



Moscow School of Management SKOLKOVO

SKOLKOVO Wealth Transformation
Centre



RUSSIA'S WEALTH POSSESSORS STUDY 2014



“Riches are not important for life’s contentment, while wealth is a necessity for one to be content”

Nikolai Chernyshevsky
(1828-1889)

Writer, critic, thinker



Ruslan Yusufov, Ivan Klimov PhD

RESEARCH AIMS AND METHODS

1. Context
2. Aims
3. Methodology

Context



1. The history of private wealth in Russia dates back only two decades
2. Private wealth in Russia is still going through the process of formation
3. According to international statistics only 30% of family businesses are transmitted to the second generation and only one in 10 survive to be transferred onto the third

Context



4. There is a limited availability of national succession and transmission instruments
5. Solutions for transmission of private wealth and business are increasing in necessity, due to the demographics of Russia's wealth possessors
6. There is an absence of transparency in the field of charity and philanthropy

Research aims



- I. Wealth possessor's profile
- II. Personal and family values
- III. Wealth and business succession
- IV. Philanthropy and charity
- V. Service providers

SWTC Research: “Russia’s Wealth Possessors 2014”

Goal: Understanding of wealth possessors' demographic trends and attitudes to succession planning, wealth management, philanthropy, educational agenda.

Comprehensive Nature

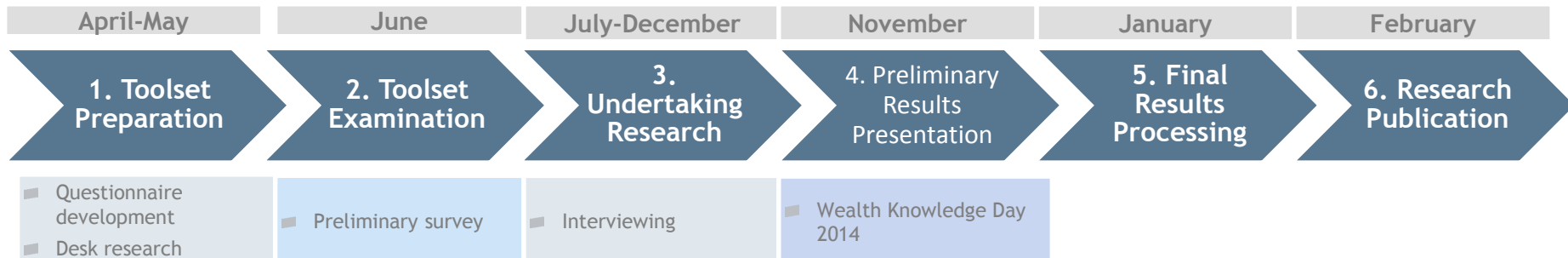
- Academic and sociological support of the New Economic School
- 100 plus respondents from a hard to reach group
- Project to be conducted on biannual basis, with alterations in focus
- Service providers survey scheduled for 2015

Unique symbiosis of business and academic contributions



Ruben Vardanian

Other SWTC partners



Desk research



Development of methodology and research tools



Interviewing private wealth possessors



Data analysis



Final results

Research focus

The **research focuses** on private wealth possessors and large business owners operating in Russia.

Means of selection

- Publicly available lists of the largest businessmen in Russia, according to Forbes
- Representatives of the entrepreneurial community of the Moscow School of Management SKOLKOVO
- Personal network of private wealth service providers



- ✓ **Cue Cards**
- ✓ **Voice recorder**
- ✓ **Questionnaire**
- ✓ **Values questionnaire**
- ✓ **Interview questions sheet**
- ✓ **Assistant's questionnaire**
- ✓ **Interviewer's report**

Research characteristics

- Field research: July - November 2014
- Data collection methods: in-person interviewing, survey
- Interview duration: from 50 minutes to 3 and a half hours
- Number of respondents: 30 people
- Strict confidentiality and anonymity of data processing

Ivan Klimov, PhD

I. WEALTH POSSESSORS PROFILE

1. Myths about Russian entrepreneurs
2. Social and demographic portrait
3. Business profile
4. Value measurement, based on ESS methodology

Acknowledgement

We would like to thank our respondents,

... for their precious time

... for ironically providing us with “uncomfortable answers”

... for graciously answering uncomfortable questions

The given Study does not describe the characteristics of the *entirety* of the given focus group – private wealth holders.

Here we talk about the comprehensive portraits of those private holders of significant wealth and business questioned throughout the given Study

Russians talk about business

- The current conditions are unfavourable for the development of entrepreneurship
- The number of Russians who are with this statement has increased from 44% in 2009 to 55% to 2013.

WCIOM, June 2013



Russians talk about businessmen

- It is impossible to earn a large fortune by honest means (59%)
- Larger businessmen are perceived negatively by 33% of the Russian population, compared to small and medium size businessmen – 13%

*(Levada Centre,
November 2014)*

- 62% of the Russian population would wish for their children, grandchildren to become entrepreneurs, businessmen
(WCIOM, February 2013)
- Main motivations of businessmen are: earning money (77%) becoming independent (49%) and self-realization (16%)
(FOM, June 2013)



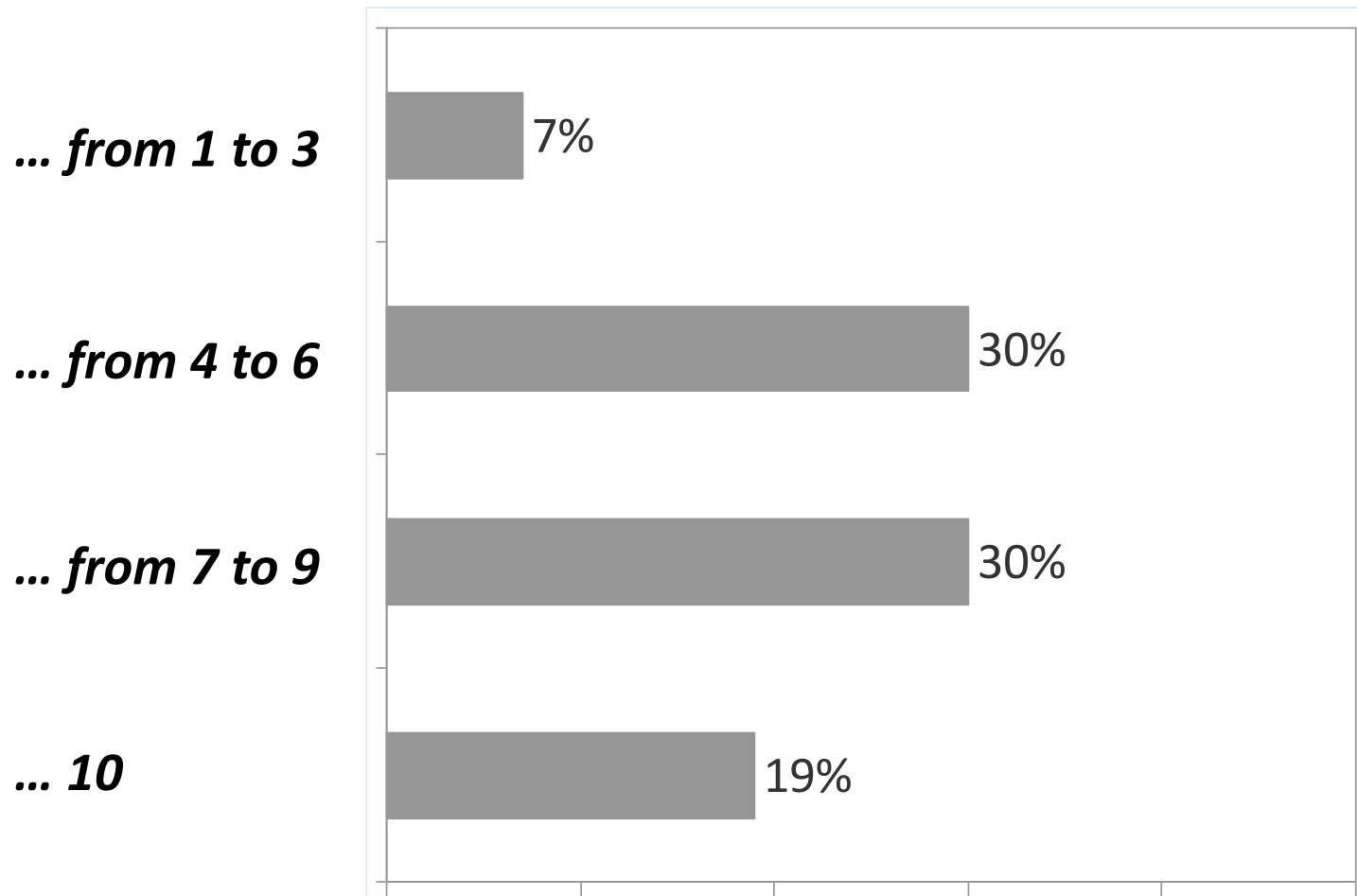
Business profile of HNWI

The most valuable resources and capabilities for family businesses are the ones based on information and tacit knowledge of the company leader. Thus, the most important aspect in managing succession is the effective transfer of this knowledge to the successor

(Cabrera-suárez et al., 2001)



Size of Wealth*



*On a scale from 1 to 10, with 10 being the Forbes 100



The main focus areas of business include:

- financial institutions and investments: 46%
- development and real estate: 25%
- education and research: 21%
- wholesale and retail trade: 21%



Business ownership and management

The business was created together with a partner: 80%

I am the sole manager of the business: 25%

The business is managed together with a partner: 58%

... another 17 % have passed the task of operational management to someone else, leaving only general management tasks to themselves.



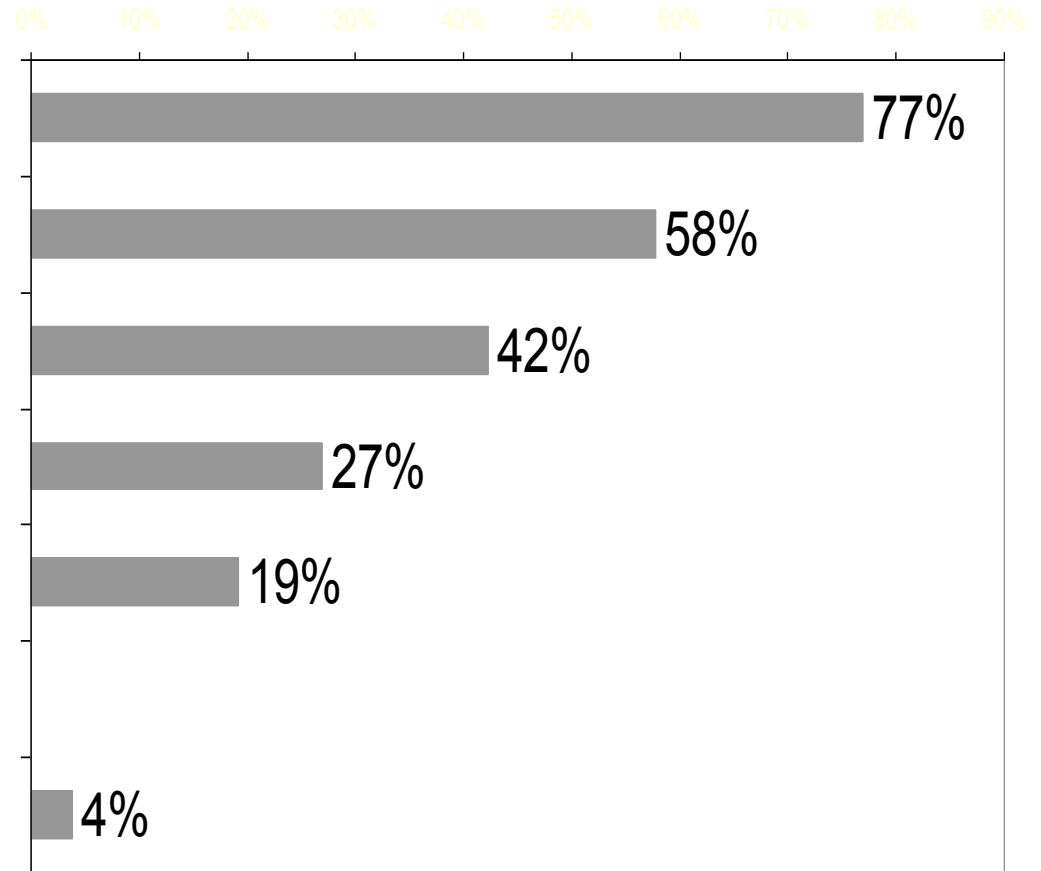
Business geographies

More than 10 regions in Russia:	50%
3-5 regions of the country:	21%
1 region:	21%

Some also have businesses abroad: 40% of which are in Europe, 24% in CIS countries and 20% in the USA



Reasons for business success



- › *Human capital*
- › *My person participation in management*
- › *Reliable partners*
- › *Technologies, innovations*
- › *Successful market conditions*
- ...
- › *Involvement of family members in business development*



*“To increase the chances of an effective transfer of business to the next generation, the children should be involved when they are young”
(Ambrose, 1983)*



Альбрехт Дюрер

Entrepreneurial experience

Beginning of business activity:

... 1991-1995:	46%
... 1985-1990:	33%
... before 1985 :	8%

The first capital was earned either between the ages of 13-17 (41%), or 18-23 (36%).



Founding elements of wealth

Apart from the main business, the wealth is composed of :

- shares in other companies: 82%
- land and real estate: 73%
- bank deposits and cash: 68%
- securities and other financial instruments: 50%



Perspectives for the next decade

Where do the businessmen plan to live in the next 10 years?

... in Russia:	41%
... we plan to leave:	26%
... it is being discussed, depending on situation:	44%
... it is not important, we alternate between different countries:	32%



*“Entrepreneurs who start planning succession in their 40s will have a higher probability of successful succession than those who wait until their 50s and 60s.”
(Danco, 1982)*



Family and children

Virtually all the respondents, at the time of questioning, were married.

The majority of entrepreneurs are parents to many children, from 2 to 6.

Preschool children:	50%
School children:	68%
Students:	32%
Already adults:	50%



Social demographics

Middle-aged- 46 years old

The majority - 70% - are 41-50 years old,
and another 23% are older than 50.

The average age of the richest businessmen in Russia,
according to Forbes is 52 years.

Of those questioned, the majority are men, with only one
female entrepreneur.



Education

Higher education:	96%
Russian or foreign academic degree:	29%
Engineering or physics diploma:	60%
Specialised business education:	54%



Value measurement, based on ESS methodology



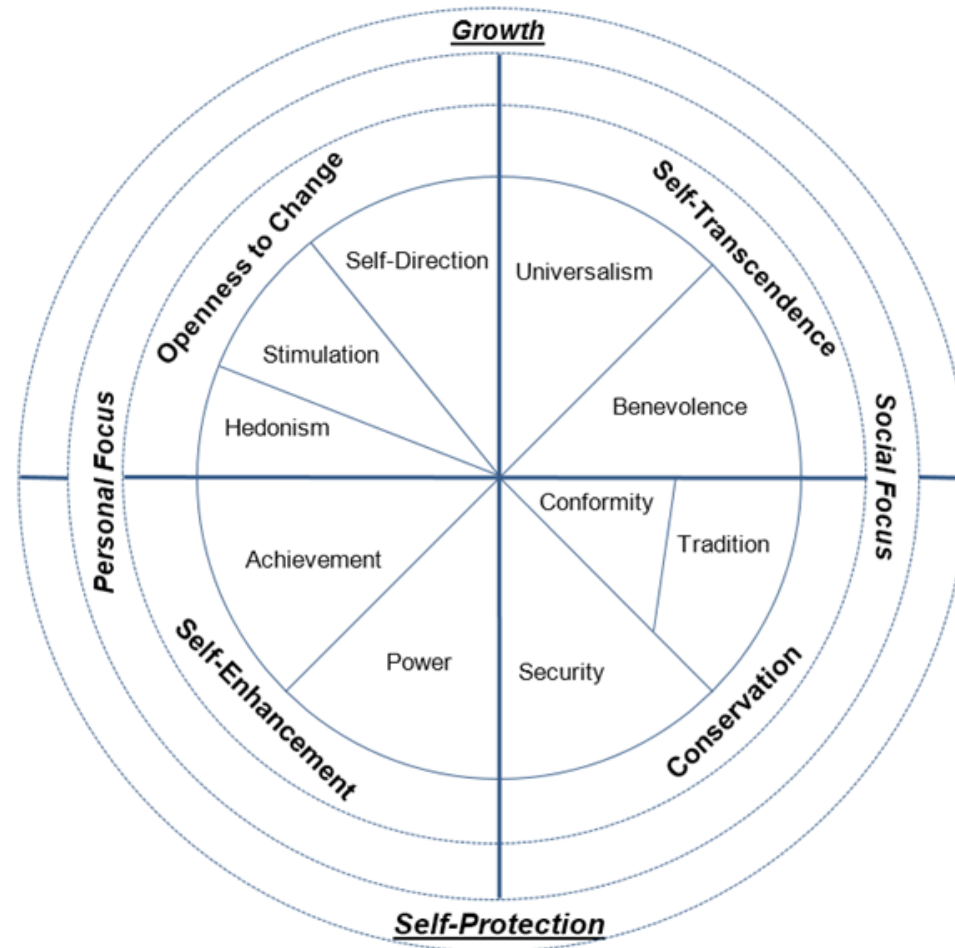
European *Values* Study 

V. Magun, M. Rudnev,
National Research University – Higher School of Economics

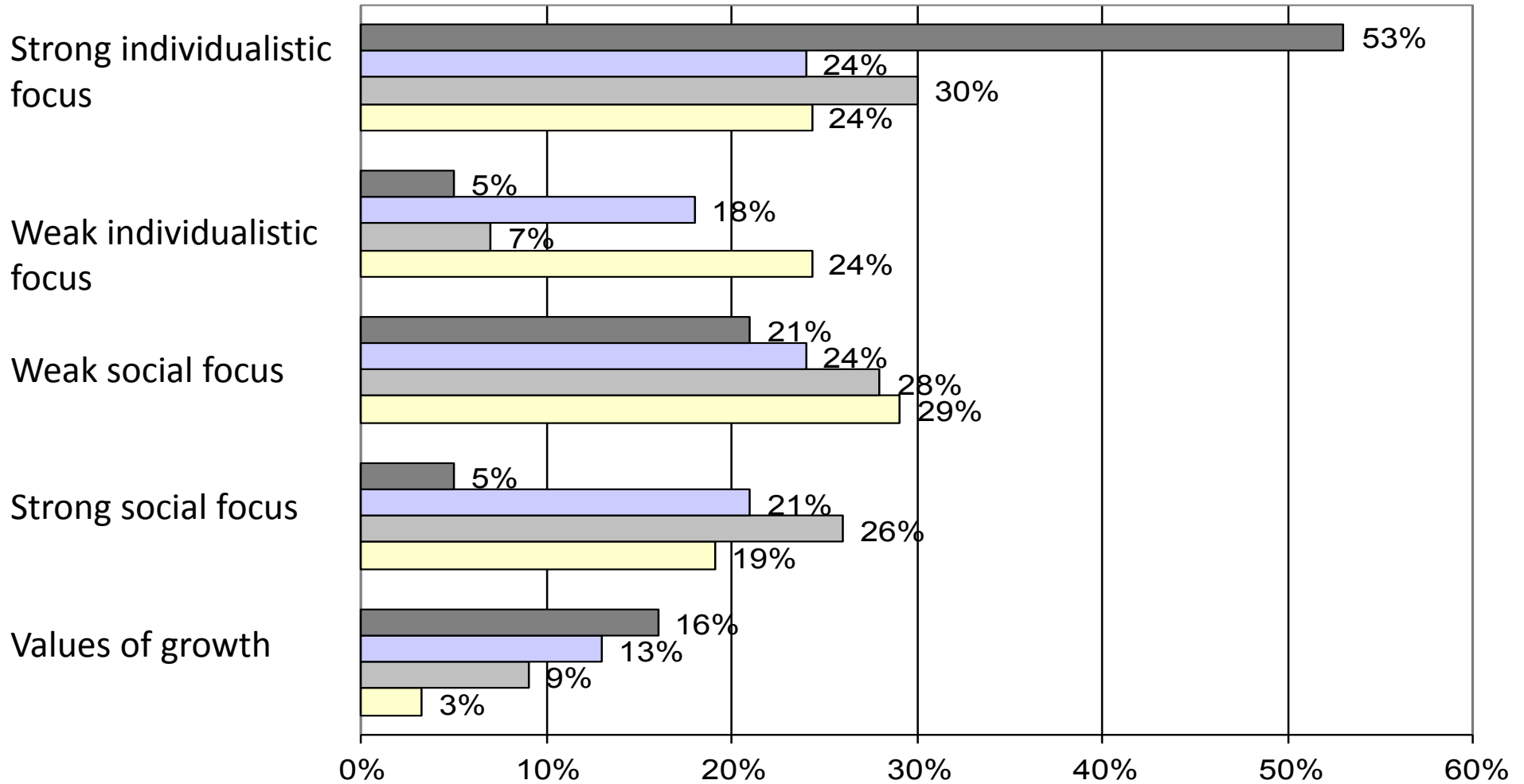
- * International comparative study
- * In Europe 55532 people were questioned
- * In Russia 2507 were questioned

Value measurement, based on ESS methodology

Based on the various sets of values, this methodology divides people into five different types



Value measurement, based on ESS methodology



Elena Rojdestvenskaia, PhD

II. PERSONAL AND FAMILY VALUES

1. Models of business-motivations and family values as two intersecting spaces
2. How the conflicting nature of the two spaces reflects upon business and wealth succession and philanthropy

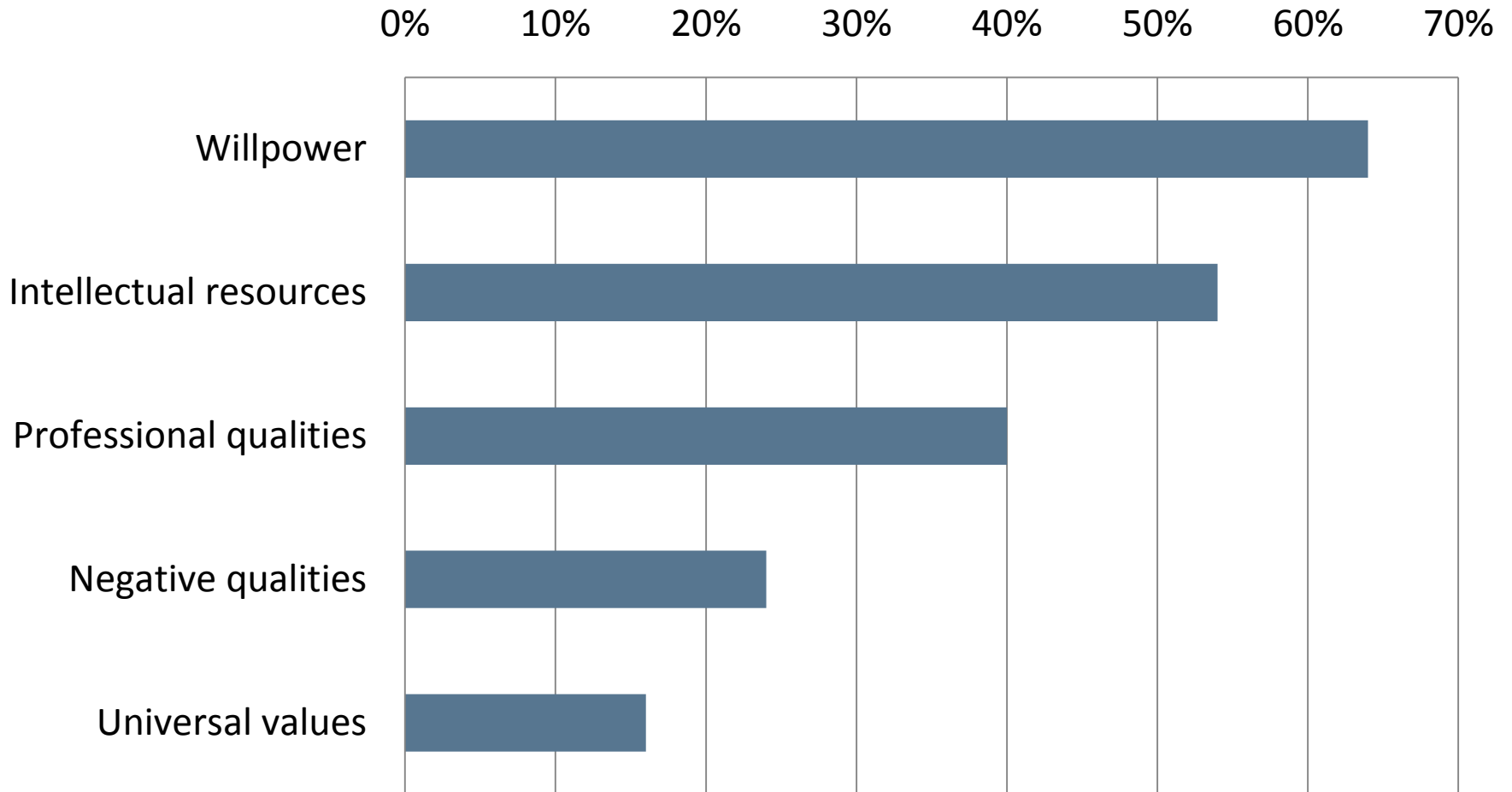
Family and business



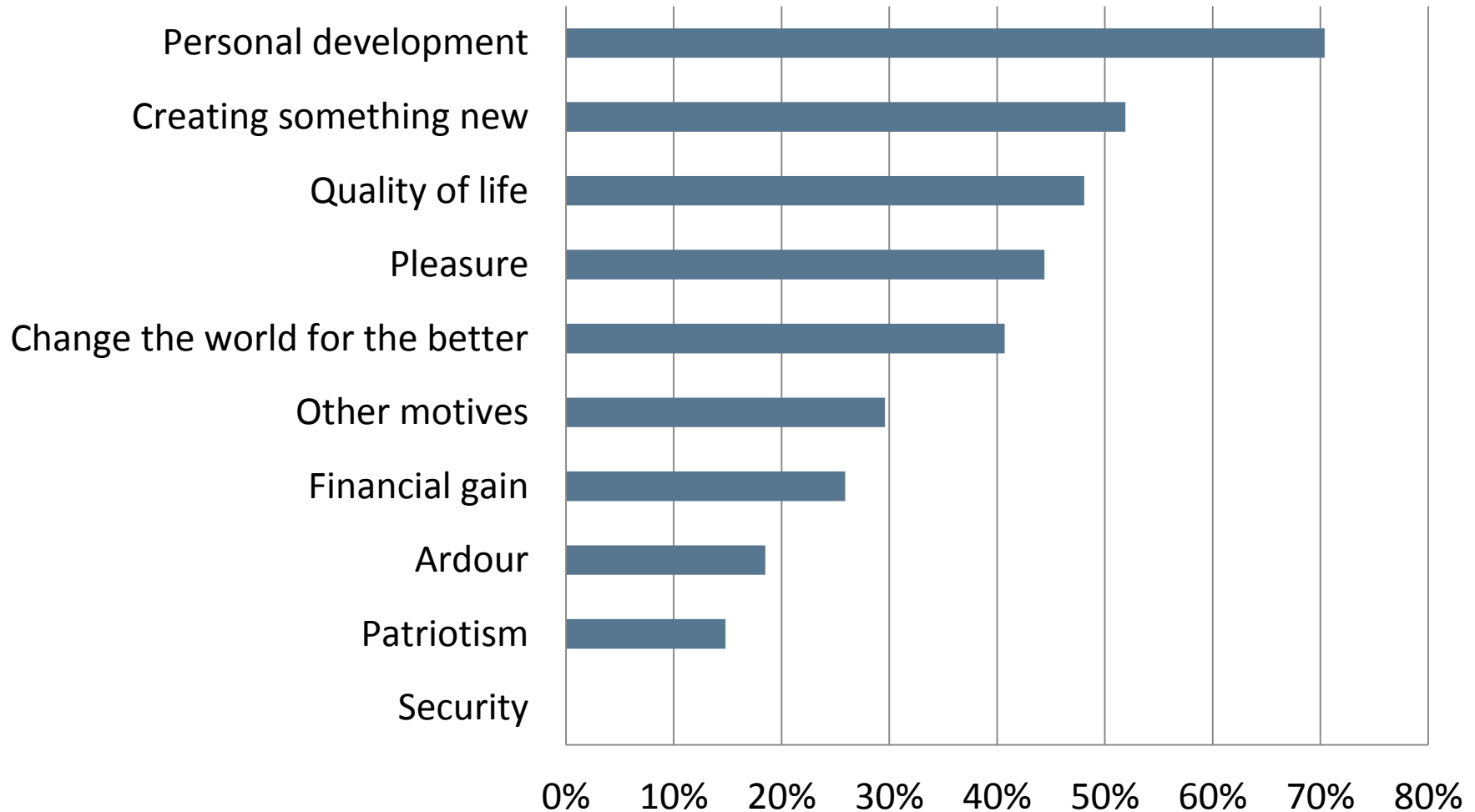
The dual role of family:

- On the one hand the family is an economic actor
- On the other, it is not part of the economic category
- The optimal strategy is for these two fields – the business and the family - to coexist together

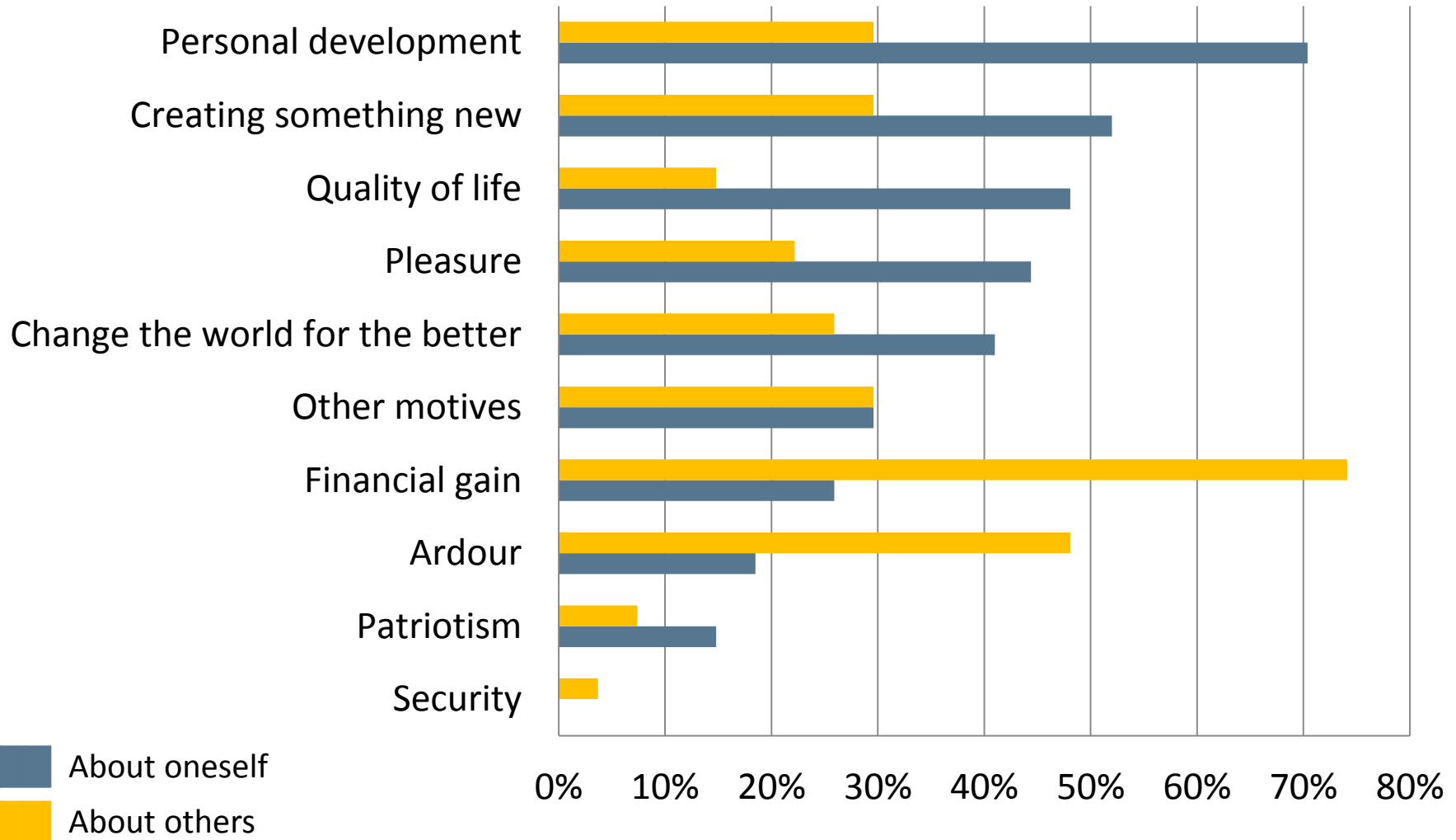
Entrepreneurial success



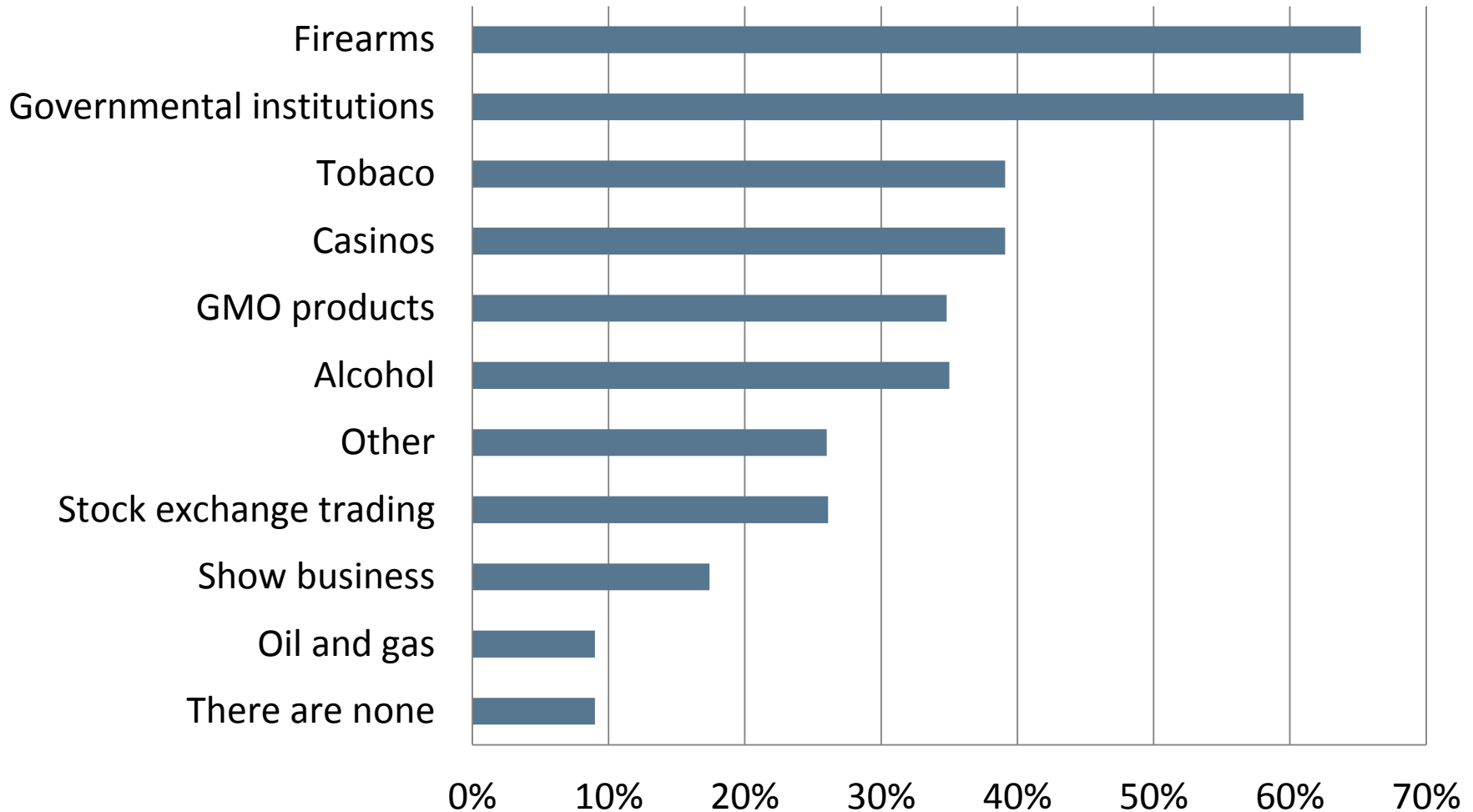
Values and drivers of business activity



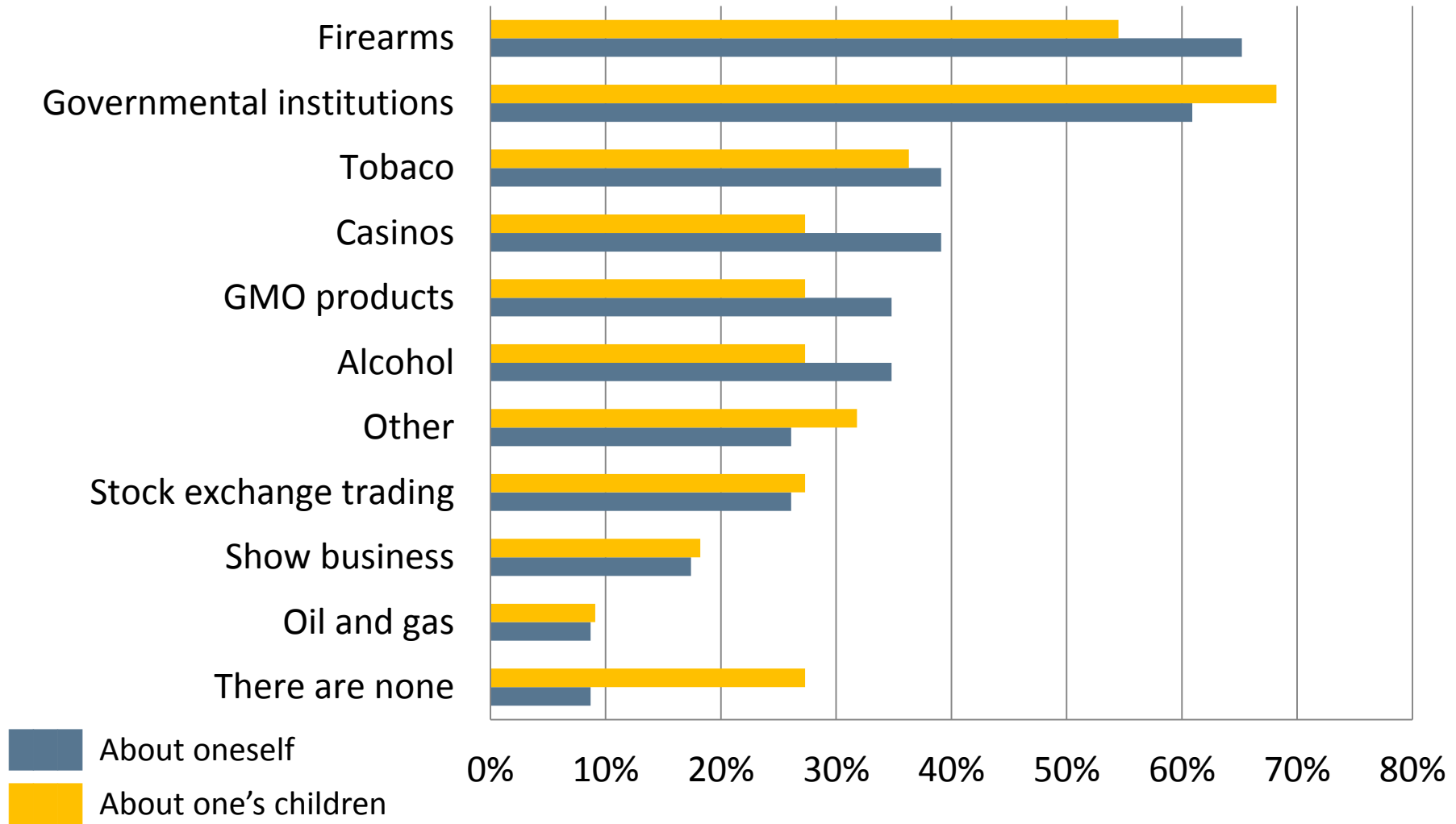
Values and drivers of business activity



Disfavoured industrial sectors, as expression of values

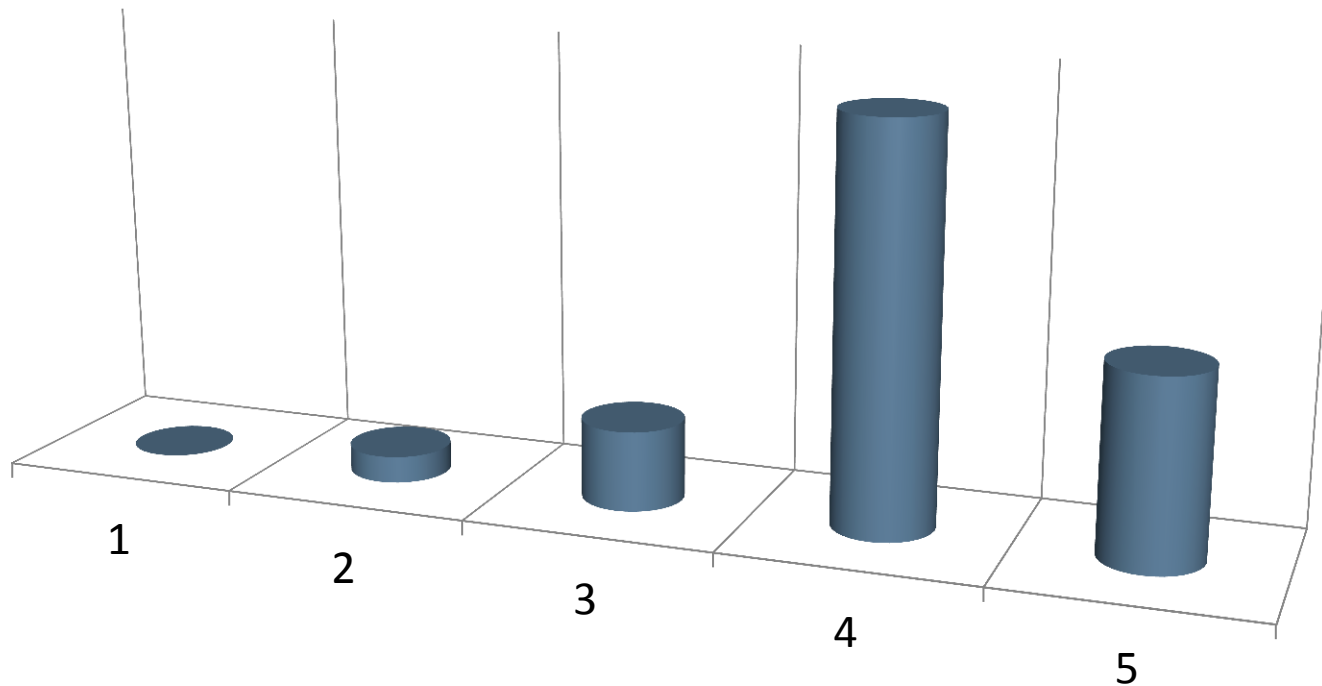


Disfavoured industrial sectors as expression of values



Correspondence of values

- The level of correspondence of own values with those of one's children: 56% rate it at 4 and 26% at 5 (on a 5 point scale).



Transmission of family values

- Primarily the respondents believe that the responsible of formulating and transmitting values is theirs
- The respondents consider themselves as the main carriers of values and source of behavioural examples (59%), followed by their parents (44%) and their spouse (37%).

Conditions for successful transmission of values to children

1. Personally **participated in the upbringing of children** (84%):
 - conduct talks about life and business,
 - discuss children’s interests and problems,
 - help formulate general concepts of life.
2. Create the **conducive environment** for growing up and learning (69%):
 - give a good example,
 - help form independence,
 - build appropriate environment for communication.
3. Only 19% mentioned special procedures:
 - explaining the family values,
 - conduct educational talks,
 - give appropriate education,
 - involve in family council.
4. 12% noted that to have admitter oversights in the upbringing of their children.

Levels of family's involvement in the business

1. **Isolation:** the family as a beneficiary of the business activity
2. **Cooperative autonomy:** the entrepreneur participates in the family's activities as an investor
3. **Clan:** as a network for family and business connections
4. **A business university:** the entrepreneur provides for the realization of family's members' personal goals within the framework of the family's general mission
5. **Family business:** a quasi-structured business which employs members of the close and distant family circle

Conclusions

- Wealth and business succession is influenced by the congruence of values within the family, especially with the children
- Multiple-children families tend to have a more professional approach towards the education of their children
- Congruence of fathers' and sons' values depend on personal involvement, control over the succession context and family style

Conclusions

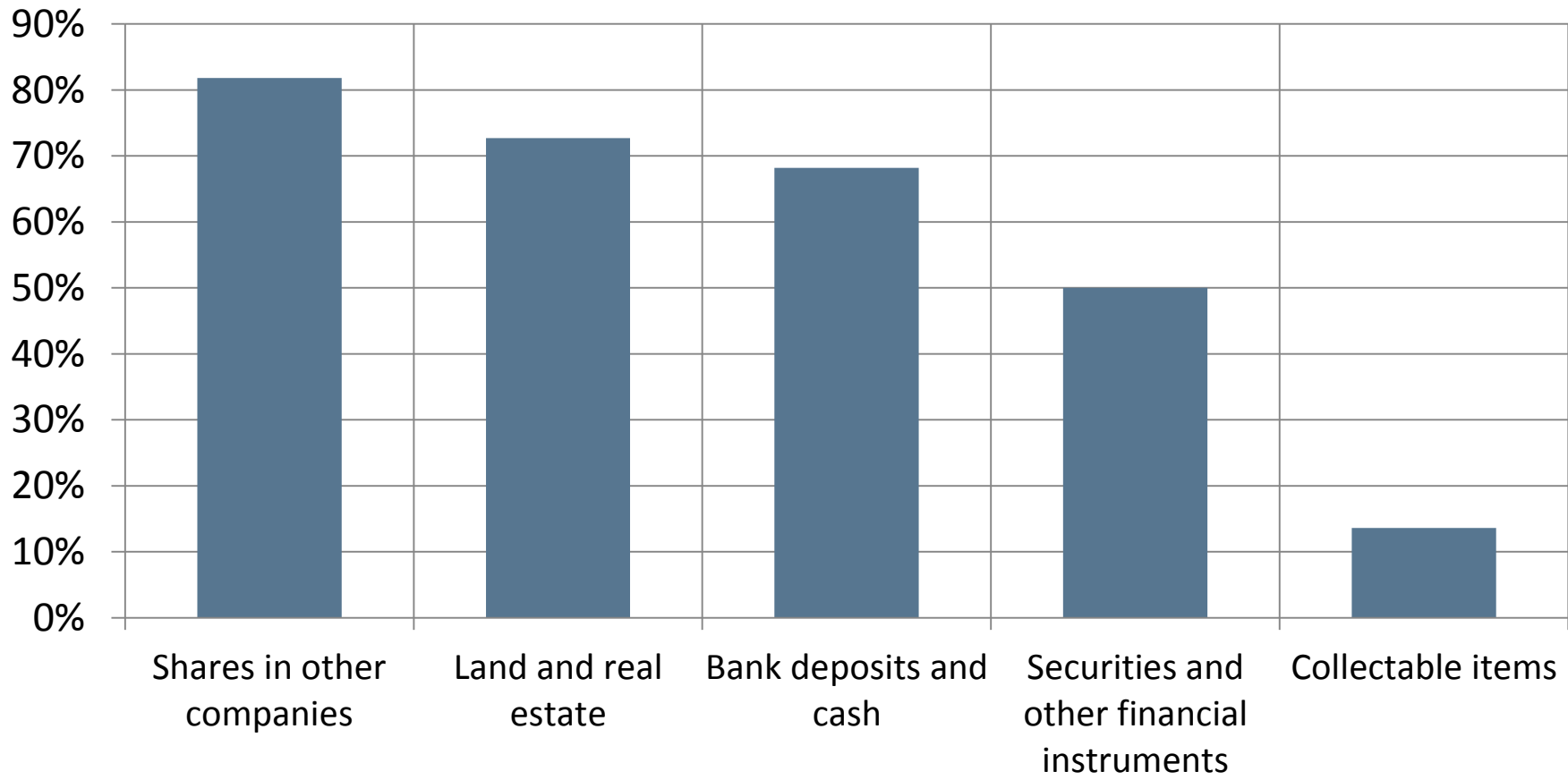
- The nature of personal investment in value reciprocity depends on family strategies
- Philanthropic activities of fathers are one of the value transmission channels for the next generation
- Possessors of large fortunes are faced with the difficulty of “socialising their children through money”: teaching them to earn it, preserve it, share it, spend it and multiply it
- The volume of details linked to the involvement of the next generation in the family business stimulates the creation of a set of guidelines, or protocol, the formal nature of which can vary

Ruslan Yusufov

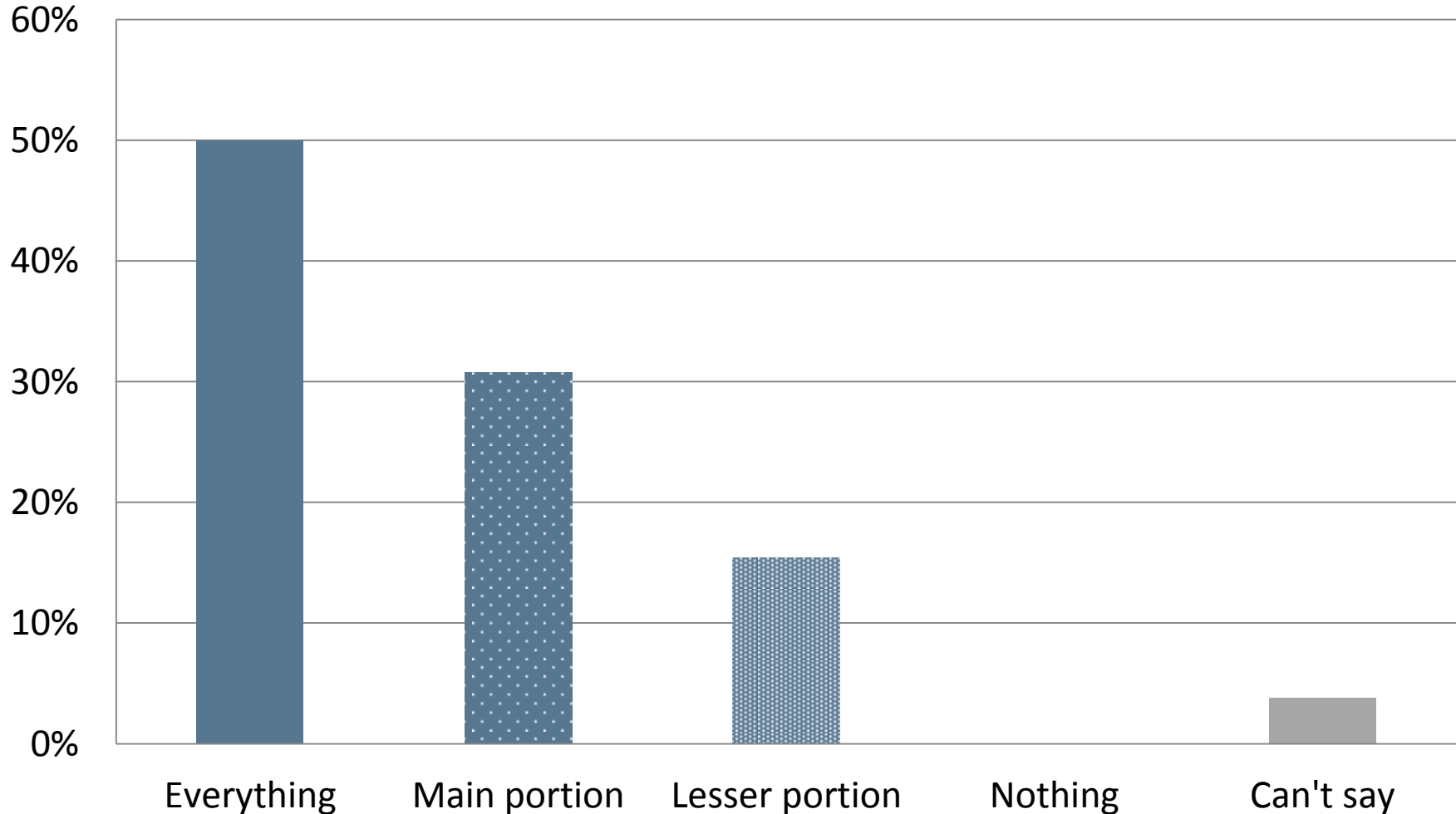
III. BUSINESS AND WEALTH SUCCESSION

1. Types of wealth
2. Planning horizon
3. Readiness of succession plans
4. Family business in the world and in Russia
5. Business: succession of the managing role
6. Inclusion of family members and family conflicts
7. Business: succession of ownership
8. Barriers
9. Possible scenarios
10. Succession of wealth

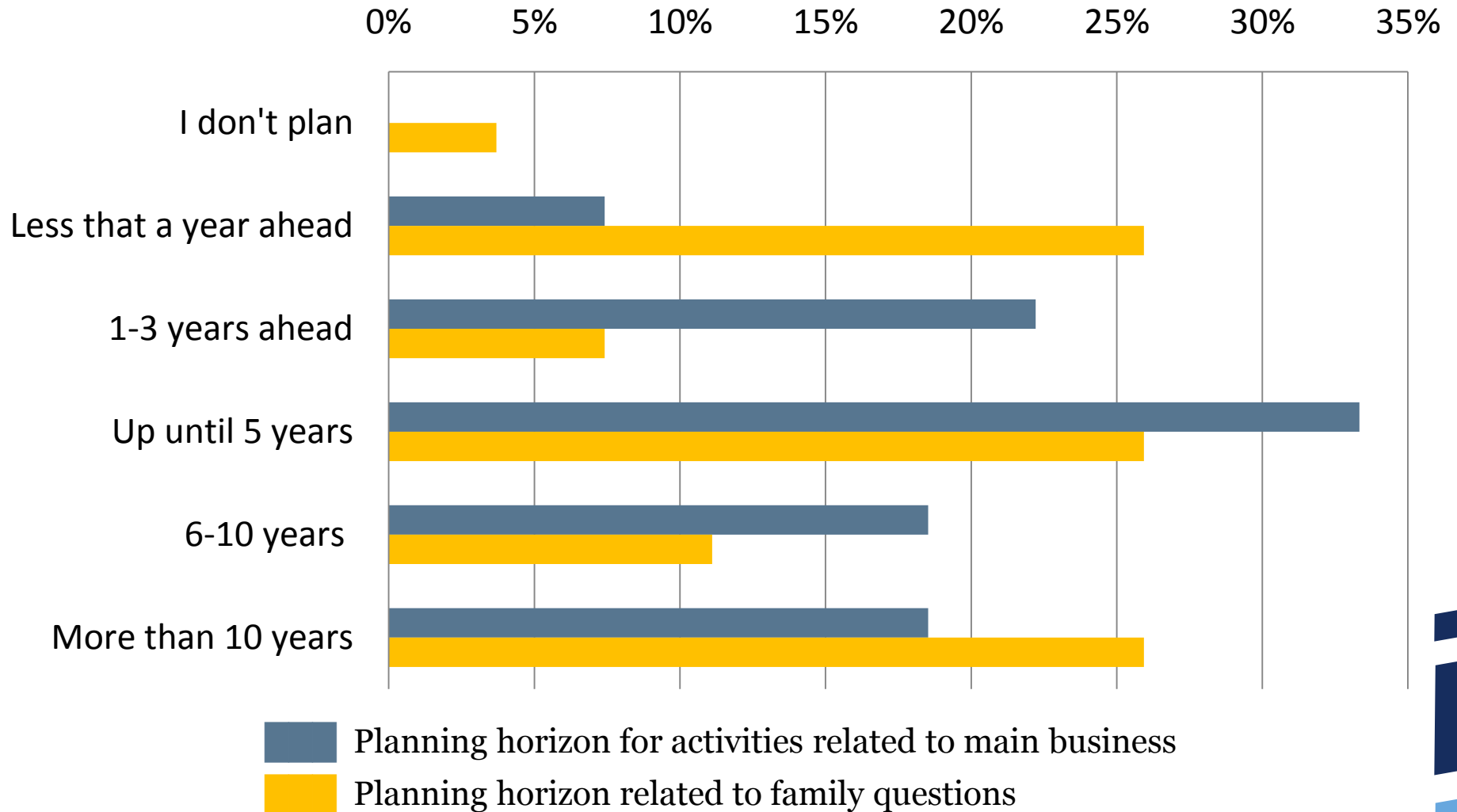
Types of wealth



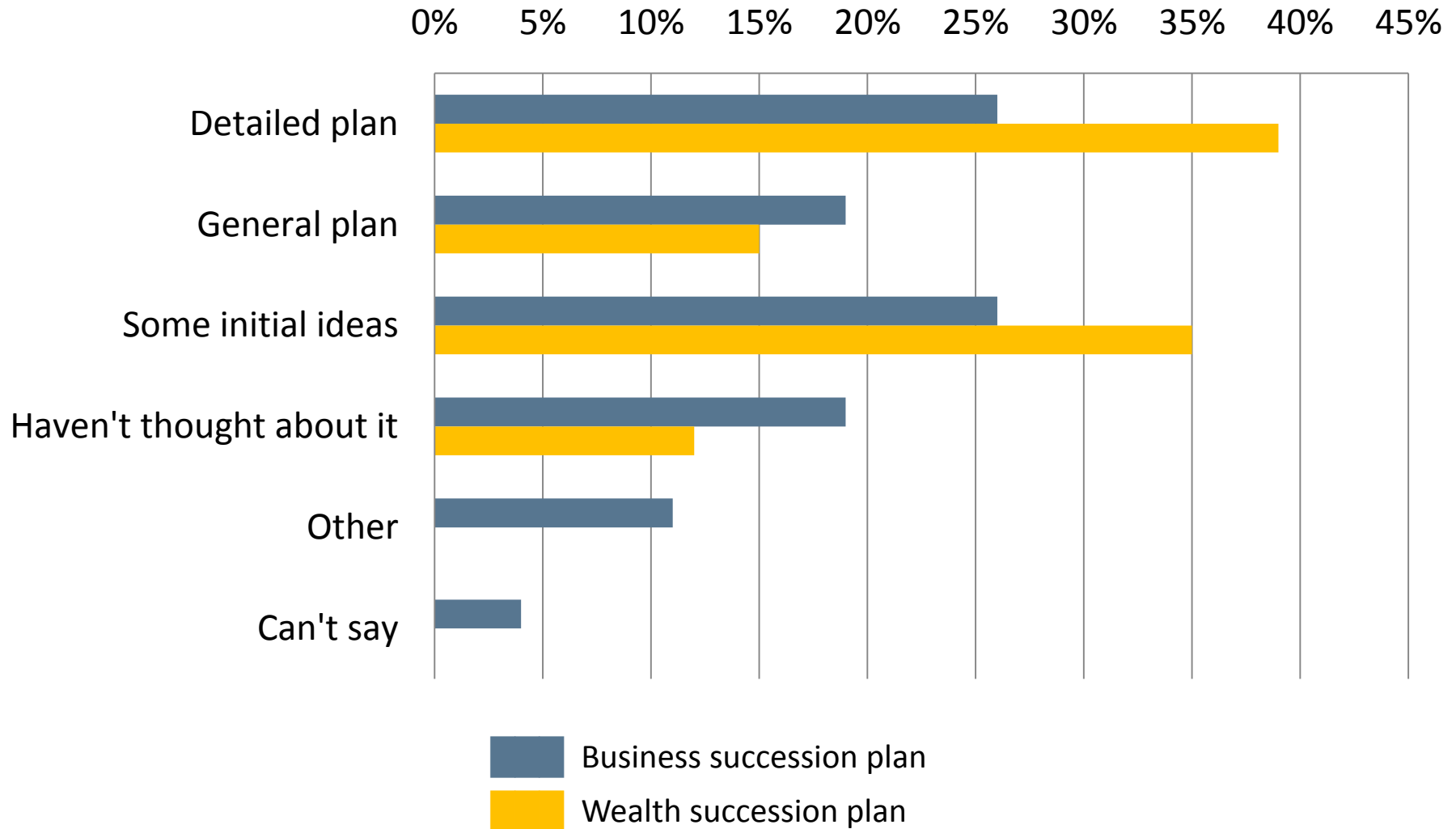
Which part of the wealth will be transmitted to the children and family



Planning horizon



Readiness of succession plans



Family business in the world

- Family businesses comprise 2/3 of the total businesses worldwide (Harvard Business School)
- 70% to 90% of the global GDP is created by family businesses (Family Firm Institute 2013)
- In the majority of countries family business creates somewhere from 50% to 80% of employment (European Family Businesses, 2012).
- China: the next generation of family businesses owners wishes to keep its succession in the family (FT, 2014)
- Europe: 60% of all companies are family owned, with a turnover of – 1 trillion euros, creating 5 million jobs (that is 40-50% of all employment) (KPMG, 2013)
- US: Family businesses represents a little under half of all the business in the country. The larger portion of all the public companies are also family owned (Harvard Business School)

Succession of the business



Can the family business be transmitted to the next generation?

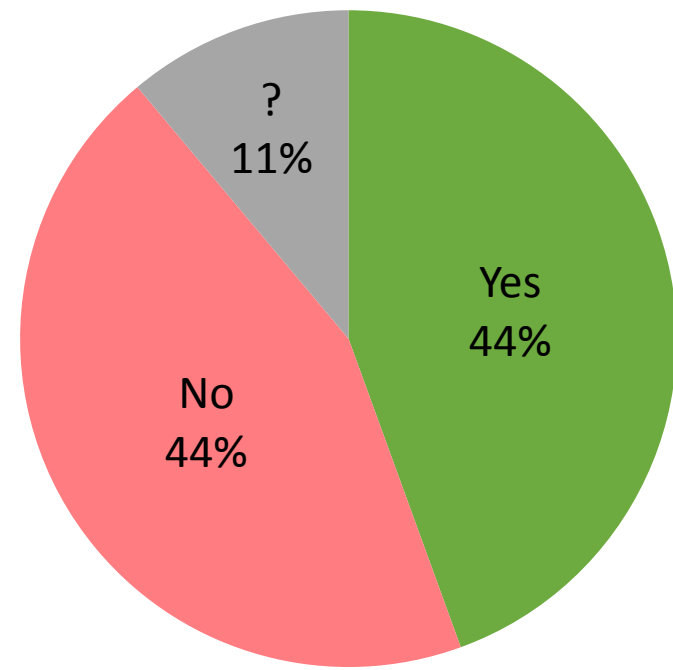
- The presence of capable successors
- Consistence of values between the two generations
- Succession planning

Business management

Preferred strategy

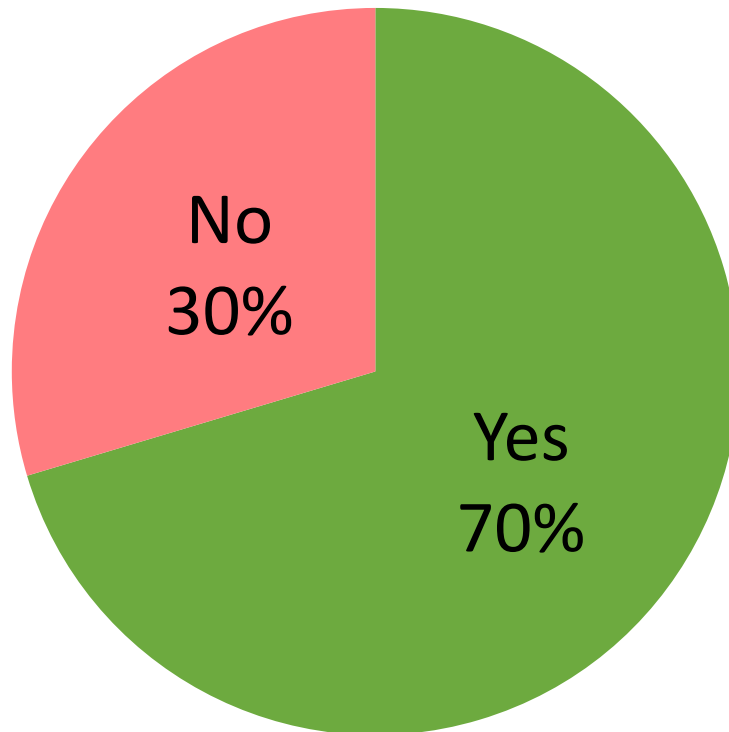


Is it conventional to give business managing duties to family members?

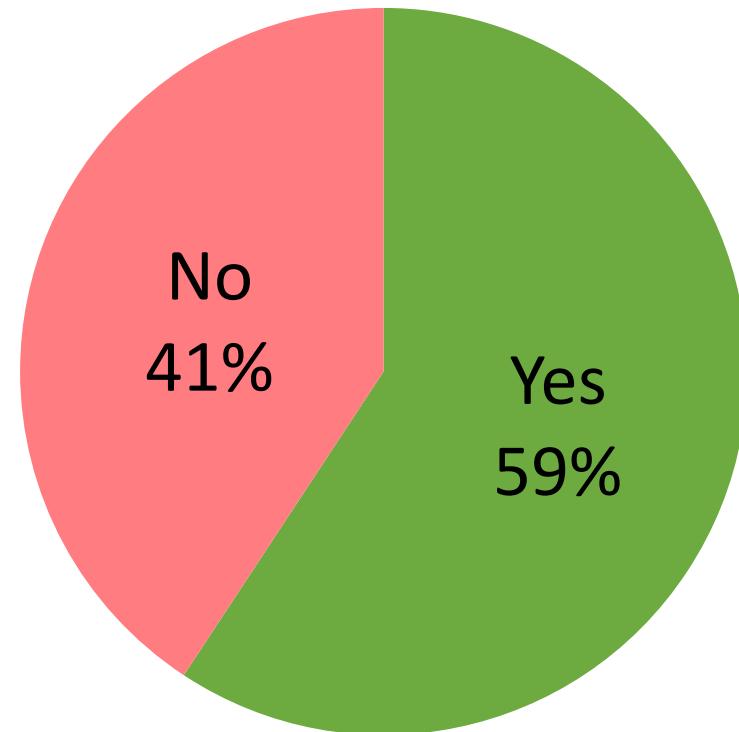


Bringing family members into the business and conflicts

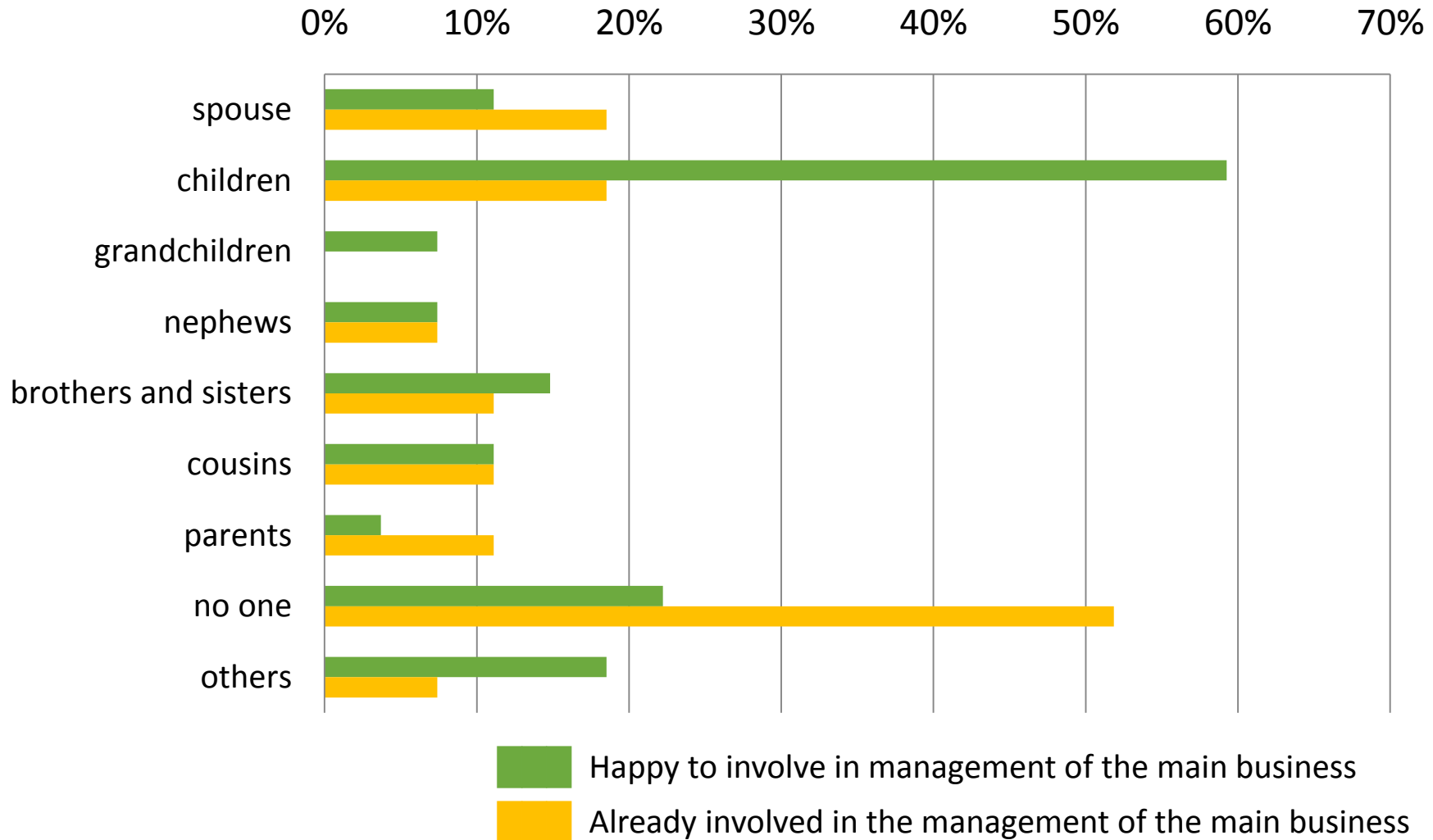
Family members in the business: possible and right?



Have you had family conflicts regarding the business

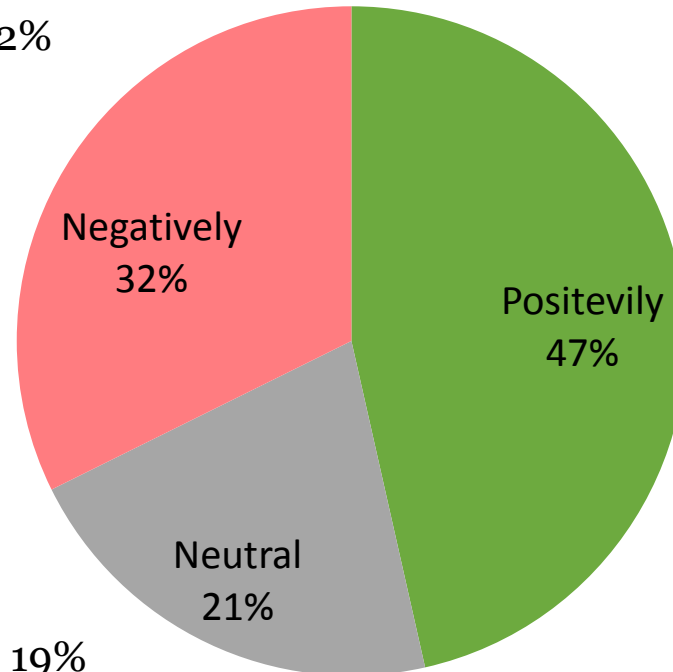


Family members and business management



How does that impact family relations?

- Bad of the relationship (problems arose) 23%
- It's important to separate the different roles 19%
- Risky for the relationship 12%
- Bad for the business 8%



- Does not many any impact 19%
- Family members should not interact at work 4%

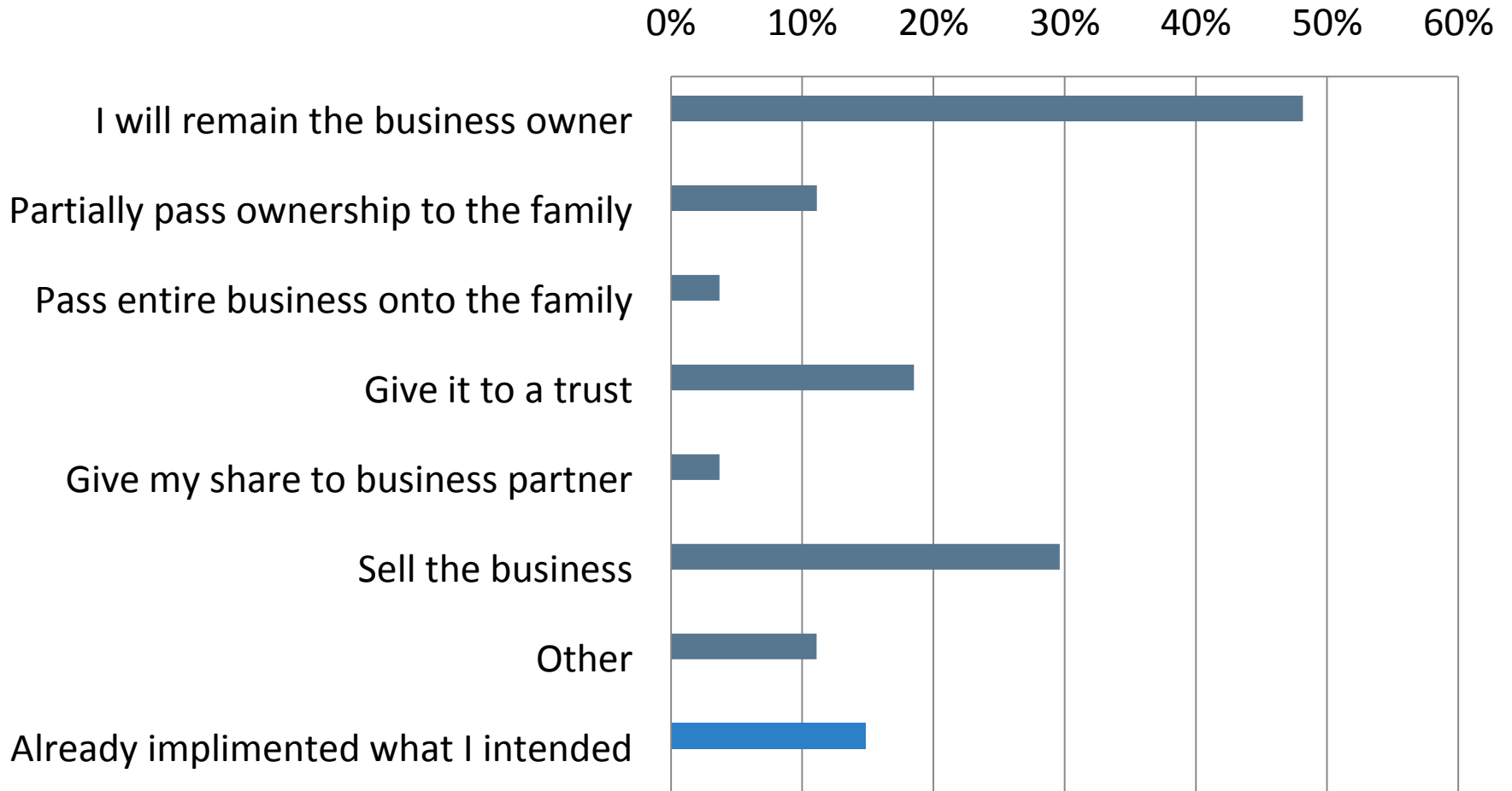
- Good and important for the relationship 35%
- Transmission of experience 23%
- Independence 23%
- Important for upbringing 12%
- Involvement in father's business 4%

Family business: perspectives in Russia

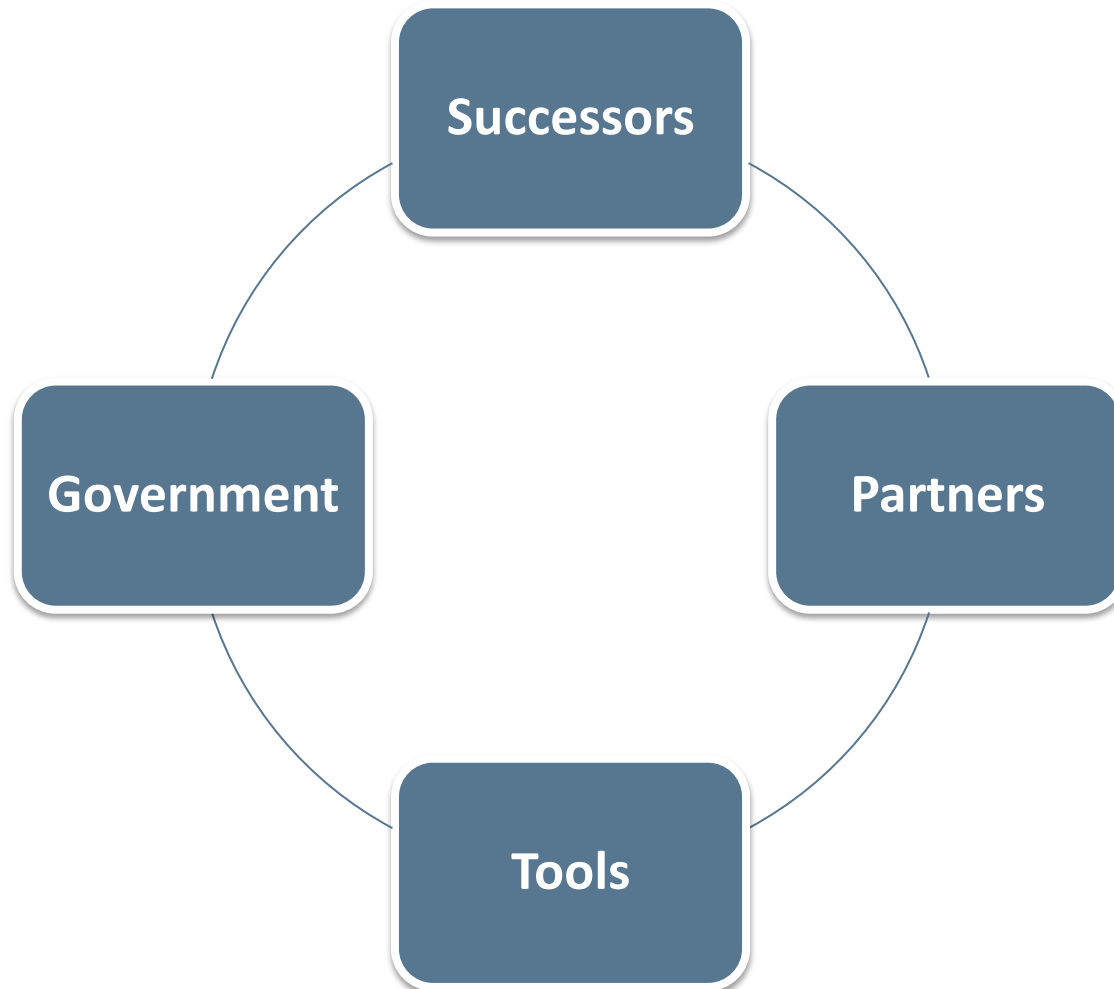
Do Russian entrepreneurs sell their business or pass it on to a successor? 50% of Russia's business owners plan to sell their business, while for the rest of the world this figure is 20% (PwC, 2014)



Business ownership

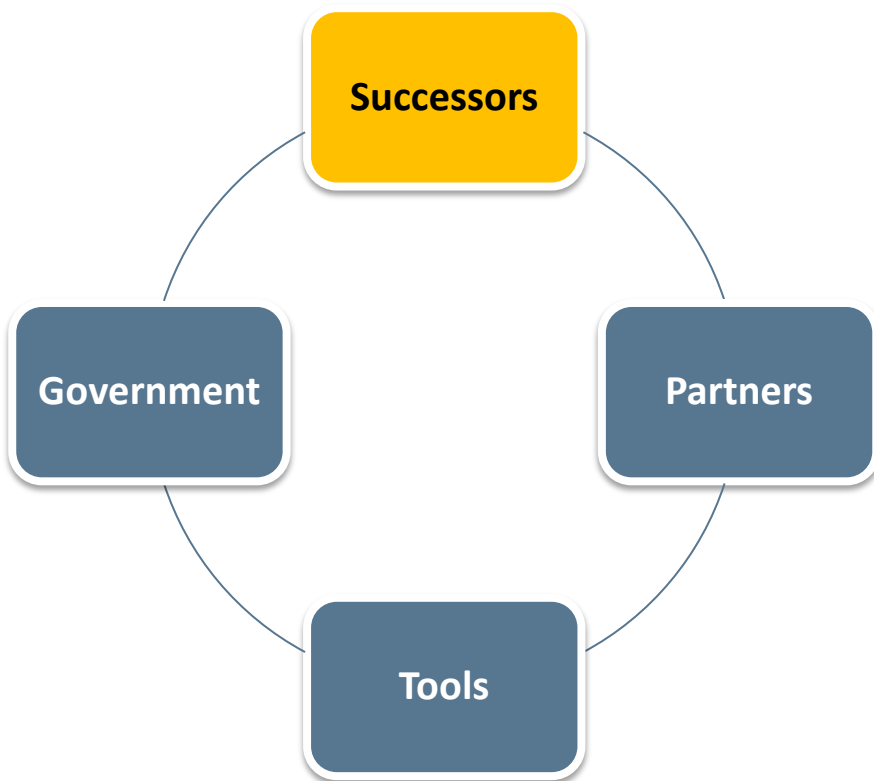


Reasons for lack of a thoroughly thought out succession plan

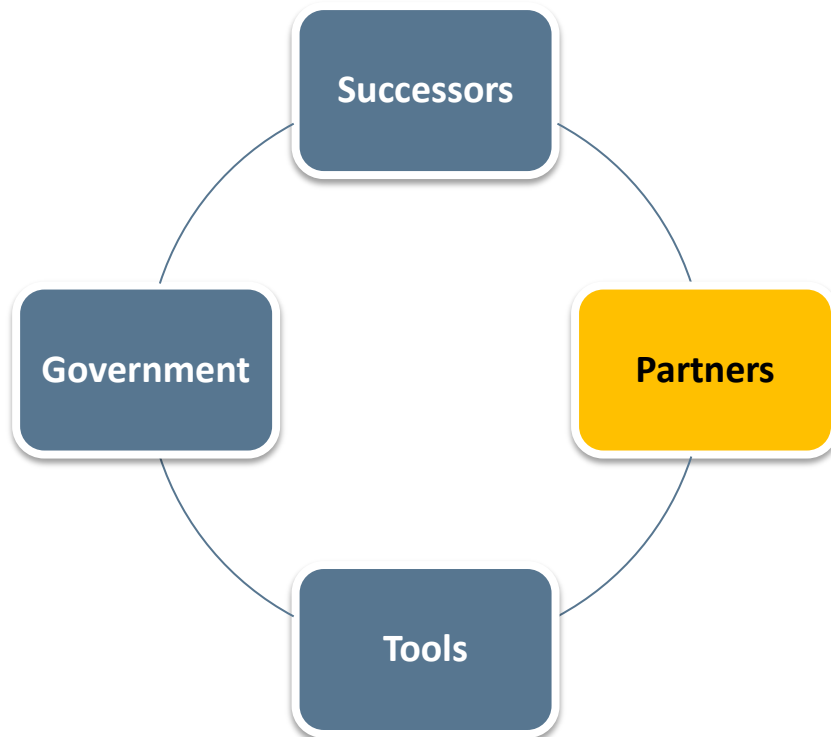


Successors

- Children's interests
- Absence of potential candidates among family members



Nature of the business and partners

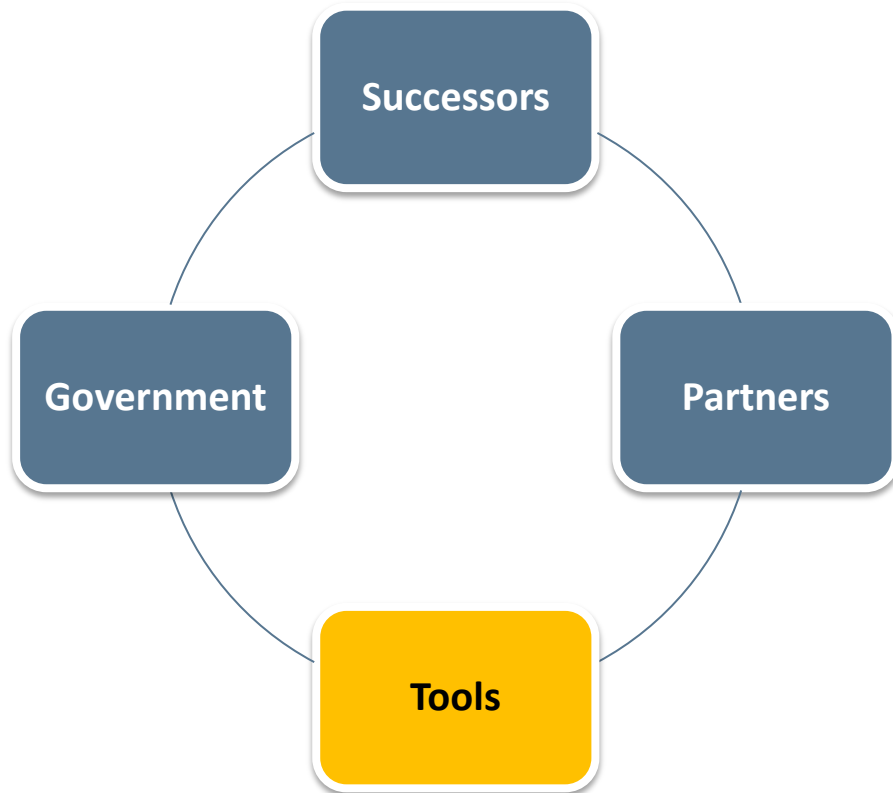


- Obligation to the partners and their own family and biographical situation
- The business is dependant upon the owner's persona
- The role or partners as gurantors

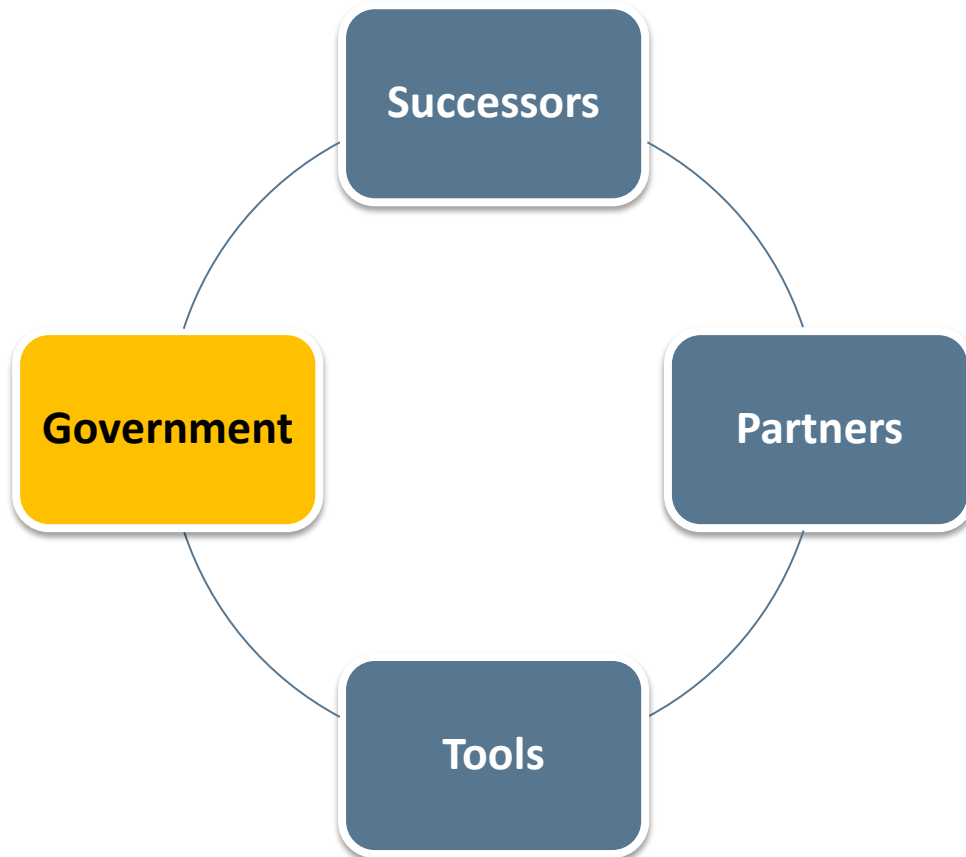
Tools and instruments

The most familiar instruments:

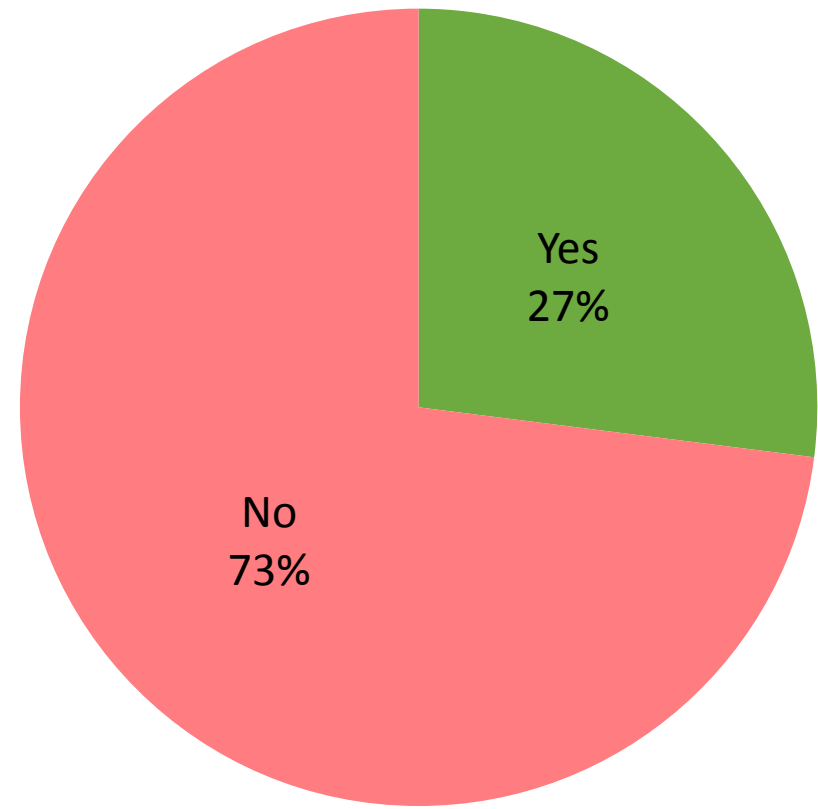
- Foreign trusts (74%)
- Wills (70%)
- The structuring of ownership rights through company shares and other assets, in foreign jurisdictions (70%)



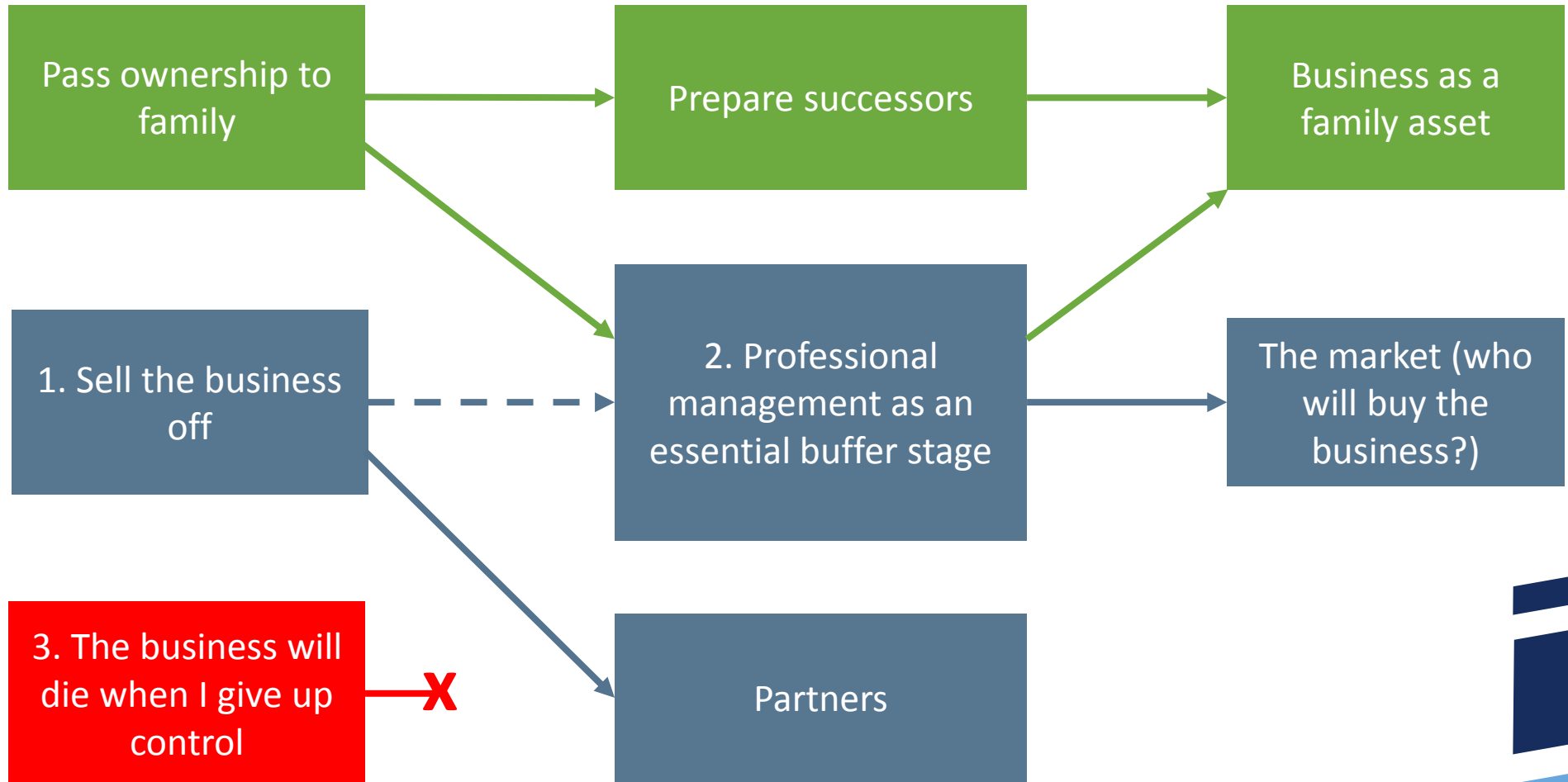
The government



Family dynasties



Possible scenarios



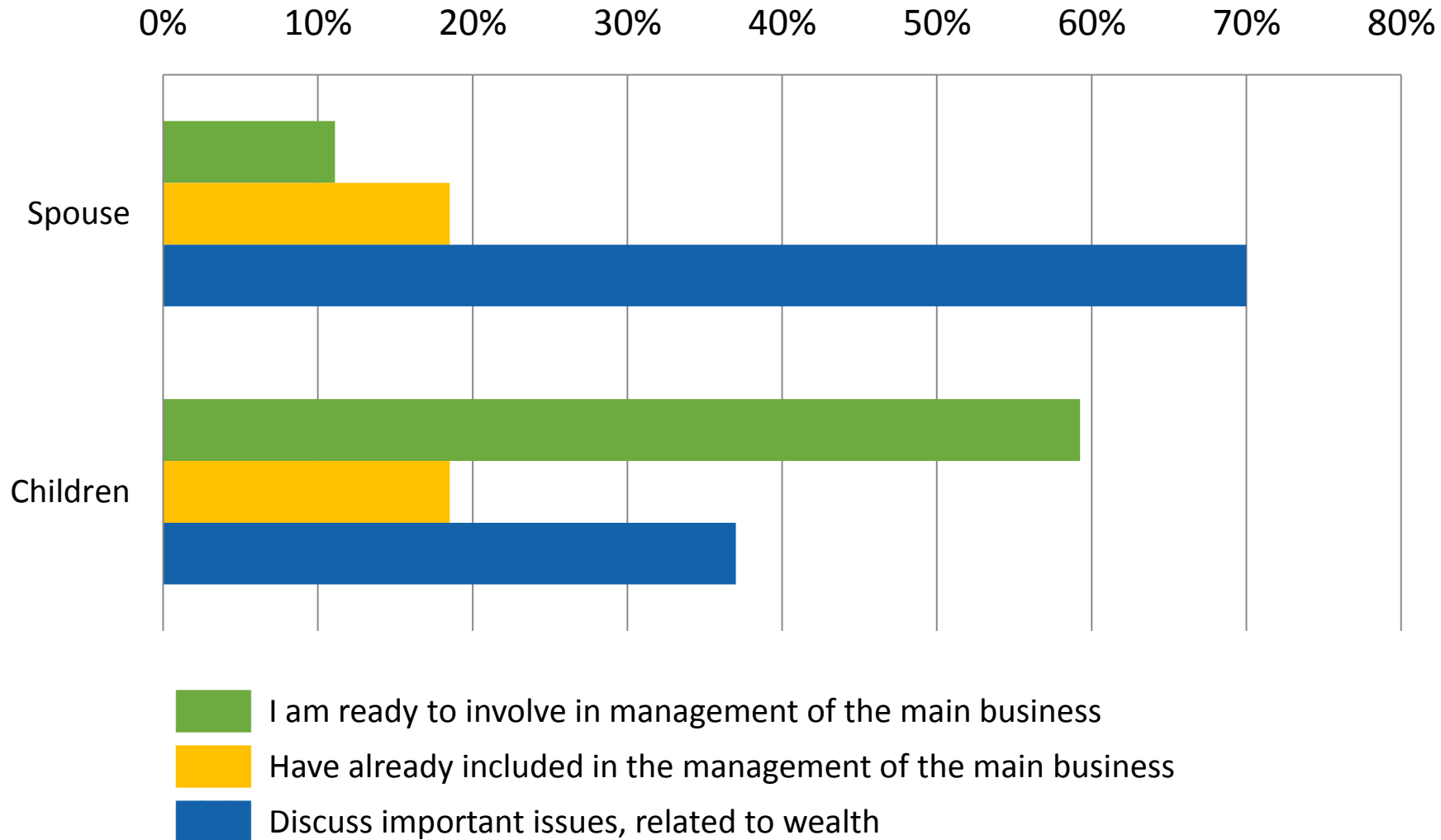
How to keep the wealth in the family?

Is there time left to plan succession?

- The median ages of the top 200 wealthiest Russian entrepreneurs is 52, that of our respondents is 46 лет.
- The children should be involved in the business from an early age



Family involvement in wealth-related questions



Roman Abramov, PhD

IV. PHILANTHROPY, CHARITY AND SOCIAL RESPONSIBILITY

1. Motivations for participation in charity
2. Participation of Russian entrepreneurs in charity and their motivations
3. Main areas of focus
4. Means of participation – traditional and not
5. Involvement of family and impact on family values transmission

Internal and external motivations for charity



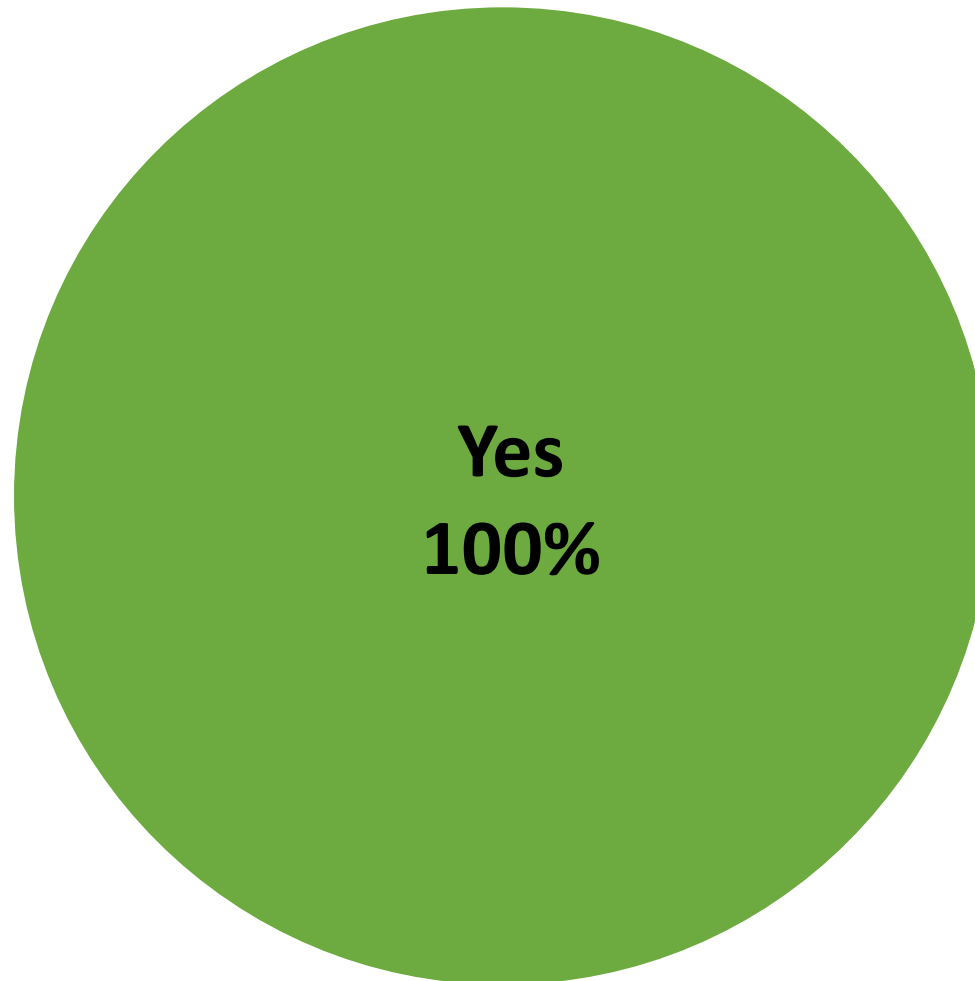
- Personal experience and knowledge
- Requests and petitions
- Costs and benefits
- Altruism
- Reputation
- Psychological advantages
- Values

Additional motivations for participating in charity

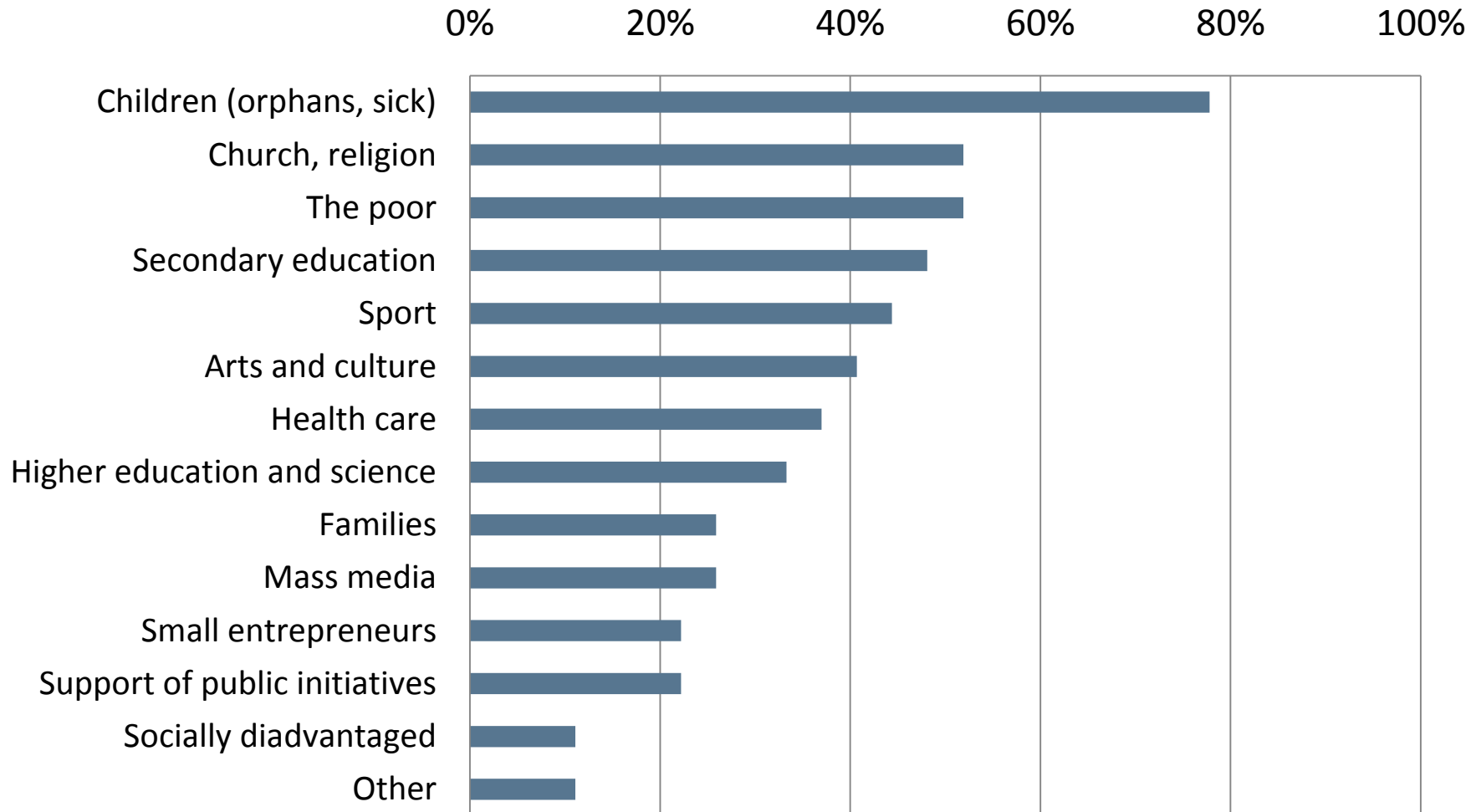


- Secure financial position
- Wanting to limit the wealth left to successors/ teach them to value the inherited wealth
- The want to influence the outside world

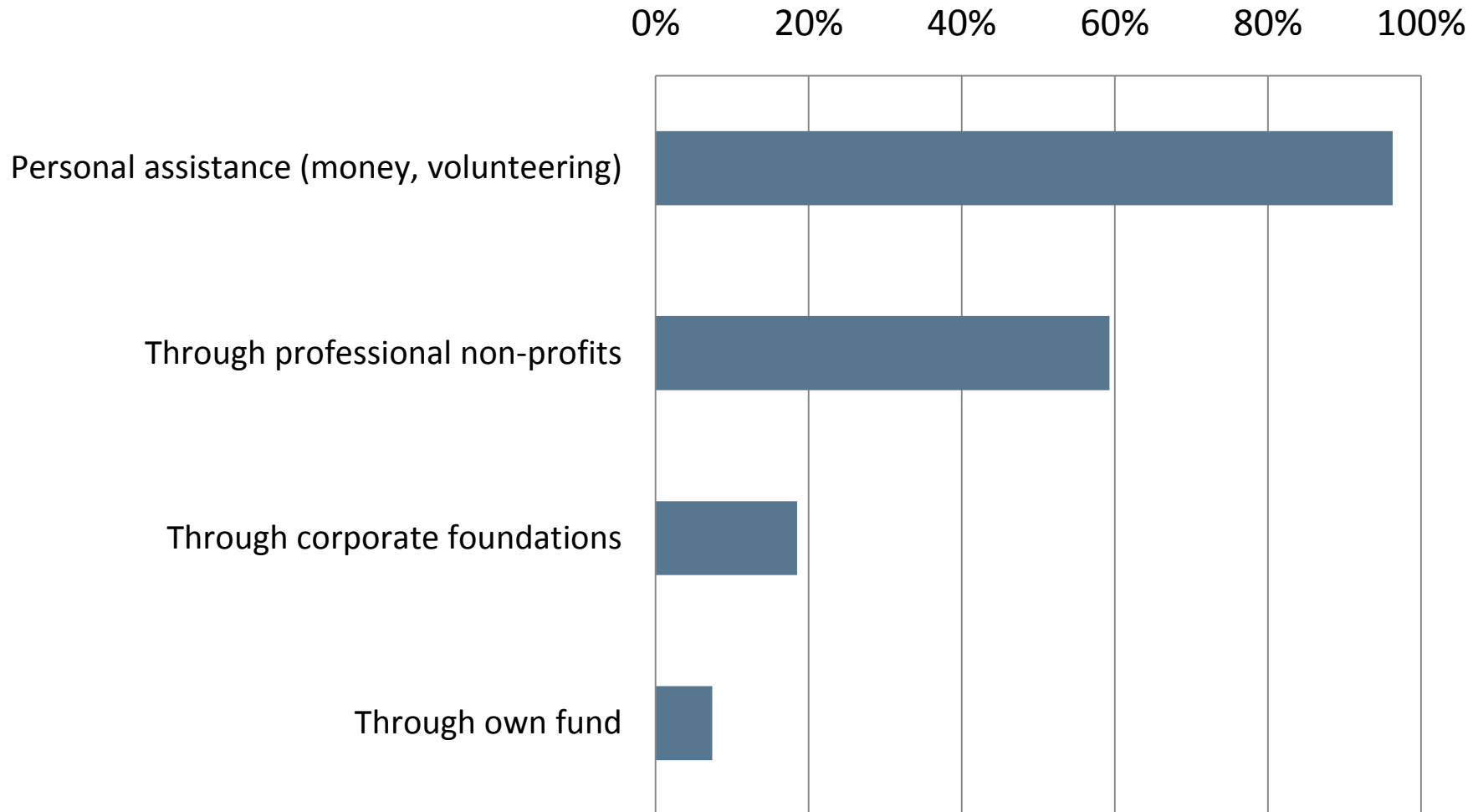
Participation in charity



Main areas of focus

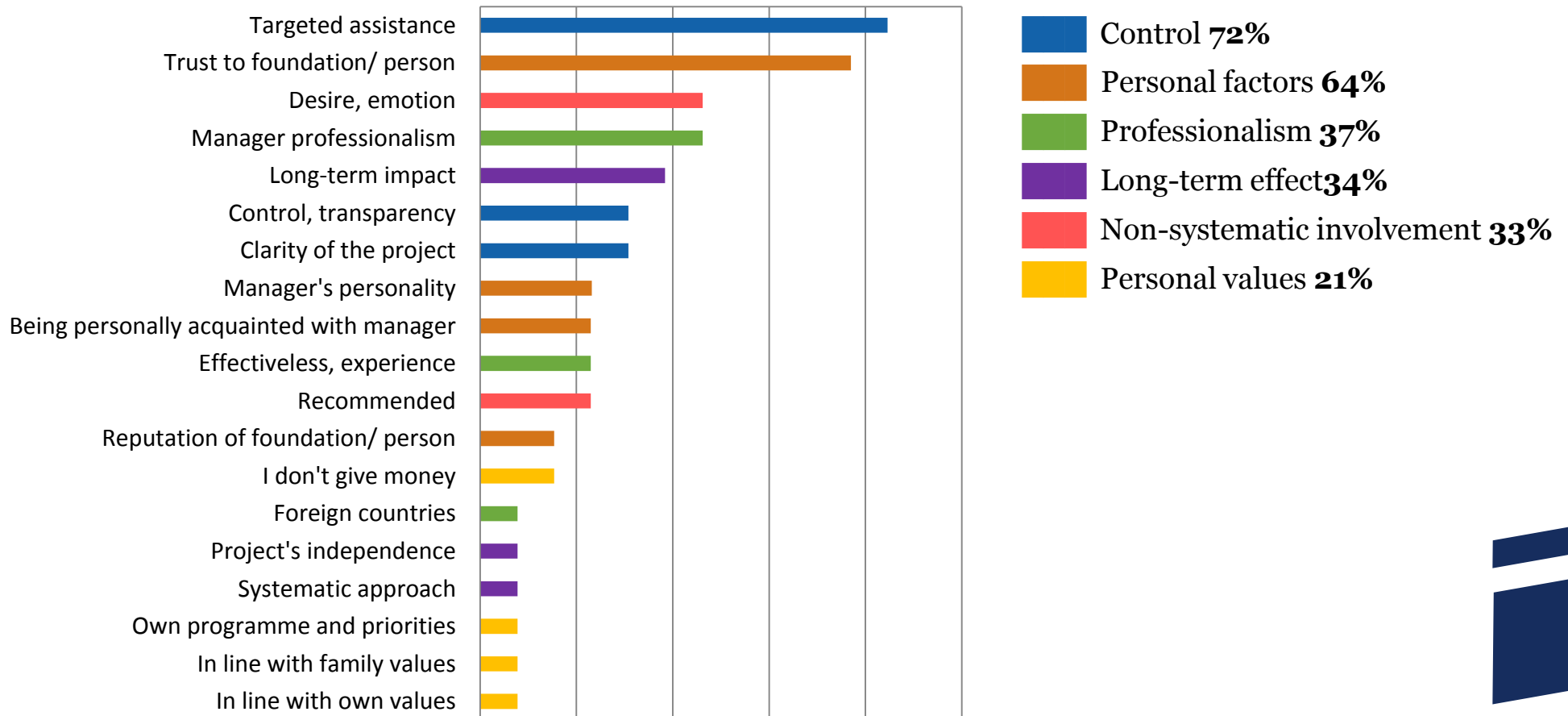


Forms and tools



Motives

0% 10% 20% 30% 40% 50%



Metaphors of interpretation of important forms of social responsibility



81,5%
Charity and philanthropy



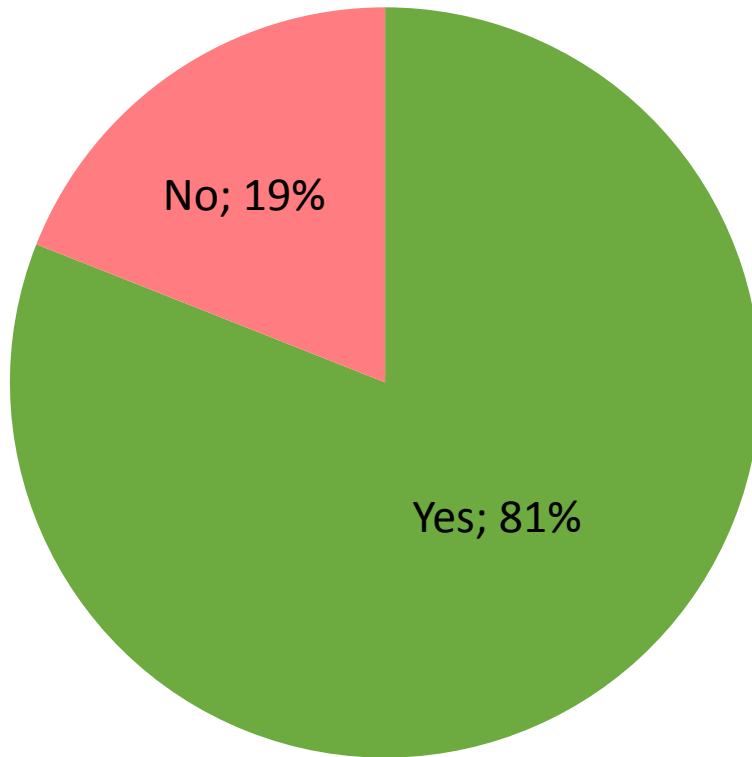
44,4%
Social entrepreneurship



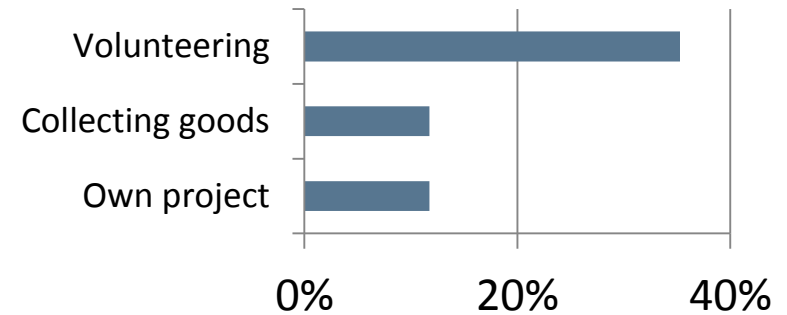
18,5%
Support of non-profits
and other public
initiatives

Involving the children

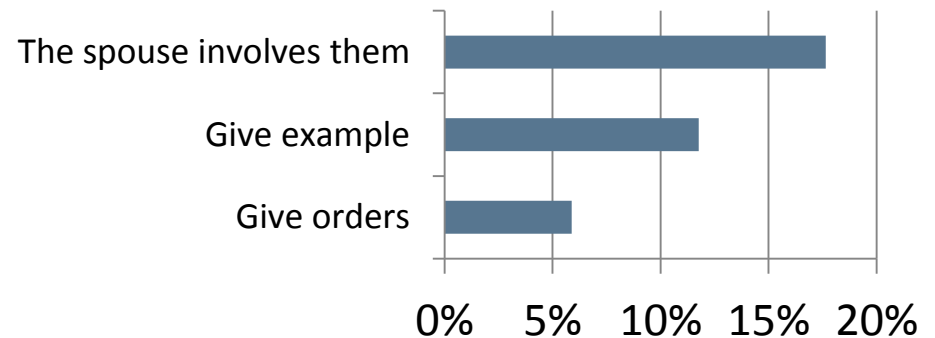
Are the children involved?



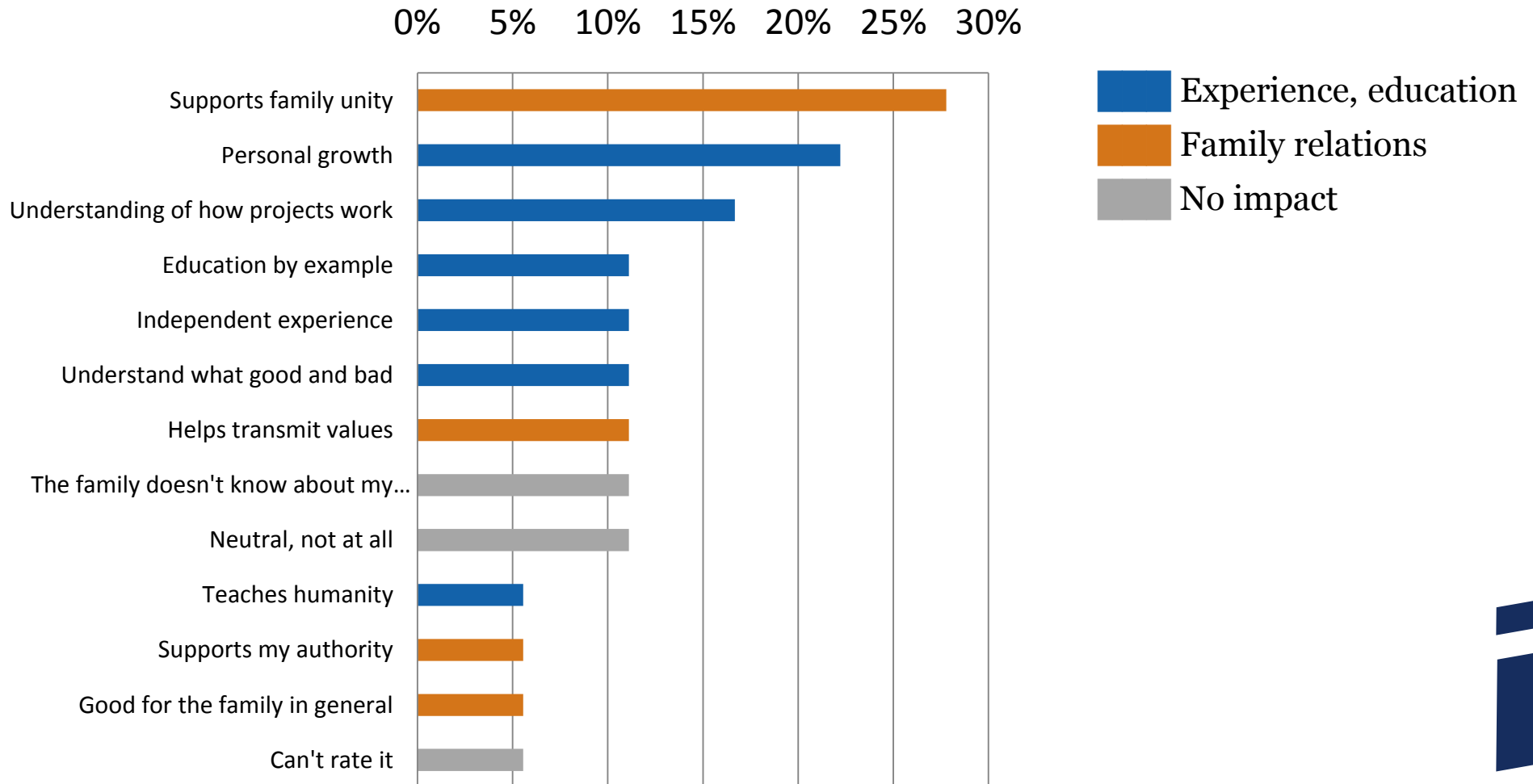
Independence



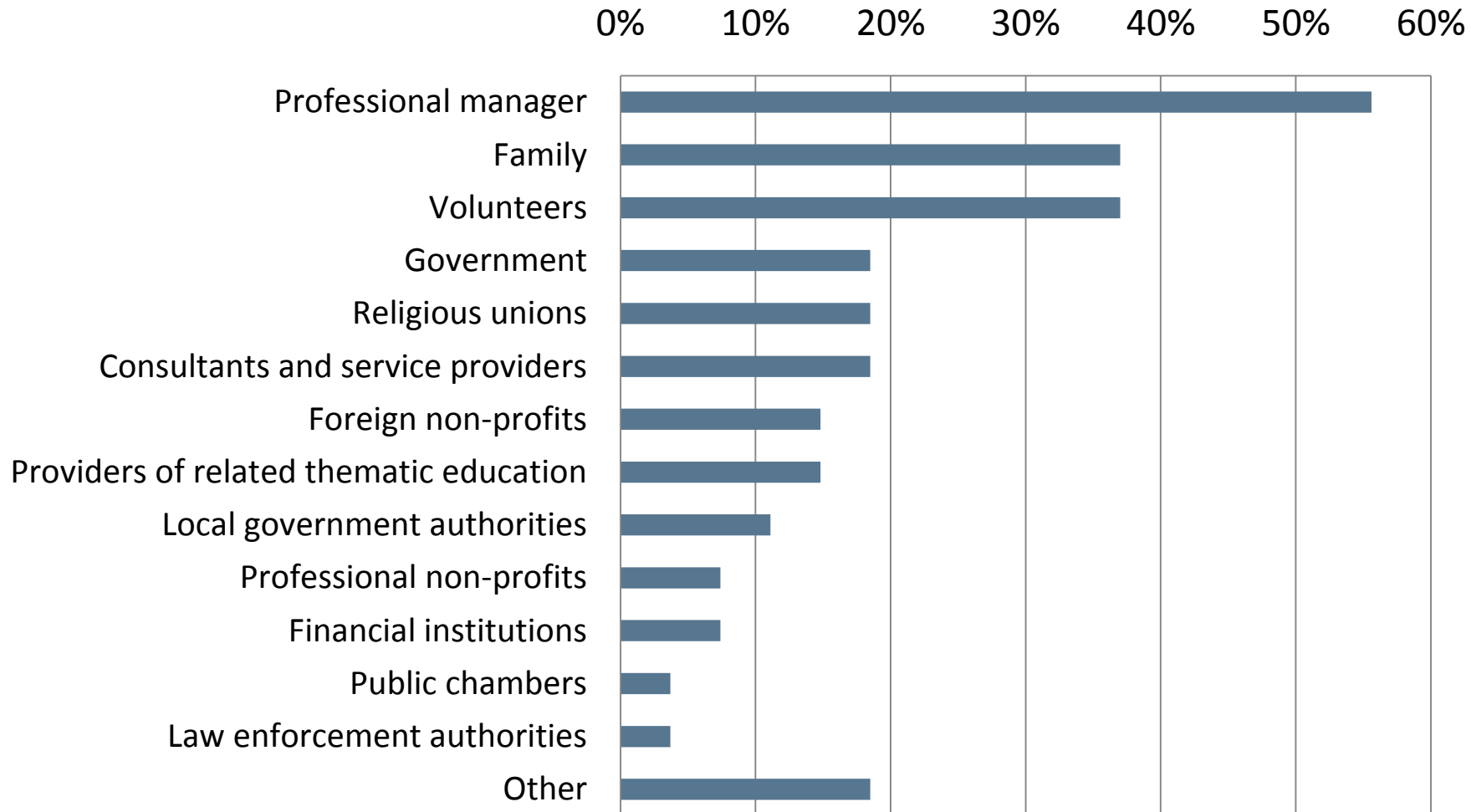
Interpersonal involvement



Involvement of family and impact on family values transmission and relationships



Who's support is essential

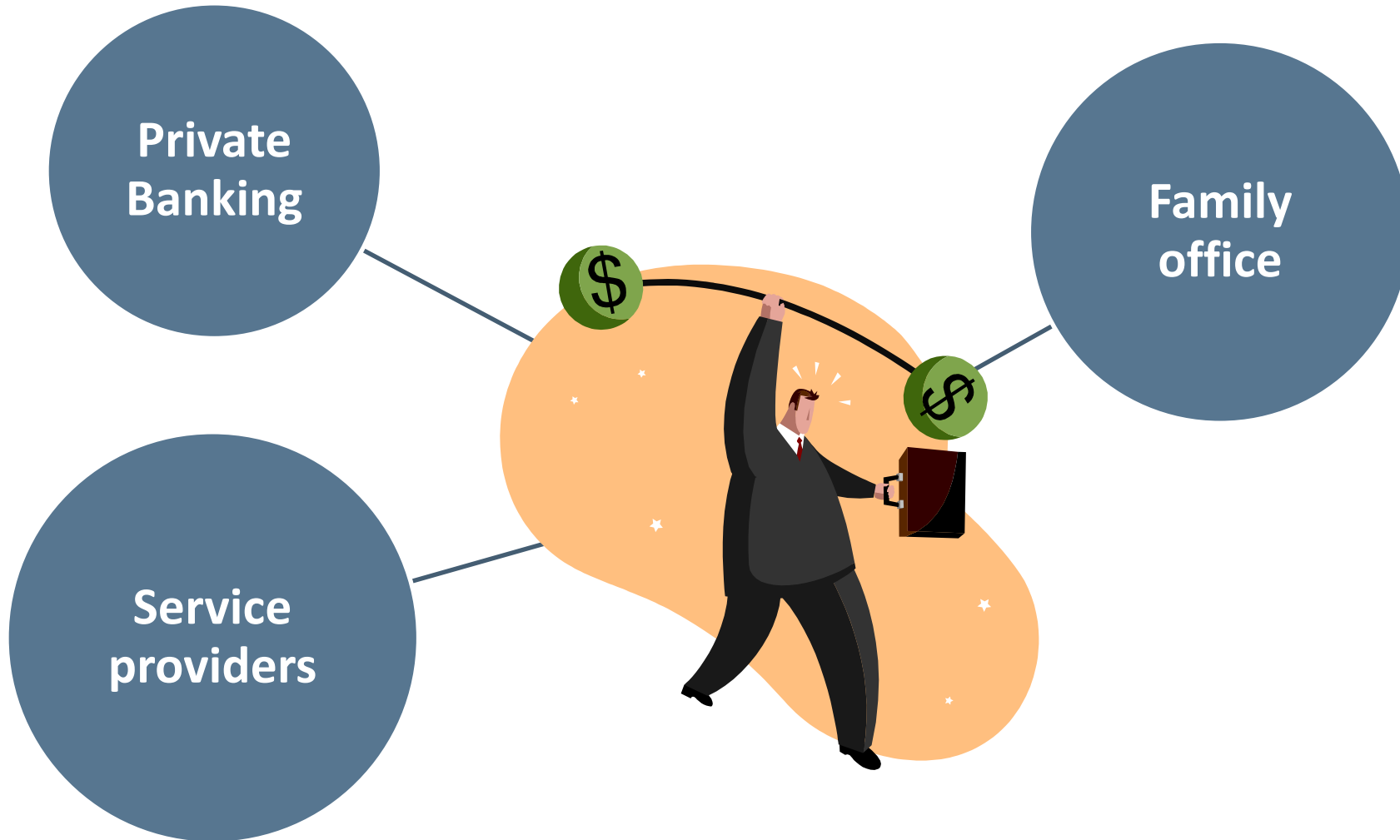


Ruslan Yusufov

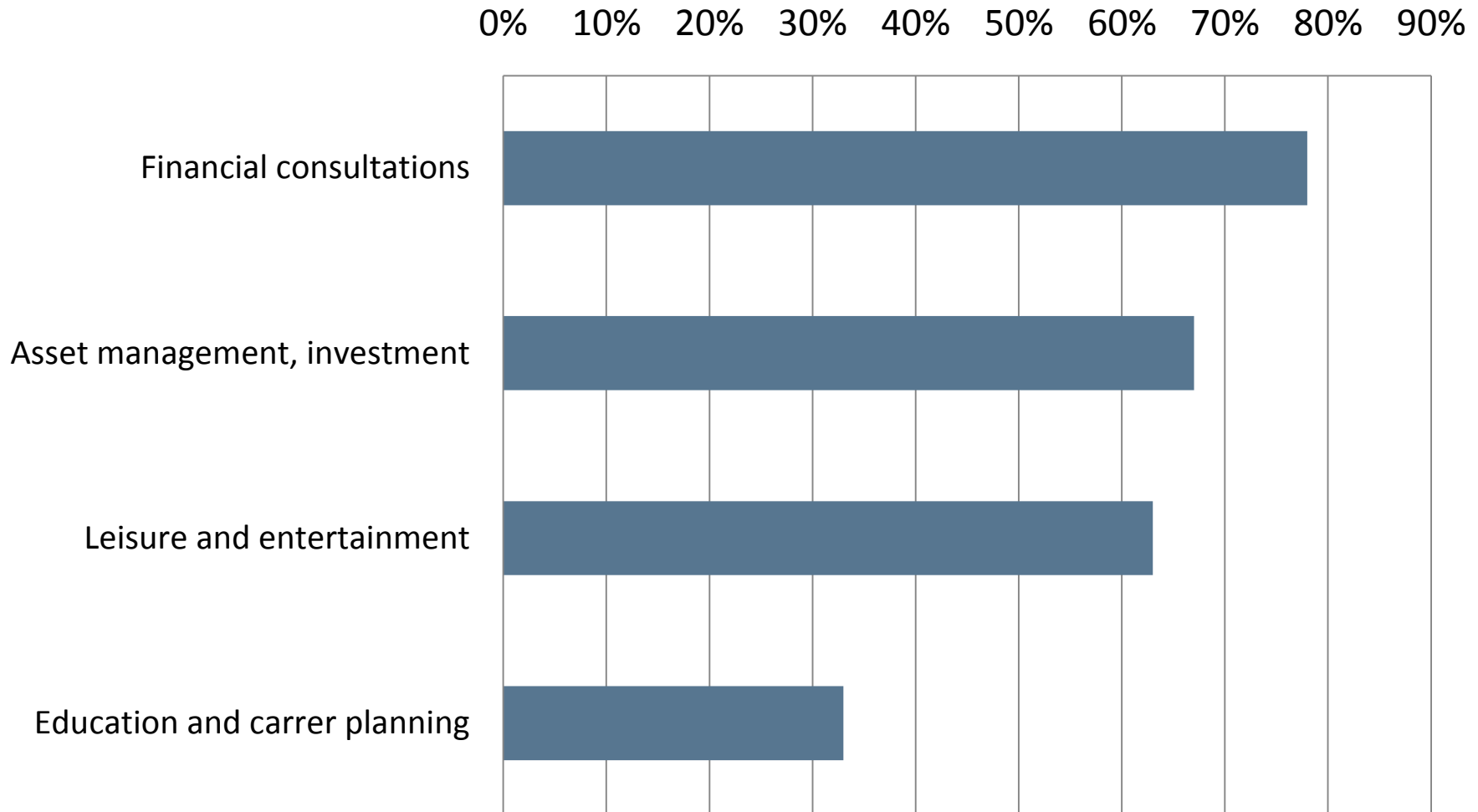
V. SERVICE PROVIDERS

1. Typology of service providers
2. Needs of wealth possessors
3. Assessment of satisfaction with available services
4. Criteria for wealth manager selection
5. The wealth possessors' need for in-house experts
6. Nation wealth management industry

Typology of service providers

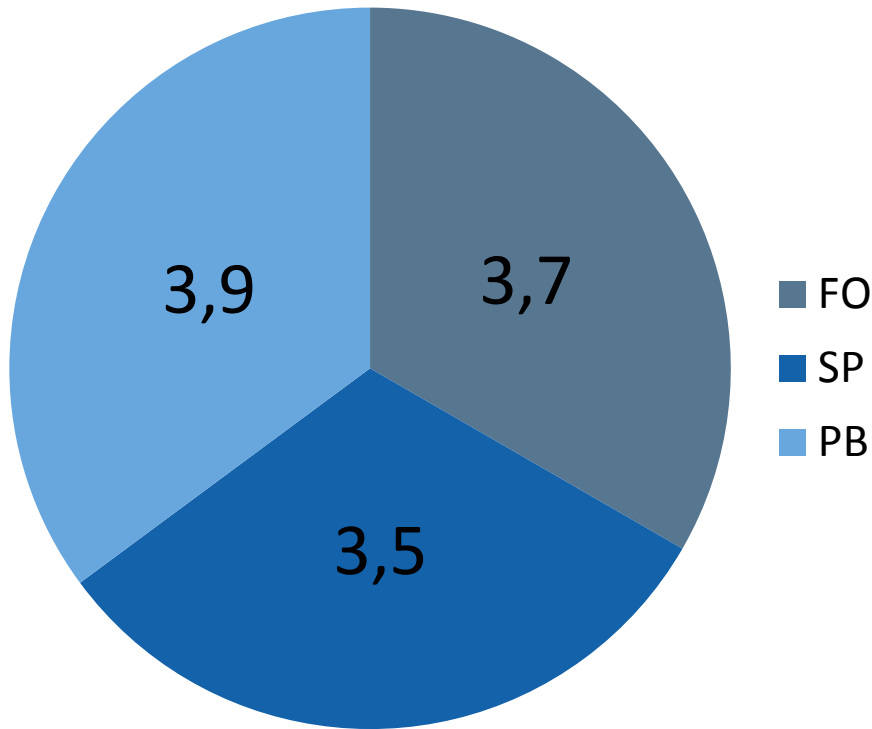


Needs of wealth possessors

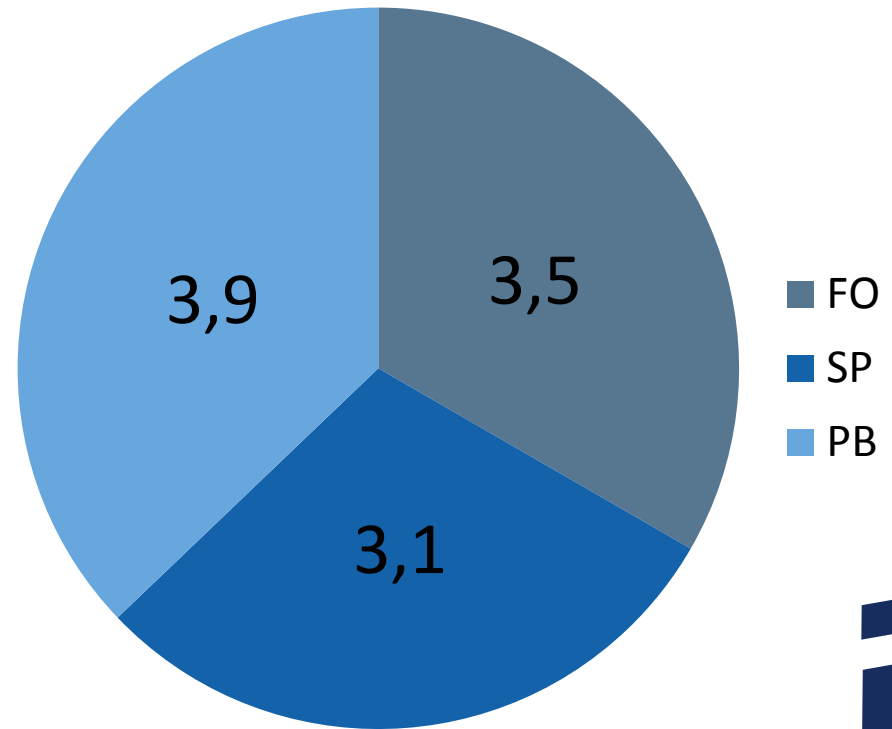


Assessment of satisfaction with available services

Financial Consultations

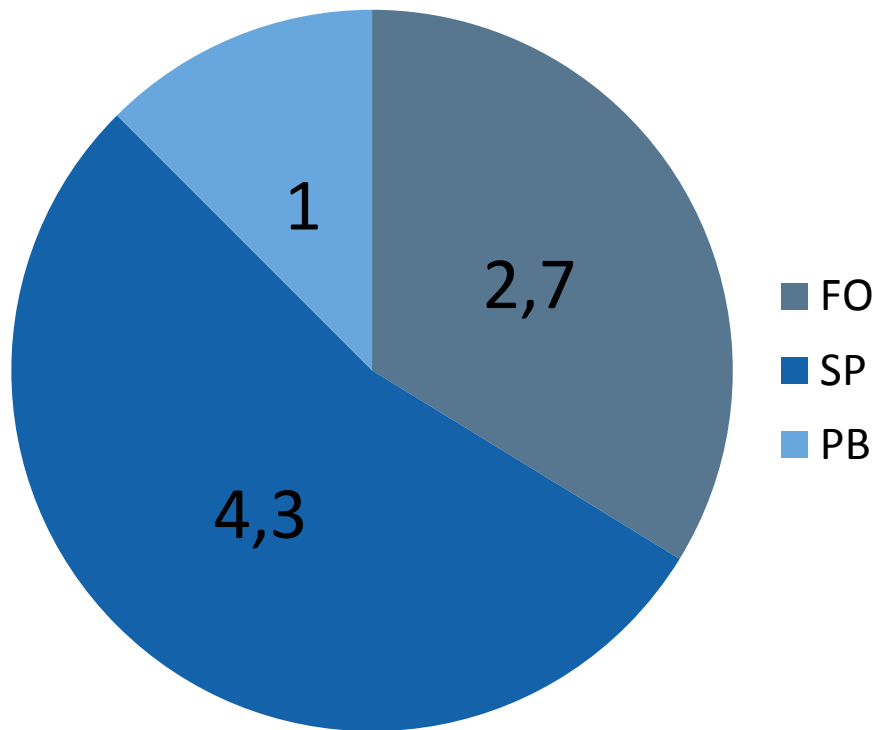


Asset management

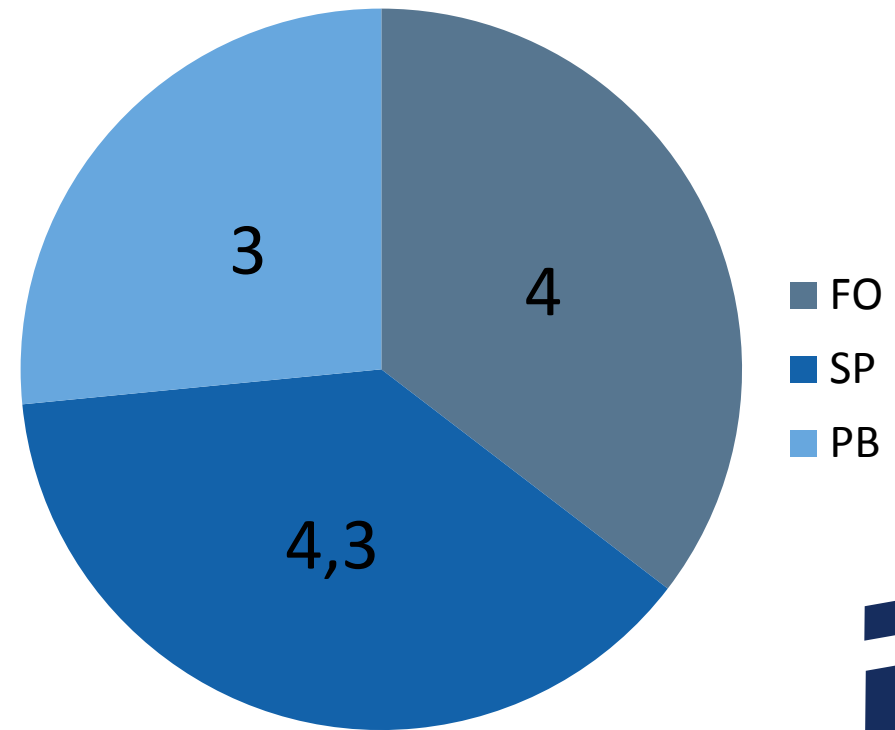


Assessment of satisfaction with available services

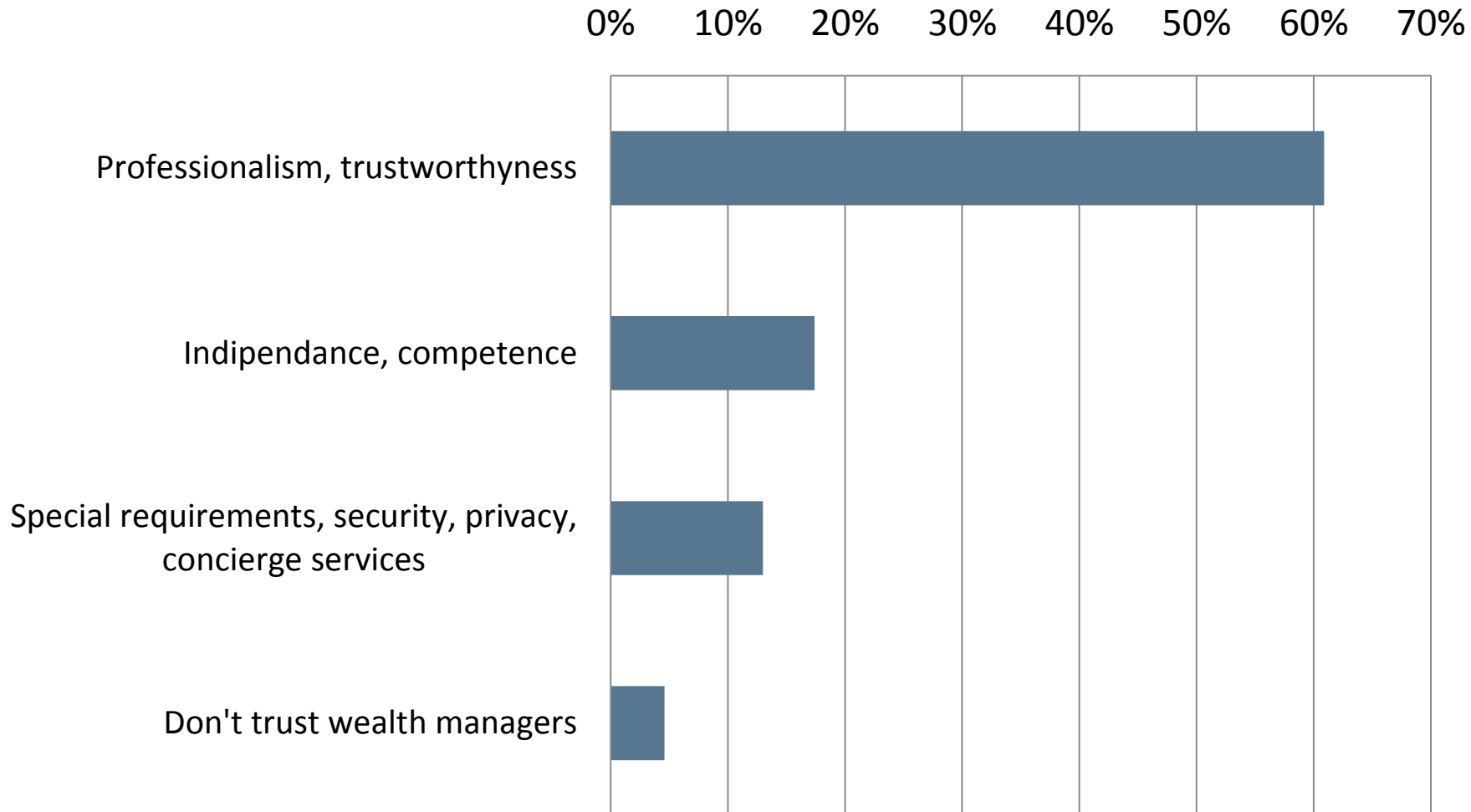
Education and career planning



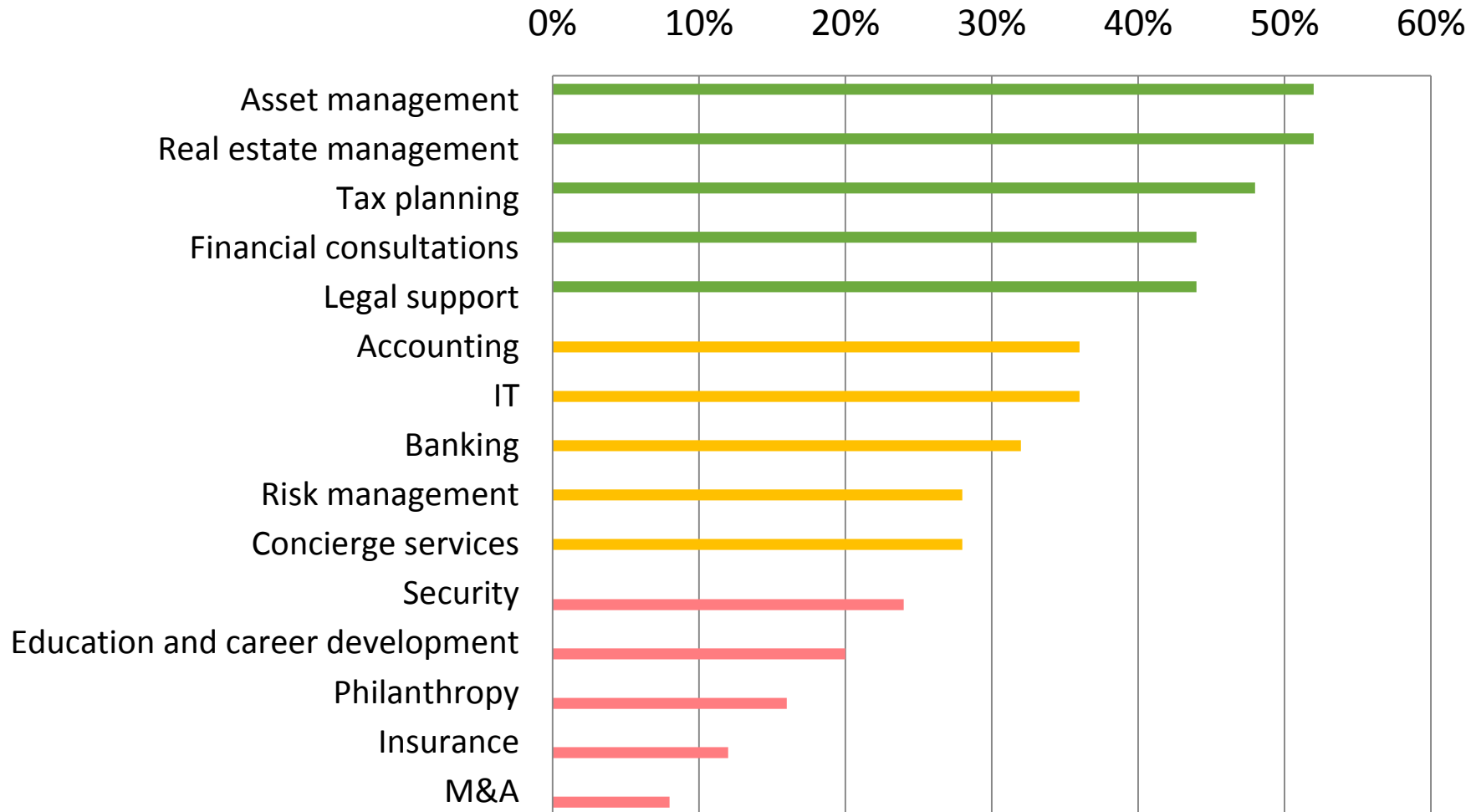
Leisure and Entertainment



Criteria for wealth manager selection



In-house specialists





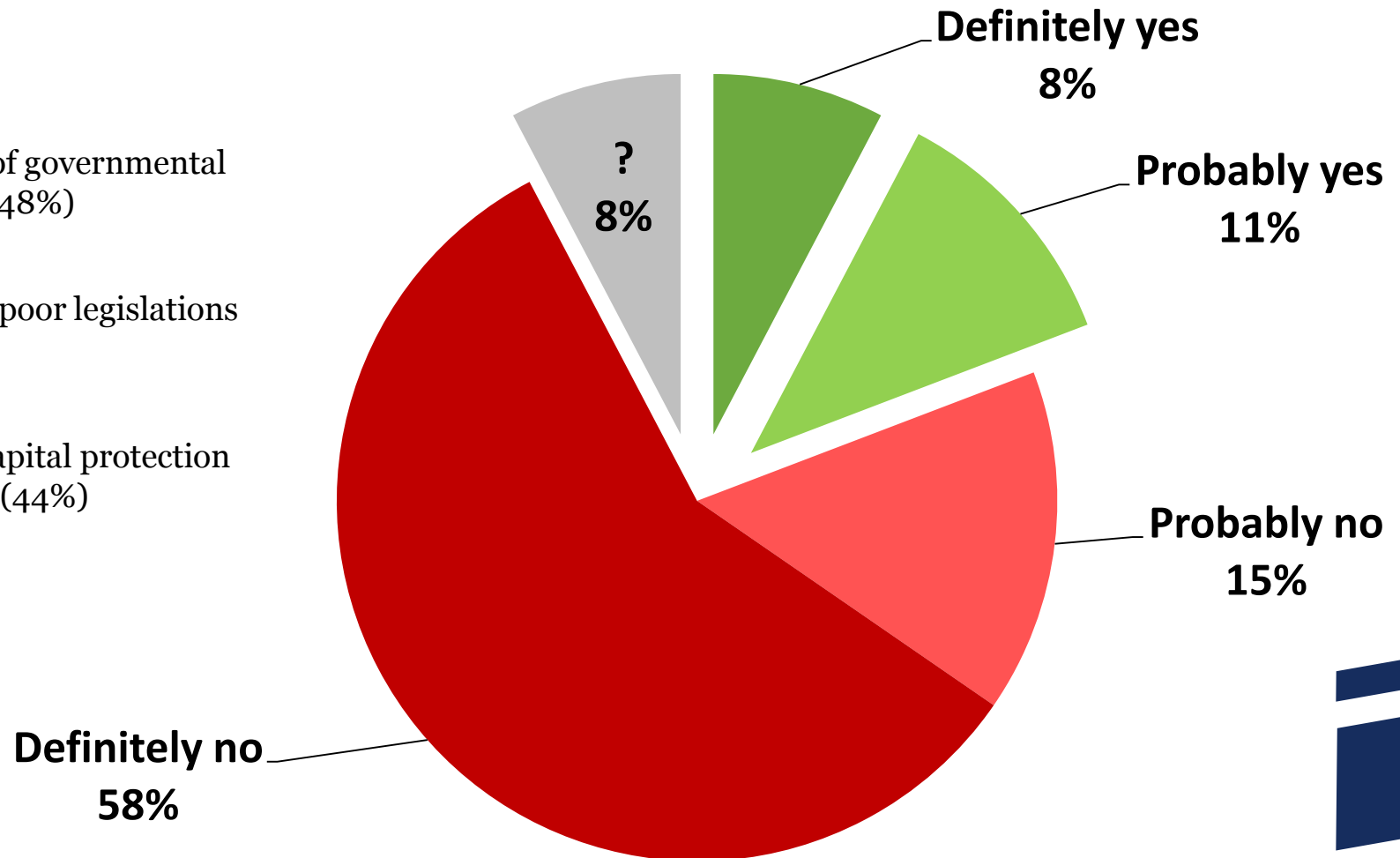
Can Russian service providers successfully develop the national wealth management industry?

- механизмы certain legal mechanisms are absent
- a change in legislation and protection of investments is needed

“Russian family foundation”

Against – 73%

- Low quality of governmental institutions (48%)
- Distrust and poor legislations (40%)
- Absence of capital protection mechanisms (44%)



**THANK YOU FOR YOUR
ATTENTION!**