

Saimaa University of Applied Sciences
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International Business

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The effect of political sanctions on economy in the construction industry in Saint-Petersburg and regions

Thesis 2016

Abstract

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The effect of political sanctions on economy in the construction industry in Saint-Petersburg and regions, 50 Pages, Two Appendixes

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The purpose of the thesis was to find out the effect of political sanctions on a small construction business. Additionally, the history of emersion of the sanctions, their introduction in the year 2015 and their overall effect on the economy worldwide were studied. The work was commissioned by a small country-owned business AVK operating within Saint-Petersburg and its regions.

To accomplish the study the financial performance of the company was studied. This data has helped to understand the effect of the sanctions of the year 2015 on the business. What is more, the balance sheets and the overall goods flow and sales were analyzed. The interview with the owner of the company was obtained, including the overview on the effects and outcomes on the business and current situation of the company in the market.

The result of the study has shown the overall effect of sanctions on the economy in Russia in general and on the AVK company in particular. The results of the study could be applied on the ways of eliminating the losses and preventing the future risks for the AVK company.

Keywords: sanctions, ruble, construction industry, economic crisis, Ukraine crisis 2015

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1 Introduction

1.1 Background

The topic of the thesis is economic sanctions of the years 2014 and 2015 and their effect on the construction and retail company “AVK” which is operating within Saint-Petersburg and regions.

The rapid fall of ruble has been the most discussed topic within the Russian Federation in the past year, creating a high level of general awareness for the exchange rates within the Russian nationals (Ermolenko 2014). The reason for such major interest in the value of ruble is that the prices on the imported goods have grown dramatically, therefore leading to the overall increase in the prices of products and services in general. Therefore, all of the companies operating within the Russian Federation are willing to know the economic situation and are opting for the ways of eliminating all of the repercussions caused by rapid growth of prices.

The AVK company is specializing in supply of construction, finishing materials and equipment in the building industry. It is a distributor of the leading Russian and international manufacturers and a high number of goods sold are imported from abroad, putting the company in the middle of the current crisis of the ruble.

Currently the case company has 10 employees within Saint-Petersburg and the annual turnover, before the implementation of sanctions in the year 2014, is near EUR 2,000,000, which is representing the company as a small, however successful business.

In the process of writing the thesis, the PEST analysis is performed, which is commonly used to understand the external factors affecting the business (Team FME, 2013). In this paper, the PEST analysis will be the core research reflecting the actual effect on the case company AVK of the sanctions imposed on the Russian Federation, by political, economic, social, and technological factors.

What is more, the SWOT analysis is implied to the analysis of the case company, which is identifying strengths and weaknesses of the business. Therefore, after performing the PEST method and breaking down the results, the SWOT method is performed to see the strengths, weaknesses, opportunities and threats of the AVK business at the current state and in the future operation process.

The reason why I chose this topic is that for me, as a Russian native originally, economic sanctions of the years 2014-2015 have dramatically affected my daily life. What is more, I have done my practical training in the AVK company before and currently I am an employee in the office, therefore I was generally interested and willing to help with my study to understand the real effect of the sanctions on the business and find ways to eliminate all the negative effects they have caused on the financial performance. I was interested in working out the possible ways to minimize the risks in the future.

1.2. Objectives and delimitations of the study

The purpose of this thesis is to study the impact of the economic sanctions, introduced within the period of years 2014 and 2015, on the performance of the AVK Company. By the end of the thesis, my aim is to find the branches of the company which have been affected the most and find the ways of eliminating the losses and preventing all the possible risks in the future. What is more, this research is determined to find all the external and internal factors that are affecting or slowing down the financial performance of the company after the political happenings and to understand the scope of the problem together with possible future outcomes on the position of the company in the market.

The delimitations of this study are that the thesis only considers the AVK business and the employees of the case company in order to reflect the actual effect of sanctions between years 2014 and 2015 and have tangible results. No other similar or competitor businesses are being analyzed. AVK is a small retailer business operating in the construction industry with ten employees,

meaning that the results and solutions presented may not be applicable for larger businesses operating in other fields or within other territories.

What is more, in this research I plan to focus on financial performance of the company within the stated period of time, together with the study of employees and the CEO personal overviews and forecasts on the current situation. Therefore, the relationships of the company with the suppliers and clients and any legal issues will not be included in the research.

1.2 Research question

The research question of this thesis is to define the ways in which the economic sanctions of years 2014-2015 have affected the construction company AVK which is operating within Saint-Petersburg and regions. Therefore, the research question throughout this thesis is:

- How the economic sanctions of the years 2014-2015 have affected the performance of the AVK company?

What is more, this study will include such sub-questions as:

- How did the AVK company eliminate all the losses caused by the current economic happenings?
- What are the possible ways of preventing such situation and protecting the business in future?
- How did sanctions affect the construction businesses in Saint-Petersburg and regions in general?
- Were the employees of the company generally affected by the sanctions?

1.4 Presentation of theoretical framework

The research for this study was based on works of such authors as Gary Clyde Hufbauer, Jeffrey J.Schott, Kimberly Ann Elliott (1990), Chesterman, S., & Pouligny, B. (2003), David A.Baldwin (1999-2000), Michael Brzoska (2009) and

Daniel W. Drezner (1999). The analysis of the works of these authors have brought a clear understanding to the history of emersion of sanctions, reasoning behind their first cases of implementation and their aims and main outcomes throughout the years. What is more, they have given a vivid example of the equivalent situation in the past and brought an understanding to possible steps or ways of eliminating the most of the negative effects and losses.

What is more, because the topic of the thesis is covering up-to-date happenings, most of the information was obtained from the online sources and major news and economic newspapers. Further, the web equivalents of such newspapers as The Foreign Affairs, Reuters, The Moscow Times, CNN News, Fox News, The Guardian and BBC News were analyzed.

The analysis of the “Coercive Cooperation: Explaining Multilateral Economic Sanctions” by Lisa L. Martin (1989) was held together with “Economic Sanctions Reconsidered: History and current policy, Volume 1” by Gary Clyde Hufbauer, Jeffrey J. Schott and Kimberly Ann Eliot (1990) have provided the core knowledge of sanctions and history behind their emersion and first cases of implementation.

The study of the balance sheets and financial statements of the case company AVK has taken a major part in the research in general. In order to perform the analyses mentioned further in the research methods, the information and numbers obtained from the financial statements of the company were studied and used.

As the theoretical framework for this thesis the published articles and books on the sanctions and their history throughout the years are used. This information provided the core knowledge of the sanctions, their political meaning throughout the history and their first appearance and the reasons behind them. What is more, it provided actual examples of coping with the results caused by the introduction of sanctions in the past. The aim for that core research was to bring up the understanding of the original meaning of sanctions and their implementation.

1.5 Research methods

Throughout this thesis the research method is based on the case company AVK. Therefore, the paper mainly consists of quantitative research. The study of the events in the past and up-to-date happenings in the general economic world is performed as well, and the information is acquired from the published and online sources. The general empirical research is performed based on the data acquired from the case company AVK. The sources of the researched data are the balance sheets of the company in the last years, the intranet software database used as the shared storage by the employees and the accounting software which is reflecting all the transactions within the company.

Throughout the thesis to analyze the acquired data the following research methods were implied:

- quasi-experimental
- correlation analysis
- survey

The quasi-experimental research is defined as a comparison of two groups or subjects and therefore the study of the results of this collation (Woolf 2015). The groups are formed according to stated criteria, which in this thesis is the financial performance of the case company before and after the economic sanctions of the years 2014-2015.

The correlation research method is studying the liner association between the two related variables. This type of analysis shows how variables tend to change depending on each other (Encyclopaedia Britannica 2010, p. 468). In this thesis the correlation research is implied to understand the correlation between the introduction of sanctions and financial performance of the case company AVK. What is more, the correlation between the sanctions of 2014-2015 and the employee motivation and performance is studied.

Lastly, in order to represent the effect of the sanctions on the working force of the case company AVK, survey method is implied. According to William M.K.

Trochim, survey is one of the most important areas of measurement in applied social research (Trochim 2006). In order to understand the actual effect of the economic sanctions on the working force of the case company AVK, the group administrated questionnaire is performed. In this type of survey, a sample of studied population is brought together to respond to a structured sequence of questions, after which the answers are further analyzed (Research methods Knowledge Base 2006).

1.6 Structure of the study

The thesis consists of introduction, explanation of the reasoning why this topic was chosen and provision of the background information. The body of the paper includes history behind the emersion of sanctions, research performed for the case company, analysis of the obtained interviews and conclusions being the last part of the study.

As the theoretical framework for this thesis the published articles and books on the sanctions and their history throughout the years are used. This information provided the core knowledge of the sanctions, their political meaning throughout the history and their first appearance and the reasons behind them. What is more, it provided actual examples of coping with the results caused by the introduction of sanctions in the past. The aim for that core research was to bring up the understanding of the original meaning of sanctions and their implementation.

As the practical part of the thesis the analysis of the case company AVK is performed. Together with previously obtained theoretical knowledge, the information on the AVK company is studied, using the methodological tools presented above. This is done to perform the comparison of performance of the AVK company before and after the introduction of sanctions of the years 2014-2015, find ways of eliminating losses and preventing risks in the future, finding weaknesses and strengths and other external and internal factors that are affecting the business. Further, I give the overview on the current situation in

the construction market in Saint-Petersburg and regions and draw the overall conclusion to the thesis.

Throughout this thesis, being the current employee of the AVK company and writing on a political topic, covering up-to-date political events, I performed the research and analysis from the objective point of view for the academic purposes. However, my involvement in the company gave me a broader access to the situation from the inside and allowed me to perform successful interviews with the CEO and employees of the company.

2 The history of the sanctions

Generally, the international sanctions are undertaken by any country against any other, driven by political reasons. The first case of the implementation of sanctions was imprinted in ancient Greece. Pericle Megarian has formed a decree performed in 432 BC as a response to the kidnapping of three Aspasian women, which further played a big role in The Peloponnesian War (Hufbauer & Scott & Elliot 1990, pp 4-5).

Throughout the years, sanctioning was heavily used in order to prevent enemies from striking a war or to enforce a change in the behavior. In order to understand the reasoning behind the implementation of the sanctions today and to study the rich history behind them, shall the overview of the article by Uri Friedman “Smart Sanctions: a short history” (2012) from the Foreign Policy newspaper will be presented.

According to Uri Freidman the history of international sanctioning can be summed into yearly periods as follows:

1. 1892-1894. The enforcement of the decisions of a proposed international system of the arbitration is discussed within the European pacifists in a series of dedicated conferences. An endorsement of peaceful sanctions is persuaded by Henri La Fontaine. Therefore the legal term “sanctions” is borrowed from the 17th century.
2. 1918. In favor of creating a society of nations that further would isolate a “recalcitrant nation” after the World War I, implementation of sanctions is

being offered by Leon Bourgeois and Paul Henri d'Estournelles de Constant.

3. 1919. Woodrow Wilson, the President of the United States advises to apply boycotts, which would prevent any citizens of the aggressor country from trading, communicating and doing business with the League members.
4. 1935-1936. The sanctions implied by the League of Nations against Italy fail to assure withdraw of the troops of Benito Mussolini from Abyssinia.
5. 1940-1941. Japan decides to take part In the World War II, as a result of the sanctions of the United States against the country.
6. 1945. United Nations, despite preserving sanctions in the regulations, appoints them twice: against white-minority governments in Rhodesia and South Africa, during the period of the Cold War resulting in the United States embargo of Cuba.
7. 1967. An attacking message by Norwegian sociologist Johan Galtung states that the nature of the economic sanctions is collectively affecting the innocent along with the guilty.
8. 1980. International sanctions against national discrimination, together with the divestment campaign by grassroots, puts pressure on the government of the country and withdraws twenty billion from operating in South Africa businesses.
9. 1990. The 'comprehensive sanctions' are placed on Baghdad, due to the invasion of Kuwait by Iraq, which are aimed on harming the regime of Saddam Hussein and stopping the use of weapons and mass destruction.
10. 1993-1994. the financial sanctions are imposed on military members of Haiti, making it the first time when sanctions are targeted on specific people, then government assets. The implementation of these sanctions by the Security Council is caused by the lead of Washington.
11. 1995. 'Smart' and 'targeted' sanctions attract attention, as the sanctions on Iraq cause numerous deaths of local children, making the United Nations warn not to follow the lead of the ' smart sanctions' as they are hard to enforce. The Oil-for-Food Program is established against Iraq by

the Security Council, as a way for Baghdad to exchange the oil for needed goods.

- 12.1997-1999. An Angolan rebel group UNITA faces targeted sanctions from the United Nations, aimed at travel bans. A committee and expert panel to monitor the violations is being empowered.
- 13.2001. As a result of 9/11 attacks, the United Nations appoints the counterterrorism obligations on the member states.
- 14.2003.The sanctions against Baghdad are formally ended after two months of the United States invasion of Iraq.
- 15.2003-2004. The sanctions targeted at Libya, implied during 1980-1990, are lifted by the United Nations and United States.
- 16.2004. The concerns about the people who face targeted sanctions on terrorism but have no possibility of challenging the initial decisions that finally put them on the United Nations blacklists, raises awareness of the United Nations.
- 17.2006. The first trade sanctions targeting a head of state are coming into force as an embargo on the favorite imported goods by Kim Jong Il as a response to a North Korean nuclear test.
- 18.2006-2009. Foreign banks are being persuaded to obey the United States sanctions against Iraq by the United States Treasury Department representative Stuart Levy.
- 19.2011. Sanctions imposed on Qaddafi and the associates bring attention to the problems of freezing the assets in the twenty first century. Further actions of the new Libyan government lead to reclaiming two hundred billions of dollars in assets, belonging to Quaddafi around the world after his death.
- 20.2011-2012. An oil embargo and sanctions on the Central Bank of Iran are appointed by the United States and Europe, as a response to the nuclear program of Iran. The failure of the targeted sanctions against Syria does not bring an end to the crackdown.(Friedman 2012).

Therefore, sanctioning has been a strong and widely used method throughout the years, imposed by different governments and followed by various reasoning

behind them. According to the graph by Lance Davis and Stanley Engerman (Davis & Engerman 2003), the average number of costs to the target and sender, the index of the success and the average number of cases of sanctions, show the actual numbers behind the history of sanctioning.

Table 2
Quinquennial Averages of all Cases of Economic Sanctions

<i>Years</i>	<i>Annual Number of Cases of Sanctions</i>	<i>Success (index)</i>	<i>Cost to Target % of GNP</i>	<i>Ratio of Sender to Target GNP</i>	<i>Cost to Sender (index)</i>
1914–1918	0.60	5.67	4.00	5.00	3.00
1919–1923	1.00	16.00	nd	37.00	2.00
1924–1928	1.00	16.00	nd	56.00	2.00
1929–1933	2.00	9.00	1.50	112.50	2.00
1934–1938	2.00	5.00	0.95	40.50	2.50
1939–1943	2.00	6.50	1.25	6.50	3.50
1944–1948	7.00	6.29	0.70	26.06	2.29
1949–1953	3.00	5.00	5.33	208.67	2.00
1954–1958	11.00	6.64	1.31	480.04	1.82
1959–1963	14.00	7.36	1.37	170.14	2.07
1964–1968	8.00	10.00	3.91	251.38	1.88
1969–1973	6.00	7.50	1.18	207.17	1.17
1974–1978	26.00	5.69	0.49	281.27	1.65
1979–1983	17.00	6.53	1.42	2270.43	1.94
1984–1990	1.86	5.58	5.56	610.54	1.85

Sources: See the sources to Table 1.

Notes: In estimating the costs to the target countries, negligible was treated as 0.05 percent of GNP. In those cases where data are missing, the averages pertain to the years for which the data were available.

Table 1. Quinquennial Averages of all cases of economic sanctions. Graph by Davis and Engerman 2003

2.1 Reasons behind sanctioning

The reasoning behind the implementation of sanctions is defined into three acting categories, which were originally aimed at differentiating the political context. Therefore, the three categories are:

- Sanctions designed to force the cooperation with the International Law

- Sanctions aimed at providing a threat to peace within the geographical boundary
- Sanctions that involve the United Nations Security Councils condemnation of actions of a specific action or policy of a member or non-member nation. (Chesterman & Pouligny 2003, pp.503-518.)

The first category is overviewed with the example of the sanctions placed on Iraq in August 1990, which were implied as a result of the initial invasion of Kuwait. As the result of those actions, an embargo on the nation was placed by the United Nations in order to prevent the further occurrence of an armed conflict. (Conforti 1991, pp. 110-113.)

A recent example of the implementation of the second category of sanctions are the restrictions on the missile and weapon materials, which may be further used to create any destructive weapons, implied by the United Nations Security Council on Iran in 2010 (International Debates 2010, pp. 41-48). The reason for sanctioning in this case was to prevent any chance of Iranian aggression towards other regions.

The third category is represented by the actions of the General Assemble and the United Nations, mentioned above, who denounced the actions of Rhodesia in all the military, economic, oil and petroleum products (McDougal & Reismen 1968, pp. 1-19). In this case the overall disapproval led to sanctions on the natives of Rhodesia

2.2 Types of sanctions

Throughout the history numerous cases of implementing the sanctions have been documented. Generally, they are divided into four groups, which are:

- diplomatic sanctions
- economic sanctions
- military sanctions
- sport sanctions.

Diplomatic sanctions are formed as inexpensive means to isolate and delegitimize the regimes. Generally, they are used as a tool of the foreign policy, in order to reassess the value of the diplomatic isolation and understand the core value of the diplomatic engagement (Maller 2010, pp. 61-75).

The economic sanctions were first mentioned in ancient Greece and further, during the period of the World War I, when they were used for the foreign policy purposes (Hufbauer & Scott & Elliot 1990, pp. xi-4). Economic sanctions are defined as a resignation of customary trade and financial relations for foreign and security purposes (Masters 2015).

Military sanctions are ranging between the military strikes which are aimed at degrading the conventional or non-conventional capabilities to the embargo of arms or dual-use items.

Sport sanctions are usually received by athletes for a doping violation under the athlete international federation rules and USOC Anti-Doping policies (USADA 2011-2015).

Throughout this thesis the focus of the analysis is on the international economic group, and, in particular, the sanctions which were introduced during the Ukrainian crisis of 2013-2015.

3 Sanctions during the Ukrainian crisis 2014-2015

In order to bring understanding to reasoning behind the imposition of sanctions against the Russian Federation in the first place, the abstract of the Ukraine crisis is presented.

The sanctioning and the Ukraine crisis in general are a strongly political topic, covering the topics which are not directly linked to the purpose of this study, therefore the timeline of the sanctions and political happenings during 2014-2015 are presented in a shortened version, covering only the main highlights, which were standing behind the actual cases of sanctions imposed on the

Russian Federation, in order to bring an understanding and reasoning to the further analysis.

3.1 Crisis in Kiev

The overall riot have started as a result of the denial of the Association Agreement and Deep and Comprehensive Free Trade Agreement with the European Union by the president at the time Viktor Yanukovich, in favor of the planned agreement with the Russian Federation on industrial production and trade, on the 21 of November, 2013. This move led to numerous protests, involving hundreds of thousands of people in Kiev. Growing in size, the protest turned into deadly act, taking place in Kiev and further spreading all over Ukraine. Governmental offices being attacked by the protesters, issue the restrictive anti-protest laws in January. The overall crisis led to the abdication of the Prime Minister of the country Mykola Azarov. (BBC News 2014).

According to the ongoing Ukraine Crisis Timeline, issued by the Center for Strategic and International Studies (CSIS 2014), American and European governments, being aware of the Maidan Protest violence which took lives of nearly a hundred people, issued a statement to the President Viktor Yanukovich asking to deescalate the situation and withdraw the security forces. If not obeyed, the sanctions on individual officials responsible for the violence would be issued.

Negotiated by Russia, France, Germany and Poland, President Viktor Yanukovich flees Kiev. This action was followed by the Settlement Agreement, issued on the 21st of February 2014.

3.2 Annexation of Crimea and the battle in Donbass

As Crimea becomes a part of the Russian Federation in late February, the European Union together with the United States of America prepare sanctions against individuals and entities, which are being responsible for violating the sovereignty and territorial integrity of Ukraine (Brady 2014). The potential sanctions mentioned in the speech by United States President Barak Obama,

were aimed at visa bans and asset freezes on both Ukrainian and Russian officials. Whereas, the European Union leaders form a three-phased sanctions plan, which will further be dependent on Russian political actions (RT news 2014).

In response to expanded sanctions from the United States and the European Union, the Ministry of Foreign Affairs of the Russian Federation imposes visa bans on nine United States officials. The Russian Federation is being expelled from the G-8 countries after the G-7 leaders held their meeting on March 24, 2014.

In late April 2014, a new set of sanctions in response to Russian continuous support for separatists groups is introduced after another meeting of the G-7 leaders, leaving each member country of the G-7 to determine their own set of coordinated and complimentary, however not necessarily identical targeted sanctions (Smith-Spark & Tuysuz & Butenko 2014).

A new set of sanctions against additional pro-Russian separatists were imputed by the United States. The statement by the Undersecretary for Terrorism and Financial Intelligence, David Cohen, explained that these sanctions are issued as a reply to attempts to illegally undermine the legitimate government and hold penalties such as freezing the United States based assets and prohibiting any American businesses from conducting business with them (CSIS 2014).

On July 12, 2014 a new complex of sanctions was expected to come into force, adding eleven new individuals involved in the Ukrainian Crisis (The Moscow Times 2014). An announcement by Barak Obama on July 16, as a response to intransigence over Ukraine, introduced a new set of significant but targeted sanctions on the Russian Federation, aimed to restrict the entities ability to access United States capital markets. The most eminent Russian companies and financial institutions, which include eight state-owned defense firms (Rosnfet, Novatek, Gazprombank, Vnesheconombank) were targeted in the new imposed set of sanctions (Pace & Dahlburg 2014).

3.3 Sanctions imposed after the downing of Malaysian flight

After a major catastrophe of the Malaysian Airlines flight was being shot down in eastern Ukraine in the middle of July, international awareness was razed accusing Russian insurgents of forging the evidence, increasing the threats of sanctions against Russia from the European Union leaders. On July 29, 2014, the European Union prescribed broad sanctions targeted on key sectors of Russian economy. This set of sanctions was said to include an arms embargo, a ban on sale of dual use and sensitive technologies, ban on sale of bonds and equities by state-owned Russian banks in European capital market and new individuals were blacklisted. What is more, restriction on sale, production and exploration technology in oil industry have also faced sanctioning. (Dahlburg 2014). However, a concern about the negative effect of the sanctions on the European market is growing within the European leaders, as the new set is the most restrictive measure yet introduced by the European Union (Pawlak & Beech 2014).

After the new measures of the European Union were being announced, United States sanctions were being broaden to target fundamental sectors of the Russian Federation economy, being aimed to correspond with the European Union sanctions in order to bring a compelling effect on the Russian economy together (Jackson & Michaels 2014). The new set of sanctions is targeted on such Russian companies as Bank of Moscow, Russian Agricultural Bank, VTB Bank OAO, United Shipbuilding Corporation.

3.4 Russian sanctions as a response to acts from West

As a response to measures obtained by the European Union and the United States of America, the Russian Federation starts own sanction campaign. (Alstom 2014). A series of bans on goods from Ukraine, Moldova and Australia and Poland is issued, explained so that the goods imported do not meet the health and sanitary standards for Russian markets, referring to the allegation of dangerous chemicals in the United States bourbon (DW Economy 2014).

These actions obtained by the Russian government are claimed to be done in order to isolate Russian consumers from the increased food prices the

sanctions cause. Further, bans are imposed on the imported agricultural goods from countries that have implemented sanctions on the Russian Federation.

As a response to previous sanctions, the Russian Federation has cut the import of numerous products from abroad, aiming at the major losses in the European budget, as Russia was one of the major export partners of Europe. However, Russian consumers are being affected by this sanctioning respectively, as Russian Federation industries are heavily dependent on the international import. (Fox News 2014.)

3.5 New round of sanctions against the Russian Federation

In early September 2014, the European Union introduces the new set of sanctions targeted on state-owned companies of Russia, which are Gazprom, Rosneft and Transneft, limiting their ability to raise financial capital in European markets, together with Oboronprom, United Aircraft and Uralvagonzavod. (Lynch 2014.)

On September 11 the new sanctions banning the credits and loans with a maturity of more than 30 days to Russian entities, which heavily affect most of the major banks, energy companies and defense firms in Russia. The new restrictions also include the ban on 24 individuals and freeze of their assets and visa restrictions. (Baetz 2014).

Despite the earlier plan to discharge the sanctions against Russia, European Union ambassadors decide to keep them in place during the meeting in the late September (EU Not Considering Lifting Russia Sanctions despite Ukraine Cease-Fire, Reuters, The Moscow Times, September 30, 2014).

3.6 Elections in Ukraine and new wave of sanctions

According to Federica Mogherini, the goals of the European Union is the relaunch or re-engagement in a dialog given that Russia is both a part of the problem and the solution. It is crucial to develop a political discussion which will

further bring positive aspects for Ukraine and the other parties. (Kanter 2014). Following these happenings, in December 2014, President of the United States Barak Obama signs legislation, which shall be called a Sanction Bill, and includes the new sanctions on the Russian Federation (The White House 2014).

In the end of January 2015 an extension of existing sanctions on the Russian Federation for another six months, was agreed within the European Union leaders (BBC News 2015). Following those steps, a new set of individuals and organizations are being added to the targeted Russian sanction list in the middle of February 2015. (The Telegraph 2015).

In early March 2015 during the European Union summit, the European leaders decide on the remaining of the sanctions imposed on the Russian Federation until the peace in Ukraine will be remaining, therefore prolonging them until the end of the year 2015. (Reuters 2015.) Following that decision, in the middle of June, European Union governments agree on extension of the sanctions again further, until January 31. This extension was agreed within twenty eight foreign ministers during the European Union leaders meeting in Luxembourg. (Reuters 2015.)

3.8 Recent happenings and the situation on the present day

In late June 2015, Canadian Prime Minister Stephen Harper announced the imposition of new sanctions on Russian individuals and companies, which include a number of energy and construction companies (Ukraine today 2015).

According to the statement issued by the European Union leaders on September 14, the economic sanctions will be prolonged until March 2016, covering one hundred forty-nine Russian individuals and thirty-seven entities. (The Wall Street Journal 2015).

4. The effect of sanctions on the economy of the Russian Federation

Generally, the Russian Federation was brought to the major monetary crisis which started in the year 2014. According to news agency Bloomberg, the

reasons behind it were the sanctions imposed on the Russian Federation (Galouchko 2014). Depreciation of the Russian currency ruble in oppose to other international currencies has been caused by the rapid drop in prices on energy resources together with numerous sanctions implied on the country (Berez & Nehezin 2014). These factors have caused inflation, slower growth in the real income of the population and therefore, the fall in the lending market and retail. Numerous economic sectors were affected, which has led to decrease in the overall production. (Kuvshinova 2014).

According to experts, in the long term perspective sanctions will cause negative effect on the restrictions of export to the Russian Federation and the access to cheaper credit resources for the Russian banks (BBC News, 2014). What is more, in the current situation the external debt and international investments will be decreased, which will lead to the increase of taxes in future (Interfax 2014).

One of the reasons behind a major capital outflow, which in 2014 was equal to 110 milliards of US dollars, and one of the main reasons behind the financial crisis in the country were sanctions (Demidova 2014). What is more, the economic sanctions have caused a decrease of 1,5% in the GDP of the country and the cumulative losses equal to 9% (International Monetary Fund 2015).

5. The effect of sanctions on the construction industry in Saint-Petersburg and regions

Since the economic sanctions were imposed on the Russian Federation between years 2014 and 2015 they have affected numerous businesses and industries and caused a heavy impact on the economy of the country in general. As the heaviest effect of sanctions was brought onto banking and tourism sectors, the construction industry within the country has had major changes as well.

Currently the construction market is being separated in two halves: on one hand, because of the lack of customer demand and buying ability the pricing in the construction should be decreasing, on the other hand, at the period of financial instability of ruble, and its relation to euro and dollar, Russian people are trying to save their money investing them in real estate, which at the end

was leading to the increase of the customer demand in the end of the year 2014.

The construction industry in Saint-Petersburg and the Russian Federation in general is relying on the import of the international materials and equipment, which makes it quite difficult to stop the import from overseas straight away. According to Elena Nikolaeva, the Chairman of the Housing Policy Committee in the State Duma, the sanctions can cause a positive effect on the construction industry which will force the country to improve and develop those branches of the industry which are aimed at producing the material and equipment which the Russian market is lacking at the moment (Nikolaeva 2015). However, at the same time the sanctions imposed by the European Union and the United States are posing a negative effect on the mortgage rates which will further cause the reduction in liquidity and further impede the beginning of new building projects. (Naumov 2014).

According to Georgy Bogachev Saint-Petersburg and its regions are producing nearly 90 per cent of the building materials this makes it became one of the most up-to-date and efficient center for the production and distribution of building materials (Naumov 2014).

During the period of sanctioning the big damage will land on the investors who take the loans and credits in international currencies. This has decreased the amount of investments in the construction industry which will further reflect the number of underway projects.

To sum up, the sanctions imposed by the European Union and the United States on Russian Federation on the construction industry in Saint-Petersburg and the regions will mostly affect the number of realized projects and the price of the real estate. However, on the other hand, the pricing of the real estate is based on the customer demand. Therefore if the demand is high the prices grow and if the customer demand is decreasing the prices fall relatively. In the current economic situation in Russia, people tend to look for the best ways to invest their money and the real estate is the right path. Therefore, despite the crisis and fall of ruble, Russian citizens are looking into investing their money,

which further means the increase in demand and rise in the prices of the real estate in Saint-Petersburg and the regions.

However, despite the fact that the pricing on the real estate is growing as a response to the high customer demand, it is also growing because of the imported goods that are used during the construction. The fall of ruble in relation to euro and dollar has changed the pricing of the international materials and together with economic sanctions of the years 2014 and 2015 it would be borderline impossible to start any new projects. Therefore, the imported goods are being replaced with the goods from the countries which did not impose sanctions on the Russian Federation or with the materials produced within the country. This will leave a positive impact on the expansion of the Russian construction industry as it will be developing into producing goods, materials and equipment which were normally imported from abroad.

6. Conclusions to the theory part

Analyzing the highlights of the Ukraine crisis timeline and chronology of the imposition of sanctions on Russian Federation between the years 2014-2015, it can be seen that numerous Russian individuals and businesses were targeted with bans. Those happenings have led the retailing companies who work with international goods, equipment and construction companies to major losses and dramatically decreasing customer demand.

In the current political situation the awareness of the upcoming crisis within Russian citizens have risen, which have led to the major stress within the population. The rapid inflation, goods escaping from the market and extreme changes in the exchange rates have lowered both customer demand and buying power. (World Bank Group 2015)

7. Case company description

The AVK Company is a construction and retailer business which was founded in 2010 by Alexander Pavlovsky. It is operating within Saint–Petersburg and regions and currently is expanding to work within the Russian Federation. It has

two functioning warehouses which hold all the goods, materials sold and produced by the company. The business currently employs ten people and has an office in Saint-Petersburg.

The business is specializing in the supplement of construction and finishing materials, equipment for the construction within Saint-Petersburg and regions. The AVK is a certified dealer of a high range of goods produced in Russia and overseas. A high number of constructions built using the material provided by the company has given the company a good recognition and helped to build a wide and constantly growing client base.

Having goods imported from outside of the Russian Federation and facing the rapid price growth on the ones produces within, AVK, as number of other business in Russia, had to face a rapid growth in pricing of the goods bought and sold by the company.

7.1.1 SWOT analysis for the case company

SWOT analysis is a research term used to understand the general information about the company from the competitive point of view. The name of this method of analysis stands for strengths, weaknesses, opportunities and threats and they are based on the studies company chosen for the research.

SWOT analysis for the case company AVK			
Strengths: -pricing -big range of goods -network of suppliers and clients	Weaknesses: -age of the company -size of the company	Opportunities: -advertisement -on-line technologies -new store	Threats: -decrease in sales -losses in turnover

Figure 1: SWOT analysis for the case company AVK

As presented in the Figure 1, the main points of the SWOT analysis for the case company AVK can be seen. The strengths of the company are the pricing and range of goods as well as the increasing network of the clients and suppliers throughout the years of the existence of the company. General weaknesses can be brought down to the fact that the company is still new and it has been in the market only for 5 years and has a relatively small number of staff employed. As for the opportunities for the case company, the advantage of the advertisement online and direct sales from the shop is considered. However, according to the current unstable situation in the market in Saint-Petersburg and regions, a decrease in projects and therefore sales can be faced.

To give a better understanding for each part of the SWOT framework, the actual SWOT analysis should be presented as follows.

7.1.2 Strengths of the case company

The SWOT analysis should be started from identifying the strengths of the organization. The strong areas of the case company AVK are the competitive prices in the market in comparison to the competitors, high range of goods from

different suppliers and an increasing network of the suppliers and clients throughout the Saint-Petersburg and regions.

When hiring new employees the policy of the company AVK is to look for the already existing client base formed by an employee among other important qualities. This helps the organization to build up and increase their sales and appearance in the regional market. Recently hired staff has also brought new suppliers into the list of existing companies, which has increased the list of sold goods which has also brought the advantage to the company, especially in the current economic situation in the Russian Federation.

7.1.3 Weaknesses of the case company

The main weakness of the case company AVK is the high competition in the current market in Saint-Petersburg and regions. As the company is relatively young and small, being found in the year 2010 and currently having ten employees at the office, sometimes clients tend to choose bigger companies, with longer performance in the construction market in order to secure the results of the deal. However, as the AVK Company provides competitively low prices and has never had any negative response or feedback, this is slowly becoming less important for the customers when they are choosing a supplier. What is more, being aware of this potential weakness in the prospective of the clients, the company is currently increasing the number of the employees and is in the process of hiring experienced workers. What is more, increasing amount of orders has led the organization to create a second warehouse to hold all the orders and supply the most requested materials for the quicker purchases and delivery.

Furthermore, the topic of opening a new retail store with a small warehouse in order to ensure quick at-the-desk purchase, where the clients could stock the necessary goods right in the store without ordering them beforehand, is discussed. This is considered to increase the individual customer interest as it will dramatically cut the awaiting of the delivery and will allow the smaller purchases to be performed right at the place, without the need of the signing of

the contract and waiting for the delivery. This would attract more customers who require small amounts of goods, therefore individual clients and not organizations, broadening the field of clients of the AVK Company.

7.1.4 Opportunities of the case company

The main opportunity for the AVK Company currently is to broaden their customer base and provide materials not only for bigger organizations, but for the individual clients as well. As mentioned above, the topic of the opening of the new retail store is currently being considered, which will bring this opportunity to the real life.

An actual retail store will not only increase the number of already existing clients, but also should increase the awareness of new potential customers about the company, creating a word-of-mouth advertisement.

The opportunity of the on-line advertisement and sales is considered by the company as well. Currently, the head of the organization is investing in the advertisement campaign online, which is already bringing new clients to the company. What is more, the official web-page of the company is being developed at the moment in order to provide all the necessary information about the company, the goods it provides and the projects finished under the control of the organization.

7.1.5 Threats of the case company

In the current unstable economic situation in Russian Federation the main threat for the AVK Company would be bankruptcy. As the sanctions were introduced, most of the imported products had to be replaced with the equivalent goods that do not face any bans.

As numerous projects are stopped or frozen there is an existing threat of the decrease in number of the already existing clients and amount of projects done. This will lead to the decrease in the amount of goods sold and the fall of turnovers relatively.

However, as the situation is changing, people tend to invest their money in the real estate, which increases the customer demand and therefore the amount of the projects in production. In other words, the threat of decreasing customer demand and fall in sales unstable and based on the current happenings in the country.

8. General effect of sanctions on the employees of the case company

The studied case company AVK has currently ten employees within its working force. With the market being unstable and numerous companies went bankrupt, organizations were compelled to decrease the number of their employees in order to cut down the expenses, which led to a high number of unemployed, but highly experienced workers looking for work.

The strategy of the AVK Company, as mentioned before, was to hire workers with already existing client base, knowledge of the goods and equipment sold and a good experience in the field of the operation of the business.

In order to understand how the sanctions implied during the Ukraine crisis affected the workers of the case company AVK and if they did how, the questionnaire was handed over to the employees. In order to bring understanding to the analysis of the results of the questionnaire, a brief explanation of the survey research method is presented.

8.1 Survey Research Method

According to William M.K. Trochim, survey research method is one of the most important areas of measurement in any social research. Generally, there are two types of surveys defined:

1. interview
2. questionnaire.

The difference between these two methods is that during the interview survey, the results are obtained with a presence of the interviewers, while questionnaire is paper based instrument filled by the respondent. (Trochim 2006.)

In this thesis the group administrated questionnaire survey is implied. It is performed by a sample of people from the studied population (in the case of this analysis, workers of the case company AVK) who have responded to a structured sequence of questions.

8.2 Results of the survey

When the results of the questionnaire were analyzed it was clear that generally the main change for the workers was in the adjustment in the range of goods and equipment sold. The financial performance of the company has noticeably decreased as some of the first sanctions were implied, making the working atmosphere tense. What is more, the general suggestions were mostly similar to the steps made by the CEO of the company as to replace the sanctioned goods with equivalents, hire experienced personnel and find new clients and suppliers.

Another noticeable change was in the amount of projects undertaken. As the customer demand in the real estate sector has decreased, the amount of realized building projects has dramatically changed. What is more, international companies who were previously cooperating with the case company have moved their factories and representative office out from the Russian Federation.

9. AVK corporate strategy and analysis of the financial statement

According to Michael Porter strategy is the creation of unique and valuable position, involving a different set of activities and it emerges from three distinct sources:

- serving few needs of many customers
- serving broad needs of few customers

- serving broad needs of many customers in a narrow market. (Porter 1996.)

AVK is basing their strategy on providing the construction and finishing materials, equipment to the companies within Saint-Petersburg in regions. According to Michael Porter description of different strategic methods, AVK is serving the few needs of many customers as it provides the materials to the companies throughout all the region of Saint-Petersburg.

The strategic management covers all areas of the business: internal and external. Therefore all the decisions in the company are made after considering both external and internal factors. The strategic actions shall play a major role, when performing the further analysis.



Figure 2: Basic stages of strategic management.

Throughout this thesis, the understanding of the strategy of the company have played a major role when performing the analysis of the actions the company undertook throughout the existence of the business and in critical circumstances, finding the solutions and drawing the conclusion to my analysis.

9.1 Analysis of the financial statement

The financial reports of the AVK company before 2013 and after, during the period of the Ukrainian crisis, economic crisis, the fall of ruble and major slowdown in the process of construction throughout the country, have shown noteworthy changes. Taken into consideration the overall growth of the prices within Russian Federation during that period of time, which covered not only the

construction and retailer businesses, but every company in the country, it shows the rapid and dramatic raise in the prices of the both: goods bought and sold.

In order to understand the actual effect of sanctions and economic crisis in Russian Federation on the performance of the company, the balance sheet between the years 2013 and 2015 were studied.

Index	Code	Period Year 2015	Period Year 2014	Period Year 2013
Revenue	2110	35 108 876,77 □	46 578 530,15 □	38 019 232,23 □
Fixed assets	2120	-21 931 684,65 □	-24 279 971,07 □	-19 341 193,13 □
Variable asstes	2320	1 536 000,00 □	214,00 □	518,00 □
Tangible assets	2350	-59 847,48 □	-48 927,03 □	-28 705,08 □
Tax	2410	-939 927,10 □	-497 168,11 □	-440 980,70 □
Profit/ Loss	2400	13 713 417,54 □	21 752 677,94 □	18 208 871,32 □

Table 2: The balance sheet of AVK Company for the period of 2013-2015.

In the balance sheet it can be seen that the profit of AVK Company in the year 2013 was equal to almost eighteen and half million rubles. Further, as the company continues the operation the profit was gradually increasing throughout the years, reaching almost twenty two million rubles in 2014, when the implemented sanctions have not yet caused their negative effect. However, in the year 2015 a rapid fall in the revenue and therefore in the profit is noticeable.

After the sanctions of the years 2014-2015 were introduced, the case company has had a remarkable downfall in sales, especially in highly overpriced imported goods, prices on which were raised extremely high, due to growth in the cost of euro to ruble. The reason behind it was the fact that due to the overall crisis in the country, the customer demand on real estate dropped dramatically, therefore also causing numerous projects in production to freeze.

During the period of overall bankruptcy within business around Russia, especially in the tourism and banking sector, AVK Company has been focusing the sales on the goods produced within the country, increasing the number of suppliers providing Russian materials. Solely during that period, the company has become a dealer of two more organizations, originally based in Russia.

Those actions eventually have allowed the company to acquire less damage on the financial performance, however did not help to recover the business completely.

10. PEST analysis for the case company

Generally, PEST analysis is a framework used by marketers of the company in order to analyze and monitor the external marketing environment factors that are affecting the business. It includes the overview of political, economic, social, technological, environmental and legal factors in relation to the business. In order to explain the actual framework of PEST a graph explaining each part of the analysis should be presented as follows.

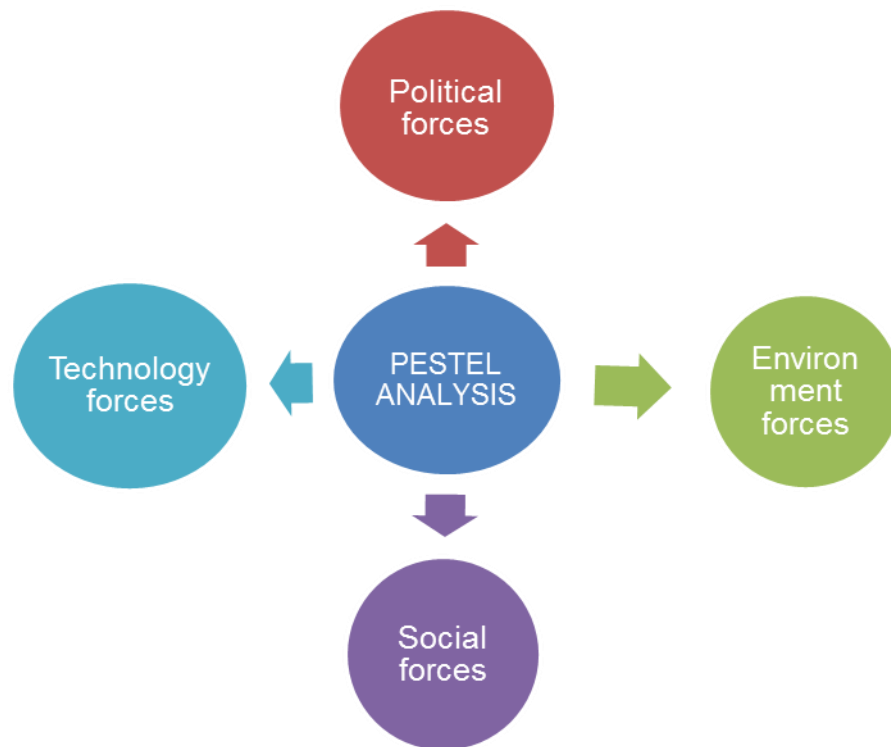


Figure 3: Original scheme of PEST analysis graph.

Each segment of this analysis is aimed on different factors which are together putting their effect on the performance of the business. In this thesis the AVK company performance after the implementation of economic sanctions will be

studied from the prospective of PEST analysis, which will bring to understanding the indebt factors affecting the business.

10.1 Political forces

The political force is the part of the PEST analysis, representing the government organization or governmental attitude and the political stability and ways in which they affect the business. In other words, these are of political factors, explaining ways in which the government can influence the economy of an industry or a certain company.

The political happenings in the period of the Ukraine crisis in the year 2015 have resulted in sanctioning from both parties: Europe and Russia. The sanctions put by the Russian government have restricted the import of numerous international goods to the Russian Federation territory and the export of Russian goods abroad. As the result, the increase in prices and lack of goods has formed within Russian economy. The building industry in particular has faced delays and freezes in numerous projects, which resulted from the overall financial crisis and instability in the country.

Political instability in the foreign partner countries has caused subsequent inconsistency in their home-based companies, bypassing Russian Federation based companies and cutting off most of the existing networks. After the political happenings in 2015 AVK Company had to review the list of the suppliers, cutting down the international sanctioned goods and replacing them with Russian equivalent

Therefore, due to the political happening in the year 2015, restricting actions were made by different governments, imposing sanctions on Russian Federation and by Russian Federation on other countries as a comeback. These actions have caused tremendous changes in the AVK logistics sector and the range of goods sold, as there were many changes brought to the list of suppliers. The business environment of the company has been reviewed as the restrictions in goods import and export appear. The main steps to slighting the damage were replacement of the international suppliers with Russian op

changes in pricing of goods sold within Russia, forced changes in the operation of numerous organizations.

10.2 Economic forces

The economic forces in PEST describe external economy performance factors that are directly impacting the operation of the company and have long term effects.

In the studied case, in the year 2015 after the Ukraine crisis, a case of heavy sanctioning took place within Russian Federation and countries of the European Union. As the result to such situation, a rapid rise in the inflation rate in the Russian market has occurred, affecting numerous companies including the case company AVK, to reconsider the pricing on the produced goods and services. In order not to reach bankruptcy, it was decided within the AVK Company to increase the prices, relatively at the same percentage as their competitors in the market, however it was crucial to maintain the policy of the organization and offer competitive and affordable prices according to the current market in Saint-Petersburg.

What is more, the economic situation in the Russian market, caused by political happenings, has started a rapid inflation within the country and therefore has dramatically affected the consumers buying power. The overall demand of the customers in AVK Company has fallen by 19.2 per cent solely in the year 2015, changing the standard of the demand/supply model, formed by years of operation. Numerous building projects were closed or frozen, remaining so until any changes in the market will be noticed.

Besides facing a rapid increase in prices caused by inflation, ruble has lost value dramatically against euro and dollar as the exchange rates in Russia increase 2.5 times. Falling oil prices and sanctions cause ruble to reach the lowest value against US dollar (BBC News 2014).

These numerous economic factors comprised together have caused the AVK Company to:

- reconsider the pricing in order not to face tremendous losses and keep up with the overall inflation
- switch international suppliers for Russian companies, replacing the foreign goods with national equivalents
- search for new consumers and companies to work with and negotiate working terms with the organizations that have paused their operation
- re-price the imported goods that were left within the company range according to the current exchange rate
- hire more personnel with a working base of companies to enlarge existing client base.

10.3 Social factors

In PEST analysis social factors represent the cultural trends, demographics and the external social environment of the market. This is done to help a business analyze the social part of the economic environment through such paths as customer demographics, cultural limitations and lifestyle attitude, which generally helps to bring understanding to the needs of customers and their decision making in the market.

In the current uneasy situation in the politics and economy of Russian Federation, numerous clients as well as competitors have left the market for the case company AVK in the year 2015. Being hold back by the sanctions, inflation and rapid growth in exchange rates, numerous companies have decreased the amount of their production as the customer demand was falling.

Avoiding mass staff reduction, as AVK Company does not employ a high number of personnel and does not see any need in reducing the number of the employees, the company makes step forward, hiring workers with already existing client base.

After the first wave of sanctions and inflation most of the building projects were frozen or stopped, however in autumn 2015 is facing an unexpected high rise in the construction market proposals. A surprisingly high amount of property and

apartments for sale have entered the market, despite the fact that the customer demand has fallen for 43 per cent since the same period last year. (Husainov 2015.)

Therefore after the first wave of reduction in customer demand, AVK Company has now increased the number of the clients and projects that they supply with goods, which reflects the right decisions undertaken by the CEO of the company which helped the organization to avoid bankruptcy and tremendous loss in capital and clients and kept the company on track.

10.4 Technological forces

Even though most of the sales conducted by the company are performed within the already existing client base, the AVK Company is always seeking to enlarge the number of the customers.

In order to increase the customer awareness, the head of the company is turning to the technology forces, developing an official web page of the company which will provide all the important information on the company, contacts, range of the goods sold and the information about the previous clients and projects made. What is more, there is a new advertisement line being currently under process, which is aimed at enlarging the customer base.

11. Quasi-experimental analysis

In this thesis the quasi-experimental analysis is implied in order to compare pre-versus post- event situation. In the case of the AVK Company, it is the financial performance of the business before and after the Ukrainian crisis in 2013-2015 and the introduction of the economic sanctions as a result. This method of analysis is vital for obtaining actual number of loss and defining the reason for it.

As the two experimental groups for the analysis, the performances of AVK before and after the implementation of economic sanctions are considered. The comparison is performed in the form of a table.

Were	the	Average amount	Were	the	Average amount
------	-----	----------------	------	-----	----------------

sanctions implemented?	of the turnover of the company (first measurement)	sanctions implemented?	of the turnover of the company (final measurement)
NO	550 000 eur	YES	350 000 eur

Table 3: Quasi-experimental analysis of the performance of AVK before and after the implementation of economic sanctions, 2015.

According to the figure, the performance of the company before the implementation of the economic sanctions was 200 000 euros higher than after they were introduced between the years 2014-2015. The change in the turnover is equal to 36% loss after the economical happenings.

The quasi-experimental research in this case shows that the AVK Company has faced a 36 percent loss, in relation to the previous turnovers, before the economic crisis. However, this type of the research does not hold any control over the actual internal and external threats and parts of the business that were affected the most. What is more, it does not show the actual correlation between the implementation of the economic sanctions and the beginning of the losses of the company. Therefore, using the information obtained during the quasi-experimental research, in order to obtain more particular information, the correlation analysis was held.

Due to the decreasing results in the average amount of the turnover of the case company AVK at the final measurement, it can be seen that the sanctions have affected the financial statement of the business. Together with other factors as decreasing customer demand, major shot downs of projects in the real estate throughout the whole country the profit of the company after the economic crisis caused by sanctions, have noticeably decreased. To understand the actual losses and present the evidence together with the timeline of the profit decrease the correlation analysis should be presented.

12. Correlation analysis

The correlation analysis presents the relationship between two variables, where the correlation coefficient presents the measure of the linear association. In the case of this thesis the correlation analysis is performed in order to define the

dependence of sales on the political happenings due to the Ukrainian crisis and further implementation of sanctions against Russia in the year 2014.

The analysis is held in a form of graph, which represents the values of correlation between two variables: year and turnover. In order to make the analysis more reliable and accurate, the period of 5 years were taken into consideration, starting from the year 2010, when the company fully stepped into force and finishing in the year 2015.

In order to perform the correlation analysis, represented further in the graph, the balance sheets from years 2010-2015 were analyzed. Taking the final profit from each year, starting from 2010 the year of the foundation of the company and making a table in Excel, figure 5, the correlation graph is made in order to understand the actual performance of the company throughout the period of operation.

x	correlation variable
2010	1080000
2011	1167040
2012	1621004
2013	1820871
2014	2175269
2015	1371342

Figure 5: Extract of the profits from the balance sheets of the case company AVK from the years 2010-2015.

The left side of the table, marked as X represents the year of the accumulated profit, when the right side shows the actual amount of profit obtained in that period. All the numbers within this table are taken from the balance sheets of the company, which are provided in the Appendixes of the thesis. In order to provide the visual graph, presented further, the features of the Excel program were used.

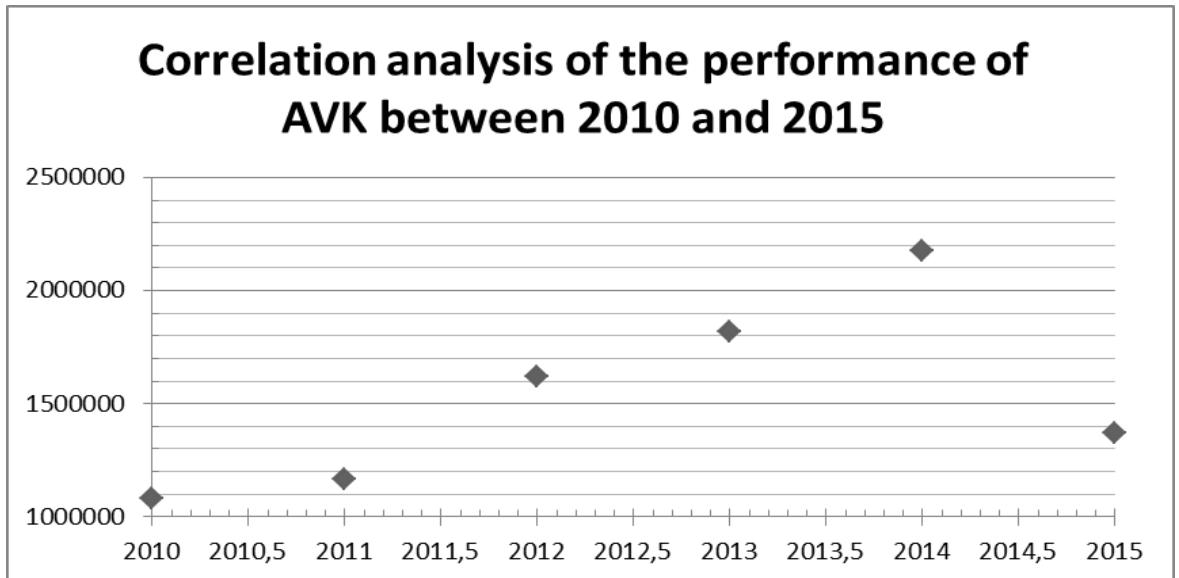


Figure 6: Correlation analysis of the performance of AVK during the years 2010-2015.

As it can be seen from the graph, the financial performance of the AVK Company had faced a dramatic fall in between the years 2013 and 2014, when the economic sanctions were first being embedded. The yearly turnover dropped from 2 380 000 euros to barely 1 998 900 euros. Such a dramatic fall was caused by the rapid growth of the prices on the imported goods and the fall in the customer demand.

The Ukrainian crisis and the following implementation of the economic sanctions against the Russian Federation had eventually led to the overall inflation in the country. It has caused numerous companies and businesses around Russia to face enormous losses and numerous bankruptcies, especially in the banking and tourism business sectors. (CNN Money 2015.)

According to Rana Foroohar, the assistant managing editor of the Time magazine, economic sanctions are preventing Russia from negotiating six hundred billion dollars in debt. (Foroohar 2014.) As the Russian ruble loses the value the inflation in Russian Federation rapidly rises.

Since December 2014, as the inflation rose, AVK Company had faced the losses that are reflected in the correlation analysis graph. The amount of turnover between the period of the years 2014 and 2015 have dropped lower

than the point of two million, which brought the company back financially to the second year of existence in 2011.

Being a successful company before the financial crisis in the country, AVK was only increasing its turnovers since the period of the foundation in 2010. Facing the fall of the ruble and inflation, the business has lost 26 per cent of the turnovers during that period. According to Georgy Ostapkovich, the head of the High School of Economics, the building industry in Russian Federation gets affected by sanctions in numerous ways: firstly, Western banks are limiting the access for the Russian companies to take the loans, secondly, reduction or termination of investment projects has been negatively influencing the amount of orders, building and installation works and the number of agreements made. Therefore, in the condition of sanctions and financial-economic instability, private businesses do not want to start new constructions and the ongoing projects are being frozen (Ostapkovich 2015.)

13. Discussion and Conclusion

The conduction of this research was complicated as the topic chosen for the analysis was referring to current political happenings, as well as the case company and the situation within it and the regions that it operates were constantly changing.

13.1 Discussion of the research

Throughout the process of the research the case company AVK has obtained numerous decisions and actions in order to eliminate all the repercussions of the political happenings within the country and the economic crisis. Those steps have led the company out of all the potential losses and bankruptcy, as numerous organizations in the Russian Federation and the analyzed area of Saint-Petersburg and regions were shut down within the Ukraine crisis and are still going out of business today.

As the analyses have shown, the most affecting forces currently for the case company AVK are political and economic factors within the country. The steps obtained by the CEO of the organization within the period of the analysis have saved numerous losses for the company and with the help of the conducted thesis research the weak parts of the company were identified, which are being taken into consideration and currently put into force to protect the business in future.

13.2 Overview on the future situation

Currently the Ukraine crisis of the years 2014- 2015 is being at the low terms, as no major dramatic happenings do not take place anymore, leaving the economy within the Russian Federation at ease, solving the outcomes of the economic crisis and fall of ruble and inflation.

Generally, remained organizations within Saint-Petersburg and the regions are going back on track, performing the business deals on normal terms. The change in prices caused by sanctions and rapid inflation are being regulated and the sanctioned goods and equipment are being replaced with the equivalent options from within the country. This has caused a good impact on the Russian construction industry in general, as it was compelled to develop new technologies and produce new goods and equipment, which was never done before and was imported from abroad. Without any future major happenings, the economy will slowly come back on track, leaving the remaining businesses to perform successfully.

13.3 Conclusions

The political happenings and the economy of the country are heavily affecting the businesses within the country. During the Ukraine crisis in years 2014-2015 the Russian Federation has faced sanctioning, inflation, economic crisis and fall of ruble, which led numerous business to bankruptcy. Surviving in such conditions, any organization, especially a small young company as the case company AVK, are being dependent solely on the solutions and decisions made

by the CEO. The policy of the AVK Company has been chosen wisely and has led the company out of major losses and back on track with only minor damage.

The research conducted in this thesis has helped to bring an understanding to the weaker parts of the company, to analyze the actual loss in turnovers compared to previous years, analyze the future situation in the market and find the best strategy.

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Appendixes

Appendix 1

Questionnaire

- 1) Did the sanctioning affect the performance of the AVK Company?
- 2) Have you felt any changes in your working life recently?
- 3) Do you have any suggestions or opinions on the operation of the company?

Appendix 2

Balance sheet of the case company AVK 2014-2015

The balance sheet AVK Company										
Years 2014-2015										
								Date (day, month, year)		
								10	11	2015
Organization	OOO"ABK"									
Type of economical activity	Wholesale of construction and finishing materials, equipment									
Unit of measure	thousands, rubles									
Index	Code	Period Year 2015			Period Year 2014					
Revenue	2110	35 108 876,77			46 578 530,15					
Fixed assets	2120	-21 931 684,65			-24 279 971,07					
Variable assets	2320	1 536 000,00			214,00					
Tangible assets	2350	-59 847,48			-48 927,03					
Tax	2410	-939 927,10			-497 168,11					
Profit/ Loss	2400	13 713 417,54			21 752 677,94					

Appendix 3

Balance sheet of the case company AVK 2013-2010

The balance sheet AVK Company										
Years 2013-2010										
								Date (day month, year)		
								10	11	2015
Organization	OOO"ABK"									
Type of economical activity	Wholesale of construction and finishing materials, equipment									
Unit of measure	thousands, rubles									
Index	Code	Period Year 2013	Period Year 2012	Period Year 2011	Period Year 2010					
Revenue	2110	38 019 232,23	35 012 900,90	31 267 032,84	31 204 984,00					
Fixed assets	2120	-19 341 193,13	-17 698 320,12	-19 107 400,15	-19 900 400,22					
Variable assets	2320	518,00	480,00	500,00	517,00					
Tangible assets	2350	-28 705,08	-31 700,09	-31 200,00	-30 894,12					
Tax	2410	-440 980,70	-450 980,90	-521 892,33	-473 967,17					
Profit/ Loss	2400	18 208 871,32	16 832 380,69	11 607 040,36	10 800 239,49					