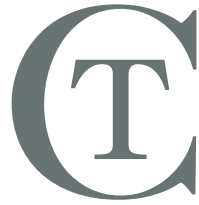


MARCH 2015



EXECUTIVE SEARCH

 ENGLISH VERSION



NEWSLETTER INTERNATIONAL

RUSSIA

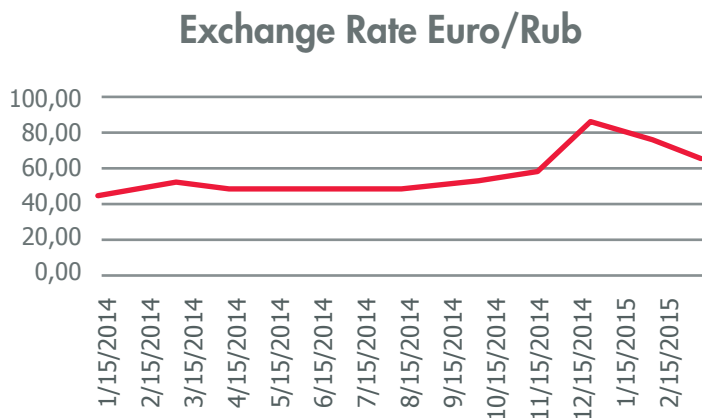
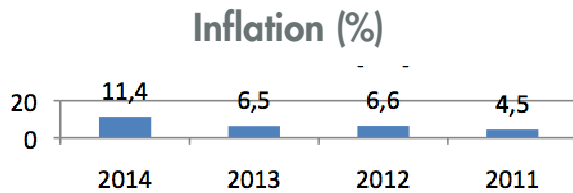
SALARY NEGOTIATIONS IN TURBULENT TIMES

RUSSIAN SALARIES 2015: TOUGH NEGOTIATIONS

It began declining earlier, but in 2014 it crashed spectacularly: the rouble's exchange rate has weakened dramatically compared to the Euro, Dollar and Yuan over the past few months.

In conjunction with "Western" sanctions and Russian import embargoes, this has generated a strong increase in consumer prices: The official inflation rate of 11.4% in 2014 was nearly double that of the previous year. Many wage earners feel that the official inflation rate does not fully mirror the real price increase, as mobile phones, cars and refrigerators are not being taken into account. The actual price increase for Russian consumers is likely well-above the official information.

In many Russian companies and subsidiaries of foreign companies, management and staff have been negotiating hard over salary adjustments over the last months. For companies, demands for salary increases came at an inopportune moment; most industries are struggling with declining sales, import restrictions and, of course, with the rouble's crashed exchange rate.



With this in mind, many company managements feel that the question of salary increases was less an issue than the issue of potential redundancies. At the time, the core personnel should optimally remain committed to the company and not be lost to competitors. How did companies respond to this complicated situation? We asked some of our clients about the answers they found in the internal negotiations. The measures adopted in each case reflect the situation in the respective industry, as can be seen from the following examples:



Christian Tegethoff
Managing Director
CT Executive Search



Semen Cherkasov
Principal, CT Executive Search

Example 1:

“Our employees did not pressure us, only politely requested salary reviews”

Industry: international producer of construction and mining machines (sales and service organisation with several branches in Russia)

Measures: no adjustment of salary whatsoever

Reason: Sales are slow due to financial difficulties and reduced investment activity, in addition to a state-forced preference for locally producing companies. Management provides no leeway for salary increases. Competition faces similar difficulties and the risk of enticement of employees by market players is estimated to be very low.

Example 2:

“Our employees value their stable workplace so much that they even accept losses in real wages”

Industry: international FMCG company with several manufacturing and distribution facilities in Russia

Measure: Increase of rouble salaries by 4.5%

The company produces locally, so the food sanctions have a favourable effect on the product portfolio. However, most brands are established in the high-end segment, so the population’s real income losses can have a negative impact. The company, therefore, pursues a cautious salary policy that is also followed by the competition. Employee dismissals are, however, not expected in view of low recruitment demands within market conditions.

Example 3:

“We are under economic pressure, but must nevertheless try to keep our team together”

Industry: international producer of lubricants, sales organisation in Moscow and St. Petersburg

Measures:

- Increase of earnings in roubles of all employees by a 6.4% average
- Payment of a special bonus of 50,000 roubles for each employee to compensate for relative income losses due to the exchange rate issue.

- Agreement of a financially attractive employee retention package set for three years for key employees identified as "High Potentials."

The company, with its products focusing on the automotive market, is suffering from declining car sales and decreasing consumer willingness to spend money on brand consumer products. At the same time, some competitors, especially Russian companies, pursue a growth rate and are actively attempting to attract employees. Despite the difficult market situation, the company was compelled to undergo significant salary increases and arrange a one-off payment.

Example 4:

"We generally do not discuss exchange rates with Russian employees, even if they constantly address the issue"

Industry: Mechanical and plant engineering, sales organisation in Moscow

Measures:

- Identification of a "strategically important" employee core to be held within the company. It received a 5.7% salary increase. There was no adjustment for other employees.
- The target bonuses for sales employees were increased by 20%

The company records substantial sales declines and does not expect a rapid recovery for most product lines. Dismissals of employees beyond the core group are therefore deliberate. Sales personnel should be kept, and was incentivized by the increased variable remuneration component.

Example 5:

"We have increased salaries significantly; however, we also expect something in return from our employees"

Industry: Russian agricultural group, several manufacturing facilities in Western Russia

Measures:

- Increase of rouble salaries by 0%, 10% or 20%. Vocational education and training courses were offered in 2014 to all employees. The salary adjustment was carried out with respect to the willingness to participate and the successful learning process in the above-mentioned steps.
- The company employs a large number of expatriates working on the basis of rouble-based Russian employment contracts. Their rouble compensations were raised in the course of 2014 to the new exchange rate. Reason: unlike Russian employees, foreign colleagues cover a large part of their expenses in euros and are protected against the deterioration of the economic situation.

Unlike other industries, Russia's agriculture considers itself to be on the rise. Management is therefore trying to make the company more attractive with a modern personnel policy and competitive salaries. The training courses provided with financial incentives were already conceived before the currency shifts of the year 2014 and are now helping to simplify potentially difficult salary negotiations.

Our client survey has provided the following, generalisable results:

- Companies generally refuse to compensate exchange rate-related relative loss of salaries among their Russian personnel. Wherever this takes place, for example as a result of a strong competitive situation in the industry, one-off payments (special bonuses) will be paid.
- The official inflation rate is generally the reference value for salary negotiations for employers, even if, in the opinion of Russian employees, these only partially reflect the real price increases.
- Most of the respondent companies have raised rouble compensations to about half of the inflation rate reported for the year 2014. Some have also committed themselves to carrying out another analysis towards the middle of the year and raising remuneration once again, if necessary, in light of new framework conditions.

The results of the negotiations of the last few months have almost always meant a decline in real income for employees – the Ministry for Economic Development expects an inflation rate of 12 to 12.4% in 2015.