

INNOVATION IN RUSSIA: POTENTIAL, CHALLENGES & DRIVERS

MYRON WASYLYK,
CEO, PBN HILL+KNOWLTON STRATEGIES

PBN
HILL+KNOWLTON
STRATEGIES

25
YEARS IN RUSSIA



Online Survey & Expert Interviews

October – November
2016

60+
companies

15
sectors



Aerospace



Agriculture



Chemicals



Consulting



Construction



Electronics



Finance



IT & Telecom



Light Industry



Machinery



Mining/Metals



Oil & Gas



Pharma



Retail



Timber &
Wood Processing

FINDINGS

IP PROTECTION IMPROVING

Russia has made progress in protecting Intellectual Property Rights in recent years

DEMAND FOR INFRASTRUCTURE

The Government's best contribution has been innovation infrastructure – companies want more

REGIONAL DRIVERS

Regional ownership of innovation infrastructure is most efficient – Governors help to resolve issues

REGULATIONS

Quality & unpredictability of regulations remain challenges for all companies

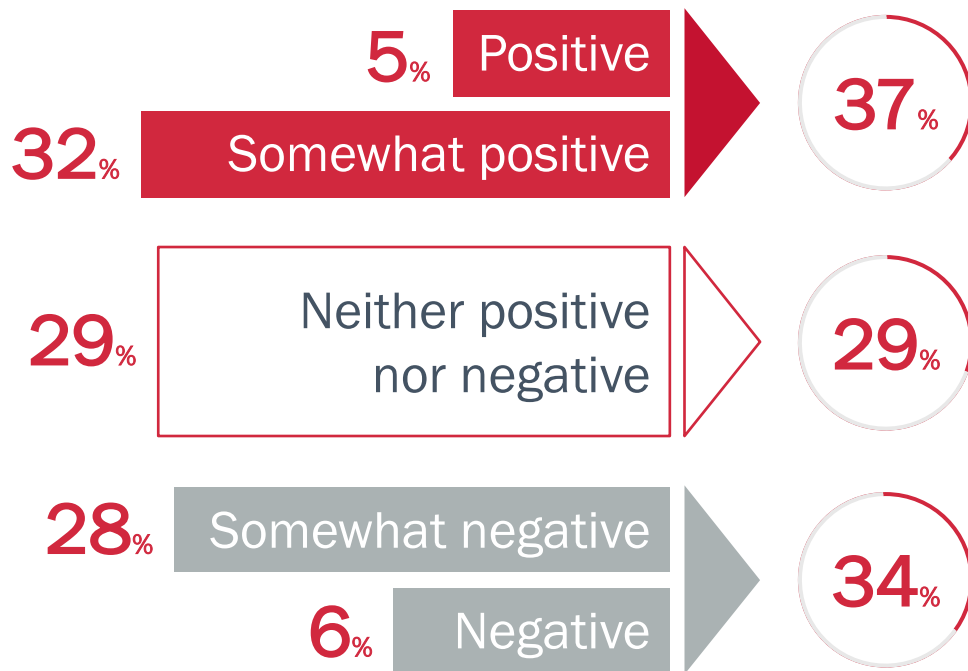
STATE ROLE

Growing State dominance in the economy limits the competition vital for innovation

INVOLVEMENT IN GLOBAL COMMUNITY

Innovation needs global ambitions – providing new products for consumers worldwide; yet Russia's global involvement remains limited

CURRENT ENVIRONMENT FOR INNOVATION IN RUSSIA



"There are success stories: Skolkovo, Alabuga, Innopolis. The challenge is how to scale these projects up."

Agricultural company

"According to FAS, the state controls 70% of the Russian economy. This is the key problem for the climate."

Machinery company

ELEMENTS OF THE INNOVATION ENVIRONMENT

1 - Very Poor

2 - Poor

3 - Average

4 - Good

5 - Very good

Appetite for innovation **3.3**

Public openness to new ideas **3.1**

IP and patent protection **2.9**

Cooperation between business and academic institutions **2.9**

State support for investors 2.7

Development of public-private partnerships 2.7

Public acceptance of risk-taking 2.6

Access to financing 2.5

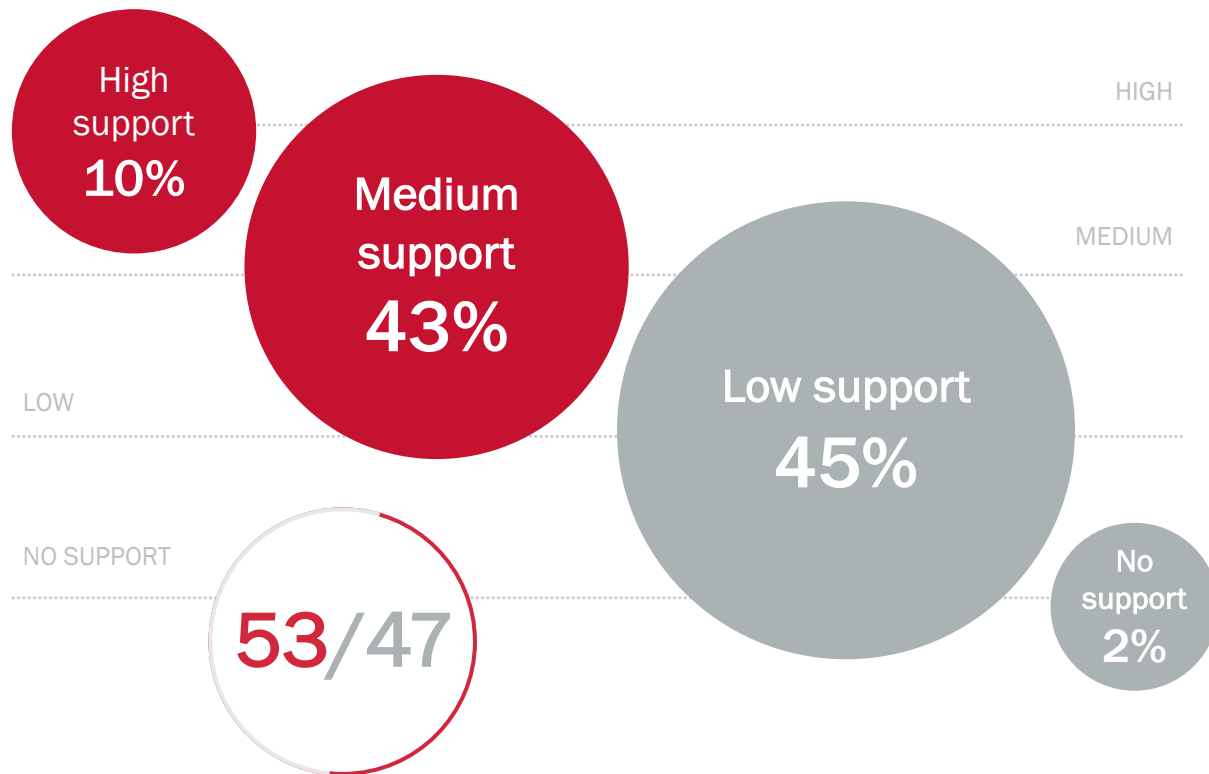
Quality of legislation 2.4

Speed to market for innovative products 2.3

Integration into the global innovation system 2.2



LEVEL OF GOVERNMENT SUPPORT FOR INNOVATION IN RUSSIA



“State support should be through creation of development institutions and stimulation of consumer demand.”

IT company

“The state makes a lot of declarations on innovation. But the problem of outdated regulation is left unresolved.”

Machinery company

TOP 3 POSITIVE INNOVATION MEASURES TAKEN BY THE RUSSIAN GOVERNMENT



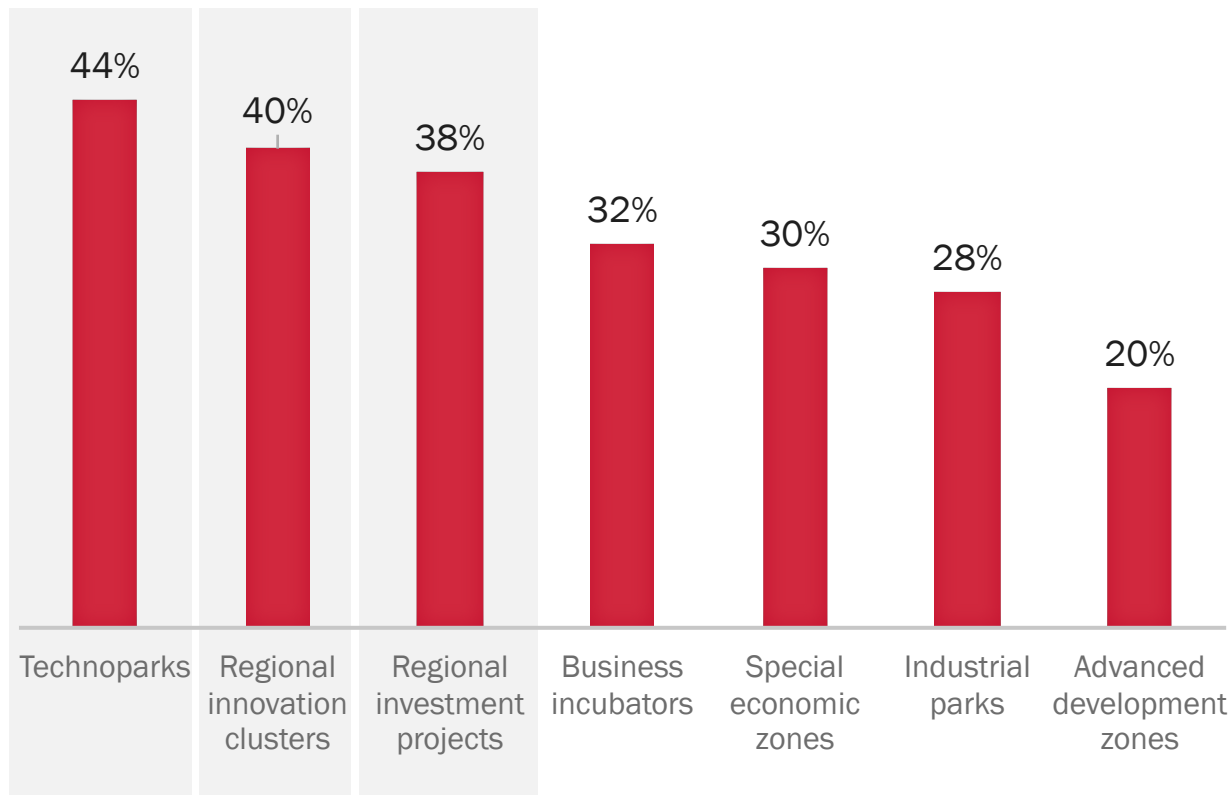
“Regarding IP, big steps have been made in recent years.”

IT company

“Almost every region we work in has problems with infrastructure. It’s vital to create conditions for innovative companies and investors.”

IT company

MOST USEFUL INFRASTRUCTURE FOR INNOVATION DEVELOPMENT



“Regional projects are much more effective. They have an owner – the Governor, who wants to see problems resolved quickly.”

Agricultural company

“It really depends on the region, in some the administration gets it; in some it’s a disaster, they can’t even talk convincingly about innovation.”

Pharma company

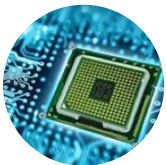
INNOVATION POTENTIAL BY SECTOR & AREA

SECTORS



1

Aerospace



2

IT & Telecoms



3

Agriculture



4

Oil & Gas

AREAS

New product
development

New service
offerings

New
manufacturing
techniques

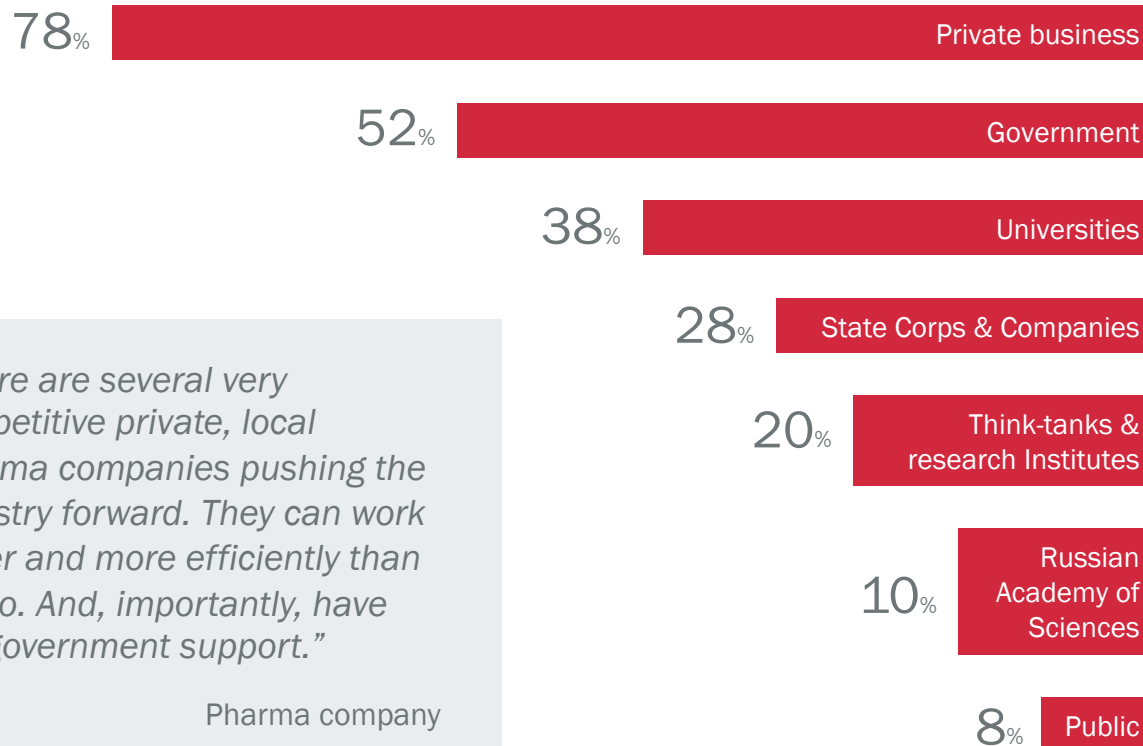
*"ITC is a global industry.
Space and energy are
Russian specialties.
Agriculture has been
strengthened by Import
Substitution policy."*

IT company

*"Everyone knows the long
product development cycle
doesn't make Russian
pharmaceuticals a
candidate for innovation
short term."*

Pharma company

STAKEHOLDERS DRIVING INNOVATION IN RUSSIA



"There are several very competitive private, local Pharma companies pushing the industry forward. They can work faster and more efficiently than we do. And, importantly, have full government support."

Pharma company

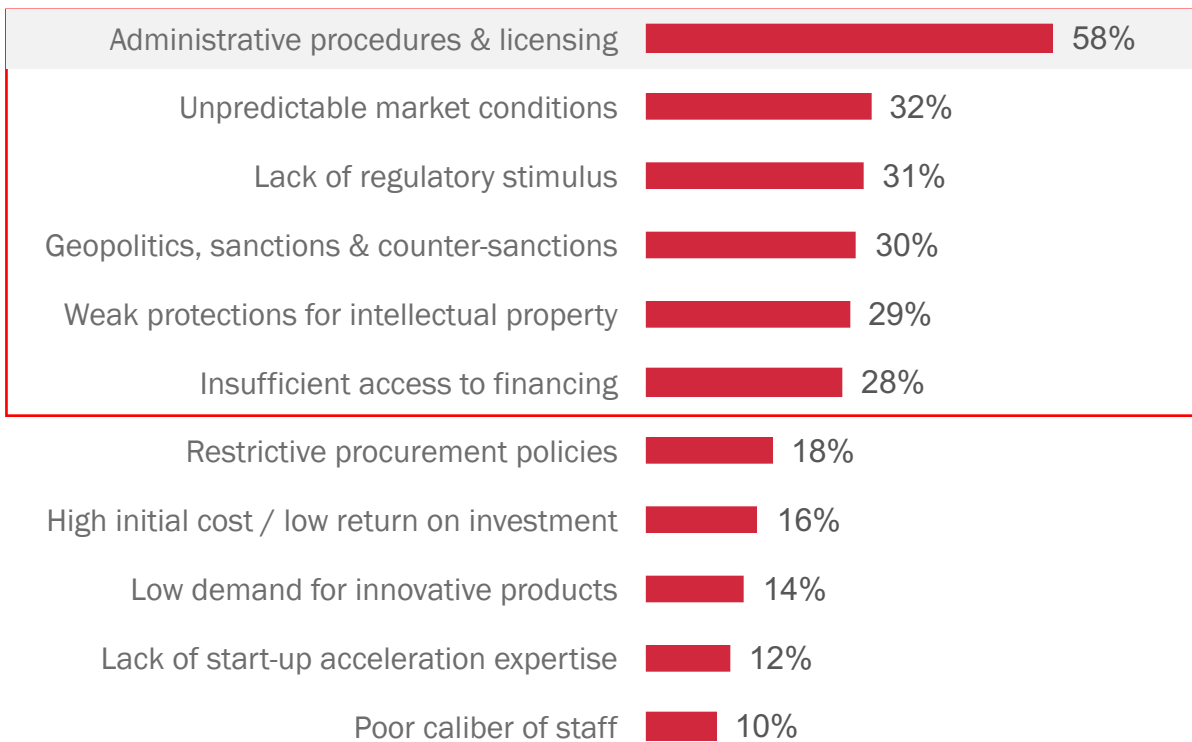
"SMEs are the real drivers of innovation worldwide. Many giants grew from garage start-ups."

IT company

"Skolkovo has a bad image right now; it's difficult to know if it's justified cause the projects all feed into state corporations – we can't tell if they are commercially successful."

IT company

MAIN BARRIERS FOR INNOVATION IN RUSSIA



“Innovation forced under government pressure can only work so far, the challenge is how to make it sustainable.”

Pharma company

“Administrative procedures can kill even the most robust. Us large companies somehow manage to cope with them – I can’t imagine how SMEs cope.”

Agricultural company

BEST INDICATORS THAT SHOW INNOVATION IS DEVELOPING IN RUSSIA

61%

Russia accounting for a greater share of high-tech goods and services on the global market

37%

More international patents registered by Russian inventors

55%

Innovation constituting a larger share of Russia's GDP

20%

Increased venture funding in Russia

49%

Transfer of Russian technologies to other countries

12%

Russia's position in global business rankings

41%

Increased spending on R&D in the country

"Growth in exports of Russian production is the best indication of innovation."

Machinery company

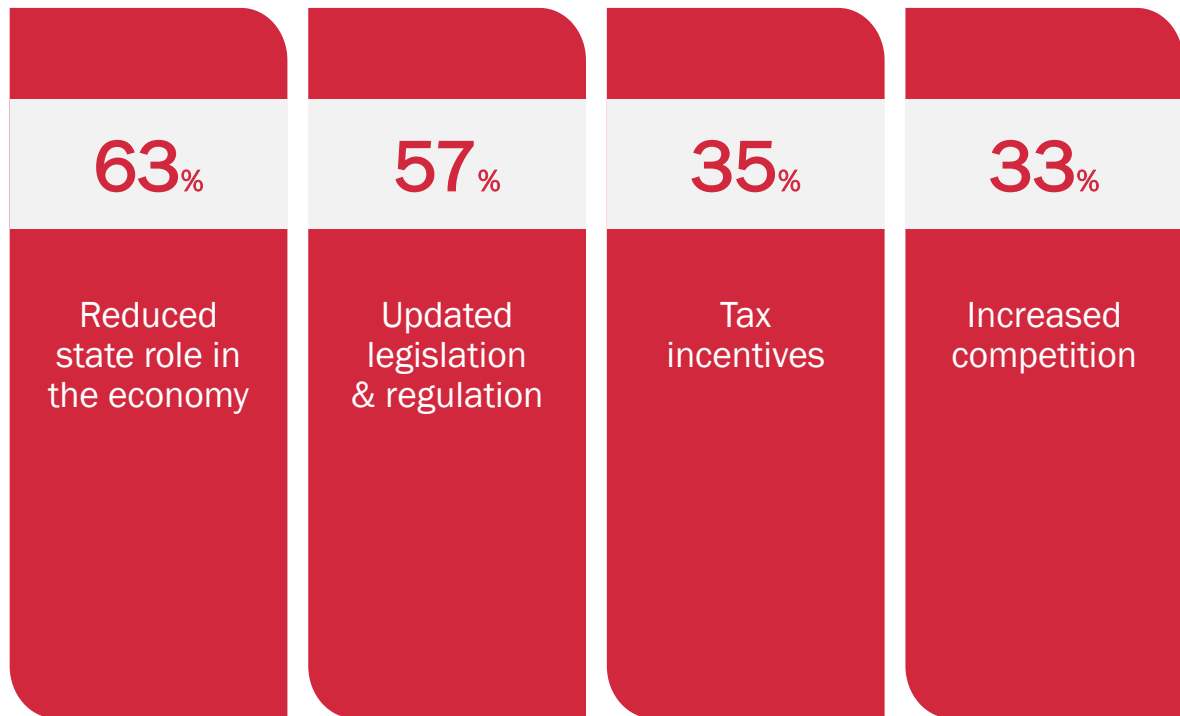
"Only exports would show progress."

Pharma company

"Positions in rankings don't really reflect reality."

IT company

WHAT WOULD STIMULATE BUSINESS TO INVEST MORE IN INNOVATION IN RUSSIA?



"The state needs to stick to its role – writing laws to appropriately regulate developments and increase competition."

Machinery company

"You can only innovate on the margins of the business – large businesses kill it. State corporations encourage inefficiency."

Machinery company

RECOMMENDATIONS TO THE RUSSIAN GOVERNMENT ON FOSTERING INNOVATION

40+
recommendations

FINANCIAL INCENTIVES & ACCESS TO FUNDS

- Tax incentives
- Deductible R&D expenses
- Better access to financing

INTERNATIONAL FOCUS

- Integration to global market
- Production for export
- Smart localization agenda (for export)

LEGISLATIVE & ADMINISTRATIVE CONSISTENCY

- Stable, predictable, consistent business environment
- Updated regulations
- Dependable, impartial enforcement
- Secure property rights

CULTURAL CONDITIONS FOR TALENT & EXPERIMENTATION

- Attract entrepreneurs
- Invest in education
- Create conditions for talent to stay and ideas to develop

ECONOMIC DECENTRALIZATION & DE-MONOPOLIZATION

- Decreased state role in the economy
- Tackle monopolies
- Increase competition
- Scale back state companies

“Innovation cannot, by definition, be just Russia. It has to be an international endeavor.”

IT company

“We have plenty of bright minds, but no mechanism of support and lack management skills to turn ideas into profits.”

IT company

PBN
HILL+KNOWLTON
STRATEGIES

Myron Wasylyk, CEO
myron.wasylyk@hkstrategies.com

3 Uspensky Pereulok, Building 4
Moscow, Russia
Tel.: +7 495 775 0077

pbn-hkstrategies.com
fb.com/pbnhkstrategies