


Human Resource Services

The Human Dimension*

December 2007, issue 24



connectedthinking

PRICEWATERHOUSECOOPERS 



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William Schofield

HR challenges for employers with secondees working outside the Russian Federation

It is a phenomenon of the modern world that individuals and their employers seek experiences outside their “home” country and Russia is not immune from this. We have seen a growing tendency for Russian businesses to be acquisitive, and increasingly so, outside the Russian Federation. Such Russian household names as Gazprom, Lukoil, Norilsk Nickel have a firm foothold in their respective markets overseas. Alongside this expansion of corporate reach goes the movement of individuals, representing their head office overseas, scouting for new opportunities and swelling the foreign labour forces in newly acquired subsidiaries. However, in addition, a continuing number of Russian employees of foreign multinationals are beginning to seek challenges outside Russia with their foreign employer. In industries as diverse as professional services, confectionary, financial services and electronics we are seeing a significant growth in the number of Russian nationals assigned overseas.

Russia is also not immune from the challenges that go hand in hand with the movement of employees. This short article will consider some of the HR issues that need to be confronted and overcome. While the motivations of the corporate and individual may differ between the two groups identified above (employees of expanding Russian multinationals and Russian employees of foreign multinationals) the HR challenges are identical.

The life cycle of an assignment

The life cycle of an assignment can be seen in three distinct, challenging stages:

- identification of the role and matching with the employee
- the assignment itself
- repatriation

Identification of the role and matching with the employee

The first challenge to confront is the identification of the overseas opportunity and matching the needs of that role with the strengths, and indeed, the potential of a candidate. This requires HR, alongside the relevant business unit, to have a good grasp of the business requirements of the overseas entity and the strengths and weaknesses of local candidates. However, leaving aside, for the purposes of this article, a consideration of how best to understand the business needs of a foreign

subsidiary or parent, the need to match the candidate with the role is paramount. A significant number of foreign assignments fail due to a lack of planning and a lack of “fit”. To optimise the success of an assignment the HR team should have a clear understanding of, at least, an individual’s:

- career aspirations
- desire for overseas experience
- strengths and weaknesses
- language skills and cultural awareness
- adaptability and flexibility

With the best will in the world if an individual has all the relevant business knowledge, but lacks adaptability, the desire to work overseas or strong career aspirations a foreign assignment is unlikely to be successful and, depending on its nature may in fact be detrimental to the business. By the same token, an individual who actively seeks a new challenge, has demonstrated great flexibility in the work place and is seen to be culturally sensitive, is unlikely to prove a success overseas if their “technical” skills let them down.

What can help an HR team to reach the right conclusion regarding an individual? Clearly a culture of open dialogue between HR and employees is a good place to start, however, even more fundamental than this is the need for a robust appraisal system during which strengths are analysed, but also “weaknesses” are admitted and subsequently worked upon. Notwithstanding this, even within companies that are seen to have

a successful appraisal and performance process, an HR professional needs to be aware of a trend identified in some organisations of “parking” problem or underperforming staff overseas. In a recent study undertaken by PwC, albeit amongst “Western” businesses, an analysis of expatriated employees’ performance ratings was undertaken which indicated that a number of underperformers were being assigned overseas. It appeared that this was a way of avoiding difficult conversations with staff, shifting the burden elsewhere within the corporate empire.

Also a strong coaching culture, whereby an individual can openly discuss career aspirations with their immediate bosses, without fear of recrimination, is essential for identifying relevant candidates to work overseas. It is not unusual for an individual not to express openly a desire to work overseas for fear of being seen as someone not committed to the local business.

The combination of a strong appraisal process and a coaching culture is key to identifying the right individual to take up an overseas posting, however, in the tight Russian labour market this is not the only issue to consider. It is only part of the process to match an overseas need to a Russian national and to work to deliver the assignment requested by the business. The other side of the equation is to identify a suitable replacement in Russia for the expatriating individual. With the strong demand for labour, especially experienced labour, finding a replacement is not straightforward. Anecdotal evidence suggests that some foreign assignments do not get off the ground, or are extremely restricted in length, solely because the Russian business does not believe it can spare the individual. While this seems perfectly understandable from the short term business requirements in Russia the question must be asked as to whether this approach is in the long term benefit of the individual or the global business as a whole?

The assignment itself

Clearly the assignment itself can present numerous challenges for HR teams, even in the home country, and while “out of sight, out of mind” is a well practised philosophy, it is perhaps not

the best way to approach maintaining corporate relationships with expatriated staff.

Being on assignment can be a major wrench for people; not only is their personal life subject to great change with families uprooted from their social circles, new schools to manage and a whole new way of life to be confronted, but also the comfort of the well known and regular routine at work is taken away, albeit (hopefully) for a short period of time. The settling in process for an expatriate can be daunting. Anecdotal evidence suggests that the most common cause of an early termination of an assignment often involves a failure to culturally assimilate within the host country. However, it is not just early terminations that should concern HR representatives. Further evidence suggests that assignments, while not terminating early, can be less successful than hoped for, again partly due to cultural issues and an inability to adjust to different work practices.

So how can the home HR team help an expatriate in another part of the world manage the dislocation? Communication, communication and more communication. It is important for an expatriate, especially in the early part of an assignment, to feel that they still belong to their home business, so maintaining them on E-mail lists, arranging the occasional phone call and generally keeping them up to date on developments at home, can help to mitigate the sense of dislocation. Having a formal programme for communication, including the expatriate’s former business colleagues, is an easy and inexpensive way to help enhance the return on the investment of the overseas assignment.

The home HR team will, usually, also have some responsibilities with regard to setting remuneration. While many organisations will have a set policy for building up an expatriate package, including items such as, cost of living allowance, expatriate premium and home leave benefits, it is important for the HR team to be in a position to discuss the policy in depth with the individual. A lack of understanding of an expatriate policy often leads to frustration and disappointment for an expatriate, and this usually occurs at the start of an assignment when the settling in process should be their priority.





Many expatriate policies not only cover remuneration items in detail but also discuss the approach to personal tax issues in full. This would be especially important for Russian nationals working overseas. Currently, Russia enjoys a relatively low flat rate of tax and where an individual receives income solely from employment there is, generally, no need for the individual to become involved with the tax authorities on the assumption that the correct tax has been withheld at source. However, this all changes when working overseas. Not only may the individual have to start filing Russian tax returns, depending on their circumstances, but it is also very likely that a tax return will have to be filed in the foreign location. Furthermore, it is also likely that the rate of tax in the foreign country will be higher than that prevailing in Russia. Accordingly, it is possible that the increased tax costs could take away a fair amount of the value that was meant to be delivered to the expatriate by way of expatriate allowances and premiums.

To counter the issues with personal tax many employers have a very formal policy with regard to how tax liabilities will be satisfied – by the employee, funded by the employer or a combination of the two. In addition, it is also customary to provide expatriates, by way of engaging a third party, with assistance in their dealings with the relevant tax authorities. While it is usually the head office that creates the global policies, it is often the home country that has ownership of the implementation for its expatriates. So, whether it is the Russian entity as head office or it is a Russian subsidiary that is sending staff overseas, it is fundamental that the HR team has an excellent understanding of the expatriate processes and policies and is able to communicate them to their expatriates and to ensure their full implementation during the period of assignment.

Repatriation

The time of repatriation is just as important, if not more so, than any other part of the assignment cycle. Surveys conducted over the years with expatriates have shown that repatriation is the area of highest dissatisfaction among expatriates with respect to organisational policies.

International assignees, when nearing the end of their assignments, hope for a co-ordinated process, giving them an early indication of their next position and an adequate prospect for further career advancement.

However, very few organisations focus on either repatriation or the next career opportunity for returning expatriates. Accordingly, it is at this stage that expatriates can go through their deepest and most unexpected cultural and “under-appreciation” shock phase. Leading up to the date of repatriation an expatriate would generally welcome an honest and open dialogue with their home HR and business unit colleagues, so as to re-establish old contacts and to gain a clear understanding of their new role. These expectations often go unfulfilled with surveys indicating that as many as 75% of expatriates considering leaving their employer either during or after their work abroad.

The home HR team, in conjunction with the relevant business unit, has, therefore, a vital role to play in the repatriation process. An early intervention several months prior to the date of repatriation, outlining the roles and responsibilities of the proposed position, is a minimum requirement. A more detailed process, though, could reap greater dividends with the returning expatriate being more able to assimilate quickly in the workplace and, therefore, more likely to operate more successfully. Consequently a scheduled programme of telephone calls, a visit back to the home office to meet future colleagues and to have formal briefings regarding the role and expectations could well be a valuable investment.

Conclusion

As can be seen, HR has a significant role to play in the area of expatriation. It is a widely acknowledged fact that expatriates cost a business more than a locally recruited equivalent. Consequently, it is of vital importance to a business that an assignment not only proves an immediate success but that it can reap long term dividends and HR is an important cog in this aspiration - from the point an assignment is first initiated through to the time of repatriation HR can provide significant value to the individual and to the business as a whole.



Alexander Vinogradov

Results of HR Benchmarking Survey 2007

In recent years, with continuing economic growth Russia has furthered its integration into the global economy, evidenced by the entrance of major international players to different sectors of the Russian market and by the growing influence of major Russian companies abroad. Under these circumstances, evaluating human capital, which is one of a company's principal competitive advantages, and boosting personnel performance becomes a priority not only for HR professionals, but also for a company's managers and shareholders. These stakeholders have different approaches and face different issues. In order to make HR divisions more efficient, their managers need not only data on the market level of salary and benefits, but also information on such issues as the average costs of personnel recruitment, training and development, and the effectiveness of various processes, from HR administration to personnel appraisal. Company management need to understand the motivation and qualifications of their employees, their willingness to solve new issues, to implement new processes and to develop business. Shareholders and potential owners are interested not only in stable financial results, but also in detailed information as to the means used to achieve these results, and in the possibility of further growth, the company's advantages and potential risks associated with personnel.

The results of the HR Benchmarking Survey, conducted by PricewaterhouseCoopers on an annual basis, help find answers to these questions, and also help evaluate HR management's contribution to a business's success and set milestones for its further improvement. This is the first in a series of articles dealing with the results of this survey. In these articles, we will examine the main trends of HR management in Russia, compare key indicators with similar indicators in European companies and analyse principal weaknesses and competitive advantages of Russian practice.

The Game to Get Ahead

Based on the results of this year's survey, it is possible to say that last year's main trend has persisted, and companies operating in Russia are still ahead of their European counterparts in having a higher Human Capital (HC) Return on Investment, one of the key indicators of HC effectiveness. What is behind this result, and does it really mean that companies in Russia organise their workforce better than companies in Western Europe?

According to the survey, among companies operating in Russia the median¹ HC ROI is 2.3.

¹ If all the values in the sample are placed in order from lowest to highest, the median is the value occupying the middle position. This statistic is a good indication of the "typical value" for the market. With the median, it is evident that half the respondents in the sample have lower and half have higher values than the median value. From here on, all amounts are median values.

This means that every dollar invested in human capital as compensation saw a return of 2.3 dollars. This indicator is twice as high as the corresponding indicator for Western Europe companies, where it is only 1.16. In order to draw tentative conclusions as to the reasons for this gap, we should look at the calculation formula in more detail:

$$\frac{\text{Revenue} - (\text{Total Costs} - \text{Compensation})}{\text{Compensation}}$$

Revenue per employee in Russia and in Western Europe (on average) is approximately equal, coming to USD 210 000 and USD 214 000 per annum, respectively. From this, we can conclude that the main source of effectiveness comes from the area of costs. This can be supported by several facts. First, total costs per employee in Russia are nearly half of those in Western Europe, equalling USD 112 000, versus USD 203 000 per annum. Second, the share of employee costs out of total costs of a company in Russia, on average, is 15.7%, while in Europe it approaches 25%.

The Price of Success

In order to understand what price companies pay to achieve impressive financial results,

PricewaterhouseCoopers' survey offers a more detailed evaluation of employee potential. In particular, metrics such as recruitment, termination, learning and development investment, and compensation structure may serve as an objective source of information about a company's human capital situation. So let's use the survey results to consider some of these areas in more detail.

In a dynamic market, one of an HR department's priorities is to provide the company with the required number of skilled professionals. According to the survey, the resignation rate in Russia is higher than in Western Europe – 22.5 % compared to 13%. This fact undoubtedly plays a role in determining Russian companies' HR tactics and strategy. It should be pointed out that some Russian companies are quite successful in resolving the turnover issue – their indicators are half the median of the Russian survey and are under 10%.

In order to decrease turnover rate, HR management need more detailed information about the resignation profile in their companies. The PwC survey provides a large set of indicators that can be used to analyse, among other things, the resignation profile in relation to reasons for leaving, years with the company and job level.

Due to active market growth and overall labour market dynamics, the majority of Russian companies spend a lot of money every year on recruitment, adaptation and training of new people. Western HR managers face similar problems, but they resolve them differently. For example, in Europe, the external recruitment rate is 9.6% and the resignation rate is 13%, which means that about 1/3 of a company's vacancies are filled with internal promotions and personnel rotation, significantly reducing recruitment costs. How do Russian companies compare? With stable headcount growth in the majority of companies, external recruitment rate (22.3%) is nearly equal to resignation rate (22.5%). This may mean that companies have a tendency to “buy” in the market those professionals who are ready for the job rather than to “grow” them within the company. It is difficult to definitely determine the impact of this



trend on a company's operation, but one thing is evident: the creation of personnel reserve and internal promotion as a tool is not used widely enough, and it could save a lot of money for companies and motivate employees.

The key retention task is, primarily, to decrease turnover among middle and top management. First, high resignation rate among managers usually leads to high recruitment and adaptation costs. Second, high management turnover may have significant consequences for the company, deteriorating processes like decision-making and control over their implementation, and worsening working atmosphere. These issues are considered in detail by the employee satisfaction survey, one of the services offered by PwC Human Resources Services Group. Coming back to the issue of direct costs, we should note that according to the survey, the average cost to recruit a manager is 4.5 times higher than for a non-management position, equalling about USD 1500. The spread in value of the resignation rate within manager positions – from 31% to 6% (90th and 10th percentile) and further analysis of the resignation profile together with recruitment profile shows that companies have different approaches to this issue. Attention should be paid to the fact that leading Russian HR practices are still lagging behind those used in Europe, where the best companies have management turnover half of that in Russia (European 10th percentile - 2.9%). Above all, the results of the survey in Russia indicate that there exists an opportunity for considerable improvement in this area and for lower costs.

Effective Motivation and Compensation Tools

As previously mentioned, examining information about a company's remuneration system is one of the key ways to determine the effectiveness of HR management. Survey results indicate that Russian companies are more focused on cash payments than benefits. Thus, the median benefit to compensation ratio in Europe (11.3%) is three times higher than in Russia (3.5%). At the same time, the maximum values of this ratio (over 20%)



indicate that some Russian companies already allocate significant funds for benefits provided to their staff. An important aspect of benefit budget size is the fact that, as companies transition from rapid growth to stable development, this budget tends to significantly increase. In this vein, using PwC's survey results, companies can plan in advance their approach to bearing these types of costs, and evaluate their impact on the company's financial performance and their efficiency.

Survey results indicate that, in the participating companies, 23% of staff compensation is based on performance appraisal, while in the Western Europe this value is only 8%. Russian companies' approach provides for better cost control, ensures flexible organisational growth and, especially importantly, makes staff compensation directly dependent on company efficiency / performance. High values of this ratio in Russia may be one of the consequences of intensive growth in certain sectors, as well as of the risks and opportunities for business development associated with this growth. First of all, it is noteworthy that performance-related variable compensation in Russia (as a percentage of total compensation) is significantly higher than in Europe; this is true for all employee categories covered by the survey. For example, in Russian companies, the percentage of performance-related compensation for managers within their total compensation is 26%, which is double than for their European counterparts – 11%.

One of the remuneration system components that we would also like to touch upon is attendance-related pay. This category includes payments for overtime, shift work, unsocial hours premiums and rotating shifts. The level of attendance-related pay

shows to what extent a company needs additional resources and may serve as an indicator of workforce deficiency or mistakes in resource planning. According to PricewaterhouseCoopers' survey, in Russia this ratio composes 1.8% of total cash compensation, which is lower than in Europe (2.6%). It should be noted that during the survey, PwC consultants discovered that many Russian companies simply do not adequately record these costs because an unregulated working day is common practice, especially for office employees. At the same time, the absence of this information makes obtaining objective data about personnel load and the process for further planning considerably more difficult, and in the companies paying for overtime, it might lead to unplanned growth of these expenses. In this connection, it appears extremely important to systematically improve reporting systems and to increase the transparency of the HR process so that they become understandable for all interested parties.

In order to successfully find the answers to the questions raised in this article, companies need to have a full picture of all HR processes. In the next issue, we will discuss in more detail areas like recruitment, training and development, and we will also look to establish key performance indicators of HR department as a whole. The PwC survey allows the user not only to benchmark its HR processes and staff performance level, but also provides companies with clear and measurable evaluation criteria. Another of the survey's important objectives is to establish a common language and common approach to HR system analysis for company shareholders, managers and HR professionals.

Should you have any questions on HR Benchmarking Survey, do not hesitate to contact Natalia Akhmina, Alexander Vinogradov or Vera Bogatykh at +7 (495) 967-6000.

HR Benchmarking Survey 2007

Compared with the previous year, the number of respondents doubled, reaching 48. For this survey we collected data on 150 quantitative metrics that enabled us to evaluate core HR areas and processes: the impact of people upon a company's financial results; compensation and benefits; behaviours; recruitment; learning and development; HR organisational structure.

Among our HR Benchmarking Survey participants, 14 companies are from the financial sector, 10 are from consumer products manufacturing and trade, 9 are production companies, 4 represent the energy and mining industry, while retail trade and telecommunications are represented by 3 companies each. Other participants represent the automotive sector, professional services and pharmaceutical sector.



Natalia Parkhomovich

Foreign Tax Credit – Theory and Practice

The Russian Tax Code provides for the possibility to offset tax paid outside the Russian Federation against personal income tax withheld in Russia.

Tax can be credited only if the country where it is paid has a valid double tax treaty with the Russian Federation. If there is no such treaty, an individual may find himself in a double taxation situation, meaning that two countries might tax the same income. At the moment, the Russian Federation has valid treaties with the majority of its trade partners, and a number of signed treaties will become effective as soon as they are ratified.

Tax credit is based on the “foreign tax credit” method, resulting in tax paid in a foreign state being claimed in the Russian Federation. The amount of tax paid outside Russia that may be claimed as a credit cannot exceed the Russian tax liability, meaning that if tax paid in a foreign state exceeds the tax due in Russia, the difference will not be refunded.

The existence of a valid double tax treaty does not relieve a taxpayer from filing a tax return. It should also be noted that the granting of a tax credit is not a “default” action. The foreign tax credit is calculated based on the personal tax position of the individual in the foreign state for the respective tax period and documented confirmation of the amount of personal income received and the amount of tax paid in the foreign state is required. It is mandatory that supporting documents are issued by foreign tax authorities rather than by, for example, the source company which may have withheld the relevant taxes.

The country under whose legislation an individual is a tax resident grants the foreign tax credit. Under current legislation, an individual is recognised as a tax resident if they reside in the Russian Federation for no less than 183 days within a 12-month period. However, based on the Ministry of Finance’s recent clarification, the “final” status of an individual should be determined based on a whole taxation period – a calendar year (from 1 January to 31 December). Therefore, the tax residence of an individual ultimately

depends on their physical presence in the Russian Federation during a given calendar year.

In practice, the framework for obtaining a foreign tax credit is not fully established, and a detailed, proscribed procedure does not yet exist.

Article 232 of the Russian Tax Code contains general instructions as to the documents a taxpayer has to submit to the Russian tax authorities in order to be granted a tax credit, however, the authorities often demand that documents be prepared using Russian standards. These standards may not correspond to the standards of other countries. As a result, Russian tax authorities are not always prepared to work with the documents issued by the foreign jurisdiction.

As mentioned in accordance with Article 232 of the Russian Tax Code, the taxpayer should provide the Russian tax authorities with official documents confirming the amounts of income received and taxes paid in a foreign country. These documents should be issued by foreign tax authorities. Russian tax authorities are, more often than not, likely to request a notarised translation of the documents into Russian.

The Russian Tax Code establishes the deadline for submission of these documents as one year from the end of the tax period for which the taxpayer is claiming credit (for example, documents confirming foreign tax payment in 2007 should be filed with Russian tax authorities no later than 31 December 2008). This deadline creates additional difficulties: the taxpayer sometimes does not have enough time to obtain all the required documentation from the foreign tax authorities. In our opinion, this provision of the Russian Tax Code contradicts, to a certain degree, provisions of double tax treaties that provide for a taxpayer’s right to offset foreign taxes paid abroad but set no time limit on exercising this right.

A taxpayer applying for a tax credit may also face difficulties if the tax was paid in a country where the tax year does not align with the calendar year. Tax authorities in these countries may issue documents that confirm tax payment during the tax period established by their legislation (in the UK, the tax year ends 5 April; in Australia, 30 June; New Zealand, 31 March; South Africa, 28 February, etc), but Russian tax authorities demand documents for a specific calendar year. In practice, this difference leads to almost insurmountable difficulties for the taxpayer and

quite often is used by the Russian tax authorities as substantiation for refusing a foreign tax credit claim.

Taking into account the increasing number of individual taxpayers (both Russian and foreign nationals) who face double taxation issues and the absence of a procedure for offsetting taxes paid in a foreign country, this particular area of Russian tax legislation requires further development, and we hope that the legislation will be amended in order to simplify the process.





Larissa Petchkovskaya

Leadership as a Talent and its Development

There is nothing new in programs for key talent. However, companies often apply the following pattern: they select some high potential employees and arrange a several days field workshop for them. The contents of such courses may vary, but they would normally include the leadership theory and team-building.

Such programs undoubtedly will bring certain benefits, but it should be noted that leadership development is a chain of sequential actions, including both creation and implementation of training and development programs. Only if all components of the process are ensured, the highest possible result can be achieved. If one of the links in this chain is ignored, the efficiency is reduced.

The process for development of the company and its personnel includes the following stages:

- Attracting key talent;
- Identification of talent;
- Development;
- Deploy of the talent;
- Engage.

The first stage includes the following actions: increasing profile of the company as an employer, strategic planning of staff and required skills forecast. In order to ensure the second stage, one should clearly understand and formulate the concept of talent and leader and implement the talent search processes. It is a critical stage, as it provides us with the understanding of whom and how we are going to develop. It is impossible to be a universal leader and there are no universal tools to develop all talents. Each class or group of talents needs its own approach and methodology of identification and development.

There are four main groups of talents:

- Professional expert leaders
- Client relations leaders
- Business units' leaders
- Knowledge sharing leaders.

The methodology which proved efficient for one group may not bring desirable results while working with other groups. Thus, for identification of management talents of the future leaders a two-stage selection process is applied. Two criteria are used: performance (annual appraisal) and development potential (360 assessment, behavioural interview or data from assessment centre). The pool of applicants includes employees demonstrating performance considerably higher than the expected average level.

For the final definition of the program participants their value for the company and to a deeper extent their development potential are also considered. Having received the answer to the question "Whom are we going to train and develop?" we need to answer two more: "What subjects are to be taught? How do we train?"

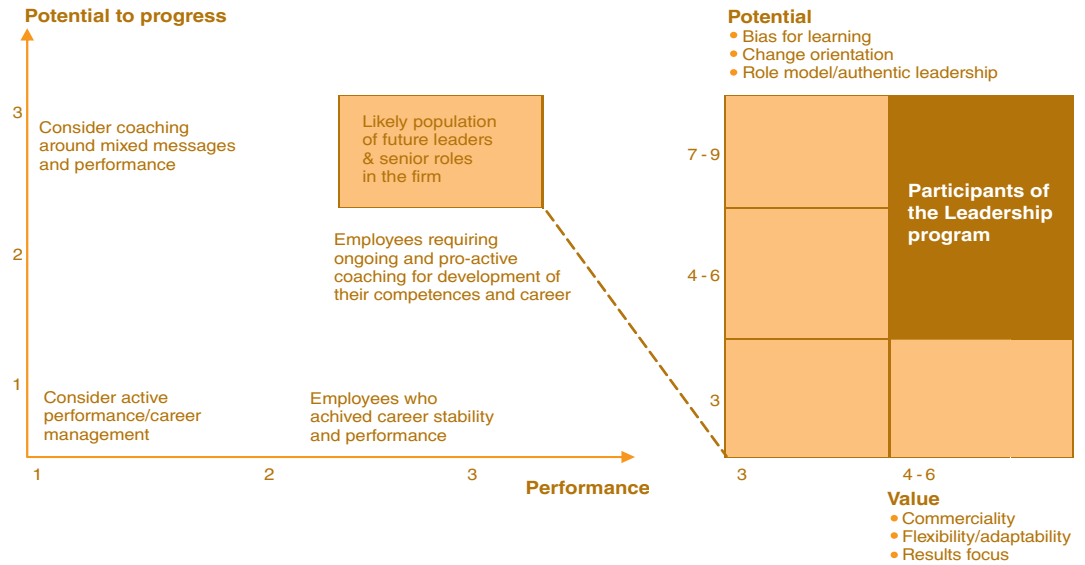
The long-term practical experience and advanced scientific research in management show that efficiency and success of a manager are defined by the competences.

The key competences defining the manager's efficiency are not so much professional (technical professional expertise), but more personal characteristics related to his/her motivation, belief and individuality.

Following results of the research carried out by US experts in management, we can conclude that the best managers have similar competences which are the basis of their success.

Manager needs a number of competences and skills, but which of them are crucial in the current

Talent identification matrix



business environment, if the company is striving for development and success in the market?

While defining competences of a successful manager we should not forget about such feature as an **emotional intelligence**. In 1912, a German psychologist William Stern proposed measuring a person's intellectual abilities by IQ coefficient of intelligence. In 1998, Daniel Goleman in his work "What makes a leader?" published by Harvard Business review shocked the community by stating that EQ – emotional intelligence is more important than IQ, since the control over one's own emotions and the ability to perceive other people's feelings properly more accurately describe the intellect than the ability to think logically. In his research which covered about 200 major international companies, Daniel Goleman found out that EQ is crucial for efficient management, accounting for 85% of its success, while IQ accounts for only 15%. The basis of EQ is the self-knowledge – the ability to objective self-assessment, including understanding of one's own moods, emotions and motivations, as well as their influence on other people. Successful leaders are realists, they know their strengths and weaknesses. The fact that emotional intelligence development is one of the most difficult competences is proved by

the following. The research showed that only 10% of managers assess themselves accurately. Effectively 70% of managers attribute themselves to the group of 25% the most efficient and successful managers.

In other words, 7 of 10 managers are confident that they are the best representatives of managers, while this is not the case.

On the basis of the above, there is a serious task of training and retaining new leaders within the company. The recent research in the area of management shows that traditional approaches to business training (in particular, MBA) will be subject to serious modifications in the nearest future, as they do not ensure the level of training required at present, and more importantly cannot comply with future challenges.

Nobody doubts that the main development takes place in the working space, in other words, in order to develop leaders we have to assign them the work ensuring development of leadership skills and opportunities to obtain new experience and show their abilities to the maximum extent. Having this in mind, we should compare collective and individual needs and define areas for investments.

One of the crucial components of the success is a clear and open plan.

In summary, the main purpose of talent development is to provide assistance to each employee in to fully develop his/her capabilities within the optimal period. What opportunities are there for the development of future leaders?

A full list of possible tools and methodologies is quite long:

- Preparation, approval and control over of career paths and personal development plans;
- Internal development: specific tasks/assignments enabling the person to develop the required experience and competences;
- Other people's experience: monitoring the person who has a highly developed competence;
- Management of specific developing business projects;
- Involvement in interdisciplinary project teams;
- Rotation programs;
- Secondment to a superior position;
- Involvement of the program participants in creation of specific forums on business issues in the Intranet;

- Business divisions' days;
- Knowledge lunches/breakfasts.

In order to implement leadership development programs, transformation training and development proved to be highly efficient. The main idea is to take the program participants from their comfort zones, make them look deep inside themselves and see their strengths and limitations. It has been proved that only those managers who know, understand and accept themselves and have a good knowledge of the business environment and the situation may become efficient leaders.

Therefore, the proposed concept makes the participants think about big issues, e.g. "What am I? How do I want people to remember me?" What is the focus of the program? It is self-searching, emotional intelligence, true leadership, innovative leadership. These programs are arranged at a deeper emotional level and make the participants rethink their role within the organisation. The research shows that such programs increase the loyalty to the company not only by its participants, but also by all staff.

Each company may decide whether to invest in the creation and implementation of talent development programs. One thing is indisputable: only these programs can make development and training the company's competitive advantage.



PwC Financial Sector Compensation Survey: 2007



Ksenia Denisova

General information

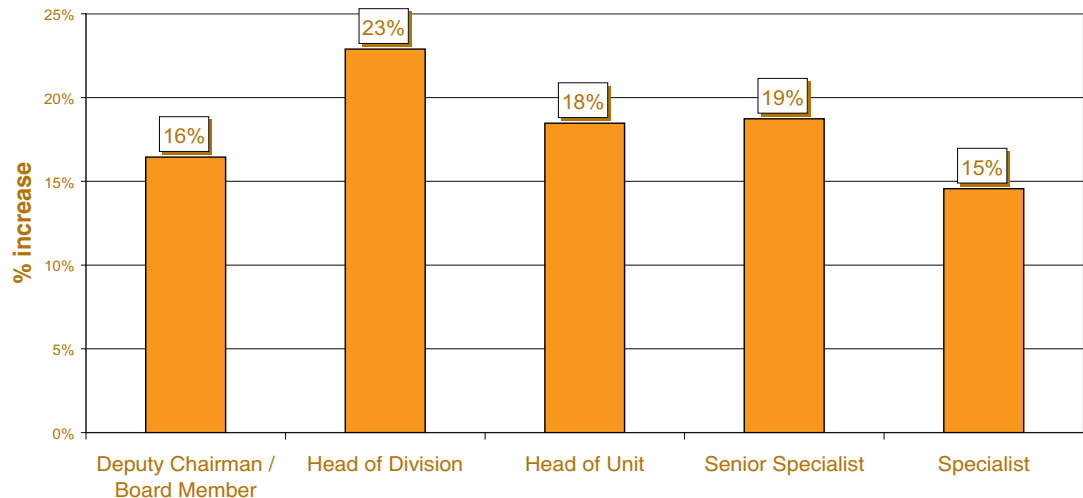
- 80 financial institutions provided information for this Survey, an increase of 11 from last year.
- The Survey contains an analysis of compensation levels for Moscow and 46 other Russian cities.
- 275 positions for Moscow and 73 positions for other cities were covered in the Survey.

Regarding participation in the Survey, please contact Ksenia Denissova over the phone (495) 967-6000 (ext. 2432) or via e-mail ksenia.denissova@ru.pwc.com.

Major trends (during the period from 1 June 2006 till 1 June 2007)

- 27 banks switched to rouble-based salaries, so currently almost 90% of banks express salaries in roubles.
- An average salary increase was 18%*, including 4% due to devaluation of US dollar to Rouble.
- Bonuses have grown significantly, which resulted in average total compensation increase of 27%.

2006 – 2007 Moscow base salary dynamics (average increase = 18%)



- This year 6 participants introduced private pension plans, so there are 16 companies providing this benefit to their employees. 4 more participants plan to introduce private pension plans in 2008.

* Please note that salary growth was also influenced by devaluation of US dollar to Rouble (exchange rate of 26.9 roubles per dollar was used in 2006 against 25.9 in 2007)

Human Resource Services

Key services:

Reward

- Executive compensation
- Compensation surveys
- Job evaluation, grading and salary structures
- Incentive compensation
- Equity based compensation schemes / long term incentives
- Pension plans

HR management

- HR strategy and processes improvement
- HR benchmarking
- HR aspects of transactions
- Performance management
- Employee engagement surveys.

Personal income tax optimization and reporting

- Employment, secondment and assignment structuring, including tax and legal implications
- Policy consultation, including expatriate policy design and review and benchmarking surveys
- Tax equalisation/protection consultation, including hypothetical tax calculations
- Individual tax compliance
- Employer and employee tax planning.

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