



# HR budgets and plans 2017

**March 2017**

KPMG in Russia and the CIS

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# Foreword

Welcome to our fourth annual KPMG survey on HR budgets and plans!

The primary goal of this survey is to identify and analyse the main actions the HR departments of different companies are currently taking. We are thus providing an overview of the market as a whole and of trends in different segments.

This year's findings are more optimistic than the last two years' results. Overall, there are many positive HR trends: companies are trying to retain personnel, engage them, and are working to create attractive HR brands. This year, more respondents than in previous years reported their intention to increase headcount, salaries and HR budgets.

The results of our survey suggest that, generally speaking, most companies have adapted to the new economic conditions in which we are living.

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



**Alevtina Borisova**

Partner, People Services, Tax and Legal



# About the survey



## »» **Timeframe**

Data were collected between 30 January and 15 February 2017.



## »» **Participants**

In total, 134 Russian and foreign companies from various industries took part in the survey. We analysed the entire sample, and each industry separately. Where there were sufficient data, we were able to identify significant industry trends. This was possible for the following sectors: telecommunications and IT, banking and finance, FMCG, pharmaceuticals and healthcare, retail, construction, and real estate.

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



## »» **Methodology**

Information was collected through an on-line questionnaire. The information in this final report represents a statistical summary. This report does not contain the individual data on how a specific respondent answered.

The results were compared with the "HR Budgets and Plans for 2015" and "HR Budgets and Plans for 2016" surveys.



# Key findings



As in previous years, improving personnel efficiency remains the top HR management priority for most companies.

Optimising HR costs, traditionally a top three priority, lost ground in 2017, having been overtaken by measures to improve personnel engagement and retention.



Compared to last year, the percentage of companies planning to increase headcount has grown (41% in 2017 compared to only 25% in 2016).



77% of respondents have already indexed or are planning to index wages. Out of these, the majority (73%) have indexed or are planning indexation by 6–10%.



For the second year in a row, we can see a positive trend towards increasing HR budgets. Most companies are planning to increase their budgets by 6–10%.



55% of respondents have a positive outlook on the current year. This is different from previous years, when participants either found it difficult to make a forecast or were pessimistic.



Approximately half of the respondents are planning to keep their current bonus plans and pay out bonuses to their employees. However, approximately a quarter intend to review KPIs for their top management, and about a third are planning to implement or review KPIs for non-management staff, middle management, and sales staff.

# Changing HR priorities in 2017

## Personnel efficiency

#1

Our survey results show that, for the fourth year in a row, improving personnel efficiency remains the top priority for most companies. This was singled out as most important by both Russian and foreign companies working across a broad spectrum of industries. Half of the participants also plan to review their organisational structures and analyse their business processes to optimise costs.

**Improving personnel efficiency remains the top priority for most companies.**



## Personnel engagement



For the second year in a row, personnel engagement is attracting attention. As last year, this measure came second on the list of priorities, selected by 68% of the general sample, though by 92% in Pharmaceutical, 79% in Retail, and 75% in FMCG. It is likely that interest in personnel engagement will continue to grow, as personnel engagement influences efficiency and motivation, and these have a significant impact on the overall efficiency and profitability of a company.

## Personnel costs optimisation



Optimising personnel costs is still a priority for HR management, though compared with last year its importance has decreased. In 2016, 72% of participants marked this as a priority; in 2017, this fell to only 62%. However, for the Automotive (82%) and Pharmaceutical (83%) industries, as well as for smaller companies with less than 500 employees (62%), the optimisation of personnel costs rated as a higher priority than personnel engagement and retention.

## Personnel retention



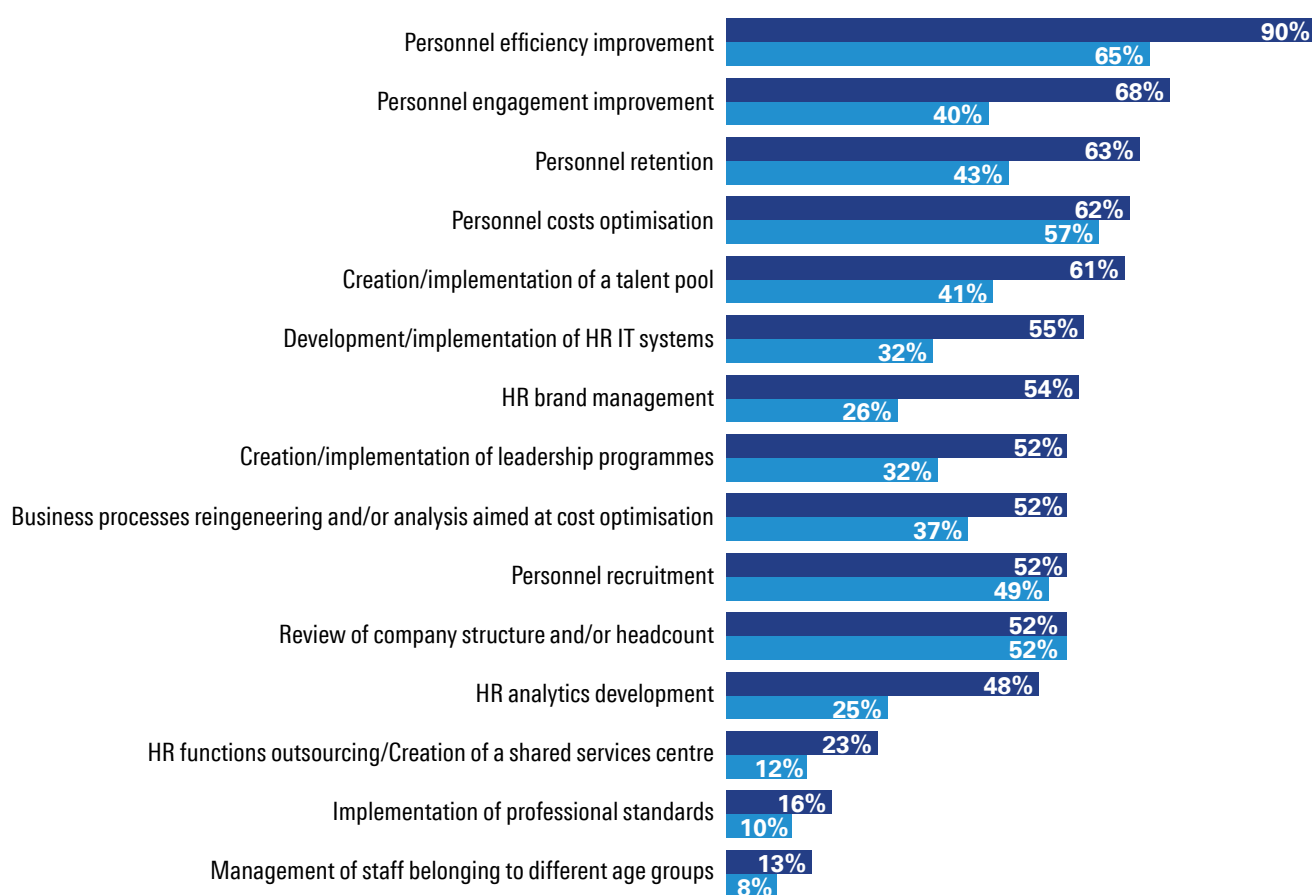
Compared with last year, more companies are paying attention to personnel retention (63%), which comes third on the list of priorities. Personnel retention is especially important in the IT (83%), FMCG (75%), and Banking/Financial Services (71%) industries.

## Talent management



Talent management is an important issue for many companies: 61% of participants are planning to create or implement talent pools, with 52% reporting that the creation or implementation of leadership programmes is a priority. Talent management ranked as particularly important in Pharmaceutical companies: 92% of respondents intend to create or implement a leadership programme, while 83% will create / implement talent pools.

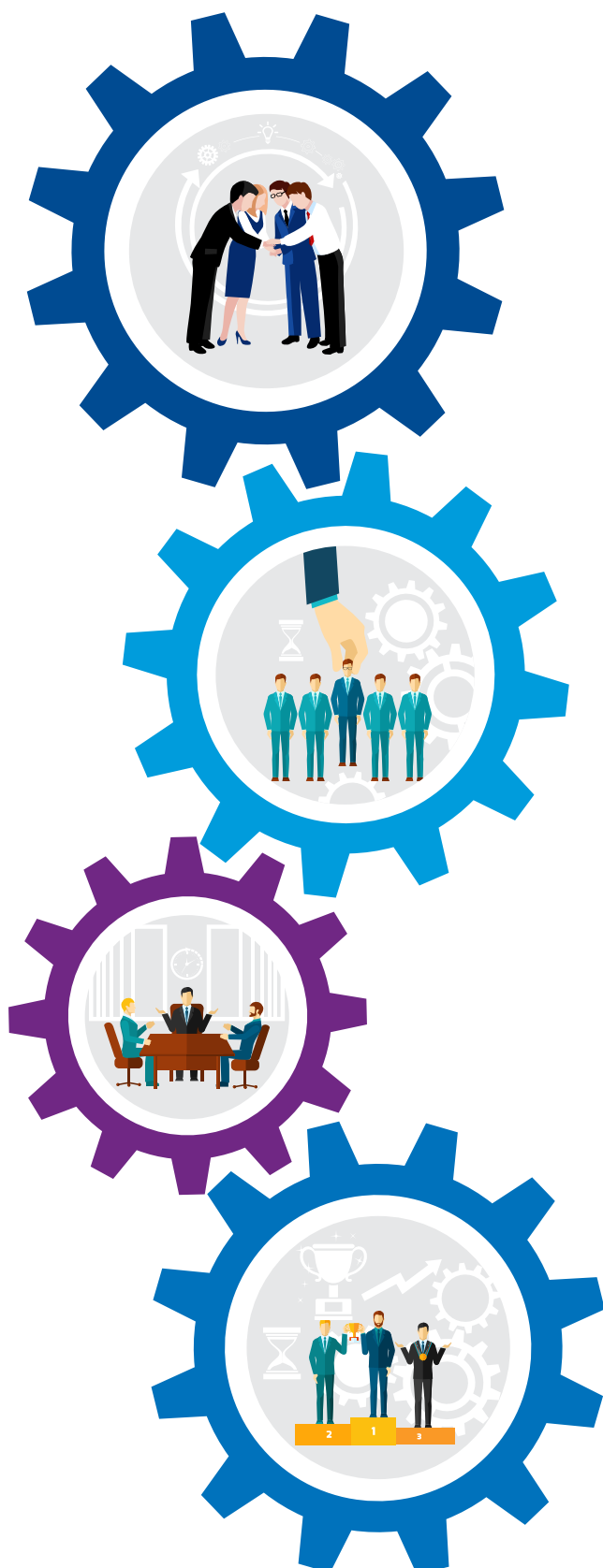
### Changes in HR priorities in 2017 compared with 2016



The 2016 priorities displayed in the diagram are actual priorities for the previous year, as reported by 2017 participants

● Priorities for 2017    ● Priorities for 2016

Source: KPMG analysis.



### Personnel recruitment

The IT and Pharmaceutical sectors also mention recruitment as one of their top three priorities (75% and 83%, respectively). Companies in these industries report plans to increase headcount more often than in other sectors.



### HR analytics development

Compared with 2016, the popularity of HR analytics has doubled. Specifically, FMCG (67%) and Pharmaceutical (75%) respondents placed HR analytics in their top three priorities for 2017.



### HR brand management

The attention paid to HR brand management has also doubled since last year. 75% of participants in the Pharmaceutical industry selected this as a priority.



### Development/implementation of HR IT systems

55% of survey respondents reported that implementing or developing new HR IT software has increased as a priority in 2017. In 2016, only 32% selected this option. The development and implementation of software is especially relevant for respondents in the Banking/Financial Services (71%) and Retail (64%) industries.



### Implementation of professional standards

It is a legal requirement<sup>1</sup> that companies implement professional standards for some roles. We thus forecast that this measure is going to increase in popularity over the next few years. At present, 16% of participants are already reporting this is a priority for them.

<sup>1</sup> Article 195.3 of the Labour Code of the Russian Federation, Decree of the Government of the Russian Federation of 27 June 2016, No. 584.







# Headcount changes

**41%** of companies are planning to increase their headcounts.



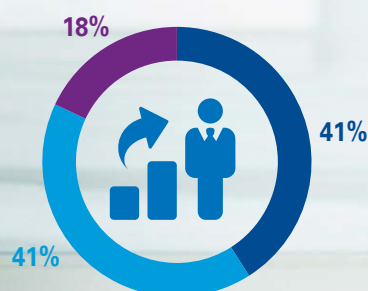
Our survey displayed a positive trend towards companies increasing their headcounts. More companies are planning to increase their headcount compared with last year (41% in 2017 but only 25% in 2016), although only by 6–10%.

Logically, the percentage of companies intending to reduce headcount is decreasing (18% in 2017 from 29% in 2016).

41% of participants had no plans to change their headcount.

Plans to increase headcount are more common among medium and large companies employing 1000–20,000 people. IT companies and Pharmaceutical companies are most active in increasing headcount (50% of participants in these sectors).

## Headcount change plans in 2017 compared with 2016



- Increase
- Remain unchanged
- Decrease

Source: KPMG analysis.

## INDUSTRY TRENDS:



**FMCG: decrease in headcount (42%)**



**Banking/Financial Services:**

- no headcount changes (50%);
- increase in headcount (39%).



**Automotive industry: no headcount change (64%).**

Headcount decreases are being considered more among FMCG companies: 42% are planning to decrease employee numbers by 6-10%. While most Banking/Financial Service sector respondents planned to cut staff numbers in 2016, their outlook for 2017 is more optimistic, with the majority planning either headcount increases (39%) or no changes (50%). 64% of Automotive industry participants have no plans for changes.

Russian companies reported plans to increase headcount more often than foreign ones: 57% of Russian companies that participated in the survey predicted an increase in the number of their employees in 2017; while half of foreign companies are planning to leave their headcount unchanged.

Replacement of 'inefficient' employees has fallen as a priority: only 37% of participants plan this in 2017, compared to 43% last year.

The percentage of respondents planning to freeze recruitment continues to decrease: this year, only 10% planned a freeze, down from 31% in 2015 and 16% in 2016.

The Automotive sector had the highest percentage of firms planning a recruitment freeze at 36%. In addition, foreign companies are planning this more than Russian ones (16% of foreign firms against 6% of Russian). Interestingly, 50% of firms in the IT sector are allowing staff to perform distance work, and 33% are reducing the numbers of staff they recruit in Moscow, finding people for the same positions in other regions.

## Planned activities regarding personnel in 2017



Percentages may exceed 100% as multiple answers were allowed to this question.

Source: KPMG analysis.

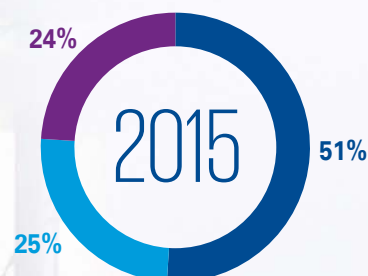
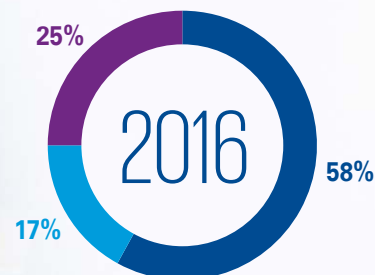
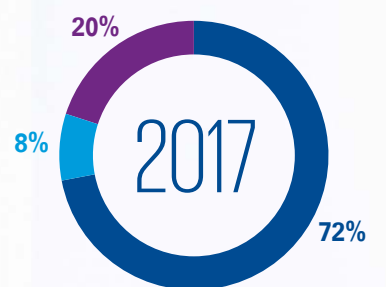
# Payroll fund changes and indexation

72% 

**of participants are planning to increase their payroll funds.**

The results of the survey suggest that, for the third year in a row, payroll funds are increasing. 72% of participants stated that they are planning to increase their payroll funds this year, while only 8% are planning to reduce them.

## Respondent plans regarding payroll funds in 2015–2017



- Increase
- Decrease
- Remain unchanged

Source: KPMG analysis.



## INDUSTRY TRENDS:



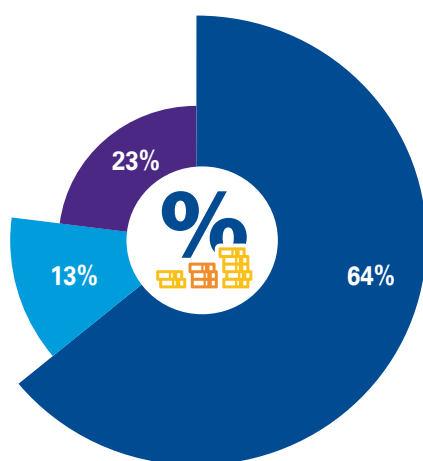
**Companies in the Retail (86%), Pharmaceutical (83%), and Banking/Financial Services (79%) industries are most likely to increase their salary budgets.**

Companies in the Retail (86%), Pharmaceutical (83%), and Banking/Financial Services (79%) industries are most likely to increase their salary budgets.

Among other factors, payroll fund increases are linked to wage indexation plans. 77% of participants reported that they have already indexed wages, or are soon intending to. Compared with last year, the percentage of companies not intending to index wages decreased from 29% to 23%.

It is important to note that a significantly larger percentage of Russian companies than foreign ones are not intending to index wages (39% and 6%, respectively). The percentage of companies planning indexations in the Banking/Financial Services sector is also below average: over a third of participants in this industry (39%) reported that they do not intend to index wages.

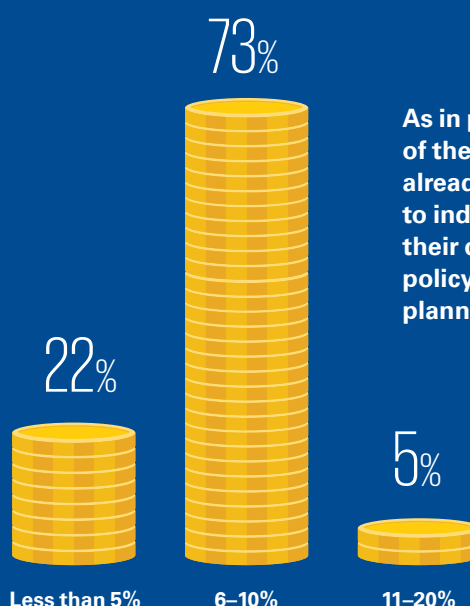
## Wage indexation plans in 2017



- Planning to index wages according to remuneration policy
- Already indexed
- Not planning to index wages

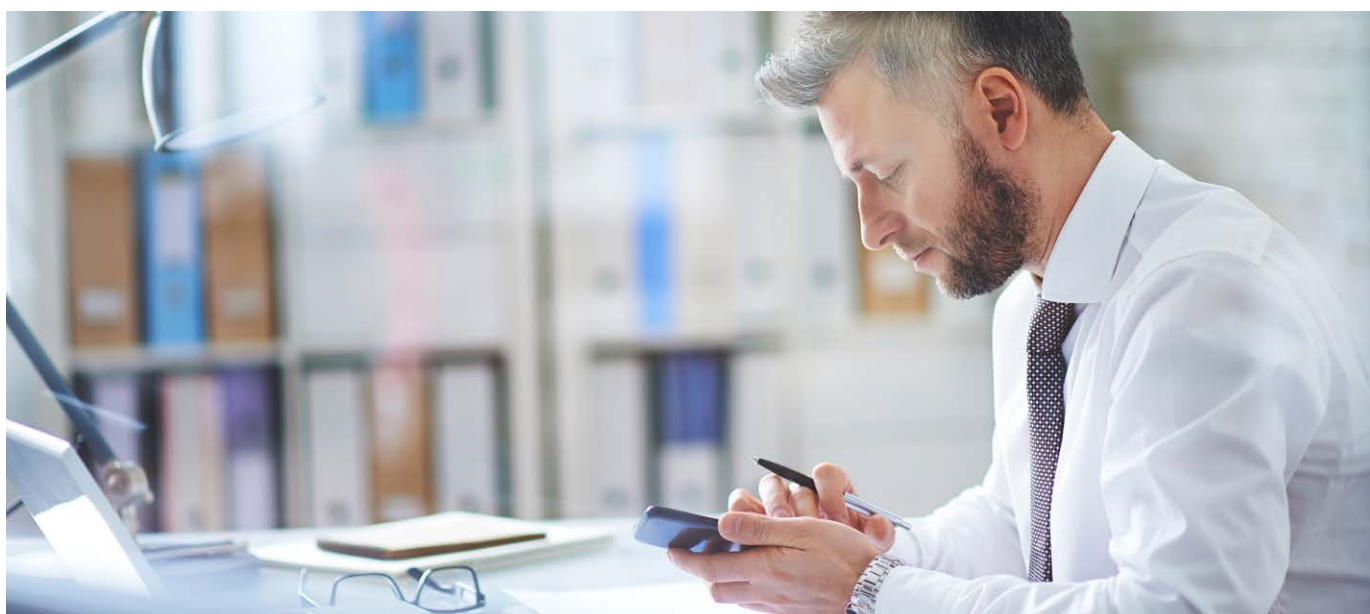
Source: KPMG analysis.

## Wage indexation amount (%) in 2017



As in previous years, most (73%) of the participants who have already indexed or are planning to index wages according to their current remuneration policy have done, or are planning to do so, by 6-10%.

Source: KPMG analysis.



# Bonus payments in 2017

**Around half of respondents have no plans to change their bonus policies and intend to pay out bonuses to their employees.**



Around half of respondents have no plans to change their bonus policies and intend to pay out bonuses to their employees. Approximately a quarter of respondents are planning reviews of KPIs for top management, and about a third are considering the implementation or review of KPI systems for non-management staff, middle management, and sales staff. The survey highlighted retail companies as most likely to review their approaches to bonus payment – only 25% stated that they have no plans to review bonuses.

Some respondents indicated that they are considering increases to the variable portion of salary when reviewing their remuneration systems. This mostly applies to sales staff, according to the 16% of companies that have sales departments. In terms of industry differences, IT companies are more likely to be considering increases to the variable portion of salary: 42% are planning changes for their non-management staff, and about a quarter are considering changes for sales staff and middle management.

## INDUSTRY TRENDS:

**IT companies are more likely to be considering increases to the variable portion of salary.**



Russian companies are more likely than foreign to be reviewing the structure of their remuneration systems to increase the variable portion. Almost a quarter are planning changes for their sales staff, and between 10% and 16% are planning changes for other staff categories.

The implementation or review of long-term incentive plans has taken a backseat: only a few respondents are considering changes in this area for some of their staff categories.

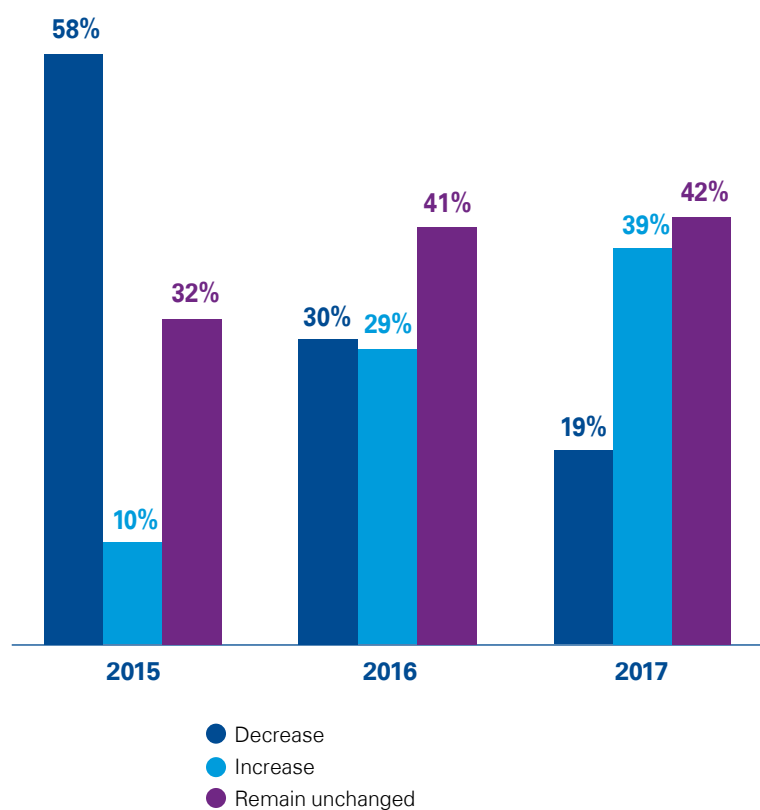
# HR budget changes



**There is a trend towards increasing HR budgets this year.**

In comparison with the previous year, there is a trend towards increasing HR budgets: for the first time in the last three years, the percentage of companies ready to increase their budgets has exceeded the percentage of companies cutting their HR expenses (39% against 19%, respectively). As in 2016, more than 40% of respondents have no plans to change their HR budgets.

## Comparing plans to change HR budgets in 2015–2017



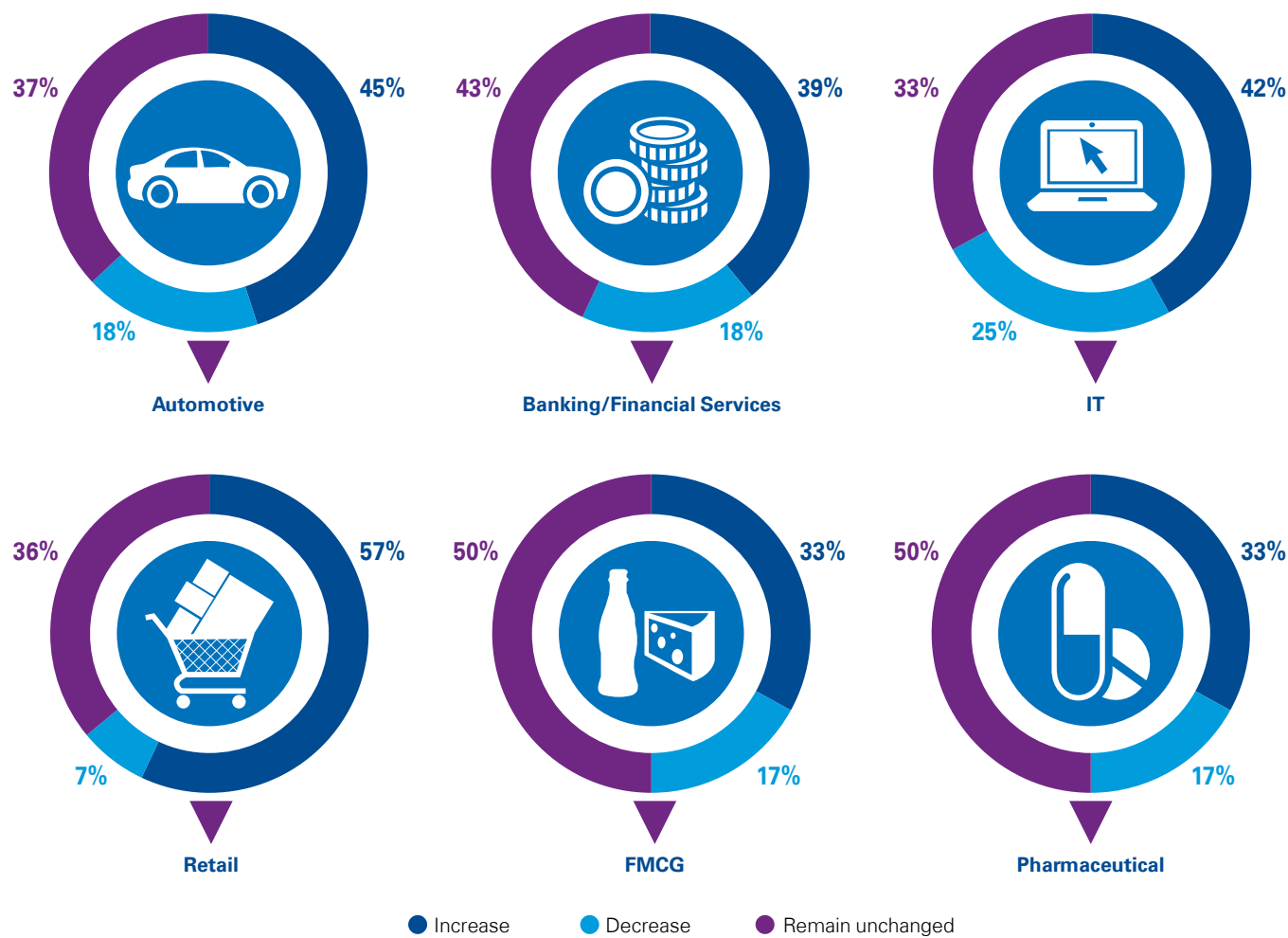
Source: KPMG analysis.

The majority of companies are considering budget changes within a 10% range.

It is worth noting that, in 2017, Russian companies appear more likely (52%) to increase their HR expenses than foreign ones (30%).



Plans for HR budget changes in different industries



Source: KPMG analysis.

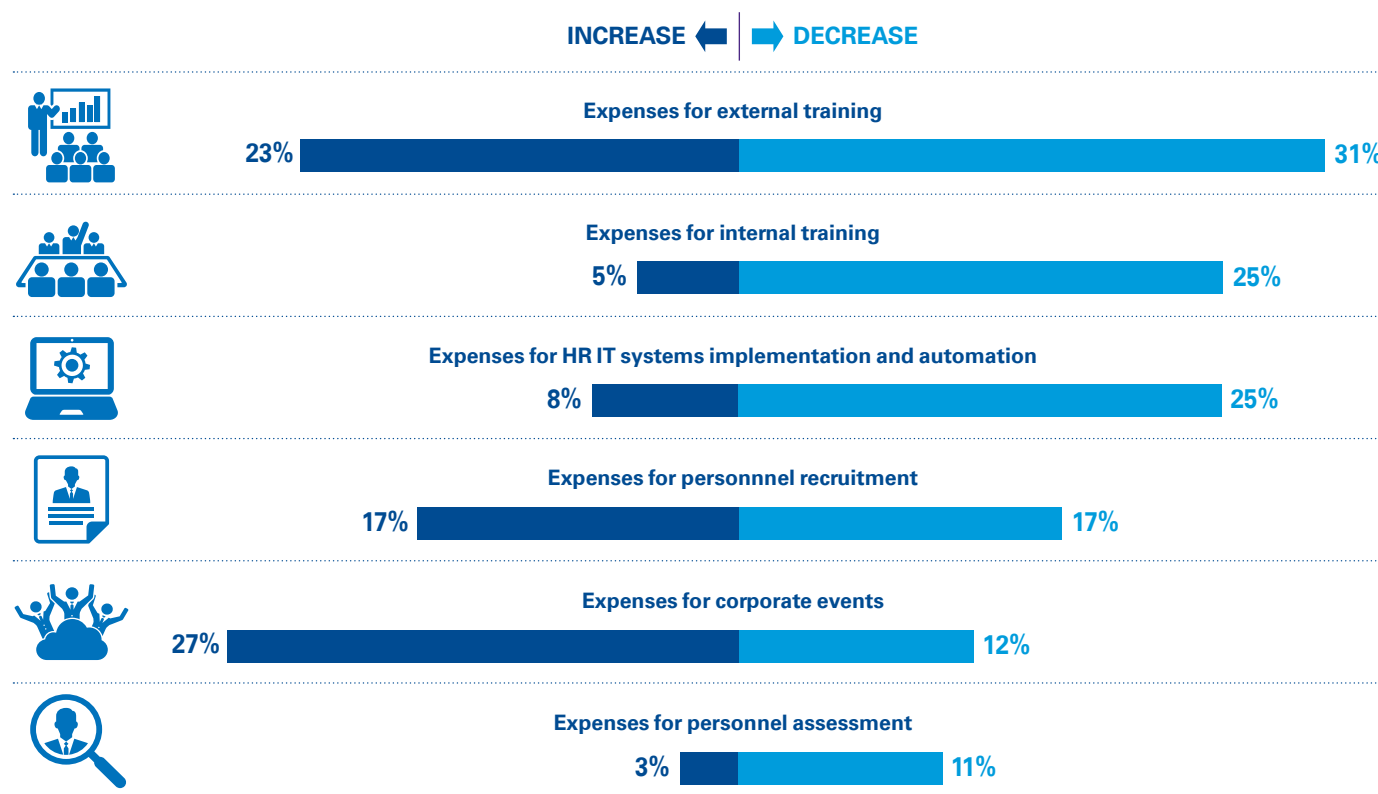


The top three priorities for increasing HR budgets are:

- 31% of respondents plan to increase their external training expenses
- 25% intend to increase their budgets for implementing HR IT systems
- 25% plan to increase internal training expenses.

However, when it comes to external training, there is no consensus. 31% of companies are considering increasing their external learning budgets, while 23% of respondents indicated that, as in previous years, expenses for external training are decreasing. This division is also visible for recruitment expenses in 2017.

## Changes in HR budget items in 2017



Source: KPMG analysis.




**33% of IT companies are considering significant increases to their recruitment expenses.**

Russian companies are planning increases in their recruitment expenses, according to 26% of respondents.

Even though general trends are quite similar within industries, some differences still exist. 33% of IT companies are considering significant increases to their recruitment expenses: this makes sense, as 50% of respondents in the IT sector are planning to increase their

headcount in 2017. Moreover, 33% of respondents in Pharmaceuticals, and 27% of companies in the Automotive industries, are considering increasing their personnel assessment expenses. Retail companies are most likely to increase their spending on implementing HR IT systems (71%), while respondents in the Banking/ Financial Services sector are least likely to do this (14%).

# Automation of HR processes in 2017

60% 

**of respondents are considering new HR automation software.**

Most companies in the IT (83%) and Retail (71%) sectors are planning to automate HR-processes. It is worth noting that, in 2017, Russian companies (70%) are more likely than foreign ones (53%) to automate. This is a change to 2016's results, when automation plans between Russian and foreign companies were fairly similar. Companies with headcounts between 1000 and 5000 employees are most likely to automate their HR functions this year, according to the survey results.

Most companies today have already automated their payroll calculations, staff records, and timesheets. However, HR analytics and self-service functions (e.g. employee personal accounts on the company's corporate website) show lower levels of automation: currently, only 19% of respondents have automated HR analytics, and only 15% have automated self-service functions, while 47% of respondents have no plans at all to consider self-service automation. There is a trend in companies paying more attention to HR analytics each year, with 34% of respondents considering automating these processes in 2017. Other popular automation programmes for 2017 include measuring staff performance indicators (23%) and recruitment (20%).

## Popular automation functions for 2017:



— HR analytics

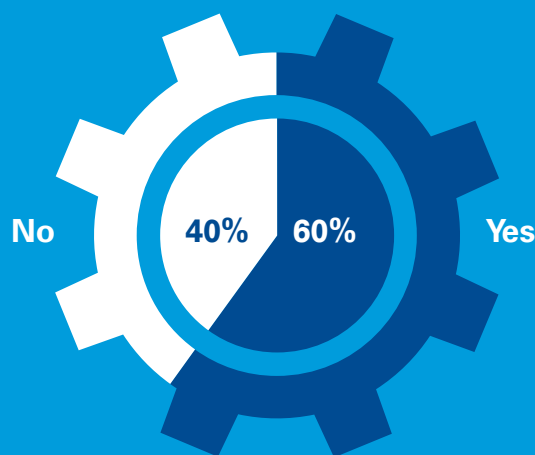


— measuring staff performance indicators



— recruitment

## Plans to implement and/or develop new software for automating HR processes in 2017



Source: KPMG analysis.

# HR shared services centres and outsourcing plans in 2017

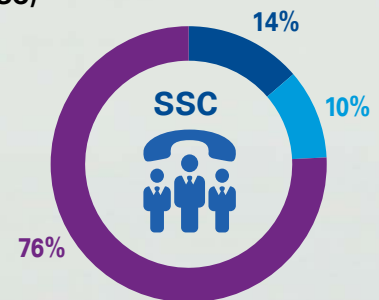
**Most companies have no intention to create an HR shared services centre (SSC), and no plans to outsource their HR functions.**



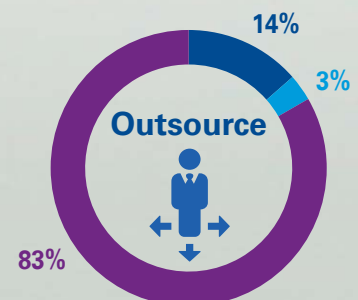
Our survey revealed that most companies have no intention to create an HR shared services centre (SSC) (76%), and no plans to outsource their HR functions or processes this year (83%). However, 14% of respondents already have an SSC, and 10% are planning to create one. Among this 10%, 64% have already created or are planning to create an HR SSC to keep staff records, 39% plan an SSC for payroll calculation, and 21% desire an SSC for recruitment and compensation and benefits.

Outsourcing tends to be less popular this year: 14% of respondents have already outsourced all or some of their HR functions, while 3% have plans to do this. The top three outsourced functions are staff records, salary calculations, personnel selection, and migration support for foreign employees.

## Plans for outsourcing HR functions or creating a shared services centre (SSC)



- We already have one
- Planning to create one over the next few years
- Not planning to create one



- Already outsourcing some/all functions
- Planning to outsource some/all functions over the next few years
- Not planning to outsource any functions

Source: KPMG analysis.

# Outlook for 2017

## The majority of respondents are optimistic about 2017.



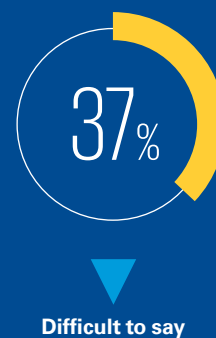
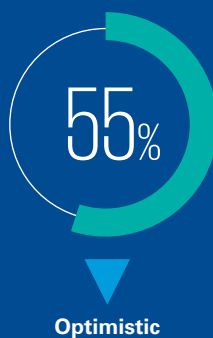
Company forecasts for 2017 differ significantly from previous years. The majority of respondents are optimistic about 2017. In 2016, only 22% of respondents were positive; this year, the number stands at 55%.

The number of companies giving pessimistic forecasts has also significantly decreased: only 8% of respondents are pessimistic about 2017; last year, that number stood at 38%.

Meanwhile, the number of respondents assessing no significant positive or negative change remains the same as 2016, at 37%.

As in the previous year, Russian companies are more likely to be positive about 2017 than foreign companies. Foreign firms generally remain neither pessimistic nor optimistic in their forecasts. When comparing different industries, Retail companies are most likely to be optimistic about the upcoming year (79%).

### Participant outlooks for 2017



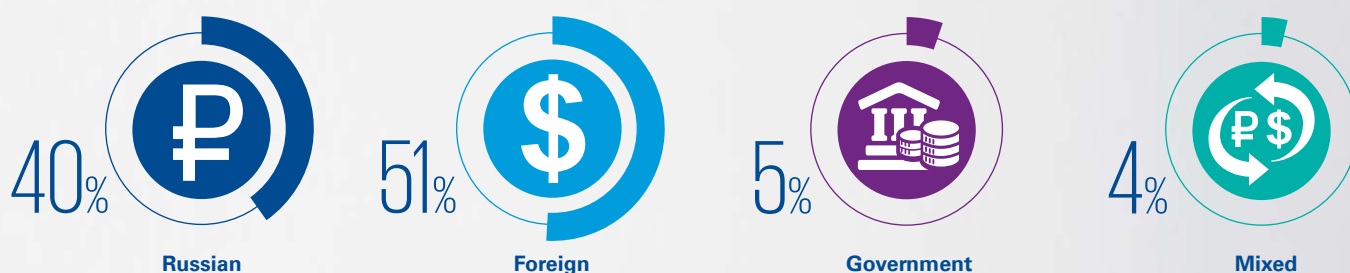
Source: KPMG analysis.





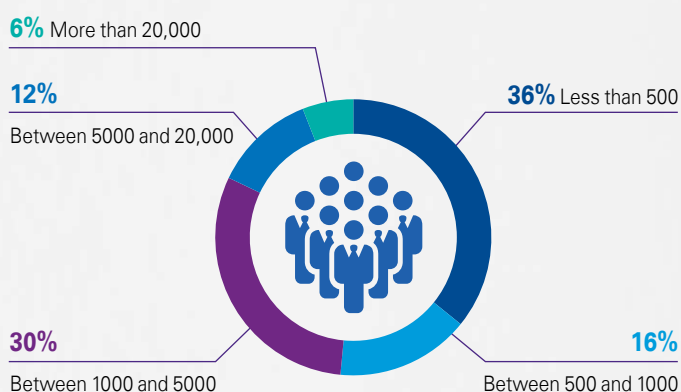
# Information on respondents

## Capital structure



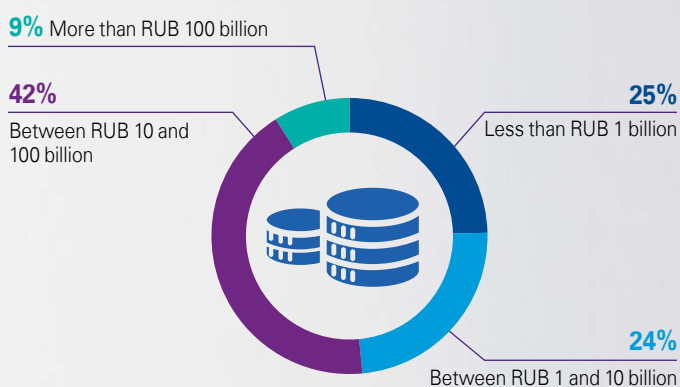
Source: KPMG analysis.

## Headcount



Source: KPMG analysis.

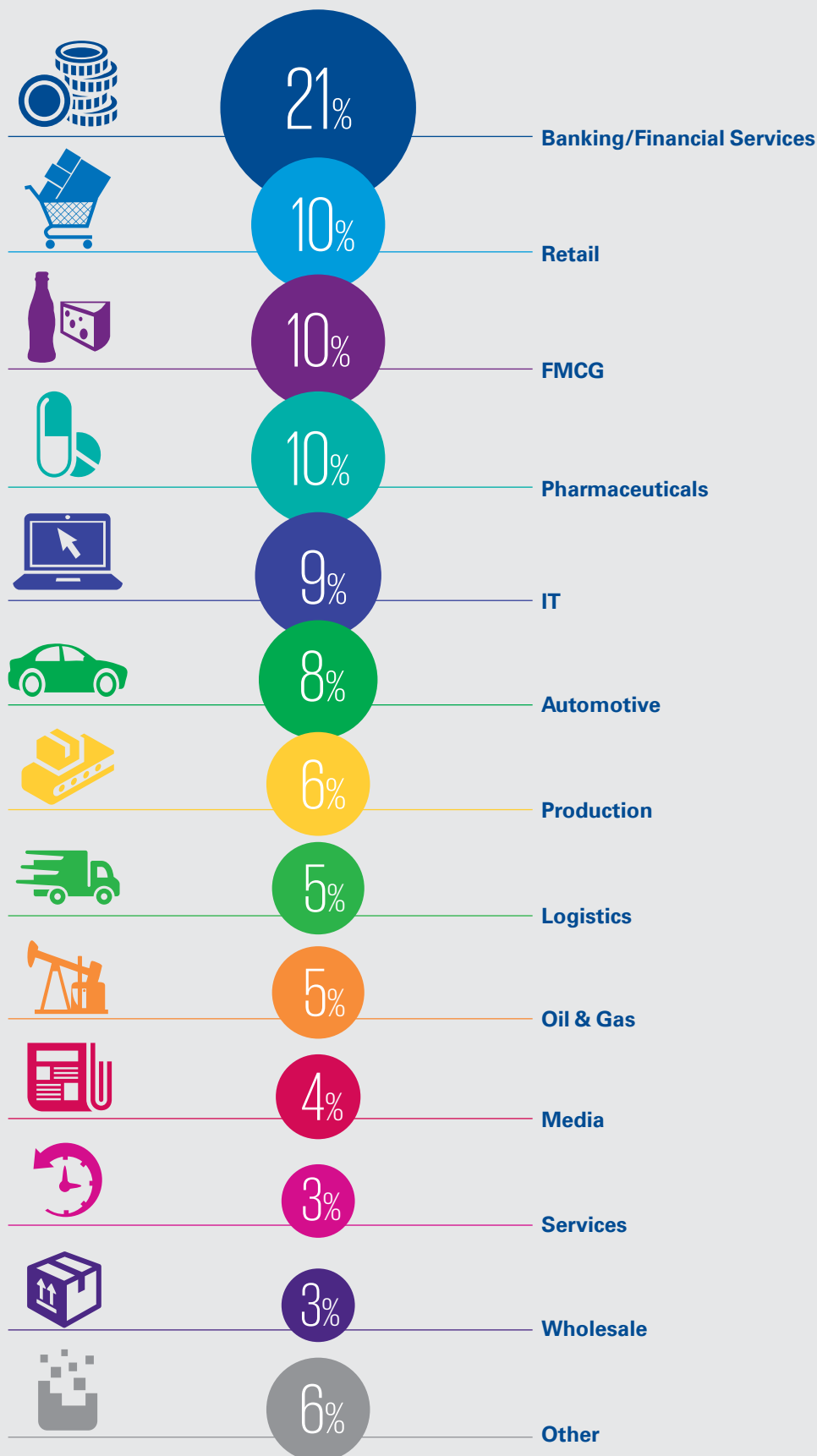
## Revenue in 2016



Source: KPMG analysis.



## Participants by industry





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