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DT - Global Business Consulting

HR and Talent in Russia 2018-2020

What are the top 10 key drivers and issues?
Are things getting “normal’?

Chairman: Dr. Daniel Thorniley
President, DT-Global Business Consulting, danielthorniley@dt-gbc.com

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Contents

DT-Global Business Consulting GmbH, Address: Keinergasse 8/33, 1030 Vienna, Austria,
Company registration: FN 331137t

Contact: Dr Daniel Thorniley, President, DT Global Business Consulting GmbH, E: danielthorniley@dt-gbc.com

Latest news and some key issues in HR and Talent in Russia

Based on conversations with senior executives and HR Directors and on conversations and inputs at HR Executive Meeting in March 2018.

Please note that another Special Report will be dedicated to the disruption of E-commerce and will provide tips on how to build such a business in Russia and will explain the extensive HR consequences.

Introduction: what is the major development in HR and what is HR about?

The first point to make is that there is a sense of normalisation in HR in Russia compared with recent more volatile years. In the recent past of 2008-09, the HR market faced the end of the boom and the start of a short-lived bust. By 2010 business was accelerating and talent was being chased with salaries bouncing upwards. This period lasted until 2014 when the next deceleration set in and HR and staff underwent a 3-year period of hard work to survive a more challenging business environment: executives had to work very hard to stand still. By 2016-17 general managers were saying that: "I am tired and so are my staff".

But you can't stay tired forever and executives at all levels have found a business stabilisation in 2016-17 as the economy climbed out of recession.

By 2017 and this year 2018, many HR directors report a normalisation and stabilisation in recruitment, turnover, expectations, salary negotiations and retention. Nothing is easy! It's just that compared with the boom and bust years in terms of HR trends, the market in many aspects has calmed down.

Business has stabilised at reasonable levels and so there is no massive boom in demand for talent and staff but equally companies are not planning many job cuts. It is better to say that churn exists with some new hirings and some lay-offs.

This was all well summed up by the HR Director of one European industrial company:

> HR is in a better place now: they understand the crisis or the new normality. Our organisation and people have become more normalised.

Several senior managers have noted at recent executive meetings in Moscow that the really important changes in HR and talent management occurred after the 2009 crisis and many recent developments are only "add-ons" from the earlier crisis. As one managing director (MD) put it:

> 2009 was the real turning point. Until then we had volatility, massive job-hopping, high salaries, and unrealistic expectations. 2009 sobered people up. The mentality for many/most Russian changed dramatically then and the period 2010 to 2014 was very different from pre-2009.

Since then we have adapted to a good business environment in 2010 to 2013 followed by crisis years or a chronic business environment with changing demands from global headquarters.

The HR Director of one western pharmaceutical company noted her on-going challenges as:

- Turnover concerns which cause mini-chaos and how do we minimise uncertainty
- Managing and improving productivity
- Examining the agility of the corporate structure and positions
- Staff motivation
- And evolution of the HR role and structure

A new diversified approach to HR

Regarding the last point above, in recent conversations with senior executives, it has become more vivid that companies are taking a more sophisticated approach to their staff and how to recruit them, incentivise and retain them, and that this has to be done on an individual basis which involves extra time, money and attention which not all companies are willing to invest.

The senior Managing Partner of a major services firm operating in Russia stated in Moscow last week that: “Standard ready-made HR models are a bit old-fashioned now. We are taking a much more comprehensive or even holistic approach to staff and talent: we need to be more personalised and look deeply into individual staff assessment and their feedback. This applies critically to talent but increasingly to all staff members. This means a more complex but workable matrix and criteria for judging staff and incentivising them”.

Key Issues in HR

1) Cost savings, distant work, multi-functions:

Companies globally and in Russia are cutting costs. Call this what you will --- efficiencies, productivity etc.--- it does boil down to cost cuts. This affects all investments and HR have to argue more strongly for their piece of the cake for training, recruitment, IT etc. At least 3 features occur because of this:

- More companies are looking at “distant work” to offer flexibility and lower costs
- HR directors also report some shift from permanent roles to temporary roles/projects and this is more advanced in developed global markets.
- More companies are introducing the concept of multi-functions for one employee. Job are redefined and trimmed, and one staff member takes on what were 2-3 roles in the past of “bits and pieces” of these roles as some element of jobs are cut so that 2-3 jobs become 1-2 jobs. Workers would expect some extra remuneration for this increase in responsibility, but companies can make cost savings here.

On this latter point, one managing director reported to me last week in Moscow that:

> I am the MD of one company and now I am being asked to take over the role in another smaller company while retaining my first job. The second/new job is smaller but still entails managing 40-50 new people for me and to take the legal responsibility of general manager etc. I am a bit surprised at how this has come about, and I am waiting to hear about more compensation which has not been at the front of this discussion!

2) Work-life balance to the fore:

More companies are considering this issue as a retention and productivity tool. Most companies require staff to sign off on working from home: for example, one company offers on a case by case basis the option to work two days a week from home to a limit of 8 days per month. Companies generally report positive experience from working at home: “Most of the staff who opt for work-from-home tend to be dedicated and assiduous and work hard from home because they want to show they are not abusing the privilege”.

Another HR Director asks: “Is it not better to have the staff working 4 longer days in the office rather than wasting time commuting to and from the office on 5 days a week. We need to consider much more flexitime”. Regarding non-salary benefits, several HR directors noted that: “We need to monitor closely that the benefits are understood by the staff and that they appreciate the cost to the company. We have to communicate clearly to the employees why we are providing benefits and to assess their real and perceived value”.

The fact that companies are looking at "soft issues" such as work life balance shows that "power" in the labour market has shifted back to the workforce to some degree. If the economy and business world in Russia was in a deep crisis, then few companies would be much less bothered with work life balance concerns. But this shows that the economy has stabilised and that companies need to "keep the workers happy" for fear of losing the best ones.

But what comes across very clearly is that younger Russian people (and globally) expect a better work/life balance than their predecessors and senior managers, and thus expatriate and Russian MDs need to act on this. As one speaker noted: "I used to work non-stop in my earlier career and now as MD I also work non-stop and at weekends. But I see in my good Russian staff that they want to come to work at 09.30 or even a bit later and leave at 18.00. They have other things to do". However, as the crisis or new normal grinds along, it is becoming slightly more difficult for Russian staff to "pick and choose" and they realise that they have to knuckle down and work hard to retain their positions.

> *The constantly changing of "power" between employer and employee has drifted certainly more to the "middle" in the last 9-18 months as staff prefer to stay with the company they know rather than take risks in a challenged employment market. Russian companies are also not hiring as extensively across the board as they used to, and so new options are more limited to average staff. But all the "power" does not lie with the employer and certainly talent has options to pick and choose, if a bit less than in the past.*

With the current crisis, managers are putting more demands on staff to do more with less and this often demands longer and more stressful hours. But this is part and parcel of working through any crisis.

Companies are aware that staff can easily waste 2-3 hours per day in traffic and so the option of working some days from home is being addressed more.

3) Fatigue and motivation:

These are topics we have often discussed but many executives have recently pointed out that: "We have to do more with less; or we have to do more with the same". Put in another simplistic way: "People are being asked to work harder". This is because companies want to gain productivity and improve profits.

Many senior managers report fatigue and exhaustion and the MD of one flavours company noted last week at lunch in Vienna:

> The challenge now is to keep up motivation. The last 2-3 years have been a real slog. We have done very well, and the results are excellent, but I personally feel drained despite or because of those results! We have to watch out for burn out in staff and to make sure that we do not keep them isolated for too long in high-stress situations. We need to ease off a little and provide some variety.

Certainly, in our recent HR executive meeting in April, HR directors were concerned about the issue of motivation. Many executives admitted that they could not "throw money at the problem" but an array of approaches was advised, and some relate to our comments below about what drives Russian staff (see below). But an important point is that companies should communicate clearly that there is a combination of:

> A medium-long term career with the company; the company wants to promote staff through the corporate levels and to provide appropriate training and international assignments along with competitive pay package and selected benefits.

It is also increasingly clear that middle and senior managers have to devote more time mentoring and nurturing staff at many levels and not just top talent.

Perhaps now is the time to invest more in training programs, personal development/career development programs, foreign training courses and assignments.

Conversely, the MD of one major European food and beverage company reports that he is not seeing too much fatigue among his staff: “We are employing young and dynamic people. They can and want to work hard and they do, and we try to incentivise them. This is not always through money, but we try to create a pleasant and rewarding career structure for them”.

One B2B company did not want to alienate and demotivate its sales force as the MD noted last week in Moscow that: “My sales force has hardly had any bonuses in the last two years as business has slumped. We are improving now but the targets for sales were set too high last autumn for 2017. I have now decided that I have to reduce sales targets in Q2 and Q3 to keep up morale. Otherwise it’s just a vicious circle of dissatisfaction and low morale which will hurt sales and cost me more than this resetting of bonuses”

The MD of a global food & beverages company commented to me last week in Moscow:

> Russians do understand a crisis and I am always impressed how they manage things and adapt. I have been working in Russia for 23 years, so I have witnessed this behaviour a few times. Now of course we have to manage our staff and teams for a long slog ahead. As you say, there will be no big bounce back and we all have to work with a much more regular, dare I say, westernised consumer who wants value and promos.

There is also an on-going discussion revolved around whether the younger generation is more focused and IT savvy which helps companies, or whether they are less hard working and not as good as their predecessors. There is no consensus on this and none is really expected.

4) Counter offers:

At our HR-Talent executive meeting last month, a discussion revolved around this topic. On the whole most executives were against a formal, large counter offer in money terms. Some MDs and HR Directors spoke of discussing why the staff member wanted to leave and how the role might be reshaped; some suggested that a tiny gesture could be made on money. But the large majority argued in the following terms:

> A counter-offer is a bad idea. Nearly always the employee has made up his /her mind. How much do you counter offer to keep them: 5-10-50%? And in most cases after 6-18 months they will leave in any case. It’s not usually just money that is the issue although this can be a big part of it. It’s best to talk about new roles and responsibilities if you want to keep someone but usually once they have made their announcement they are “out of the door” because they have made their decision.

Also, if the threat of resignation is just a negotiating ploy, then a company is probably better off without such employees?

5) What do Russians want?

Money for sure! Western companies should never downplay the need to get the money “right” i.e. comparable to peers and in the right range. Good staff will leave you in Russia if the money is not in the right ball-park. But of course, there is a lot more to retaining and recruiting good staff than money.

There is a broad consensus that while money remains (very) important, hiring and retention success depends on so many other things: the work atmosphere, ethics and feel of the company, challenges offered, career path, training but also very important is the role of management because as ever, people tend to leave because of their boss.

The HR director of a western FMCG company summarised what you need for good retention (and her comments remain timeless):

1. Challenges
2. Fair/good money package and other benefits
3. Good charted career path at least over the next 5 years

And other supporting factors are:

a. Work/life balance
b. Autonomy
c. Good supportive middle level managers

Other key expectations from the Russian staff were: education, commitment and cordiality.

The MD of a major food & beverages firm commented that you "need to make an investment in each staffer as an individual".

A very good point often raised is the attitude of different generations: the young generation often want some degree of autonomy but their direct line-managers at middle management level are often educated and trained from a more formal "Soviet" period or have more conservative attitudes. There is a mis-match. MDs must appreciate this and be prepared to train and communicate to middle management that they too may have to adopt change management in handling a younger work force with different expectations.

Related to this is the point that MDs have to be more coaches than managers.

There is also a clear consensus that you need to set challenges for Russian staff who are becoming more demanding. The salary has to be right and competitive but when you want to hire new staff or retain existing ones, you need to answer the employee's question of "Will I be empowered?" Candidates are asking themselves, "Which matrix or company will offer me the most opportunities to grow and to be empowered?"

6) How good are the Russians?

Our Surveys show that most MDs and HR Directors do NOT think that there is any on-going deterioration in the quality of Russian staff.

The MD of one consumer products company with 20 years' experience in Russia is quite firm that the quality remains good despite any marginal deterioration over recent years. He explained that:

> Sure, quality may not be as good as 15 years ago, but we still see very high quality overall. I think that the Russian educational system is still relatively strong, and we send our two children to local school. The teachers are good, and the parent community is highly motivated and committed and the relations with teachers are good.

Compared with earlier crises, more Russian staff are now aware and experience of how to manage a crisis: today most executives remember 2009 and some can still remember the traumatic 1998-1999 period. In 2009 senior managers were saying that most Russian staff and all younger ones only knew how to perform in a booming, growing market. Today the skill experiences are broader.

There is, though, a continuing debate about the quality of Russian staff.

Certainly, for many years Russian staff were among the very best in the world: they worked very hard, they were well educated, and they accepted reasonable salary levels. Very nice.

Over the last 10 years the overall quality level has deteriorated along with the Russian educational system but thanks to the diligence of Russian teachers (poorly-paid women) this has not turned into a collapse. But at the growing margins, quality has inevitably deteriorated and pay demands have sky-rocketed over the last 10-15 years with western companies and Russian staff are accustomed to high salary levels and expectations.

In general, there remains a broad satisfaction with Russian staff and their capabilities and their diligence. But this is by no means total.

The Russian MD of one western consumer products company states that: “Russians have become lazy and increasingly dumb over the last 20 years. And I am not saying this because I come from the “golden generation” of executives who were young/middle-aged when the Soviet Union collapsed”. He continued, “But the quality is night and day. I am hugely disappointed with what is on the market today”.

The HR director of one major western services company reported this year:

> “We interview hundreds of candidates who are ending the final year of university and the trouble is they think themselves to be fantastic and brilliant, but they are not. Most of them are ok at best. These university leavers have an extremely elevated sense of themselves and sadly for them their expectations have to be managed downwards very rapidly. Actually, we are not so interested in the large majority and are forced to pick and choose. There is room to train them up but if they are arrogant about their own abilities, this becomes a waste of time.”

Sales and marketing staff will come under more job pressure for at least two reasons: the market is getting more competitive and companies are looking at affordable innovation. Both these factors mean that staff have to think outside the box and stretch themselves and think of change management/behaviour.

One manager stated that, “Russians have great technical skill sets and they focus on this, but they must realise that this is far from enough. They need broader education and a broader hinterland”.

A senior western executive in 20 years’ experience in Russia (and a Russophile) was also downbeat about the current generation in a recent dinner conversation:

> “I am disappointed with people we interview. They don’t seem that interested and don’t really know what they want to do. They have no fire and little imagination. They don’t ask in interviews where they will be in the company in 5 years because they plan to be somewhere else. They can be quite shameless too: one candidate for the post of IT consultant wanted $20,000 per month, to work from Cyprus and to have two paid flights per month to Moscow and back. He was serious. We said goodbye to him.”

This lack of commitment has been noted by the regional MD of a major western pharmaceutical investor who told me in recent conversation outside Moscow that: “Danny, there are much fewer committed leaders around in the Russian job market. We are building a big business here and we need talented people who can take responsibility and who have leadership skills but also the drive and commitment. We can train people up, but I am not sure that you can train them to be committed”.

One executive commented last week that there are a growing pool of talent emanating from the Russian regions and CIS markets who are committed and hardworking and want to come to work and live in Moscow.

In summary: Russian staff remain good or better in comparative terms but not as good as they were 10-15 years ago.

7) Are all the expats leaving?

When the question is asked like that, then the answer is certainly No. We do not have any detailed statistics to hand, but conversations and informal surveys suggest that yes, expatriates are leaving at a slightly higher rate than in the past as companies look to streamline their business, reduce their cost and incentivise local Russian staff.

But the consensus is that western expats are NOT deserting the Russian market: at our HR event last year (13 months ago), only 5% of executives felt that there was any larger, on-going exodus of expatriates and in April 2018 only 8-9% of executives polled thought that there was any significant shift in this trend.

The MD of one executive search company comments that:

> Expatriate salaries for the No 1 MD position in Moscow were (and are?) 2 times their European peers and that’s why companies are looking at the viability of expats. But expat salaries for No. 2-3 positions are down quite lot in the last 18 months and western executives don’t want to work for local salaries”.

Compared with other CEE markets for example where locals represent 80-95% of general managers, in Russia the number still fluctuates in a range about 40-50% which means that about 50% of GMs are expats. The Russian market is clearly different (although the number of expats in senior roles in China is also much higher than in the CEE region).

On the other hand, the MD of one logistics company reported to me:

> One of our roles is to provide quality transportation for expatriates arriving or leaving the country and I have to say, many more expatriates are leaving at all corporate levels. This is not quite yet a flood but is certainly a clear and noticeable trend.

Several executives (western and Russian) commented recently that the standard expatriate model of a foreigner arriving in a market with spouse and two children, staying for 3 years and then departing may no longer be so viable globally as well as in Russia. This is of course a bigger question. As companies seek to reduce costs, there will be a shift to looking at locals to take the top positions. Generally, Russia has lagged behind other CEE markets where the post of general manager is often or invariably taken by a local, whereas in Russia some 40-60% of GMs remain expats.

It was agreed that in addition to overseeing regular business activities western expats are very useful at managing projects and step-changes in the organisation and/or communicating messages from global headquarters. They are also good at mentoring local staff and building the future local talent pool.

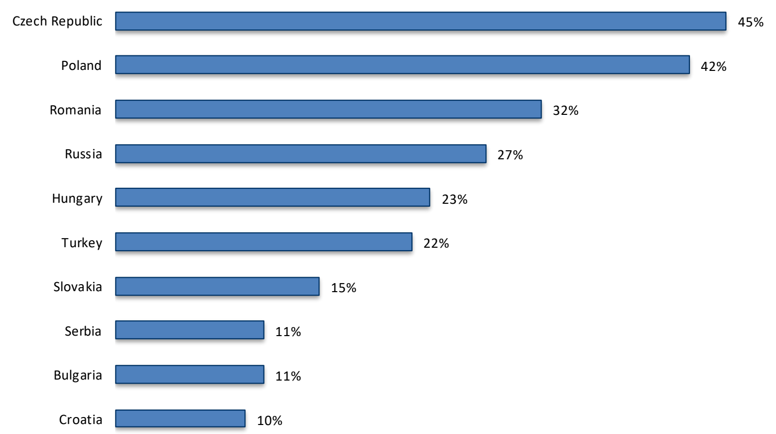
Executives also commented on the difference between "regular expats" who come into Russia for 2-4 years and then move on compared with "local expats" who have settled in Russia, often married a local spouse and have lived in Russia for 5-10-20 years and there are a growing number of such managers.

And the MONEY – salaries and headcount:

CEE regional comparisons (December 2017 vs. June 2017):

In which markets do you plan to hire people over the next 12 months?

Top 10 responses; countries ranked by number of responses



Source: CEEMEA Business Group CEE Benchmarking Survey December 2017

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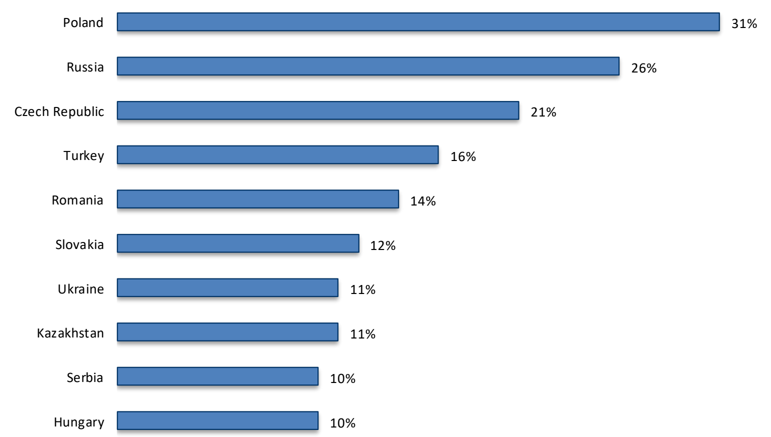
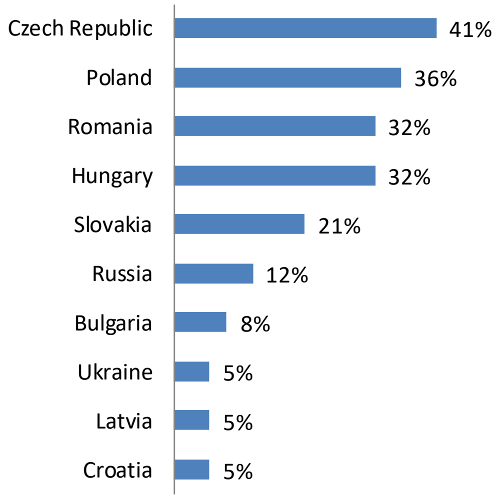


Source: CEEMEA Business Group CEE Benchmarking Survey June 2017

In which countries are white-collar salaries rising above inflation?



Source: CEEMEA Business Group CEE Benchmarking Survey December 2017

The first two charts indicate that Russia is no longer at the top of the list regrading intentions to make new hires which suggest that relatively the Russian market has slowed while several CEE ones remain hot for business and requiring companies to take on more staff to expand their business.

The third chart shows that Russia remains only No 6 in terms of where salaries tend to be over inflation. This reinforces are argument below that companies operating in Russia have been fairly tight with average salary increases when benchmarked with inflation.

Salary increases: what are they and for what?

Average salary increases for average white-collar staff were stuck at 7% (in fact a range of 6-9%) in 2014-15-16 and first months of 2017. These numbers reflected very closely what was happening in the overall economy with government salaries and those in Russian corporates

But in 2018 there have been some important shifts:

As we expected, with average inflation trending at about 3.0% to 3.5% in 2018 (lower at the start of the year around 2.2% to 2.4%), companies will continue to offer increases around inflation in 2018 (26% at inflation and 51% just above inflation and 15% a bit below inflation or no increases at all).

This means most companies will be offering a range from 3.5% to a range of 4.5% and thus the one single average number for salary increases will fall from 7.0% to this new range.

We also detect an anecdotal trend for a slight softening in average pay increases. This is not yet quantifiable, but one could argue that the above Survey numbers are at the higher end of the scale and the average has drifted down to 2.5% to 3.5%.

<u>To stay closer to inflation, companies will need to plan lower absolute average pay rises in 2018.</u>

There is also another important change on-going:

At the moment we are also seeing a discrepancy for the first time in years between the average salary increase offered by western companies and nominal salary increases in the Russian economy. Normally in 2013-17 these were tightly similar. We note that western company salary increases are around 3%+ but in the overall economy these were averaging 7% and at the start of the year the average wage shot up to 12-14%. BUT this can be explained by the fact that the government had introduced exceptional catch-up pay increases at the start of 2018 and this are now trending downwards.

But in purely pay terms in 2018 a government civil service job looks better: but only temporarily.

As the HR Director of one consumer products noted in April in Moscow:

> "Business is more stable but of course nothing is easy, but this means that staff are not moving quite as much as in the recent past and generally we find that staff are willing to accept the pay that we offer".

This last point was confirmed by the MD of a US industrial conglomerate:

> Until recently most interviewed candidates would ask for more initial pay. Now I see much less of this. The acceptance/tolerance level is much higher.

Pay increases also vary across jobs and sectors: pharma and IT are paying higher than the above averages and retail and FMCG are at the lower end; many big Russian companies are also very selective about pay increases now.

Differentiation also applies to salary increases within companies for different roles: one company in 2016-17 said that their "senior managers get a 4% rise, most white-collar staff 5-8% and sales staff 6-8% with bonuses and that the whole average works out around +7%".

One major western investor in Russia looks at providing "a fair wage" which is based on movements in real wages in the Russian economy and on the price and rental cost of a two-bedroom apartment in the local city.

Planned salary increases in Kazakhstan and Ukraine are equally tight/moderate based around inflation.

Salary comparisons 2014-2018 in absolute terms i.e. the percentage increase

What salary increase in roubles did you pay in in 2014 TO 2017 and do you budget for 2018?

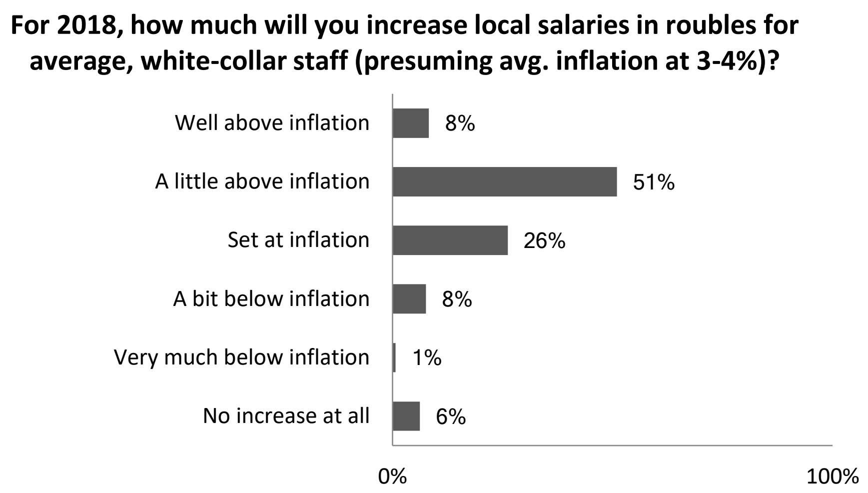
Salary increases in rouble	2014	Feb 15	Jun 15	2016	2017	2018
Plus 10%	3%	12%	6%	12%	1%	0%
5-10%	27%	55%	53%	59%	71%	49%
1-5%	15%	16%	18%	21%	22%	43%
Flat	20%	13%	22%	6%	3%	4%
Negative	0%	4%	1%	1%	2%	4%

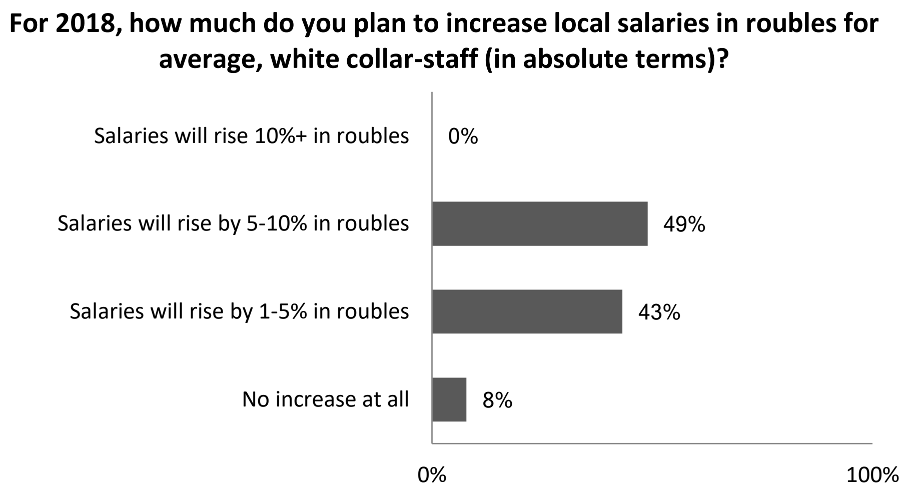
What salary increase did you pay in 2013-2017 and what do you budget in 2018?

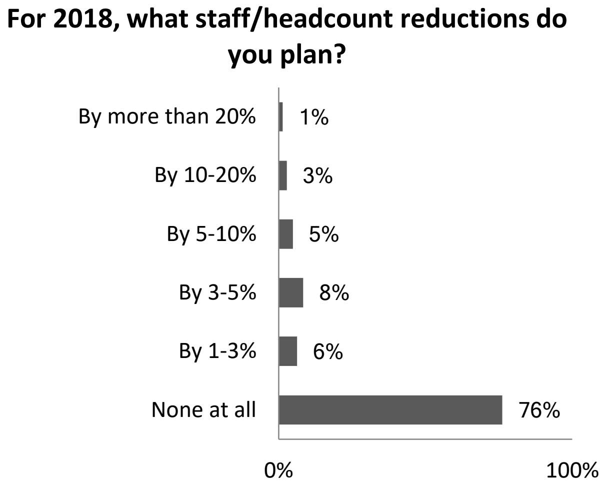
Salary comparison over time benched to inflation - "average" white collar staff members, % of companies

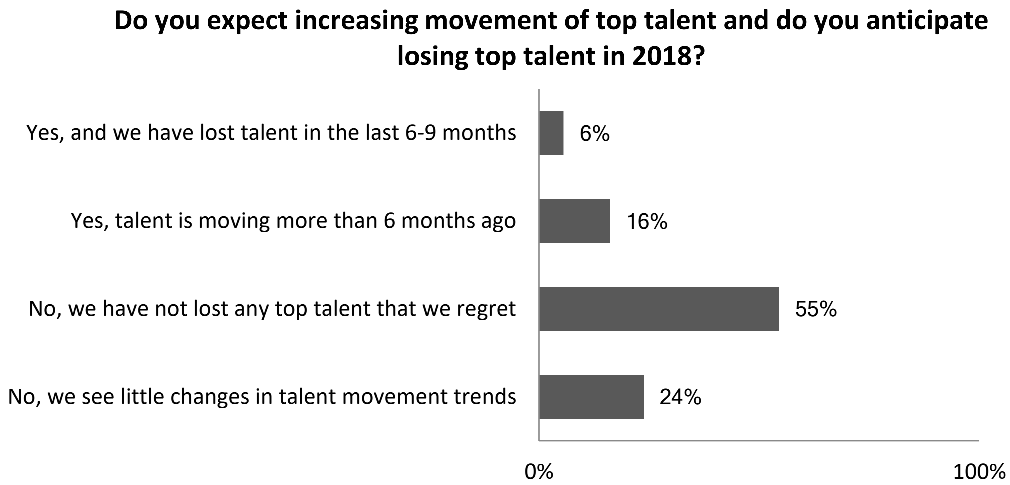
Salary increases to inflation	Jan 13	Jan 14	Jan 15	2016	2017	2018
Salary below inflation	3%	14%	89%	65%	20%	15%
Salary at inflation or + 1-3%	70%	80%	11%	33%	76%	77%
Salary at inflation +3-10%	25%	6%	0%	2%	4%	8%

Questions from Russia Business Survey – April 2018









The MD of one major global FMCG said last week in Moscow:

> It now takes about 2-3 months to get someone on board whereas 15 months ago this took up to 6 months. Now staff are not asking for the moon and we can move forward.

The MD of another major western investor confirmed: “We offer a 3-4% pay rise and the recruit says, “Thank you”. The MD of another consumer products company summed it up:

> Business, growth and profitability are all weak for our company at present and so salaries are going to be weak as well.

The managing partner of one executive search company also confirmed these remarks:

> Salaries are not usually now the deal breaker. Expectations of middle management and even above are now muted.

Not many staff cuts:

In 2016 almost 40% of companies were considering staff cuts, admittedly usual low-key ones at levels of 1-5% but by early 2017 this number had decreased to just 22% (where its stabilised in 2018) and again predominantly companies are looking at trimming rather than brutal cuts. That said, some companies in IT and automotive for example made bigger cuts in 2014-16 and probably feel that they have done enough for now as the market even in these sectors stabilises. We note again that Russia is more a "churn" market where some companies trim staff size but then also hire new people in key roles.

Overall, the clear conclusion for now remains: companies are trying hard to protect their headcount but are determined to manage their costs and will keep salary increases closer to inflation.

As ever, I hope you have enjoyed this report and found it useful. If you have any comments or queries, do get in touch danielthorniley@dt-gbc.com.

23 May 2018