DT - Global Business Consulting

CEER CEE-RUSSIA Business Group

Russia-CEE: HR Report and Survey 2020-2021
What will you pay your staff in 2021?
HR challenges. Work from home.

September 2020

FOR CEE
IN ASSOCIATION WITH:

Gebrüder Weiss Transport and Logistics

Hewlett Packard Enterprise

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CEE HR Survey 2020 – Introduction

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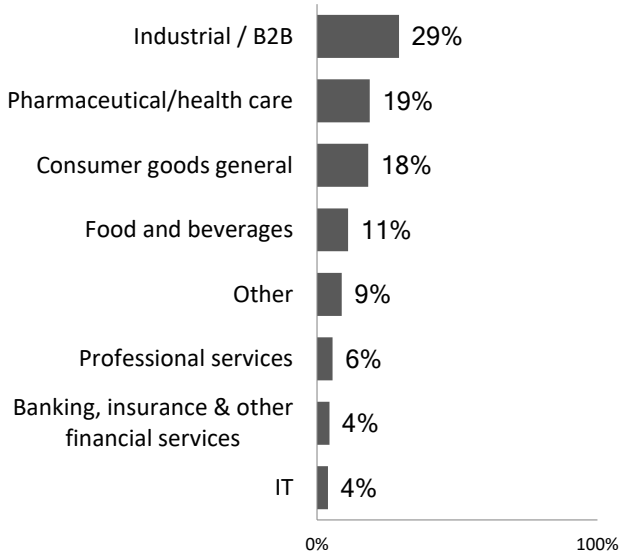
- 183 senior executives from CEE and CIS took part in the survey, which was conducted in August 2020.
- **2020 is a difficult year for many companies and this survey is designed to help executives in their decision making by letting them benchmark their experiences to those of other executives in the CEE region.**
- The results of the survey are rounded to the nearest full percentage point. This may lead to small rounding error (example: if 50.5% and 49.5% are rounded to 51% and 50%, it appears as if the total is 101%).
- There are questions to which more than 1 answer is possible. These will not add-up to 100%, nor will questions where only the top 10 responses are illustrated.

In what industry or sector does your company work?



Executive summary: salary trends the numbers 2020-2021 (1)

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- Salaries have been a headache in the CEE region since 2013 in the CEE region (less so in Russia).
- During 2013-19 global and regional CFOs often thought that CEE staff were "paid too much". This was mostly an incorrect assessment. We discuss later below.

2020 salary trends – a roller-coaster:

- The major findings from this Report and our other recent surveys is that for average salaries for average white-collar staff:
  - Salaries in 2020 have gone through several variations.
  - In November 2019 companies planned "normal" solid salary increases around inflation or above. Only 5-10% of companies planned to pay below inflation levels and most companies (55-75%) pegged salaries around low single-digit inflation.
  - While 20-30% of companies aimed at above inflation in range of 5-10%.
  - This was the "normal" trend. All fine, and then…
- Then by April-May 2020 in the deep midst of the crisis, executives took an axe to 2020 salaries:
  - Fully 80% planned to restrict 2020 salaries to nominal flat or negative changes.
  - This meant that only 5-10% of staff would now receive positive nominal salaries around inflation.
  - Companies slammed the brakes on salaries in spring 2020.
- But by August 2020, executives were taking a slightly more relaxed approach to 2020 salaries again.

Executive summary: salary trends the numbers 2020-2021 (2)

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- But these expectations for 2020 are still the lowest in 7-9 years.
- Instead of 70-80% of companies planning flat or nominal negative salary changes (as in March), this proportion was down to 50-60% of companies which is lower than the spring number but still a historical high level.
- Nominal wage increases which are flat or negative obviously mean that with inflation running at 1.5% to 3.0% in most CEE countries, then real wages turn out negative in range of -2% to -4%.
- Negative real wages in western companies in the CEE region have not been seen since 2012-2013 period.
- We can look at what this August "upping" of salary plans for 2020 means.
- In Russia the shift for 2020 wages was also noticeable: in spring 2020 only 36% of companies planned single digit wage increases. But by August this proportion was up to 58%. In spring this year 74% of companies planned flat-negative nominal wages for 2020. But this figure had improved to 43%. Better but again a historical bad figure for wages and the worst since 2014 or 2009.
- In Poland, we can see the shifts clearly. In 2019, executives expected strong salary increases in 2020: 70% were set at 1-5% increases and 30% at 5-10% and the latter were so solid above inflation increases for many. No one planned flat or negative salary changes.
- But in spring 2020 this view collapsed: only 22% of companies planned any increases (instead of 100% of companies!). And 78% budgeted flat-negative salaries.
- By August though, here too the improvement kicked in and 48% planned increases while still 52% planned flat-negative.
- So, what are the plans now for 2021?

Executive summary: salary trends the numbers 2020-2021 (3)

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CEE – salary plans for 2021

- As you will see from anecdotes, some companies still plan to jiggle 2021 salaries depending on what happens in Q3 and even in October-November.
- Across the region CEE-Russia-CIS, the 2021 trend is clear with some exceptions.
- Average white collar salary increases for 2021 are budgeted at a lower level than was planned in 2019 for 2020.
- But the budgeted 2021 increases are higher than numbers discussed during 2020.
- **So, 2021 salary increases will be higher than expected earlier BUT will be below 2019 levels and will be among the softest increase in the region for 7-9 years.**
- Czech Republic is a good example for 2021: 47% of companies budget increases of 1-5% (normal) but 41% will be flat and 12% nominal-negative, so 53% will be flat or negative (not normal at all).
- Poland is similar but with salaries stronger: 59% at low single digits and 6% at 5-10% rises. But 36% flat or negative.
- Bulgaria, Croatia, Hungary and Slovakia follow similar patterns.
- Turkey is different of course because of high inflation levels hovering around 10% in 2020-21.
- Here in Turkey, 40% of companies will offer single-digit salary increases but in real terms this will be flat and more often negative in real terms. On the plus side for employees another quarter of companies budget pay increases above 10% which is also above inflation.

Executive summary: salary trends the numbers 2020-2021 (4)

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Russia – salary plans for 2021

- Historically in recent years western companies have tended to raise average white-collar salaries by the same level as national, federal inflation. For several recent years, this meant nominal increases of 5-8%. When inflation came down further in 2019 to 3-4%, salaries followed.
- Staff in Moscow often complained that city level inflation was always several percentage points higher. But HR departments stuck with the national inflation figure for average increases as their base-line.
- In a normal 2021, with expected inflation of 3-4%, one would have executed 80-90% of companies to be fixing salaries at these levels.
- The 2019 plan for 2020 was for example exactly like this: 58% low singles and 37% high singles. No one above 10% on average and only 5% of companies offering flat levels. All normal then.
- The slump then followed in spring 2020 for 2020 salaries: instead of 85% of companies offering increases, this number fell to 26%! And fully 74% at flat-negative levels.
- Yes, this improved by the summer and the numbers now budgeted for 2021 have increased again:
- In Russia for 2021 average salaries, 46% plan single-digit increases of 1-5% and another 16% look at 5-10% range. So 62% are operating at pre-crisis normal levels.
- However, 22% budget for flat salaries and 16% will introduce negative-nominal wages and so 38% will set salaries at “not normal” levels and much lower than in 2019 and at the lowest levels for 7-9 years.
- **One MD mentioned a truism which will probably remain valid in 2020 and 2021: “Western companies tend to be more generous in good and bad times with salaries and our staff know this. This is relative of course and this year and next western company salaries will be less attractive. But I guess that Russian companies outside the big, state ones will be fairly brutal as usual with salary cuts and lay-offs”.**

Executive summary: salary trends the numbers 2020-2021 (5)

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(Non-Russian) CIS – salary plans for 2021

- The major CIS markets have followed similar trends to CEE and Russia: solid plans in 2019 for 2020 followed by a crash in expectations in spring 2020.
- Companies do seem however to be "more generous" in Ukraine given that inflation has fallen to low-mid single digits.
- Budgeted white collar salaries in Ukraine are set now at: only 18% of companies at flat or negative with 41% at 1-5% increases and another 33% at 5-10% rises and 7% looking above 10% salary increases. So comparatively healthy rises.
- There could be a bit of residual from past times when inflation was much higher and companies adapted with numbers much higher in absolute figures.
- We will see what political turmoil does to wage trends in Belarus and of course the political and economic risk is elevated. But a few weeks ago, 47% of companies budgeted flat-negative salaries with 53% in a single-digit range.
- Salary expectations in Kazakhstan reacted wildly in spring and have since stabilised at higher, "new normal" levels: in 2021 28% budget or flat-negative with 48% at levels of 1-5% rises and another 24% aiming for increases on 5-10%.
- As you will see from the charts, Caucasus markets follow these trends as well.

White-collar salaries for 2020 (in absolute terms and in local currency)

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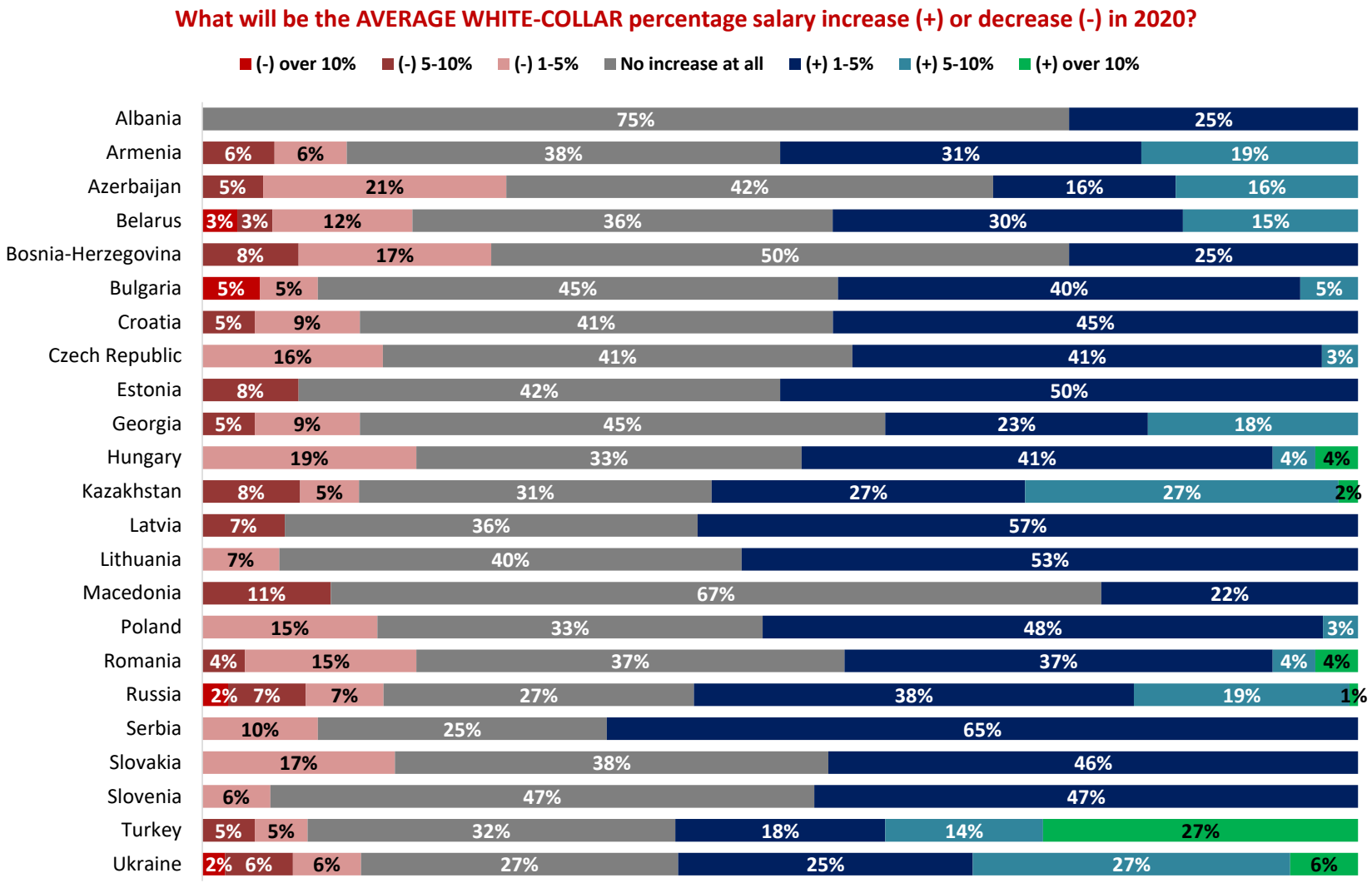

Blue-collar salaries for 2020 (in absolute terms and in local currency)

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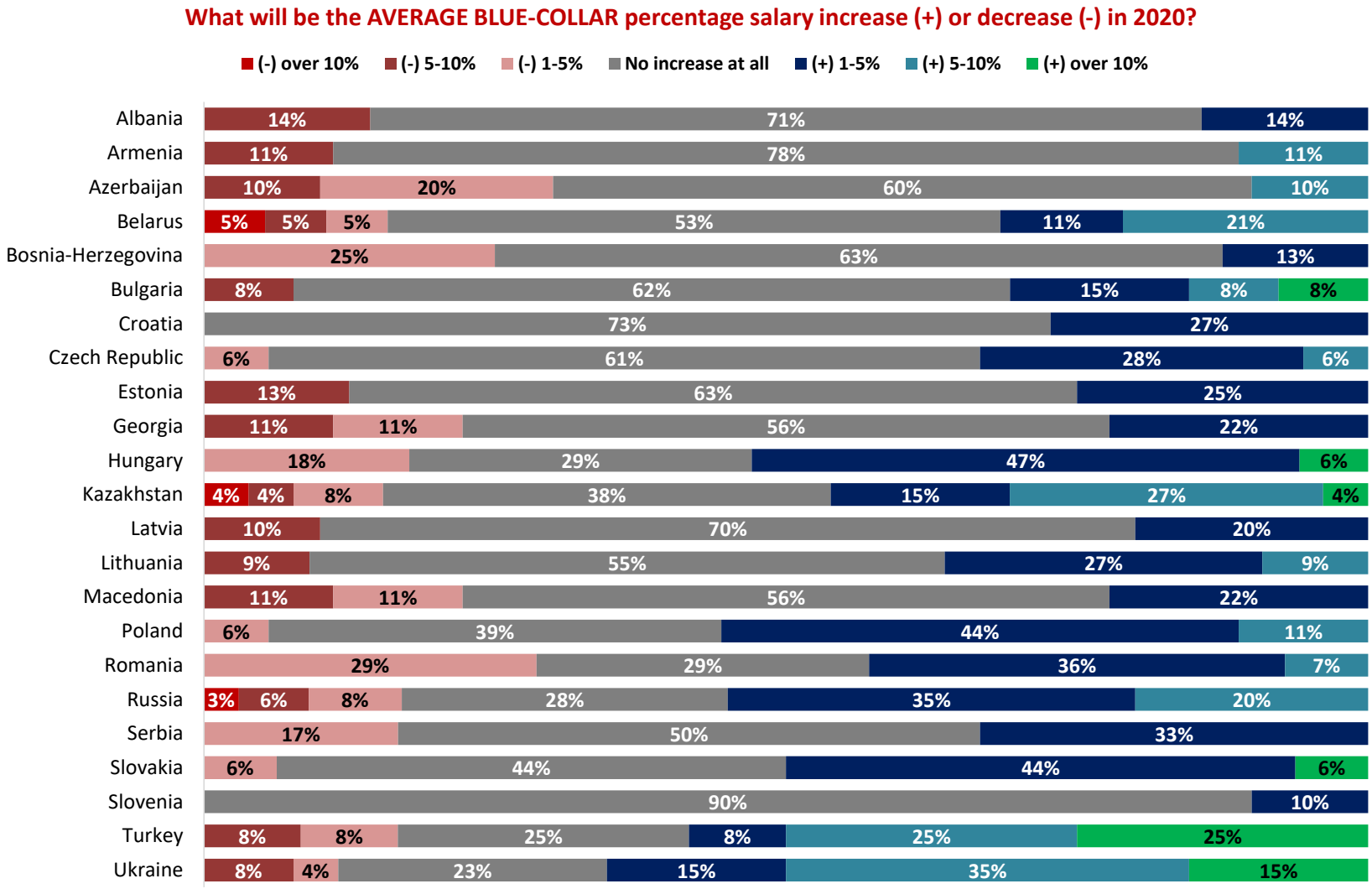

White-collar salaries for 2021 (in absolute terms and in local currency)

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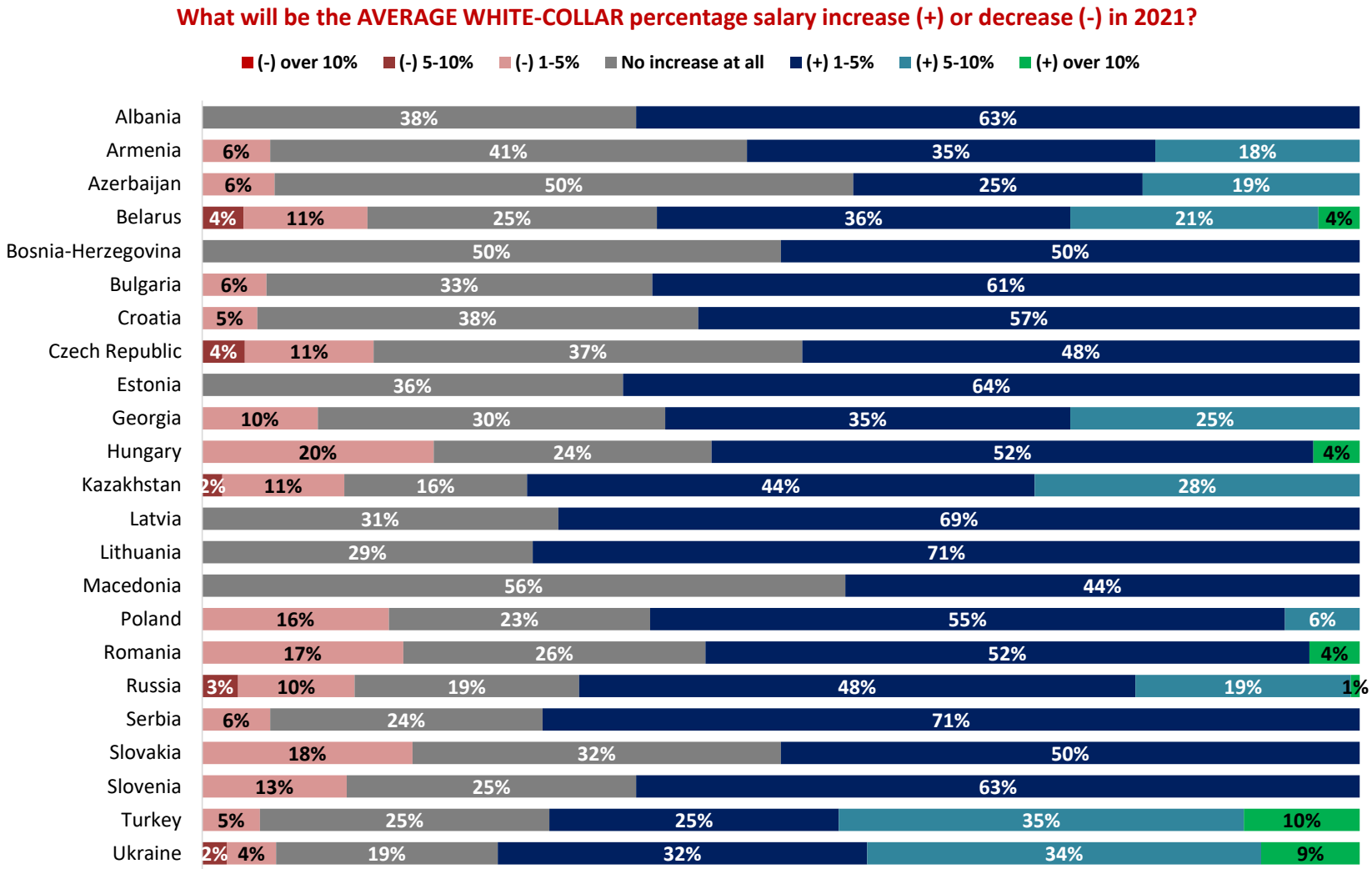

Blue-collar salaries for 2021
(in absolute terms and in local currency)

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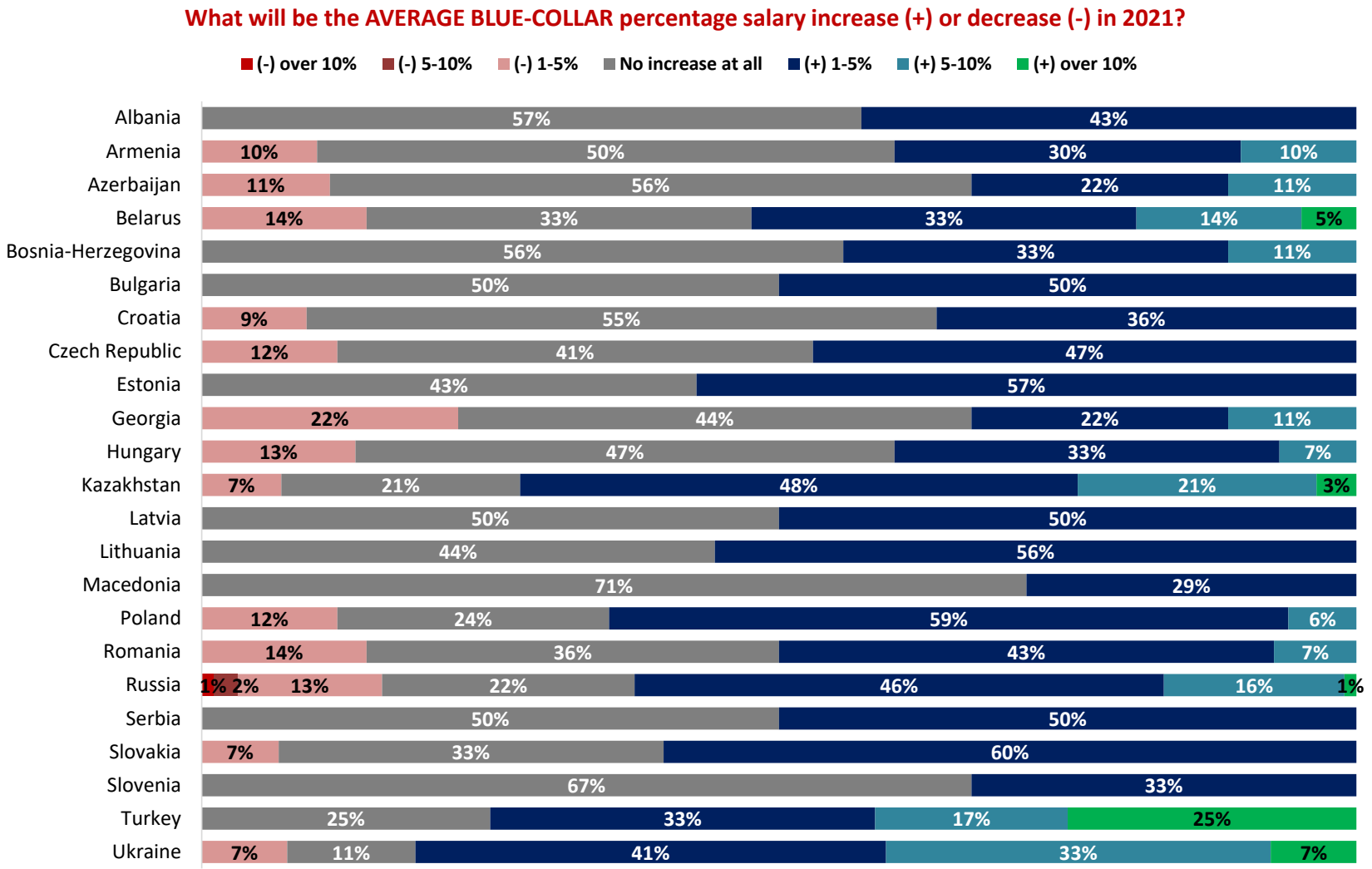

Executive comments (1)

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2 corporate stories on salaries

The CEE managing director of one US industrial company:

- He shared with me in May that his budget and salary review was fixed on 1 July. His plan was to raise average white-collar salaries across CEE by 2-3% and he thought then that this was generous.
- I confirmed this was generous, given that more companies were looking at zero overall increases or actual cuts, a 2-3% increase was indeed generous. Of course 12 months ago or even last January 2-3% would have been normal and typical.
- In fact when he took this proposal to global HQ it was rejected as the company is imposing a global freeze on salaries for the rest of 2020 and will initiate an emergency review of salaries in January 2021 (mid-budget for this company) to assess whether increases of 2-3% would be acceptable or whether the freeze would continue.
- This company, by the way, is one where the CEE region is outperforming all other growing currently at +3% while other regions decline by -25%.

Executive comments (2)

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The CEE managing director of a European industrial company commented thus on HR and salaries:

- We introduced salary increases of 4-5% on 1 April and these had been negotiated in February-March. These are obviously generous increases now and honestly I would not have been able to get these rises through in May or June or later. We just "got under the wire".
- I thought then and now though that we need to be generous to keep good people.
- Yes, increases are also spread and bonus/performance related and 4-5% is just the average.
- In CEE this summer there are still good opportunities in employment or good people. It is not entirely an employer's market.
- But when we review salaries again in April 2021 next year, "all bets are off". I don't know how Q3 and Q4 business will run this year.
- It means quite possibly there will be no salary increase on 1 April after the "generous" increase in 2020. Let's see.
- I think unemployment really will rise across all of Europe and this will make staff appreciate that they have a job. This will apply to at least 85-90% of our people.
- IT/Digital people are still in high demand and you need to increase their salaries by 5-10%.
- This comment applies to about 3-5% of my workforce and this will repeat in 2021.
- It's possible that in 2021 my Digital people get another 3-10% while everyone else gets zero.

Executive comments (3)
Your CFO can't have his/her cake and eat it! ☹

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- Salaries softer in 2020 and 2021: the CFO is smiling.
- CFOs globally and regionally have been complaining of "high" salary increases in the CEE region (and also but less so in Russia).
- In 2020 and 2021, more CFOs will be smiling ☺
- For the first time in 5-7-9 years, many of them will feel that they have control of the CEE salary process.
- Some operational managers agree with this.
- But there is a major caveat: when salaries were rising well in CEE, employees were seeing their nominal and real wages rise. As good consumers, they then went out to buy products and services making the CEE one of the best performing in the world.
- Lower pay levels from western companies and also from local companies will see nominal and real wages usually flat across the region in 2020 and 2021.
- This means consumption will be softer and sales less strong: you cannot have your cake and eat it. You don't get lower wages and higher sales/consumption. It's a trade off.
- For 10 years now as Boards and CFOs globally have introduced endless cuts and downsizing, too many CEOs forget the following simple truism: **Employees are customers!**

Executive comments (4)
Those horrible internal discussions.

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This below was the challenge for salaries in CEE: will it be again from 2022 or even in 2021?

The MD of one European pharma company commented at one of our London briefings (pre-Covid) that:

- "Our budget is 1 July and so from February through to 30 June, I spend 5 months of my life and work arguing, debating, begging, screaming, demanding for salary levels higher than the company's comfort zone.

- The background is that CEE is the best performing region in the world by far with consistent double-digit sales growth. Each year I ask for just above inflation increases for average staff at 3.0% to 4.8% but HQ insists on 1-2%. We argue and shout and then in mid-June compromise at about 2.5% to 3.0%. No one is happy: I am not, HQ is not and the staff are not. We are all emotionally drained in 6 months later we start the bloody process again. I've done this for 10 years! Argh".

Executive comments (5)

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The regional MD of one consumer company for CEE and a focus on SEE:

- We are postponing the start of our budget process from early September to early October so that we can have “one more month of reality” under our belt.
- One of my long-standing concerns is the brain drain and this is sharp in the Balkans and former Yugoslavia. It is very worrisome.
- We are trying to implement a “social deal”: we do not want to sack staff and we are trying to retain all our people and especially the talent ones. Of course if a low-performer wants to leave, I would not stop them.
- But generally we are stagnant in staff for now until late autumn/end of the year.
- I am looking at 1-2 key selected new hires and I think if I ask for them, I will get them.

The CEEMEA MD of another consumer products company:

- We are changing our thinking on salaries for 2021.
- I thought overall we would keep them flat next year but our internal consensus is that we must have good increases for talent but we also need a normal overall salary increase ranging around 1-3% with performance indicators kicking in to incentivise people.

Executive comments (6)
Good people can easily find jobs!

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- Several executives have commented that finding necessary staff is not easy in mid 2020.
- Many staff are worried about the outlook and don't want to move at all.
- Some talented people know they are in demand and therefore are willing to look at offers.
- Your own good people can tell you at short notice that they have gone so manage their salary but of course manage all the non-monetary aspects: training, career development, mentoring from senior colleagues, appreciation, good hands on HR management, good communication, special projects and assignments etc etc.
- The MD of one German engineering company noted: "We want 2 good sales guys and we are looking for weeks and its impossible in the centre of CEE!"
- Of course many companies want to retain or find "good sales guys". Anything which helps revenue growth is a positive!
- This was well summed up by the MD of a pharma company: "I have friends who are MDs in other pharma companies and consumer product companies, and we are all saying: The CEE market is still decent in terms of results. Good people are needed, and they can find a job quite easily. The idea that everyone is desperate to keep their current job and will accept anything from their employer is wrong".
- The MD of one IT advisory company noted correctly that: "If you keep salaries at zero in both 2020 and 2021, then as the economies and business rise, you will have stress factors and dissatisfied staff to cope with".

Executive comments (7)
The MD of a CEE executive search company

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- Many companies will make decisions on headcount quite soon in Q3 and this could increase unemployment. (Also government support programs globally and in CEE will decrease or finish in autumn with more upward pressure on unemployment).
- Some companies took some quick decisions in Q2 to downsize staff in CEE by 5-10% with the option for more.
- I think Czech banks and the financial sector will be chopping quite a lot.
- 2020 will look like a cleansing year.
- In 2019 hiring new staff was booming. Companies were hiring as a “reserve fund” to take staff on board “just in case”.
- “If we can get an IT developer for less than $50,000, then whow fantastic”.
- Now some companies are cutting this fat.
- We are seeing very mixed views from staff about work from home or from office and it’s seems split about 50-50.
- “Can your company function properly with 60-80% of staff working entirely or 50% of time from home?”
- Companies with a lot of junior staff will need more office time to mentor them and provide them with support.
- Yes, the CEE region for my clients is relatively one of he strongest and no surprise that Poland is heading the field. Many mid-size Polish companies can do very well domestically in their own “little” Polish market.

Remote work

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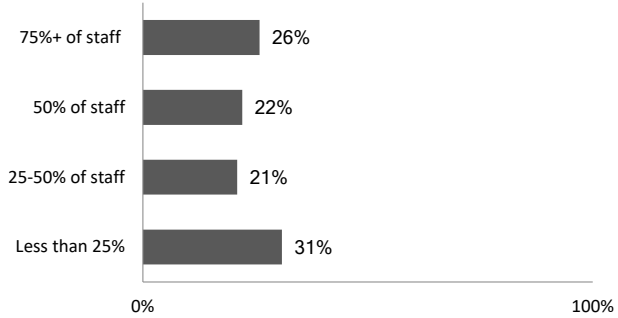
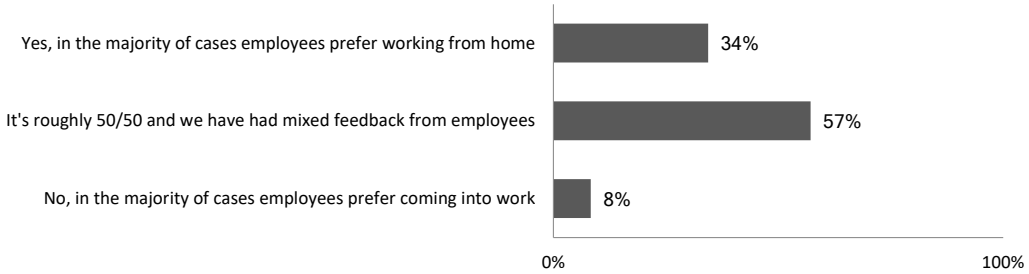
In 2021 we will have the following proportion of staff working from home for 25%+ of their time (this will vary by role, but overall):



From your experience, do employees actually prefer working from home?



- Companies in the CEE region traditionally offered fewer opportunities for remote work than those in Western Europe or North America.
- But much of this has changed. As one executive from the IT sector recently stated:
- “I know some customers who before Covid-19 did not think about remote work at all and in some cases even corporate e-mails could not be accessed outside the company. But all of that has changed now!”
- Half of the companies in our survey report that they will have over 50% of their workforce work remotely at least 25% of the time (that’s 1.25 days a week!).
- And the general feedback on remote work seems positive: 34% of executives report that their employees prefer working from home.
- Although 57% say that it has been a mixed story, only 8% are definitely against it.

Work from home and the future of the office (1)

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- If you are interested in this topic, please refer to or ask for our Special Report on this topic.
- The move to home office went well. Is the transfer back to office under way? Different in different countries?
- Several major IT companies that globally all staff work from home until October or December.
- Siemens have announced that 140,000 will work from home office for 2-3 days per week in the future.
- HR and work from home will be under constant change and review for the next 12-18 months. More staff will be working partly from home.
- Our survey results below show that 50% of companies expect to have about 50% of their staff working from home for 1 day to 2.5 days per week.
- **But the key factor is money and cost: if the company CFO feels that work from home is cost-effective and cheaper than office work, then he/she will advocate it strongly. If not, then not.**
- Different roles lend themselves to home-office but sales and marketing need to be out and about more.
- Many "dinosaur" MDs realise and accept that work from home now works. Prejudices against work from home have generally gone. "I was against work from home for decades. If you want to work in our company, then come tot the bloody office! But in 5-6 weeks I have been transformed. I can see how people work effectively from home and this will be a part of our employment package in the future".
- If any MDs and HR directors were "little Stalins" in the past (not you! ☺), then the command and control model of HR management has also largely evaporated: work from home requires "softer" management techniques.
- But some HR directors report that some managers are seeking to control staff too tightly while they are at home with constant (and perhaps excessive) monitoring by Zoom!

Work from home and the future of the office (2)

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- Managers and HR Directors will need to reshape their business model towards staff and learn or upgrade skills to manage remote or mobile staff.
- There is a view that staff working from home tend to work even harder than they do in the office.
- Those who performed well in the office now perform well from home, while those who were mediocre in the office remain mediocre at home!
- "We will have staff rotating in the office and some can work 30% or 50% or 75% from home. One potential issue is that I think I need to have the low performers under my guardian eye in the office. The downside is then that the office will be filled only with low performers ! ☺ And everyone would quickly work this out!"
- One obvious huge benefit of home office is that personal and surely corporate productivity is enhanced because staff do not waste 1-2-3 hours commuting in traffic.
- Some staff report sleeping better when they work from home!
- But the enjoyment of work from home depends if your home is a nice chateau on the edge of the capital city or a 40 sq. metre apartment shred with spouse and two teenager boys!
- The work-load for GMs and MDs is very heavy at the moment: making sure all the new arrangements function while at the same time managing business issues in the depths of a brutal business cycle for most companies.
- One complaint of those who work from home is that there is no longer a clear dividing line between work and home and this makes delineation more complex and work/life balance the personal responsibility of the staff member.

Work from home and the future of the office (3)

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- As one commentator noted: “The office gives routine, structure, amusement, purpose, many friends and a refuge in times of trouble”.
- Several studies argue that: “Work and the office gives life meaning to hundreds of millions of people”.
- The 1980s were the “golden age” of the office: pre-technology, pre-standardisation, pre-health and safety. As Lucy Kellaway from the Financial Times reports: “Offices were full of shouting, brawling and bottom-pinching”. (and the latter activity is now no longer politically correct or even legal in most jurisdictions for the better).
- Offices are also funny places with lots of jokes and humour and companionship; remember those 23,654 jokes about the boss!? Or the client, or the head of marketing or the head of….
- To jettison office life will be a huge social, personal and psychological shift for many people and hence why the office as a full option will remain for many or will be part in and part out.
- Also in the office people understand your work problems and bureaucratic in-fighting and technical aspects of your work whereas your spouse and children actually don’t care at all ! ☺
- The office also provides random and useful inter-action: serendipity.
- Work from home tends to become purely bi-modal: a series of video-conferences and then reactive computer/e-mail work. It’s harder to brain-storm on Zoom.
- On a lighter note: The office has served over 150 years as a very efficient marriage bureau and while the numbers vary, about 20-25% of spouses are found in the office with the internet figure now coming close. One survey suggests that 70% of extra-marital affairs begin in the office.
- So there is a lot going on in the office as well as work! ☺

Emergency measures for the next 6-12 months

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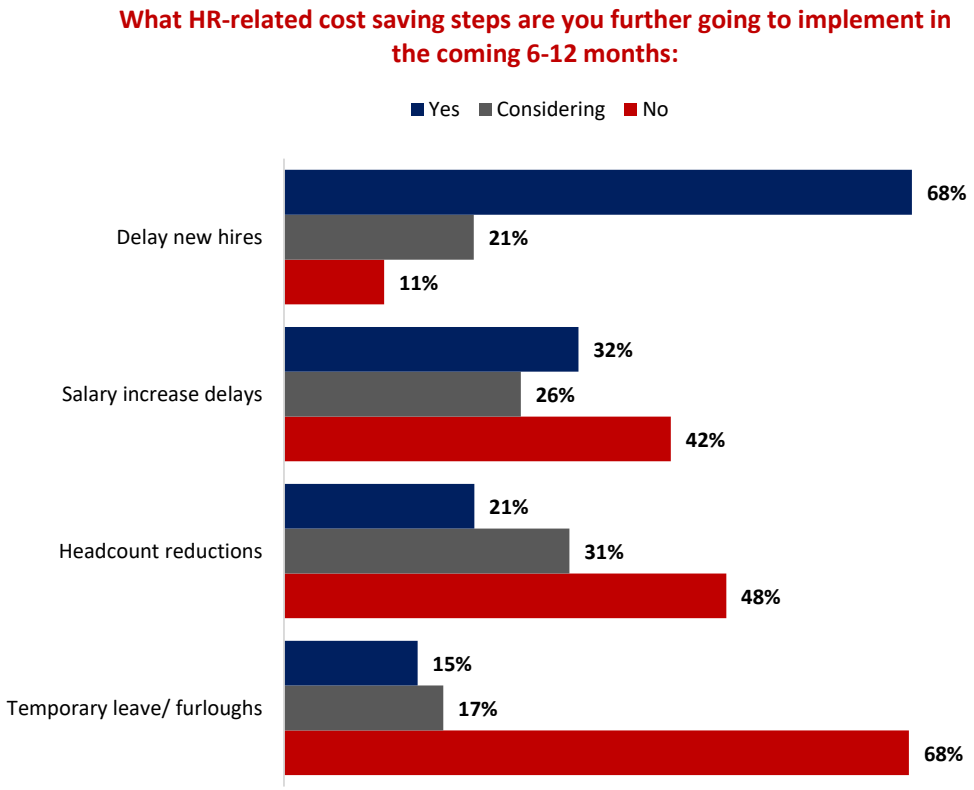

- Our previous surveys looked at the number of companies that took "emergency measures" in the midst of spring-early summer of 2020 and during that time temporary leaves/furloughs where most commonly implemented .
- **For the chart on the left a different perspective is taken: now that the situation has (somewhat) normalized again, what will most companies do in the coming 6-12 months?**
- By far the most common answer is that companies will delay new hires and 68% say that they will do this, 21% are considering it and only 11% will not delay new hires.
- 32% of executives will definitely delay salary increases, while 26% are considering it and 42% will not delay salary increases.
- 21% are set to decrease their headcount and that number "feels about right" and matches with what we hear from executives anecdotally.
- All in all these numbers imply a difficult time ahead for the labour market, but the numbers are still better than anticipated only a few months ago.

Allocation of resources towards HR and staff fixation on salaries for 2020

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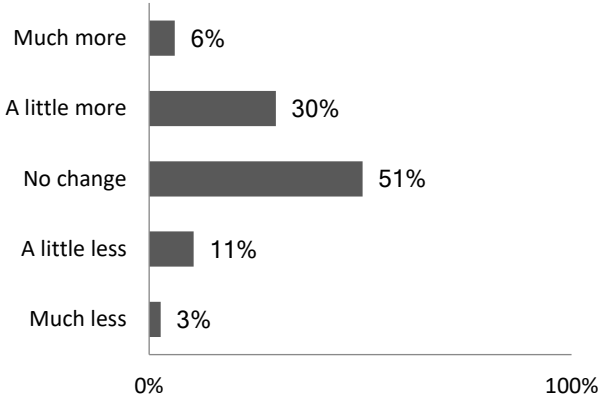
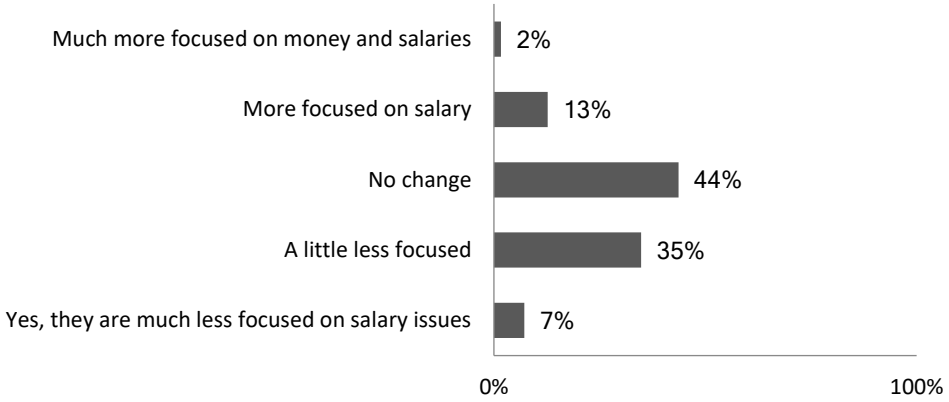
In the crisis years 2020/2021, will you devote more resources to staff/HR related issues than 1-2 years ago?



As 2020 is a crisis year, are candidates and current staff less fixated with their pure salary levels and bonuses:



Bonuses and variable pay

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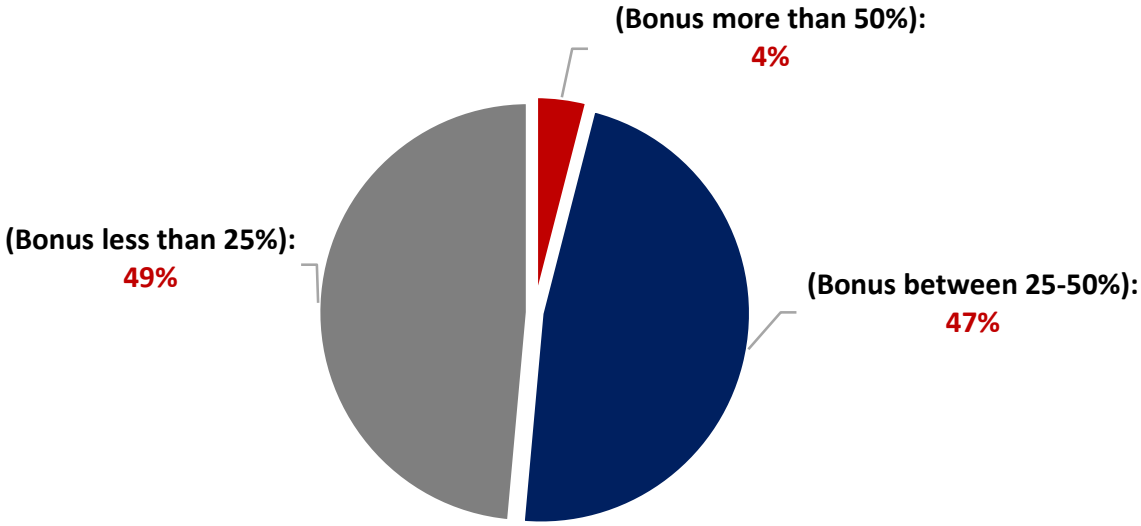
For roles where bonuses and performance-related pay apply, what % of basic salary value is performance-bonus related?



- Performance related pay (such as bonuses) typically ranges up to 50% of the base salary.
- Around 49% of companies report that their average performance related pay is less than 25% of base pay, while the other half (47%) reports a number between 25-50% of base pay.

Voluntary turnover and quality of staff

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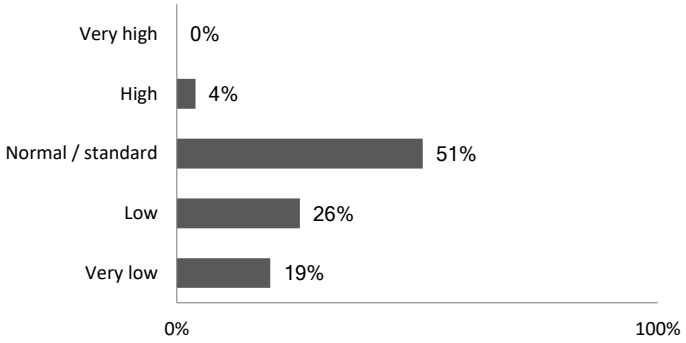
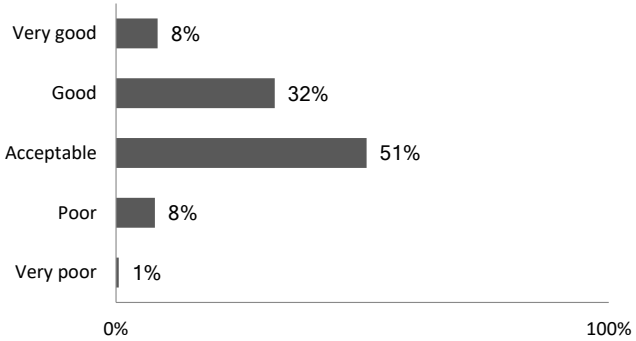
The voluntary turnover levels of staff for our company in 2020 will be:



The quality of staff overall in terms of skills and education levels in the current candidate pool is:

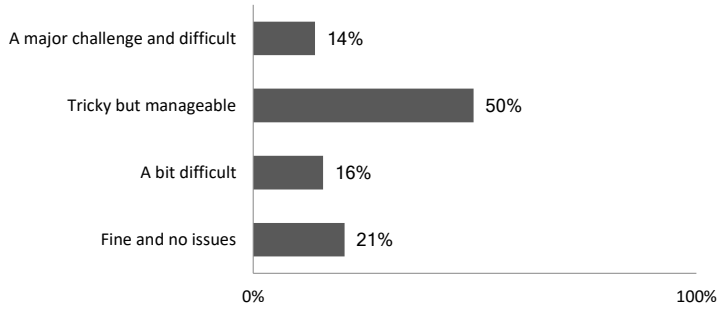


- As to be expected during a crisis year voluntary turnover levels for 2020 are down: 26% expect “low” and 19% “very low” levels of turnover this year.
- 51% think that turnover levels will be roughly standard/normal.
- Regarding the quality of the currently available talent pool for the CEE region, the majority are satisfied with the available talent: 51% say things are “acceptable”, 32% think talent is “good” and 8% say “very good”.
- Only 9% thing that the labour pool is either poor or very poor.

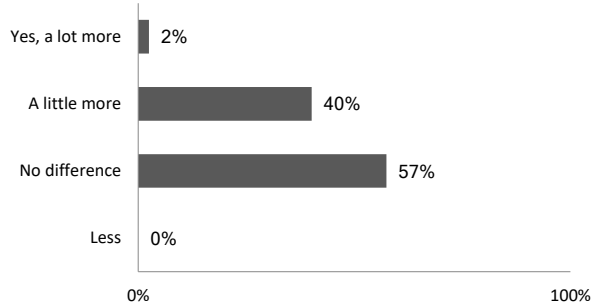
Digital Business and finding talent

CEER CEE-RUSSIA Business Group

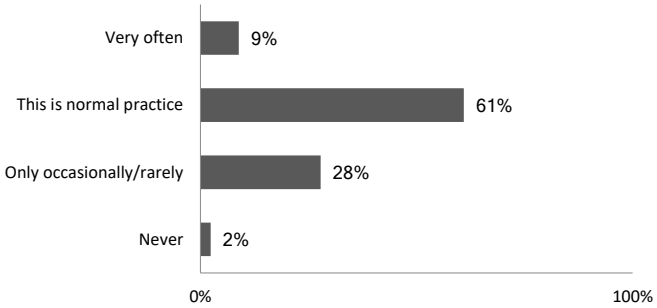
Acquiring new staff to operate our Digital Business is:



We pay digital staff more than those working in traditional departments doing the same kind of work (the same level of work):



We are asking staff to work both in the traditional business and also to mix into the Digital Business as well at the same time:



- 21% of executives have no issues finding digital talent.
- But most struggle to at least some extend to find the right talent: 16% find it a bit difficult, 50% tricky but manageable and 14% a major challenge.
- This is not surprising, and executives frequently complain about the tight labour for digital talent.
- Regarding pay for digital staff, over 40% pay a premium for their digital staff, while 57% do not.
- The clue here is that companies typically find digital talent within their companies and then train/build them up: this initially will not lead to large leaps in salary.

Blue collar shortages and trends for expats in CIS

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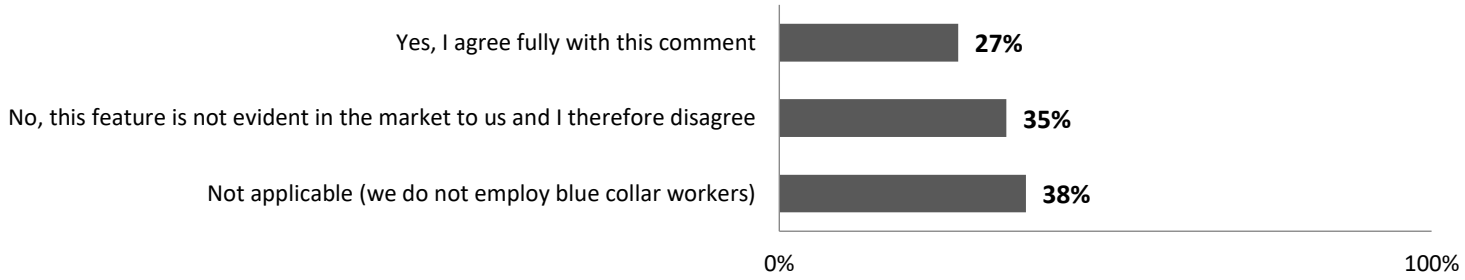
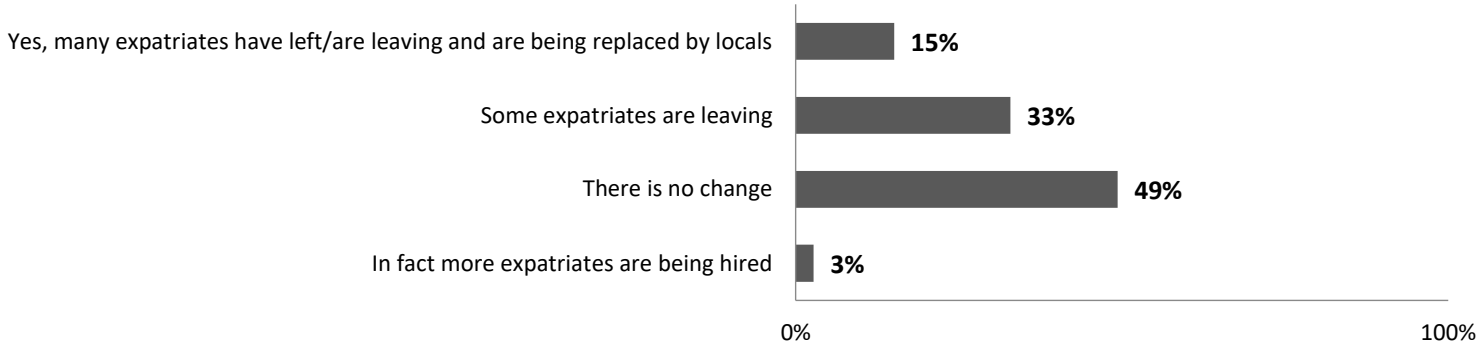
(Question for those operating in Russia/CIS): We are hearing comments that acquiring blue-collar workers in Russia and other CIS countries is increasingly difficult and this leads to shortages and increases in pay demands for mid-lower skilled blue collar



(Question for those operating in Russia/CIS): At General Manager and senior levels, are you seeing changes in the numbers of Western expatriates?



The hiring process for candidates and its success rate

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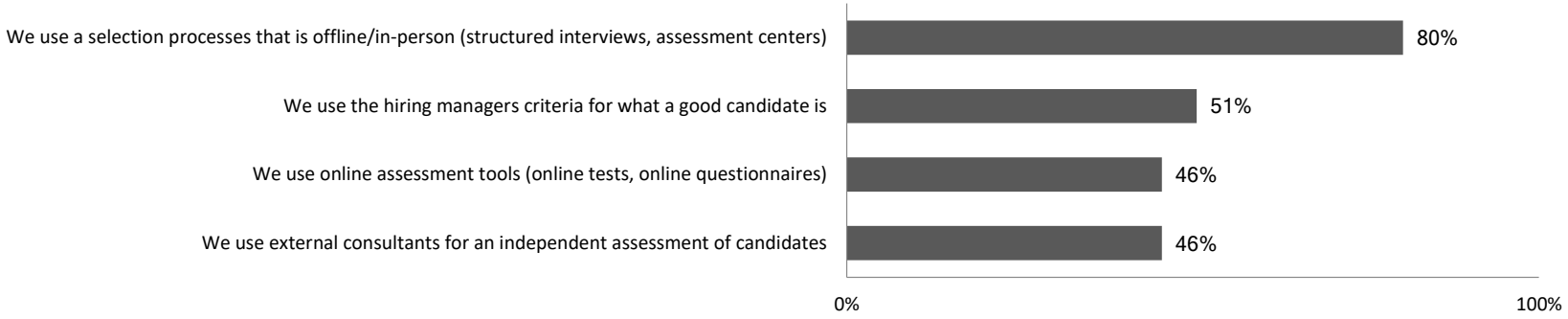
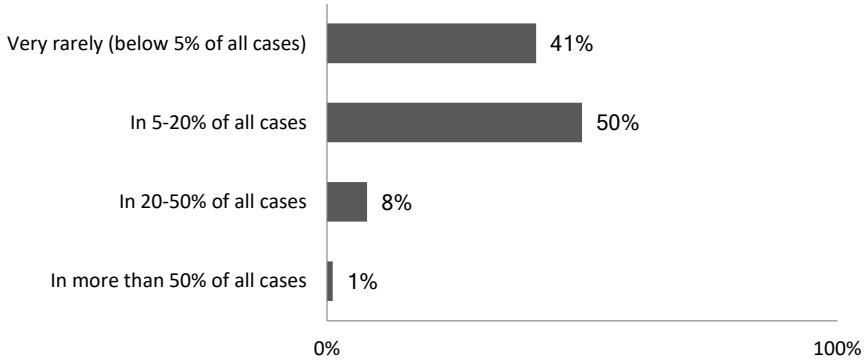
When hiring internally or externally for a position, what tools do you use to find the right candidate? (please select all that may apply)



How often does a newly hired or newly promoted candidate not perform as expected or does not show the expected skills/competencies?



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