

NEWSLETTER

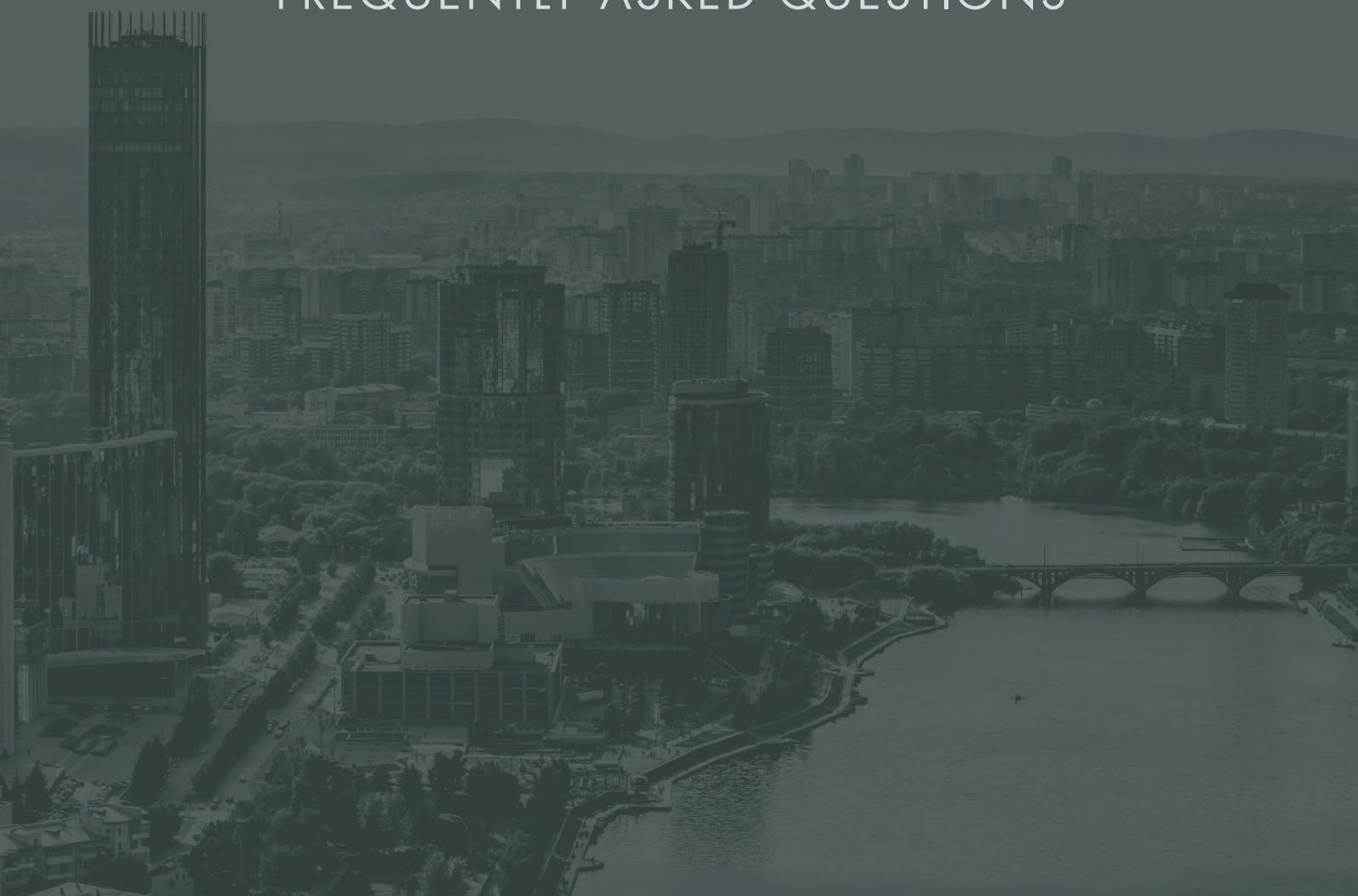
 ENGLISH VERSION



INTERNATIONAL

RUSSIA

EXECUTIVE SEARCH AND
THE LABOUR MARKET –
FREQUENTLY ASKED QUESTIONS



The responses of European companies to the Russian war against Ukraine were extremely diverse. They ranged from a complete withdrawal from Russia to continuing business operations while adhering to sanctions. Many international companies have restricted or terminated their business activities in Russia in various ways, especially, in the energy, automotive, and machinery sectors. Other companies have halted new business ventures in Russia while maintaining their existing operations. In any case, these events had significant implications for the labour market, particularly, with regard to executive search and recruitment. In this newsletter, we'll address some of the most frequently asked questions on these issues.

INFORMATION ABOUT CT EXECUTIVE IN RUSSIA

CT Executive Search continues to assist international companies in filling leadership positions in Russia, Belarus, Central Asia, Armenia, Azerbaijan and Georgia. Typical positions in these regions include CEOs, branch managers, sales and plant managers, as well as administrative leadership roles. We exclusively work with international companies not subject to sanctions.

In Russia and the CIS, we work with companies in various industries, including the machinery, engineering, automotive, consumer goods, retail, and construction sectors. Our Moscow-based research team has access to candidates in all economically significant regions of Russia and its neighbouring countries.

WHAT WE OFFER

- Executive search in Russia and the CIS.
- Access to candidates who have extensive experience in management positions in Western companies.
- A network among law/consulting firms that can help with all corporate, employment, visa and financial issues.

FAQS:

WHAT IMPACT HAS THE WAR HAD ON THE LABOUR MARKET?

Due to political views and mandatory partial mobilisation, a large number of men between the ages of 18 - 50 left Russia since February 24th 2022. Many left with their families, mainly to countries with favourable residence conditions such as the CIS, Serbia, UAE, and several Asian countries. This has created a considerable need for highly skilled workers in Russia, particularly, in the field of executive management and in specific industries, such as the IT sector.

Simultaneously, many migrants from Central Asia have left Russia because work opportunities became less lucrative due to the weak rouble exchange rate. This has also led to labour shortages, especially, in sectors such as construction, logistics, and courier services.

Demand is high. Many Russian companies capitalized on the new opportunities that arose after the withdrawal of Western firms. Demand is further driven by the defence sector and its suppliers. In total, these factors have created an extremely strained situation within the Russian labour market, with the official unemployment rate currently as low as 3 percent as of summer of 2023.

WHAT IS THE DEMAND FOR EXECUTIVES IN INTERNATIONAL COMPANIES?

In the initial months following the outbreak of the war, international companies virtually suspended their recruitment activities. During the summer of 2022, as decisions regarding their continued business operations in Russia were made, there were profound changes in corporate structures. Nearly all expatriates were recalled and replaced with Russian managers, resulting in numerous leadership changes. Some companies also opted to restructure their leadership teams. Despite the war, there is still some demand for executives at international companies, albeit not at the pre-conflict levels.

IN WHICH SECTORS IS RECRUITMENT PARTICULARLY ACTIVE?

Companies looking to recruit can be divided into three groups. Firstly, companies from the "unfriendly countries" that have remained in Russia. They generally have limited recruitment activities, both for executives and blue-collar employees.

The second group comprises of Russian companies, that despite general planning uncertainty and financing issues, are actively recruiting in manufacturing, IT,

and agriculture. Some Russian companies, especially, in trade and integration of technical products, are particularly interested in candidates with experience from international companies.

The third group consists of companies from the so called 'friendly' countries such as China, Turkey, South Africa, India who are actively entering the Russian market, especially, in the automotive, retail, pharmaceutical and household electronics sectors. The takeover of market positions vacated by "Western" companies and sometimes their production facilities has generated substantial personnel needs. Almost half of Russian top managers (46%) consider labour shortages as their company's most significant current challenge, as revealed by a recent survey conducted by a Russian recruitment firm. The surveyed executives anticipate that the labour shortage will persist at least until 2026.

WHAT IS THE SITUATION FOR EXPATRIATES IN RUSSIA?

Currently, the number of expatriates from "unfriendly countries" in Russia is quite low. Typically, these are individuals who have relocated to Russia for family reasons. Newly recruited expatriates are extremely rare in the current situation.

Importantly, there have been no changes in the legal basis for residence and work in Russia since the war's outbreak. The procedures for obtaining work permits and work visas remain unchanged. Both can still be applied for without any restrictions for employees from "unfriendly countries." European expatriates usually benefit from favourable regulations for "highly qualified specialists" (BKC) and have the option of getting multi-entry visas valid for three years.

Nevertheless, there are indications of potential changes in tax regulations: for example, Russia has annulled parts of the double taxation agreement with Germany, and it is currently unclear how this will affect the taxation of income earned in Russia by the German tax authorities.

It is important to note that the presence of foreigners in Russia is still feasible. The mass exodus of Europeans since February 24, 2022, is mainly attributed to political uncertainties, an altered atmosphere, and increasing inconveniences, particularly, resulting from limited travel options between the EU and Russia.

HOW SAFE IS IT TO TRAVEL TO RUSSIA?

From a regulatory standpoint, travel to Russia remains unrestricted. Visas for various purposes are still being issued, and in some cases, online application is possible. However, EU travel restrictions make the journey time-consuming. Direct flights between EU airports and Russia are no longer permitted.

A common alternative involves making a stopover in countries that do not support sanctions against Russia. Serbia and Turkey, in close proximity, are noteworthy in this regard. Presently, most travellers prefer the Turkish Airlines route through Istanbul. Nevertheless, this option is costlier and more time-consuming than before, partly due to longer flight times resulting from the closure of the South Russian airspace. Additionally, Moscow airport work schedules are unpredictable due to the increase in Ukrainian drone attacks. This has led to flights being diverted to other airports.

Another alternative is entry by land, for example, through the border crossings of Poland/Kaliningrad, Estonia/Russia, or Finland/Russia. Traveling these routes is relatively cost-effective, but it involves longer travel times to border points and subsequent transfers within Russia to reach the final destinations. Without knowledge of Russian, these transfers can be challenging. Consequently, most business travellers to Russia prefer air travel. There have been no reported problems with the entry of foreigners, although, passing through passport control may take more time.

The security situation in Moscow and St. Petersburg is generally considered good. Foreigners who are not involved in political or journalistic activities usually do not have any problems.

It's important to note that international credit cards no longer work in Russia. Visa and Mastercard ceased their Russian operations in March 2022, which means Visa and Mastercard cards issued by foreign banks are no longer accepted in Russia. However, bank cards issued by Russian banks still function in the country. The Russian government has developed its own credit card system called MIR, which is widely used and accepted by most stores and online shops in Russia. Foreigners without Russian credit cards usually need to make payments in cash.

Some places also accept UnionPay – the Chinese bank card and payment system. Some Russian banks also issue UnionPay cards.

WHAT IMPACT HAVE INTERNET RESTRICTIONS HAD ON THE RECRUITMENT PROCESS?

The Russian government has blocked access to numerous websites. In addition, a number of international companies have blocked access to their websites for users based in Russia. This is important to note if you use:

- Social media platforms such as Facebook, LinkedIn, X and Instagram.
- Travel and accommodation platforms such as booking.com, Expedia, Airbnb, Travel Advisor, non-Russian car leasing services and all international hotels formerly based in Russia such as Marriott, Hilton and Sheraton.
- Marketing and communications platforms such as Hootsuite, Slack, Canva, Monday.com, Wix and WordPress.

- Websites of European international air carriers.
- Some international news outlets such as the BBC and Euronews.

You also can't pay for any of the services offered by these platforms with a Russian bank card.

You also may not have access to entertainment platforms and some websites accessible outside Russia, for example, your bank's website.

One might get access to these websites using a VPN provider. Although it's important to note that VPNs are also getting blocked in Russia. If you are looking to get a paid VPN it's best you do so before travelling to Russia since you'll need to access it and pay for it with a non-Russian bank card. Also, there is no guarantee that a paid VPN will work, as many are actively being blocked by the Russian regulatory authority.

These internet restrictions have notably reduced LinkedIn's effectiveness in the recruitment process in Russia since most LinkedIn users do not use VPN services. Consequently, other methods have regained importance, such as reaching out to executive search firms with operations in Russia.

HOW HAVE EXECUTIVE COMPENSATIONS EVOLVED?

If you are looking to assume a role in a company in Russia, we advise you negotiate your salary in Euros or Dollars, due to the devaluation of the rouble and the unpredictable and noteworthy fluctuation rate.

In general, the remuneration of managers in Russia has not changed much since the start of the war.

Due to the massive departure of foreign businesses from Russia, "management supply" began to significantly exceed demand, which had a dampening effect on management remuneration.

Although the remaining companies were forced to carry out indexations due to inflation and the significant depreciation of the rouble, rouble-based management salaries did not increase by more than 10 percent since 24th February 2022. Given the devaluation of the rouble, remuneration in euro or dollar terms actually fell during this period.

The situation for managers working in Russian companies was similar. Due to the departure/significant reduction of foreign business operations in Russia, many former managers from Western structures turned their attention to Russian companies, increasing candidate supply and thus dampening remuneration growth.

HOW ARE RECRUITMENT PROCESSES EXECUTED IN PRACTICE?

Currently, the general approach to the search and selection of top managers has not changed. The following market trends are noteworthy:

1. Managers began to be more careful and scrupulous in changing jobs. If a candidate has a guarantee of stability in his current position, even if there are no prospects for development, the person is more likely to be closed to offers.
2. Managers working in the remaining Western companies are also extremely reluctant to change jobs.
3. The current situation provides an opportunity for Western companies to hire previously unavailable managers, because the prospect of working for a "Western" business is now a big plus for candidates and vacancies in this field may present rare opportunities.
4. Former managers from Western companies, who have been released after their employer's departure from the market, are often open to working in a smaller structure because they want to continue working for an international company.

HOW CAN COMPANIES SERVE THE RUSSIAN MARKET WITHOUT A LOCAL SUBSIDIARY?

At the moment, we see an excellent prospect for the resumption of Western business operations in Russia. Many foreign companies left Russia not because their business had been sanctioned, but rather due to legal uncertainty, lack of planning security and the respective laws imposed to that effect by their countries of origin. According to some of the current data available, one and a half years later, those companies that remained in Russia seem to have significantly increased their market share, mainly, due to decreased competition.

The Russian market is still open to Western products and many potential customers are willing to pay the price premium. In many segments, the products supplied by Chinese companies do not match the quality that Russian clients were used to. International brands are still valued by Russian consumers.

Today, many "Western" products still reach the Russian market through parallel import, even if the producers have officially ceased their activities in Russia. The imports are carried out by Russian distributors who buy the products in countries like Kazakhstan, Armenia or Turkey.

For foreign companies that do not want to have a subsidiary in Russia for legal or other reasons, working with an external market specialist can be interesting. Such a consultant can act as a coordinator on behalf of the producer and help to structure the import and sales activities in a way that takes the producer's interests into account. The deep market insights gained in this way can help the company make an informed decision in the future as to whether a return to the Russian market makes sense and how this should be designed. CT Executive Search can assist in placing appropriate market consultants.

WHAT IS THE PROTOCOL FOR CORPORATE FINANCIAL TRANSACTIONS FOR FOREIGN COMPANIES?

Russia has been placed under a series of financial sanctions, including approx. 90% of Russian banks being cut off from the SWIFT system. Countries who placed sanctions have been classified as 'unfriendly' by the Russian government, with several mirroring sanctions being placed against them.

SO, WHAT DOES THIS MEAN?

1. Companies incorporated in unfriendly countries temporarily cannot transfer money abroad from their Russian bank accounts. This measure has affected 46 countries.
2. Foreign companies from unfriendly countries can send money to Russia, move funds inside Russia in any currency, but can't send money out of Russia.
3. Companies registered in the friendly countries can continue to send money abroad by existing scenarios without restrictions. They can also receive money from outside Russia and move funds inside the country.
4. A foreign company from any country can open an account in a Russian bank in roubles, US dollars, and euros.
5. Some foreign banks, for example, Deutsche Bank, UniCredit, Raiffeisen Bank, and Russian banks with foreign mother companies may still execute cross-border payments to Russia – always with full consideration of imposed sanctions and possible risk assessments. Approximately 10% of Russian banks have not been cut off from SWIFT and can be used for international payments, too.
6. Russia introduced a national alternative to SWIFT – the "System of Transfer of Financial Messages" ("SPFS"). Some banks outside the country are also connected to it.

IS A VISA REQUIRED FOR ENTRY INTO RUSSIA?

Yes, typically a visa is required for entry into Russia. There are different types of visas, including tourist visas, business visas, and work visas. The specific requirements and application process may vary depending on the type of visa and nationality. It is advisable to check with the Russian embassy or consulate well in advance of the planned trip to learn about the current regulations and to submit a visa application. The issuance of visas continues for citizens from unfriendly countries, and there are no restrictions in this regard.

Foreigners from countries not part of the Eurasian Economic Union require a work permit to work in Russia. The application process is somewhat intricate, and it is recommended to seek legal advice or engage a specialized service provider to navigate the formalities.



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