



Growth Mindset in **Russia**

*How German investment is fuelling growth
and achieving ROI*

Cross-border transactions show that Russia has the highest FDI growth rate among the top 10 European countries by number of FDI projects. German companies are its biggest investors, with 36 projects, primarily in industrial production.

What's driving investment? Opportunity.

Among other factors, sanctions have led to high corporate savings in Russia, while a slowdown in corporate profits has curbed domestic investment. High levels of employment and rising salaries are prompting consumer spending, notably on new cars, sales of which were up nearly 20% in 2017. Less domestic competition, changing demographics and government incentives are therefore encouraging those with FDI ambitions.

However, with the opportunity for growth comes the need for strong leadership, particularly in a complex market. Plant facilities, forming the backbone of industrial production, require commitment, but finding the right leaders is a challenge. Boyden Russia spoke to three prominent business leaders to explore growth strategies in the market:

- Tomas Duffek, General Manager, L&HC (Laundry & Home Care) Russia, Henkel
- Dr. Stefan Mauerer, Chief Financial Officer, AvtoVAZ
- Dr. Thomas Staertzel, Managing Director, Porsche Russia

Recent Assignments: Leaders acquired through Boyden German HQ and Russian companies

CEO	Russia	Leading global e-commerce company
CFO	Russia	Leading sports car manufacturer
Deputy COO	Russia	Leading manufacturer of cars and commercial vehicles
General Manager	Central Asia	Sino-German joint investment and state enterprise
General Manager	Russia	Leading manufacturer of cars and commercial vehicles
Managing Director	Russia	Manufacturer of power equipment
Sales Manager	Russia	Manufacturer of electronic and mechanical sensors
Sales Manager	Russia	Leading manufacturer of cars and commercial vehicles
CEO	Russia	Major gold producer
CEO	Russia	Major FMCG producer
CEO	Russia	Major graphite producer
CEO	Russia	Major real estate company
CEO	Russia	Major hypermarket chain
CFO	Denmark	Major B2B producer
HR Director	Russia	Major utility company
Head of Supply Chain	Russia	Major pharmaceutical producer



Tomas Duffek
General Manager, L&HC Russia
Henkel

Tomas Duffek, General Manager L&HC Russia at Henkel came to Moscow in 2015 with Henkel Group, having held marketing, sales, finance and General Manager positions in other markets such as Austria, Slovakia and Hungary. He is now responsible for marketing, sales, R&D, production and supply chain in Russia.

Tomas Duffek spoke with Olga Scherbakova, Managing Partner, Boyden Russia.

Olga: What are the big leadership challenges for a CEO in Russia regarding people?

Tomas: A major challenge for leaders in Russia is motivating the team to stay with the company and try to reduce churn. Our people are bombarded every day with offers from other companies and recruiters. 'Bombarded' is a strong word, but it is different to Europe, particularly Germany.

Succession planning is also a top priority, because the official notice period in Russia is two weeks, instead of the three-month period that is more common in Europe.

Olga: We find that at the leadership level, Russian and international companies today face similar challenges. The majority of our executive search assignments is to replace outgoing or retiring senior executives, rather than to acquire additional leaders to lead new growth. What do you find at Henkel?

Tomas: Yes, the predictability of growth is a topic also for us. Russian executives are educated, work hard and are very career orientated – they aspire to a promotion every two years, so we try to reflect their progress in terms of job titles and special positions, projects and so on. Managing salary expectations is an associated challenge.

Olga: Over the years there has been significant salary inflation, so businesses that are under pressure with slowing corporate profits are considering managers who offer better value. This requires a lot of skill, because when competing for people today, clients can no longer offer the big increases in salary that enabled them to hire the people they needed in recent years.

Tomas: We are fortunate at Henkel, because Russia is one of our top five markets globally, with robust market share. The brand is very strong and we are seeing further growth opportunities in the future. This puts us in a good position in the market.

Olga: Henkel is a good example of a long-term investment strategy in Russia. At this stage of their

maturity, international companies have had a lot of people working in Russia over the last 10-15 years.

Some stagnation has developed, the focus is less sharp and the appetite less strong, so long-term executives are being replaced with more driven, high potentials. These aspiring leaders, with investment in learning and development, could deliver more for a lower salary.

“The business environment is always changing and to stay cohesive as a team we must communicate all the time.”

Tomas: Yes, we have a strong focus on learning and development at Henkel. The company's global distance learning supports our employer branding, particularly in Russia.

Olga: Among our clients, we are seeing expatriates coming back, but they must have local experience, speak Russian and have a deep understanding of the market. Is that the case at Henkel?

Tomas: It is essential, whether a local or a returning expatriate, that executives understand the Russian mentality. Here in Russia you have to communicate more, partly for cultural reasons, but also because the business environment is always changing and to stay cohesive as a team, we must communicate all the time.

Olga: Looking more globally now, have sanctions had an impact on your business?

Tomas: Similar to other businesses, we have intensified localisation efforts in the past years and we are quite successful in this, with more than 80 percent of our products already produced in Russia.

In addition to this, there is a growth of big national retailers happening, which means we also have to reshape our sales team on a continuous basis, since the environment is on the move.

In Russia, it is often a question of reorganising the business and also choosing the right product portfolio rather than pursuing more predictable growth opportunities in Europe or in the United States.

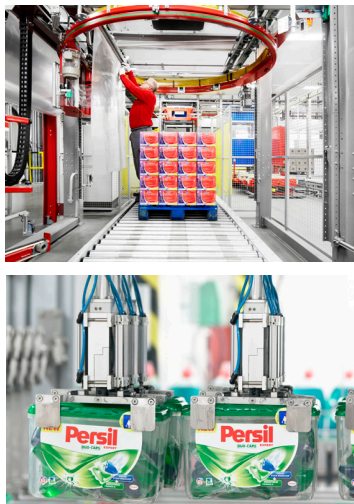
Olga: What is your experience of running a European headquartered business in Russia?

Tomas: From the European side, there is always some uncertainty and big interest at HQ about Russia, because it is such a big, yet different market.

This means that communication, again, is essential and needs to be constant so that you can explain the market and put Russia into context from a commercial perspective.

“It’s a question of reorganising the business and selecting the right product portfolio in Russia.”

We need to ‘sell’ and explain the opportunities that Russia offers, and for that – together with your senior team – you need a long-term, deep and flexible understanding of the market.



Henkel operates worldwide with leading brands and technologies in three business areas: Laundry & Home Care, Beauty Care and Adhesive Technologies. Founded in 1876, Henkel holds globally leading market positions both in the consumer and industrial businesses with well-known brands such as Persil, Schwarzkopf and Loctite. www.henkel.com

Working Cross-Border in Germany with Dr. Robert Winterhalter

“I have personal experience working with different businesses in Russia for more than 20 years. As an international line manager I helped to set up the first distribution network for a global IT and professional services firm in Russia. My interest in the country, history and culture began to strongly increase while taking further training at the Russian Presidential Academy of National Economy and Public Administration in Moscow. I help European and global clients to acquire transformational leaders and find the right senior executives to drive growth.”

Dr. Robert Winterhalter is a Managing Partner, Global Leader of Boyden’s Human Resources Practice, and a member of the Consumer & Retail and CEO & Board Services Practices.



Dr. Stefan Maurer
Chief Financial Officer
AvtoVAZ

Dr. Stefan Maurer, CFO at AvtoVAZ, is a German national whose career in consulting and in the automotive industry has taken him to Russia, Brazil, Japan, China, Panama and South Africa. At AvtoVAZ, Stefan oversees 1,500 people running Treasury, Accounting, Control, Pricing, Corporate Development and IT at Russia's largest automaker (Lada brand), part of the Renault Group.

Stefan Maurer spoke with Dina Akimova, Partner, Boyden Russia.

Dina: In a market known for volatility – in exchange rates, GDP and oil price – how do you balance investment plans with cost containment, particularly in a cyclical industry?

Stefan: We have an expansive, long-term investment programme. We invest during a downturn to avoid investing at the top of the market, so we had to do very little restructuring during the most recent crisis. We are gaining market share, currently at about 20 percent, and AvtoVAZ accounts for 30 percent of foreign direct investment by OEMs in Russia.

GDP volatility is a major difficulty that hinders the development of the whole country; if you have to build this risk discount into every business case, less investment will happen. In Russia, the automotive market is underrepresented and it's true that a cyclical market is high risk for investment. So, you need to contain fixed cost, capex and opex and be as lean as possible. You have to not bet on a market growing as much as you hope, so that revenues go into profits, not fixed costs.

Dina: Do you draw upon your experience in other volatile markets?

Stefan: Yes, I was in Brazil during the long-term growth cycle between 2004 and 2012. Managers focused so much on expansion rather than cost that companies became bloated. It was so widespread that it contributed to the 2012 crisis. People had forgotten about crises and expanded cost structures to excess.

Dina: How do you keep cost structures down at AvtoVAZ?

Stefan: Contrary to many industries where salaries are one of the biggest cost factors, 70 percent of our costs come from purchasing parts. In the automotive industry, salary costs are usually overestimated in their potential for saving costs across the company.

Dina: Many of our clients find that salaries are escalating, which causes difficulties in maintaining

the talent pipeline and competing to hire the right leaders. Is this also your experience?

Stefan: Salary costs are increasing, despite cost efficiencies in reducing headcount, due to above inflation salary increases. I work closely with the head of HR and we monitor salary levels across the region. Ours were not sustainable in the long term, so our payroll is decreasing less than you would expect. However, this is typical in Russia. We are in a good position at AvtoVAZ compared with our peers.

The fact that the HR leader and I work well together is very beneficial, both for talent planning and head count reduction. We can ensure that we don't cut into areas of expansion and instead focus on removing inefficiencies in functional areas.

Dina: You have a very keen focus on cost. Is that partly driven by the pressure of quarterly reporting and performance targets from HQ?

Stefan: You can't choose your parents or shareholders, so we are fortunate that they do not optimize short-term gains at the expense of long-term benefit. We are very happy with our HQ relationship – they have good knowledge of our local market and easy access to the leadership team.

Dina: You became CFO at AvtoVAZ three years ago at just 38 years old. What are the leadership traits that enabled you to be so successful?

Stefan: Trust is critical. It is very important to be able to trust your first line people and those on the line below. If you have no first line who you understand, who also understand you, then you have already lost. I know how I need to treat people in my first line: If they say there is an issue, then there is an issue, and if they do not come with an issue, there is also no issue hidden. In the second line, if there is an issue you have to think about what is behind it and if it really is an issue.

In Russia particularly, you have to be aware that you don't always get the full picture. People explain only

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“You can only convince by fact and by reason, not by relationship.”

their side, so it all sounds clear, but when you interview someone from the other side, you find things they didn't think to tell you.

You find people like this everywhere, although almost never in Japan and less so in Brazil. There is a greater proportion in Russia. There is also a tendency in Russia for people to overcome personal or performance deficits by having good relations with the leadership. But this is not good for business. You can only convince by fact and by reason, not by relationship. Flexibility is also very important – not just being flexible, but really exercising judgment in how flexible you can be. When discussing KPIs for example, it's about knowing how much discussion is effective and when too much becomes a negotiation.

Dina: You have a lot of international experience. Do you think this is important for leaders in Russia?

Stefan: AvtoVAZ is not a company where the leaders are international and the rest of the employees are local. We have international representation across all top and middle management levels and in my first line there are lots of Russians, which is good in this environment. Our board is very international – three French, two Germans, a Slovenian, Czech, Turkish, Indian and Canadian, and more than half are Russian citizens. The representation of stakeholders from different nationalities is valuable in advising us on transforming the business.

Overall in Russia a large proportion of people have no international experience. It's the same in many countries, but particularly in Russia. There is a cost implication here, as international people and staff mobility to other countries cause salary inflation, but it is important to develop more global experience.

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Dina: How do you go about this at AvtoVAZ?

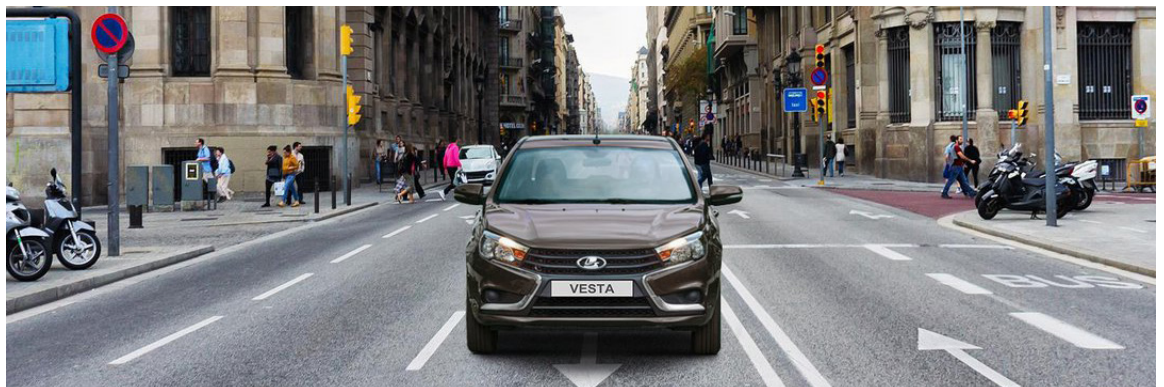
Stefan: We send people for training, we have them learn English, engage with international colleagues and do temporary assignments in other countries. This includes sending people to work in the Renault HQ in Paris and other locations, which I see as a particularly valuable investment.

Dina: Why is it so important? What does international exposure bring?

Stefan: It brings diversity of experience and outlook, and it is stimulating to be in such an environment. It is the same with female executives. Diversity is very important and we don't have enough women in the senior leadership team. Step by step, we must develop women and get them up the ranks. If no one elevates them from lower to middle management now, in five to 10 years' time there will not be enough women to promote from middle to top management positions.

Dina: What advice do you have for aspiring leaders in Russia?

Stefan: Don't underestimate yourself and don't give up in the face of a challenge; everything is possible somehow. Young people need to develop long-term stamina. This is much more important than being in the top five percent for IQ, or in the top five percent at university, or having the best connections. Resistance and resilience are more important qualities an individual can possess during one's career.



AvtoVAZ is the largest car manufacturer in Russia, producing one-third of all cars in the country. Its Togliatti plant is one of the largest worldwide, producing cars under four brands: Lada, Renault, Nissan and Datsun. AvtoVAZ's Izhevsk plant produces cars under the Lada and Nissan brands. The company employs nearly 50,000 people directly, and many more through its suppliers and dealers. www.lada.ru



Dr. Thomas Staertzel
Managing Director
Porsche Russia

Dr. Thomas Staertzel is Managing Director of Porsche Russia, a 100% subsidiary of Porsche AG, importer with the following functions: retail sales, after sales, imports, marketing, HR, finance, legal & compliance. Thomas reports to Porsche AG in Stuttgart, Germany.

Dr. Thomas Staertzel spoke with Dina Akimova, Partner, Boyden Russia.

Dina: How would you describe your business in Russia today?

Thomas: In general, 2017 was a challenging year, but we succeeded in overcoming the difficulties. We see that the premium market is still struggling; however, the automotive market for mass manufacturers is buoyant and grew by 15 percent in 2017, which has invigorated the whole supply chain.

Recent months for Porsche were good, with a stability and product portfolio stronger than ever. This is a very important factor. The industry is changing in Russia and globally, so we try to anticipate customer needs and changing consumer behaviour.

The dealer network is one of the most important parts of Porsche's brand development strategy, because dealers are our direct communication channel with the customers. In recent years we have worked with the same partners. We do not mainly expand the network quantitatively, but rather invest in the professionalism of personnel, their motivation and profitability.

Dina: A number of our clients in the consumer and industrial sectors have diversified their product portfolio in Russia in recent years. What is your growth strategy?

Thomas: We definitely expect to see stronger growth again through our core business, financial products from Porsche Financial Services that we introduced, other projects such as Porsche Approved (used cars business), Porsche Extended Warranty, stronger after sales performance, quality of repairs which is best in class worldwide, and customer relationship management.

Porsche is famous for its German engineering and our priority to maintain this USP remains unchanged. As Porsche has its production facilities only in Europe, we focus on customer centricity, industry benchmarks in after sales, and the fireworks of client events. In 2017, despite a challenging economic and

financial situation, there were three new dealerships opened in Ufa, Voronezh and Krasnoyarsk, and one more will open in Samara in 2018.

This year will be exciting when the new generation of Porsche Cayenne is launched. This is our best-seller in the SUV-driven automotive market in Russia. We expect the new model Porsche Cayenne and well-established Panamera and Macan to take us back to growth in 2018.

Dina: What impact do global challenges have on the business, such as EU sanctions and other investment restrictions?

Thomas: Sanctions affect us indirectly, mostly in retail financing areas, but they have had an impact across the whole luxury goods market and the automotive business is no exception. Russia is a highly volatile market and we have to manage our business against a rather weak local currency. Nevertheless, we find that the market welcomes Porsche as a German business, so we do not feel any particular pressure or restrictions.

The current outlook is rather conservative, due to the political uncertainties in Russia and Europe, which is obviously a common sense concern. However, Russia is an important market for Porsche and we enjoy support from headquarters in our market exploitation strategy and brand development.

Dina: How have economic conditions affected your approach to talent?

Thomas: Porsche has been in the Russian market since 2003. The company has been through different economic conditions in the past 15 years, but one thing definitely remained unchanged: As a strong brand, we have succeeded in attracting very talented young Russian professionals to our business.

Porsche in Russia strives to become one of the preferred employers in the industry. We are happy to say that the fluctuation rate at Porsche is very low, with very loyal and knowledgeable staff.

"Russia is one of the most interesting markets in the world. It changes a lot, with new challenges every day. From a global perspective, it is still a volatile, young market with a short-term financial focus."

Dina: We find that Russian executives are much more in demand now. Expatriates are less attracted to this market, but businesses here really need Russian expertise, so this is not a problem.

Thomas: That is true. Our Russian team is young and very dynamic. The managers are very capable and responsive to change, so we are fortunate in having a stable team who is very loyal. The employees of our Russian company could be characterised as self-driven, targeted to success, not afraid to take responsibility and highly motivated.

I am working with the team to transition away from direct supervision to autonomous projects and goals. It's important that our aspiring local leaders develop their management thinking, understand the bigger picture and have a strong grasp of the figures.

Dina: Are there any learnings from Russia that would be valuable in other markets?

Thomas: Russia is one of the most interesting markets in the world. It changes a lot, with new challenges every day. From a global perspective, it is still a volatile, young market with a short-term financial focus, which makes investment decisions quite challenging. The need to be flexible, agile and commercially perceptive is growing worldwide, so any learnings in that context are important to share.

Dina: Do you have any advice for European companies looking to expand into Russia?

Thomas: Russia is a market with strong potential and companies that possess a long-term strategy and commitment are rewarded with good results. One should always think about both equal and un-equal conditions here. There is a dynamic business environment linked to business hurdles and trends regarding governmental regulations. My recommendation would be to follow the business mission and principles, act local and accept the challenging circumstances.



Porsche AG is shaping the future of the sportscar – this is the theme of Strategy 2025. At the heart of the strategy is our future product portfolio. The sportscar of the future will blend the history and values of the Porsche brand with innovative technologies, while at the same time ensuring sustainability. In achieving this, topics such as electromobility, digitalization and connectivity will play an important role. Embracing these topics will allow us to shape the exclusive and sporty mobility of tomorrow. www.porsche.com/russia

Working Cross-Border in Germany with Richard Fudickar

"The Boyden teams in Russia and Germany have worked together for more than 10 years, creating a well-developed model for regional and global clients. I lead client relationships in the industrial, automotive and technology sectors. In recent years I have seen a surge in cross-sector search to find C-level executives to lead multidisciplinary teams. Our client-focused approach means that we have a consistent understanding of their business in different markets. We are used to working in a changing environment and make sure our candidates are savvy about developing their careers in line with market fluctuations. We always interview candidates in person before presenting them to the local business leaders and HQ executives. We look for a growth mindset, intercultural experience and integrity — so most of the executives we place are promoted and develop long-term careers within the company."

Richard Fudickar is a Managing Partner, Global Leader of Boyden's Automotive Practice, and member of the Industrial Practice.

Contact Us



Dina Akimova
Partner
Moscow, Russia
+7 495 256 80 68
dakimova@boyden.com



Olga Scherbakova
Managing Partner
Moscow, Russia
+7 495 256 80 68
oscherbakova@boyden.com



Richard Fudickar
Managing Partner
Bad Homburg, Germany
+49 6172 18 02 54
richard.fudickar@boyden.de



Harald Harbs
Managing Partner
Munich, Germany
+49 89 858 3699 20
harald.harbs@boyden.de



Dr. Gerhard J. Raisig
Managing Partner
Bad Homburg, Germany
+49 6172 18 02 53
gerhard.raisig@boyden.de



Werner Schwab
Managing Partner
Bad Homburg, Germany
+49 6172 18 02 39
werner.schwab@boyden.de



Dr. Robert Winterhalter
Managing Partner
Munich, Germany
+49 89 858 36 99 88
robert.winterhalter@boyden.de

Boyden Russia

Our team of 11 search professionals in Moscow provides leadership expertise in different sectors to local and global clients investing in this key global market. Russia is a critical link in Boyden's ability to provide client advisory services in developed and developing markets around the world. The Russia team strengthens Boyden's global expertise in Board and C-level roles, particularly in oil & gas, industrial, infrastructure & transportation, private equity and technology & telecoms.

Boyden Germany

Boyden Germany has offices in Düsseldorf, Frankfurt, Hamburg and Munich. Boyden Germany fulfils a critical role in helping clients implement their strategic growth plans worldwide. Our experienced associates cover a wide range of industries and services from automotive, engineering, telecommunications and IT, board search, and interim management. Boyden Germany is a business leader in its community and a resource for clients worldwide.

About Boyden

Boyden is a premier leadership and talent advisory firm with more than 65 offices in over 40 countries. Our global reach enables us to serve client needs anywhere they conduct business. We connect great companies with great leaders through executive search, interim management and leadership consulting solutions. www.boyden.com