



# HR budgets and plans for 2016

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# Foreword

The past year was marked by a number of events that have had a significant impact on the global and Russian economy. The crisis affected different industries: in such a tough market environment companies change their approaches to people management and adjust short-term and long-term development plans.

The main goal of this survey is to identify and analyze the main HR actions currently being implemented by companies – both for the market as a whole and also in different segments.

Over the past three years KPMG has conducted annual surveys about the HR priorities of companies. In general, it is safe to say that most of the key findings of the survey this year are similar to last year's findings. At the same time, however notwithstanding the complicated economic and political environment, the situation on the Russian market this year would appear to be more positive. In certain sectors there has been a perceptible trend towards recruiting new staff and increasing headcount. Companies have once again started focusing on enhancing staff engagement and creating a positive employer brand.

We hope that this survey will serve as a relevant and useful tool for company management, HR directors, compensation and benefits specialists and all HR department employees, who will be able to use our findings to draw up the most effective action plan and draft their own package of measures to support and develop the business.

# About survey



## Timeframe

The information was collected from 8 February to 4 March 2016 inclusive.



## Participants

In total **138** Russian and foreign companies from various industries took part in this survey. The sectors demonstrating the most significant industry trends were classified as a separate category: telecommunications and IT, banking and finance, FMCG, pharmaceuticals and healthcare, retail, construction and real estate.

More detailed information about respondents broken down by sectors, numbers and other factors can be found in the section on Respondents.



## Methodology

During the survey information was collected through an on-line questionnaire. The information in the final report represents a statistical summary and the report does not contain individual data on survey respondents.

The results were compared with the surveys «HR Budgets and Plans for 2015» and «Scenario B: How HR policies and budgets are set to change in 2014».

# Key findings

Increasing staff efficiency remains a priority in HR for all companies. They also plan to focus on such issues as enhancing staff engagement and optimizing HR costs. Moreover, the survey respondents are far more interested in recruitment compared to last year (43% and 15% respectively).

The main action plans for 2016 include **analysis of business processes for cost reductions and review of organizational structure**. In addition, this year **companies plan staffing changes - dismissing inefficient employees and hiring new staff. Many respondents have abandoned their hiring freezes.**

The 2016 survey results indicate that almost half the respondents **intend to maintain the current headcount (46%)**, only **29%** of companies **plan staffing cuts**, while the **percentage of companies intending to increase headcount has increased (25%)**. Only 19% of respondents plan to reduce headcount in their HR departments.

Meanwhile **71% of companies plan a salary indexation, primarily increases of 6% to 10%**, which is lower than the official inflation rate for 2015.

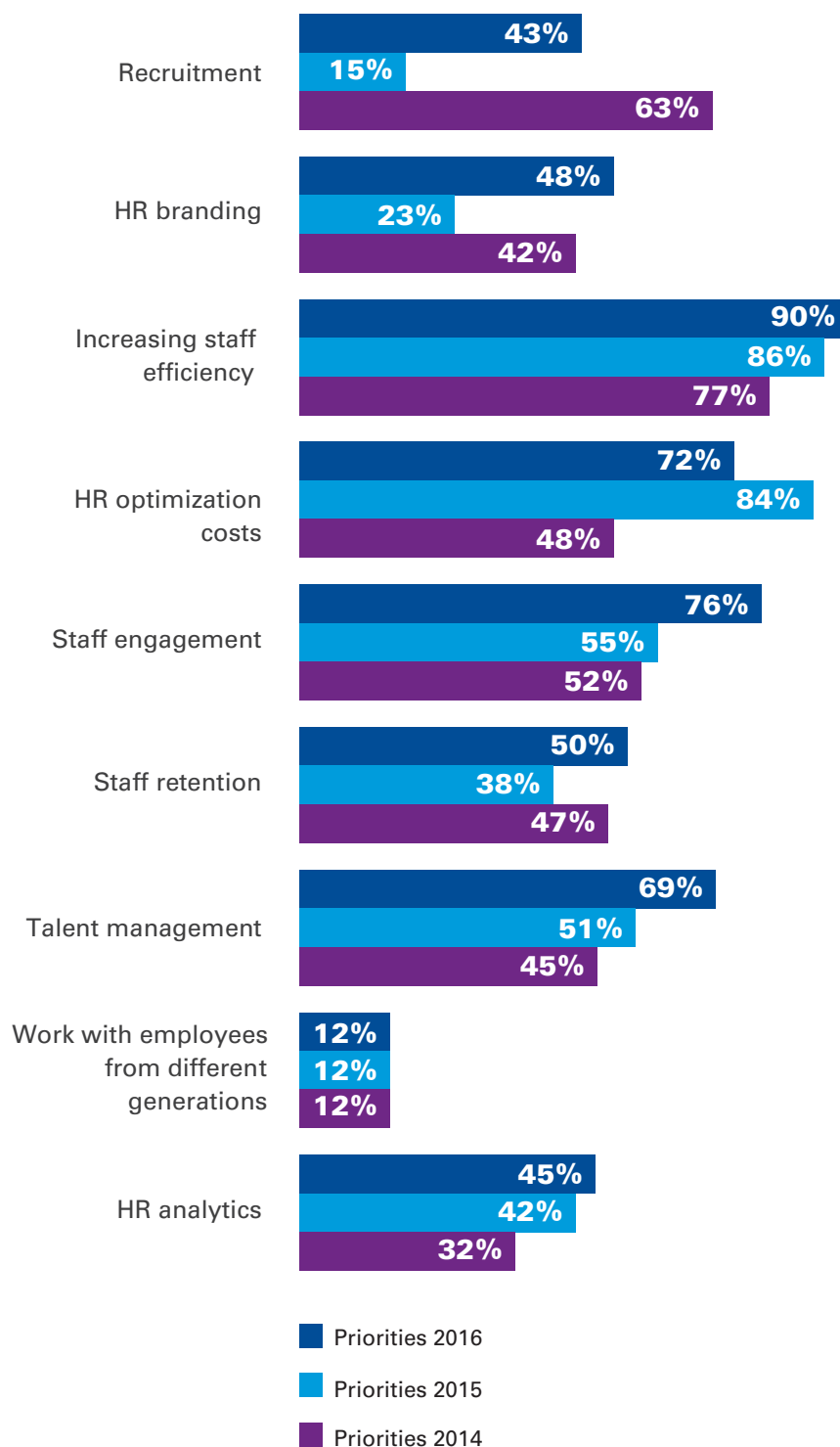
**The HR budget** in 2016 **will be maintained at its current level by 41%** of respondents, while another **30% intend to reduce the HR budget**, and **29% plan to increase it**.

Despite the crisis, **48% of companies plan to increase HR business process efficiency through automation**. This concerns the automation of the attainment of performance indicators, bonus calculations, staff recruitment and appraisal.

The data for 2016 demonstrated that respondents either find it hard to forecast market development prospects (40%) or are pessimistic (38%). The number of respondents, who are optimistic about developments in 2016, has increased significantly compared to 2015 to 22%.

# Changing HR priorities in 2016

## HR priority changes during 2014–2016



**Increasing staff efficiency** has been the key priority for all respondents over the past few years. This trend is highlighted by both Russian and foreign companies. In general, compared to 2015, the priorities of respondents have changed slightly: enhancing **staff engagement** now comes second (76%), while the relevance of **optimization of HR costs** has contracted slightly (84% in 2015 and 72% in 2016). It is highly likely that some companies optimized their HR costs in 2015.

The importance of **talent management** is increasing – 69% of respondents selected this answer in 2016 (51% - in 2015 and 45% - in 2014). Admittedly, foreign companies are more likely to focus on this goal (81%) than their Russian counterparts (58%).

Every year companies pay more and more attention to the development of HR analytics. In 2016 even more respondents highlighted this goal as a priority (45%).



## Anticipated and actual HR priorities in 2015

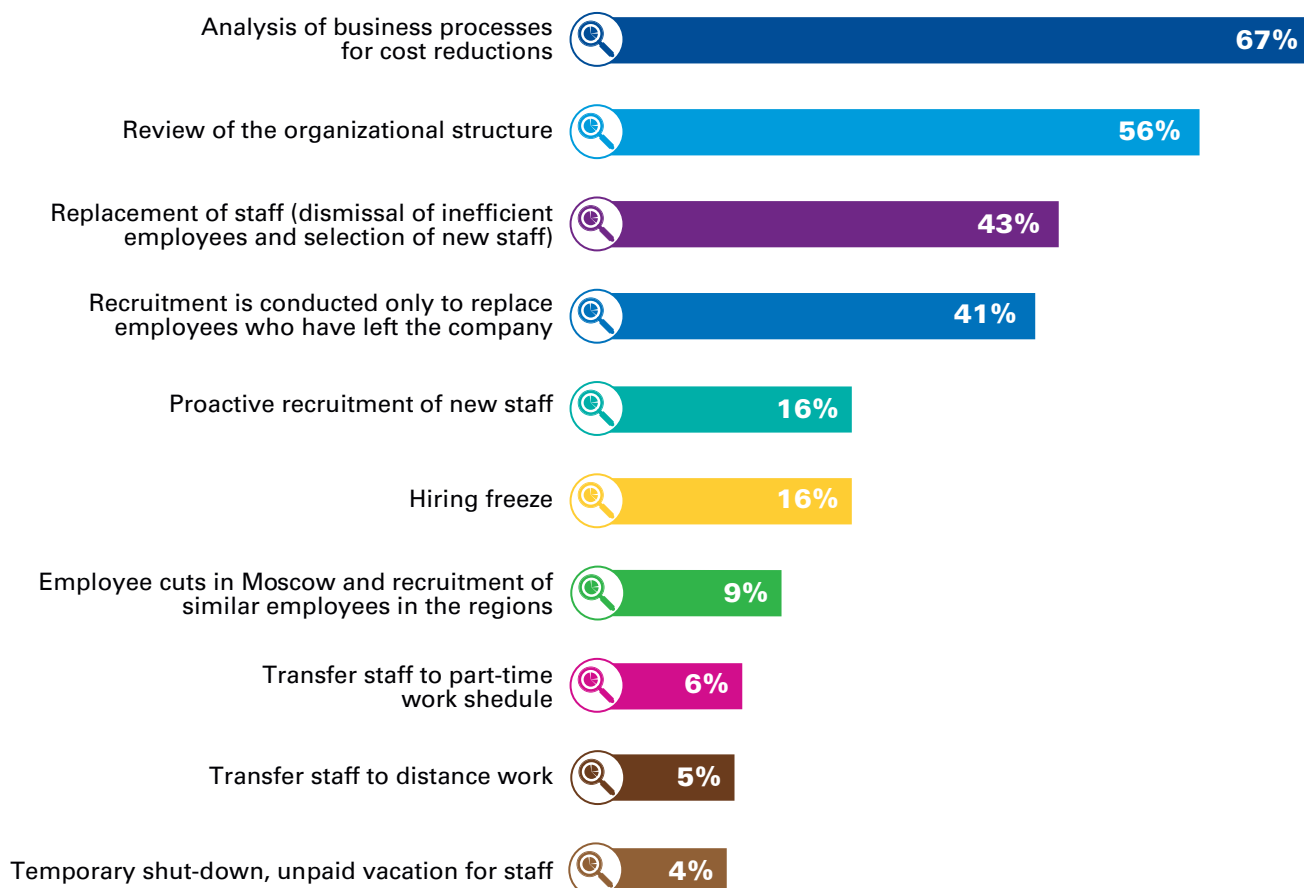


After an abrupt fall in focus on recruitment, companies once again plan to concentrate on HR branding and hiring new employees. In terms of industry sector preferences, the **priority of increasing staff efficiency** is a leading trend for the financial segment, retail, telecommunications and IT, FMCG, pharmaceuticals and healthcare sectors; the issues of enhancing **staff engagement and staff retention** are the key priorities for the construction and real estate segment. It is worth noting here that companies operating in the retail, telecommunications and IT sectors prioritize more the development of HR analytics than other industries (67% and 63% respectively compared to 45% of the total sample).

The survey results demonstrate that companies have adjusted their priorities in a number of HR areas compared to the previous year. For example, the **priority of staff recruitment** was three times undervalued, while increasing staff efficiency and cost optimization priorities were overvalued.

# Main action plans

## Planned actions with staff in 2016



Regarding planned actions in relation to their employees, the vast majority of companies in 2016 (67%) and 2015 (70%) prioritize **analysis of business processes for cost reductions**, followed by a **review of organizational structure** (56%) – in 2015 this priority ranked third, – and then **the replacement of staff (the dismissal of inefficient employees and recruitment of new staff)**. In 2015 this trend only

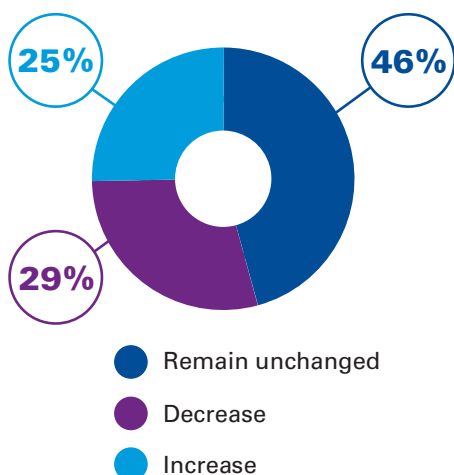
ranked fifth. In 2016, however, companies started actively recruiting new employees again. Instead of recruiting new employees to fill vacancies and announcing a hiring freeze, companies have started replacing inefficient employees with new more effective staff, while 16% of respondents plan new recruitment campaigns. **The hiring freeze** more than halved this year (31% in 2015 and 16% in 2016).

It is worth noting that Russian companies are now considering more frequently the option of a proactive recruitment policy, while foreign companies only prefer to recruit new employees to fill vacancies.



# Headcount changes

## Forecast changes in headcount in 2016 compared to 2015

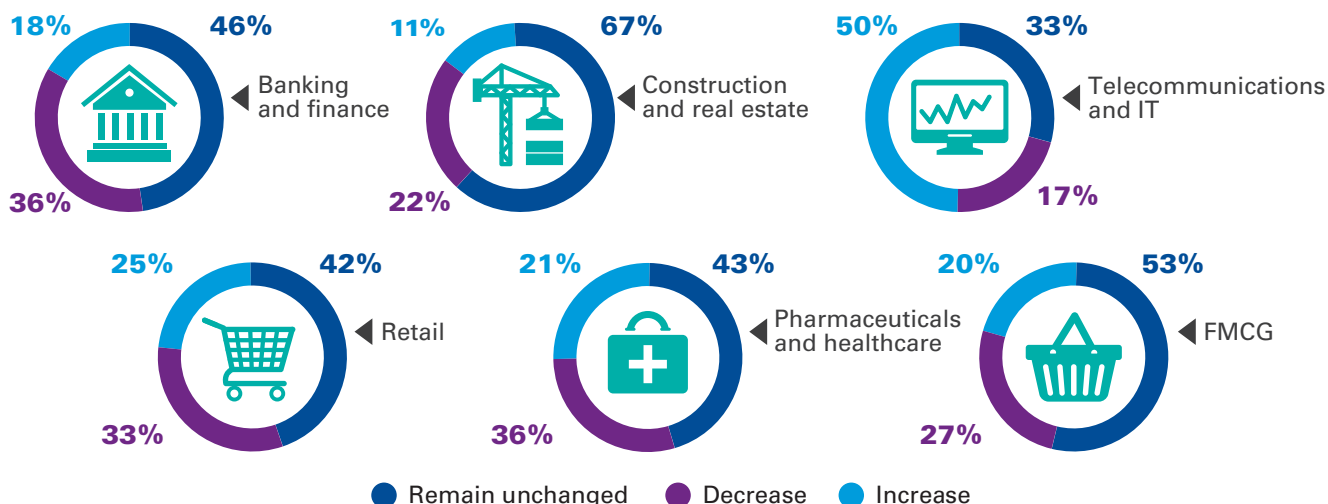


**Some stabilization is perceptible in terms of headcount changes – almost half the respondents (46%) indicated that they had no plans to change employee numbers this year. This is particularly characteristic of medium-sized Russian companies.**

Headcount reductions are planned by 29% of respondents. In 2016 the respondents indicated more often than in 2015 plans to reduce headcount by 11-20%, whereas other respondents plan to

increase headcount by up to 10%. Compared to the previous year, the percentage of companies planning to increase headcount rose (14% in 2015 and 25% in 2016). In general Russian companies are more likely to increase headcount than their foreign counterparts. Most companies with foreign capital plan headcount reductions of less than 5%. Russian companies are more likely to consider reducing headcount by 11-20%, and also other cost optimization measures, such as the transfer of some of their staff to short working weeks, temporary suspension of operations and unpaid leave of absence.

## Change in staff numbers in different market segments in 2016 compared to 2015



Broken down by sector, **construction and real estate (67%)** and **FMCG (53%)** are the sectors most prepared to maintain current headcount levels. Telecommunications and IT continue demonstrating positive

dynamics, while 50% of companies in this segment indicate that they are ready to increase headcount.

Comparing the current behavioral scenarios of companies with last year, it is worth noting that the

situation has started to stabilize. For example, last year almost half the respondents (46%) planned to reduce headcount, while only (14%) of respondents planned headcount increases.

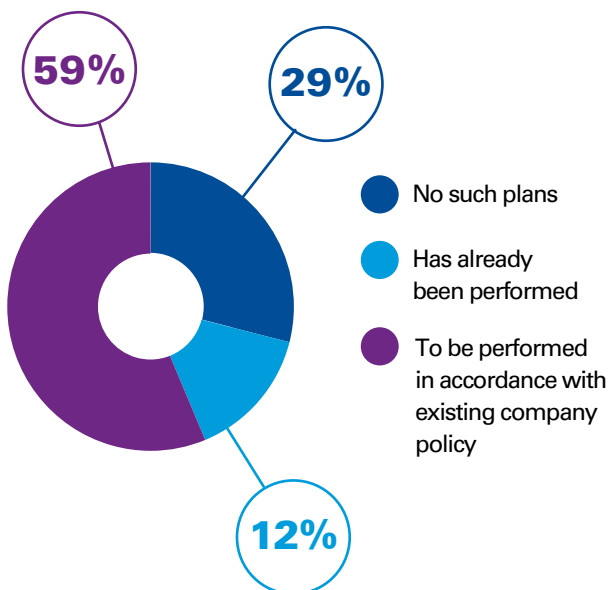
# Payroll changes and indexation

**In 2016 71% of companies plan to perform a salary indexation - 12% have already increased salaries since the start of 2016, while 59% will perform a salary indexation in accordance with existing corporate policy.**

By contrast **29%** of respondents **have no salary indexation plans**, which repeats the trend in 2015 when 27% of respondents selected this option. The plans of Russian companies in 2016 are almost equally split: 49% of respondents do not plan any salary indexation, while 51% have such plans. The range of values of foreign respondents is the exact opposite: the overwhelming majority of foreign companies plan a salary indexation (91%), while only 9% have no plans to do so.

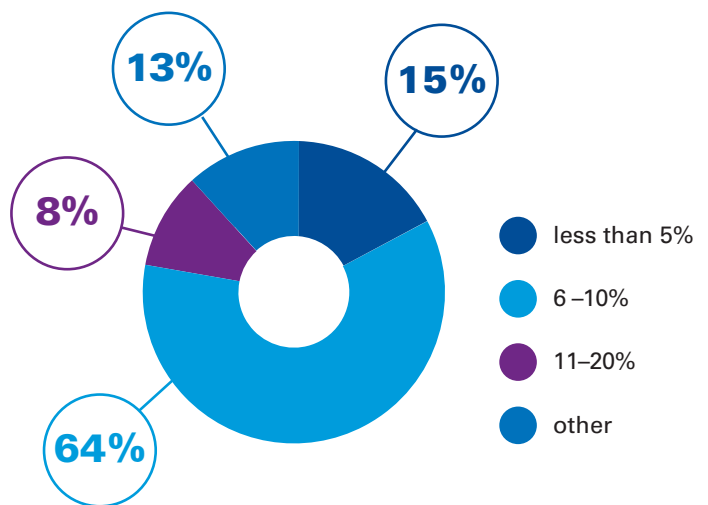
If we consider industry differences, most of the companies with no plans to perform a salary indexation operate in the construction and real estate sector (67%).

## Salary indexation plans in 2016



**Most companies will index salaries by 6% to 10%, which is lower than the official rate of inflation for 2015 (12,91%<sup>1</sup>).**

## Percentage of salary indexation that has already been performed



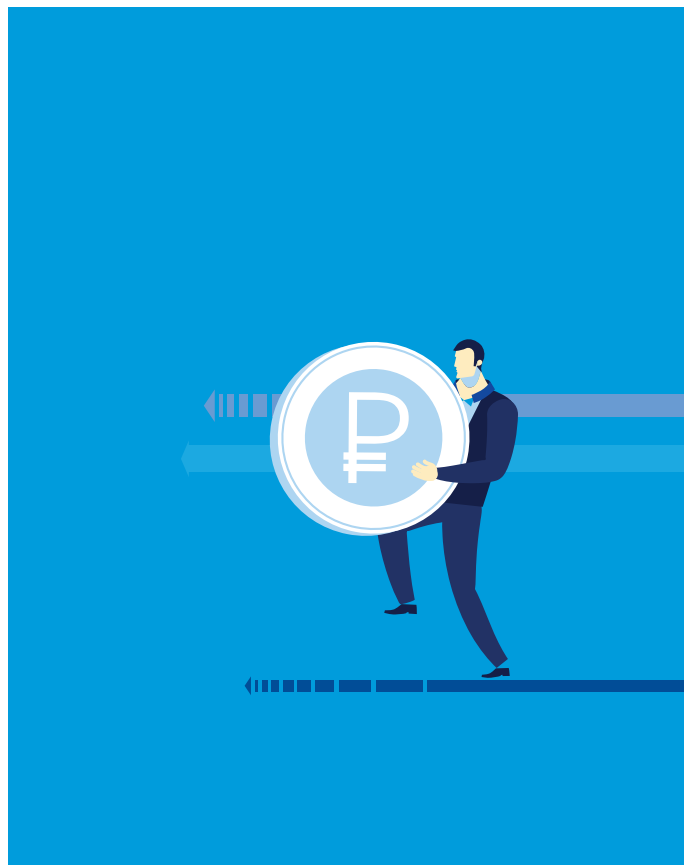
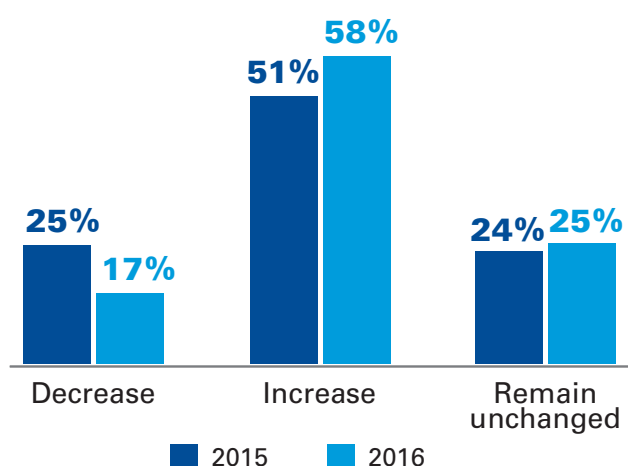
In connection with the current economic situation, the trend of a differentiated approach to indexation can be observed at many companies: a higher indexation percentage is being established for low-paid employees than their high-paid counterparts.

**Most companies have no plans to take any action to compensate for exchange differences - only 11% plan to factor in this difference for senior management, primarily at foreign companies.** In total 8% of companies will compensate the exchange difference through one-time bonus payments. Unscheduled salary increases are planned at 6% of companies.

<sup>1</sup> According to the Federal State Statistics Service of the Russian Federation.

Over half of respondents plan to increase payroll. As was the case in 2015, such plans are more characteristic of foreign companies than their Russian counterparts. In total 34% of Russian and 16% of foreign respondents plan to keep payroll as it is.

### Payroll comparison in 2016 and 2015



## Changes in the approach to staff bonuses

In 2016, as was the case in 2015, most respondents from all sectors **do not plan to review the existing approach to employee bonus payments**. However, changes in the economy and corporate priorities affect revisions to KPIs for all categories of staff. Companies operating in the telecommunications and IT and finance sectors are more inclined to revise bonus performance targets.

In total 14% of respondents plan to review the bonus structure from the perspective of an increase in the variable component primarily for their sales department employees. Another 5% of respondents are inclined to cancel bonus payments this year, a fall on 2015 (9%), while 6% of companies will not pay annual bonuses for 2015. Meanwhile, 10% of respondents plan to introduce long-term bonus payments for top-management.

# Changes to the HR budget

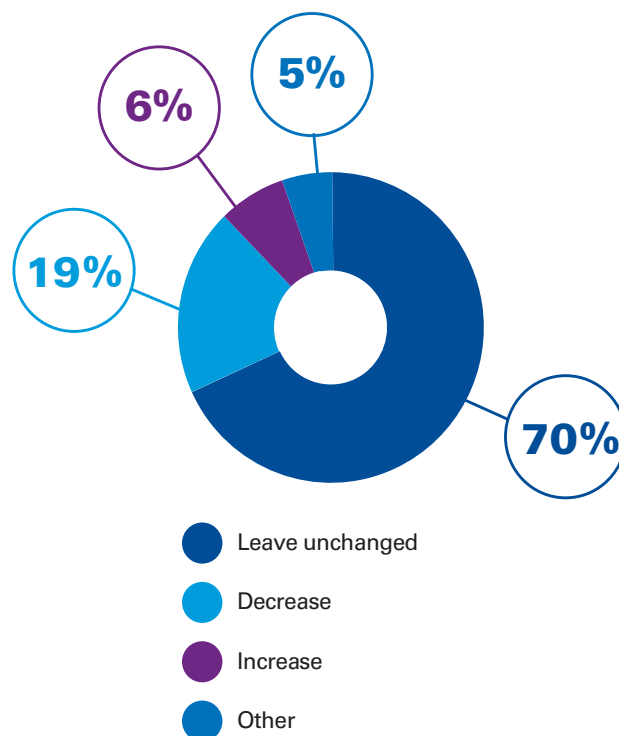
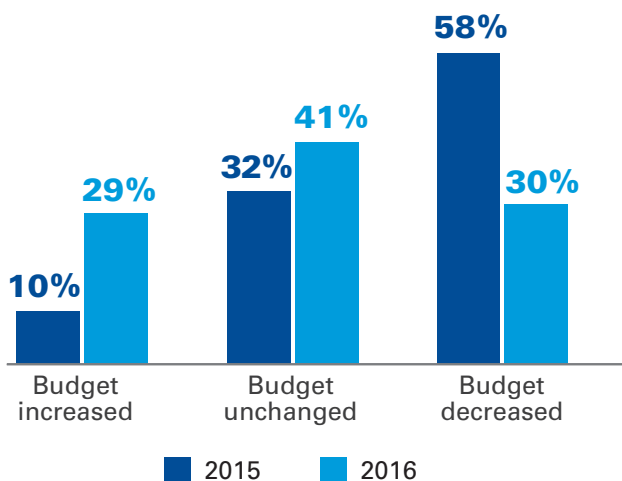
**In 2016, 30% of respondents plan cuts in their HR budgets, which is down on 2015, when 58% of respondents planned HR budget cuts.**

**Almost half of respondents (41%) plan to maintain their current budgets**, with foreign companies less inclined to do so (38%) than their Russian counterparts (49%). This year 29% of respondents will increase their HR budgets, which is far higher than the targets last year (10%). It is worth noting here that the companies with headcounts of 5,000 to 20,000 people plan to cut the HR budget (44%).

**In terms of the headcount in HR departments, the majority of the respondents are maintaining this item as it is. In terms of differences between industries, banks and other companies operating in the financial sector are more likely to reduce HR headcount.**

**Plans to change headcount in HR departments in 2016 compared to 2015**

## Comparison of plans to change the HR budget in 2015 to 2016



**The top three** budget items to be cut remain unchanged. Companies are optimizing costs on corporate events (38%), recruitment costs (36%) and external training costs (29%). As was the case in 2015, the budget items personnel appraisal and internal training will be cut the least. In general, trends on staff training and increasing costs on internal training remain unchanged.

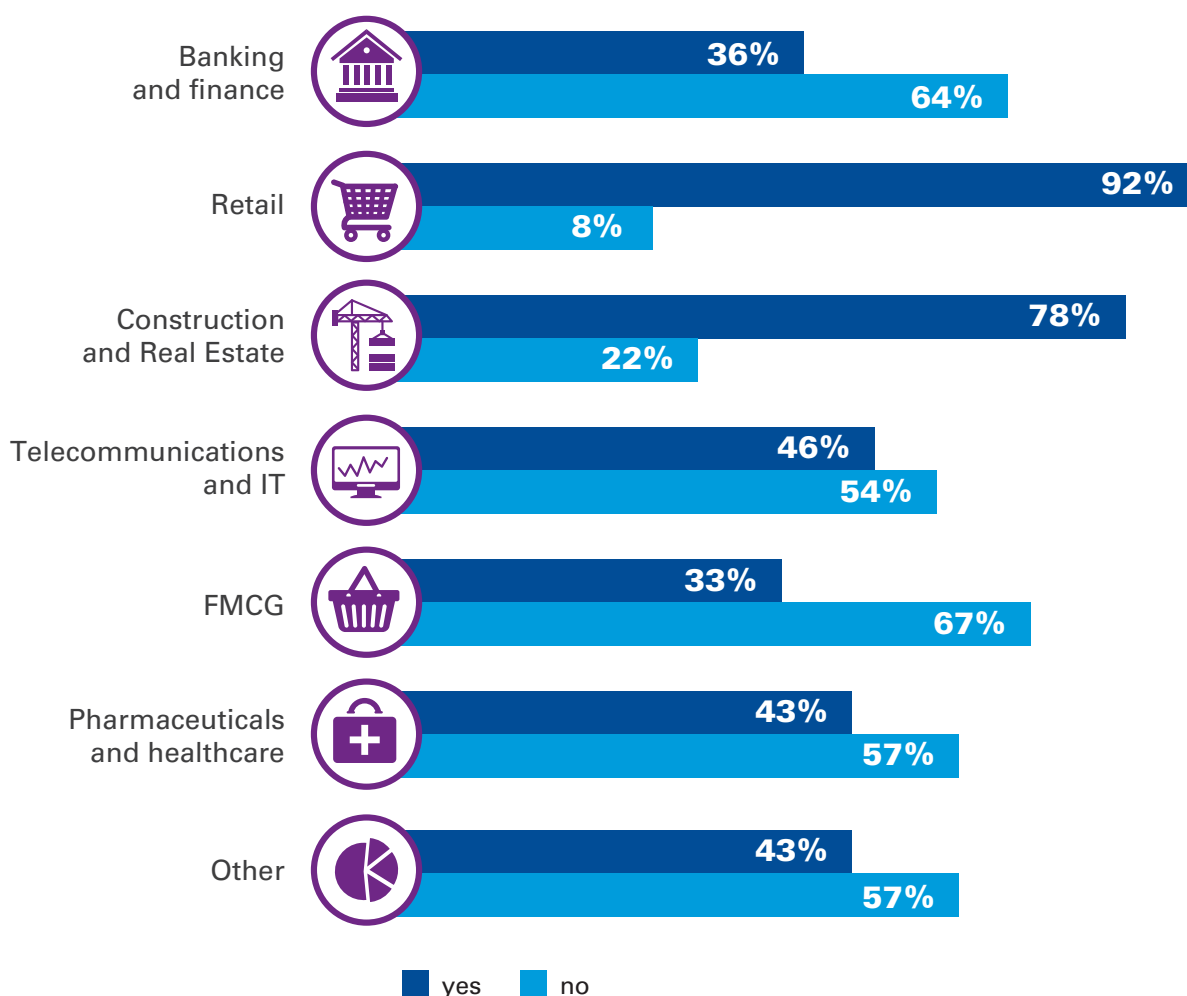
# Automation of HR functions/ processes

The results of the survey confirmed that basic accounting functions are most automated at companies at present: **payroll, staffing workflow and timesheets**. Despite the crisis, companies perceive opportunities to optimize business processes through automation, with 48% of Russian and foreign companies planning to deploy new software to automate HR functions and processes. Companies from the retail, construction and real estate sectors are more likely to consider automation plans than others.

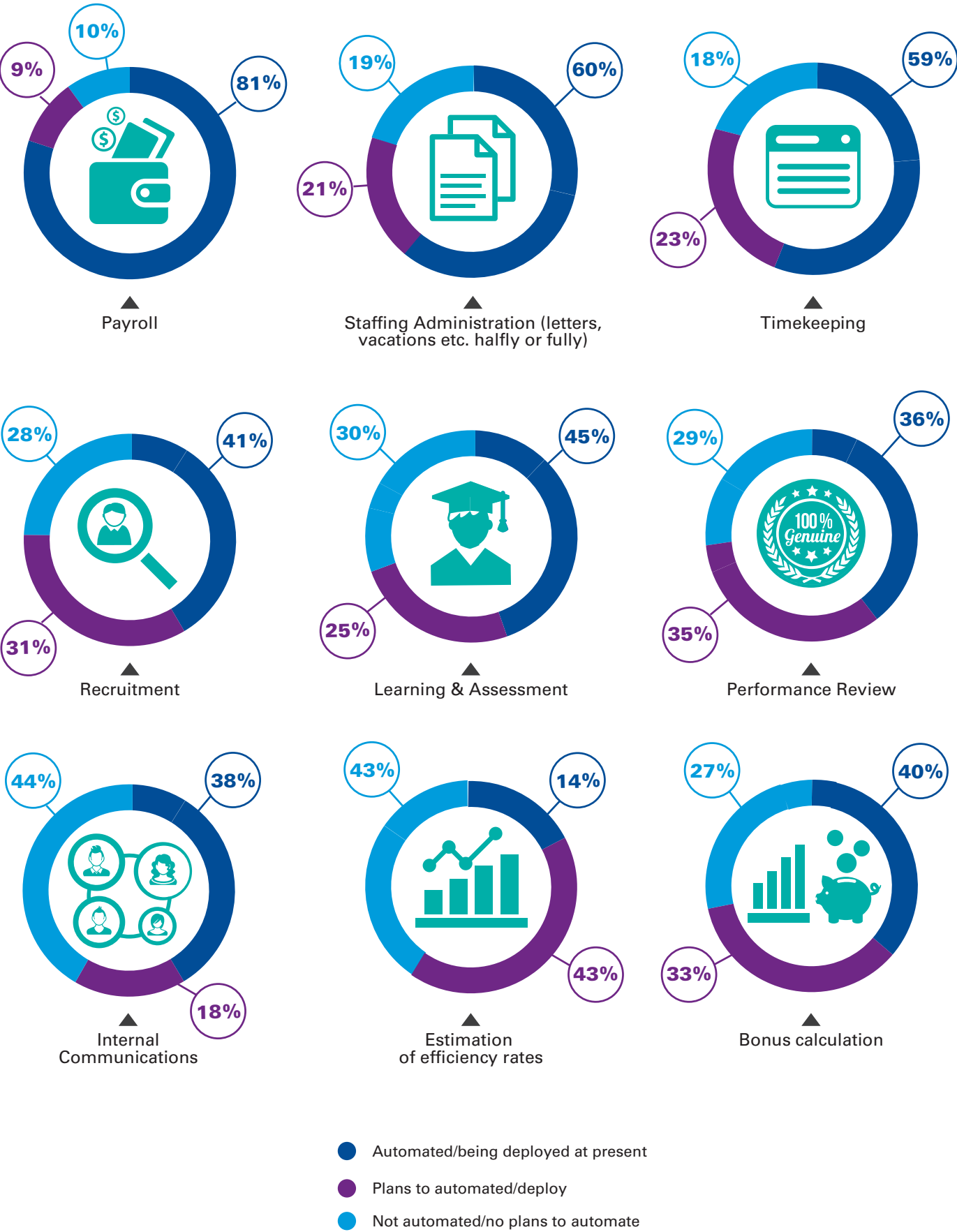
**From the perspective of automation plans (automation and deployment plans), calculation of performance indicators comes top (43%).**

In terms of industry breakdown, companies operating in the financial sector are more likely to plan the automation of bonus calculations and recruitment; companies operating in the construction and real estate sector plan to automate personnel appraisals; FMCG and telecommunications and IT companies have included personnel appraisals and recruitment in their automation plans.

## Plans to implement and/or develop new software for the automation of HR functions/processes in 2016



What kind of HR functions/ processes are planned to be automated in 2016?

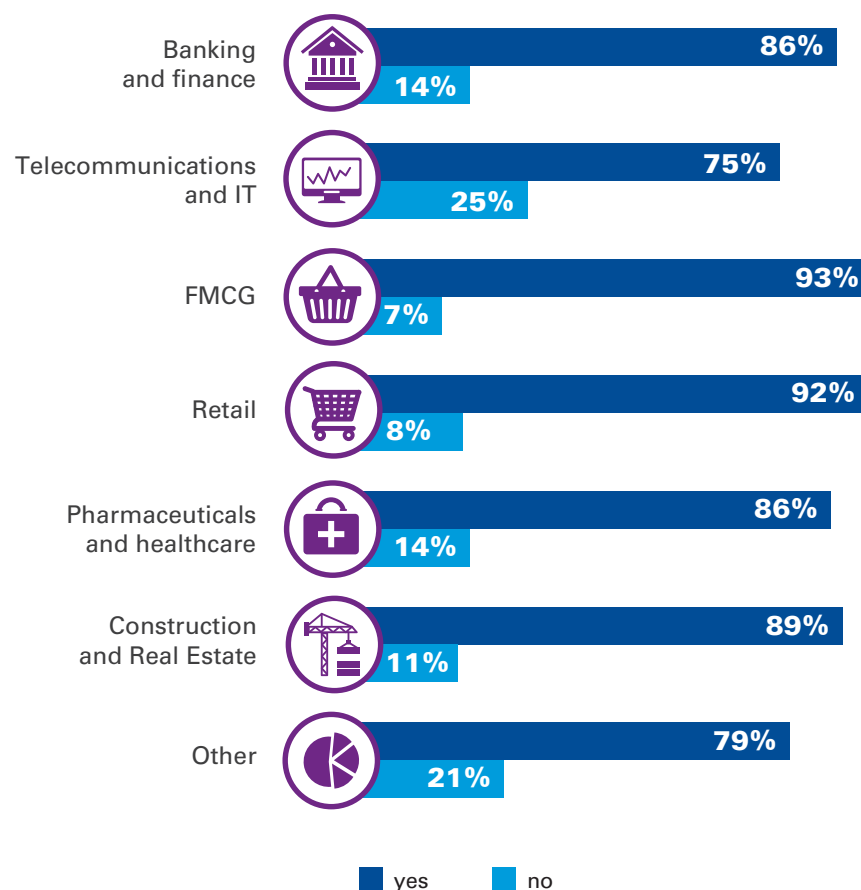


# Access to and work with the corporate portal

**According to the data of the 2016 survey, most of the respondents have a corporate portal (83%) – the results were similar for Russian and foreign companies.**

From the perspective of working with a corporate portal, it can be accessed through corporate personal computers (78%). A significantly smaller number of companies (43%) enable employees to work with the corporate portal via corporate mobile phones/smartphones/digital pads, while one-third of the companies, on average, enable employees to work via PCs (36%) and personal mobile phones/smartphones/digital pads (33%).

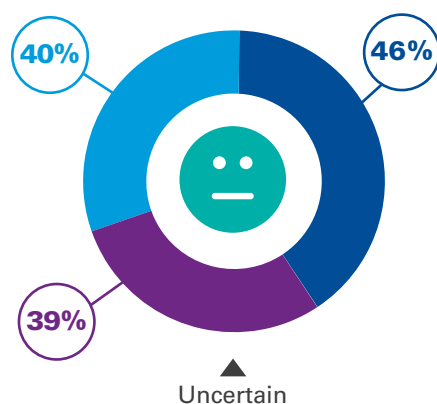
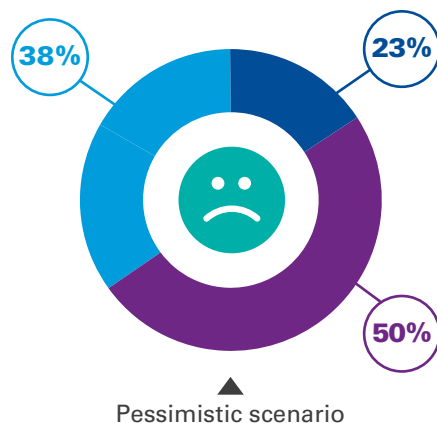
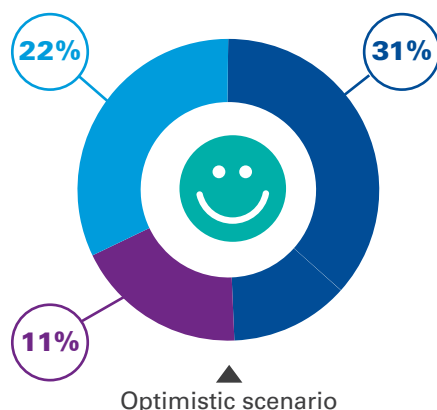
## Does the company have a corporate portal?



# Outlook for 2016

The percentage of pessimistic respondents has contracted insignificantly compared to 2015 – from 50% to 38%. The number of companies that are optimistic about the future has doubled – from 11% to 22%. In general, however, most respondents found it hard to answer or were inclined to be pessimistic.

## Changes to forecasts on economic development scenarios (2014-2016)



● 2014 ● 2015 ● 2016

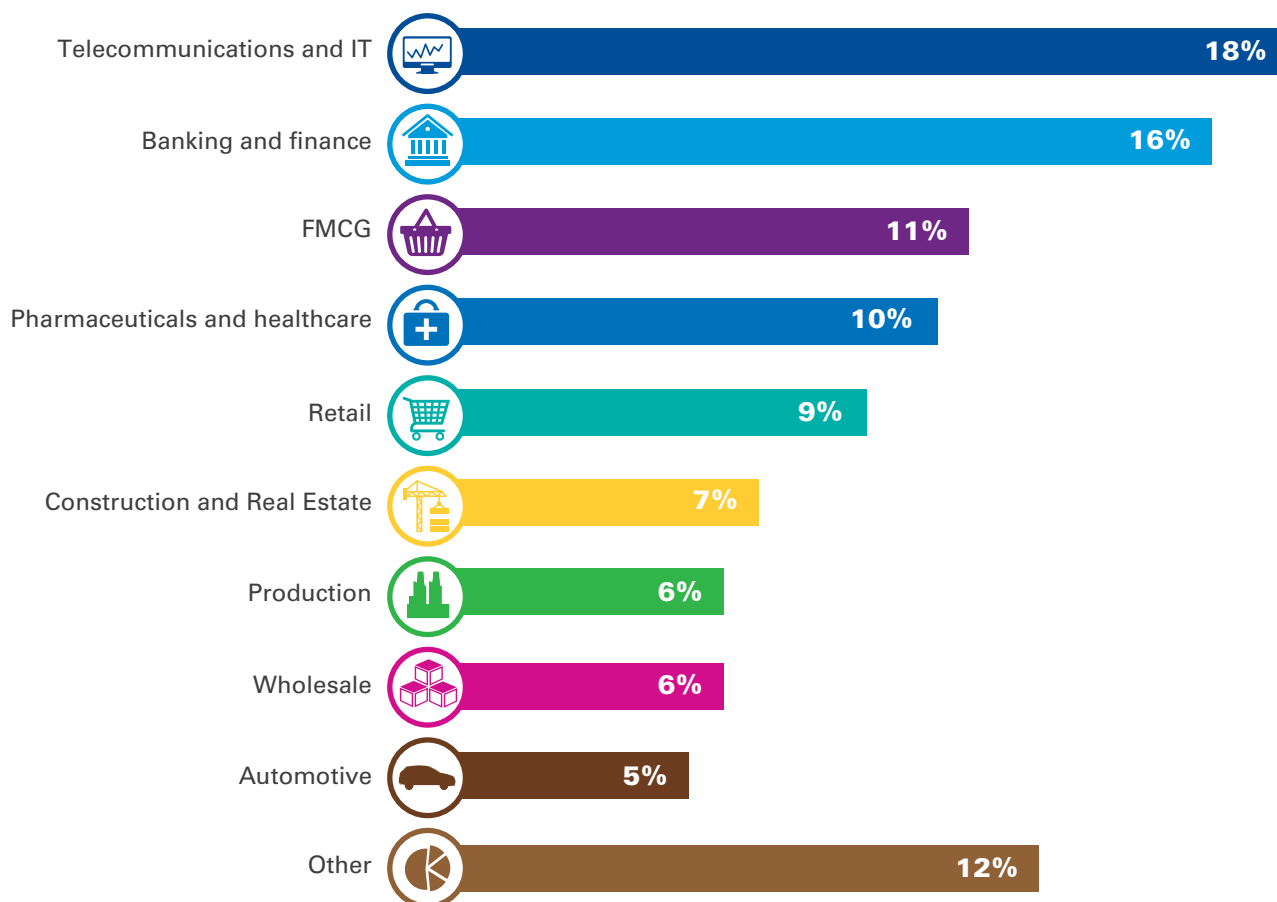
Russian companies are more optimistic than their foreign counterparties, whereas the contrary was true last year.

Companies operating in the **construction and real estate** sector (44%) and also in **telecommunications and IT** (38%) were the most optimistic. Respondents from the **FMCG** sector are most pessimistic (47%). Companies operating in the **pharmaceuticals and healthcare** sector were the most pessimistic in 2015 (60%), although the number of pessimists in this sector decreased in 2016 (29%).

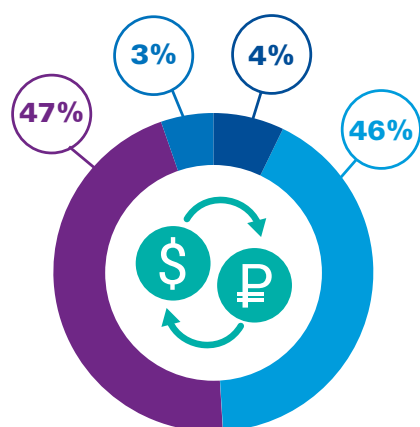


# Information on respondents

## What is your company primary industry?

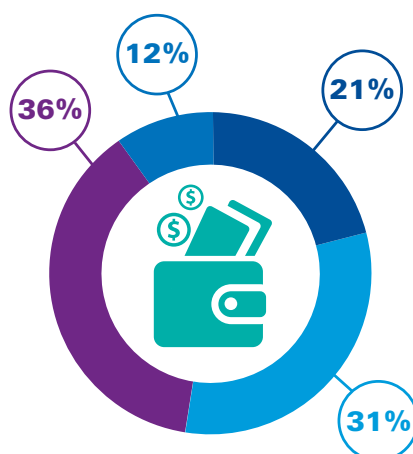


## Predominant capital in the company structure



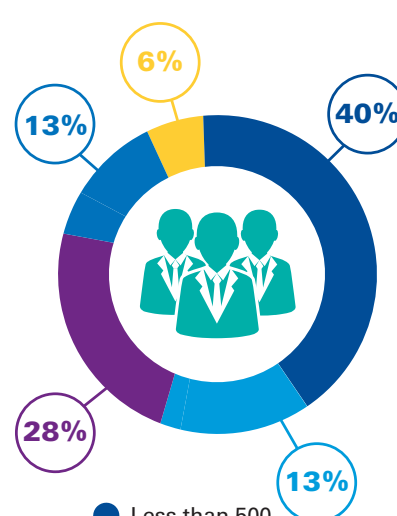
- State capital
- Foreign capital
- Russian capital
- Mixed capital

## Company revenue for 2015



- Up to RUB 1 billion
- RUB 1 billion to RUB 10 billion
- RUB 10 billion to RUB 100 billion
- More than RUB 100 billion

## Headcount



- Less than 500
- 500 to 1,000
- 1,000 to 5,000
- 5,000 to 20,000
- More than 20,000

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