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THE PBN COMPANY is an international strategic communications, government relations and public affairs consultancy serving clients worldwide from offices in Washington, DC, London, Moscow, Kyiv, Riga, Almaty and Chisinau.

Tuesday, November 2, 2004

Volume 1 Issue 22



The PBN Company and other survey sponsors unveiled the results of the first-ever public opinion survey of Russian CEOs on issues ranging from the corporate valuation and the image of Russian business to corporate governance, transparency and accounting practices at a news conference in Moscow on 27 October.

"The results of the survey are both expected and startling at the same time," says PBN Chairman Peter Necarsulmer. "On one hand, CEOs say that their company's reputation is strong and that they have achieved their corporate strategic business objectives in the past two years. On the other hand, they admit

### **Russian CEOs Speak Out on Reputation and Corporate Valuation**

Majority Say Reputation Impacts Access to Capital

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### **Russian CEOs Understand the Importance of Reputation Management**

Majority Implementing Reputation-Enhancing Initiatives

[\[click here for full story\]](#)

### **Russian CEOs Blame Poor Image on Business Practices**

Actions of Oligarchs Also Contribute to Bad Reputation

[\[click here for full story\]](#)

### **Russian CEOs are Bullish on Russia**

Public is Less Certain About Country's Direction

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### **About the Survey and its Sponsors**

Survey to Become Annual Tracking of Russian CEOs' Opinions

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that the reputation of Russian business in general is poor both at home and abroad. This contradiction is observed throughout the survey results."

A majority of CEOs blame the poor reputation of Russian business on inadequate transparency, corporate governance and shareholder protections, the Yukos affair, continued use of unethical practices, and the "reputation of several of the richest Russian business groups (oligarchs)." The CEOs said, by a margin of 63 percent to 37 percent, "oligarchs fairly deserve much of the criticism from the state and population."

Surveys of CEOs' views on corporate reputation have been conducted in the West, but never before in Russia. One hundred and seventy five CEOs of Russia's largest and best-performing companies took part in the survey, which was conducted by The PBN Company and market research firm IRG, in cooperation with Russia's leading investment bank Renaissance Capital and investor relations specialist Taylor Rafferty.

CEOs participating in the survey represented top corporations such as natural resource giants Gazprom, Yukos and TNK-BP, as well as well-known consumer goods and retail services firms like Alfa Bank, Pyatyorochka, Baltika and Pharmacy Chain 36.6.

The companies account for an aggregate domestic turnover of more than \$100 billion, providing jobs to some 1.6 million Russian citizens.

"The survey provides data-rich information on the views and opinions of Russian CEOs," says Necarsulmer. "It is our hope that the survey also spurs debate and enlightened action by Russian business and political leaders alike. We plan to make this an annual survey to track CEOs' progress on financial performance, customer loyalty, corporate governance, transparency, accounting practices, reputation management and the other key influences on corporation valuation of Russia's most important business enterprises."

This edition of Access PBN provides an overview of the results of the Russian CEO Survey 2004. A full copy of the report is also available on The PBN Company's website.

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See the survey and press release: [www.pbnco.com/CEO\\_survey](http://www.pbnco.com/CEO_survey)

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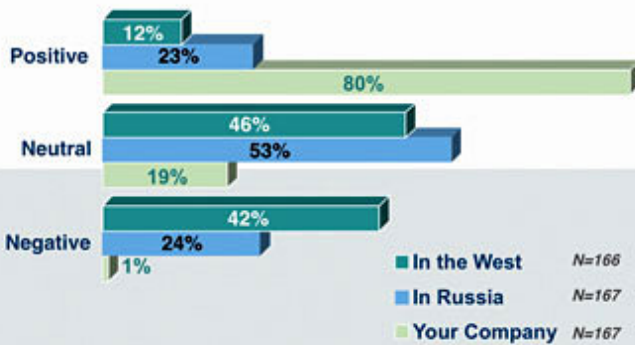
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## Russian CEOs Speak Out on Reputation and Corporate Valuation

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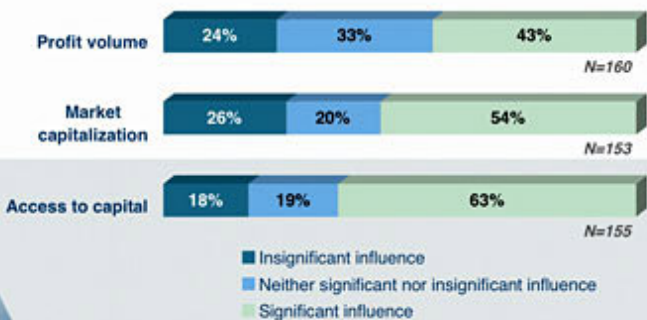
*What is the overall reputation of Russian business in Russia, in the West?*



*"It's time for a reality check. Individual company success in a climate of general disdain for the business community is not sustainable."*

*Peter B. Necarsulmer, Chairman and CEO of The PBN Company*

*Does your company's reputation influence your profit volume, market capitalization and quality of access to capital?*



Only a handful of Russian CEOs believe that the reputation of Russian business is positive either at home or abroad, according to the Russian CEO Survey 2004. As a result, profits, market capitalization and the ability of Russian

companies to attract investment and other external financing are hampered, according to Russian business leaders who participated in the survey.

Fewer than one out of four CEOs surveyed said that Russian business has a positive reputation at home and slightly more than one out of 10 said the reputation is positive in the West. More than half of the CEOs said the overall negative reputation of Russian business matches objective reality, with one third stating that the reality is better than the perception.

In contrast, 80 percent of CEOs rated their own company's reputation positively, and 70 percent said they had been successful in achieving their company's strategic business objectives during the past two years.

"It's time for a reality check. Individual company success in a climate of general disdain for the business community is not sustainable," says PBN's Peter Necarsulmer. "CEOs, the leading domestic and foreign business organizations and the Russian government all must be accountable for improving both the reality and reputation of Russia's economy, financial markets and investment attractiveness."

### **Poor Reputation Impacts Financing**

CEOs understand that a good corporate reputation impacts their ability to obtain financing to grow their companies. Sixty-three percent of the CEOs believe that corporate reputation has a significant influence on access to capital, and a majority said that it impacts their company's market capitalization.

"There's a direct link between the strength of a company's reputation and the value of its stock for investors," said Jeff Zerkowitz, a Principal and Managing Director of Taylor Rafferty, one of the survey's sponsors. "People pay more for things they know and trust. America's 10 most admired companies named in a recent Fortune poll have outperformed the S&P 500 index by more than 31 percent over the past five years."

Traditional bank financing remains the primary source of capital fueling Russian companies' expansion and more than 50 percent of the CEOs said they plan on relying on bank loans for external financing in the next two years. Flotations on the Russian stock market are planned by 17 percent of the companies in the next two years and on foreign

exchanges by 17 percent, which compares to only seven percent and five percent, respectively, over the past two years.

"CEOs understand that poor reputations stand in the way of further growth and success for their companies. In this regard, Russian CEOs are similar to their counterparts around the world — both know that image matters, not just for a CEO's ego but for a company's financial performance," says Necarsulmer.

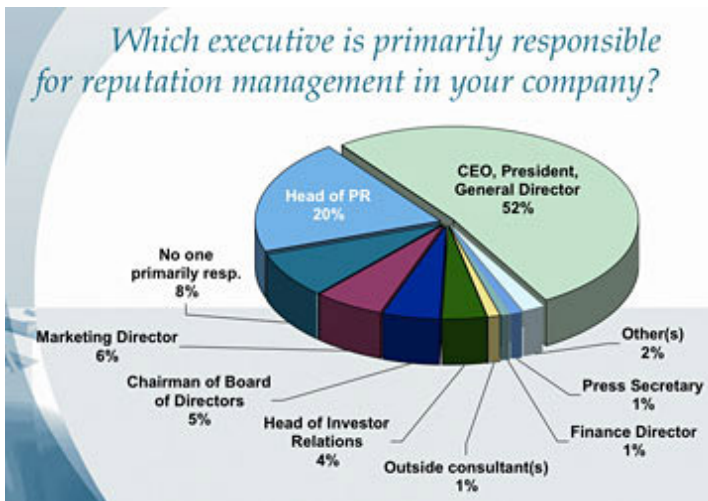
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## Russian CEOs Understand the Importance of Reputation Management



The Russian CEO Survey 2004 found that the majority of the country's business executives understand the importance of a good corporate reputation, and most acknowledge that they are primarily responsible for developing, nurturing and protecting their company's image at home and abroad. While many are devoting both time and resources to reputation management activities, relatively few are planning on implementing a number of widely accepted reputation-

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*"Good corporate reputation is simply good business."*

*Greg Thain, President of Interactive Research Group*

enhancing international business practices in the next two years, according to the survey.

Almost three-quarters of the CEOs agreed with the statement that "reputation management is essential to achieving your company's strategic business objectives" and almost nine out of 10 said that reputation management is a "main function" of the CEO. Less than one third agreed with the statement "reputation management is just a different word for traditional PR."

"CEOs take corporate reputation seriously and know that it is one of their main responsibilities," explains Greg Thain, President of IRG, one of the survey's authors and sponsors. "They know that a good corporate reputation will increase sales, earn customer loyalty, retain quality employees and attract investors. Good corporate reputation is simply good business."

#### **Companies Invest in Reputation Management**

The survey found that the majority of companies plan on implementing a variety of reputation-enhancement activities in the next several years, including corporate social responsibility, relationship building, crisis preparation, CEO positioning and opinion research programs. But few are planning on implementing International Accounting Standards (37%), recruiting independent Board members (30%) or adopting recommendations of the Code of Corporate Governance developed by the Russian Federal Commission for the Securities Market (28%).

"While CEOs know they must improve their own company's reputation to maximize value and access to capital, a majority has yet to adopt important corporate governance and transparency practices that will demonstrably improve not only their reputation, but external financing and market capitalization too," explains Oleg Kiselev, President and Chairman of the Board of Directors of Renaissance Capital, Russia's leading investment bank and a survey sponsor.

At the same time, fewer than half of the CEOs said that they are concerned about the impact of criticism from and/or conflicts with consumers, NGOs, trade unions and employees on their company's reputation. Only two out of 10 thought an environmental crisis or accident would negatively impact their company's image, even though 39 percent said that they had prepared crisis management plans to assess reputational risk.

"This is one of the areas where Russian CEOs differ from corporate executives of international companies both in the West and in Russia," says Necarsulmer. "Consumer, employee and environmental activism is much more prevalent in the West and therefore have caught the attention of these CEOs. But I venture to say that Russian CEOs would do well to consider opinions and agendas of these important third parties, because they carry an increasingly big stick when it comes to influencing corporate reputations."

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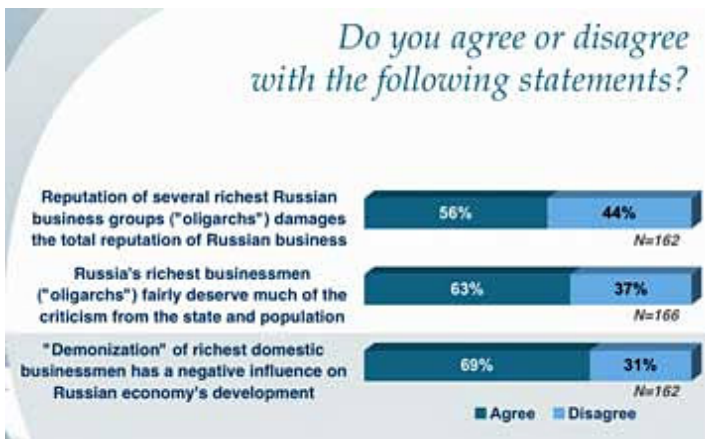
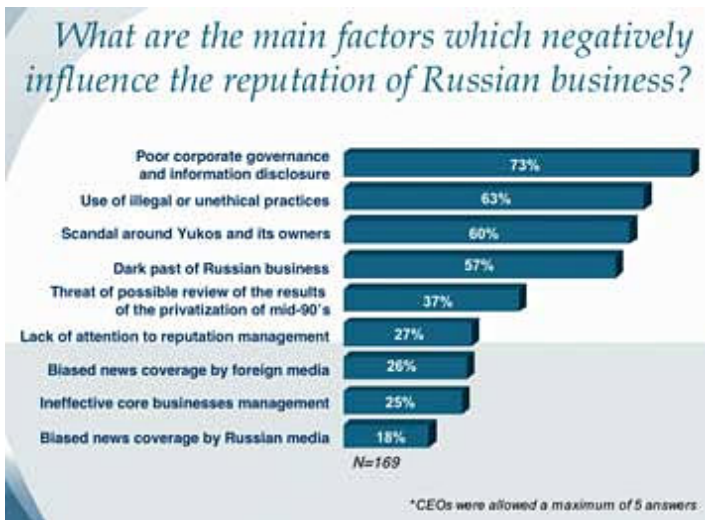
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## Russian CEOs Blame Poor Image on Business Practices

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*According to CEOs, Russian business itself is primarily to blame for its poor reputation.*



*Kto Vivova't. Who's to blame?*

That's an important phrase and practice in Russia, harking back to early Soviet days.

So who's to blame for Russian business's poor reputation? According to the CEOs who participated in the Russian CEO

Survey 2004, it is Russian business itself that is primarily to blame.

A majority of CEOs cited inadequate transparency, corporate governance and shareholder protections (73%), continued use of unethical practices (60%), and the "dark past" of Russian business (57%) as primary reasons for Russian business's low esteem.

The practices and behaviors of Russian oligarchs were also to blame for Russia's poor reputation. More than half agreed with the statement that the "reputation of several Russian business groups ('oligarchs') damages the total reputation of Russian business," and 63 percent said that the oligarchs fairly deserve the criticism they receive from the state and the Russian public.

The Yukos scandal has also contributed significantly to Russian business's poor reputation, according to the CEOs. Eighty-five percent said that the Yukos scandal and the arrest of its former CEO Mikhail Khordorkovsky have impacted negatively on Russian businesses.

"The Yukos affairs was Russian business's September 11 th," explains Oleg Kiselev, President and Chairman of the Board of Directors of Renaissance Capital. "It has impacted business operations in Russia, and our image at home and abroad more than any other event in recent years."

#### **BP Investment Cited as Positive Influence on Reputation**

A number of factors were cited as positively impacting the reputation of Russian business. Three-quarters of Russian CEOs cited BP's investment in Russia, Moody's investment grade rating and Russia's high economic growth as contributing positively to the image of Russian business.

To bolster their company's reputations and that of the business community as a whole, Russian CEOs said they plan on conducting a number of reputation-enhancing initiatives. Relationship-building with the media, financial markets and other external audiences is the primary strategy that Russian businesses have used and will continue to rely on to build and maintain their reputations. Two thirds also rely on sponsorships and corporate social responsibility activities to enhance their corporate reputations.

Four in 10 companies have conducted audits of their reputational risks in order to develop plans to reduce or eliminate them. A similar number has conducted public opinion polls and other specialized research aimed at measuring their reputation. More plan on using research in the future as a means of measuring their reputation.

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## Russians CEOs are Bullish on Russia



An interesting finding of the Russian CEO Survey 2004 is that the majority of Russian CEOs are optimistic about Russia's future. Two out of three CEOs said the country is headed in the right direction, with only 17 percent saying it is on the wrong track.

"Most Russian CEOs are bullish on Russia and its future with good reason," says Peter Necarsulmer. "The economy is booming and these market-leading businesses continue to grow profitably — key barometers in any business executive's mood and outlook."

These findings are in sharp contrast to the views of the Russian general public. Only 20 percent of Russians said that country is on the right track in a recent national survey conducted by the respected Russian research firm, VTsIOM. One third of Russians said the country is on the wrong track and almost half said that it is hard to say whether the country is on the right or wrong track.

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*Two out of three CEOs said Russia is headed in the right direction, but business leaders are more optimistic than the general public.*

"Business leaders are clearly more optimistic than the general public, who still face everyday quality of life struggles, particularly those living outside the major metropolitan areas," explains Necarsulmer.

PBN also conducted a survey of U.S. and Russian business leaders participating in the U.S.-Russia Business Council Annual Meeting held in the Washington, D.C. area in early October. That group was evenly split on Russia's outlook, with one third each saying right direction, wrong direction and hard to say.

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## About the Survey and its Sponsors



Peter B. Necarsulmer (center left), President and CEO of The PBN Company, announces the results of the Russian CEO Survey 2004 at a press conference in Moscow with other survey sponsors (L-R): Greg Thain, President, Interactive Research Group; Tatiana Voronina, Research Director, Interactive Research Group; Oleg Kiselev, President, Renaissance Capital; Jeff Zelkowitz, Partner, Taylor Rafferty; and Tatiana Nikulshina, Senior Account Manager, The PBN Company.

The Russian CEO Survey 2004 was the first time leading Russian business leaders were questioned on issues ranging from general outlook on Russia's development to key business practices of their companies. The surveys were conducted by mail or online over the two-month period from August through September 2004.

Most of the CEOs who participated in the survey were from open or closed joint stock companies (65%) and most were established after the fall of the Soviet Union in 1991 (62%).

About one third of the companies had sales in excess of \$400 million, one third had sales between \$100-\$400 million and one third had sales under \$100 million. Financial services companies (20%), consumer goods (16%) and IT/Telecom (12%) were the top industry sectors that took part in the

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survey. Almost one third of the companies obtained some or all of their assets through the privatizations of the 1990s.

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**Interactive Research Group** ([www.intrg.com](http://www.intrg.com)), or IRG, is a full-service market research and consulting firm which specializes in customized research on a wide array of topics, including: investment feasibility studies, market assessment, market segmentation and profiling, image positioning, distribution channels and product development research, customer and staff satisfaction, usage and attitudes studies. IRG also regularly publishes a forecast on Russia's economic prospects.

**Renaissance Capital** ([www.rencap.ru](http://www.rencap.ru)) is the leading independent investment bank operating in the Russian financial market, serving both domestic and international clients. Since its founding in 1995, the company has raised over \$9 billion for Russian companies — more than any other financial institution — and has completed many high profile deals.

**Taylor Rafferty** ([www.taylor-rafferty.com](http://www.taylor-rafferty.com)) is a leading international investor relations firm, helping corporate issuers with ambitions to more effectively access the capital markets. With offices in New York, London and Tokyo, Taylor Rafferty's services blend more than two decades of financial markets expertise and innovation with a methodical approach toward achieving company IR objectives.

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