

**NEWSLETTER**

**INTERNATIONAL**

 ENGLISH VERSION

RUSSIA



## RUSSIA – RESTART AFTER THE LOCKDOWN



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## “THAT WAS TOUGH!”

### How did the state and government’s measures to prevent the spread of the Coronavirus affect Schattdecor’s business operations in Russia?

The restrictions have of course had a massive impact on Schattdecor. The plants had to be closed, and home office workplaces had to be set up for all office workers. In total, our production stood still for about two weeks.

Unfortunately, despite all our efforts, we did not manage to be classified as a systemically important company – like all of our competitors and 99% of the furniture industry. Only a good number of our wood-based material customers were recognized as systemically relevant and were able to continue production, provided that this made sense at all in view of the demand situation.

Even after the turbulent initial phase, things didn’t just go on like before corona. The furniture and hardware stores were closed for months. Hence our customers had almost no opportunity to generate sales. It was possible to increase their online sales, but only in relatively small dimensions.

The end customers were cautious, as many Russians had financial losses during the lockdown. Now, thank God, business is going very well again. We do not yet know whether this is just a catch-up effect or indicates a general normalization.

### How did you personally deal with the situation? Why did you stay in Russia?

To be honest, the question of leaving Russia because of the Coronavirus pandemic has never really arisen for me.

In mid-March, at the time when the borders were closed, it was not at all foreseeable that this situation would concern us for so long. Would I have left if I had known that the travel bans would last so long? Maybe...

However, I have a typical family constellation among Russia expats: My wife is Russian, the children were born in Russia. So Russia is also our home and we feel very comfortable here. We are also fortunate that we have a beautiful dacha outside of Moscow, to which we „fled“ when the German School closed. The dacha is only a few minutes by car from our main plant in Chekhov, so that, in addition to the nature, I only have a very short drive to work.

On the other hand, as Managing Director, I feel obliged to my employees and partners, customers and suppliers. Much like a captain, I can’t be the first to leave the ship as soon as a storm approaches. In this situation, which was completely new for all of us and at times also frightening, we had to show ourselves as a team in order to be able to cope with the numerous tasks.



### Jens Palmen

Managing Director of the Russian branch of Schattdecor. The Bavarian company supplies the wood-based panel and furniture industry with printed decorative paper, finish foils and melamine films. Schattdecor employs over 300 people at the Chekhov (near Moscow) and Tyumen production sites. Mr. Palmen has been with the company since 1998 and has been working for the Russian Schattdecor subsidiary since February 2001.

This includes the frequent meetings of the crisis team with analysis and discussion of regularly changing and often unclearly formulated government regulations, the implementation of countless hygiene measures, the information of our own employees, constant close contact and coordination with customers, suppliers and other partners. That was tough.

In order to finally be able to work normally again, we had to meet the sanitary requirements that affect us in the Moscow area, but only partially at our plant in Tyumen: wearing masks, social distancing, disinfectants, temperature measurement, eating in shifts at fixed times, disposable dishes, regular corona tests etc.

We did not hold larger company meetings, but I tried to talk to as many employees as possible, in the office and in production, about Covid-19 in order to explain the sense of one or the other measure.

In contrast to the office staff, the production workers had to come to work every day. We had to try to be close to the production staff. For the most part it worked.

### **Which government support measures does your company benefit from? How do you rate the Russian support measures?**

Unfortunately, I have to say that we have not received any direct support from the government. None of the support measures work for us, for various reasons. Either we are too big in terms of turnover, number of employees or the proportion of foreign capital (> 50%), or we are too small and/or not systemically relevant.

Our industry was not classified as particularly affected by the Coronavirus pandemic, which has a corresponding impact on the support programs. In short: we don't get anything.

However, this support gap also partially exists in Germany. But what helps all companies there is the instrument of "short-time work", which does not exist in this form in Russia.

Then what did so many companies in Russia do when they were locked down and lost their sales? They cut salaries despite the fact that citizens were officially promised that they would be able to stay at home with full wages during the weeks off.

A contradiction? No, because in Russia, most employment contracts only regulate the basic salary, which often does not even make up half of the remuneration. The rest consists of premiums that can be paid - but don't have to be. Many companies have used this option to regulate their expenditure.

Another option was to close the plant for reasons beyond the company's control - called prostoy. In this case, the companies paid their employees only two thirds of the basic salary.

One way or another, the victims were the employees, who were missing a considerable part of their wages and salaries. This money is then missing from household consumption.

## “COMPANIES ARE RESUMING THEIR EXPANSION PLANS”

### How did the corona-induced state regulations affect your clients' businesses in Russia? Which operational adjustments were common?

Most manufacturing companies had to face similar issues all around Russia. They have to follow the rules of Rospotrebnadzor (Federal Service for Surveillance on Consumer Rights Protection and Human Wellbeing) and other organizations regarding the security restrictions.

Practically all companies shifted their organization to remote work conditions. For most businesses, this called for significant efforts, especially with regards to IT and other critical infrastructure. The employees had to quickly adapt to a new way of collaboration, management and staff alike.

During the lockdown, numerous factories had to stop their operations for several weeks. However, some were granted exceptions, as they were recognized as being systemically relevant or operating with uninterruptable production processes. For instance, food factories benefited from these exceptions, while still having to monitor possible infections among the working staff very closely.

Many companies control employees at the factory entrance at the beginning of their shift and again at the end of the day. They have also increased the distance between people on the line and closed the canteens to minimize physical contact.

### How did CT Executive Search operate under lockdown conditions?

All of our clients that started prior to the pandemic and the resulting restrictions have been continued. However, we observed that new executive search assignments have been postponed because companies were busy with their operational adjustments. This was true for Eastern Europe, the Middle East and Asia, as well as in our clients' headquarters in Western Europe.

In the meantime, most restrictions have been lifted in Russia and elsewhere. Thus, as expected, we are already beginning to see companies resume their post summer expansion plans. Accordingly, we are preparing for a busy autumn with numerous assignments in Russia/CIS, Eastern Europe, China and the African growth markets.

### How are executive search assignments handled in Russia and elsewhere? How do you manage operations?

We still refrain from personal interviews, conversations with candidates and clients are conducted predominantly online. Travel restrictions, as well as quarantine regulations still make it necessary to exclude personal interaction. However, switching



### Semyon Cherkasov

has been the Director of CT Executive Search's Moscow office since its inception. He is in charge of managing international operations and research. Semyon has worked with companies from various sectors, but many of his clients in recent years were those specializing in capital goods - retail and the consumer goods industry. He has also worked with energy and mining companies, as well as with companies in the agricultural sector.

to phone and video communication does not endanger the successful execution of executive search assignments in any way.

It gets more complicated when it comes to organizing interviews between candidates and clients. Typically, the company representatives are located in the Western European company headquarters, while the candidates live in the respective target country - for example in India, China or Russia. As long as cross-border travel between these locations is not possible, everybody is restricted to remote communication.

Initial interviews via video are common practice in international recruitment processes even in normal times, but second round interviews are mostly held in person, usually at the company's headquarters. Neither candidates nor company representatives are usually willing to sign employment contracts without prior personal interaction.

Consequently, right now, executive search processes have to be „frozen“ when they reach this point. At the moment, we can only hope that the remaining travel restrictions will be lifted soon.

### **What government support measures did your company benefit from? How do you rate the Russian measures in comparison with other countries?**

We have not received any government support other than postponing the payment of some taxes and duties, which had a very limited (if any) impact on our bottom line. However, our business is remarkably healthy in spite of this year's events and I do not see any need for further government support.

I am not a specialist with regards to international support programs. However, Russian SMEs appear to have received less backing than companies in other countries. As a result, numerous bankruptcies are expected among smaller businesses, which in turn benefits the large players. This would mean a further concentration of the economy.

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## THE RUSSIAN LABOUR MARKET: RAPID RECOVERY OR LONG DEPRESSION?

Corona, corona - the endless topic had major consequences for the Russian labour market and the purchasing power of the Russian population. Russia reacted relatively late to the pandemic, but then imposed a hard lockdown (at least in the capital). The rather bumpy introduction of the restrictions and many regional special regulations have caused some confusion among companies and employees.

How have the lockdown, travel restrictions and the global economic slump concretely affected the Russian labour market? These questions are not easy to answer because the official figures available only partly reflect the actual situation.

### ANALYSIS



**Christian Tegethoff**

Managing Director  
CT Executive Search

The official unemployment rate in June was 6.1 percent. Although this meant that an increase was fixed (unemployment rate at the end of 2019 amounted to 4.6 percent), according to many market observers, actual unemployment is likely to be significantly higher.

In Russia, only some of the job seekers traditionally register as unemployed - and only this part is included in the statistics. The actual job losses since the lockdown were higher, but not relevant for the unemployment rate, because a significant proportion of them were carried out by migrants. This particularly applies to the crisis-ridden gastronomy. Some of the migrant workers have returned to their home countries, others are waiting in Russia and are hoping for new employment opportunities.

It is revealing that the total amount of salaries paid in Russia decreased for the first time in two decades from March to May 2020 compared to the same period last year. According to FinExpertiza, the decrease was 4.7 percent. This indicator clearly shows the decline in work activity, although it remains open to what extent the shrinkage is due to lost jobs, unpaid vacation or salary cuts.

### **Labour market instruments could be improved**

Noticeably, many companies behaved differently in previous crises. Most companies have tried to keep their employees and have not made quick layoffs. This assessment has often been cited in the press in the last few months and it also coincides with what we hear from our clients in Russia.

When it came to retaining workers, companies could draw on government support, such as discounted loans, which could be used to pay salaries. Overall, however, the Russian labour market instruments are commonly assessed as having room for improvement in an international comparison. Not only in Germany, but also in countries such as Poland or the Czech Republic, companies can now make use of elaborate and financially well-funded short-time work programs.

We carried out a survey among our customers in Russia in April. Mainly medium-sized manufacturing companies were asked how they reacted to the Coronavirus-related regulations.

It turned out that all respondents quickly implemented measures for „social distancing“. Wherever possible, the companies switched to “home office” and introduced shift work, while non-essential facilities such as canteens were closed to minimize personal contact between employees.

All of the companies surveyed refrained from layoffs and attempted to navigate the crisis with their entire workforce.

This decision was apparently partly based on the expectation that the economy would recover quickly after the decline in March and April.

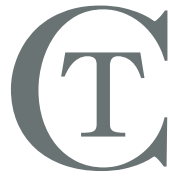
## Scenarios for further development

How will the Russian labour market develop in the medium and long term? Numerous scenarios can currently be heard from experts.

Most of the forecasts assume the further development of the Coronavirus situation as the only effective factor. The question arises as to whether other influencing factors, such as the oil price, are not given due attention. The oil price has a direct impact on the ability of the Russian government to launch business support programs and stimulate the economy through investment.

In any case, it seems plausible to assume a higher unemployment rate in the medium term, which could (also officially) be in the low double-digit range. Certainly, not all jobs that have been lost in the catering, tourism and service industries can be replaced quickly. The increased demand in some areas - such as IT and internet-based business models - will probably only be able to compensate these to a small extent.

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## EXECUTIVE SEARCH



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**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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