

# Managing Compensation Programs in the Face of Russia's Sudden Currency Devaluation

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## Sanctions, Oil and a Weakened Currency

Russia's economy has weakened sharply over the last year, in large part due to Western sanctions and a significant drop in the price of oil. GDP growth in Russia was nearly flat in 2014, at 0.6%, and the economy is now expected to shrink by 3.0% in 2015 (Appendix Table 1). Russia, whose primary export is oil, is feeling the impact of declining energy revenues as oil prices – now at less than \$50 a barrel – have hit price points less than half of what they were at the start of 2014 (Appendix Table 2).



These economic challenges are contributing to a dramatic depreciation of the Russian ruble (RUB) relative to the US dollar (USD), causing the effective price of imports to soar. In the space of just a few months, the Russian Ruble has lost about half of its value against the US dollar; with the exchange rate moving from 35 RUB per \$1 USD to 65 RUB per \$1 USD (Appendix Table 3). Viewed another way, this means that the cost of imported products, foreign travel, purchases abroad and expenses within Russia denominated in US dollars have basically doubled.

Many goods and services sold in Russia are locally sourced, so their prices are not directly impacted by the country's currency devaluation. However, the impact on the overall economy of Russia is still substantial. Inflation is on the upswing and has now hit double digits; Russia's consumer price index (CPI) grew by 11.4% in December 2014 (Appendix Table 4) and is now at almost twice the rate of inflation from a year earlier. All Russians are feeling the pinch.

## Assessing the Situation in Russia

Against this backdrop, Russian employees at multinational companies are starting to ask their employers to do something to keep them whole. Most companies are still assessing the situation and evaluating what do next— including doing nothing at all. While it's clear that Russian employees have lost some purchasing power, the degree of the hardship they face is not yet fully understood. Additionally, the

current situation could quickly change; at the moment, companies face a rapidly moving target. There's also an aspect of "everyone being in the same boat together," meaning corrective forces in the pricing of housing and consumer goods will eventually take hold. Companies are also unclear about who should bear responsibility to fix this situation, let alone the best approach for doing so. Is it the responsibility of a US corporation to step in to try to mitigate the impact of acute macro-economic and political forces on behalf of employees?

To address these topics, Radford conducted a custom survey in mid-January, collecting data from US multinationals in the technology sector with employees in Russia. Nearly half (49%) of all respondents to the survey indicated they are currently taking no special actions at this time. They are not changing their compensation programs or adopting special one-off measures. Most companies have adopted a "wait-and-see" approach as they continue to monitor economic trends.

A few enlightening comments from surveyed clients include:

- "Given that the current political and economic instability is still fairly new, we are reluctant to take corrective action on salaries or introduce ongoing exceptional bonus arrangements until we have more time to see how this develops."
- "The tough question seems to be, 'Is this an issue that the employer should be addressing?' Right now that seems to be holding companies back from taking action."

## Taking (Tentative) Action

Although a near majority of companies appear to believe the currency situation in Russia needs more time to play out before they take action, some organizations have decided to step in on behalf of their employees. However, among surveyed clients already making adjustments to compensation programs, their actions tend to be conservative or temporary in nature. The most common reaction is to raise overall salary increase budgets for 2015, a move currently underway at 20% of custom survey participants.

Another 14.3% of companies will now review base salaries twice a year, but they may not necessarily adjust pay. This sort of approach is often cited as a best practice in markets experiencing volatility, whether from fast growth or other extreme economic situations such as hyper-inflation.

As a point of reference, overall salary increase budgets for Russia ranged from 6.2% to 8.8% in 2014 (from the 25th to 75th percentiles). Radford's Q4 2014 Trends Report indicates companies are planning to elevate overall salary increase budgets for 2015 to a range of roughly 8.0% to 9.0% (Appendix Table 5). Preliminary figures from Radford's Q1 2015 Trends Report are not dramatically different from those published at the end of last year, again pointing to a cautious approach by companies to address Russia's currency devaluation.

A minority of companies (about 10%) are providing a one-time bonus (e.g., equal to one month's pay) or providing a special allowance for a temporary period of time (e.g., three months of pay, reviewed quarterly).

What companies are not doing is switching from paying Russian employees in rubles, which virtually all companies currently do, to paying staff in US dollars. The vast majority of companies establish Russian pay levels by benchmarking to local market practices in rubles. A small segment of companies (about 10%) peg the value of their ruble salaries to the US dollar. Most companies that previously pegged their ruble salaries to the US dollar have moved away from this practice as pegging (or indexing) one country's pay levels to another country's currency can create erratic changes and extreme distortions relative to actual local market pay conditions.

## Key Considerations

As companies continue to gather more information and monitor the situation in Russia, we believe it will be helpful for HR and compensation professionals to ask themselves the following questions before taking any actions to adjust compensation:

- **What is the true degree of hardship faced by your Russian employees due to the current economic situation?** Is the country's currency devaluation impacting their ability to purchase basic necessities or is it difficult for employees to maintain their current standard of living? The answer to this question might influence whether a company decides to implement a special allowance in a fixed amount (e.g., for basic goods and services) or a bonus set as a percentage of salary (e.g., to maintain a current standard of living).
- **How should the amount of a special pay accommodation be determined?** While acknowledging that the Russian ruble has depreciated and inflation is increasing, it is best not to tie salary actions or special accommodations directly to these indicators in a formulaic way. Rather, if taking any special pay actions, do so with a clear rationale in mind as to what any change in practice, special allowance or temporary bonus is intended to accomplish and for how long. Then, monitor actual market pay as per usual practice.
- **How will a special pay action align with current retention policies?** Consider whether requests from the local business unit for special pay actions are on behalf of all employees or key employees. While voluntary employee turnover in general has not changed significantly in Russia over the last year, for highly talented employees there may be more outside opportunities given current market conditions. If requests for additional pay are on behalf of key employees, they might be handled selectively within general retention policies.
- **How will your policies for managing a special pay action in Russia align with corporate policies elsewhere in the world?** Many companies, especially large multinational firms, operate in diverse markets, many of which experience dramatic economic fluctuations at one point or another, whether recessionary or inflationary in nature. Do you have a process in place to monitor and address similar situations in a consistent manner? Do you have any precedents you can follow from other parts of the world?

To learn more about accessing complete results from Radford's recent custom survey on compensation actions taken in light of Russia's currency situation, write to Marie Brinkman at [mbrinkman@radford.com](mailto:mbrinkman@radford.com).

To learn more about Radford's compensation survey solutions in Russia and more than 80 additional countries, please visit: [radford.com/home/surveys/](http://radford.com/home/surveys/).

## Appendix

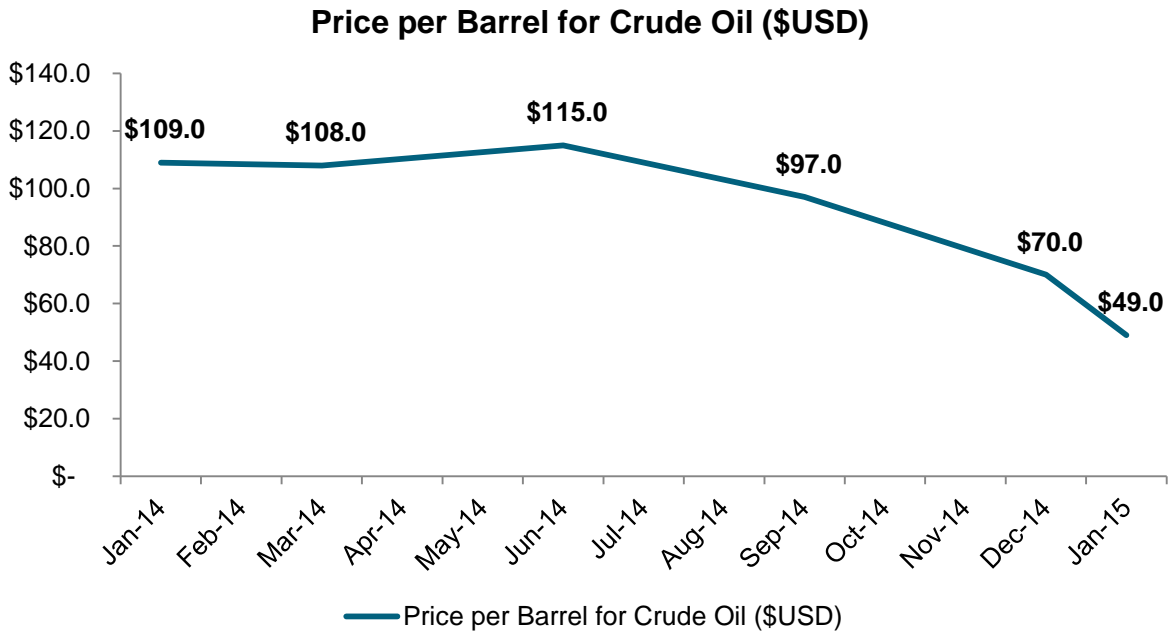
**Table 1**

Source: International Monetary Fund (IMF) World Economic Outlook (WEO) Report, January 2015



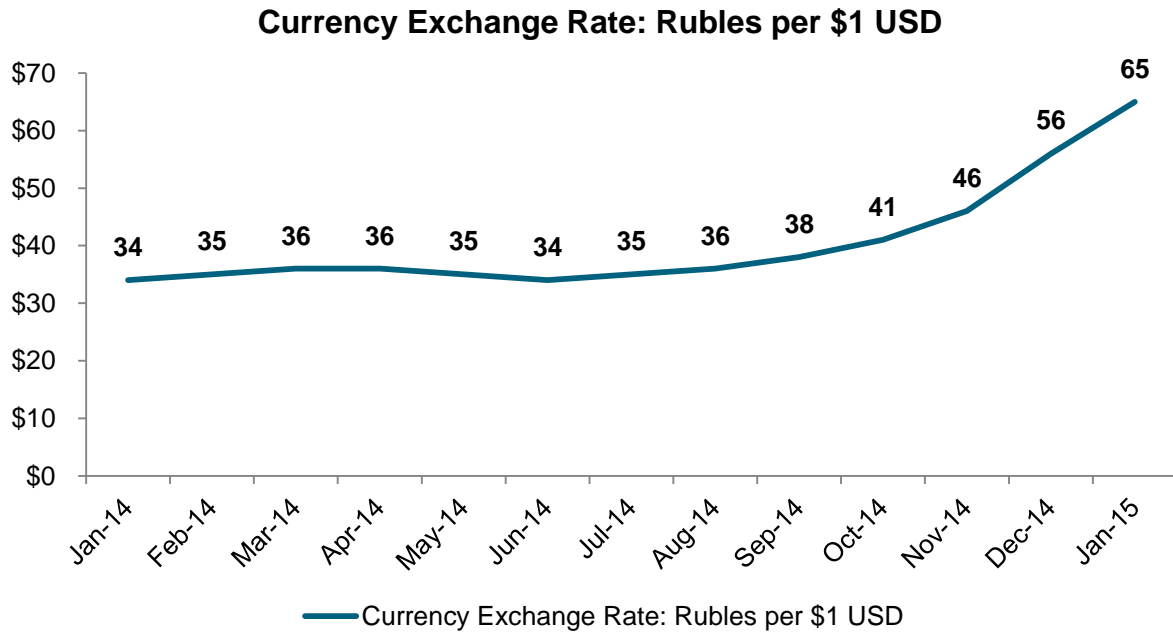
**Table 2**

Source: Infomine.com, January 2015



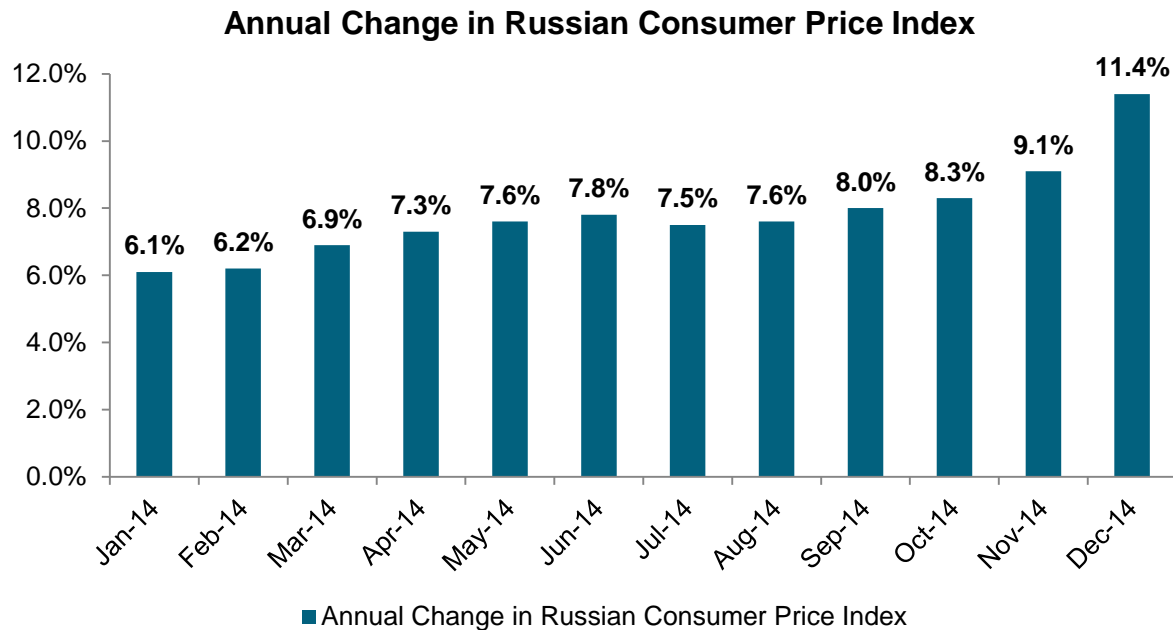
**Table 3**

Source: Oanda.com, January 2015



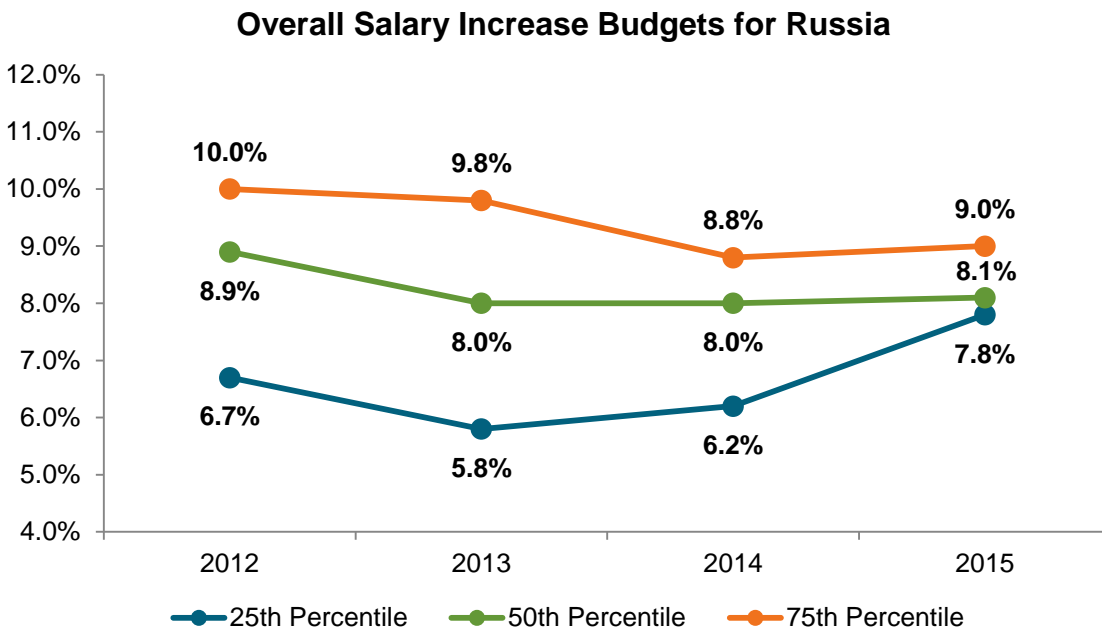
**Table 4**

Source: TradingEconomics.com, January 2015



**Table 5**

Source: Radford Quarterly Trends Report



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## About Radford

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