

NEWSLETTER

INTERNATIONAL

 ENGLISH VERSION

EASTERN EUROPE



EASTERN EUROPE – LABOUR SHORTAGE AS INVESTMENT OBSTACLE?



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“LABOUR SHORTAGE IS THE NUMBER ONE INVESTMENT OBSTACLE”

How many German companies are active in the Czech Republic today? How many of these manufacture in the country?

According to our information, there are about 4,000 companies with German equity participation in the Czech Republic, of which about half are manufacturing in the country. This is a considerable amount, especially compared to the size and importance of other countries, such as Russia or China.

The German economy has moved many production sites to the Czech Republic. The geographic proximity, the good infrastructure and the supply of qualified staff were crucial for this process. While the Czech Republic initially acted as an „extended workbench“, the country now also houses corporate headquarters of companies that serve the world market from here.

Manufacturing hot spots are the region around Prague, South Moravia, Central Bohemia and Moravian Silesia. The administrative units are primarily located in Prague. An important location is also the city of Brno, whose fair has significance for the whole of Eastern Europe.

It is largely unknown that the volume of German-Czech foreign trade with its 94 billion euros last year was more than double than the German-Russian trade. German foreign trade with the Czech Republic achieves almost half of the trade volume with China - and that with a country with „only“ 11 million inhabitants!

To what extent do you still observe an influx of German companies to the Czech Republic?

Quite a lot of German companies are still founding Czech subsidiaries, sometimes with new production lines. However, the influx is no longer comparable to the 1990s.

What are the advantages of the Czech Republic compared to other Eastern European countries, but also compared to Asian locations?

As a central argument for the Czech Republic companies frequently cite the central location. Advantages are also the very well qualified work force with a still relatively low wage level and the developed local supply industry.

In the economic surveys on Eastern Europe, which we regularly carry out together with all the other Eastern European Chambers of Commerce, the Czech Republic took first place most of the time. Only this year, the Czech Republic ranks second to Estonia.



René Harun

is Managing Director of AHK Services s.r.o., a subsidiary of the German-Czech Chamber of Commerce and Industry (AHK). He has been living and working in Prague for the last two and a half years. The AHK, founded in 1993, today has almost 700 member companies.

Important criteria are the payment discipline of Czech business partners, as well as the high productivity and motivation of the workforce.

The most important plus, however, is the EU membership - we emphasize this especially in today's political situation. Only a discussion of a possible "Czexit", as arose last year, causes unrest in the economy.

Which factors complicate business activity in the Czech Republic?

Unfortunately, some reform projects have stalled, which is due to the political situation. For a long time we have been trying to reintroduce dual vocational training. Unfortunately, not much is happening in the Czech Republic right now in this regard.

Currently, there is full employment, but of course you never know how things will turn out. According to our impression, the long-term relevance of the subject of education is underestimated.

In the Czech Republic practically everyone is employed, there is a lack of workers of all kinds - whether skilled or unskilled. This is why companies are setting up new production facilities predominantly in structurally weak areas nowadays.

Incidentally, the Czech Republic has developed a good innovation strategy, and the country will play a major role in artificial intelligence. We will surely hear a lot more from the Czech Republic.

The Czech Republic is moving away from the former extended workbench model, which is sometimes felt by companies planning conventional investments. Investment projects of this kind are dealt with rather reluctantly by authorities.

How would you characterize the Czech HR market?

The labour shortage is the biggest obstacle, as companies always tell us, and prevents them from expanding further. Consequently, some of them could switch to other countries.

Bringing in foreign workers to the Czech Republic is difficult, because the hurdles for hiring non-EU nationals are extremely high. Quota-based programs do exist, such as with Ukraine, but the implementation works badly.

Incidentally, the expat community in the Czech Republic is getting smaller and smaller. Even corporations barely employ Western Europeans, the management is increasingly in local hands.

There just are fewer and fewer reasons to second employees to the Czech Republic.

“THERE IS LABOUR SHORTAGE IN CERTAIN SEGMENTS”

How does Bosch Rexroth operate in Eastern Europe?

Bosch Rexroth operates in ten sales areas worldwide. My region is geographically the largest area with 42 countries, stretching from Karlovy Vary to Kamchatka and from Riga to Abu Dhabi.

We are differently positioned in all countries. We operate distribution companies in Russia, Poland, Hungary, the Czech Republic, Turkey and Romania; service points and customizing centres complete the presence in these countries. In other end user countries, such as the CIS, we only work through distributors and system integrators. In total we have 600 employees in the region.

Our product portfolio and thus the target industries are extremely wide-ranging. The growth drivers in our region are the increasing automation and localization of manufacturing capacities of our global customers. Turnkey projects under the banner of Industry 4.0 are becoming more important.

In Poland, Hungary and Slovakia, the automotive industry generates a lot of growth. In the Czech Republic, mechanical engineering is very strong. In Russia, we mainly sell to the construction and agricultural machinery sectors. These regional trends have barely changed over the years, at the most, they have increased.

How do you assess demand in Eastern Europe for your products?

Here I would like to distinguish two perspectives, the short-term and the long-term. In the short term, we are seeing a slowdown in purchasing behaviour, especially in the OEM sector. This particularly affects customers who manufacture processing machines.

In the field of turnkey projects, the cycles are different, more long-term. This applies, for example, to the food and packaging sectors. There are currently considerable new investments and modernizations under way.

We are also strongly represented in the infrastructure sector. Examples are the modernization of the Bolshoi Theater in Moscow or the State Opera in Prague and Hungary. We also have numerous references in hydraulic steel construction. The financing of such projects is, of course, highly political. Some of the countries benefit from EU subsidies.

In general, thanks to our broad product range, we can compensate for volatility in individual areas. In the long term, I am convinced that we will continue our growth - in recent years, we have always posted double-digit growth.



Thomas Ilkow

Managing Director with responsibility for Eastern Europe and the Middle East, Bosch Rexroth.

His desk is in Warsaw – however, Mr. Ilkow spends much of his time traveling across his vast sales area.

How would you describe the HR market of Eastern Europe? What characterizes it, what distinguishes it from other regions?

In my experience, there are well-trained professionals, especially in the technical field. Our employees are in demand even beyond the borders - some of them find interesting new tasks in our international corporate structures.

However, there are labour shortages in certain market segments. Dramatic bottlenecks prevail, for example, among software engineers and mechatronics technicians. Naturally, that drives the salaries. Annual salary increases are higher than economic growth in many places.

That is a challenge, especially in the EU countries. The employees there could in principle go west and earn more there. It also happens that good people are wooed by the competition.

The erosion of the cost advantage in Eastern Europe can only be compensated by higher efficiency. Some smart companies recognize this and implement AI or automation solutions. If Eastern Europe overslept these trends, then competitiveness may decline.

What observations do you make when recruiting managers in Eastern Europe?

The situation varies from country to country. As an international company, we have high standards for the candidates, for example, we value international experience and cross-border networks. Working in international teams and the matrix structure requires special preconditions.

My observation is that we have dedicated people with us who are prepared to work a lot. In Eastern Europe, however, the focus on bonuses and generally on performance-related compensation components is more pronounced than is the case in Western Europe.

People like to perform, but want to be compensated accordingly. This thinking is more pronounced than in the West, where perhaps the safety of employment is more important.

I lived in Germany for a long time, I noticed that people live by other values there. In general, the employment cycles in Eastern Europe are shorter.

“DENSE RESEARCH NETWORK WITH LOCAL COMPETENCE”

How do you identify suitable candidates on the highly competitive East European markets?

The Eastern European HR markets are indeed particularly tense in the production-related management sector. Recruiting Managing Directors, Plant Managers and other executive positions in East Central Europe therefore requires a thorough approach.

Job postings have a poor chance of succeeding in such an environment. By contrast, the direct search approach ensures that the best candidates in the market become available.

Direct search in competitive markets requires considerable research effort. The more remote the location of the company, the greater the risk of rejection of potential candidates. Our extensive database of Eastern European managers working for international companies helps us. In many cases we are thus able to quickly approach suitable candidates.

Over the years, we have also established contacts with East Europeans living in Germany, Scandinavia, the UK or elsewhere in Western Europe. They are coveted due to their mix of local expertise and familiarity with international corporate cultures, and some of them are prepared to return to their native countries to assume management positions.

Where are your researchers situated in Eastern Europe?

Our company is based in Moscow and here we have centralized our research. Russian, Ukrainian and Bulgarian-speaking analysts work in Moscow, from where we handle the search processes in the region.

In addition, we operate a network of researchers in cities like Warsaw, Prague, Bratislava or Budapest, which we can leverage during assignment execution whenever required. As a result, we have a dense network of locally connected analysts who are familiar with the cultural, linguistic and legal environment of their respective country.

What role do expatriates play in East Central Europe today?

The „classic“ expatriate model with secondments from the parent company is declining sharply in Eastern Europe. International companies in countries like Poland, the Czech Republic or Hungary rely almost exclusively on local management today. When Germans or other Western Europeans are deployed, this is usually time-limited and for well-defined missions. Typical examples would be the setup of subsidiaries or manufacturing plants.



Christian Tegethoff
Managing Director
CT Executive Search

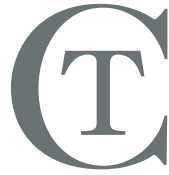
However, in cities like Prague, Budapest or Riga, there are quite sizeable Western European expat communities working for international companies. These „local expats“ are often employed on local contracts and sometimes do not earn much more than their „domestic“ counterparts. Especially in a production-related context, they can certainly be an alternative.

What do you recommend companies that want to invest in East Central Europe?

When selecting a location, not only the wage level in a given country should be considered, but also the actual availability of labour. The statistics can provide only an incomplete picture here, it is important to liaise with a HR consultancy and ideally also with companies that already work in the respective region.

In view of the difficulties in external recruitment, companies should undertake long-term personnel planning and, as far as possible, take precautions in case of departure of key employees.

Companies moving to East Central Europe or changing their existing management should give high priority to the careful search and evaluation of new senior employees. As in all countries, assigning the right candidates is the most important success factor.



EXECUTIVE SEARCH

EXECUTIVE SEARCH EXPERTS IN EASTERN EUROPE AND THE EMERGING MARKETS

CT Executive Search focuses on placing key positions in Eastern Europe and the Emerging Markets – in Russia / CIS, Africa, the Middle East and Asia. We are experts in cross-border search processes and identifying high-performing candidates, adding value to international companies. Leveraging a broad network of analysts and consultants across Eastern Europe and the emerging markets, CT Executive Search has established itself as a reliable partner to well-reputed multinational companies.

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