerators in St. Petersburg besides its current production plant. In 2009 the production capacity per year was 250.000 units.<sup>76</sup>

There are various reasons for the company to expand in Russia, and especially in St. Petersburg. One of the most important advantages would probably be the proximity of the airport, which makes it easy for the BSH to export its goods all over Russia.<sup>77</sup> The modern infrastructure makes it also possible to manage all the goods traffic from the logistic centre in Russia. Thus the logistic centre in Russia has become a key position as it helps the company to react as fast as possible to potential changes in demand in the Russian market.

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<sup>74</sup> Cf. <http://www.russlandjournal.de/wirtschaft/ratgeber/russlandgeschaeft-risiken/>, 22.12.2010

<sup>75</sup> Cf. Ost-Ausschuss der Deutschen Wirtschaft, Investieren in Russland, p. 65 et seq.

<sup>76</sup> Cf. BSH chooses Ahlers Logistics as strategic partner in Russia; 03 Jul 2009

<sup>77</sup> Cf. Rußland Aktuell (www), Bosch-Siemens baut Kühlschränke in Russland

Exporting to the former GUS states (e.g. Kazakhstan) is duty free for companies in Russia, and exports to the EU are also connected to lower import duties. These, of course, are also comparative advantages and a reason to build B/S/H production plants in Russia.

Furthermore, the demand in Russia for household appliances is high and will grow by 10 per cent this year, thus it makes it easier to serve the needs by producing in Russia.<sup>78</sup> This makes it also easier to meet the tastes of the customers as the production plant is in the same country and thus the service can be improved as well.

Further advantages are, of course, the cheaper costs, which result from the lower labor- and overhead costs.

## **Logistics**

As mentioned in the prior chapter, B/S/H built a large logistic centre in St. Petersburg, which serves the whole Russian market.

Therefore B/S/H has chosen Ahlers Logistics as an adequate provider of logistic services in order to meet the company's requirements of reliability, cost efficiency and operational flexibility. Moreover, Ahlers also provides knowledge of the Russian market, as it is located in St. Petersburg for more than 16 years. This is also very important as B/S/H has a rather aggressive and ambitious expansion plan in Russia.<sup>79</sup>

Ahlers Logistics is close to the B/S/H warehouse and but has also access to the main access roads from and to St. Petersburg which also represents a major advantage for the B/S/H group as an adequate partner.<sup>80</sup>

The reason for B/S/H to build its logistic centre in St. Petersburg is, amongst others, the good infrastructure of the city. Factors, which determine the good infrastructure, are the earlier mentioned, proximity to the airport, and the almost completed motorway, which will be finished shortly. Moreover, the container port in Lomonossov will be expanded.

The city also provides a high-qualified workforce due to the high degree of education and the settlement of international companies.

And due to the good reputation of B/S/H, people are glad to work for this company and the city of St. Petersburg is glad to have it there. The high standing of the company comes from the strategic investments in this region.

All in all, one can say that it is very advantageous for the company to produce its good in St. Petersburg and to have the logistic centre there as well due to the many comparative advantages and opportunities the city provides.

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<sup>78</sup> Cf. Aleksandrova (www), K. BSH to Build \$ 25 Mln Plant in Strelna

<sup>79</sup> Cf. BSH chooses Ahlers Logistics as strategic partner in Russia /03 Jul 2009 (WWW)

<sup>80</sup> Cf. ebenda

### **3.5 Conclusion**

After reviewing the profile of Russia in general and the location of St. Petersburg in detail, one can say that the Russian and the St. Petersburg market offer many advantages, especially for German companies. The management approaches used to assess the market of St. Petersburg revealed the great competitive advantage B/S/H benefits from. Due to this fact the company also decided to enlarge its plant in St. Petersburg and will remain there.

The PESTEL-Analysis was conducted to reveal the general advantages of the location. In regard of the single areas of the management process, organisation, logistics and production the great possibilities St. Petersburg offers for B/S/H become obvious. Due to these and the reliable partners the company encountered, it was the right decision to move production there and to make St. Petersburg to a major logistic centre.

All in all, the authors have shown what great possibilities the Russian market reveals for German companies and that it is crucial to consider it in the future for possible expansion.



## **4 Reasons for German companies to move place of production to Russia**

### **Group Members:**

Melanie von Keitz  
Dominik Och  
Wolfram Koch  
Sabrina Lenz  
Alexander Herbst  
Tobias Heerwagen  
Kathrin Kalbfleisch  
Katharina Klemens  
Igor Dorosevici  
Philipp Radermacher

### **4.1 Introduction**

Before 1991 Russia's main trading partners were communist countries included in the Soviet Union. Nowadays in the time of globalization and after the break down of the Soviet Union, Russia has established new trade relations with Western countries and today Germany is one of the most important trading partners of Russia.

Russia is in terms of area the largest country in the world. In 2009 Russia had 142 million inhabitants, which generated a gross domestic product (GDP) of 1,229 billion USD. Because of its central geographic position it serves as a good link between the economies of Europe and Asia. Therefore Russia can be seen as an attractive location for international companies. In addition Russia's market itself is not saturated and is due to that also a promising selling market.

There are several reasons why German companies need to look for new ways to improve their business operations in terms of costs and to increase sales. Some reasons for them to move away from Germany are in general higher costs by higher taxation and higher labor costs, shorter weekly working hours as well as higher energy costs. Other factors are high environmental specifications and extensive labor and social laws.

The goal of this case is to analyze the opportunities that the Russian economy can offer to German companies.

After a short introduction into the topic, arguments for the attractiveness of the Russian market are presented, which are separated in market aspects, costs advantages, and general advantages such as labor laws and environmental specifications. Moreover, the term paper gives an overview about the future development and market situation of the Russian economy.

## 4.2 Arguments for going to Russia

### 4.2.1 *The Russian market*

The Russian market has constantly been growing over the last years (between 6% and 8% per year since 2000) and can be described as being stable.<sup>81</sup> As a result, the buying power of the Russian population has also increased, which has led to a change in the consumer purchasing behavior. While in the past the price of products has been the most important and almost only criteria influencing the purchasing decision, costumers now tend to choose products which offer a good quality as well.<sup>82</sup> Therefore the demand for Western products has increased since those products stand for high quality, occupy a positive image and can therefore serve the role of a status symbol as well. The high market growth and the change in consumer buying behavior offer new opportunities for local and foreign companies which can profit from this development. To be able to make use of the promising sales opportunities more and more German companies start business in Russia. In 2009 over 6000 German companies operated in the Russian market. A major reason for this development is that the Russian market has accumulated needs especially in the field of technology which now causes an increased need and consumption of those products.<sup>83</sup> Companies are attracted by high revenue numbers and high profit margins. If a company produces in Russia for the Russian market there are numerous advantages such as a reduction of logistic costs, a reduction of paper work going along with exporting goods to Russia and less customs duties and the possibility to receive support from the Russian government for example grants.

The German auto maker VW for example produces in Kaluga only for the Russian market.<sup>84</sup> Furthermore there are several other reasons which will be analyzed in detail in later paragraphs.

When looking at the Russian GDP from 2005 to 2008 and dividing it into seven branches such as processing industry, construction industry, transportation and telecommunication, service industry, energy industry, wholesale and retail industry and the financial industry the following development can be seen. All of these branches were able to record a growth in the GDP. The branch with the highest growth was the wholesale and retail industry (2005: 100 bn. €; 2008: 210 bn. €).<sup>85</sup> The high growth of the wholesale and retail industry has been acknowledged by many international trade chains. Examples for companies entering the Russian market are Metro, Obi, REWE, Globus and IKEA. When looking at the Metro Group in detail it becomes obvious that this company has particularly profited from the increasing purchasing power of the Russian population. In the year 2005 the revenues generated in Russia increased by 66% to 1.5 billion Euros. Consequently the Metro group plans to continue in-

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<sup>81</sup> Cf. <http://www2.simon-kucher.com/files/WirtschaftsWoche-Russlandstudie%281%29.pdf>

<sup>82</sup> Cf. [http://russland.ahk.de/fileadmin/user\\_upload/Dokumente/Publikationen/KammerPublikationen/2008/100FragFr\\_07.pdf](http://russland.ahk.de/fileadmin/user_upload/Dokumente/Publikationen/KammerPublikationen/2008/100FragFr_07.pdf)

<sup>83</sup> Cf. [http://russland.ahk.de/fileadmin/user\\_upload/Dokumente/Publikationen/KammerPublikationen/2008/100Fragen\\_07.pdf](http://russland.ahk.de/fileadmin/user_upload/Dokumente/Publikationen/KammerPublikationen/2008/100Fragen_07.pdf)

<sup>84</sup> Cf. <http://www.stern.de/wirtschaft/news/unternehmen/vw-in-russland-verspaeteter-start-575093.html>

<sup>85</sup> Cf. <http://www2.simon-kucher.com/files/WirtschaftsWoche-Russlandstudie%281%29.pdf>

vesting money to Russia and to introduce new distribution lines.<sup>86</sup> The growth of the following branches has also been significant: processing industry (2005: 100 bn. €, 2008: 175 bn. €), the service industry (2005: 50 bn. €, 2008: 100 bn. €) as well as the transportation and telecommunication industry (2005: 50 bn. €, 2008: 90 bn. €). Overall it can be recognized that the growth rates of 20-35% per year have attracted more German investors to the Russian market. The German direct investments have been growing from 1.9 billion Euros in 2005 up to 3.3 billion Euros in 2008.

Even though the GDP has decreased in the year 2009 as a result of the financial crisis the figure is expected to grow again in 2010.<sup>87</sup>

A recent survey (Spring 2009) of the *Wirtschafts Woche* together with the strategy and marketing consultants Simon - Kucher & Partners interviewed over 1.600 German companies which have high business activities in Russia. According to the survey the Russian market offers enough potential for companies to grow outside of a niche. Or to put it in other words, Russia's market saturation is so low that in order to sell your product successfully there is no need for a niche strategy. Furthermore the survey analyzed general conditions for investors. The following aspects have been evaluated positively by the interviewed companies: availability of qualified employees, the competitive situation and competitive behavior, the reliability of cooperation partners as well as the mentality and the culture. Nevertheless some aspects are seen more critically: the bureaucracy and governmental regulations, laws, taxes and customs duties as well as corruption. The practical experience shows that a key factor for success is seen in the creation of a long-term loyalty of qualified employees and reliable partners. A mandatory requirement for successfully doing business in Russia is a substantiated knowledge and handling of the complicated Russian legal system.<sup>88</sup>

The reasons for entering the Russian market according to the interviewed companies were the future market potential (~78%), the current market potential (~68%), customer proximity (~40%), competition (~32%) and cost savings (~2%).

Another question about the activity of the interviewed companies in Russia showed that 18% have an own production in Russia, 50% have a sales company, 24% corporation with sales partner, 20% through a sales agent and 40% by export (multiple answers were possible).<sup>89</sup>

#### 4.2.2 *Cost benefits in Russia*

Despite the fact that Russia is an attractive new marketplace, the country also offers great chances as a place of production. Reasons for that are the low production costs in terms of low labour and energy costs.

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<sup>86</sup> Cf. [http://www.dricon-ag.de/download/0703II\\_Artikel.pdf](http://www.dricon-ag.de/download/0703II_Artikel.pdf)

<sup>87</sup> Cf. <http://www2.simon-kucher.com/files/WirtschaftsWoche-Russlandstudie%281%29.pdf>

<sup>88</sup> Cf. <http://www2.simon-kucher.com/files/WirtschaftsWoche-Russlandstudie%281%29.pdf>

<sup>89</sup> Cf. <http://www2.simon-kucher.com/files/WirtschaftsWoche-Russlandstudie%281%29.pdf>

### 4.2.3 Labor costs in Russia

When there is the idea to move the place of production of a company to foreign countries in order to reduce the labour costs, Russia comes in mind as a country with a low wage level. But this estimation is limited today, since the wages in Russia rose in the course of time. Moreover, like in Germany, there are additional non-wage labor costs that have to be added to the labor costs of an employee which can be quite high.

Even though the wage level in Russia has been rising during the last years, the average annual income of \$ 7,116 in 2009 was clearly under the German average annual income.<sup>90</sup> In Germany, the average gross annual income of an employee was about 30,879 € in 2009.<sup>91</sup> In US-Dollar, this would equal \$44,256.

In Russia, the non-wage labor costs have to be paid exclusively by the employer. This is different in Germany. These costs contain two elements, the „uniform social taxation“ and the industrial injuries insurance. In case of the „uniform social taxation“, it is a diminishing taxation that makes up 2% to 26% of the gross income, depending of the employee’s level of income. In case of the industrial injuries insurance, the company has to pay an amount ranging from 0.2% to 8.5% of the gross income. The fee depends on the risk level of the work, the employee does.

The following case study shows how gross income and net income differ in Russia<sup>92</sup>:

A German company wants to hire an executive for its subsidiary in Moscow. He asks for a net income of 240,000 rouble (about 5,580 €) per month. What does the company have to pay for the executive per month?

Net income: 240,000 rouble (about 5,580 €)

Income taxation (13%): 31,200 rouble (about 725 €)

Gross income: 271,200 rouble (about 6,307 €)

- uniform social taxation (26% of gross income): 70,512 rouble (about 1,640 €)
- industrial industries insurance (for office employees, the lowest rate of 0.2 % applies): 542.4 rouble (about 13 €)
- gross income and non-wage labor costs: 342,225.44 rouble (about 7,960 €)

### 4.2.4 Energy costs in Russia

The electricity rate in Russia is divided into two segments. There is a special rate for private households and another rate for the industry. In the whole country, the rates vary among the

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<sup>90</sup> Cf. [http://siteresources.worldbank.org/INTRUSSIANFEDERATION/Resources/3054991245838520910/RER23\\_\\_Eng\\_final.pdf](http://siteresources.worldbank.org/INTRUSSIANFEDERATION/Resources/3054991245838520910/RER23__Eng_final.pdf)

<sup>91</sup> Cf. [http://www.deutsche-rentenversicherung.de/nn\\_6480/SharedDocs/de/Inhalt/Servicebereich2/Lexikon/CD/durchschnittseinkommen.html](http://www.deutsche-rentenversicherung.de/nn_6480/SharedDocs/de/Inhalt/Servicebereich2/Lexikon/CD/durchschnittseinkommen.html)

<sup>92</sup> Cf. <http://ostexperte.wordpress.com/2009/07/14/praxiswissen-russland-geschäft-teil-6-lohnnebenkosten-in-russland/>

regions. For example, the industrial rate for electricity in Moscow in 2008 was 2.06 rouble per kWh, which would be about 0.045 € per kWh<sup>93</sup>. Compared to Germany, where industrial customers paid 0.079 € per kWh, the expenditures for electricity in Russia are much lower than in Germany.<sup>94</sup>

The prices for gas and electricity in Russia are made by the federal service for tariffs. It is remarkable under the world market level. So the price for electricity in Russia is about 1/5 of the world market price.<sup>95</sup>

Reasons for the low energy prices might be, that Russia, among all countries in the world, has the highest stock of proved reserves of natural gas with about 47,570 billion cubic meters.<sup>96</sup> Moreover, Russia's reserves of natural gas make up 25.2 % of the world's total gas in place. Also the coal deposit in the country is enormous. With 18.5 %, they are on the second place of coal owning countries in the world. With 6.5%, they also own a lot of oil, so they are the second largest oil producer in the world.

#### 4.2.5 *Labor Law*

Labor law consists of a lot of different aspects like safety at work, co-determination for employees, and job protection. After the fall down of the Soviet Union in the early 90's many German companies moved parts of their production to Russia. One of the reasons for their decision was, that the Russian labor law was less strict and bureaucratic than the German law. For example there were only a few requirements for formalities in the labor contracts and wages were often individually negotiated and not paid after standard.<sup>97</sup> This however has changed in recent years. This becomes visible through the increasing number of legal actions of employees or labor unions taken to protect their labor rights.<sup>98</sup>

Today far more regulations have to be followed to close a labor contract in Russia. Companies have to establish place of work, job description, determine beginning of employment, wage, social insurance and days of vacation, which is very similar to a German labor contract.<sup>99</sup>

An advantage from a German company's perspective is the fact, that Russian employees in general have less days of vacation. They receive 28 calendar days of paid leave whereas a German employee receives 30 work days of paid leave. So productivity is probably higher.

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<sup>93</sup> Cf. [http://russland.ahk.de/fileadmin/user\\_upload/EE/Factsheet\\_EE\\_2009.pdf](http://russland.ahk.de/fileadmin/user_upload/EE/Factsheet_EE_2009.pdf)

<sup>94</sup> Cf. <http://www.verivox.de/nachrichten/industrie-und-gewerbe-zahlen-hoechste-strompreise-45600.aspx>

<sup>95</sup> Cf. [http://russland.ahk.de/fileadmin/user\\_upload/EE/Factsheet\\_EE\\_2009.pdf](http://russland.ahk.de/fileadmin/user_upload/EE/Factsheet_EE_2009.pdf)

<sup>96</sup> Cf. <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2179rank.html?countryCode=&rankAnchorRow=#>

<sup>97</sup> Cf. [http://www.duesseldorf.ihk.de/produktmarken/Publikationen/International/M2\\_RF\\_Einstellung\\_und\\_Entlassung\\_von\\_Mitarbeitern\\_in\\_der\\_RF.pdf](http://www.duesseldorf.ihk.de/produktmarken/Publikationen/International/M2_RF_Einstellung_und_Entlassung_von_Mitarbeitern_in_der_RF.pdf), p.1

<sup>98</sup> Cf. <http://www.jacobi-partner.de/arbeitsmarkt-personal-in-russland.42.de.html>

<sup>99</sup> Cf. [http://www.duesseldorf.ihk.de/produktmarken/Publikationen/International/M2\\_RF\\_Einstellung\\_und\\_Entlassung\\_von\\_Mitarbeitern\\_in\\_der\\_RF.pdf](http://www.duesseldorf.ihk.de/produktmarken/Publikationen/International/M2_RF_Einstellung_und_Entlassung_von_Mitarbeitern_in_der_RF.pdf), p.2

Another aspect in the labor law is job protection. It differs from the German regulations insofar that it is in general very employee-friendly. Employees have the right to quit their job within a cancellation period of two weeks. In Germany a term of 4 weeks has to be kept.

The employer on the other hand needs a just cause to end the employment. The procedure is, similar to German law, very long-winded. But the difference comes in practice. In Russia companies try to get rid of bad employees through negotiated financial settlements to make it less bureaucratic.<sup>100</sup>

In the past co-determination and labor unions didn't have such an impact on labor law decisions in Russia as in Germany where co-determination was founded. That changed in recent years when the new Labor Code went into effect in February 2002. Since that time new labor unions are formed in the whole country and the Russian Government keep track that non-Russian companies stick to the rules. For example Renault tried to restrain the power of labor unions in their company with dismissal if they went on strike.<sup>101</sup>

In the past, after the fall down of the Soviet Union, the less restrictive labor laws in Russia were an attractive reason for German companies to move part of their production to Russia. Meanwhile Russia has adapted more and more labor laws from Western standards and it does not differ much from German labor law nowadays.

#### 4.2.6 *General arguments*

##### **Environmental specifications**

For many years Russia has not taken environmental questions very seriously. So there were not many restrictions for companies referring to pollution from production and raw-material dismantling. But in 2006 Russia joined the Kyoto-agreement, which meant a change in their environmental policy. For example, today companies are punished for violating environmental laws, like in the case of an Italian oil-producing firm which had to stop their production because they did not meet the demands of the government.<sup>102</sup>

Of course, in the eyes of environmental protectionists like Greenpeace there is still a need for improvement, because they question the government's will to enforce their own demands.<sup>103</sup> And actually the Russian government has to balance the compliance of the environmental constraints, while not hindering Russia in its economical growth by discouraging foreign investors with extraordinary environmental specifications.<sup>104</sup>

On the other hand, for some countries, other than Germany, the environmental specifications in Russia are already too much. For example, for Chinese investors these strict specifications

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<sup>100</sup> Cf. <http://www.jacobi-partner.de/arbeitsmarkt-personal-in-russland.42.de.html>

<sup>101</sup> Cf. <http://www.labournet.de/internationales/russland/gewerkschaft.html>

<sup>102</sup> Cf. <http://wirtschaft.russlandonline.ru/investoren/morenews.php?iditem=481>

<sup>103</sup> Cf. <http://www.greenpeace-magazin.de/index.php?id=2633>

<sup>104</sup> Cf. <http://oe1.orf.at/artikel/203031>

and complicated formalities are the most important reasons for not entering the Russian market.<sup>105</sup>

### **Resource abundance**

“Russia is one of the world's richest countries in raw materials, many of which are significant inputs for an industrial economy. Russia accounts for around 20 percent of the world's production of oil and natural gas and possesses large reserves of both fuels. This abundance has made Russia virtually self-sufficient in energy and a large-scale exporter of fuels.”<sup>106</sup>

But this could also be an advantage of location for Russia. German companies need to source out production to stay competitive with their products. But a lot of companies who source out globally loose market potential due to scarce resources in the producing country. So it is important for German companies to search for countries where they can assure a good connection to the supplier of their production resources.<sup>107</sup> An advantage, that speaks in favor of Russia, as a place of production for German companies. And even if German companies do not use Russia as place of production they will probably buy at least part of their resources from Russia which further strengthens Russia's economic situation.<sup>108</sup>

## **4.3 Forecast for the Russian economy**

### *4.3.1 Is the Russian market soon saturated?*

To define if the Russian market is soon saturated we have to analyze the dynamic of consumption in Russia to understand the direction of demand and prices in Russia in the last years. As shown in the diagram “Actual final consumption of households in Russia”, since 1992 the consumption in Russia has been steadily rising. That shows that both the demand in Russia and prices were rising during the last 18 years.<sup>109</sup>

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<sup>105</sup> Cf. <http://wirtschaft.russlandonline.ru/investoren/morenews.php?iditem=481>

<sup>106</sup> Cf. <http://countrystudies.us/russia/59.htm>

<sup>107</sup> Cf. [http://weltwirtschaft-welthandel.suite101.de/article.cfm/global\\_sourcing\\_gueter\\_international\\_beschaffen](http://weltwirtschaft-welthandel.suite101.de/article.cfm/global_sourcing_gueter_international_beschaffen)

<sup>108</sup> Cf. [http://weltwirtschaft-welthandel.suite101.de/article.cfm/global\\_sourcing\\_gueter\\_international\\_beschaffen](http://weltwirtschaft-welthandel.suite101.de/article.cfm/global_sourcing_gueter_international_beschaffen)

<sup>109</sup> Cf. [http://www.gks.ru/bgd/regl/b10\\_12/IssWWW.exe/stg/d01/07-01.htm](http://www.gks.ru/bgd/regl/b10_12/IssWWW.exe/stg/d01/07-01.htm)

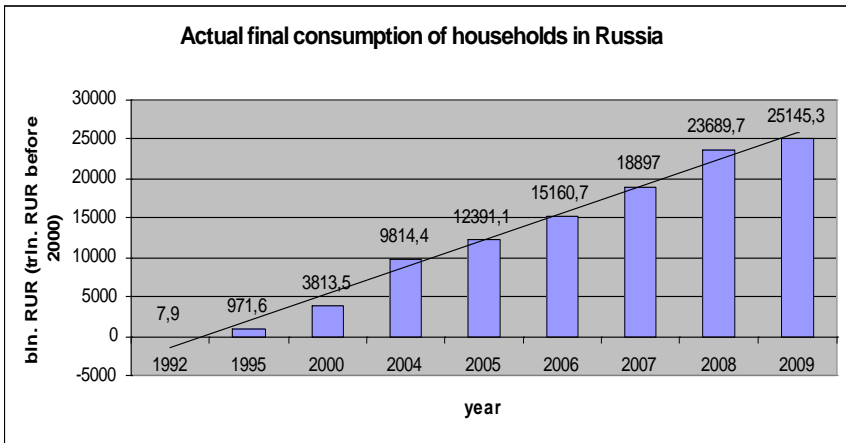


Figure 5: Actual final consumption of households in Russia

Depiction 1: Own depiction according to the Russian Federal State Statistic Service

Then it has to be defined what a company exactly wants to do on the Russian market. One possible answer could be that they want to produce commodities of German quality in Russia. These products could potentially then replace commodities imported to Russia from Germany and other Western countries. To achieve this goal the statistic of imports to Russia should be analyzed. The statistic of imports can help us to define the following aspects:

1. the dynamic of imports to Russia
2. the main importer to Russia in 2009
3. the dynamic of imports to Russia from its main exporter
4. the main import commodities to Russia
5. the dynamic of the imports of the main commodities to Russia.<sup>110</sup>

The diagram “The dynamic of import to Russia” shows that since 1995 the demand for importing goods to Russia has been gradually increasing until 2009.<sup>111</sup>

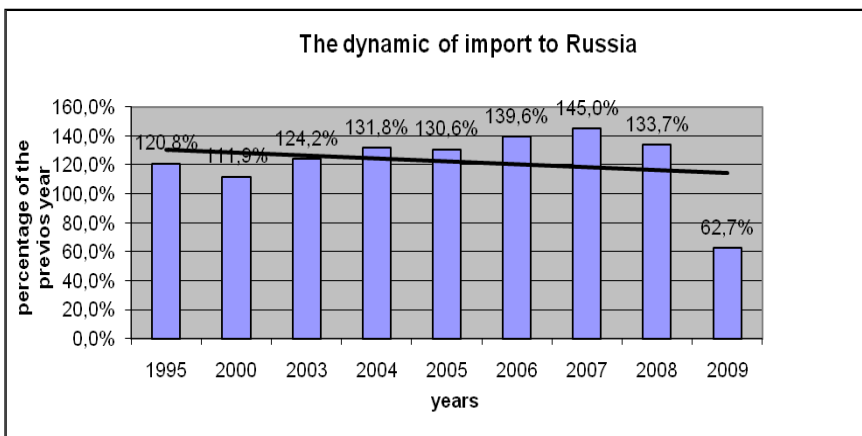


Figure 6: The dynamic of import to Russia

Depiction 2: Own depiction according to the Russian Federal State Statistic

<sup>110</sup> Cf. <http://www.tamognia.ru/people/articles/detail.php?ID=1530382>

<sup>111</sup> Cf. [http://www.gks.ru/bgd/regl/b10\\_12/IssWWW.exe/stg/d02/26-03.htm](http://www.gks.ru/bgd/regl/b10_12/IssWWW.exe/stg/d02/26-03.htm)



In 2009 the demand for import commodities went down by 37.3 %. Such a drastic decrease of demand could be provoked by the worldwide finance crisis, which forced Russian importers to reduce their import of commodities and to look for cheaper substitutes of such commodities by Russian manufactures. But in whole the dynamic of import shows that the demand for import has the tendency to increase.

As we see from the diagram “The main importer to Russia in 2009 as percentage to the total import” shipments from China and from Germany predominated in imports to Russia in 2009.<sup>112</sup> So we can conclude that China with its 13.6% and Germany with its 12.7% of the total imports of Russia are the main suppliers of the Russian imports.

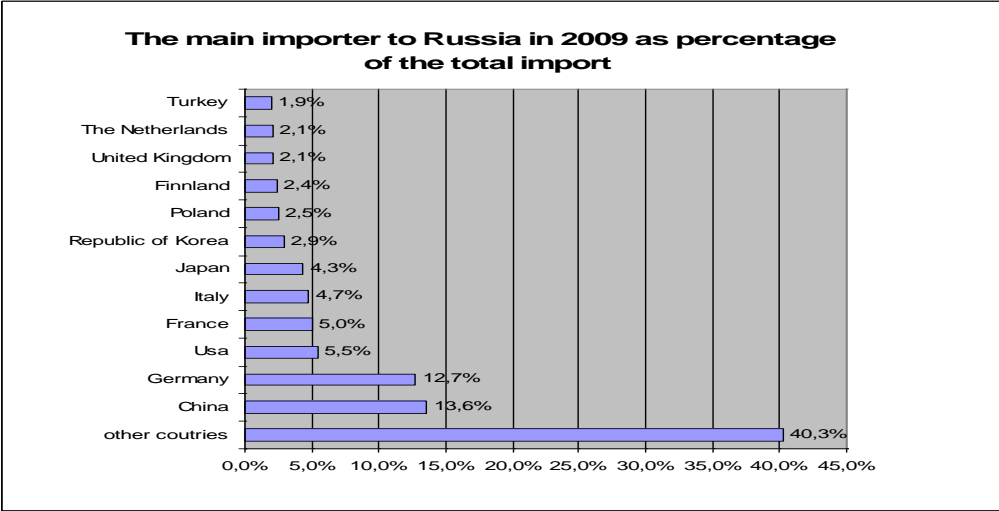


Figure 7: The main importer to Russia in 2009 as percentage of the total import  
 Depiction 3: Own depiction according to the Russian Federal State Statistic Service

The next diagram “The dynamic of imports to Russia from China and Germany” confirms this conclusion and additionally shows, that from 1995 and until 2008 i.e. during 13 years, Germany predominated in imports to Russia.<sup>113</sup>

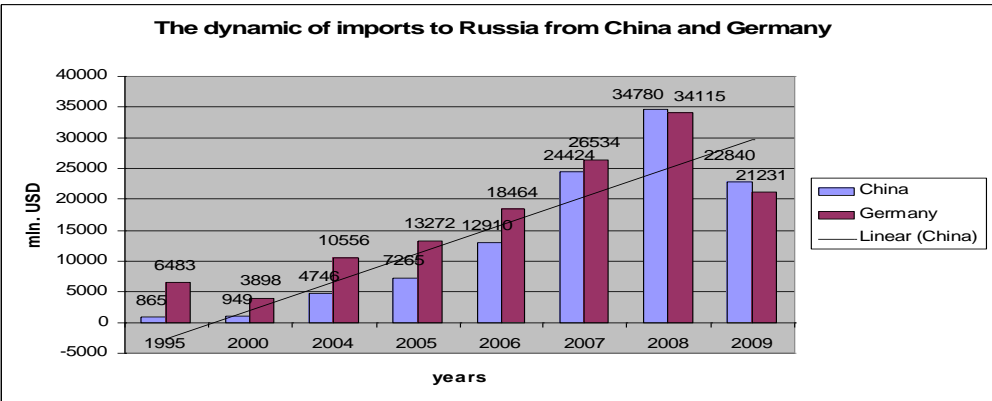


Figure 8: The dynamic of imports to Russia from China and Germany  
 Depiction 4: Own depiction according to the Russian Federal State Statistic Service

<sup>112</sup> Cf. [http://www.gks.ru/bgd/regl/b10\\_12/IssWWW.exe/stg/d02/26-05.htm](http://www.gks.ru/bgd/regl/b10_12/IssWWW.exe/stg/d02/26-05.htm)  
<sup>113</sup> Cf. [http://www.gks.ru/bgd/regl/b10\\_12/IssWWW.exe/stg/d02/26-05.htm](http://www.gks.ru/bgd/regl/b10_12/IssWWW.exe/stg/d02/26-05.htm)

China became the main supplier of the Russian imports in 2008 and is remaining in this position until now. In the next diagram it becomes clear that, from 1995 and until 2009 the demand for imports from China and Germany to Russia has been gradually rising. In 2009, the demand for import commodities from China went down by 34.3 % compared to the previous year. In the same period the demand for imports from Germany also decreased by 37.8%. The decrease in demand for imports from China and Germany to Russia in 2009 concurs with the overall decrease in demand for imports to Russia. That points out the fact, that the decrease of demand for import commodities from these two countries to Russia was provoked by the same reasons, which provoked the decrease of the overall imports to Russia. So the supposition that China and Germany lost their leading positions on the Russian import market can be excluded. This means that China and Germany will most likely remain the main suppliers of the Russian import demand in the future.

Observing the diagram “The commodity structure of imports to the Russian Federation”, it becomes clear that machinery, equipment and transport means accounted for 43%, foodstuffs and agricultural raw materials (excluding textile) made up 18% and chemical products and rubber accounted for 16.7% of the total imports to Russia in 2009. Other commodities had much less shares in the total imports to Russia in 2009.<sup>114</sup> It shows that the demand for other import commodities in Russia was lower.

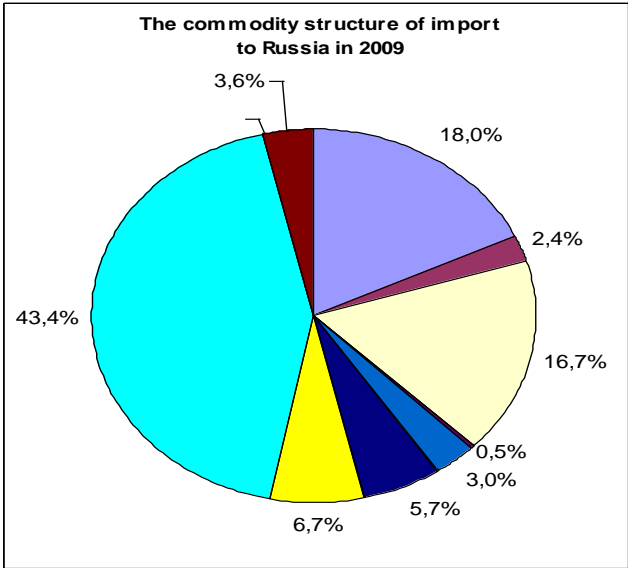


Figure 9: The commodity structure of import to Russia in 2009

Depiction 5: Own depiction according to the Russian Federal State Statistic Service

<sup>114</sup> Cf. [http://www.gks.ru/bgd/regl/b10\\_12/IssWWW.exe/stg/d02/26-08.htm](http://www.gks.ru/bgd/regl/b10_12/IssWWW.exe/stg/d02/26-08.htm)

Analyzing the diagram “The dynamic of import of the most imported commodities” one can conclude the following aspects:

- 1 During the period 1995-2000 the demand for imports of machinery, equipment and transport means has slightly decreased but since 2000 it has been gradually increasing until 2008. Between 2000 and 2008 the demand for imports of these commodities went 19.1% up. In 2009 the demand for imports of machinery, equipment and transport means dropped drastically in 2009 to the level of demand for these commodities in 2004. The dynamic of import of machinery, equipment and transport means shows that the demand for imports of these commodities in general has the tendency to increase.
- 2 Since 1995 the demand for imports of foodstuffs and agricultural raw materials (excluding textile) has been gradually decreasing until 2008, but it drastically increased in 2009 to the level of demand for these commodities in 2005. It shows that the demand for imports of these commodities has the tendency to decrease.
- 3 Since 1995 the demand for imports of chemical products and rubber has fluctuated - sometimes increasing and sometimes decreasing. It shows that the demand for imports of these commodities has the tendency to remain at the same level.<sup>115</sup>

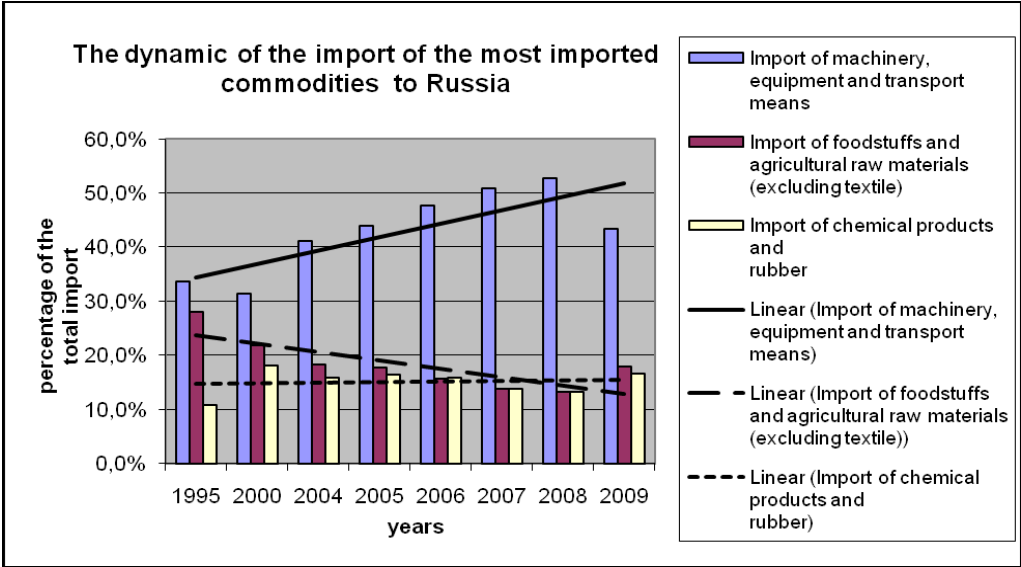


Figure 10: The dynamic of the import of the most imported commodities to Russia

Depiction 6: Own depiction according to the Russian Federal State Statistic Service

<sup>115</sup> Cf. [http://www.gks.ru/bgd/regl/b10\\_12/IssWWW.exe/stg/d02/26-08.htm](http://www.gks.ru/bgd/regl/b10_12/IssWWW.exe/stg/d02/26-08.htm)

After all analysis of statistic data of Russia the question “Is the Russian market soon saturated?” can be answered with no. The Russian market is not soon saturated because:

- the consumption and hence the demand of Russian households has been increasing since 1992.
- the demand for imports to Russia showed tendency to increase.
- the demand for import of commodities from the main suppliers of Russia has been gradually rising from 2000 until 2008.
- the demand for the most imported commodities to Russia has been gradually rising from 2000 until 2008.

#### 4.3.2 *Raw materials are not infinite*

In the early 60's researchers and scientists were concerned about the increasing demands for raw materials, the extraction and processing of the raw materials as well as their end.

Russia has always been famous for considerable amount of natural resources, primary energy sources like oil, natural gas and coal. But also metals such as steel, zinc, nickel, aluminum, uranium, gold, platinum, titanium, magnesium, copper and non-metals such as diamonds and molybdenum listed. In addition, agricultural and natural products, like potassium fertilizers and wood, are very important. Russia has an area of 17,075,400 square miles and is the largest country in the world.<sup>116</sup> The land provides measureless raw material reserves for the coming decades.<sup>117</sup> Because of the size there are still no precise estimates for the end of raw materials such as oil, natural gas, coal, iron, zinc, nickel, aluminum, uranium, gold, magnesium, and non-metals such as diamonds, molybdenum. Therefore, in the coming decades Russia will be interesting for companies that need these raw materials for their production process.

Despite the considerable size and still undeveloped interior “treasures”, it will come to the end of the natural resources some time in the future. In cause of the high demand in the next 50 years such resources as copper, titanium and platinum will soon be emptied out.<sup>118</sup> Therefore, the Russian government reports their rights to the Antarctic area. If Russia succeeds to receive the right to enforce the Antarctic, the country would have an additional share of the untapped raw material inventories of Antarctica (estimated 25% of the world resources). If the Antarctica ice melts more and more in 2030 one can expect an economic extraction. Of course Canada, the USA, Denmark and Norway have also already declared their rights of the Antarctica resources.<sup>119</sup>

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<sup>116</sup> Cf. <http://www.aktuell.ru/russland/lexikon/geographie>

<sup>117</sup> Cf. [http://www.wiwo-shop.de/88/pid/1149/Business\\_Know-How\\_Russland.htm](http://www.wiwo-shop.de/88/pid/1149/Business_Know-How_Russland.htm)

<sup>118</sup> Cf. <http://www.umweltberatung.at/start.asp?ID=36773&b=2529>

<sup>119</sup> Cf. <http://www.blogspan.net/presse/neue-oz-kommentar-zu-russland-rohstoffe-arktis/mitteilung/179063/>

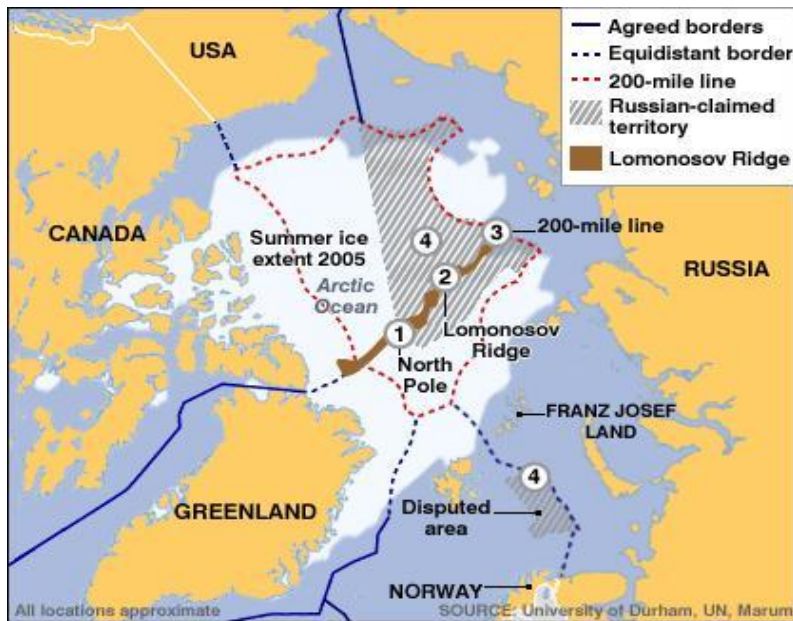


Figure 11: Russian-claimed territory in the Arctic Zone  
 Depiction 7: BBC News, <http://news.bbc.co.uk/2/hi/6925853.stm>

#### 4.3.3 Purchasing power

On average the Russian buying public has more and more capital available to satisfy their means. Looking at the diagram “The dynamic of the average wage in Russia”, we can see that from 2004 until 2009 the average wage increased from 188 to 426 Euro within these 5 years.<sup>120</sup> That equals an increase of 127%. To rate this number in a global context it is important to know that the Russian Federation ranks 76<sup>th</sup> in the global comparison of gross national income per capita in 2009 and therefore belongs to countries with the upper middle income.<sup>121</sup>



Figure 12: The dynamic of the average wage in Russia

Depiction 8: Own depiction according to the Russian Federal State Statistic Service

<sup>120</sup> Cf. [http://www.gks.ru/bgd/regl/b10\\_12/IssWWW.exe/stg/d01/07-01.htm](http://www.gks.ru/bgd/regl/b10_12/IssWWW.exe/stg/d01/07-01.htm)

<sup>121</sup> Cf. <http://siteresources.worldbank.org/DATASTATISTICS/Resources/GNIPC.pdf>

But the development in the previous years refers to a fast rise of the Russian Federation in global comparison. Considering the explanation of the mass purchasing power in the previous paragraph, the increasing average wage alone is not significant enough to suggest a higher mass purchasing power, because inflation and increasing dues affect the real earnings and consequently the purchasing power substantially. Analyzing the diagram “The dynamic of the real accrued wage of an employee in Russia” it becomes clear that since the real earnings in Russia increased just 51% from 2004 until 2009 compared to the average wage in Russia, which increased up to 127% in the same period. The massive boost in wages has not led to an equal increase of purchasing power.<sup>122</sup> This fact must be a result of increasing dues, because declining inflation rates since 2008 could not affect the purchasing power negatively.

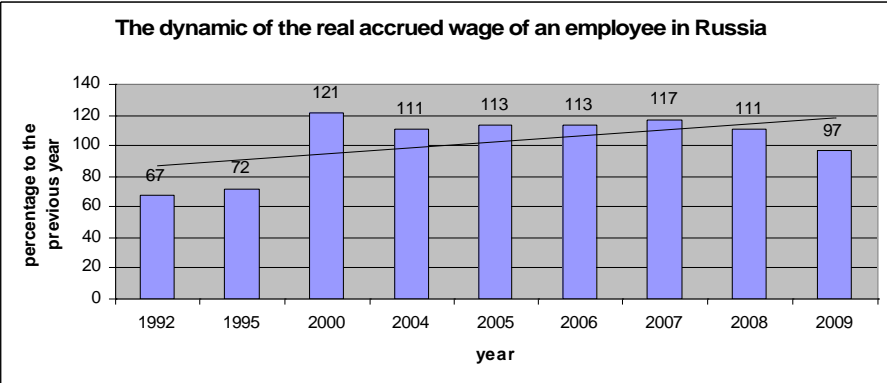


Figure 13: The dynamic of the real accrued wage of an employee in Russia  
 Depiction 9: Own depiction according to the Russian Federal State Statistic Service

Another important figure is the living wage. Comparing the averaged wage and the money needed for the living wage from the diagram “The dynamic of the average wage compared with the dynamic of the living wage in Russia”, it becomes apparent that the average wage increases much faster than the amount of capital necessary for the living wage.<sup>123</sup>

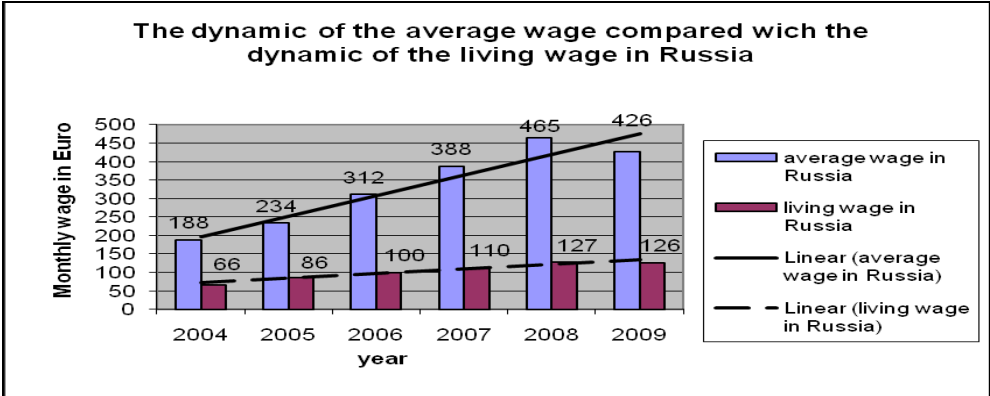


Figure 14: The dynamic of the average wage compared which the dynamic of the living wage in Russia  
 Depiction 10: Own depiction according to the Russian Federal State Statistic Service

<sup>122</sup> Cf. [http://www.gks.ru/bgd/regl/b10\\_12/IssWWW.exe/stg/d01/07-01.htm](http://www.gks.ru/bgd/regl/b10_12/IssWWW.exe/stg/d01/07-01.htm)  
<sup>123</sup> Cf. [http://www.gks.ru/bgd/regl/b10\\_12/IssWWW.exe/stg/d01/07-01.htm](http://www.gks.ru/bgd/regl/b10_12/IssWWW.exe/stg/d01/07-01.htm)

Furthermore due to the diagram “Distribution of population in Russia in 2004 by per capita money income (as percentage of the total monthly income)” and to the diagram “Distribution of population in Russia in 2004 by per capita money income (as percentage of the total monthly income)” the distribution of income has made an interesting development during the previous years. While in 2004 about 80% of the population earned only 0-227 Euro, the wage growth led to an increasing middle class with wages between 227-556 Euro.<sup>124</sup>

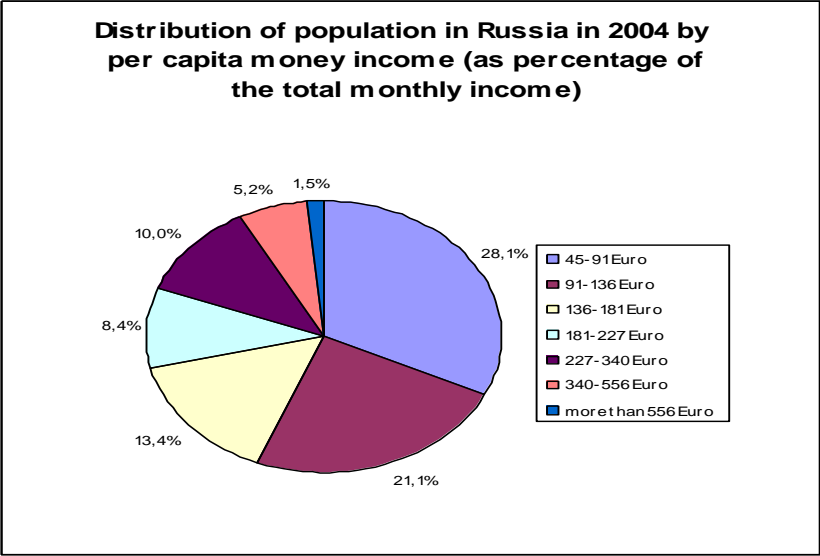


Figure 15: Distribution of population in Russia in 2004 by per capita money income (as percentage of the total monthly income)

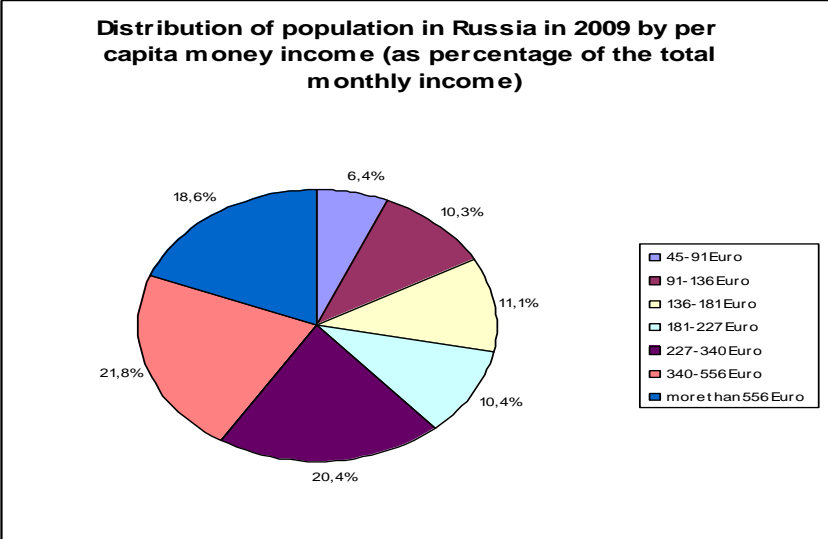


Figure 16: Distribution of population in Russia in 2009 by per capita money income (as percentage of the total monthly income)

Depiction 11 and 12: Own depiction according to the Russian Federal State Statistic Service

<sup>124</sup> Cf. [http://www.gks.ru/bgd/regl/b10\\_06/IssWWW.exe/Stg/3/03-05.htm](http://www.gks.ru/bgd/regl/b10_06/IssWWW.exe/Stg/3/03-05.htm)

#### **4.4 Conclusion**

Summarizing the previously mentioned factors, it can be affirmed that the Western countries including Germany have plenty of reasons to move their production units to Russia.

It is meaningful to mention that since the collapse of the Soviet Union Russia has changed its political and economical organization towards the pattern of Western Europe. In reference to this, many factors have changed and reduced their importance for the foreign investors and producers.

However Russia still remains attractive enough. First of all Russia is one of the richest countries if raw materials are taken into consideration. The prices of raw resources and materials are significantly lower than in the rest of the world if the production activities are performed within Russia. Furthermore Russia's government keeps on working to obtain the rights of Antarctic area, which as known, contains approximately one fourth of the world's resources.

Another significant factor is the growth of the buying power and the remarkable interest in „high quality” products coming from Western Europe. Moreover German companies have already positioned in the Russian market. Since the early 90's Germany, with almost 13 % of total imported amount in Russia, has been the second largest importer.

But Russia has to give a lot of efforts to sustain the attractiveness of its economy even more for such countries as Germany. Along with the qualified workforce, advantages of growing economy and cooperative business partners there are a lot of aspects to be improved. For example corruption, the complexity of the legal and taxation aspects as well as the bureaucracy of custom operations actually slow down the potential of this economy and discourage many of possible foreign investors.



## **5 Modern Russian Education: Close Integration with Europe**

### **Group members:**

Yulia Kan  
Maxim Panchenko  
Sofia Voulfson

Education is a profitable export industry. The global education market now accounts for approximately 50-60 billion dollars. Russia's participation in various estimates ranges from 0.5 to 3.8%. The openness of Russian educational system, the adoption at the state level the principles outlined in the Bologna Declaration and, in particular the principle of academic mobility allows to increase the loyalty of foreigners to Russia.

According to the Ministry of Education the amount of students having studied under the international agreements makes up only 1.4% (table 1). However, this is under the condition that citizens of the CIS and Baltic States, studied on the terms of the general reception aren't considered, but the percent of foreign students-resident students doesn't exceed 2 % even together with them. The share of Russia in the export market of educational services is at its minimum. Russia is in the 9th place on this indicator, making up only 2 % of the total. The USA still takes the lead (about 20 %). The number of foreign students trained on a full-time course of study in Russian high schools has grown approximately 10% over the past years, having exceeded 70 thousand persons; about 40 thousand are trained in other modes of study. Maybe about half of this amount comprises international students from the CIS and Baltic countries; the other part is from Asia, Africa and India. On the one hand Russia has something to offer: scientific schools, including mathematical, have a certain authority around the world. The quantity of Russian teachers in American universities confirms this fact. Graduates of Russian medical high schools and computer majors are also considered to be in high demand. At the same time, despite the positive dynamics, the present number of foreign students in Russia can be considered a drop in the sea.

To increase the demand for Russian higher education today, along with Russia's traditional export system of educational services, it is necessary to use new approaches, some of which include:

1. The creation of branches of Russian high schools abroad;
2. The realization of educational programs with the use of remote educational technologies and e-Learning technologies (electronic training);
3. Transnational education.

Prior to its launch on the foreign market it is necessary to study the legal aspects of the realization of the export program within the framework of both the Russian legal field, and the legal space of country demands. These problems usually appear during the process of struc-

tural division (branch or representation) of educational institutions abroad. The coordination process is complicated to a great extent by the legislations of the majority of the countries. Russian high schools face the most unexpected difficulties in creating foreign structural divisions within their own country. A legal base regulating educational activity of Russian high schools abroad has yet to be developed in the Russian Federation.

A necessary element in the creation of regional and foreign structural divisions of educational institutions is investment. Despite the proclaimed state policy on support of education export, universities and institutions do not receive additional financing to put toward the realization of rather expensive projects. Considering the government's interest in the expansion of Russian educational services exportation, it makes sense to develop, approve and implement a standard legal base, which could regulate the activity of structural divisions of domestic educational institutions abroad. The creation of structural divisions of universities and institutions abroad can be considered to be a form of transnational education. *Transnational* involves education received in one country within the boundaries of a university located in another country. It is delivered by private providers through a structure of campuses, franchise systems, offshore and international institutions, through the realization of joint educational programs, including online programs. Being a direct result of globalization, transnational formation is closely connected to the application of new information technology. The demand for higher education increases by 6% in the world annually with a considerable advancement of transnational educational services. Approximately 75% of transnational educational programs are realized by means of an educational franchise and application of remote technologies. The majority of leading universities in the world employ educational franchise. Universities in the USA, Australia and New Zealand are in the lead. As for Russian universities, the legislation forbids the use of franchise for educational institutions: only commercial organizations and citizens registered as individual businessmen can utilize a franchising contract.

Modern programs are being unified: arrangements between two or more universities that agree to carry out a joint program within the limits of educational credits and test transfer. In Russia also there is an experience of realization of incorporated programs. Thus there are programs in which foreign university is leader; there are also programs where leader is Russian university. It is necessary to pay attention to a role of remote educational technologies and e-learning technology in development of transnational educational programs. By approximate calculations the capacity of educational market makes up millions students around the world. It is the most perspective form of transnational education because realization of remote educational programs doesn't demand such considerable expenses, as creation of structural division abroad. There are no obstacles in a legal field because registration of such activity is not regulated by legislators of the majority of the countries. Some Russian university realizes the export programs with the use of remote educational technologies. According to the most conservative estimates, realization these programs in Russian universities annually brings to the

state the income not less than 1 billion rubles. But the result could be much more with the state support.

For harmonic entrance to the international market of educational services, it is necessary to go on rapprochement with existing international norms and standards. The difference between Russian and Western universities in the educational process is quite significant. In Europe, the modular system, and in Russia students master around 12-15 different disciplines within six months and then pass the entire volume of the material on these subjects within 2-3 weeks. In Russian universities the absolute rate of in-class load per week is very high. In the west, yet more time is devoted to independent work. Russian education is too theoretical and less focused on the practical application of knowledge gained. The alternation of theoretical training and practical work called abroad *sandwich course*.

Russia, like other advanced countries, finds its way to the development of transnational education. There are serious prerequisites for educational services from Russia to be better represented abroad. In the same way it is likely that the programs of foreign institutions, which practice transnational education and have undisputed reputation, will become a reality of our educational environment.

In order to increase the export potential of Russian higher education it is necessary to develop, prepare and deliver to the international educational market university programs in foreign languages. At present educational programs for citizens of foreign countries are held in more than 20 Russian universities. The primer language for these programs is Russian. This results in the prevalence of students from CIS countries and countries with compact residence of Russian-speaking population. However, the worldwide development of export-oriented educational programs involves the training of foreign nationals in their native language or in English as the language of international communication. Many universities have a number of additional professional education programs in English. As for higher education programs, the conduct of them in foreign language in its entirety is impossible without changes in relevant legislation.

It is impossible not to note the significant increase in supply of educational products of foreign universities in the Russian education market. Currently, about 100 foreign educational institutions carry out distance learning activities in the Russian Federation, training more than 50 thousand students.

In an era of globalization, development of export and import of educational services will definitely increase, especially at the entry of our country into the World Trade Organization. The Russian education system should be ready for this. We do not have much time for the economic and legal regulation of these processes. Underestimation of the problems identified are not only prevent the exit of Russian educational institutions in the international educational market, but also can lead to loss of the internal market, which will not fail to take the largest universities in the world.

As part of the *Concept of the export of educational services in the years 2011-2020*, it is supposed that all problems can be solved through government support. By 2020, the proportion of courses taught in foreign languages (especially English), should reach in Russian universities for at least 10%, overseas will be about 15 of their branches and representative offices. All this will eventually lead to an increase in the share of Russia in the global education market from 2 to 7%, and among the top 100 universities in international ratings will be at least 10 Russian universities.

What about Russia and Germany? Germany, which is scientifically and technologically, on one hand, among the leading powers in the world, and on another - is in an urgent need for an influx of new ideas, innovation and high technology, is one of the most traditional and stakeholders of our country in science and education.

Among research institutions in Germany which are actively cooperating with Russia, the following ones could be highlighted: German Research Society, Working community of Industrial Research Associations *Otto von Guericke*; *Alexander von Humboldt Foundation*, the Fraunhofer Society, German Research Center for Community of Hermann von Helmholtz, the Max Planck Society of science promotion, Foundation of Robert Bosch; the Scientific community of Gottfried Wilhelm Leibniz. Russian cooperation with the German Academic Exchange Service (*DAAD*) should be noticed as well.

Among the priorities of the *DAAD* the programs to support the study of Germany and German language abroad, including in the form of a partnership between the institutions, the travel of German teachers, support and upgrading of basic and additional training courses.

Another important part of the *DAAD* in the Russian-German cooperation, funded by the federal budget is to increase the qualification of the leading staff members and personnel pool in the fields of science and technology thus to assist in intensifying cooperation between Russia and Germany. This program from 1991 to 2000 was attended by about 20,000 Russian and 7,000 German students, teachers and scientists. And since 1991, the extent of exchange increased by 50%. A Russian-German program called "Mikhail Lomonosov" has been practiced since 2004. In the framework of this program, the German Academic Exchange Service and the Ministry of Education and Science of the Russian Federation during 4 years, will be annually providing up to 150 grants for training graduate students and young teachers of Russian natural and technical disciplines for their research practical studies in universities and research centers in Germany. The program primarily aims to strengthen and reproduce the teaching staff in Russian universities and to establish long-term scientific and professional contacts. Its peculiarity is that for the first time funding is provided on an equal basis.

	<b>Number of students (thousand)</b>	<b>Share %</b>
Students under the general admission	3152.8	98.6
Foreign nationals from CIS countries and Baltic States, students of international agreements	10.0	0.3
Citizens of other foreign states	34.9	1.1
<b>Total:</b>	3197.8	

Table 4: The share of foreign students (full-time education at state universities) based on data for the 2008-2009 school year

## 6 Center of Effective Technology Project

### Group members:

Andrej Nikiforov  
Elisaveta Golovina  
Andrej Miller  
Kirill Chebanov

Modern industrial enterprises face serious problems: a lack of highly-qualified personnel that is capable of proposing new solutions to current problems of the organization. It proves need in partnership relations with the representatives of European industrial concerns, as well as with the representatives of European universities, within the bounds of the *Center of Effective Technology (CET)* project. This way, cooperation in joint projects can be possible. Such partnership could be realized by means of student training since the beginning of their educational careers. Furthermore, partnerships with European universities are proposed for an opportunity to exchange knowledge and experience, with a goal of improving the educational process in Russia.

*CET* it is an area of communication that coordinates interoperability of industrial enterprises and business owners with “knowledge-owners/carriers” – the suppliers of highly-technological equipment, project organizations, centers of expertise and research. The main tasks of the *Center of Effective Technology* are:

1. development of material-technical base of an institution through its satisfaction with a constantly-renewed equipment of the leading world manufacturers;
2. organization of innovative form of the educational process on the basis of the approved program of the private government partnership *Triumvirate*;
3. liquidation of personnel deficiency of highly-professional experts of the industrial enterprises;
4. direct participation in technological re-equipment process of the industry by means of cooperation with industrial enterprises of technological program renewal.

Not every modern company is capable of individually developing and financing its own scientific center or buying “know-how” or technological innovations. Innovations are necessary for production of new types of production and services, to enter the international market. *CET* becomes an attractive area for companies, since it provides noticeable optimization of research and development expenses.

Equipment in such centers can be renewed after 2 years. Cooperation with enterprises about new technology and decisions suddenly grows, raising the R&D efforts. *CET* presents a group of division with branches, the base of modern effective model decisions. The development of innovations is a tool of raising the effectiveness and changes of the structure of the industrial-

technological complex. The quality improvement of the industry seems to be an innovative jump. The industrial system is in correlation with a change in the structure of an educational complex. The main problem of the educational system is the supply speed and target of the required knowledge. In order to solve the problem, it is necessary to modernize the tools of knowledge supply: new knowledge – new solutions – new technologies, management, financial resources—generalization of the new knowledge.

An interesting concept of knowledge supply, especially with taking into consideration the requirements of specific enterprises, is called the focus of knowledge. The focus of knowledge assumes a logical, compact and interconnected statement of related subjects. These subjects form an educational package, and graduates from educational universities gain the declared qualification. The focus of knowledge assumes a focus of requirements, a focus of knowledge and generation of the educational package.

Carriers of new knowledge are, for instance, creative and scientifically productive personnel, which transforms applied aspects of fundamental research results into new innovative solutions, which form the basis of the new technology. Re-transmitters of knowledge are developers and consumers of new technology, creators of methodical base and educational personnel. A chain of retransmission is the shortest way to get from the source of new knowledge to its recipient. The level of technology is determined by the modern level of professional knowledge. This system of expert training is motivated by the market's requirements and is adjusted on technological and organizational changes in the industry. Financing a project on such a big scale is not easy. The sources of investments needed to carry out the project can vary. Some of the primary sources are:

- assets and financial investments of legal and natural persons, Russian and foreign partners;
- budgetary funds from participation in federal, departmental and regional target programs, grants, EU and other international projects;
- finances and assets, received from direct participation in technological re-equipment of the industry by means of joint production with industrial enterprises;
- technological renewal programs by transferring of complex leading model solutions on the basis of new knowledge and technology;
- introductions of model solutions the operating industry through target training (re-training) of experts;
- non-budgetary funds of the University;
- target assets , stipulated in federal, regional and local budgets;
- acts from sponsors, patrons and others.

After reviewing the main ideas and profits of the Center project, we can suppose that such a joint work of the University, business representatives and the authority of the Russian Federation and its European partners is a real way to supply enterprises, specialized in technological innovations, with young qualified personnel.

Russia has already positive experience in creation of similar centers at universities. Positive effect of *CET* creation also touches a comfortable investment atmosphere for foreign companies in Russia. In the process of the Center's cooperation with representatives of international business Russian experts and Russian companies will be integrated on foreign markets. Russia interested in cooperating with European countries. Experts that gained work experience in Europe, familiar with the European business atmosphere, legislation and methods of work, will be "agents of international business".

It is necessary to meet the needs of modern companies for well-qualified workers and create a scientific-educational *CET*, to control the technological innovations which are necessary for successful modernization of economy. *CET* is a common area that representatives of educational, business and government spheres to be meet.

In Europe, a lot of such projects have been realized. Some of the most famous are *Technopolis* in Helsinki and *Kista Science City* in Stockholm. In the last years *Technopolis* has successfully developed in Saint Petersburg. Today three projects involving technopark *Technopolis* are being carried out in Saint Petersburg. The first project is based at *Bonch-Bruевич SPbGUT*. It was the first technopark, which was supported at the state level. In particular, the concept of a specialized information technology Science and Technology Park (IT-park) on the basis of *Bonch-Bruевич SPbGUT* was approved by the Ministry of Communications and Informatization of Russian Federation in spring of 2003.

The last project is a technopark which located near *Pulkovo* Airport. Its peculiarity is that it will become a fully independent *Technopolis* investment project. An agreement to acquire land in the area of the city was signed by the company in October of 2010. This area was chosen due to its attractiveness for traffic and we can see already its proximity to the airport and good transport links with the city center. In future, a beltway will be built there. *Technopolis Pulkovo* is to occupy 4.6 hectares near Pulkovo highway, where the company plans to establish a technopark of 80 thousand square meters and a good number of parking places. Here it is planned to establish a working area of about 10.000–20.000 m<sup>2</sup>. The investment of the first stage will be about € 20 million. Final investment in the technopark Pulkovo will be € 100 million. It is expected that at its base both foreign and Russian companies will be located. There will also be defined anchor company (for example, in one of the Oulu's, Nokia concern plays this role). At this moment we can mention Fin Pro center, which will be located in Technopark. An agreement with Fin Pro was signed in May 2005.

In addition, it is planned to open Innovation Center *Technopolis* at Pulkovo Highway in December 2010, whose main goal will be to help Finnish companies to enter the Russian market.



In general it is planned to open from three to five technoparks in Saint Petersburg. Taking into account all the experience of foreign and domestic colleagues, it is planned to create the *Center of effective technologies* based on BST University in Saint Petersburg. *CET* has to become a communication platform, coordinating the interaction between industrial enterprises and holding companies, business community and "knowledge-holders" - suppliers of high-tech equipment, design organizations, expertise and research centers.

Saint Petersburg called the cultural capital of Russia by right; it is also one of the biggest scientific centers. It has become one of the primary exhibition centers in Russia. Such exhibitions as *Russian Industrialist*, *Russian Farmer* and *Neva* have become well-known in the world. No one can compete with them when it comes to the amount of annually-produced thematic industrious exhibits and forums, beneficial to the development of industry, technology and business. These events will always be appropriate, all thanks to the well-developed infrastructure and high level of interest of the industrialists. That is precisely why, in our opinion, organization of a significant presentation event will be one of the most effective ways of *CET* promotion onto the market of products and services. The project should be notable, and it should be organized so that it will be discussed and not forgotten after 3 or 4 weeks. Judging by the analysis of technological exhibits held in Saint Petersburg, it is most practical and effective to hold this event within the bounds of the exhibit *Advanced Technology. Innovations. Investments (HI-TECH)*. Throughout 2009, the attendance of this event was more than 10,000 people a day. The guests of this exhibit were representatives of industrial, scientific and business spheres not only from Russia, but also from Finland, Sweden, Germany, Holland, India and China.

Event marketing is a complex of events, aimed at promotion of a company's brand or product with the help of flashy and memorable events. Emotional contact with the audience, which is established during the event, presents a unique opportunity to reach the target audience successfully.

Goals that can be reached with the help of event-marketing tools:

- Establishment of a successful brand name;
- Creation of a new justification for a PR-company;
- A flashy launch of a product into the market;
- Positioning the brand and managing the company's good name;
- Promotion the brand due to promotion the brand-event;
- Forming loyal consumer groups;
- Promotion of impulse-supply products;
- Increasing long-term sales;
- Creation a "word-of-mouth" effect;
- Formation of an adherent team among co-workers.

An event-marketing tool is any special event directed at familiarization the audience with a brand or a service. In given circumstances, in our opinion, it is more expedient logical not to organize a separate event, but to present a scientific-technical stand at the exhibit *Advanced Technology. Innovations. Investments*. This exhibit will be held on March 15-17, 2011 at *LenEcspo* exhibition centre, Saint Petersburg. The exhibit cooperates with the Saint Petersburg Technical Fair, which includes displays and conferences on metallurgy, mechanical engineering, motor industry, and metal work. Holding the exhibit-congress HI-TECH alongside together with the industrial events gives extra impulse to the development of native scientific manufacture and to the effective use of intellectual and industrious resources, directing attention towards competitive native scientific development. This way, the participants of the exhibit will be able to display their ideas to the target audience, which is close to desired consumers.

A special event is an organization of an event for the creation of an advertisement message and familiarizing the participants of the activity with benefits and purpose of the brand name.

Problems to be solved:

- Creating a platform for an advertisement message;
- Forming emotional attachment to the brand;
- Organizing the “word-of-mouth” effect;
- Creating a notable new purpose for mass media;
- Use of event-marketing where advertisement is forbidden or ineffective;
- Gathering preliminary knowledge about the consumer. The audience taking part in the event can be looked as a large focus-group, which is a test subject for the company’s offers.

In order to hold a presentation successful, the organizer of the scientific area should think about their own image first. An essential attribute of the presentation should be a large amount of polygraphs: posters, flyers, cards – everything that visitors can take with them. It can also include handing out flyers with advertisement presentations at the entrance into the building and at the exhibit itself. Secondly comes the building of the presentation area. Here uniqueness plays its part. The more area is unique, the better, the more people will notice it and get interested.

Any such event needs the support of mass media. That is why it is necessary to send out press releases to thematic printed editions and radio channels a month prior to the day of the exhibit’s opening. But first it is necessary to locate your own media. It is essential to study the mass-media market, get familiar with its active participants. The audience needed must not be general, but a target one. Therefore, if it’s impossible to make use of proper research of media’s audience, it becomes necessary to study pages and programs of editions and figure out what their circulation is like and find out for certain how many audience members are likely to attend.

Presentation itself must coordinate with the plan:

- main program – here we must first and foremost get through to the audience with the main message of the project, within the right bounds;
- presentation – media files, video presentations;
- follow-up questions – conversation with the audience, answers to all questions, comments and concerns;
- media – short but extensive interviews for pressmen.

Therefore, the *CET* project can be very useful primarily for companies, which require technological innovations, unique ideas and technology, but are not able to fulfil these needs on their own. The importance of *CET* is also shown in significant assisting these companies on the way of their entering the international market.

## **7 Economical and juridical aspects of adaptation of a foreign company to Russian market**

### **Group members:**

Alexey Moiseev  
Anastasia Antipova

The company HANSE Ltd. was founded in 1980 in Germany for producing and selling automotive spare parts all over the world. The main products were – suspension parts and silent blocks. The company received its name in honor of medieval age's European trade union – HANSE, which protected trading relations between different countries. The company had their Head office, warehouses and their own factory in Kamen, Germany. Firstly the company developed just as producer of suspension parts for German automobile market. But the main aim was to organize a trading company with a well known name for all over Europe.

In 1998 the company and the factory moved to Prague, Czech Republic, because of the new owners. This fact let reduce overall costs in manufacturing process and the company could expand their range of items. They opened additional factories in China, Turkey, and Taiwan. The main part of production was moved to these factories. However, the factory in Prague has been still working.

In 2001 the company opened a subsidiary in Russia, which was situated in Saint Petersburg. The main target was to increase sales in Russian automotive market. The branch including Marketing department, Sales department and Engineering department and a warehouse were organized in St.Petersburg. The marketing policy contained participation in different international and interregional exhibitions (e.g. Frankfurt am Main Exhibition, Moscow International Automobile Salon etc.). The company organized promotion actions and conferences for customers. Besides, the company used flexible system of discounts for customers.

Nowadays HANSE is one of the most well known brands on Russian market. The company sells not only their own spare parts but also spare parts of different famous trade marks to research market and to meet the requirements of customers and to increase range of items. The offices and the warehouses are located in Saint Petersburg and Moscow, dealership network covers all big Russian cities. Since 2001 the sales revenue has increased on 120 %.

Well developed dealership network allows to reduce delivery costs. Spare parts come directly from China, Turkey and Taiwan to the warehouses which are located near the biggest Russian cities. Also there are several distribution warehouses in Moscow, Saint Petersburg and Yekaterinburg which are necessary to compensate probable irregularity shipment.

Developing e-tailing is one of the main parts of success in modern high technology century. It is necessary to meet the customer's requirements on a new level of online customer service. HANSE Ltd. invented own internet store where everybody could make an order. Website is

easy to use and provides reliable and cost-effective shipping, especially in Russia where e-tailing is becoming more and more popular from day to day. Now online trading covers little part of income turnover, and high growth rates should make e-tailing one of the most profitable spheres of selling.

### **7.1 Economical aspects**

Russian automobile market has some differences. Different regions have their own structure of the market, e.g. Customers of European part of Russia in general use European automotive trade marks, also with a big part of Japanese cars with right handlebar. Eastern territories of Russia have majority of right-hand drive cars almost older than 10 years.

To achieve the success and to become well-known HANSE Ltd. began producing spare parts for right-hand drive cars. And nowadays 70% of customers are located in Eastern territories of Russia. The Factories in China and Taiwan let create strong trade relations between producers and consumers in the Russian Far East. And well developed transport infrastructure allowed to involve all big Russian cities in the trade network. The automobile market over all territory of Commonwealth of Independent States has almost the same structure as Russian. The subsidiary in Saint Petersburg allowed creating trade relations all over the territory of CIS.

Before opening the subsidiary in Russia HANSE Ltd. made a great work in creating a business plan of developing commerce. A large number of marketing researches had been done before the company made a decision about integration to Russian automobile market. A lot of factors were analyzed such as customer's ability, customer's demand of HANSE's products, and dynamic development of automobile industry in Russia in general.

### **7.2 Juridical aspects**

To acknowledge trade in Russia, a foreign company must open a subsidiary. A legal entity could have several forms of organization: Limited Liability Company; Joint-Stock Company; Closed Joint-Stock Company. Besides, there are some more complicated forms of organization. When a parent company has opened a subsidiary it can follow-up different goals. The main aim is to get additional profit. The main differences between forms of organization are the way how parent company realizes its right in managing the subsidiary and getting profit.

Organizing HANSE as Limited Liability Company number of founders contribute there capital to authorized fund of the company. A legal entity or individual capacities are allowed to be a founder. As for HANSE Ltd. among founders there were several individual capacities citizens of Germany. Net profit could be divided between founders quarterly, half-yearly or annually. The part of net profit which is belonged to every founder depends on the part of authorized fund which was contributed by this founder.

All net profit of the company must be imposed by 15% taxes, and if a parent company is situated abroad, tax on net profit must be taken twice by Russian and foreign law of taxation. To avoid tax supplement a Double Taxation Avoidance Agreement was signed between Russia and several countries mostly in Europe and Asia. Such as: Australia, Austria, Azerbaijan, Albania, Armenia, Belarus, Belgium, Bulgaria, Great Britain, Hungary, Vietnam, Germany, Denmark, Egypt, Israel, India, Indonesia, Iran, Ireland, Iceland, Spain, Italy, Kazakhstan, Canada, Qatar, Cyprus, Kirghizia, China, Democratic People's Republic of Korea, Korea, Kuwait, Lebanon, Luxembourg, Macedonia, Malaysia, Mali, Morocco, Moldova, Mongolia, Namibia, the Netherlands, New Zealand, Norway, Poland, Portugal, Romania, Syria, Slovakia, Slovenia, the USA, Tajikistan, Turkmenistan, Turkey, Uzbekistan, Ukraine, Philippines, Finland, France, Croatia, Czech Republic, Switzerland, Sweden, Sri Lanka, the republic of South Africa, Yugoslavia (Serbia and Montenegro), Japan.

The main principle of Double Taxation is remission. Taxes are not taking from a profit by Government of one country if they were taken by Government of another country, member of Agreement. This Agreement should establish more accessible terms for foreign investment outlay in Russia. As for owners of the company HANSE, they also have no tax supplement. The size of profits tax in Russia is less than in Europe. It depends on the part of authorized fund which was contributed by a company. In Germany the size of profits tax compiles 30%. This factor makes more profitable investment in new capital formation in Russian economy for HANSE Ltd.

Russian automobile market is very attractive for most of foreign companies, but there are difficulties connected with large numbers of bureaucratic procedures during a registration and preparing juridical documents. Besides, business in Russia is complicated by a big numbers of fake producers. It is very important to protect all production by special logo of trade mark. HANSE Ltd. pays big attention to the appearance of fake producers in the market and always tries to bring them to responsibility.

Nowadays HANSE Ltd. in Russia is the dynamic developing company in spare parts market. It shows high growth rate in selling and always increases numbers of items. There are a lot of competitors in automobile market in Russia and in the world. It is very difficult to stay on top in the modern economics and to set up a company especially during the crisis. It is a great achievement of the superiors of the HANSE Ltd. that company gets its' own part of the market and doesn't have any competitors.

In future the company HANSE Ltd. is going to develop dealership network over all the territory of CIS. In that case it is necessary to open several subsidiaries in those countries of CIS that have the highest customer's ability and a big number of Japanese cars with right hand. The main of them are Kazakhstan, Tajikistan and Turkmenistan, they are also the members of a Double Taxation Avoidance Agreement. Opening a subsidiary in Kazakhstan for example

will let to minimize numbers of resellers and will make HANSE products cheaper and more available for customers. A well known name in Russia will promote increasing sales.

## **8 Launching an International LLC**

### **Group members:**

Ekaterina, Antonova  
Maria Antonova  
Vera Oleynikova  
Michael Ponomarev  
Evgenia Pavlova  
Svetlana Zharkova

### **8.1 Documents required for registration of LLC in Russia**

The Russian citizens can register their companies using the service of the juridical firms or do it by themselves. A state registration's article of the Federal law establishes the way how to register new firms. At first, it is necessary to prepare the documents and hand them to the Tax Inspection.

The first document is the statement for the state registration according to the form established by the Government of the Russian Federation.

The second document is the decision of creation of a legal person - the protocol.

The third document is the Constituent document of the legal person - the charter.

The fourth document is the state tax payment document.

If me and my partners would like to create a company named *PARUS*, we have just given these documents to the tax inspector.

### **8.2 Documents from the tax authority**

5 days later we will get the documents with the registration confirmation.

These documents are:

1. The certificate of the state registration of the legal person;
2. The certificate of the statement in the tax department;

The Identification number of the taxpayer;

The Code of the reason of statement on the account;

3. The stitched and certified charter;
4. The information letter with the codes of the state statistics;
5. The registration notice from the Pension fund of the Russian Federation;
6. The registration notice from the territorial fund of obligatory medical insurance;
7. The registration notice from the social insurance fund.



### 8.3 Production LLC PARUS

Today sailing sport becomes more popular than ever. It's one of extreme and unworried kind of sport. In case of interests increasing for this sport and also of predictable port-building on the shore of Finnish bay our company foreknows demand for sails.

The sails of our company are made out of complex racing laminate by the special processes, which stiffen heightened solidity to the sails. They are notable for high watertightness, strength and solidity. In addition they have slight weight.

There are two important behaviors of our sails:

- They can be used on any kind of yacht – on the sports yachts or pleasure boats;
- They could stand at all kind of bad weather.

### 8.4 Analysis of company competitiveness

If you want to have a successful business, you have to analyze your competitors and their productions. So, on this table you can see analysis of our sails in the second column and analyses of our competitive sails in the other columns. And after this you can rank the all factors and find the most competitive product. That is product with the least percent of factor of competitiveness is the best. So if you look at the diagram, you will see that the sails of our company – *Dimension-Polyant* – are the most competitive.

Factors of competitiveness				
Factor	«Challenge Sailcloth»	«Dimension-Polyant»	«Carbon 14»	«Pen 15»
Basic module elasticity, g/denier	270	1090	1076,6	412
Tensile strength, g/denier	15,25	20,5	21,65	18
Loss of solidity after 50 cycles of bend on 180°, %	12,5	46,25	40,8	10
Resistance to ultraviolet rays (time before the loss of solidity after 50%), month	4,5	7,75	2	3
Price for 1 square meter, EUR	23	88	27	17
Price for execution phase of 1 square meter of sail, EUR	73	171	134	110

Table 5: Factors of competitiveness

There are the main factors in the right-hand column, which are defining quality of sails. Then it's necessary to define cogency of operation factors.

Cogency of operation factors:	%
1. Basic module elasticity	33
2. Tensile strength	25
3. Loss of solidity after 50 cycles of bend on 180°	15
4. Resistance to ultraviolet rays	10
5. Price for execution phase of 1 square meter of sail	2

And after this you can rank the all factors and find the most competitive product. That is product with the least percent of factor of competitiveness is the best. So if you look at the diagram, you will see that the sails of our company – *Dimension-Polyant* – are the most competitive.

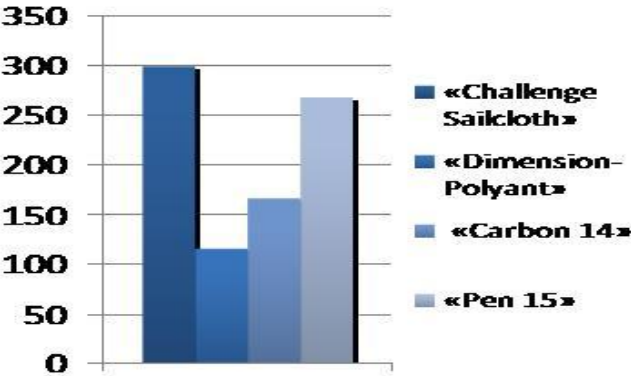


Figure 17: Factors of Competitiveness

**8.5 The main ports in Russia**

Russia exports and imports goods (oil products, coal, metals, the equipment, motor-vehicles, food) through the large cities' seaports: Murmansk, Kaliningrad, Astrakhan, Vladivostok.

The Russian government plans to make changes in the Code of the internal sailing transport. It will make easier the journeys for the foreign persons in the Russian sea ways.

The Scandinavian and Germany's fleets include more than 600 thousand of the ships. 10 % of this number can increase Russian budget up to 350-500 million Euro in a year.

## 8.6 Saint Petersburg – a new Russian port

St. Petersburg is known as sea capital of Russia. The St. Petersburg sailing week takes place every summer and the yachtsmen from all Russian cities take part in it. The competitions of the world level also have a place here: the finish of races of Volvo Ocean Race and Tall Ship Race spent in 2009. It is planned to spend 50 - 100 international competitions every year.

The government has decided to make happy Northern capital with the building of a new passenger port for big cruise for \$500 million - \$1 billion. The throughput in a year is 1.2 million of the passengers. The project is capable to pay off for 4-5 years.

## 8.7 Possible prospects of the development of business

These countries have exits to the Baltic and Northern seas. Sea sports are well developed there. Sportsmen often take part in the international competitions and they can become interested in our company's products. Yachtsmen can become our steady customers in the future. The victories of the Russian yacht club with which we have a contract will do a good advertisement for our company *PARUS*.

country	complexity rating	registration of an enterprise	construction permitting	property registration	crediting	protection of investors	taxation	foreign trade	securing of execution of treaties	closing of businesses
Great Britain	4	17	16	22	2	10	16	15	23	7
Denmark	6	27	10	30	15	28	13	5	30	5
Norway	8	33	65	8	46	20	18	9	4	4
Finland	13	32	55	26	32	59	65	6	11	6
Sweden	14	39	20	15	72	28	39	7	52	18
Estonia	17	37	24	13	32	59	30	4	50	70
<b>Germany</b>	<b>22</b>	<b>88</b>	<b>18</b>	<b>67</b>	<b>15</b>	<b>93</b>	<b>88</b>	<b>14</b>	<b>6</b>	<b>35</b>
Lithuania	23	87	59	7	46	93	44	31	17	39
Latvia	24	53	79	57	6	59	59	16	14	80
Belgium	25	31	41	177	46	16	70	44	21	8
the Netherlands	30	71	105	46	46	109	27	13	29	11
Poland	70	113	164	86	15	44	121	49	77	81
<b>Russia</b>	<b>123</b>	<b>108</b>	<b>182</b>	<b>51</b>	<b>89</b>	<b>93</b>	<b>105</b>	<b>16</b>	<b>18</b>	<b>103</b>

Table 6: Country rating according to favorable business conditions index as well as data on 9 indicators of business activity regulation

## **8.8 Establishing a subsidiary in Germany**

Subsidiaries can be established in the form of company as well as partnership. Limited liability companies are the most preferable for investors!

Founding a LLC:

- Advantage: no corporate income tax;
- Disadvantage: personal liability of founding members.

## **8.9 LLC Registration in Germany**

If you want to register LLC in Germany, you need have the next intelligence:

1. Information about company founder and company director, which involve their name and surname, date and place of birth, place of registration, numbers of passports and copy of foreign passport;
2. If founders are legal foreign person, then company authorized documents and company creation documents are required;
3. Information about authorized capital stock rate and founders' stakes. Minimum dimension of authorized capital in Germany is 25000 EUR;
4. Estimated company's name. It is desirable; there is 3-4 kind of names, arranged in order of preference;
5. Legal Address, where you want to register the company;
6. List of kind of Activity;
7. Authorized capital stock payment;
8. Avoiding of double taxation. There is the Agreement in order to avoid double taxation in point of income tax and property tax between Russia and Germany. It was concluded in 29-th May 1996.

## **8.10 Opening an account for LLC in the period of establishment**

An account can be opened both by the future CEO and by founding members themselves.

In case the LLC founder is a Russian enterprise, the following documents are needed for account opening:

1. Identity card or foreign passport of the future;
2. CEO and founding members;
3. Notarially certified foundation agreement;
4. Russian company's Articles of Association;

5. Valid extract from the Trade Register of Russia;
6. Passport of the person authorized to sign.

### 8.11 Company commercial registration in Germany

Action	Costs	
Constitutive Notarial Contract Assurance	Sole LLC 84.00€ additionally: Side Costs + VAT	LLC with 2 or more founders 168.00€ additionally: Side Costs + VAT
Founder's Notarial Decisions Assurance	168.00 € Side Costs + VAT	
Project Development + filing of an certificate application with a registration request	42.00 € Side Costs + VAT	
Commercial Registration	100€	
The Day Press / Internet Article	From 100.00€ to 250.00€	

Table 7: Company commercial registration in Germany

### 8.12 Registration of a subject of taxation

Registration when entering the national market:

1. The Trade Registry;
2. Department of economics in the local administration;
3. Federal Work Agency;
4. Tax authority;
5. Proper insurance against industrial accidents Trade union.

In most cases companies must register in a tax inspectorate within a month after enrolment to the Trade Registry.

Tax rates for economic associations with debt capital:

- Corporate income tax: 15%
- Income tax: 15-45%

As opposed to Russia, there is no single rate for income tax, but progressive taxation scale is used, that is tax rate increases with the increase of taxable income amount.

### **8.13 Foreign company registration in Russian Federation**

If you want to register LLC in Russia, you need have the next documents:

1. If the founder is foreign natural person, he must have Business Certificate and Solvency Certificate.
2. If the founder is foreign legal person, he must have:
  - Commercial registration Certificate or copying from commercial register of country where foreign legal country are registered;
  - Solvency Certificate;
  - Foreign company decision to become a founder of Russian society with indication of person, who has rights of signing founding documents of company with foreign investment of capital.

### **8.14 Necessary documents for foreign company's to set up in Russian Federation**

Required Documents for non-residential company:

1. Written request: indicates company's name, the establishment date, address, company's activity, company's director's, managers and representatives, phone number in domestic country, SWIFT foreign bank code, account number, Moscow representatives phone, company's head members information (Legal persons must have: registration number, registration date, registration agency and its address, membership share, identification number, company's address in Russian and Latin transcriptions, phone numbers in country where company registered; physical persons must have: passport data, id number or its analog, address in Russian, membership share), representative objectives, Russian partners' and cooperation perspective information.
2. Warrant which was given to a foreign company representative in case of negotiation;
3. Company's constitution (or any other equivalent document);
4. Registration certificate or extraction from trade registry, which is approving company registration;
5. The company representation decision;
6. The bank certificate or other document containing the information on solvency of company;
7. Representative terms and conditions;
8. Letters of recommendation from Russian business partners;
9. Legal Address of representative approval document.

All documents must be in original copy (notarial copies), legalized, in Russian, notarially assured.

Necessary documents for the government employee personal accreditation:

1. Copy of representative set up approval;
2. Passport copy;
3. 2 photos 3x4;
4. The Warrant Copy;
5. Notarialy approved warrant in case of employees' accreditation;
6. Employee to accreditation information:
7. Surname, Name, 2nd name (Russian and Latin transcriptions);
8. Place and date of birth;
9. Nationality;
10. De facto address;
11. Education information;
12. Education specialty;
13. Record of service;
14. Marital Status;
15. De facto address in Russia;
16. Representative post;
17. Period of work in representation.

### **8.15 LLC advantages in Russian Federation**

1. Easy founding procedure – there's no necessity in stock issue registration.
2. Member's Property interests are more protected. A company member can leave at any moment and get his share back.
3. One of the most simple controller systems – current economic activity management realized by sole executive organization.
4. Authorized capital stock increase opportunity. In case of additional funds involvement necessity.
5. Interests protection of any corporation member. In participation meaning. Any company member has an influence of company's decisions and its future development.
6. Third persons join Prohibition Possibility. This prohibition is in LLC regulations.

7. Authorized capital stock holders (10 % of capital or more) have a Control Privilege. They have a possibility of excluding the member who rudely disturbs company's regulations. This measure uses in case when disturbances breaks company functionality.

So, if a few member's are involved (from 1 to 3), and they're connected by related, friendly or time-proved partnership relationships, then limited liability corporation is the best way of business.

LLC	Russia	Germany
Members	Members' count from 1 to 50 They contribute definite share in the Authorized capital stock.	Natural and Legal Persons. Minimal and maximum members' count are not limited.
Documents which Assigns Legal positions	1. Civil Code of Russian Federation art. 87-94 2. The LLC law (1998)	1. The LLC law (04.07.1980) 2. The commercial rights term.
Company's name	Name and full or short indication of LLC	Name must be approved by Trade and Industrial chamber and contain full or short indication of LLC («GmbH» Gesellschaft mit bescharnkter Haftung).
Capital	Each member must make a contribution to authorized capital. Authorized capital can't be less then 10000 RUR. (~ 244 EUR)	Authorized capital 25000 EUR. At least 12.500 EUR must be payed at once. Minimal share is 250 EUR.
Responsibility	Members are jointly responsibly to vicarious liability (additional liability of every member in proportion to general share) with their own property in multiple rates to cost of their share.	1. LLC answer for their obligations just with their own property, but not with property of other members. Members are responsible to society's debts only in size of their own share. 2. In case of bank society is responsible with its private guaranties.



LLC	Russia	Germany
Vote (part) transfer right	Member can sale or let his share or its' part to one or several members of society in proportion to their shares. The member's share (or its' part) alienation to the third persons are allowed. Share in authorized capital passed to heir of member or to legal successor of legal person.	Transfer and sale of stakes must be notarialy assure and entered in the Trade list.
Highest Control	<ol style="list-style-type: none"> <li>1. The general assembly of shareholders.</li> <li>2. The supervisory board.</li> </ol>	<ol style="list-style-type: none"> <li>1. One or several Chief Executive Officer.</li> <li>2. The general assembly of shareholders.</li> </ol>
Gain	Gain of LLC is distributed between the members. After this they must pay income-tax, which is 9%.	<ol style="list-style-type: none"> <li>1. The gain is charge of corporate tax (Korperschaftsteuer), which is 15%.</li> <li>2. LLC pays to taxation authorities for the member (or members) 20% of tax on capital income (Kapitalertragsteuer), when payment takes place.</li> <li>3. If gain pays off member, which is outside of the country, the tax on source of income will levy Quellensteuer).</li> <li>4. Company income levy by communal tax on an activity kind (Gewerbesteuer).</li> </ol>
Constitutive Documents	<ol style="list-style-type: none"> <li>1. Foundation agreement</li> <li>2. Articles of association</li> </ol>	Foundation agreement
Liquidation	Liquidation of society performed after voluntary and unanimous decision of its members.	Liquidation of society performed after unanimous decision of its members or court decision, which leads the Trade list on the place of society situation by its own initiative or by declaration tax authority.

LLC	Russia	Germany
Public Account	Public Account is absent.	Public Account is absent.
Balances	LLC obliged to make a balance and account of gains and losses in the end of each economic year.	LLC obliged to make a balance and account of gains and losses in the end of each economic year.
Period of registration	Period of registration of LLC takes 5 working days.	Depending on kind of earth and job of registry authority the period of registration of LLC takes 14-56 days after signing documents at notary public and forming collective investment fund.

Table 8: Comparison of LLC advantages in Russia and Germany

We have just shown the way of the attainment of LLC *PARUS* to the international market as an example of any Russian LLC. This theme will be actual in the near future. That's why this project can become into reality. We have researched the opening of the LLC in Russia in detail and have considered the possible markets on an example of Germany which is one of the countries with average complexity degree of cooperation with Russian companies factor.

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