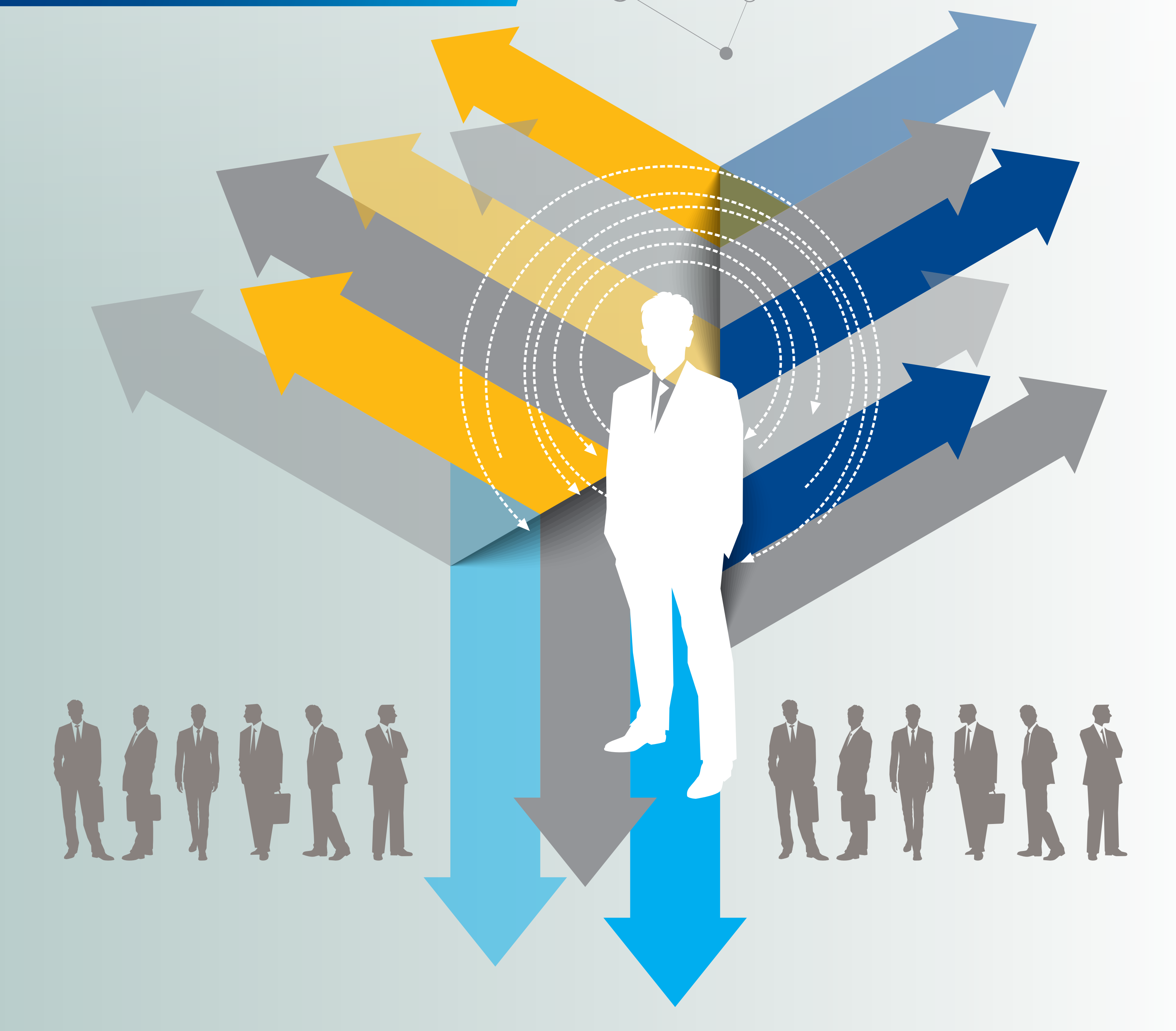
KPMG

cutting through complexity

HR budgets and plans for 2015

kpmg.ru



Foreword

Alevtina Borisova
Partner, Head of People Services Group,
Tax and Legal
KPMG in Russia
and the CIS

As a result of last year's geopolitical events, there are clear signs of crisis and stagnation in the current market. In this uncertain situation, companies have to swiftly adapt to changing realities, adjust their plans and make quick decisions.

The main cost reduction trend we found in our survey in 2009 was a move to reducing headcount, which was being carried out by two-thirds of the surveyed companies. Today, six years later, it is our opinion that companies are optimising their personnel costs in more strategic ways. As this survey shows, companies are firstly improving efficiency by analysing their business processes and reviewing their organisational structures, and only then considering headcount reductions.

The main goal of this survey is to help companies understand which anti-crisis HR actions can be taken, and to compare them with the actions taken during the last crisis in 2009.

We believe that this report is highly relevant and will provide HR Directors, Compensation and Benefits Managers and CEOs with the necessary information to make the right HR decisions in these uncertain times.

We wish to thank everyone who participated in the survey and hope that the survey results will be useful and informative.

Sincerely,

Alevtina Borisova
Partner, People Services
Tax and Legal
KPMG in Russia and the CIS

About the survey

Timeframe

Data were collected between 23 January and 9 February 2015.

23.01.15
–
09.02.15

Survey Participants

115 Russian and foreign companies from various industries took part in this survey. The most significant industry trends were seen in the following sectors: banking and finance, FMCG, retail, and pharmaceuticals and medicine. More detailed information about the survey participants can be found in the information on Participants section below.

Significant sectors:

- Banking and finance
- FMCG
- Retail
- Pharmaceuticals and medicine

Methodology

Data for the survey were collected via an electronic questionnaire. The information in this final report is presented as a statistical summary – the report does not contain individual data on the companies which participated.

The survey's results were compared with the survey "Scenario B: How HR policies and budgets are set to change in 2014", conducted in 2014, and the survey "Survey on general trends in optimisation of Personnel-Related Costs" conducted in 2009.

Previous surveys:

Key findings

Companies are considering various scenarios and are ready and prepared to adjust their plans at a moment's notice. In general, **the mood is quite pessimistic**.

Companies, as last year, would prefer to **increase staff efficiency** in 2015. Compared with 2014, companies are also planning to pay more attention to optimising HR costs, while reducing the priority of personnel recruitment and HR branding.

Almost half of the companies are planning to reduce their headcount, but these **reductions are not very significant (reductions of no more than 10%)**. Besides headcount reductions, companies are also planning to review their **business processes and organisational structures**.

Although 51% of companies are planning to increase their salary budgets, planned and enacted **salary increases ("indexations") are only around 6–10%**, and most companies are not planning to compensate exchange rate fluctuations. These measures, unfortunately, will not go far in covering losses against the actual rate of inflation.

More than half of those surveyed (58%) are planning HR budget cuts, with two-thirds of them planning to cut their budget by up to 10% and one-third planning to cut their budget by more than 10%. As usual, the first cuts fall on those costs connected with external providers (training, recruitment, corporate events). However, trends from previous years remain: companies are still planning to reduce the headcount in their HR departments. Our survey shows that 40% of companies are planning to do this.

Priorities in Human Resources in 2015

Increasing staff efficiency is still the main priority for most companies (86% in 2015 against 77% in 2014).

Due to the economic crisis, the second most popular measure is seeking to optimise personnel costs (84% of respondents), in contrast to last year when this was not so much of a requirement (48%). The need to reduce personnel costs is highest for companies in the **financial services sector (95%) and FMCG sector (92%)**; and as our survey shows, companies **in the pharmaceuticals and medicines sector** are also considering this measure: 70% in 2015 as against 30% in 2014.

In searching for the best cost optimisation solutions, companies have begun to pay more attention to HR analytics (42%) as the basis on which to make informed decisions. Notably, this trend is more typical **for Russian companies (68%) than foreign ones (37%)**.

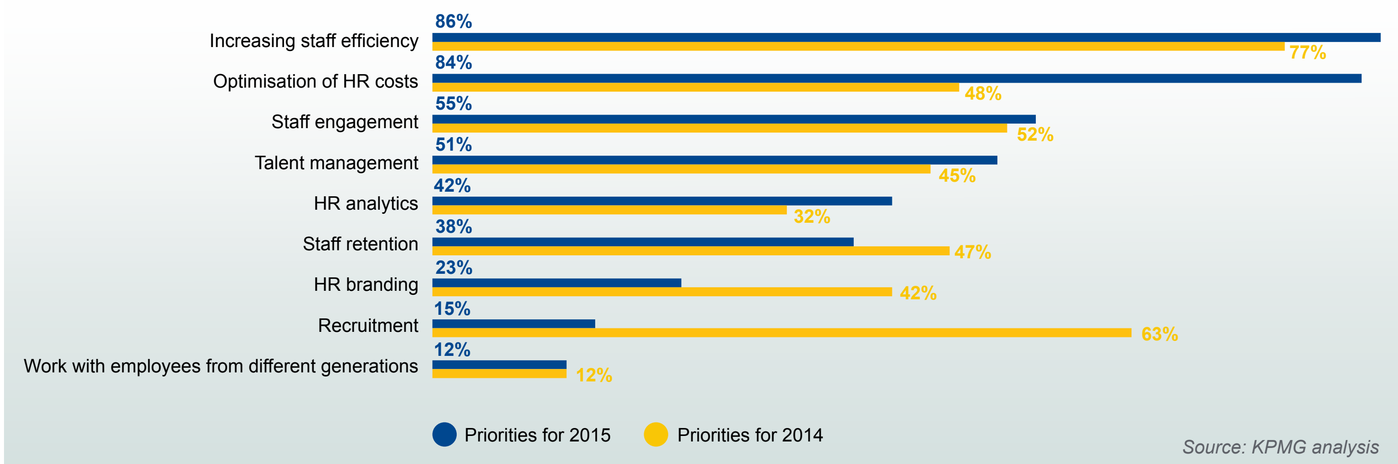
In these tough times, companies are continuing (as last year) to search for opportunities to increase efficiency and maintain their market position by **increasing staff engagement (55%)** and **improving their talent management (51%)**. Companies in the pharmaceuticals (70%) and FMCG (85%) sectors are paying special attention to the war for talent, as there is a lack of highly qualified sales and marketing specialists, and these people are critical to the generation of revenue for these companies.

For companies from the **retail** sector, **staff engagement (75%) and retention (67%)** remains important, due to their traditionally high turnover rates.

It is not surprising that, during a crisis, recruitment (15%) and HR branding (23%) are no longer seen as essential, whereas these issues were classed as important for 63% and 42% (respectively) of companies last year. Personnel recruitment lost its significance for all sectors, though most of all for the **banking sector and the pharmaceuticals and medicines sector**.

Increasing staff efficiency is still the main priority for most companies. Due to the economic crisis, the second most popular measure is seeking to optimise personnel costs, in contrast to last year when this was not so much of a requirement.

How have HR priorities changed in work with personnel in 2015?



Source: KPMG analysis

Action plans

> *Importantly, companies are now adopting a more balanced approach to how they optimise personnel costs. As our survey demonstrates, companies are considering increasing their efficiency by analysing business processes, reviewing their organisational structures.*

Importantly, companies are now adopting a more balanced approach to how they optimise personnel costs. As our survey demonstrates, companies are considering increasing their efficiency **by analysing business processes (70%), reviewing their organisational structures (51%), and establishing shared service centres (14%)**. During the 2008–2009 crisis, respondents to our questions displayed the belief that the most effective way to optimise personnel costs was to cut down on recruitment costs and optimise the firm's headcount. **Recruitment practices have changed**: 57% of companies now recruit only to replace employees who have left the company, while 38% of companies are seeking to replace inefficient staff. According to our survey, 31% of companies have introduced a **moratorium on the recruitment of new employees**.

It is worth noting that **companies with headcounts of less than 1000 employees** are more interested in headcount management and less interested in analysing their business processes than larger companies.

Russian companies consider one of the most effective courses of action to be **transferral of some of their staff to part-time work schedules** (21%), in addition to the more common approaches used. **In contrast, this is not popular in foreign companies** (3%). However, **Russian companies** are one-and-a-half times more likely to think about **replacing inefficient employees with new staff by seeking externally sourced candidates**.

Company action plans across the different sectors generally coincided, but it should be noted that 46% of companies in the FMCG sector are planning to **outsource different functions and introduce a moratorium** on the recruitment of new employees, in addition to the usual action plans.

Planned activities in respect of personnel

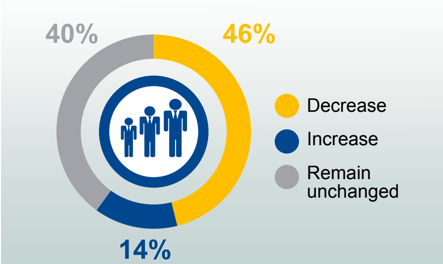
Source: KPMG analysis

Changes in Headcount

Almost half of the respondents (46%) are planning insignificant headcount reductions (of up to 10%), while 40% of the companies have no plans for any headcount reductions (in particular, companies in the **pharmaceuticals sector**). 14% are actually planning headcount increases (mainly retail companies).

Russian companies are more likely to be considering headcount reductions ranging from 6% to 10%, while **foreign companies** rarely consider this course of action, and if they do, then they plan reductions of no more than 5% of staff.

How will headcount in your company change in 2015?



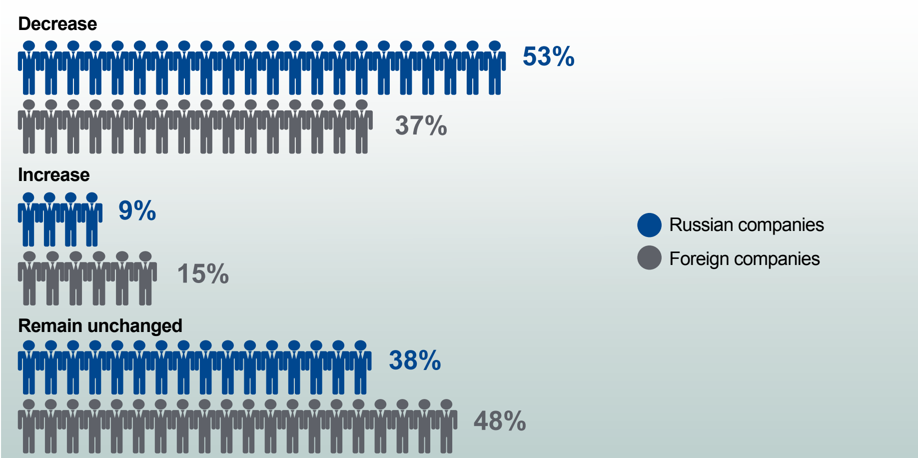
Source: KPMG analysis

Last year's survey showed that 37% of companies planned headcount reductions as part of their plans, and on average, these reductions were aimed at cutting up to 10% of the total number of employees.

Companies with large numbers of employees are more likely to use the headcount optimisation option. **FMCG (62%) and banking and finance (55%) companies are the most prepared to carry out headcount reductions**. During the last crisis, headcount optimisation was carried out by 75% of the surveyed banks and 25% of FMCG companies.

40% of companies plan to reduce the headcount in their HR departments. This trend was evident last year as well: according to the "HR Structure and Staff Headcount" survey conducted in October 2014, 32% of respondents noted that the headcount in their HR departments had decreased.

Large companies (73%) are showing the greatest interest in optimising their HR departments' headcount. In terms of the capital structure, **Russian companies** are more focused on reducing the headcount in their HR departments (43%) than foreign companies (33%).



Source: KPMG analysis

> *Almost half of the respondents are planning insignificant headcount reductions (of up to 10%). Russian companies are more likely to be considering headcount reductions ranging from 6% to 10%, while foreign companies rarely consider this course of action, and if they do, then they plan reductions of no more than 5% of staff.*

> *40% of companies plan to reduce the headcount in their HR departments. Russian companies cut their HR headcount more often than foreign ones.*

Salary Budget Changes

Despite the headcount reductions, **51%** of respondents mentioned planned **increases** to their salary budgets, usually **within 10%**. Increases in salary budgets are more likely in **foreign companies (63%)** than in **Russian companies (32%)**. The increase in wage funds is mainly due to salary increases (for 13% of firms, these rises took place from December 2014 to January 2015), or due to plans to increase salaries (63%), or to changes in the approach used to make social security payments.

Half of the participants in the survey noted that they either plan to **reduce their salary funds** (by up to 10%), or stated that their **salary budgets are still the same**.

FMCG companies (38%) and retail companies (33%) are the most likely to be planning wage reductions. However, 70% of companies in the pharmaceuticals sector plan to increase the wages they pay within a range of 10%.

It is important to note that **almost half of the respondents (45%) plan to increase salaries in accordance with their existing policies**, while 13% have already increased salaries and 18% are planning to increase salaries for only some of their employees. However, on average the salary increases either already carried out or which are planned are for raises of **no more than 10%**; a figure that does not even cover the official inflation rate for 2014.

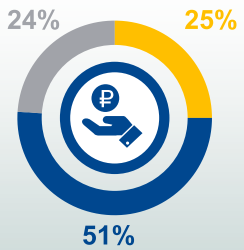
The majority of companies (81%) have no plans to compensate exchange rate fluctuations, except in cases involving payments to expatriates.

Just 27% of companies stated that they have no plans to increase salaries in 2015. This is increasingly typical for **Russian companies (62%)**, whereas the vast majority of **foreign companies already have increased or are planning to increase salaries**. In 2009, one of the most popular actions to optimise costs was to freeze base salary (44%).

Last year's survey showed us that 16% of companies were planning to cancel salary increases, while 33% of companies decided to increase salaries at a lower percentage than was originally planned for 2014.

In terms of differences between industries, most of the companies that have no plans to increase salaries are in the **financial services sector** (45%). All of the **pharmaceutical companies** that took part in our survey **have** either already **increased salaries** (10%), or **are planning to increase** salaries in line with company policy, or have plans to increase salaries for only a select group of employees.

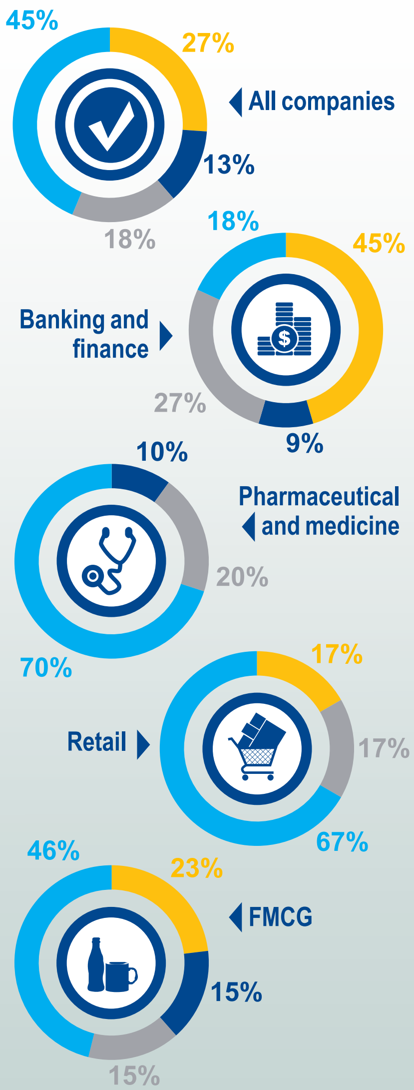
How will your salary budget change in 2015?



- Decrease
- Increase
- Remain unchanged

Source: KPMG analysis

Do you plan to increase salaries in 2015?



- No plans to do this
- Already increased (December 2014 – January 2015)
- Planning an increase for some but not all employees, unlike 2014
- Planning to increase in line with current policy

Note: The percentage of answers exceeds 100% as respondents were allowed to select several options.

Source: KPMG analysis

Changes in approaches to staff bonuses and benefits packages

More than half of the companies that took part in the survey (64%) **are not planning to review their approach to bonus payments**. Foreign companies in particular have no review plans (42%) when compared with Russian companies (74%).

Changes to bonus payments for all categories of employee **predominantly** relate to performance as measured **in KPI reviews**, according to the responses of 42% of companies.

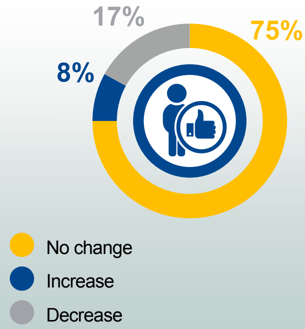
According to last year's survey, the number of companies planning to change approach was almost the same as the number of companies not planning to do anything: 54% vs 46%. The 2008–2009 crisis saw companies optimise bonus payments by reviewing their KPIs (almost 60% of respondents mentioned doing this), while also reducing the actual bonus amounts paid (more than 50% of respondents).

Generally, **companies are not focusing on reviews of their benefit packages**. 75% of companies have no plans to change their benefits, though 8% of companies are planning increases to their benefits packages. Just 17% of companies acknowledged plans to reduce these costs. **Russian companies (35%) are more likely to review benefits than foreign ones (8%)**.

In terms of industry differences, on average, a quarter of **financial services and FMCG companies** plan to reduce their benefits packages, while a vast majority of **retail and pharmaceutical companies** have no plans to change any of their benefits packages.

When comparing this with the 2008–2009 crisis, there has been no change in trends: finance companies considered reducing benefits packages as very important; whereas FMCG companies were lukewarm in their responses. Pharmaceutical companies did not contemplate any reductions to their benefits packages.

Changes in benefits packages

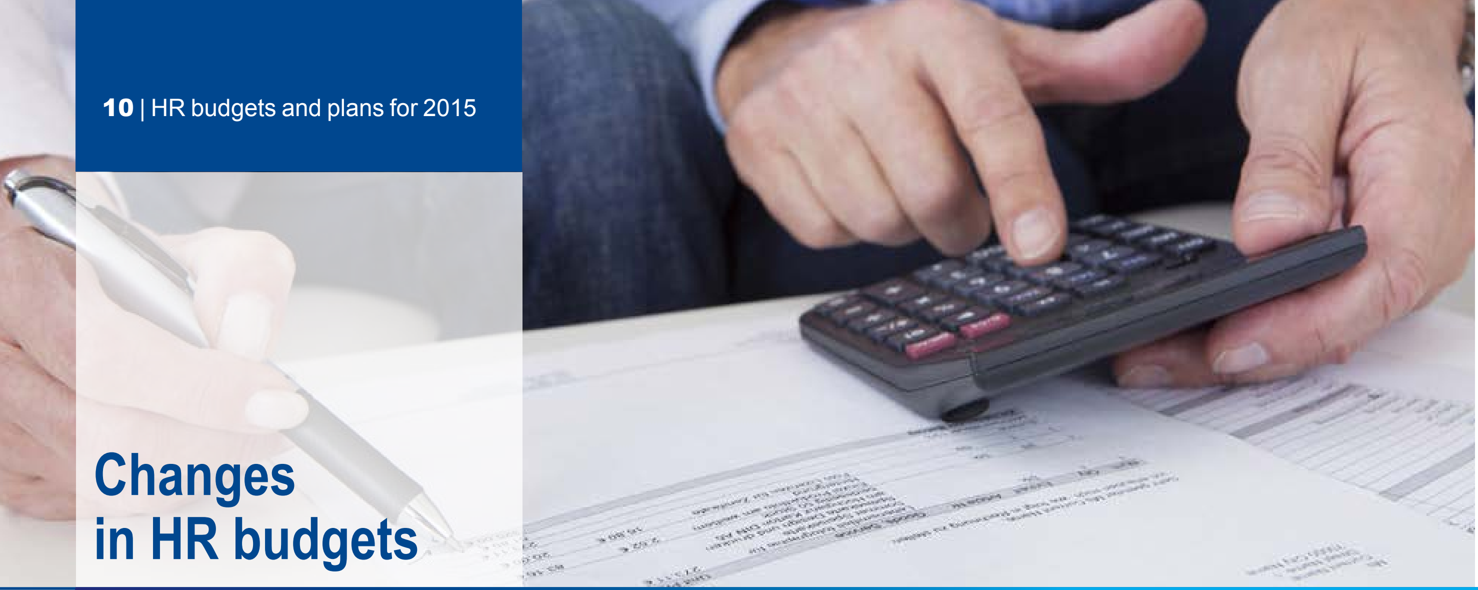


Source: KPMG analysis

64%
are not planning
to review their approach to paying bonuses

Changes to bonus payments
predominantly relate to KPI reviews
42%

Generally, companies have no plans
to review their benefits packages

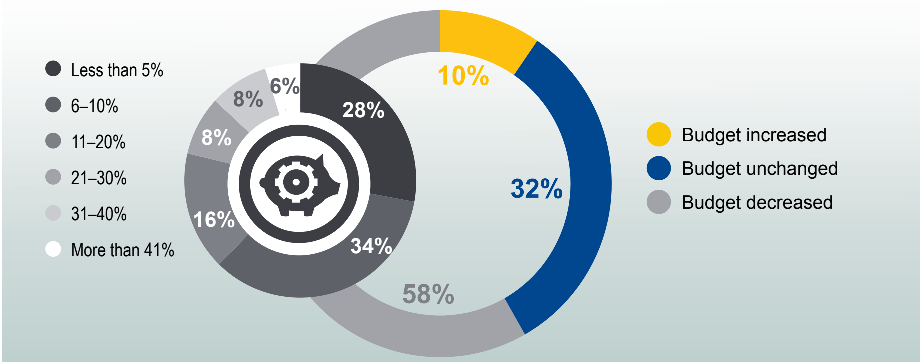


Changes in HR budgets

> *The most popular budget items to be cut are the same as in 2009: the cost of corporate events, external training costs, and recruitment costs.*

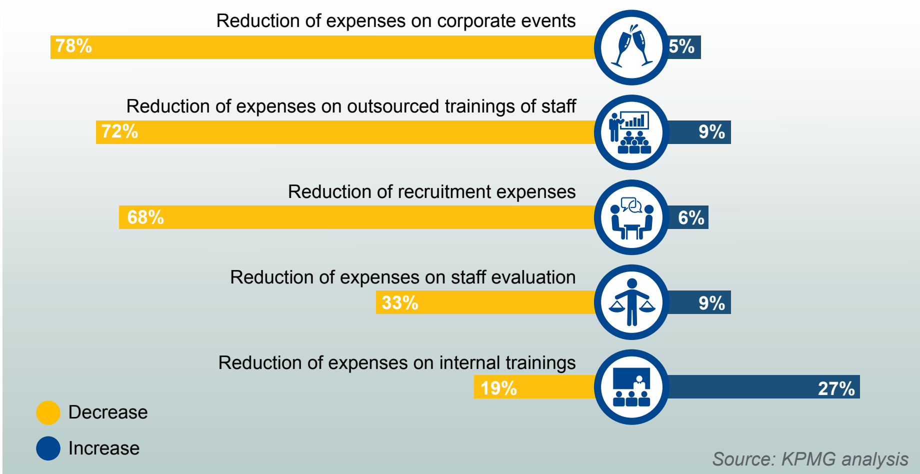
More than half of the respondents (58%) are planning HR budget cuts, with two-thirds of them planning cuts of up to 10%, and one-third planning cuts of more than 10%. **The most popular budget items** to be cut are the same as in 2014 and 2009: the cost of corporate events (78%), external training costs (72%), and recruitment costs (68%). **This year, budgets devoted to assessing personnel** will suffer to **a lesser degree (33%)**, most probably due to the fact that over recent years Russian companies have been making assessment tools more objective. However, **27% of companies plan to increase their internal training budget**, a move likely connected to the fact that companies are planning to replace more expensive external training providers with more cost efficient internal programmes.

Changes to HR budgets



Source: KPMG analysis

Changes made to reduce HR budgets



Source: KPMG analysis

Outlook for 2015

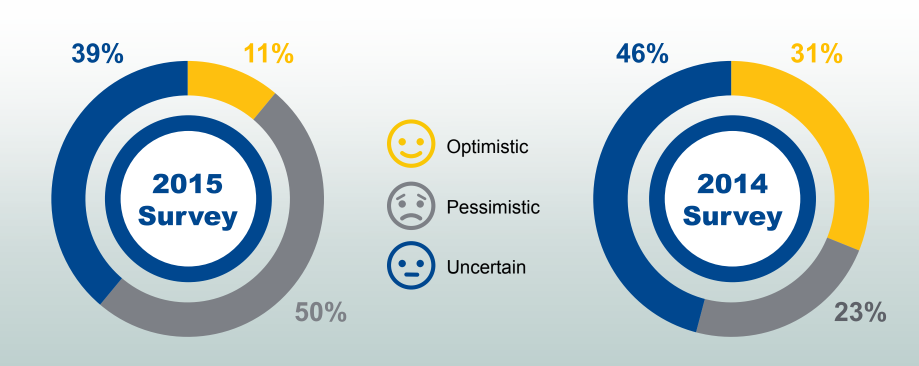
Half of the survey's respondents are pessimistic in their forecast for 2015, a significant change from 2014 when only 23% of the surveyed companies were negative. **39%** of respondents simply **cannot provide any forecast on what the future may hold**, while only **11% are optimistic** about the future.

Pessimism is greatest among **Russian companies (68%)**, whereas only **39% of foreign firms share that outlook**. Russian companies do not foresee any optimistic scenarios.

It should be noted that **the most pessimistic companies** are those in the **pharmaceuticals sector** (60%). This is in sharp contrast to 2014 and 2009, when companies in this sector were the most optimistic.

To summarise, many companies are at the moment in a holding pattern, waiting and monitoring political and economic events. They are looking for signs and preparing themselves to quickly adjust their plans in response to the unpredictable external business environment.

Which scenario do you see as beeing the most likely?

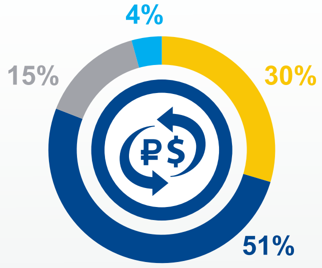


Source: KPMG analysis

> ***To summarise, many companies are at the moment in a holding pattern, waiting and monitoring political and economic events.***

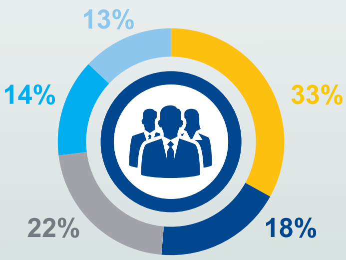
Information on Participants

Capital structure



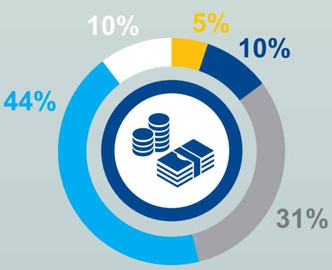
- Russian capital
- Foreign capital
- Mixed capital
- State capital

Headcount



- Less than 500
- 500 to 1000
- 1000 to 5000
- 5000 to 20,000
- More than 20,000

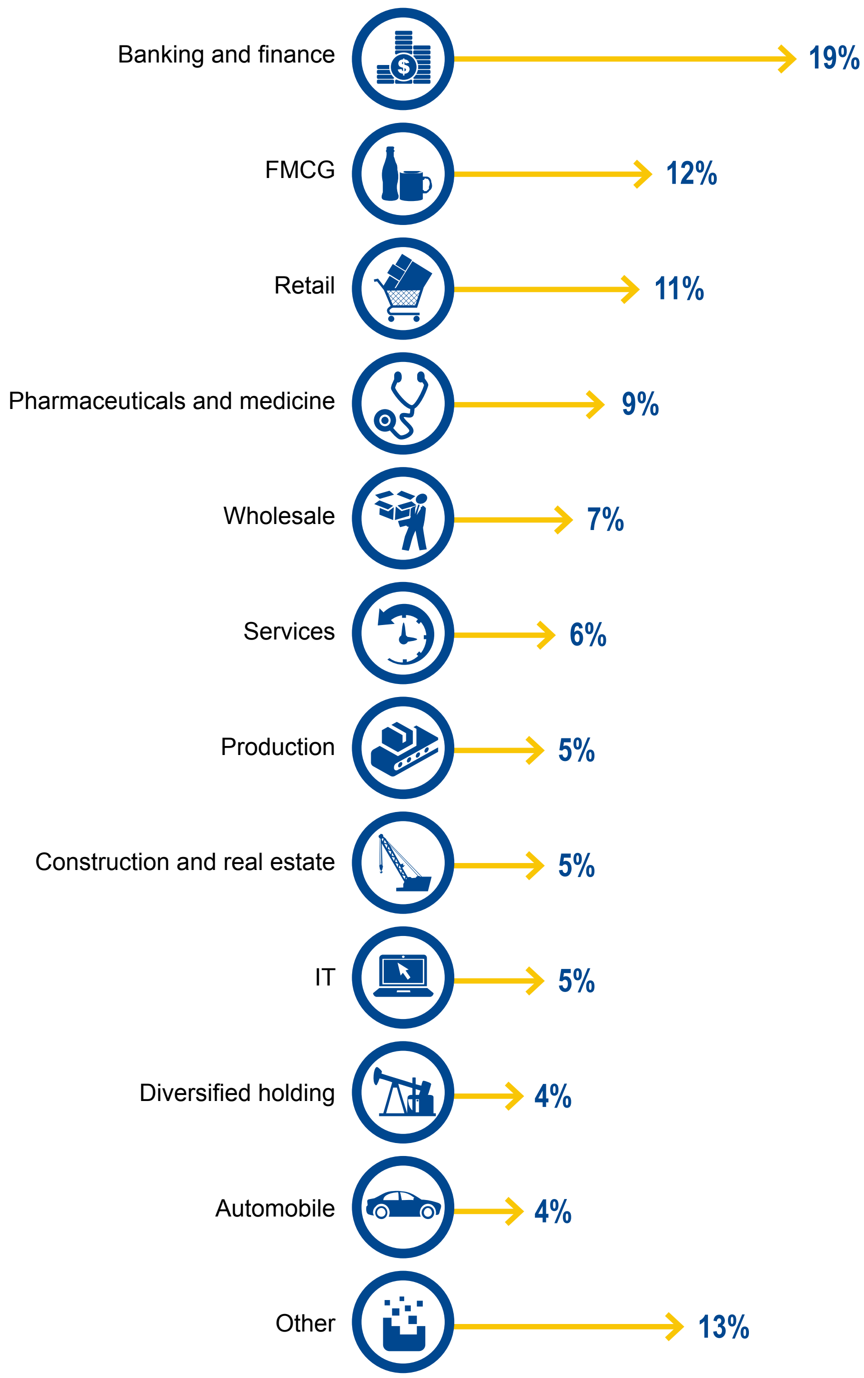
Revenue



- Less than RUB 100 million
- RUB 100 million to RUB 1 billion
- RUB 1 billion to RUB 10 billion
- RUB 10 billion to RUB 100 billion
- More than RUB 100 billion

Source: KPMG analysis

Industries



Contacts

Alevtina Borisova
Head of People Services
Tax and Legal
KPMG in Russia and the CIS
Partner
T: +7 495 937 4477
F: +7 495 937 4499
E: aborisova@kpmg.ru

Dina Dyakova
People Services
Tax and Legal
Manager
T: +7 495 937 4477
F: +7 495 937 4499
E: ddyakova@kpmg.ru

www.kpmg.ru