

## **NEW CHALLENGES FOR RUSSIAN COMPANIES: PROBLEMS AND PROSPECTS OF ECONOMIC GROWTH**

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### **Abstract**

A study on the impact of the coronavirus (COVID-19) pandemic on Russian companies is presented to analyze problems and prospects of the economic growth of Russian companies. The study carried out by the authors was based on a survey among top managers of Russian companies representing different market segments. The analysis showed that all surveyed companies have experienced a negative effect of COVID-19 on their business due to the introduction of restrictive measures adopted by the government, which has led to a significant reduction in consumer demand and foreign trade. On the other hand, some respondents from pharmaceutical companies, consumer goods companies, or logistics companies have experienced a positive effect of COVID-19, which has created new business opportunities to meet the increasing consumer demand for their goods and services. However, despite the differences in the impact of the pandemic on business, all respondents agreed on major business opportunities for their companies, especially the transition to online sales or home-office.

**Keywords:** covid-19, economic impacts, business opportunities, Russian companies

**JEL Code:** O10, P41, Q56

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### **Introduction**

In recent decades, the world economy has faced many new challenges that are radically changing established economic systems, the most significant of which is considered to be the revolutionary impact of advanced digital and "green" technologies (Davydov, 2021). At the beginning of 2020, a sudden challenge emerged, the improbability and unpredictability of which is associated with the occurrence of the "black swan" - the COVID-19 pandemic, which is causing economic and social problems all over the world (Murray, 2020). As a result, most countries have been forced to take unprecedented restrictive measures to reduce the spread of new coronavirus infections (Chetverikova, 2021).

The speed, strength, and scope of the COVID-19 pandemic's impact on all spheres of human society indicated a strong negative impact on national economies, regardless of the degree of their integration into global value chains (Klinova, 2020). The first forecasts published by the IMF predicted a decline in global GDP by three percent by the end of 2020 (World Economic Outlook, 2020). In comparison with the forecasts related to the global financial crisis of 2008-2009, this indicator is significantly higher. In addition, the current "coronavirus crisis" is considered the worst since the Great Depression during the 1930s (Varnavskii, 2021).

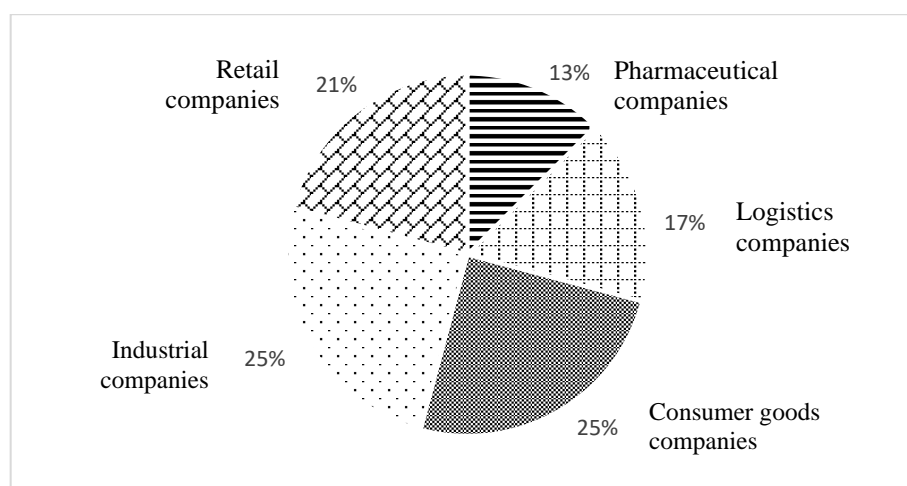
Following the projected decline of pandemic and revival of economic activities during the second half of 2020, global growth was projected up to 5.8% in 2021. At the same time, a maximum decline in GDP was projected in developed countries, for example: in the USA - 5.9%, in EU countries - 7.5%, in Japan - 5.2%. In Russia, the economy was expected to decline by 5.5%. (Sidorova, 2021) The main reason for the economic downturn was the decline in industrial production, which in turn was the result of a catastrophic decline in effective demand and supply and a reduction in investment (Polbin, Sinelnikov-Murylev, & Trunin, 2020). On the other hand, most companies are gradually adapting to the new business conditions and are looking for innovative solutions to restart their economic growth.

## **1. Goal and method**

The authors intend to present the results of their study on the impact of the coronavirus pandemic on Russian companies to analyze problems and prospects of economic growth of Russian companies. The results made it possible to define fundamentals of new business models that are important for top managers in projecting the trajectories of sustainable economic growth of their companies.

The study was based on a survey among top managers of Russian companies representing different market segments. The survey was performed from September to October 2020. The respondents were top managers of 48 large companies with an annual turnover of more than 3 billion rubles (about 33 million euros). The surveyed companies included 6 (13%) pharmaceutical companies, 8 (17%) logistics companies, 12 (25%) consumer goods companies, 12 (25%) industrial companies, and 10 (21%) retail companies (see Fig. 1). The research methods used included questioning, processing of mathematical data, economic and statistical analysis, and comparative analysis.

**Fig. 1: Surveyed companies**



Source: authors

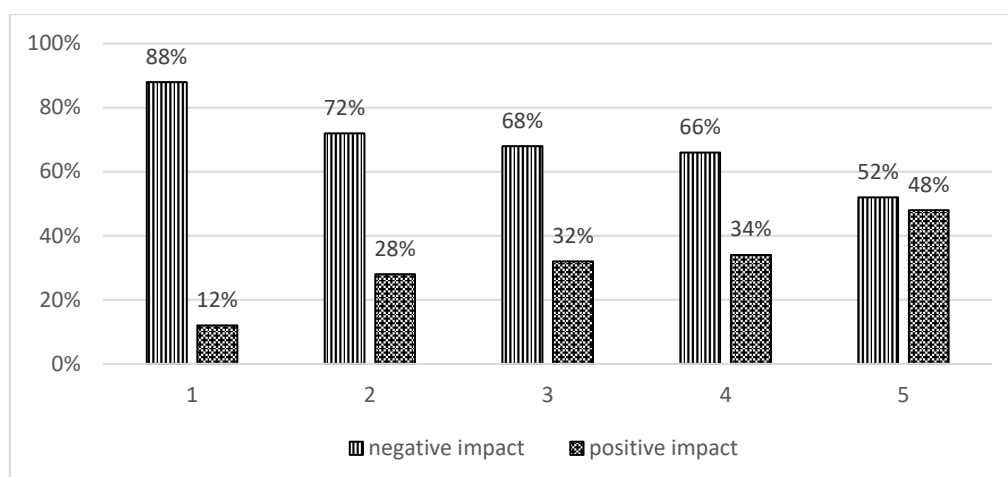
## 2 Results

The results of the authors' analysis focused on the effects of coronavirus pandemic on Russian companies are presented from three perspectives: 1) effects of COVID-19 on the financial situation of Russian companies; 2) adaptation of Russian companies to new business conditions; 3) new business models leading to economic growth.

### 2.1 Effects of COVID-19 on the financial situation of Russian companies

The authors' analysis showed that all surveyed companies have experienced a negative effect of COVID-19 on their business due to the introduction of restrictive measures, which has led to a significant reduction in consumer demand and foreign trade. The most significant negative impact has been experienced by industrial companies. The most serious problems mentioned by the respondents were limited possibilities of using distance work (98%), a sharp decline in domestic demand (96%), an interruption of business relations in value chains (74%), or a significant decline in investment (88%). On the other hand, some companies, in particular pharmaceutical companies, consumer goods companies, or logistics companies, have experienced a positive impact of the COVID-19 pandemic, which has created new business opportunities to meet the increasing demand for their products (see Fig. 2).

**Fig. 2: The impact of COVID-19 on business activities of surveyed companies**



1 – industrial companies

2 – logistics companies

3 – retail companies

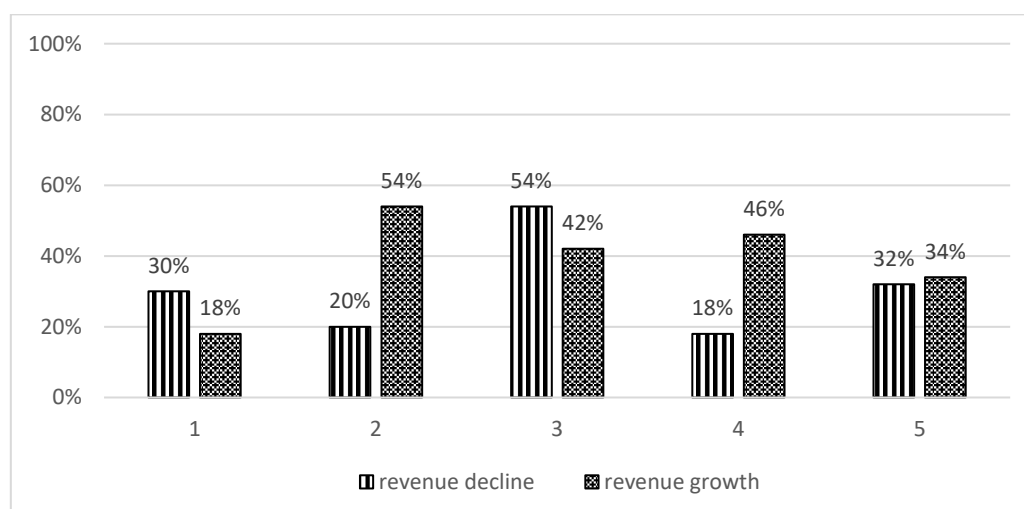
4 – pharmaceutical companies

5 – consumer goods companies

Source: authors

The analysis of the volume of revenues during restrictive measures revealed businesses most affected by the decline in trade turnover – these are mainly retail companies and consumer goods companies (excluding food companies). On the contrary, logistics companies and pharmaceutical companies were leaders in revenue growth (see Fig. 3).

**Fig. 3: Revenue decline vs. revenue growth in surveyed companies**



1 – industrial companies

2 – logistics companies

3 – retail companies

4 – pharmaceutical companies

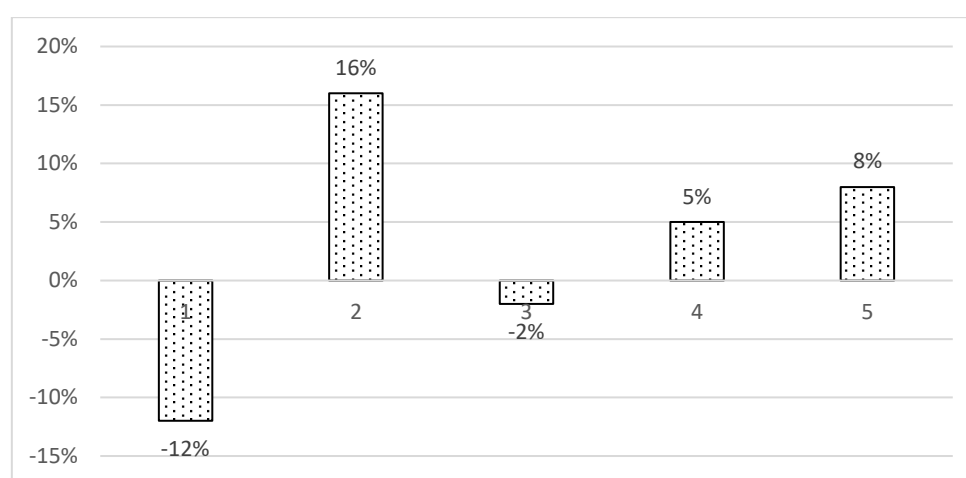
5 – consumer goods companies

Source: authors

The logistics companies showing revenue growth during the COVID-19 pandemic include, in particular, companies that provide services to e-shops. In the case of pharmaceutical companies, the explanation for revenue growth during the COVID-19 pandemic is clear: both the state and people buy specific products and drugs to prevent and treat coronavirus infection.

The surveyed companies' expectations related to their financial results at the end of 2020 and for 2021 were very cautious. Pessimistic expectations were expressed by representatives of industrial companies and retail companies. Representatives of other companies were rather optimistic (see Fig. 4).

**Fig. 4: The surveyed companies' expectations related to financial results**



- 1 – industrial companies
- 2 – logistics companies
- 3 – retail companies
- 4 – pharmaceutical companies
- 5 – consumer goods companies

Source: authors

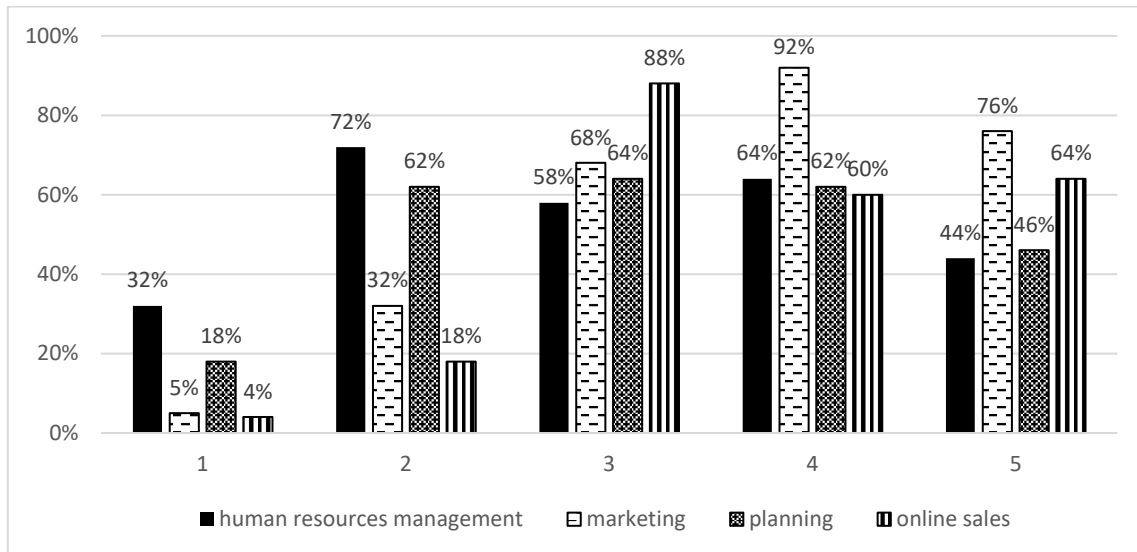
Representatives of almost all companies believe that the experience gained at the beginning of the pandemic needs to be analyzed to identify best practices that could be incorporated into new business models.

## 2.2 Adaptation of Russian companies to new business conditions

Due to the pandemic, governments of most countries around the world have been forced to introduce restrictive measures. Russia was no exception, with quarantine measures in place since 20 March 2020, including the transfer of many business processes to a distance mode. In this situation, many Russian companies are looking for new ways of doing their business. The results of the analysis showed that in most of the surveyed companies, regardless of their

industry, the processes of human resource management (62%), marketing (56%), planning (54%), or online sales (52%) changed the most. At the same time, industry dependence in many cases makes it difficult to transfer business processes to a distance mode – this applies mainly to industrial companies, as the transfer of most physical business processes to a distance mode is objectively impossible (see Fig. 5).

**Fig. 5: The changes of business processes in surveyed companies**



1 – industrial companies

2 – logistics companies

3 – retail companies

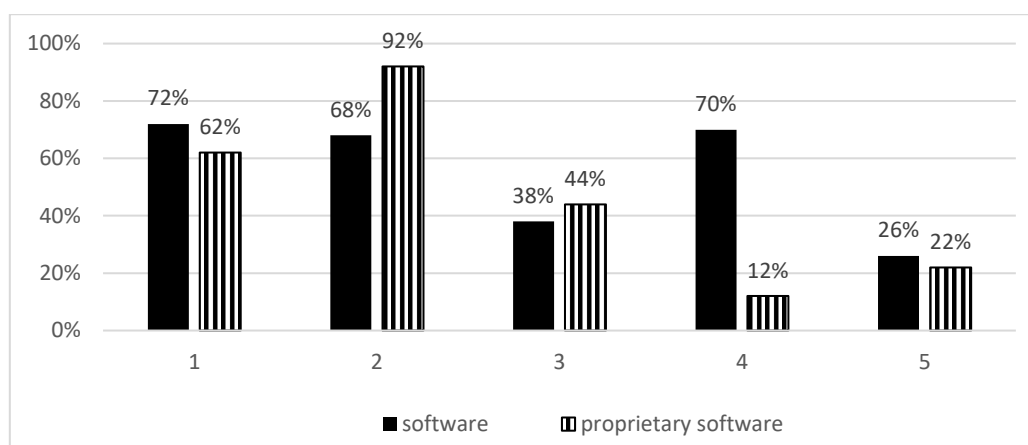
4 – pharmaceutical companies

5 – consumer goods companies

Source: authors

Changes in business processes are possible thanks to the use of special software that supports the transfer of business processes to a distance mode. Such software has been mostly used by industrial companies (72%), pharmaceutical companies (70%), and logistics companies (68%). In addition, logistics companies have become leaders in using proprietary (non-free) software. On the other hand, retail companies and consumer goods companies use special software much less than other companies (see Fig. 6). The reason may be that these companies are generally less prepared for switching their business processes to online sales and deliveries, and therefore most of them have decided to close their businesses, either temporarily or even permanently.

**Fig. 6: The use of special software in surveyed companies**



1 – industrial companies

2 – logistics companies

3 – retail companies

4 – pharmaceutical companies

5 – consumer goods companies

Source: authors

### 2.3 New business models leading to economic growth

The ongoing adaptation of Russian companies to new business conditions at the time of the COVID-19 pandemic provides an opportunity to analyze problems, experiences, and solutions, which helped Russian companies to survive and use change as an opportunity for innovation and development.

Representatives of surveyed companies are trying to understand the likely impacts of the pandemic on human society and are looking for new business models that would allow them to develop their business in new business conditions. According to representatives of surveyed companies, these new business models reflecting the business experience of the COVID-19 pandemic should be based on the following principles:

- introducing digital technologies for developing advanced online processes and products (a priority for 62% of surveyed companies);
- reducing costs (44% of surveyed companies plan to reduce the number of properties and outsource some activities);
- using home-office (70% of surveyed companies are ready to transfer non-production employees to full-time or part-time home-office mode);
- using big data analysis techniques to optimize supply and improve marketing, including work with the client base;
- developing online sales in B2C and B2B sectors.

The implementation of new business models as a factor of economic growth will require coordination with the public sector, especially in terms of legislation. This coordination will allow regulating the production to meet the needs of both domestic and foreign customers (Egorov & Petrovskii, 2021). This should simplify regulatory processes and speed up the production of critical products, especially medical products (Dynkin, Telegina, & Khalova, 2021). However, the coordination of business plans with the public sector is also important for other companies, such as food, energy, transport, or technology companies (Avxentyev, Nazarov, & Sisigina, 2020).

The above facts confirm that despite the catastrophic effects of the pandemic on human society, there are companies that have been able to make the necessary changes and find new business models leading to economic growth.

## **Conclusion**

The COVID-19 has initiated global transformations of existing economic systems and business models at all levels, including individual business processes and activities, and companies that want to survive and continue to grow must adapt quickly and find new ways of doing business in new business conditions.

The radical changes that companies are making as a result of the introduction of restrictive measures show the unsustainability of existing business models and pave the way for the development of new ones. These new business models reflecting the business experience at the time of the pandemic will be based on introducing digital technologies, using home-office, or developing online sales. The purpose will be to find a sustainable way of doing business promising sustainable economic growth, regardless of dramatic circumstances such as the pandemic.

The introduction of new business models will require a revolutionary transformation of existing business processes and activities, from the identification of target markets through the provision of the necessary resources and the production of desired products to their sale and promotion. Such a transformation must be coordinated with the public sector and must correspond to public interests. This satisfaction of public interests based on the cooperation between the business and public sectors is the way to strategic stability and prosperity in the reality of a new time of instability.



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