

The Russians

Stimulating, stressful and unpredictable – the business climate and HR issues around working in Russia are not enough to deter talented and determined executives from home and abroad.

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are coming

A conglomerate with tens of thousands of workers but no group HR director, a billionaire shareholder personally handing out appreciation awards in cash, another doing individual salary deals with each member of the management team – there is plenty of anecdotal evidence that as far as HR goes, Russia is still the wild east. Yet, beyond the lively stories, the truth is that Russian companies are rapidly converging on the multinationals in terms of reward and governance practices. They are in the market for expatriates and Russians with multinational experience, and they are attracting top talent.

It is, of course, an increasingly artificial distinction to speak of Russian companies versus multinational companies, given that many Russian companies have foreign shareholders, multinational boards and English as the working language: as they expand into many countries, they too become multinationals. Nevertheless, these terms provide useful shorthand.

So what are the issues facing Russian and multinational companies operating in Russia? Why is the drift of management talent from international to Russian companies becoming an ever-increasing flow and what is tempting expatriates into the fray?

Firstly, it is increasingly the case that Russian management teams are highly professional and experienced and, in the dynamic Russian market, they are able to make change happen in their companies more rapidly than a western manager could ever dream of. True, Russian companies still lag well behind in many aspects of HR, technology and processes but they are catching up fast. With MBAs and strong

track-records in multinational companies either in Russia or abroad, the new Russian manager is an international phenomenon and nationality is becoming irrelevant. Joining a team of like-minded people becomes an attractive proposition.

Secondly, there are external pressures as Russian businesses list abroad. In 2006, despite the relative lull in the Russian domestic market, the highest value came from Russian companies listing in London, with one initial public offering (IPO) coming in at £4 billion – the biggest for the year (Source: PricewaterhouseCoopers London capital markets group). By some estimations, over a hundred more Russian companies are planning a listing in the short to medium term. This brings greater requirements in terms of corporate governance and internal controls, again potentially providing a more transparent and ordered environment for managers.

Thirdly, having built up their empires, wealthy shareholders yearn to spend more time enjoying themselves and less on day-to-day management. Executives in their companies, meanwhile, are keen for them to stop meddling or their ‘rule by telephone’ as it is known, whereby they call anyone in the company at any time to get information and give orders. This battle-command style of management is being replaced by clearer delineation of responsibilities and decision-making power.

The evolution to effective corporate governance is not immediate and teething problems can often be observed as boards and management work out who is doing what. If three years ago it was rare to find a non-executive director in Russia, there are now many on the boards of major

companies, and many of them are foreigners. Their responsibilities are less clear-cut than in the UK, with a greater time commitment required since, in some cases, they are setting up new board procedures and practices from scratch. Compensation levels match the increased demands though, with directors’ fees generally at least twice those found in the UK. Finding qualified non-executives can nonetheless be challenging especially where the language of the board is Russian.

Remuneration committees and executives are rapidly unscrambling reward arrangements that have developed out of individual deals. Executive pay in Russia is traditionally made up of base salary and an annual bonus with no pension provision or long-term incentive. In one management team, the mix between variable and base pay can differ hugely from person to person and performance targets may be ill-defined. Although Russian companies have few scruples about reducing base pay, bringing equity and clarity to such a structure can be difficult. Targets are now clearer, however, and more frequently linked to key strategic objectives.

Long-term incentives are being introduced, generally based on real equity where the company is listed in Russia or abroad. Phantom plans are common in private companies. As little quantitative information exists in Russia on long-term incentive plans (LTIPs), overseas industry benchmarks are often used to determine the size of the incentive opportunity. Introducing LTIPs in Russia is not easy from a legal and tax perspective, but many companies have overcome these issues to put robust plans in place, and they are comfortable disclosing the details when an IPO takes place.

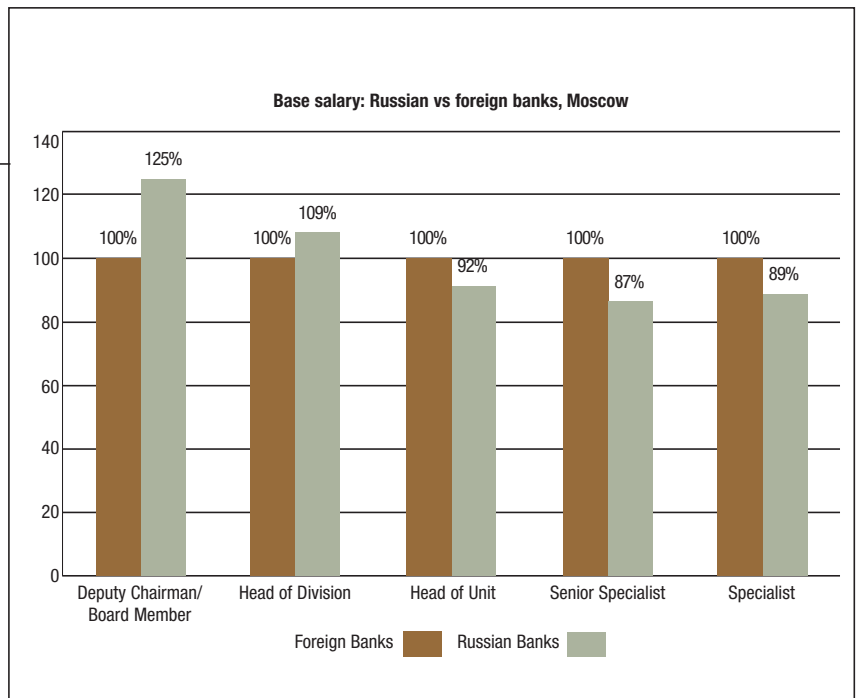
Multinationals continue to expand their operations in Russia rapidly, with the inherent challenges that this brings. Competition for trained resources is intense, and both base and variable, pay is rising fast. Most multinationals do not aim to compete with the Russian companies as regards pay levels for executives.

The differentials can clearly be seen in the banking sector, for instance. Executives receive 25% more base pay on average and significantly higher bonuses than in international banks. Whereas non-management employees in Russian banks receive salaries of about 10% less than their colleagues in foreign banks. In last year's survey this difference was 20-30%.

(Source: PwC financial sector compensation survey 2006)

Multinationals still manage to retain and attract managers based on better work environments, clearer career paths and training opportunities, whilst for lower level employees, multinationals generally pay more. The Russian business model is still one of large numbers of people working less effectively than their western counterparts and receiving less pay. This gap has been narrowing in recent years as Russian companies improve processes and change their people strategies.

Should Russia be a special case as regards career path, performance management and rewards? This is one of the issues that multinationals face. The market is expanding and it is difficult to recruit trained talent. So do you promote that person who is not quite ready and who would not have got the promotion were they working in another market? Do you drop your standards concerning competency levels expected at different grades or do you push people



through to retain them and grab market-share?

The need for expatriates has reduced sharply in the past ten years as skilled, and often superior, workers become available locally who may have ten-plus years' experience in the company. In some sectors such as energy though, the numbers of expatriates has increased and Russian companies are increasingly willing to take on foreigners. The costs can be high for elements such as housing (more than \$10,000 a month for a family house) and schooling. Hardship is also still paid by some companies – no longer for the lack of goods and services but for pollution, climate and risk.

There are Russian companies with cutting-edge policies and processes and international companies in Russia can learn much from them. However, chances are that if you work for a western company, your life will be less filled with spontaneous events, discussions about basic processes and struggles with petty bureaucracy than your counterpart in a Russian company. On the

other hand, the business challenges, the adrenaline and the monetary rewards are likely to be significantly greater for them. At executive level in Russian companies, a normal package for a Russian can easily attract an expat with no additional mobility benefits on top. For many, though, the environment is still too insecure and compensation is willingly traded for stability. Some make the transition into Russian business only to return months later.

But whether it is in a Russian or western company, few who have ever worked in Russia would disagree that it is a fascinating and exciting place to work: often stressful, sometimes scary but generally fun. The large numbers of long-term expats and the growing numbers of ex-Russian 're-pats' bear witness to that.

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