



# HR budgets and plans for 2018

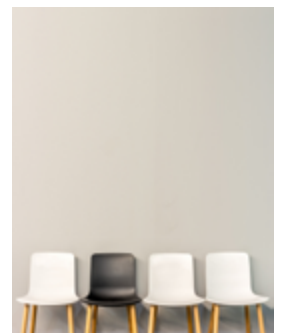
2018

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# Foreword



Alevtina Borisova  
Partner, Head of People Services

Please enjoy in this report the takeaway information from our fifth annual survey on HR budgets and plans, this time for 2018. The primary purpose of this survey is to identify and review the key HR-related measures that are currently being taken by companies in general, as well as in specific industries.

Business digitisation, AI, and robotic automation are defying the traditional HR management practices that used to be common for the market. Over recent years, we have witnessed a dramatic change to HR management and, as demonstrated in the findings of this survey, a number of companies are already on the way to integrating digital technologies into their businesses, whereas other firms are clearly not ready for the challenges of the new era.

So please read on as we present the findings of our survey. We hope they will help company management, HR directors, experts in compensation and benefits, and other HR specialists to find efficient solutions that contribute to developing their businesses.

# About the survey

## Timeframe

Data were collected between 16 January 2018 and 2 February 2018.

## Participants

162 Russian and foreign companies operating in various industries participated in the survey. Sectors demonstrating clear industry-wide trends were grouped into separate categories. These are: Banking and Financial Services (except for insurance companies, unlike in previous years), Manufacturing, FMCG, Retail, Pharmaceuticals and Healthcare, and Insurance companies.

For more details on the participants (breakdown by industry, size, capital composition, and other criteria), see the “Information on the participants” section.

## Methodology

Data for the survey were collected using an electronic questionnaire. Information in this final report has been statistically processed, without identifying the individual data of specific participants.

The results of this survey were compared with the findings of the HR budgets and plans surveys conducted by KPMG between 2014 and 2017.



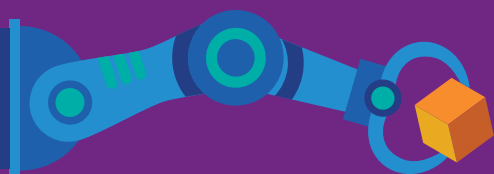


# Key findings

As in previous years, **improving personnel efficiency, increasing employee engagement, and optimising HR-related costs** are among the top priorities.



This year we observe a **keen interest in robotisation and automation**, which is in line with the common trend of business digitisation and the introduction of new AI-related technologies.

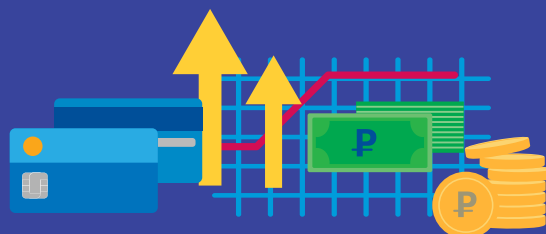


Our findings show that keeping headcounts as low as possible is no longer a current concern: **43% of our respondents are planning to increase their headcounts**, while only 18% will decrease employee numbers.



Almost half of all the surveyed companies are ready to increase **HR-related expenses and invest in external trainings and automating HR processes**.

87% of the surveyed companies intend to or have already increased wages – in most cases, **by 6–10%**.



According to the survey, **66% of the respondents are optimistic and expect positive developments for 2018**.

# Changing HR priorities in 2018

While in previous years cost reductions loomed large for many companies, this issue is now fading into insignificance. In 2018, companies intend to better engage their personnel and manage business digitisation issues more effectively.

The implementation of professional standards, a topic widely discussed by the HR community over the last few years, is losing ground: 62% of respondents reported that it is not on their agenda. 11% have already implemented professional standards, and 27% intend to do so in the next few years.

Although having efficient personnel is obviously an important issue regardless of the sector, companies operating in different industries are tackling this challenge through different means. For example, Manufacturing companies are planning to increase the productivity of the workforce they are already employing, which is why retention of qualified staff, optimisation of organisational structures, and talent management are among their top priorities.

Retail companies aim to develop their talent, increase employee engagement, and reduce costs through business digitisation. They are giving less attention to employee engagement or the optimisation of their organisational structures.

Companies operating in the FMCG sector also consider talent management to be their top priority and, as in previous years, continue to pay attention to re-engineering their business processes and optimising their organisational structures. Increasing workforce productivity, retaining personnel, and developing their HR brands are less important goals for these firms.

The majority of Pharmaceutical companies intend to rely on talent management, increasing employee engagement, and retaining their staff to increase workforce productivity. In this sector, optimising organisational structures and business processes is taking a back seat.

Following the crisis in the banking industry, HR teams in this sector consider reducing personnel costs their top priority. They intend to increase workforce productivity through re-engineering their business processes, retaining existing personnel, and reviewing their organisational structures. Less attention will be given to recruiting new employees. In contrast to other industries, Banks and Financial Services firms will be paying more attention to HR analytics, and they are placing talent management at the bottom of their list of priorities.



**In 2018, as in previous years, improving personnel efficiency by increasing employee engagement and retaining qualified staff is a top priority for most companies.**

## Main priorities in 2018



**Personnel efficiency improvement**



**Personnel engagement improvement**



**Digitisation of business**



**Personnel retention**



**Talent management**





# Headcount changes

Our findings point to a continuing trend of increasing headcount. The share of companies intending to increase their headcounts has risen from 13% in 2014 to 43% in 2018. As in previous years, the majority of the respondents (75%) are planning to increase their headcounts by 10%. The number of respondents planning to leave their headcounts unchanged has remained quite stable throughout the entire 5-year period, and 2018 showed little change, with this number being 39%.

It is important to note a significant shift in plans to change headcount depending on the size of the company. Previously, increases in headcount were a distinctive feature of major and mid-sized companies, ranging from 1,000 to 20,000 employees. In 2018, companies with less than 500 employees are most actively seeking to grow their workforce. Just over half of respondents in this category (52%) are aiming to increase headcount, though the overwhelming majority of them (87%) intend for this increase to be 10% or less.

Companies with headcounts of 500–1,000 and 1,000–5,000 employees have no plans to decrease headcount, though 18% of companies with headcounts of 500–1,000 intend to impose a moratorium on hiring new staff. The plans of these companies to increase their headcounts are very similar: 41% and 42% of these companies, respectively, intend to increase the number of their employees.

In terms of industry trends, this year increases in headcount are most popular in Insurance companies (71%). The tendency to increase headcount or maintain it at the current level is also typical for the Pharmaceutical sector: in 2016, only 21% of these companies intended to increase their headcount; in 2017, it was 50%, while this year, more than half of the respondents in this sector (62%) are planning to grow their workforce. None of them will be reducing the numbers they employ.



**43% of respondents  
are planning to increase  
headcount in 2018.**



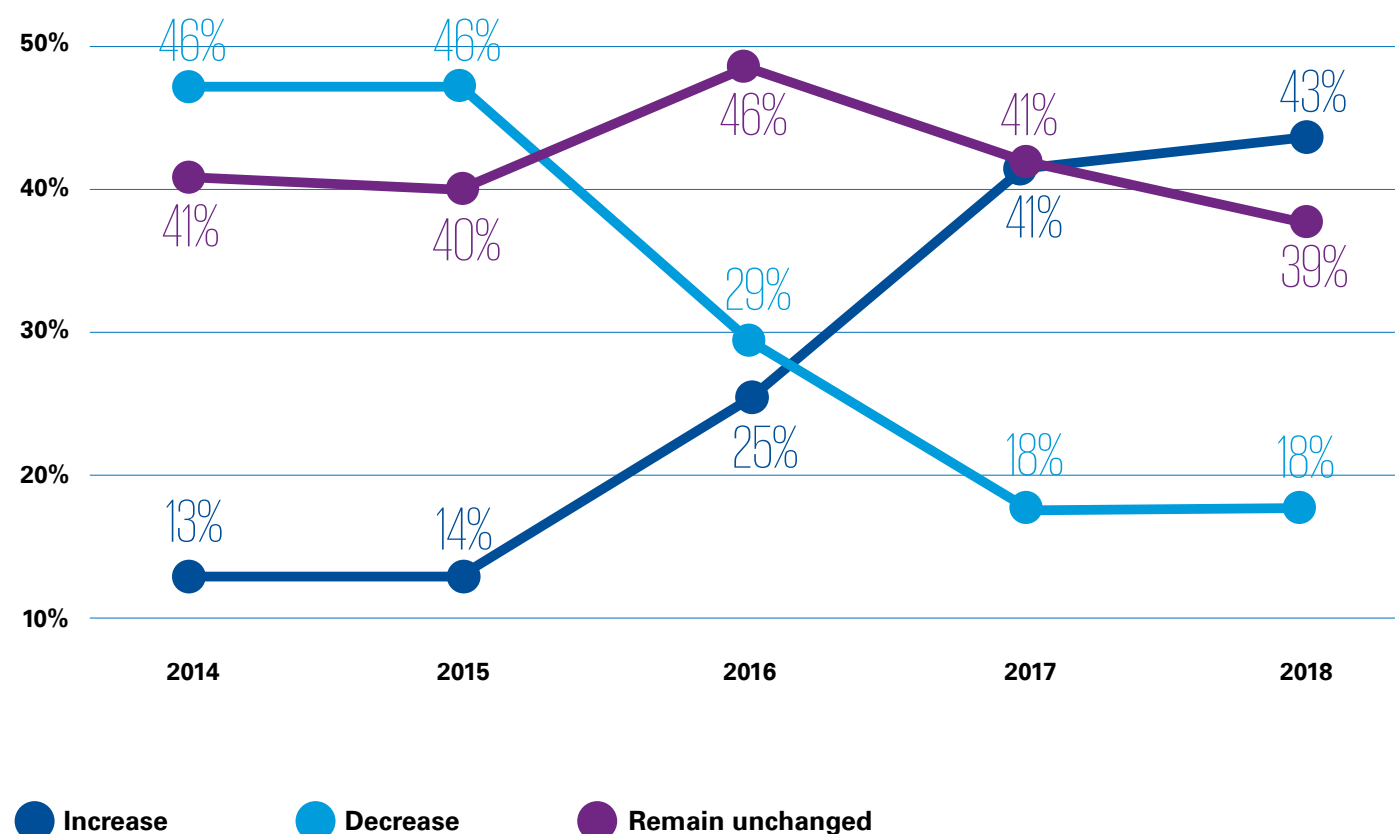
Headcount decreases are common for Retail companies (20%) and Banks/Financial Services companies (29%). They expect to reduce their headcounts by 6–10% in 2018 (71% and 67%, respectively).

In the FMCG sector, the situation seems to be stable: in 2015–2017, these companies preferred to either reduce or maintain employee numbers at the then-current levels; in 2018, the number of companies intending to maintain or increase headcount also has not really changed, being 39%.

The situation in the Banking sector remains ambiguous. In 2014–2015, more than half of these companies

intended to reduce their headcounts. Although the situation improved in 2017 (when only 11% of Banks/Financial Services companies intended to decrease their employee numbers), this year, the number of respondents intending to decrease their headcounts has grown again (about a third of respondents). However, 83% of Banks/Financial Services companies do not intend to decrease the number of their employees by more than 5%.

### Headcount change plans in 2014-2018



In general, we are seeing positive changes in our respondents' plans regarding their personnel. In 2014–2016, reducing HR costs was a top priority, and in 2017, respondents only sought to replace employees leaving their company (42% of respondents selected this option). In 2018, respondents are more optimistic: **the recruitment of new employees topped the list of intended activities (47%)**. It is important to note that, during the entire 5-year period, the replacement of personnel (dismissal of inefficient employees and recruitment of new ones) has remained one of the three most popular measures for managing employee numbers.

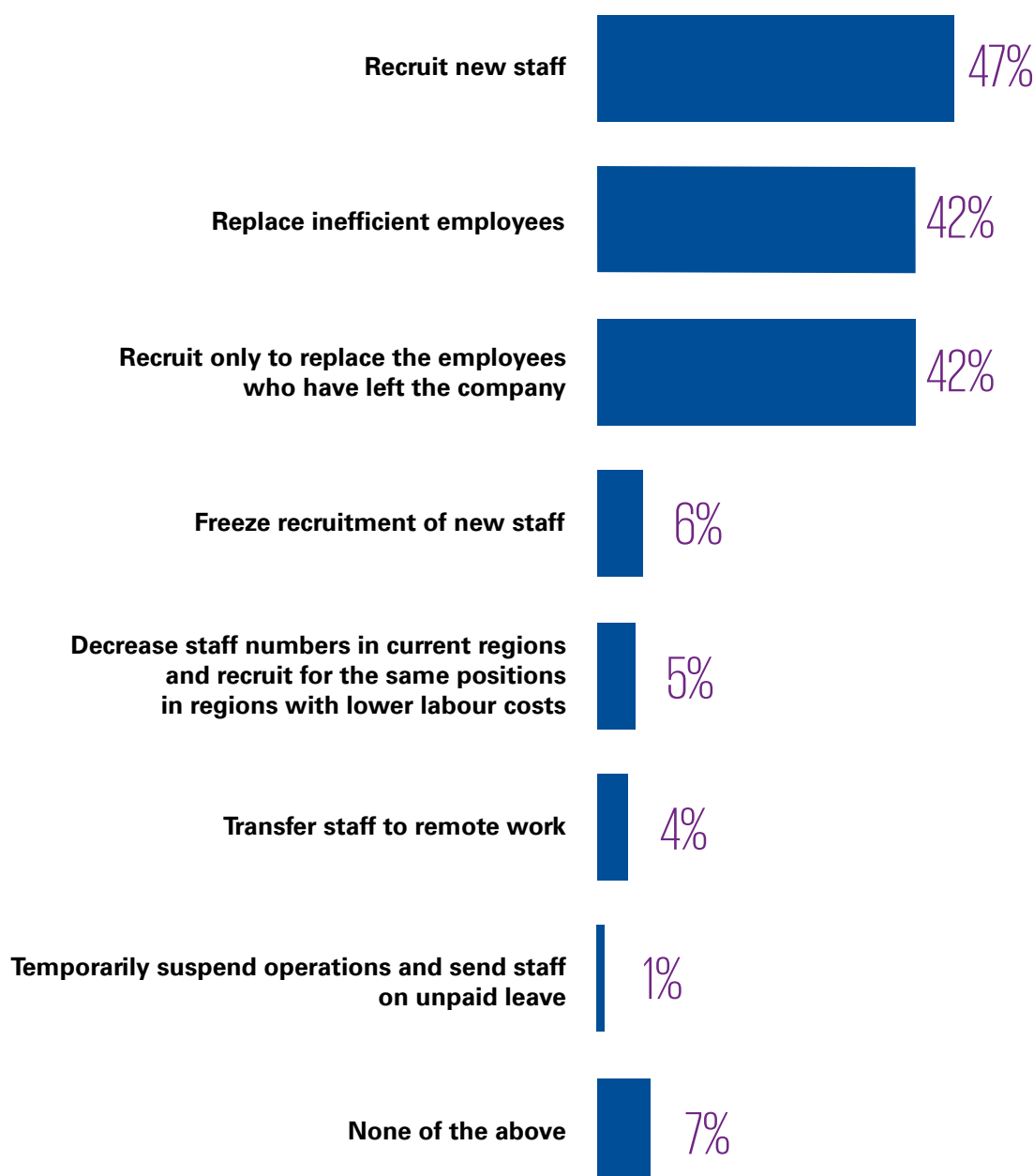
Unlike foreign companies, a number of Russian companies are intending replace personnel by recruiting in regions outside Moscow (9%). This measure was chosen by 17% of companies with headcounts exceeding 20,000 employees and by 7% of companies with 1,000-5,000 employees.

In 2018, both Russian and foreign companies are intending to make more extensive use of remote working. This applies primarily to companies with headcounts of 20,000 employees (17%).



**47% of respondents are planning to recruit new employees in 2018.**

## Planned activities regarding personnel in 2018



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

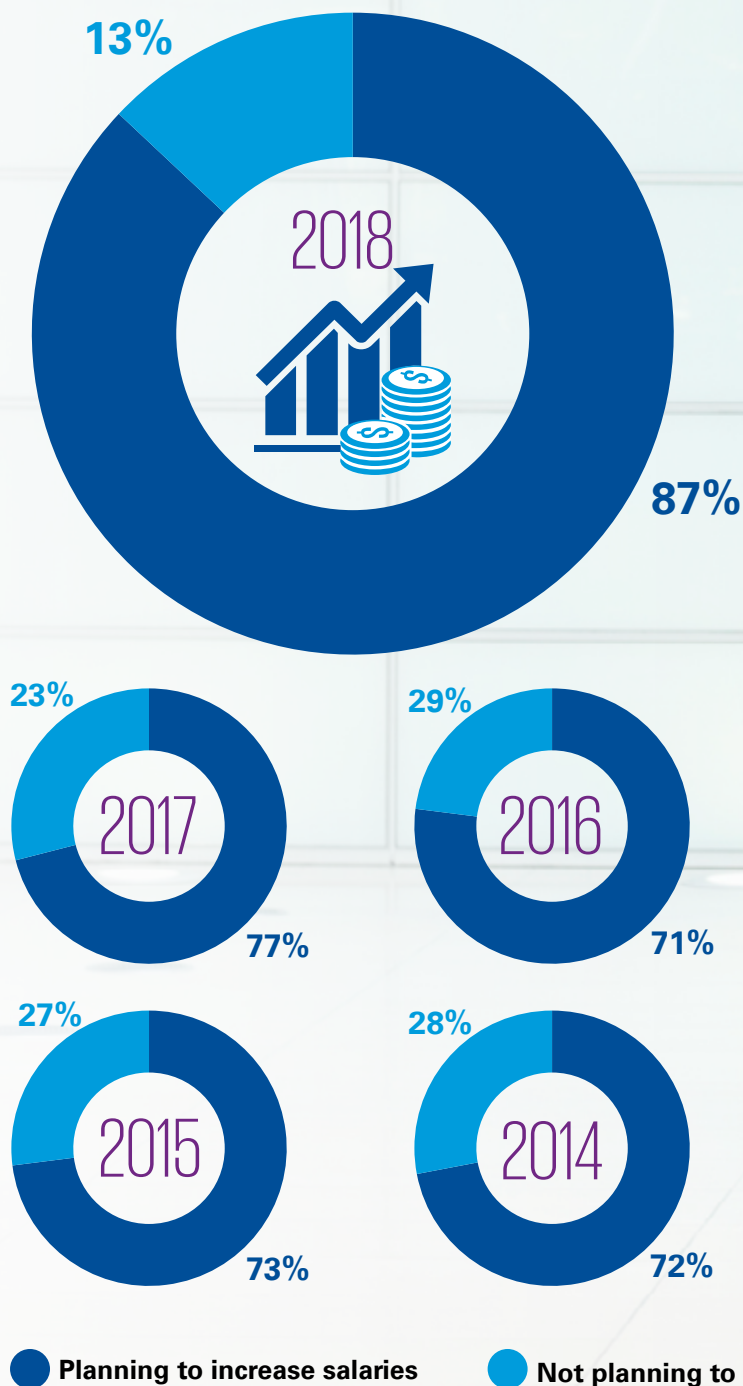


# Salary increases

Throughout the entire 5-year period covered by our survey, the percentage of companies intending to increase salaries has remained high. The lowest figure was seen in 2016, but even then it constituted 71% of respondents. This year, 87% of respondents are planning to increase the salaries of their employees.

**On average, the percentage increase normally ranges from 6% to 10%.**

## Salary increase plans in 2014-2018





**62% of companies planning to increase salaries mentioned that the increase would affect all employees.**

62% of companies planning to increase salaries mentioned that the increase would affect all employees. 13% reported they would only increase salaries for certain groups of employees, and one fourth of our respondents will be targeting individual employees.

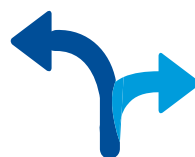
Foreign companies are usually more willing to increase salaries than Russian ones. However, since 2015 the percentage of Russian companies not intending to increase salaries has been gradually decreasing: 62% in 2015, 50% in 2016, and 39% in 2017. In 2018, this trend continues: only 23% of Russian companies do not intend to increase salaries. All foreign-owned companies are planning to increase salaries.

As for industry trends, all of the surveyed Manufacturing companies intend to increase salaries in 2018. In addition, the situation in the Banking/Financial Services industry has improved significantly: in 2015, 45% of Banks had no intention to raise salaries; in 2017, that number was only 39%; and this year, it is as low as 14%.

Retail companies and Banks/Financial Services companies are planning to make the most extensive changes to their bonus systems: they intend to review KPIs for almost all levels of employee. Changes to the reward systems for top managers, middle management, and specialists are expected in 53% of Retail companies and 38% of Banks/Financial Services companies. For sales departments, these figures are 47% (Retail) and 48% (Banks/Financial Services companies), while for production personnel, they are 40% and 24%, respectively.

The key changes in KPI systems will be directed at sales departments. 71% of Insurance companies, 56% of FMCG companies, 48% of Banks/Financial Services companies, 47% of Retail companies, and 46% of Pharmaceutical companies mentioned this explicitly.

Manufacturing companies are slightly deviating from the overall trend. 45% intend to introduce changes to their bonus systems for top managers, 40% for middle managers, 35% for production personnel, but only 25% for sales departments.



**In 2018, respondents are divided almost equally into those intending to change their bonus/KPI systems and those not planning to introduce any changes to their employee reward schemes.**





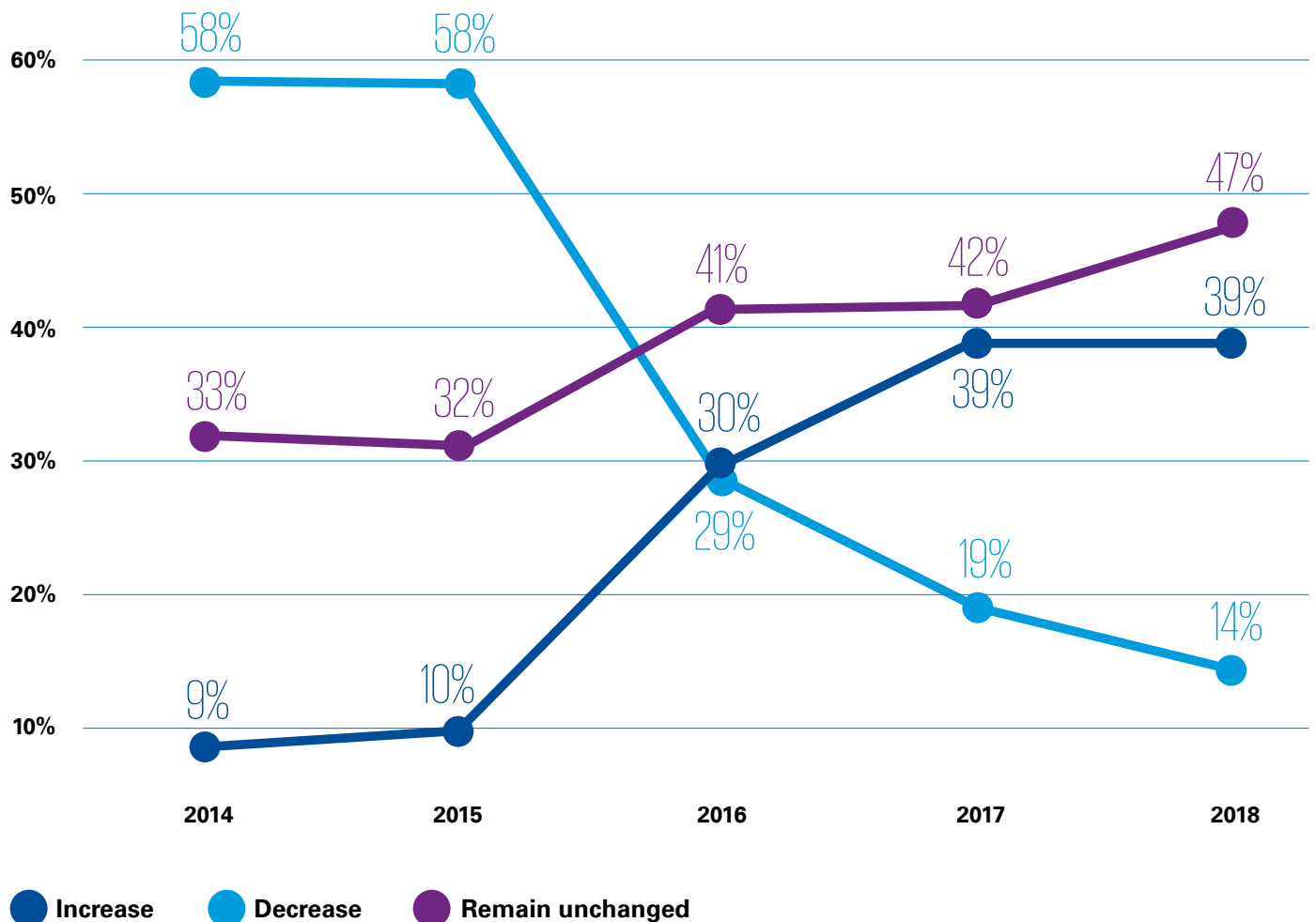
# HR budget changes



**The percentage of companies intending to increase their HR budgets remains at the same level as in 2017 (39%).**

The percentage of companies intending to increase their HR budgets remains at the same level as in 2017 (39%). However, there is a positive trend: last year, 19% of companies intended to decrease HR-related costs, whereas this year, only 14% do. This follows a trend: in 2015, HR budgets were expected to decrease in more than half of companies (58%), while in 2016, this applied to about a third (30%).

## Comparing plans to change budgets for 2014-2018





**The majority of companies intending to increase their HR budgets (63%) are seeking to make changes of up to 10%.**

The majority of companies intending to increase their HR budgets (63%) are seeking to make changes of up to 10%, as are 73% of companies that are reducing their HR budgets.

In terms of industry differences, Pharmaceutical companies stand out. They are planning to reduce their HR budgets more frequently / leave them unchanged less frequently than the market average (23% and 38%, respectively).

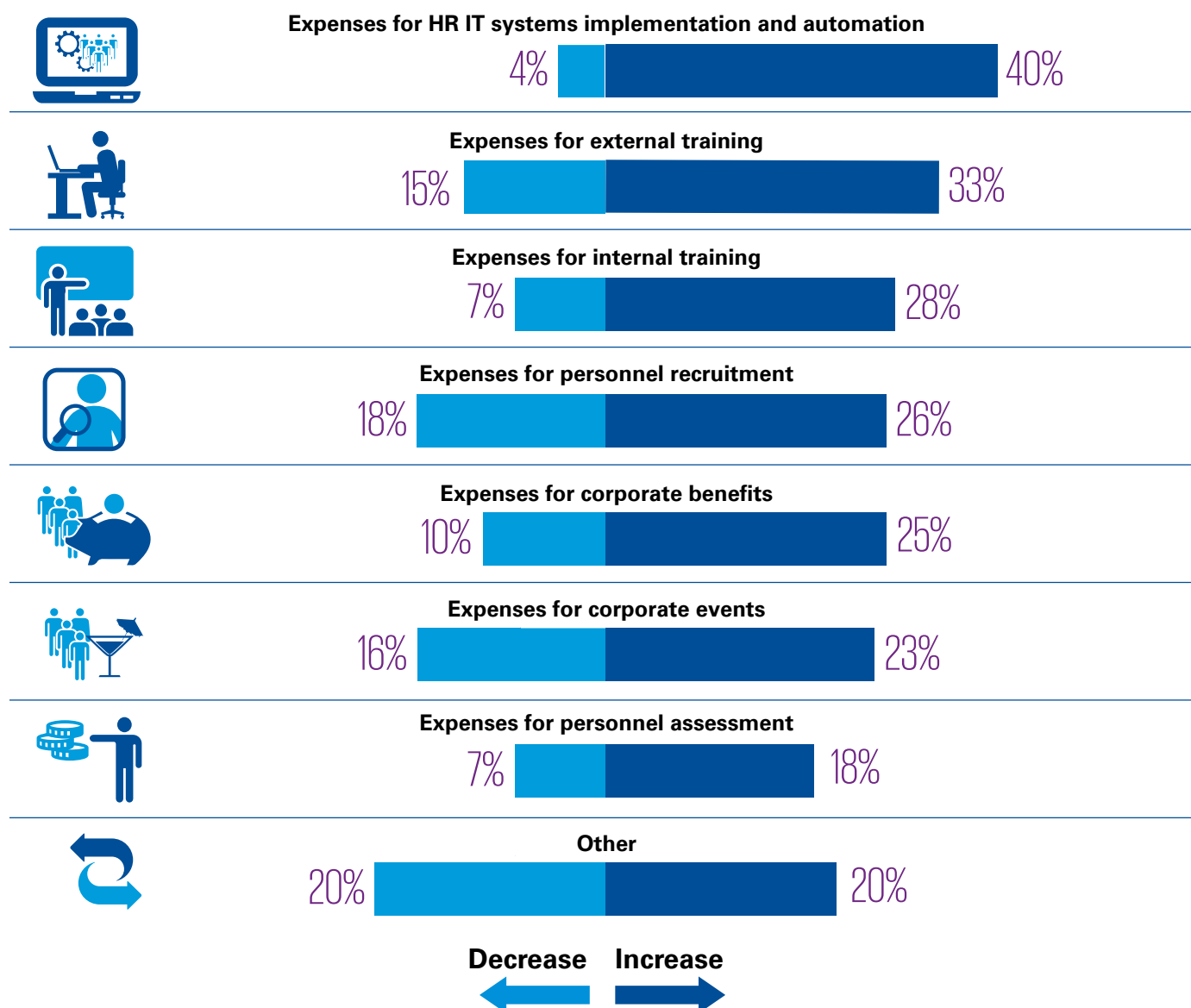
Compared with last year, when Russian companies planned to increase their HR budgets more often than foreign companies (52% and 30%, respectively), this year, the difference between foreign and Russian companies is insignificant (37% and 38%, respectively).

Compared with 2017, there has been no change in the top three increasing HR budget items. Rising from last year, companies are looking at investments in HR management software (40%, compared with 25% in 2017). 33% are planning to increase their external training budgets (31% in 2017), and 28% are looking to expand their internal training budgets (25% in 2017).

It is important to note that Russian companies are more inclined (46%) to invest in HR management software and automation than foreign companies (35%). Most likely, this is due to the fact that, in past years, Russian companies were lagging behind in this area.

In terms of industry trends, it is worth mentioning Retail companies: just as last year, they are more prepared to increase expenditure on IT systems and automation than any other industry or the market as a whole (64%).

## Changes in HR budget items in 2018





# HR shared services centres and outsourcing plans in 2018

Compared to last year, there is little change in outsourcing plans. 80% of our respondents reported they have no intention to outsource their HR functions (last year, 83% respondents selected this option).

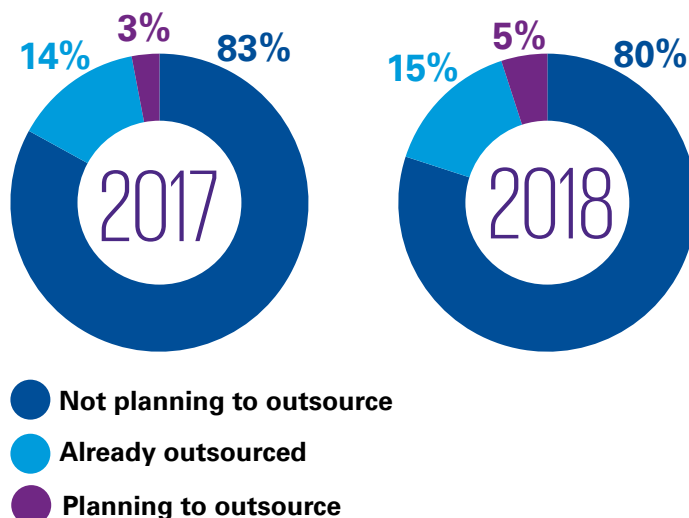
Changes in plans to create HR shared services centres (SSCs) are a little more visible: the percentage of companies planning to delegate their HR functions to an SSC has grown from 10% in 2017 to 15% in 2018. The share of companies not intending to create an HR SSC has fallen by 9% and is now 67%. These are primarily companies with up to 1,000 employees, where this measure can hardly make a significant difference. These kinds of companies mainly prefer outsourcing.

The delegation of HR functions to SSCs is more popular with foreign companies than with Russian ones. Almost one fourth of foreign firms have relocated routine transactional HR functions to an SSC. This is also true for outsourced functions: 25% of foreign-owned companies outsource HR functions to some extent.

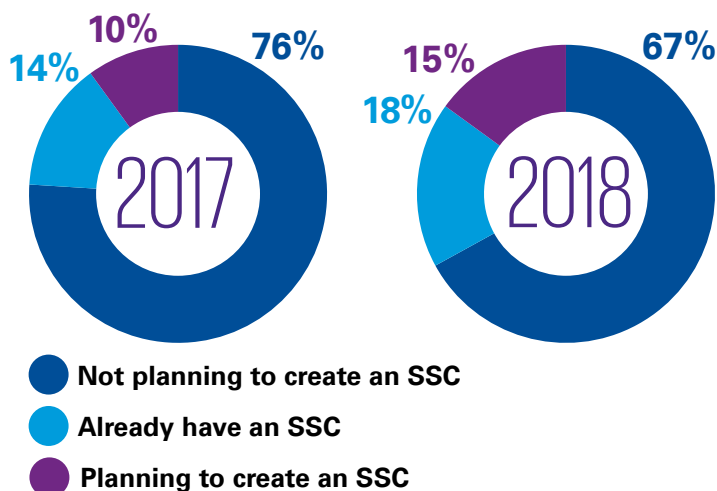
Analysis by industry shows that the relocation of HR functions to SSCs is popular with Retail companies and Banks/Financial Services companies: 27% and 19% of them, respectively, already have functioning HR SSCs. In the next few years, almost a third of Pharmaceutical companies (31%) intend to delegate certain HR functions to SSCs. These companies are also leading the way in outsourcing their HR functions: 31% of our respondents have already outsourced, and another 15% intend to outsource these functions.

HR functions typically delegated to SSCs are staff records management, salary calculations, compensation and benefits, and recruitment. Meanwhile, the HR functions most often outsourced are salary calculations, staff records management, and recruitment.

## Plans to outsource HR functions



## Plans to relocate HR functions to an SSC



**80% of respondents are not planning to outsource their HR processes; 67% are not planning to create HR SSCs.**

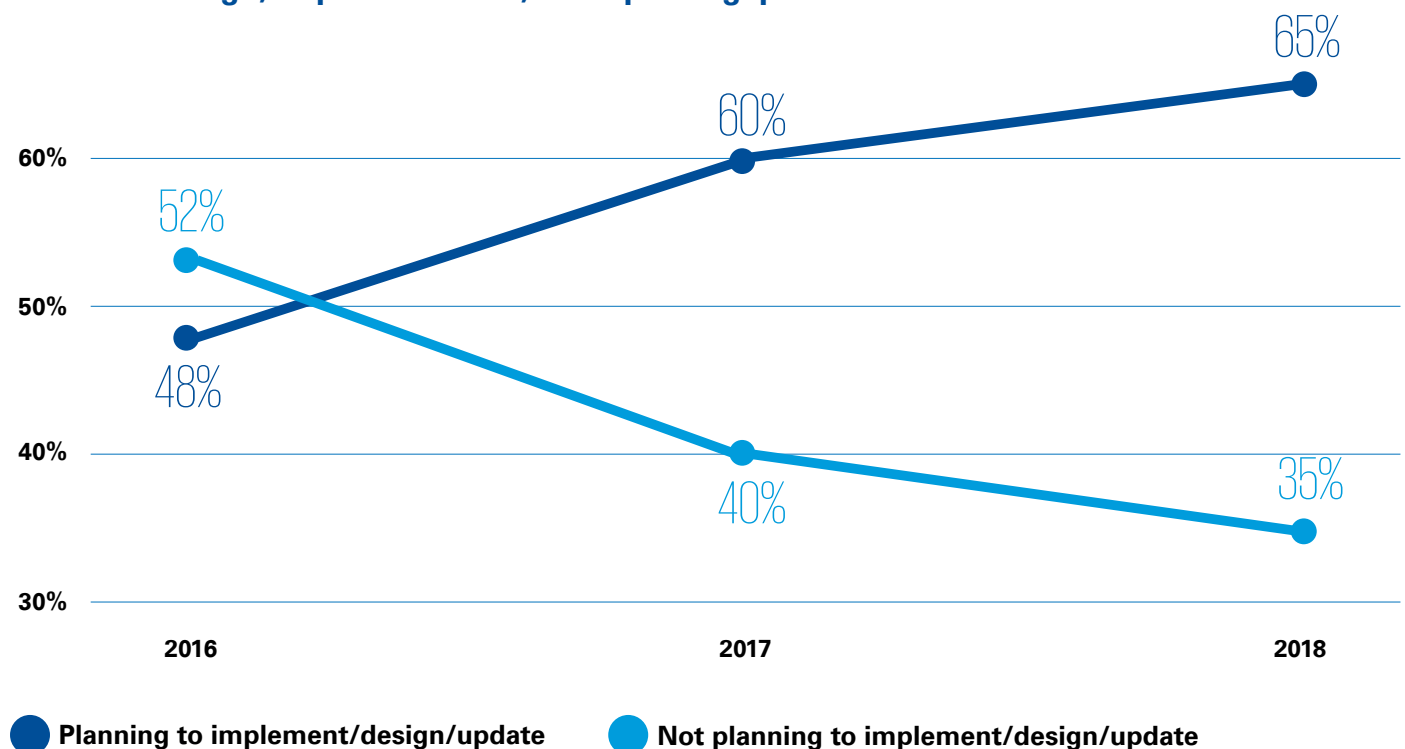
# Plans to automate and robotise HR functions



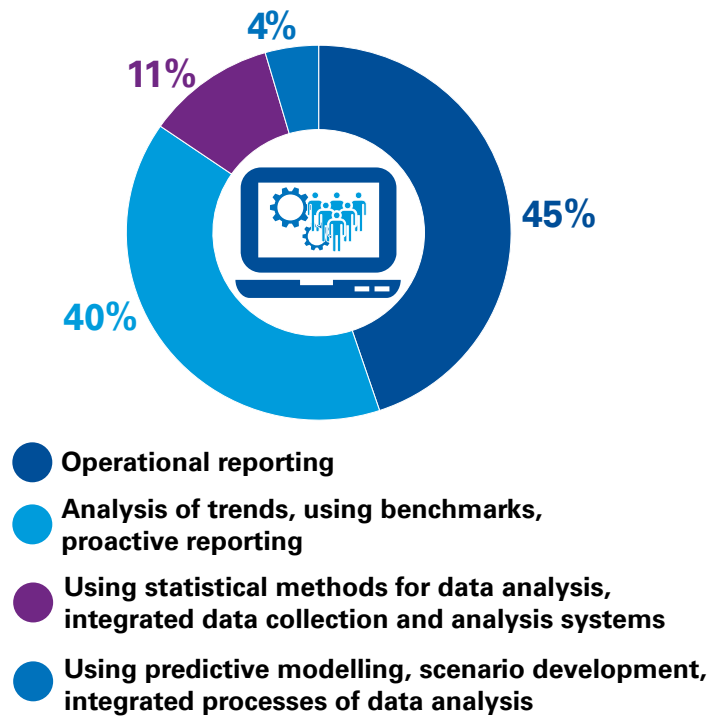
**As in previous years, the automation of HR processes is among the top priorities of our respondents. This year, this option was selected by 65%.**

In almost all companies, the processes that are typically already automated are those involving the calculation of payroll, the management of staff records, and keeping timesheets. However, changes in legislation mean that all these areas will require some upgrades and improvements.

## Software design, implementation, and updating: plans in 2016-2018

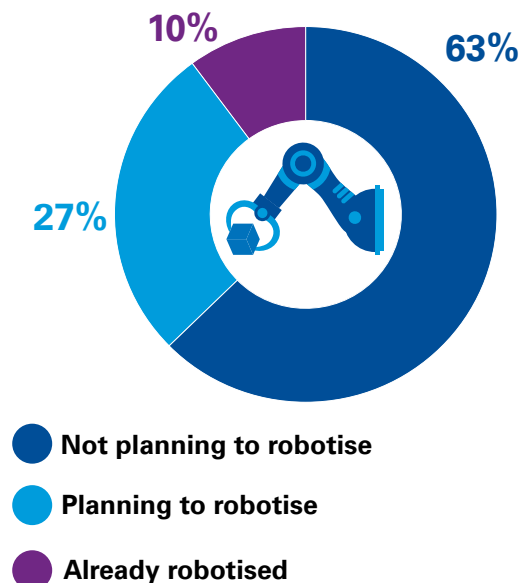


## Scope of use of HR analytics



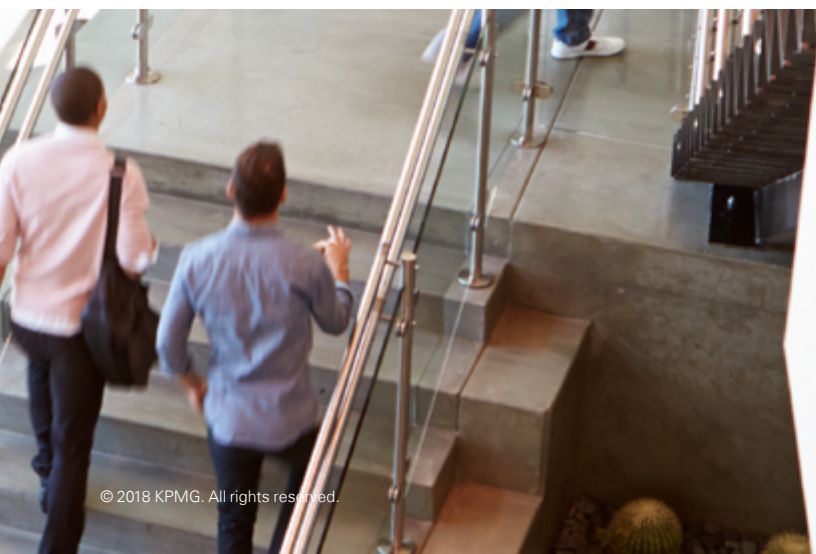
A new priority in automation is HR analytics. In 2018, only 15% of respondents have no intent to automate this process. The remaining companies are planning to automate it (38% compared with 34% in 2017) or are already installing or upgrading (47%) the relevant software. However, it is important to note that, **in the majority of companies, the level at which HR analytics is being used is quite low.** The most common practice is using it to prepare operational reports (45%), or to examine trends and purchase comparative surveys (40%). Only 11% of respondents use advanced statistical methods, and just 4% use predictive analytics.

## Plans to robotise HR functions



In addition to HR analytics, companies intend to invest in the automation of recruitment, training and evaluation of knowledge, calculation of bonuses, and introducing employee self-service. Among the new activities mentioned for the first time in 2018 are the improvement of communications with employees and the collection of prompt feedback from them via corporate social media, as well as collecting ideas and proposals.

This year, we raised the topic of robotising HR functions in our survey for the first time. Our findings show that **10% of the surveyed companies are already using robots, while 27% intend to introduce them over the next few years.** Robots are most often used for recruitment purposes or for providing answers to commonly asked questions from employees.



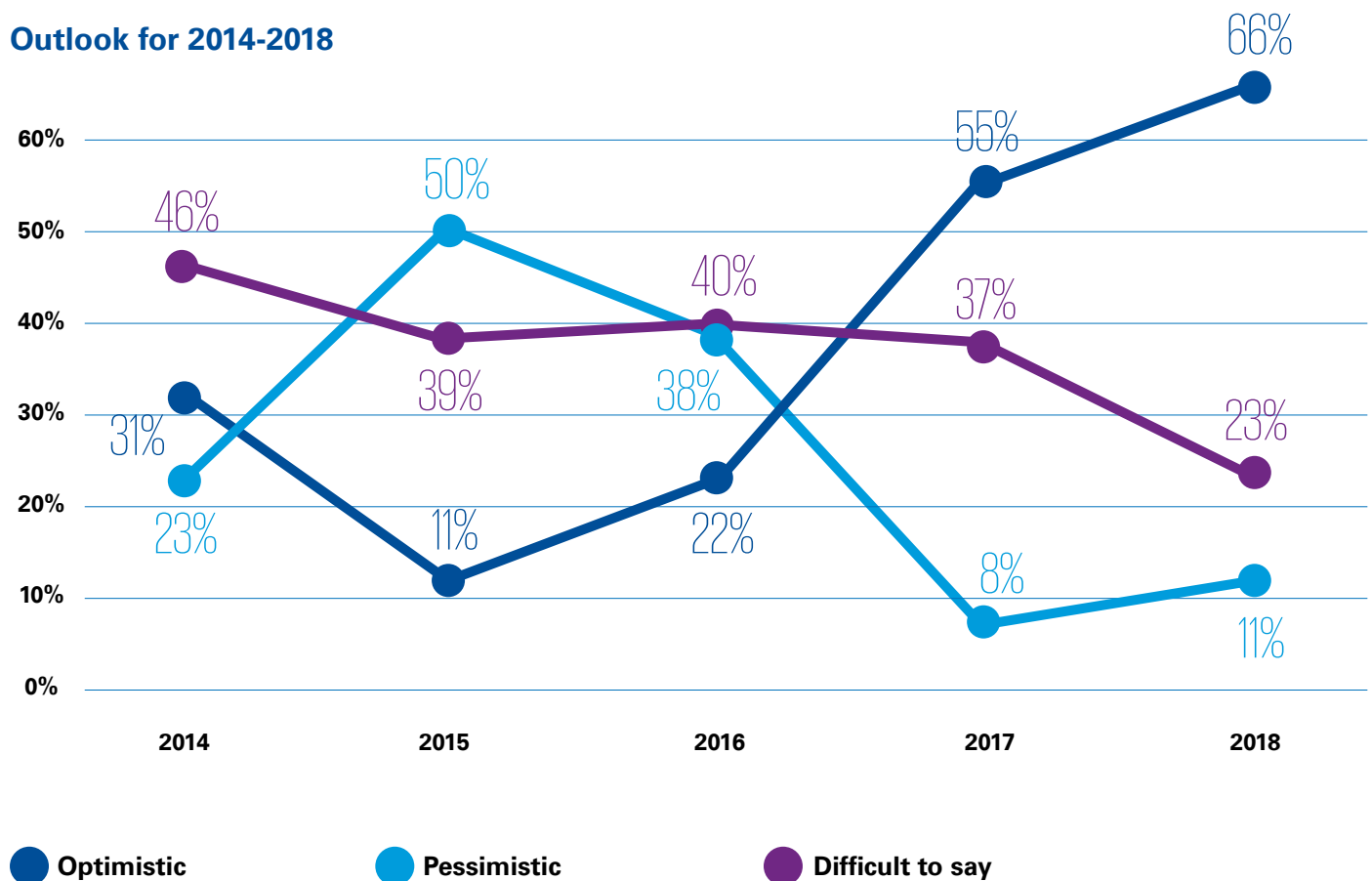


# Outlook for 2018

The majority of our respondents are quite optimistic about the future. The number of respondents who find it hard to make predictions for the next year has decreased from 46% in 2014 to 23% this year, while 66% of participants are optimistic about 2018. This is 10% more than last year, and 6 times more than in 2015. Meanwhile, 11% of companies are pessimistic about the future, compared with 8% last year.

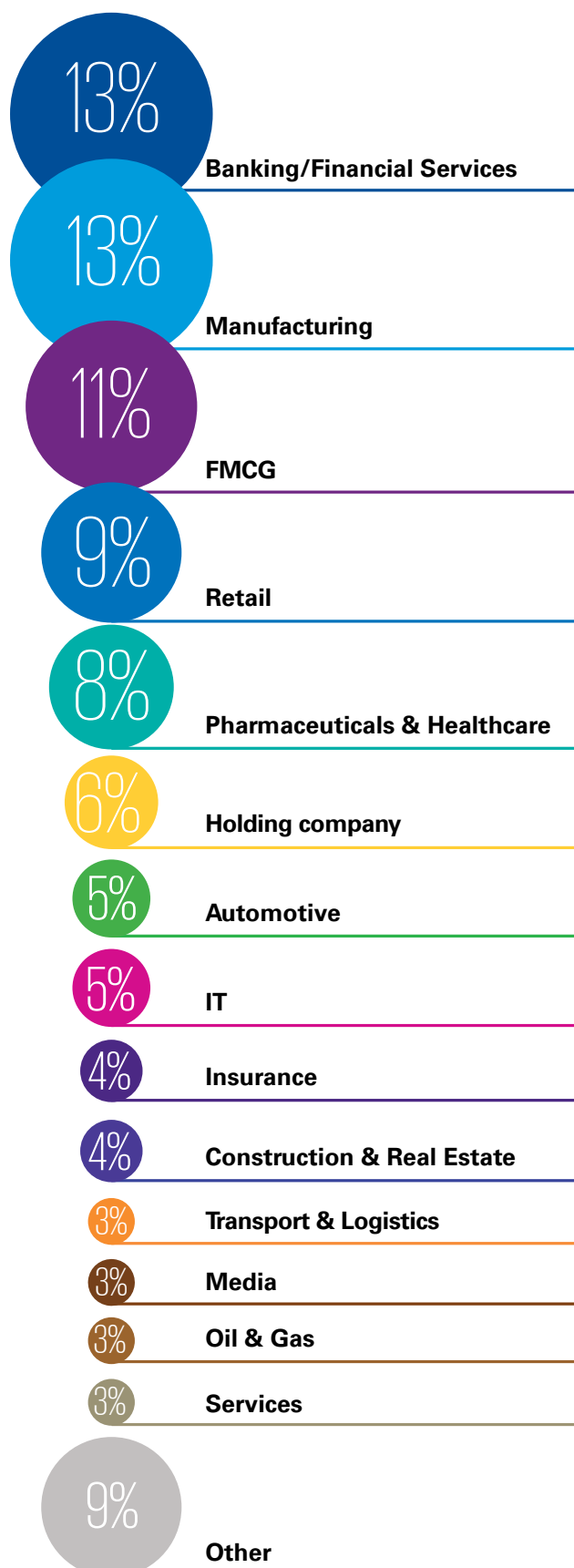
Pharmaceutical companies are the most optimistic (77%), while Banks/Financial Services companies are the most pessimistic – about a fourth of them have a negative outlook.

## Outlook for 2014-2018

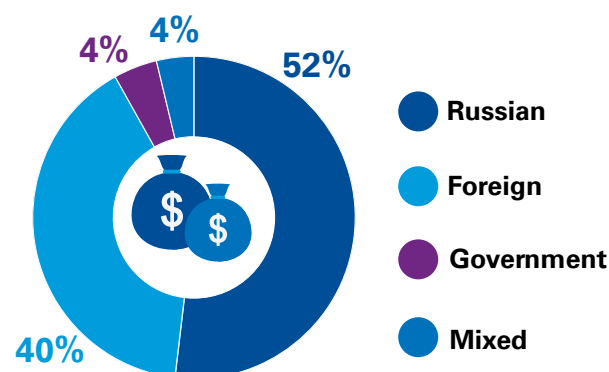


# Information on the participants

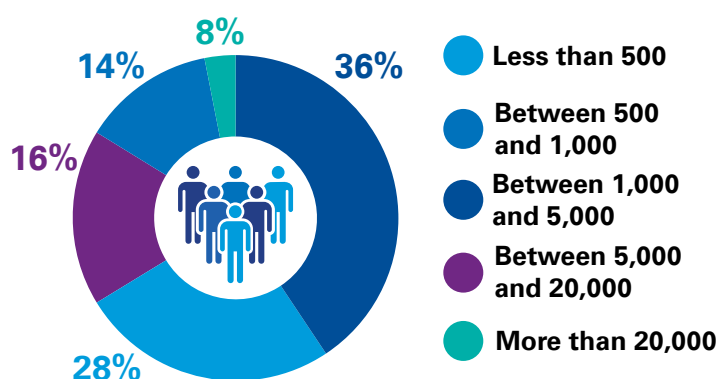
## Participants by industry



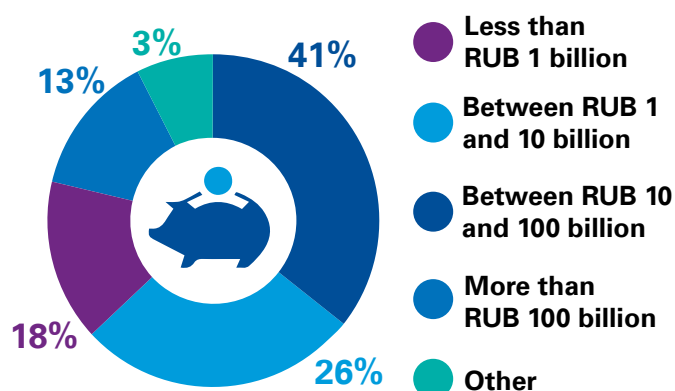
## Capital structure



## Headcount



## Revenue in 2017



# Contacts



**Alevtina Borisova**

Partner, Head of People Services

T: +7 495 937 4477

F: +7 495 937 4499

E: [aborisova@kpmg.ru](mailto:aborisova@kpmg.ru)



**Donat Podnyek**

People Services

Partner

T: + 7 495 937 4477

F: +7 495 937 4499

E: [dpodnyek@kpmg.ru](mailto:dpodnyek@kpmg.ru)



**Dina Dyakova**

People Services

Senior Manager

T: +7 495 937 4477

F: +7 495 937 4499

E: [ddyakova@kpmg.ru](mailto:ddyakova@kpmg.ru)

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