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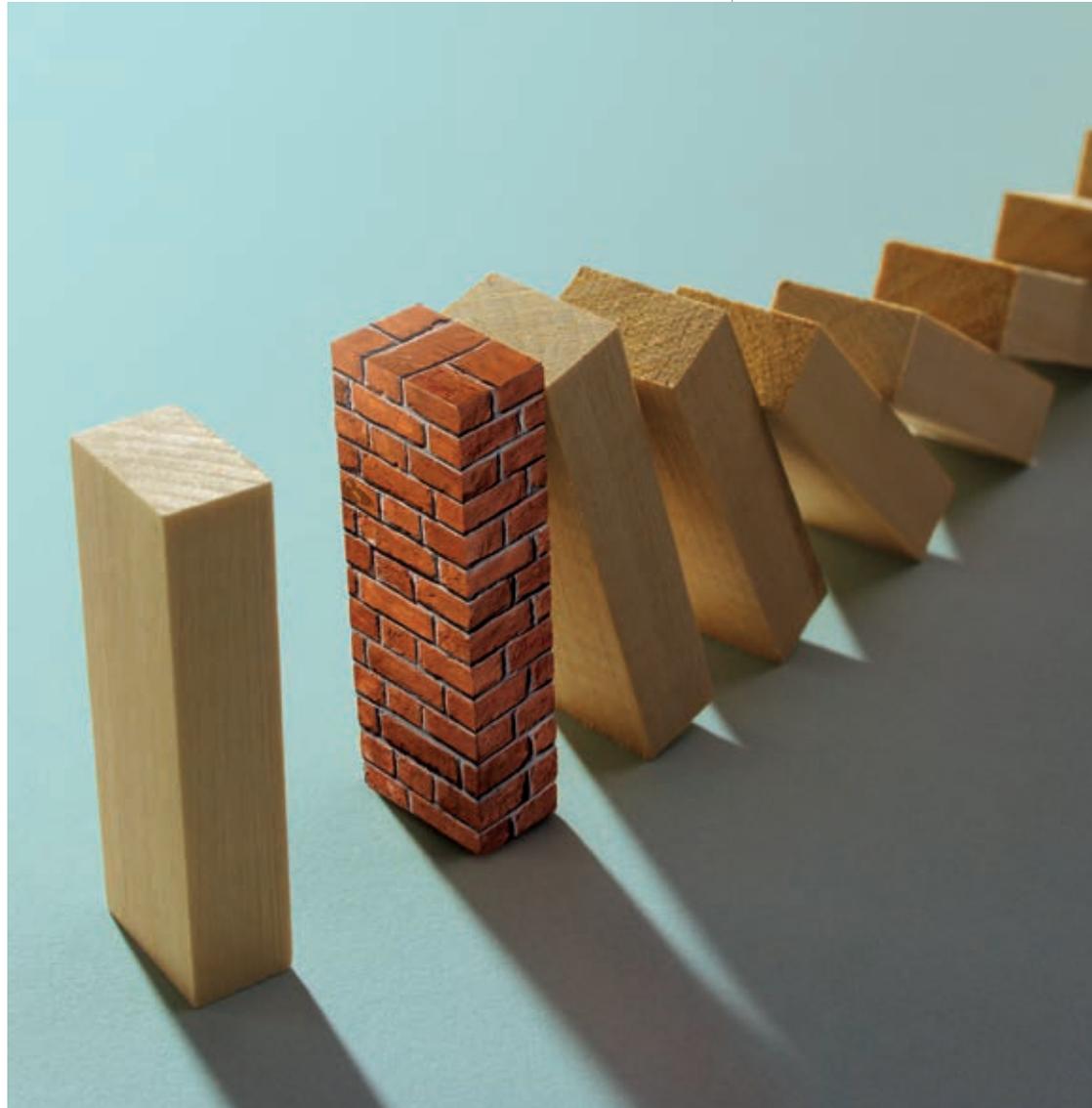
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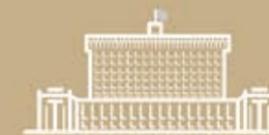
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The spring issue of The Strategy Journal is dedicated to the most recent trends in the development of the world economy and the role of human resources in modern business processes and the industrial policy.

The issue traditionally consists of several thematic sections in the format of a discussion forum where well-known businessmen, politicians and experts share their strategic visions of Russia's economic development in a global context.

A key feature of the March issue is a number of exclusive comments and interviews that clearly reflect global trends and phenomena through a live and sometimes informal dialogue with speakers.

"It's All About Human Resources" is a special topic of the issue. Professional HR consultants, heads of personnel departments of industrial corporations, and industry analysts helped us to answer what personnel challenges leading companies and medium-sized businesses face, how economic operators compete for human resources, as well as what approaches to personnel management are considered today as the most promising.

The main goal of this issue, in our opinion, is to help our readers to develop their modern visions of global economic processes and the role of each person in implementing strategies of different levels and scales.

**Dmitry Mikhailov,**  
Editor-in-Chief



ГРУППА КОМПАНИЙ



# Megatrend: New Challenges, New Walls

Over the past 50 years, one of the most common words in international politics was the word "wall". People used to built walls dividing nations after the World War II, and then, in the post-Soviet period, we actively destroyed them. After demolishing the main walls, the whole world rushed forward into an era of globalization and universal convergence, which was based on unbridled development of communication technologies. Suddenly people got the ability to communicate easily and almost free of charge with each other regardless of location and this led us to the fact that the world began to be perceived as a global village.

But recently our global village started to talk about the walls again - both physical ones (e.g., wall between the US and Mexico, temporal borders between EU member states) as well as virtual ones (in the sphere of information and communication technology, for example, the Great Firewall of China). What is going on? Are we witnessing the brink of the new era of walls? Professor at the Massachusetts Institute of Technology, world-renown linguist and philosopher Noam Chomsky shares his vision with the Strategy Journal.

We can take the discussion back earlier. In the late 1940s, the leading US planner George Kennan proposed that the West should "wall off" Western Germany from the Eastern zone to prevent the spread of pernicious ideas of socialism and workers' rights.

Going back earlier, in 1924 the US instituted very harsh immigration procedures to bar Europeans for the first time - from Eastern and Southern Europe, meaning essentially Jews and Italians. It lasted until 1965. We know the consequences. Orientals had been barred much earlier. There is much more.

In the past generation, neoliberal globalization has created many global interactions, such as complex supply chains within transnational corporations. The policies have been harmful to much of the population, often large majorities, and there is a nationalist backlash.

Hence, call for more barriers.

# The End of Liberal Economy?

The specter of protectionism haunts global economy again.

This time, there is every reason to take it seriously.

Is protectionism really gaining traction? Right, that's what it seems like. Firstly, we witness it in too many nations, including where it has not reappeared since long ago. Secondly, it stormed into prominence with Brexit, virtual discontinuation of the Transatlantic Trade and Investment Partnership and the new US administration's decision to wall off from its southern neighbor. Add to this the fact that a WTO monitoring report shows growth of trade barriers in G20 countries over the entire observation period since 2009, peaking last year, and the whole picture you will see is very impressive. What are we dealing with? A fleeting trend or a full-blown "decline of liberal globalization"? Maybe something else?

Despite the seeming unlikelihood, the speculation of a short-term trend cannot be entirely rejected. Our memories are still raw of the 2008-2009 crisis, when many experts in Russia and abroad spoke with confidence about the inevitably sharp increase in import duties in the face of the global crisis and possible collapse of the WTO.

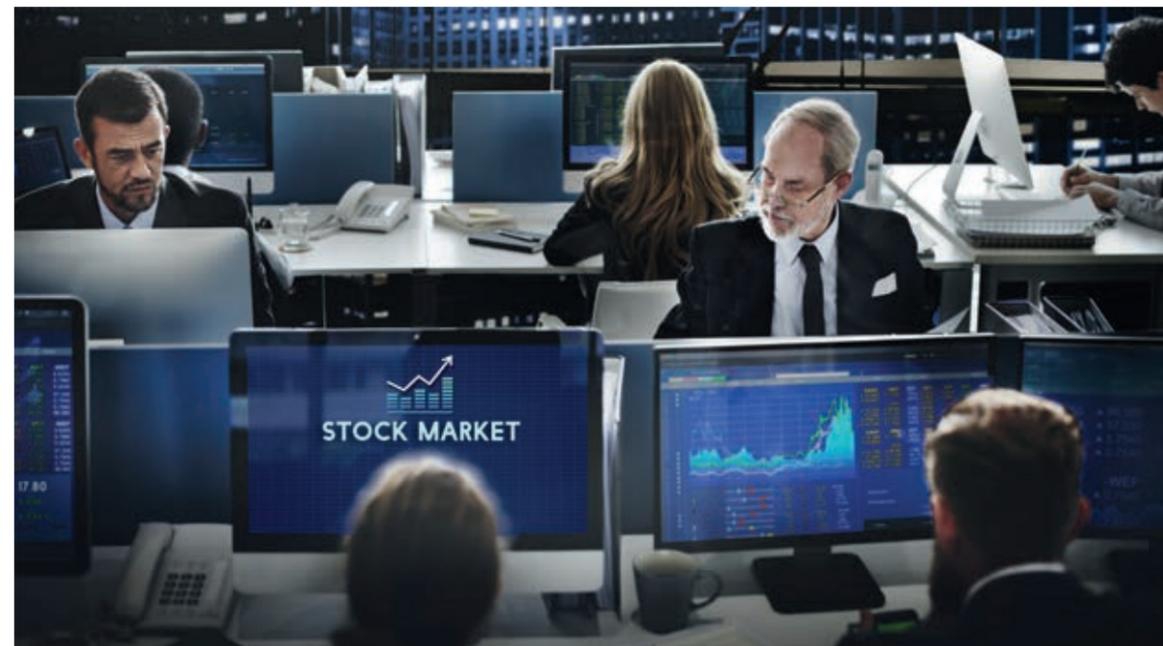
In reality, however, none of the WTO members breached membership obligations, and the trade barrier intensification observed at that period generally fit the traditional pattern of opposing false trade practices, whose popularity growth during crisis is unsurprising. Likewise, the business community

saw no signs of new radical restrictions in the global finance, despite loud accusations by fat cats of the financial sector, and radical proposals such as the infamous Tobin tax. As the global financial crisis died out, everybody began to gradually let go of the old protectionist sentiment. Will it happen this time round?

The history may repeat itself. If, from October 2015 to May 2016, G20 countries, according to WTO monitoring reports, introduced an average of 21 new trade restrictions monthly, then between May and October 2016 this figure sank to 17, which generally corresponded to the 2009-2015 average level. The total share of G20 imports, subject to new restrictions, rose from 5% to 6.5% since October 2008. An unlikely expert will dare to speak about "the collapse of liberal trade regime" referring to such figures.

## Ebb and flow

It has long been noted that the liberalization of world economic processes is not developing evenly, but rather in waves. Under good global market conditions, economic actors and governments seek to maximize opportunities for expansion into global markets. In times of crisis and reduced growth rates, they tend to protect national markets in order to



ride out the troublesome times and lower the costs related to the turbulence in the global economy. The chief question, therefore, is what we deal with now: with another rollback of liberalization that will be followed by a new wave thereof, or with a core change of the trend.

No surprise that some critics of the evolving processes, which are traditionally linked to "liberal globalization", have been consistently speaking radically about changing trend starting in 2008. To some degree, their logic should not be dismissed: according to Global Trade Alert, since the beginning of the 2008 crisis, 6,380 new trade restricting measures were introduced worldwide, while trade liberalization measures were significantly inferior by number to them (such as, 250 trade liberalization measures were administered in 2015, and almost three times as many measures of a protectionist nature). However, this trend is not universal. If we turn to the regulated foreign direct investment, 503 actions over the period 2008-2015 were taken to liberalize investment flows, and only 159 actions were

aimed at tightening their regulation. The situation in the investment, therefore, is a mirror opposing what we observe in the trade control: the number of investment incentives exceeds the number of measures aimed at limiting investment by more than three times. In other words, in the post-crisis period, investment recipients demonstrate good willingness to attract foreign investors, whose investment they regard as an important resource to enhance economic growth.

Somewhat more complicated is a circumstance with new quality trends that surfaced in the course of 2016. They were changes in the economic policy of the United States and the EU, related to the new US administration headed by Donald Trump, and consequences of the vote to withdraw Great Britain from the EU. No doubt, the decisions to limit migration flows in the United States as much as possible and the rejected plans to liberalize trade and investment in the Pacific and Atlantic regions are an undeniable rollback of liberalization compared to Barack Obama's late presidential term.

The inevitably narrowing EU common market, due to the implemented radical scenario of Great Britain's withdrawal from the EU, neither gives any grounds for optimism about the prospects for barrier-free goods, services and capital markets on the European continent. However, it is ambiguous.

Firstly, it would be wrong to decipher the stance of Donald Trump exclusively in terms of protectionist populism, centered on the interests of the lower strata of the American middle class. In financial terms, decisions made by the new President of the United States clearly fit into the liberal paradigm of all Republican administrations. In particular, Presidential Executive Order on Core Principles for Regulating the United States Financial System, dated February 3, 2017 explicitly aims at reducing the level of regulatory intervention in the financial (especially banking) institutions provided under 2010 Dodd-Frank Act.

Such a decision does not fit into the logic of the liberal globalization rollback, especially because by the end of February 2017 Trump assigned to the office six former employees of the investment bank Goldman Sachs, which was one of the principle targets during 2008-2009 for critics who believed "uncontrolled" financial operations to be among the main drivers of the crisis.

Secondly, it would be incorrect to unambiguously interpret the situation arising from the Brexit vote as an anti-liberal manifest. We must not overlook that one of Britain's main grievances about the EU economic policy after 2008 were attempts (especially by France) to introduce more stringent regulation of financial transactions throughout the EU, which threatened the interests of the City of London. In this sense, the removal of Great Britain from the regulatory framework of the EU will mean an increase in uncertainty about the regulatory framework of trade relations with the EU, along with the establishment of absolute certainty about the regulatory framework of financial transactions of the British residents, that is they will no longer be threatened by anti-liberal initiatives of Brussels.

Thirdly, there are serious grounds to consider Trump's refusal of Obama administration's high-profile international projects as not so much a sign of the protectionist course of the new administration, but the return from political to economic logic of building trade and investment relations with partner countries. Therein lies the intrigue of the present situation.

### Politics holds economy captive and vice versa

Over the past years, no discussion about the future development of the world economy and the management of global economic processes bypassed scenarios related to the prospects for conclusion of two major regional agreements under the patronage of the United States issuing Trans-Pacific Partnership and Transatlantic Trade and Investment Partnership. The former agreement was reached on February 4, 2016; the latter was actually negotiated between the US and the EU up to mid-2016. The successful



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implementation of the relevant agreements will revolutionize the entire practice of regional economic agreements, and include in the scope of their regulation a wide range of new issues ranging from labor and environmental standards to the development of independent resolution mechanisms for judicial disputes between investors and sovereign states. Moreover, there were assumptions that these agreements will result in changes in the global trade regulation system that will radically diminish WTO authorities in favor of new regional associations.

With the advent of the new US administration, these prospects, it seems, will be put to an end. Is this excuse good enough to talk about the risk of strengthening of protectionist tendencies? Well, yes and no. On one hand, any waived highly ready solutions for reducing economic barriers (a signed agreement in the case of Trans-Pacific Partnership), by default, means victory of protectionism. On the other hand, liberal rhetoric does not always reflect real economic interests, and refraining from this rhetoric is a testament to the common return from fantasy to reality.

The economic meaning of regional trade and investment agreements is that reduced mutual barriers improve the efficiency of collaboration and ensure growth of economic indicators of the countries participating in the agreement. As for the TPP and TTIP agreements, however, the problem is not limited to economic issues. In this context, former President of the United States Barack Obama made an illustrative statement immediately after signing of the TPP agreement, "...we can't let countries like China write the rules of the global economy. We should write those rules... the agreement reached today... will do". If it is not so much about getting economic benefits from reducing trade and investment barriers, but about determining "who writes the rules", the economy inevitably turns out to be held captive by politics. If so, interests of a large part of economic actors may be sacrificed to political interests, far from expectations of most voters. Trump's successful pre-election rhetoric owes much to the fact that



In the mid-term, the intensified elaboration and conclusion of bilateral agreements of Russia and EAEC with individual partner countries can act as an important factor capable of not only opening up new markets for Russian exports, but also strengthening the international economic position of the country in the face of the ongoing sanctions standoff with the leading economically developed countries.

**Sergey Afontsev**,  
corresponding member of the Russian Academy of Sciences, director of the Department of economic theory of Primakov National Research Institute at RAS, professor of MGIMO under the Ministry of Foreign Affairs of the Russian Federation

American voters are tired of paying for controversial international initiatives with their own welfare.

Tellingly, the same arguments hold for many United States partners, whose integration projects are in limbo. Business experts from a number of East Asian countries (particularly Japan) have repeatedly expressed displeasure over the fact that a party primarily benefiting from the TPP agreement is Vietnam, not least because the United States were ready to go for maximum concessions for this country (including through its partners), to convince the Vietnamese leadership to make a choice in favor of the integration project under the auspices of the United States rather than China. Repeated criticism towards the TTIP agreement, often hailed as NATO's economic twin, during discussions over recent years was not without reason. Although the TTIP agreement involves obvious mutual risks for a substantial part of European and American economies, cumulative benefits it brings are not as clear. All quantitative studies on the expected economic effect of TTIP, published to date, give extremely low – less than one percentage

point — estimates of GDP growth and real incomes for both the EU and United States. According to a caustic remark from one publication, even under optimistic assumptions about the economic effect of TTIP, it would increase the income of an average European by the amount that would let him have another cup of coffee weekly. Was the game worth the candle?

There is a risk that the economy can go too far in overcoming dependence from political motives. With regard to Trump's future policies, the core risk factors will be whether he will be ready to fulfil the other two campaign promises related to the revision of the North American Free Trade Agreement (NAFTA) and the struggle against the use of monetary policy tools by partner countries to promote national competitiveness. On one hand, national industry security is an attractive motto for a large segment of the US electorate, especially when accusations of artificial depreciation of exchange rate increasingly fly towards not only China, but also the EU, Japan and Switzerland. On the other hand, a large part of American business interests are critically dependent on preserving the existing value chains, whose links are strewn across the world, from Mexico to China, from Vietnam to the EU. Until now, Donald Trump's offensive rhetoric has not gone beyond the "diplomacy of intimidation" targeted to obtain most concessions from recipient countries. In circumstances where the US Federal Reserve plans a series of Fed rate hikes, contributing to the US dollar further appreciation (thus undermining competitiveness of American goods), this strategy seems pretty rational. We will talk about real increases of protectionism in the United States foreign trade policy only if trade barriers will really be erected.

### **Liberalization may be different, protectionism as well**

The earlier discussion reasonably opens the way to a conclusion that may be used when discussing national economic policy problems. Liberalizing

economic links is appropriate if it drives down barriers for mutually beneficial economic cooperation and improved efficiency of business operations. On the contrary, liberalization "carried too far away" and motivated by non-economic reasons (lobbying efforts of some business entities to the detriment of others), is likely to result in undue economic risks and widespread public opposition. Such factors should be linked to the failure (temporary at least) of large-scale politically motivated projects such as TPP and TTIP. In a sense, the current rollback of liberalization is a healthy phenomenon, freeing the world economy from the political and ideological husk and saving elements of liberal regime, which really benefits national economies.

These factors, though, can act in the opposite direction slowing the implementation of economically unreasonable protectionist initiatives and sustaining the existence of effective rules the world economy functions by. This is best illustrated by how effective trade regulation and dispute resolution mechanisms are in the WTO regime. Despite sharp criticism, they still constitute a solid foundation of foreign trade policy of the WTO member countries, including those that are actively engaged in building their own integration blocs and not ready to take further steps to liberalize the trade regime under the framework of the Doha Development Round of trade negotiations among the WTO membership.

Of course, this is not to say "all is for the best in the best of all possible worlds". The economic history is abundant with examples of misused protectionist rhetoric that led to a rapid "collapse" of mutual trade, especially when trade contradictions were superimposed by political and security disagreements. In this regard, the scenario of a full-scale trade war between the United States and China in the next 5-7 years is not fantastic, despite the impressive \$580 billion trade turnover in 2016.

After all, who could imagine that trade may shrink by half between Russia and the EU in three years, and by almost four times with Ukraine? Even if we exclude

such radical scenario, it is quite possible that the "vaccine against liberalization" may be too strong, and many sound proposals that are part of the TPP and TTIP agreements (regarding, in particular, liberalized international trade in services or environmental standards) will be shelved for a long time. Finally, that's exactly what happened with ambitious offers for liberalization of foreign direct investment in 1998 after failure to negotiate the OECD Multilateral Agreement on Investments (later partly resumed in the negotiations on TPP and TTIP, but again with no chance to be implemented). How much it will cost the world economy in terms of loss of profits is a great question. However, it will loosen from a large part of risks. The Russian economy too.

### **Less geopolitics!**

Paradoxically, the observed rollback of global trade and investment liberalization processes is an ally to the Russian economy in many ways. The paradox is that the defining positive factor is not so much expanded opportunities in the context of the sanctions standoff with the leading economically developed countries (WTO rules explicitly stipulate possible use of trade restrictions for the protection of national security), as reduced pressure of geopolitical factors on international economic initiatives of the country.

Remarkably, these initiatives are quite liberal in nature and aimed at using bilateral and multilateral trade agreements to remove barriers to Russian exports. With the continued fall of incomes and investment activity, such prioritization is definitely justified in terms of increase in external demand for Russian products. It is all the more relevant that the impressive successes of recent years, achieved primarily due to the devaluated ruble (in particular, the record growth of food deliveries in China, which proved to be the main importer with the purchase volume of more than \$1.55 billion in 2016), were at risk due to notable — around 12% in nominal terms — strengthening of the ruble from November 2016

to February 2017. However, until the autumn 2016 there were warning signs when geopolitical, rather than economic, motives came out to the foreground during discussions of prospects that the relevant arrangements bring. Primarily, due to the fact that after the TPP agreement was reached in 2015 under the patronage of the United States, Russian political elites developed a popular idea to oppose it with alternative regional projects involving Russia, which suggested creating a free trade zone for the Shanghai cooperation organization countries, and signing of a free trade pact between the Eurasian economic Union and ASEAN.

Fortunately, by early 2017 discussions about such projects became less intense. On one hand, Trump administration's plans to refuse to ratify the TPP agreement and the collapsed TTIP negotiations make "geopolitical response" to the American initiative less relevant. On the other hand, the apparent lack of interest in some SCO and ASEAN countries in free trade agreements with the EAEC, as well as the awareness of how complex the multilateral negotiations are (the problems China ran into before, during the negotiations with ASEAN to establish a free trade zone) makes it necessary to find alternative solutions in this area.

In these circumstances, the prospects of concluding bilateral feasible agreements of Russia and EAEC with individual partner countries take to the foreground. The chain of such agreements can be quite long, ranging from agreements for investment promotion and protection, which Russia may conclude independently (without passing relevant competencies through to EAEC) and non-preferential agreements involving EAEC (prospects for such agreement with China are under discussion) to full-scale free trade agreements similar to those that entered into force on October 5, 2016 between EAEC and Vietnam. The primary candidates to join such agreements in the coming years are South Korea, Singapore and Israel. The crucial thing for these agreements is to involve less geopolitics and more sober economic calculation.



# Price of Progress

The issue of information safety, in particular the regulation of large user data, is extremely important today. Natalia Kaspersky, a co-founder of Kaspersky Lab and the president of InfoWatch Group of Companies, shared her opinion with a Strategy Journal correspondent on how to improve the level of safety for each organization and user, create an international leading company, attract the best specialists and train professionals.

**Kaspersky Lab was founded when the area of antivirus software was unexplored. Today Kaspersky Lab is one of international leaders. How did you develop the company's strategy?**

Kaspersky Lab, like any successful organization, had a combination of factors that helped us on the way to success. Firstly, at that period the market of information safety just started forming in Russia and abroad. Unlike the current state of things, we did not compete with global corporations, but were among other beginners from other countries. Secondly, the cost of labor was low in the post-Soviet period and it was easy to employ good specialists at a low price. This fact is also important at the very beginning for setting up your business. Today the situation has significantly changed. It is impossible to form a technology company without initial financing. We were very lucky in that respect.

In addition, we have finally managed to attract sponsors on favorable partnership conditions. F Secure, a large player at that time, provided significant help by early transferring of license fees. These three factors gave timely impetus to our company. After that we just tried to avoid wrong decisions.

Certainly, thanks to well-coordinated work of our experienced crew, we were not cast up on the shore, but continued our business journey in full sail. After entering the international market, we managed to employ competent Russian and foreign specialists who shared our values.

Nevertheless, as the company grew I had to completely change our team three times in order to attract more competent specialists. Certainly, it is one of the components of the success formula.

**Now you are developing InfoWatch. What are the differences in specifics of the two companies?**

Kaspersky Lab and InfoWatch are two completely different companies. All approaches and algorithms that were developed for Kaspersky Lab did not work in InfoWatch. We had to actually redevelop the system again.

For example, business in Kaspersky Lab was based on the partner model: the company sold its product to partners with the help of a two- and three-phase distribution model. This system did not

fit InfoWatch. Unlike antiviruses, it requires an agreement with a client for implementing the project.

Kaspersky Lab just had technical support that worked remotely, but there was no system for implementing products.

To launch a new product it is necessary find out what confidential information a client wants to protect. However, we should interact with a customer directly without intermediates in order to achieve this goal. It is useless to install software without preliminary work. It is like looking for a needle in a haystack.

InfoWatch is another model, target audience, approaches to sales and marketing. As a rule, small organizations and home users were interested in services provided by Kaspersky Lab. InfoWatch products are developed mainly for medium and large enterprises. Therefore, it would be useless for us resort to mass advertising, as there is a little chance to reach a target audience. Organization of specialized events in this field is much more effective.

We do lots of road shows, almost every second day. Overall, 152 events only in 2015.

**As far as we know, you support the collection and storage of large user data. What does this mean for an ordinary user? How this can help to improve information safety?**

Large user data is information collected from all information systems: smartphones, computers, electronic bracelets, medical devices, pacemakers, which are often connected to the Internet, as well as all search requests.

These modern devices send megabytes of data to nowhere. The data is mainly used to show ads for monetizing. However, blackmail, putting pressure or scoring that are also used by modern banks in order to find out how reliable our client is. It is impossible to draw discriminatory conclusions about the subject on the basis of this information, as it would be a violation of human rights.

The collection of large user data, their storage and use are not regulated by the law now. Citizens have no opportunity to stop collecting information about themselves. As a rule, these data are sent without users' knowledge and consent. Thus, the application has access to your photos, videos, messages, and geolocation.

"The collection of large user data, their storage and use are not regulated by the law now. Citizens have no opportunity to stop collecting information about themselves. As a rule, these data are sent without users' knowledge and consent"



For example, if you want to use any of a million free apps you will have to confirm a license agreement. It is clear how these apps will use your data. It is more than likely these apps will be used for advertising purposes. However, it is completely unclear what it is for. Anyway, users have no choice: you can either not to install an app, or agree with the developer terms.

Moreover, some applications do not inform users that they may collect user information. This matter is out of control now. It seems wrong to me, as users cannot protect their personal information. If this issue is regulated at the state level that the government will develop some kind of an ethical charter and subsequently it will be adopted by developers and system manufacturers. Frankly speaking, I think it is hardly probable, as producers are primarily interested in monetizing user data. This is why only our state can oblige them to accept the document.

In addition, it is necessary to develop a standard licensing agreement in strict compliance with the laws of the Russian Federation. Manufacturers' agreements has to meet these standards, otherwise they may lose the opportunity to work in the country. Other measures also can be effective, but they need to be taken. This issue is extremely relevant and it is being discussed at all levels even abroad. The issue of regulating large data is actively discussed in the US and the EU. We also should not lag behind.

**Are Russian developments competitive in the world market? Is import substitution effective in this sphere?**

Unfortunately, import substitution is not a magic bridge that can be built in a night. We should understand that we have systematically replaced almost all domestically made products by imported products for 25 years.

And today a lack of domestic technologies in some areas of information technology prevent us from replacing everything at once. It worth noting that buyers, public sector and state participation companies have some prejudice regarding a quick import substitution, as a change of information systems is a very difficult process. Nevertheless, the process is on its way, many corporations and state agencies are already engaged in import substitution or, have such plans at least. Import substitution has brought good results in the sphere of information security. Today we can hardly see foreign competitors in tenders. The main

advantage is that domestic solutions of information security are at a high level not only in Russia, but also in the world.

The main thing is to keep on following your planned course. We can build quite good full-fledged systems with our partners: the Customs Union, the SCO countries and others. These systems can replace the Western ones. At the same time, we have no necessary to substitute everything.

**As you noted, staff plays the key role in your business. What principles do you consider as basic in human management?**

Above all, you should trust your employees. When hiring senior employees I tell them about their scope of influence in the company. Then they perform their working tasks on their own. Certainly, I set goals and discuss tasks with them, but I interfere neither in their working process, nor in work management with their subordinates. People should understand the area of their responsibility. I cannot influence subordinates of my subordinates. This is absolutely ruled out. Delegation of authorities is one of the most important principles. The system has been working effectively for more than ten years. Secondly, employees should be like-minded people who share the company's values. Those people who want to work at InfoWatch should be well aware of the company's activity, interested in protection functions, as well as development of systems for corporations. In addition, people should be ready to work in a team. This is why team interviews take place in our company in addition to interviews with the management. Employees should decide on their own if a candidate fit in their team. Subsequently, it allows us to avoid many problems, as our employees are responsible for newcomers. They are more likely to help and educate them.

Another important point is a comfortable atmosphere in the office. We have a gym, a cafe, and game rooms. People should feel at work like at home.

**Do you collaborate with other higher education institutions. Are you involved in any educational programs?**

Until now, we told some about relevant threats, information security and protection measures. We have developed a full-fledged 40-hour-program of corporate protection against internal threats.

"Import substitution gave good results in the sphere of information security. Today we can hardly see foreign competitors participating in tenders"

The course is worked out in accordance with all standards and endorsed by the Ministry of Education. Since this year, we have been launching a training course in two universities – Moscow Institute of Electronic Engineering and Plekhanov Russian University of Economics. If experience is successful then we will try to implement it in the leading Russian universities.

When implementing the information security program for enterprises, we want to achieve the following two goals: we train specialists for our company. However, it is wrong when education of our students is based on creating solutions for transnational corporations. Import substitution should be at the level of education, and young people should know that we have our own competitive developments.

For this reason, we want to extend our training, create a program based on not only our products, but also other domestic developments in the field of information security.

**How can you assess the human resources potential in this field?**

Russian programmers are known even abroad. News about 'Russian hackers' is published daily. This is a try to represent them as 'terrible hackers'. Our programmers are really strong if their 'digital fingerprints' of Russian hackers were supposedly found when electing President Trump in the United States.

Seriously speaking, our specialists have huge potential, it is no wonder that Russian programmers are among the best in the world.

At the same time, there is a large deficit of personnel in this industry, about 30-40%. Around 25,000 students graduate technical universities annually, but demand in the industry is huge, as information systems are used everywhere now. There are a lack of system administrators, programmers, technical managers and other specialists in our country. Taking into account the fact that now we have stepped in the next demographic hole, the deficit will only increase.

People very often earn degrees in spheres that are not in demand. However, there are areas with a large shortage of skilled personnel, for example, the IT industry. Therefore, I believe that special programs are very necessary to attract specialists to the industry.



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# Kaluga Phenomenon

Kaluga Oblast, previously economically depressed, is one of the most thriving Russian regions today. The oblast tops national rankings for investment and innovation, industrial development and education. Anatoly Artamonov, the Governor of Kaluga Oblast, speaks to the Strategy Journal about how to attract and retain investors, benefit from the crisis, and build an effective staff training system.



**You managed to transform an economically depressive region into success in 17 years. Ratings affirm it to have one of the most favorable investment climates and one of the largest industrial capacities. Yet, investment has played a major role in this?**

There is no doubt. Up to 2006, Kaluga Oblast was a subsidized region hardly different from any other region of Central Russia. A large portion of our production facilities had not been modernized, there was no infrastructure to attract new businesses. This was coupled with the workforce drain, primarily to Moscow.

To get out of this situation, we adopted the region development strategy up to 2030, focusing on cooperation with investors, and outlined priority industries.

The new stage of the region's development started with attracting vehicle manufacturers. It brought first Volkswagen, then Peugeot Citroën, Mitsubishi and Volvo. By the mid-2000s, the demand for foreign vehicles assembled in Russia was very high.

Automotive parts manufacturers followed the vehicle producers. Kaluga automotive cluster was established, and human resources training began to cater to it. Afterwards, clusters for pharmacy and biotechnology evolved. The innovative production now gives the best growth dynamics.

We expect to make 10% of the domestic market of affordable drugs by 2020. The oblast produces 139 pharmacological products today. The cluster brings together 60-plus international and Russian pharmaceutical groups, small and medium-sized innovative companies, research and educational centers.

In addition, there are major investment projects in the Kaluga mechanical engineering, metallurgy, food industry, timber processing, construction industry, chemical industry, and manufacture of rubber and plastic products. These areas build the premise for our industrial growth. With all this, projects of foreign companies are classified as import substitution, as they aim to saturate the Russian market. Such industries deepen localization, increase export potential and expand into new markets.

Today, Kaluga Oblast takes in over 160 investment projects, 94 out of which have already been implemented. The negotiation portfolio lists another 150 projects. The real total investment between 2006 and 2017 was around 374.2 billion rubles. It created

25,800 new jobs. Most investors reside 12 industrial parks with total area of about 7.5 hectares. From 2006 to 2016, the residents of the industrial parks and investment zones paid total 320 billion rubles in tax and customs revenues: 284.6 billion to the federal budget and 35.4 billion to the regional budget.

**What are the best ways to attract investors, especially foreign ones?**

We do not divide investors into foreign and domestic. Whoever wants to run business in the region, would make a difference. When we badly needed money for development, we focused on foreign investors.

Having studied the international experience, we tried to create most agreeable environment for their work. Stability comes first for the business. Therefore, the basic principle of the interaction between Kaluga Oblast and investors is a stable legislation, clear and simple rules of the game.

What our investment attraction model relies on today? First, the region borders with Moscow, and is located in the focal point of a huge consumer market.

Second, we have created a high-quality transport and logistics system: two major multimodal centers. The New Silk Road railway route, linking Russia and China, can also expand the range of suppliers and the market. The Kaluga International Airport continuously develops new destinations.

Third, there is a wide choice for distribution: industrial parks, the Kaluga special economic zone or geared up production facilities.

Fourth, we apply a single standard of cooperation between the authorities and business. This eliminates potential corruption and bureaucratic red tape.

Fifth, there are benefits: regardless of the economic difficulties, we have preserved all previously adopted support measures. Our legislative and regulatory frameworks ensure the safety of investments. And, finally, the cluster policy and diversification of the regional economy help develop any business. Besides, the government does its best to create the most comfortable conditions for businesses in service, communication technology, affordable housing.

"We do not divide investors into foreign and domestic. Whoever wants to run business in the region, would make a difference"

**You said that the sanctions against Russia serve it well. How did it affect the work of foreign investors in the region? Did they retreat from the region after crisis-stricken 2014?**

Luckily, external factors did not quell the enthusiasm of investors in business development in Kaluga Oblast. They still regard investment in the region as favorable and reliable.

Moreover, the Volkswagen Group supplemented the existing automotive plant and started building engines in 2015. Volvo announced expansion plans by producing trucks equipped with automated transmissions assembled in Russia, and Berlin-Chemie increased the land area for productions. Ten investors that operate in the region (Novo Nordisk, Benteler Automotive, Nestle, Triada Holding, D.A Rus and others) are resolved to launch a second phase in 2017. Last year, 28 new investment agreements were signed, and seven major enterprises started.

The economic sanctions against Russia open up new opportunities for domestic producers. Russian companies account for 60% of companies seeking to work in our region, whereas foreign companies make up 40%.

Most businesses currently operating in the region were not perplexed: due to the restrictions on importing, they refocused to releasing comparable products, and began to enter overseas markets actively with the fall of the domestic ones. For example, last year the export of the Kaluga produce expanded by 135.1%. The export to far abroad countries more than doubled compared to 2015.

**In one of interviews, you mentioned that the automotive cluster "shrank" considerably. Were any measures taken to revive it?**

The automotive cluster made from the ground up comprises around 10% of the Russian automotive industry. The three assembly plants of Volkswagen, Peugeot Citroën and Volvo have already produced over a million vehicles.

Favorable business conditions allow them to pull in more and more vehicle parts manufacturers, thereby increasing the localization percentage. Today, we have 28 such enterprises. The automotive industry overwhelmingly values deployment conditions on site – good logistics, well-established work of customs posts, state support, and localizability. The region provides all this.

Apart from attracting new parts manufacturers, we are looking for cooperation with traditional economy companies. New companies already outsource parts of the production processes to the Kaluga plants. Some assembled vehicle models are 40% Russian parts. This will proceed. Despite market fluctuations, not a single automaker has left the oblast nor plans to. They have balanced their production programs and are confident that demand for vehicles will soon go back up.

**Last year, you advised that Kaluga would begin to develop a tourism cluster. Could it become as profitable for the region as the pharmaceutical or automotive?**

The number of tourists in Kaluga Oblast has grown by 2.8 times over the past five years. More than 1.9 million visited our region in 2016; the 2020 forecast is up to 3 million.

Tourism not only brings income, but also promotes the growth of regional infrastructure such as roads and sports facilities. It likewise enhances hospitality and other areas.

The tourism industry's development already brings early good results: cities of Kaluga Oblast are included in Golden Ring itineraries, and Tarusa and Borovsk entered the Association of small tourist towns of Russia. The Russian Government awarded the Ethnomir ethnographic museum park for accomplishment in tourism industry. Kaluga Oblast ranks as a top five national tourist destination, as reported by the Ministry of Culture of the Russian Federation.

The association "Tourism and recreation cluster in Kaluga Oblast" was registered in December last year. More than 20 organizations wished to unite in a single structure for collective promotion of their interests, interaction with the authorities, exchange of good practices and legal support. We hope legal implementation of the tourism cluster will attract federal funds to develop it.

**For several years, Kaluga has been a leader in industrial production growth rate. Give an account about high-tech production in the oblast.**

We pursue the above-mentioned region development strategy in regard to this industry. It envisions the creation of an innovative infrastructure and clusters.

"The number of tourists in Kaluga Oblast has grown by 2.8 times over the past five years. More than 1.9 million visited our region in 2016; the 2020 forecast is up to 3 million"



The key designated areas are automotive, pharmaceutical, logistics, information, agriculture, composite materials and tourism.

In the last decade, the oblast admitted companies with a high degree of automation, producing high-tech products: vehicles and vehicle parts, televisions, construction materials and next-generation medications. Sectoral affiliation helps them tackle commercial problems, for example, with access to new markets, handling of research and development, receipt of state support, optimization of logistics and business processes.

The most successful operating Kaluga clusters include automotive and pharmaceutical, as well as aviation and space technologies, polymer composite materials and structures (Akotech). For example, last year the volume of projects in the field of scientific research and development in our pharmaceutical cluster reached 2.5 billion rubles. The enterprises produced commodities worth more than 27.5 billion rubles.

By the end of 2017, the cluster will extend to as much as 35 billion rubles. Meanwhile, more than 70% of the production pertains to innovation. Akotech cluster comprises about 15 participants. These include Obninsk research and production enterprise "Tekhnologiya", Lavochkin Association, Porcher Modern Materials (Porcher industries office) and others.

Each of them has a considerable research and production potential. The cluster employs 5,500 workers; the revenue from products and services has reached 7.5 million rubles. Besides, it includes two universities that prepare personnel and conduct researches.

This year, the cluster will house Kaluga ceramic center and an exhibition center for composite products designed to meet the needs of the civil industry. This will help to market new globally competitive innovative products, including ceramic electrolytes for solid oxide fuel cell with high power density.

**Kaluga Oblast is the only subject in Russia that over last years has advanced from a subsidized recipient to a donor region, having no oil or gas reserves. How will being a donor affect the further development of the oblast?**

The donor status, from one perspective, allows the region to be more independent in development, on the other hand, it creates

certain functioning issues, since the incentive mechanism for such regions has only begun to emerge at the federal level.

**At the Gaidar Forum 2017, you criticized the donor policy executed by the Ministry of Finance, calling it disincentive. What intergovernmental fiscal policy would stimulate recipients, and not inhibit the development of donors?**

To counterbalance the investment costs of regions and motivate their economic development, a mechanism must be mapped out to refund additional taxes paid by regions to the federal budget. For instance, the government could secure 2% tax on profits generated in the supported industries or industrial parks in regions. It is also advisable to pass certain types of federal state control to regions. For example, land surveillance as a pilot project, and, more distantly, as a complete implementation secured by the legislation.

**Among key problems of the country, experts refer to lack of human resources. How is this problem dealt with in Kaluga Oblast?**

Professional associations of Kaluga Oblast – there are 34 – train staff for more than 80 jobs. This academic year alone, 4,400 students signed up for vocational schools.

We endeavor to train specialists that are in demand in the economy. The region implements a government program that strengthens and enhances training and material assets of educational institutions with the purpose to build skills of the teaching staff.

The forecast has it that up to 2021 the region will demand 62,500 workers and specialists. Of these, more than 12,500 for newly created jobs, and about 50,000 to replace departing employees. Above all else, we need mechanics, machinists and welders, as well as service professionals.

Educational organizations strongly interact with employers. New professions such as "Forestry and park management, "Aquaculture and fish farming", "Welding and gas cutting equipment maintenance technician" and others are developed to meet the demand of the employers. The oblast dynamically implements practice-oriented education and dual education. One of the examples is mechanic training in Kaluga College of Technology.

"The forecast has it that up to 2021 the region will demand 62,500 workers and specialists. Of these, more than 12,500 will be newly created jobs, and about 50,000 will replace departing employees"

Volkswagen Group Rus annually coordinates the list of professions and the number of students to undertake dual training. The company's experts take part in certification and mentoring of teachers and foremen of the school, in methodology development and management. More than 50% of professional educational associations of the region will adopt this experience in the long term.

There are two multi-function centers in the oblast; their primary purpose is to give basic, advanced and supplementary training. These are the Applied training center for automotive industry at Kaluga College of Technology, and the Construction resource center at the Tsipulin construction college in Kaluga.

Kaluga Oblast has joined WorldSkills Russia movement, whose purpose is to build the reputation of blue-collar jobs and to develop a vocational education system.

Last year, our students took part in qualifications and national championships. For the first time a regional Young Professionals championship was held in November in Kaluga for young workers to compete in 11 professional skill areas.

**At the Kaluga industry innovation forum, you pointed out that the region develops the knowledge economy. Will new innovative universities and scientific complexes appear in the oblast?**

We strive for it. The higher education system testifies the qualitative development, as well as the commitment to the needs of the region and Russia as a whole.

13 higher education institutions of the oblast list more than 20,000 students. They continually offer new mainstream fields of study, for example, medical physics, technosphere safety, biomedical engineering, mechatronics and robotics. Their most part is available in the leading educational institutions: Tsiolkovsky Kaluga State University (20 new specialties over the last 5 years), Obninsk Institute for Nuclear Power Engineering (a branch of Moscow Engineering and Physics Institute), and the Kaluga branch of Bauman Moscow State Technical University.

Tsiolkovsky Kaluga State University commenced a new laboratory building with total area of 18,700 square meters, built a modern swimming pool and two comfortable dorms with 1,100 beds.

Bauman Moscow State Technical University is a current member of the Association of clusters and industrial parks. The extent of research activities and scientific and technological innovation in key areas within five years has accounted for more than 157 million rubles.

Over 35 scientific and technological developments have been recommended for industrial production and developed commercially.

Bauman Moscow State Technical University developed the Kaluga student business incubator and the Center for youth innovative creativity under the innovative infrastructure development program promoted by the Ministry of Education and Science and the Kaluga government.

The association creates new and re-equips existing laboratories in partnership with employers. We look forward to the creation of the Kaluga innovation campus, which will enhance the education infrastructure for training qualified specialists.

Obninsk Institute for Nuclear Power Engineering prepares specialists for Russian nuclear industry. The federal program for training nuclear medicine and pharmaceutical specialists gives capacity to the oblast to conduct scientific research in radiopharmacy technologies, radioisotope diagnosis and therapy.

The program for training pharmaceutical specialists developed by Obninsk Chemical and Pharmaceutical Company, Chemopharm and Zakusov Research Institute of Pharmacology has no match in Russia.

Moscow Engineering and Physics Institute established the Center for practical training to prepare personnel for pharmaceutical cluster enterprises. In 2015, the center equipped laboratories with modular cleanrooms for educational and research purposes. This is the first and so far the only such project among Russian universities.

Although the classic motto "Cadres are the key to everything" is still relevant, it also takes on a new meaning. Russia's economy today particularly lacks highly qualified and competent specialists with up-to-date knowledge and skills. Only by having them, we could be competitive and more independent.

"13 higher education institutions of the oblast list more than 20,000 students. They constantly offer new mainstream fields of study"

# Unified Innovation Markets

Perhaps, the only force binding economic policies of different countries is the need for measures to protect the national economies from recurring economic crises. We have to understand and put up with the idea that today, the capacity of a country is determined not so much by resources (physical and mental), as by how effectively they are used.

Dealing with the economic downturn in a conservative way, as a rule, implies the adoption of protectionist measures and sanctions: national markets recall borders, basically, alienate and isolate themselves as if there are no communities, such as the European Union and others alike. However, there is no real perspective to go back to the isolation and autonomy of the economic development. We are all in the same boat – the higher we are trying to raise the standard of living of the population, the more penetrating is the sense of interdependence. It is most acutely manifested in the development of transport systems. This is where crossing national borders has a historical significance: the Great Silk Road, the Northern Sea Route and North-South Transport Corridors. Naturally, there never was uniform control over these spans, but the current geopolitical situation suggests that the detachment is at the greatest and represents a major impediment to economic growth. As a civilized world without borders is a fantasy, virtual communities form to evaluate integration effects.



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The time has come to put the task of forming common unified innovation markets. So far, integrated currency markets have been proposed, however, it is undoubtedly a serious challenge. Curiously, the developed economies stay ahead in “global innovations for local markets” in terms of the division of labor as opposed to the manufacturing industry.

The practical development of innovation begins with the search for innovation, whereas creative work is hidden from potential consumers. According to various estimates, research takes from 50 to 75 percent of time and funds. The risks, inherent in any innovation, are incurred in case of errors in selecting innovations that can ensure the return of invested money and labor. Venture capitalists increasingly have to do with the decile return rate, i.e. just one project out of ten yields an effect that covers all expenses.

All this leads to the market’s most important institution – demand, which exists independently of another institution – supply. This causes a dissonance that defies regulation. On the one hand, a tremendous number of potential innovations are created, which gain true significance only on the market as a result of purchase/sale operations. Yet such operations are scarce, because it is impossible to tell in advance if this or that innovation will be needed or how useful it will be. On the other hand, innovation is needed in the production of goods and services to expand market niches. Up until now, the search for innovation that meets the market’s expectations has been unsuccessful. The more closed and localized this sphere of trade turnover is, the more difficult it is to resolve this contradiction. The process of creating and developing innovation requires a fresh look. We suggest that the search for innovation be carried out by a specialized market, i.e. the innovative market. Broadly speaking, this would imply the free turnover of innovative products ready for sale. The winner is the one who is the first to manufacture an innovative product. In other words, competition in coming up with innovation is replaced by competition among users.

At the stage of the innovative product’s development, competition slows down the entire process and sometimes leads to duplication and numerous dead ends. This situation can be remedied by cooperation, as it provides for bringing together representatives of various fields of knowledge and engineering, thus cutting back on R&D time. At the commercial stage another factor plays a key role; namely, the level of perfection of the entire corporate system. This includes marketing, banking, operational, and strategic management.

The competitive mechanism does not slow down innovative development at this stage: it is rather a catalyst, a sweeping force that fully mobilizes all the reserves, taking hold of the missing elements in management and practices, as well as in the use of advanced information technologies.

We must bear in mind another systemic contradiction in building an innovative economy. Schematically, innovation can be represented as follows: a subject of innovation (a company) funds R&D and gets an innovation in return, which either increases the value of the goods the company produces for its consumers, thus boosting its revenue; or reduces its costs. In this way a company creates added value which it keeps as profit. Alternatively, it may go to competitors and customers who get better quality products for the same or even lower price.

Thus, there is a seemingly paradoxical conclusion: the economic appeal of innovation for a subject of innovative activity depends on how effective the barriers are to the spread of the created innovation, as it directly affects the innovator’s profit share. The longer a company derives it, the more attractive is the return on the capital invested in innovation. However, the growth of the economy (not just one company) requires a high rate of the spread of innovation, so the barriers against this must be reduced. The state of the economic environment may have a considerable influence on the innovator. It might be even depressing: a state budget deficit may cause changes in the tax code.

If we consider the global market from this point of view, we have to say that its innovative component comes under pressure from these contradictions. Consider the development of information technologies for example. The wide-scale distribution of technology lowers its price on local markets, but increases the cost of the key technologies of its use on global markets, as well as the standard costs, algorithms and harmonizing elements. It follows that the faster the innovative product gets to the world market, the more effective it is. The less time spent on winning local markets, the faster the product is promoted to the global sales level. It is this opportunity that a unified innovative market provides. A market that covers international markets characterized by similar economical or territorial features.

Conclusions made by the Japanese scientists, economists, physicists and mathematicians based of modeled processes of world trade are of considerable interest: stimulation of economic growth on the scale of one country does not make sense in the context of globalization, since a total crisis piles up risks faster than a national economy can neutralize them. To respond to a crisis by the coordinated general policy of stimulating economic growth is partly working, but hardly an effective economic policy. Local markets, a kind of fractals of the world market, contribute to improve this efficiency.

In view of the peculiarity of the concept of innovative products, this market also has a number of features. Leaving out the whole list, let us give just some of them.

First of all, this market should be open, i.e. its participants are exempt from payment of duties on exports/imports of innovative products, similar to the EU's liberalization of the market of air transportation (under the Open Skies agreement). Even such a sensitive sector as defense and security has undergone a surprising change as Great Britain and France have pooled their efforts to defend their national interests. Specifically, the two countries have agreed on joint technical maintenance of nuclear weapons; that is, on interaction in the innovative development of their nuclear potential.



Today is not global innovation, but national innovation systems that start to play a much more significant role in the competitive global market. Nonetheless, a significant and ever increasing number of sectoral problems of economy development requires intermodal combination of industrial, financial, scientific, educational and managerial systems beyond the bounds of their localization.

**Vladimir Rudashevsky,**  
deputy head of the RUIE's commission on industrial policy, doctor of economy, professor

The liberalization of the innovative market does not sideline national interests; innovation simply ceases to be an exclusive, solely scientific discovery as it enters national innovative systems that provide the conditions for the manufacturing sector to develop innovation in the global (unified) market. It is not sufficient to just create an innovation; it must be promptly launched into mass production.

The innovative market is very special in that consolidation is contraindicative to it. The market is for individuals, even if there are large players on it. As a rule, the market needs consolidation to maintain liquidity and requires a continuous reserve of huge funds. The innovation market does not require liquidity because it is inherent in the market, therefore special provisioning is unnecessary.

Countries that have accumulated tremendous reserves have set an objective to conquer external commodity markets. The innovative market will not be very attractive until consumers start to appreciate an innovation as a commodity, and then the market of such innovation will turn into a commodity market. That is why, despite its specifics, the exchange of



innovative development, distribution and use meets all the requirements of a market institution.

Another distinctive feature of the innovative market is that its subjects are the centers of competence, not centers of profit. Admittedly, the former have far greater capabilities for cooperation and that is why the innovative market should be created as a unified one, with national frameworks being conventional (or informative at best). As for the legal protection of intellectual property, there are acknowledged procedures to transfer any patented innovation on the international market to the national domain, for example, the Patent Cooperation Treaty (PCT) procedure. Russia transferred more than 80,000 applications to its market through the European Patent Office.

The recent financial crisis forced the EU to create a huge stabilization fund. The EU can use this fund to resolve short-term socio-economic development problems, but this does not mean that the EU is

exempt from rescheduling debt payments. The need then appears for an effective mechanism to ensure economic growth, unrelated to fiscal policy and protected from speculative attacks. Designing a unified innovative market stimulates the desire to set up an integrated fund to finance innovation. This market can be a virtual one, i.e. money can be managed by national innovative systems.

The structure of the innovative market can be virtual as well, similar to a social network, as the innovative capability of the modern economy is not created by large organizations, but by a network of entrepreneurs which brings together individual groups of developers. The network theory shows that it is a network exchange of information as a result of spontaneous interaction that contributes to the implementation of economically effective projects in innovative communities. In this sense, a unified Euro-Russian innovation market is capable of ensuring a multiplication effect for any individual investor.

The parties should pay special attention to the development of new forms of private-state partnership, specifically to functional clusters.

The idea is quite simple: to consolidate structures linked functionally, not enterprises that are located close to one another, that operate in various branches of the economy. This would help prepare optimal conditions for both inter-state and inter-branch interaction among various spheres of knowledge and production, as well as for the rapid mass production of innovation. It would facilitate the diffusion of innovative approaches, ideas and solutions with respect to new tasks, and contribute to a competent and professional management of all these processes.

The establishment of clusters has long been part of the global practice of industrial policy. Clusters cannot be formed by forcing companies to work together by administrative levers, without taking into account the real prospects for implementing economic activities.

The fact that several companies from a certain sector of the economy use or tend to use the same technologies does not imply that these companies will make a real cluster; cooperation between them is required, as well as the involvement of the services sector. None of these objectives can be achieved by the force of administrative levers without objective market prerequisites.

Furthermore, overemphasizing administrative regulatory measures can create additional barriers to innovative clusters. Such regulation can effectively become a straitjacket for business instead of a fruitful playing field.

The key factor in creating an atmosphere of trust and ensuring broad and stable demand is the participation of large businesses in the clusters. Innovative clusters play a dual role: as innovators that attract subcontractors to implement their projects and as generators of demand for the services of innovative companies among small and mid-sized business.

Companies also provide orders and markets for intellectual development. Clusters made up of small and mid-sized businesses have a smaller potential for dynamic development, mostly due to a lack of access to considerable financial resources and an inability to generate stable demand for products of associated economic sectors.

Support by countries shaping unified markets for such functional clusters would help fulfill another key task – to involve regional and sub-regional authorities in each of the countries in shaping and implementing an innovative policy. In particular, the Eurasian Economic Union puts on favorable conditions now for functional cooperation.



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# Supermarket of Technologies

Modernization of the Russian industry has become one of the main topics at the Russian Investment Forum in Sochi. Maksim Shereykin, General Director of the Agency for Technological Development, told in an interview with a Strategy Journal correspondent how to improve the domestic industrial complex as soon as possible, bringing it to the world level of competition.

**The Agency for Technological Development is set great hopes, and evidently, companies make high demands. What are the fundamental differences between the ATD and other development institutions? Was experience of our colleagues and partners appropriately analyzed? What things were adopted and what sank into oblivion?**

The Agency for Technological Development offers modern world-class modernization solutions for Russian industrial enterprises.

According to practical experience, the service is in demand in the Russian market. The agency has already been involved in dozens of projects on technological modernization and technology transfers.

The main difference of our agency from other development institutions is that the ATD does not allocate funds. Our agency acts as a system integrator of development projects.

Our main goal is to find niches where such modernization of development projects will be in demand. We also attract all interested parties: project initiators, financial and technology partners.

Certainly, this model is not unique. Foreign experience is extremely useful when similar organizations, including organizations with state participation, are engaged in technology transfer. Many of them have been working for decades and even have grown into successful development institutions.

We are striving to ensure so that the image of the Agency for Technological Development could reach the level of leading foreign agencies. The agency should become an institution that controls technology transfer networks.

These are networks of technological brokers: the infrastructure to support their work. These are funds of intellectual property, technology funds and technological solutions that are usually bought and transferred to business, as well as institutions of the technological future.

Russia monitors the tendency of technological breakthroughs in the world, and therefore, invests resources in the transfer of these technological solutions.

**What is the structure responsible for decision-making in the ATD? How quickly are inquiries handled? How is the interaction process with the client organized? What is the ideal client for the Agency?**

The core of the Agency for Technological Development is a number of managing directors who are fully responsible for implementing projects. A stable business process has already been built in the agency. Any client request is handled, a technical task for specific services is formed, and the order of execution for works is duly coordinated. It takes you about a month from receiving a request to signing an agreement.

Today, the most popular services of the Agency are aimed at searching for technological solutions in Russia and abroad; aggregation of demand for the project of technological modernization; assembly of the investment project and assistance in the effective organization of project financing. The owners of technologies resort to the help of the Agency in order to find partners and promote effective solutions.

The ideal client of the Agency for Technological Development is a company that decided to implement an investment project on technological modernization. At the same time, the enterprise has initial resources from about 10-30% of the funds for the project. A company uses services of the Agency for Technological Development when it realizes the necessity to receive help in order to carry out technological expertise, find the required solution among a variety of world technologies or receive a technology or financial partner for the implementation of an investment project.

If the company is guided by the principle "two heads are better than one," this enterprise is definitely an ideal client for us. Because we will become its second head.

**How is the process of technology transfer being implemented?**

Within the framework of the international law and Russian legislation. The basic scheme is the search for technological competencies and suppliers of technological solutions. To put it simply, it is engineering and delivery of equipment on a turnkey basis. Some requests are the search of licensees for organizing licensed production in Russia.

Creating of joint ventures is another scheme. It is also a form of technology transfer.

"If the company is guided by the principle "two heads are better than one," this enterprise is definitely an ideal client for us. Because we will become the second head"

Not only technological, but also investment cooperation is created here. A foreign partner provides not only technologies, but also an investment resource. It seems to me that it is also quite a promising scheme for transferring and implementing technologies.

**The agency is actively expanding its contact network. Are you going to sign contracts with Russian and foreign among partners in the near future?**

Our agency is developing in the two directions. Firstly, we are forming a pool of Russian engineering companies. Engineering companies are the main source of competence.

Secondly, we are developing an international partner network. This is our key competence that we call as the international technological expertise. Now we have more than ten foreign partners. Among them are organizations that represent Japan, China, and the Republic of Korea.

At the investment forum in Sochi, we signed a contract on cooperation with the Italian state agency for the internationalization of Italian firms and enterprises (The Italian Institute for Foreign Trade (I.C.E). We hope that we will establish cooperation with a similar agency from Germany in the near future.

With the assistance of our partners, the Agency opens up opportunities for Russian enterprises to receive access to a wide range of technologies of international companies. Thanks to the Agency, it is possible to quickly receive contacts of those people who are responsible for making decisions in these structures.

**How is the system of collective procurement of Russian and foreign technologies organized? Does the agency create a pool independently, or it work with groups that had been formed in accordance with interest?**

We work on both scenarios. It is created a so-called supermarket of technologies for replicable solutions. These available technologies have already been tested, work in the legal plane has already been carried out. Moreover, there is an understanding on the financial model.

If a company owns a technology, it can become the initiator that make the product available. For this end, it is necessary to send a request to the Agency and propose a similar replicable solution.



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# Smart Cities Make Strong Regions

Turbulent economic conditions pose a very important challenge for Russia and the regions: to acquire more resources for long-term effective growth. To date, the performance by public authorities should be assessed not only through a lens of objectives achieved, but also through the most desirable ratio of achieved results and invested resources.

The responsibility of municipalities in sustainable development of regions was given careful consideration at the Gaidar Forum.

Among session experts was head of the Astrakhan administration Oleg Polumordvinov.

## Astrakhan – a sustainable city

Oleg Polumordvinov announced this project at the Gaidar Forum. The head of city administration expressed his expert opinion on introducing efficient municipality management practices. The technology adopted in Astrakhan was highly praised at the international forum in Vienna, dedicated to the 50th anniversary of UNIDO.

The project reflects the systematic development of the city's economy. As noted by the head of administration, Astrakhan reached a qualitatively new level in terms

of initiation and implementation of projects in 2016. The city administration and budgetary enterprises have improved cooperation; the society and business extensively contribute to the city life. Comprehensive approach and coordinated effort are the concept of successful practices by the municipality, which Astrakhan decision-makers are ready to impart to their peers from other regions.

"The contemporary phase of social and economic challenges to search for resources for long-term growth, including through involving reserves previously rarely or never used. The increased



autonomy of regional and municipal management implies, in any case, the development of integration mechanisms and kinds of interaction, the actuation of private initiative within municipalities, including through public-private partnership," said Oleg Polumordvinov.

## HR reloaded

Improvement of personnel policies in municipalities is an integral part of municipality sustainable development. Undoubtedly, enhancing the efficiency of the entire vertical of power deserves special attention. According to Astrakhan experts, careful tuning of public management is required at the municipal level, as municipal and regional authorities most closely interact with the general public, and the 3/4 of real life of the people is associated with the local government. Indeed, the competence of the whole state is largely judged on the effectiveness

of municipalities. Today, civil society has become more demanding of the state, and the performance assessment of the public servants is still feebly linked to the quality of public services.

Effective management systems win the competition. That is the reason the city administration gives priority to modern management technologies, which is also applicable to the project "Astrakhan – a sustainable city". As practice has shown, even at the initial stage of the project the municipal team will require more sophisticated control system, additional skills and clearer evaluation of the performance. This year, the leaders of the Astrakhan project team will conduct work in three areas. The first is to introduce the KPI system primarily as a system to monitor how successfully key objectives of the city development are met. The second is to work with the talent pool, teach modern management and leadership courses. The third is to implement project management, including from the standpoint of the talent pool.

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According to Oleg Polumordvinov, these tasks are a priority, and must be carried out by improving the quality of human potential of the municipality team, as it is a hidden driver of development, which has an undeniable impact.

The goal is to involve all levels of management and execution to project activities. Astrakhan already has some relevant buildup, such as, the Development Fund of Astrakhan. It is a project office and a competence center that manages strategic projects of the city. It is centered around a specific result. By the end of 2017, Astrakhan will build an effective system of municipal governance that will meet infrastructure development key indicators under the project "Astrakhan – a sustainable city".

An important stage in the development of the project is a methodological study of workforce management tools before the authorities start wielding them. Competent experts of the Higher school of public administration at RANEPa are involved in this task. The HSPA includes a special working group to improve the quality of municipal administration so as to develop modern and effective practices in this area, and balance the development of expertise in municipal employees. Astrakhan was selected to be a test city.

### Think globally, act locally!

Improving the quality of life of the population and taking care of infrastructure problems are the objectives of the administration of Astrakhan. The transition to a Smart City is the management of changes that cannot be seen without identifying indicators of infrastructure development. Last year, Astrakhan started a big collaboration with UNIDO. The goals of the Astrakhan project are aligned with Sustainable Development Goals that have been adopted by the UN member states. They are designed to eradicate poverty, preserve the planet's resources and welfare for all. Each of the 17 goals contains indicators to be implemented over the next 15 years.



To accomplish the sustainable development goals, united efforts of the government, the private sector and the civil society are needed. This idea underlies the project "Astrakhan – a sustainable city". Its viable implementation requires clear structuring and continuous expertise improvement in the professional community. It is therefore necessary to use the principles of project management and collaboration, and to focus on a specific result.

An important component of sustainable municipality development is intense involvement by the population, public organizations, representatives of the business community in the city life. In particular, dozens of projects are being put through in Astrakhan today: development of apartment building grounds, education in the sphere of housing and communal services, formation of housing culture among residents. Weekly meetings are held with directors of homeowner associations and management companies. At the same time, territorial public self-government authorities are created. Specifically for this, there is a shared database that provides information on

registered territorial self-government authorities. The project envisages the creation of some 50 such associations, which will cover all districts of Astrakhan. The execution timing depends primarily on involvement of citizens themselves, as they are the initiators of the territorial self-government authorities. The Astrakhan administration conducts such activities, provides consulting and legal assistance.

Another hidden reserve of improving economic efficiency of the municipality, which the region successfully uses, is the modernization of municipal enterprises through energy service contracts. Such contracts have been concluded with the municipal enterprises Gorsvet, Kommunenergo and Astrvodokanal. The participants of the pilot project on introduction of an energy management system are Astrakhan Bus and Trolleybus Company, and a number of educational and cultural institutions. It suggests using a cutting-edge technology that will save up to 30% of electricity. The Astrakhan administration received professional support from a world-class energy management and automation expert, Schneider Electric.

According to the head of the city administration, the essential adhesive component is the establishment of a special information system that would help build effective municipality management based on KPIs and inner needs. A special status is accorded to the unified information space for all participants of Astrakhan housing and communal sector, which allows, above all else, to build an effective interaction channel to citizens for feedback.

Astrakhan tries to make the best use of its geographic uniqueness. Here, diverse forums and conferences are regularly held with the aim of attracting investment and successful solutions for city development projects. Astrakhan is traditionally a high-profile Caspian region platform for broad expert discussions on the most topical and pressing issues. Thus, in 2016 Astrakhan hosted Southern Dialogue, a major international municipal investment forum. It shows that the acknowledgment of Astrakhan's experience

in the municipality development extends both to the Southern Federal District and internationally. This autumn, the forum once again will be held in Astrakhan, this time dedicated to ecology. There we will present the project "Astrakhan – a sustainable city" in details.



Once municipalities guarantee well-balanced economy and social systems, this entails long-term economic growth in regions, and the whole country in the long run. Such sustainability at the municipal level may produce a synergistic effect on a regional scale.

**Oleg Polumordvinov,**  
head of the Astrakhan administration



# A Posteriori: Year of Ecology in Russia

With the Paris Agreement taken into account, should greenhouse gas emissions be cut and what is the role of coal power generation in the long run? Is it feasible for Russia to join the Paris Agreement and what risks lie there? The Strategy Journal experts involved in developing the environmental agenda in Russia answer these and other questions.

Vladimir Berdin, Deputy Executive Director of the International Sustainable Energy Development Center under the auspices of UNESCO (ISED)



It is necessary to reduce greenhouse gas emissions, if we do not want to face irreversible adverse climate changes in the foreseeable future. Russia, as a party to the United Nations Framework Convention on Climate Change (UNFCCC), recognizes climate change as a global challenge and has committed to implement national policies and measures to limit and reduce greenhouse gas emissions. There is no single international recipe of how to reduce the emissions, in what sectors and in what time frame. Moreover, the UNFCCC has enshrined the principle of common but differentiated responsibilities of the parties, that is, it is necessary to contribute to limiting and reducing emissions, however, countries themselves must choose specific policies, depending on the peculiarities of national economies. The agenda is the transition to a low-carbon development path, and, pursuant to the Paris Agreement, the parties to the UNFCCC should develop mid-century development strategies. Let's hope that they will answer the "how" question. To the question "when will a long-term development strategy be developed?" RF Government Decree No. 2344-r dated November 3, 2016, answers "by December 2019".

The wording of the Paris Agreement does not decide the fate of the coal industry. Apparently, the share of coal in the energy balance will be reduced in the long term. However, as long as there is consumption, coal will be in demand. First of all, we need effective transition to cleaner coal technologies. We should not forget that there are cities in Russia where coal mining is the only job available to the population. Therefore, to just discontinue coal mining will not work.

Russia's accession to the Paris Agreement seems appropriate. I would like the evaluation of the document to finish before Q1 2019, as stipulated in the plan approved by RF Government Decree No. 2344-r. Risks are not related to the Paris Agreement itself, but to the policies of some states, international and foreign financial institutions that were developed prior to and regardless of the document, so the agreement has nothing to do with it.



### Alexey Kokorin, Head of the Climate Program of the World Wildlife Fund Russia

Reducing greenhouse gas emissions is a must, but there are two phases in this matter. First, which was reached in Paris, is not to cut emissions by direct measures, but by implementing other important goals.

Energy efficiency and transition to advanced technology are applicable to Russia to consistently reduce emissions. The important thing now is to set and meet these goals. To do it, domestic carbon regulation can be helpful, if it leads to technological upgrading. But then, as risks and damages increase, comes time to forcibly reduce emissions. This will most likely be a period after 2030, when the Paris Agreement will need adjustment.

Speaking about the role of coal power generation over the long haul, it will gradually decline, but the process will take a long time, perhaps several decades. If the coal business prepares for it, it will take its time to reorient itself to other activities and get out of the business unscathed.

Coal won due to cheapness and the unfounded idea of gas shortage, but now it is clear that there is a lot of gas in the world, and cheapness in the long run is questionable. 15-20 years from now, CO2 emissions will likely be taxed, so cheapness will not be there anymore.

Russia's accession to the Paris Agreement is certainly a right thing. There is no risk that the agreement will be to the detriment of Russia.

The new text is not foreseen before 2030, but in any case it will have to be newly approved and ratified. There are no commitments on greenhouse gas emissions in the current agreement and, what is most important, the Paris Agreement envisions adaptation and assistance to countries that are most exposed to climate change.

To deny this help is to oppose the whole world, moreover, Russia has no financial obligations under the agreement, so we are free to decide to which extent we should help these countries.

### Maria Volosatova, Head of the Department of Climate and Ambient Air, Ministry of Natural Resources and Environment of the Russian Federation



According to Article 4 of the United Nations Framework Convention on Climate Change, "each of these Parties shall adopt national policies and take corresponding measures on the mitigation of climate change, by limiting its anthropogenic emissions of greenhouse gases and protecting and enhancing its greenhouse gas sinks and reservoirs".

Russia, as a party to the United Nations Framework Convention on Climate Change (UNFCCC), should comply with its provisions and carry out measures to stabilize and reduce greenhouse gas emissions. At the moment, there are no mechanisms for regulating greenhouse gas emissions in Russia, though the government plans to introduce them in 2019. In my opinion, these mechanisms should be of a stimulating nature, not restrictive.

The question of the role of coal power generation in the long term is rather complicated. It all depends on how distant is the perspective that we consider. I do not think that the role of coal power generation in the Russian Federation in the next 10-20 years will undergo serious changes.

In November last year, the Government of the Russian Federation approved a plan to ratify the Paris Agreement, which provides for the risk assessment of this process. Russia's decision to ratify the Paris Agreement will be made after a comprehensive analysis of the domestic socio-economic consequences it brings.

In December 2017, the Ministry of Economic Development of the Russian Federation will submit to the government a report assessing the socio-economic consequences of ratification. Next, the Ministry of Natural Resources will forward the draft report to President Vladimir Putin in Q1 2019 on the feasibility of ratifying the agreement. Such terms are due to the fact that the agreement's ratification should also be taken into account in the light of obligations to the rules upon its implementation, which should be approved at the end of 2018.



Oleg Pluzhnikov, Chairman of the  
Branch Office for Business Development  
Department in the Field of Ecology,  
Delovaya Rossiya LLC

Greenhouse gas emissions should clearly be reduced. There is no alternative. Both because climate change on our planet is taking place at an unprecedented pace, and because the Russian Federation is a party to a number of international treaties that require this reduction.

However, the most important is that the climatic factor has been over years an essential element of the world competition spurring the promotion of most energy-efficient and innovative solutions and technologies. Climate-unfriendly and obsolete technologies coupled with increasing emissions, on the contrary, are being forced out of the market and will be replaced rapidly as countries introduce greenhouse gas emission control policies.

In the Russian Federation, the biggest potential for improving energy efficiency and reducing emissions resides in manufacturing, energy industry, housing services and transport. And there is no need to invent anything since economic environment to fulfill this potential and state support are the two main areas where emission regulation policies are applied in all developed and most developing countries.

If we should talk about the world trend, the share of coal power generation, as well as investment in coal mining, will gradually decrease over time. Many of the largest financial institutions have agreed to cease funding coal projects. Regarding Russia, the implementation of the measures set out in Article 1, obviously, will not require solutions on any significant changes in the energy balance of the country and regions.

In my opinion, there is too much unnecessary buzz around the Paris Agreement as an international treaty. The Paris Agreement is a document that only reflects the current trends of the world economy and energy, a snapshot or, if you like, a hologram of solutions on the transition to low-carbon development, which

has already been adopted by representatives of governments and largest businesses in recent decades.

This international treaty does not state legally binding provisions requiring countries to fulfill any stringent requirements.

The purpose of this agreement is to commit countries to voluntary actions, given that the treaty implementation is risk-free. This is probably the reason it has entered into force so fast: 132 out of the 197 countries have ratified it, as of February.

The Paris Agreement is a document on the interaction and cooperation of countries to address climate change. Accordingly, the issue of the participation of a country in the Paris Agreement essentially boils down to whether this country has a desire to reduce greenhouse gas emissions along with others (each country determines the amount of reduction it finds suitable), to transition its economy towards low-carbon development (each country develops a strategy), to address adaptation issues (each country sets approaches). I don't have a single argument against Russia' participation in the Paris Agreement.

Alexey Spirin, Head of Greenhouse Gas  
Emissions Control Division, Department of  
Ecology, Labor Protection and Industrial  
Safety, UC RUSAL

Greenhouse gas emissions should definitely be reduced. Despite the debate among scientists and individual politicians, the international community expressed its opinion by adopting the UN Framework Convention on Climate Change in 1992. In addition to preserving the climate, it should be remembered that the need to reduce emissions is also a powerful driver for the development of new technologies. This is something to take into account for the benefit of the Russian economy.

Russia is in need of its own modern technologies and products that would be in demand both in the domestic and foreign



markets. Low-carbon technologies and products build the current trend. We must adjust to these realities and stay ahead.

Demand for coal fuel and coal power generation will decrease. Perhaps other ways of using coal will arise, but those that we know today are far from ideal.

In terms of coal power generation, the global trends are such that if there is a real alternative to coal, the alternative will be a priority. Low price for coal will be aligned by taxing greenhouse gas emissions.

This will take time to happen, however, the Russian Federation has to develop a strategic view to understand these trends and change the quality of investment by investing in new ways of using coal and developing alternative power generation technologies, gradually reorienting coal industry workers to new businesses.

Regarding the expediency of Russia's accession to the Paris Agreement, if Russia wants to be heard and to influence the international regulation of greenhouse gas emissions and to promote and defend its interests as effectively as possible, most certainly we must ratify it. Moreover, there have been first steps in this direction in April 2016, when Russia signed the Paris Agreement.

Everybody remembers well how passive was Russia's attitude towards the implementation of voluntary emission reductions during the Kyoto Protocol period, which led to a huge missed profit opportunity. However, such countries as China, India and Ukraine were able to take full advantage of the opportune moment.

There are no risks in Russia's accession to the Paris Agreement. The agreement does not imply strict penalties for non-compliance, and, in addition, the likelihood of default by the Russian Federation in terms of emissions volume is minimal.

Our strategic partners who find it more difficult to fulfill their obligations, such as China and India, have already ratified the agreement and are ready to fight for their interests.

If we stay on the sidelines, the gain will be split without us, leaving Russia without investment and modern technology.

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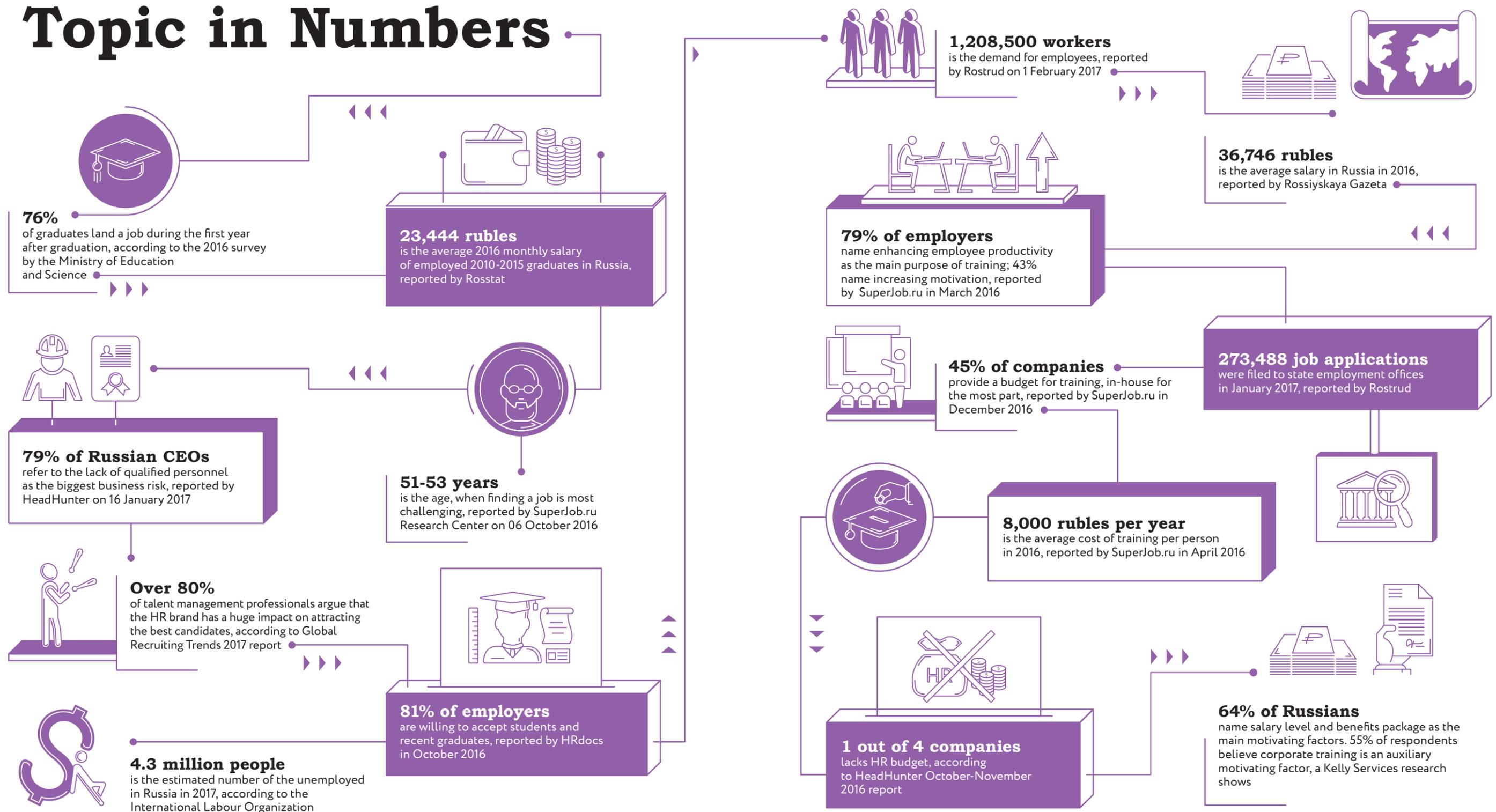
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# Topic in Numbers



# Russia's Got Talent: HiPo Employee Model

The human capital is a prerequisite for competitive advantages of not only individual organizations, but entire macroeconomic systems. In the face of incremental changes in a VUCA period, the most critical is not so much to know human capabilities right there and then, as to predict them for tomorrow. It is about identifying, developing and unlocking the potential of people, where HiPo employees occupy a special place.

## Russia's got talent?

Many countries develop national systems for young individuals with high potential. Such children attend Super Schools from an early age. In Singapore, once a year every 11-12 year old takes a national test. The best ones get into elite schools and have their tuition paid by the state.

In China, first graders take a national exam too; better results pave the way to better schools for talented students. In India, state-subsidized schools for gifted children vary in selection criteria, curriculums and extracurricular programs. Sweden, Finland and other countries allow each student to complete an individual learning plan.

The examples are plenty; however, what is Russia's avenue? In Russia, such activities are for the most part limited to academic competitions and contests. Nevertheless, one thing is clear — Russia is looking for talents!

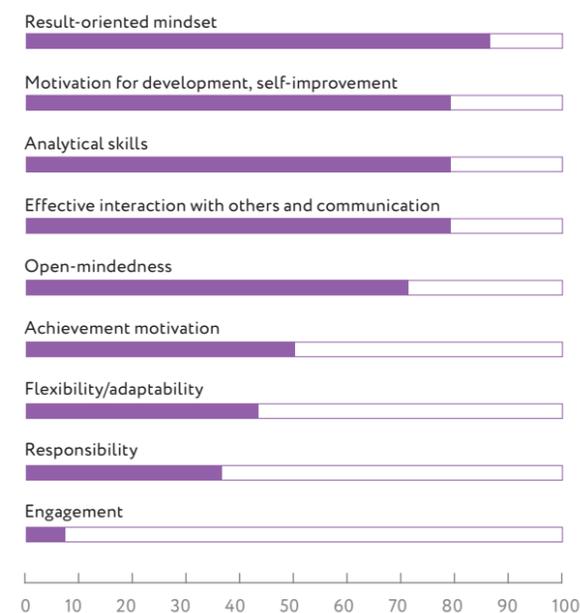
Good practices are found in some regions; there are subsystems for talent development in individual universities. At the same time, our system positively asks for transformation in respect to human potential development methodology. To build a Russian high-potential employee model, besides studying the experience of other countries, it is advisable that we turn to the developed business practices and try to scale these approaches up to the Russian Federation.

## Talented person is talented everywhere?

Most Russian companies are bereft of dedicated high-potential strategy maturity models. International corporations and truly large Russian industrial leaders stay at the forefront of this field.

The companies applying this toolkit assess the potential in different ways, but at the heart of this work are similar competency-based models that can generate an idea about the future success of a person.

### Core competencies in potential models



The 2017 study by Alliance Consulting of ACIG Group of Companies shows that the first five competencies are present in potential models of more than 70% of participant companies.

Another interesting fact: companies that do not use personnel potential management strategies focus on similar competencies when admitting youth to work (based on the 2016 study by Alliance Consulting

of ACIG Group of Companies "Russia's Got Talent: Generation Y in the Labor Market"). The recruitment process in most companies focuses on results, analytical thinking and learnability (motivation to learn and openness to new knowledge) of candidates.

Thus, a universal potential model is practicable, which may evoke enthusiasm in employers and preface a methodological basis of the Russian high-potential employee model.

## Who is a student's line manager then?

Companies largely employ methodologically structured yet true-to-life potential assessment tools for a manager's toolkit.

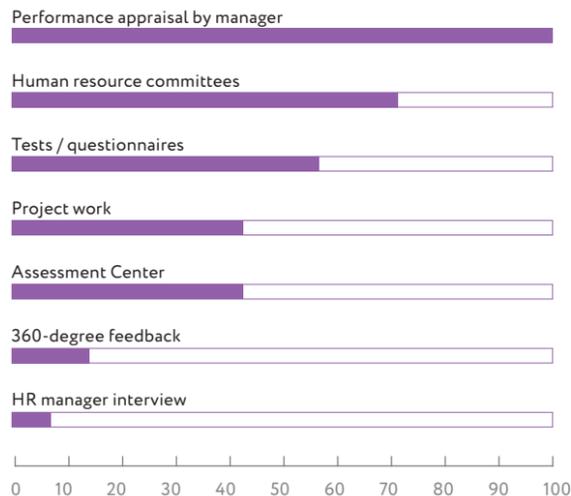
Apart from a direct manager, the procedure often involves other employed professionals who communicate with an assessed person (human resource committee). This approach determines the applied aspect of an individual's potential; the individual fills out tests and questionnaires to complement the assessment.

The best state-wide approach to HiPo employees is testing. However, the system may include potential assessment tools most commonly used in the business.

A homeroom teacher to a student is the same as a company's manager to an employee. "Human resource committees" may include other teachers and parents. Similar projections apply to the higher professional education. In Europe, for example, gifted children enjoy education agreed with the assessment by schoolteachers and psychologists, underpinned by information from parents.

The potential assessment is used to create a young talents pool. Some common assessment tools are corporate professional contests and competitions that include gamification elements (business games, simulations).

**Potential assessment tools**



Based on the 2017 study of Alliance Consulting of ACIG Group of Companies

In general, successful participation in various extracurricular activities and projects (contests, competitions) significantly increases the competitiveness of graduates in the eyes of employers (based on the 2016 study of Alliance Consulting of ACIG Group of Companies "Russia's Got Talent: Generation Y in the Labor Market"). Companies see it as a further affirmation of high potential of the future employee. Thus, the earlier mentioned common practice of talent search in Russia is sought after in business. However, it urges to methodologically structure this practice using a clear potential model as the foundation.

Similar principles underlie the working strategies of Sustainable Future of Russia Platform for Young Professionals. The platform uses a competency-based model that helps assess the potential of the participants and takes into account their successful extracurricular activities.

The research results determine annual improvements made to the assessment model for the Sustainable Future of Russia participants.

**Give the right answers or ask the right questions?**

Teaching ways to meet working challenges is the most widely recognized approach to potential development used by the business (based on the 2017 study of Alliance Consulting of ACIG Group of Companies). In practice, this approach is implemented through project activities (research, study of new ideas, and implementation of development goals) and cross-functional workflow, which allows professionals to exercise and strengthen their potential in non-standard (unusual) situations.

Generally, this approach is scalable to the Russian high-potential employee model through an additional education subsystem focused on group work and aimed at developing creative talents through summer schools for gifted children, as well as through leapfrogging over classes (1-3 times during the entire schooling period) or mixing classes with more senior students and project-oriented training. These elements hinge on the potential model.

The RANEPA Summer Campus is a good local example of such scalability. Tested and selected to

**Sustainable Future of Russia Platform for Young Professionals**

The Platform for Young Professionals brings together young leaders of Russia, lays down the grounds for their self-realization and generates the succession pool for the country's sustainable development. Among the partners are the largest for-profit organizations, public authorities, leading universities and representatives of the expert community. Annually, thousands of students and graduates from all over Russia join the platform. The educational program and work with experts bridge the gap between the level of training of young specialists and expectations of contemporary employers. The platform graduates find it easier to get work; and the platform partners, to find employees.

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**Summer Campus**

The RANEPA Summer Campus is a unique annual international education project for young people. The curriculum consists of lectures and interactive sessions with leading Russian and foreign scientists, public officials and world-renowned businesspeople.

the camp, Russian talented students immerse into highly intensive environment structured to meet the best education standards and project-oriented training principles. Experts from the corporate segment supervise the project work executed by the camp participants.

**Acting out**

Key changes in the educational system of Russia is the greatest challenge. Along with this, developing the right approach to solving this problem is likewise important. The problem of many changes in Russia is the monolithic design, that is, once implemented, a solution is very hard to transform after, since the existing state procedures for solution development are time-consuming and ineffective. The change is not a one-time occasion, but a complex multifaceted process, and any newly introduced solutions require further adjusting.

The world and demand will continuously change. Accordingly, the Russian high-potential employee model will change too (models, processes and tools will morph). Therefore, it needs some mechanism of continuous fine-tuning of the system, taking stakeholders into account (businesses, educational institutions, public structures and youth).

The process of persistent improvement that is difficult to adjust within the system should be withdrawn from this system. The Effective Healthcare platform is a good example of engaging stakeholders in regular dialogues, qualitative assessment and civilized lobbyism to solve important challenges of the industry.



**Effective healthcare**

The Effective Healthcare is a permanent interactive discussion platform aimed at finding new solutions and ways of developing the healthcare sector, which requires complex interagency coordination.

Numerous Russian responsible businesspeople, progressive officials, good experts, as well as talented young people are willing to work in such manner.

The Effective Education platform will seemingly help us hunt talents in Russia successfully.



# Intourist. Have a New Trip

In 2011, Intourist and Thomas Cook merged to form a joint venture in Russia. Leonid Marmer, General Director of Intourist Thomas Cook, a leading inbound tour operator, tells the Strategy Journal what has changed over the years and what areas are being explored by Intourist.

**Thomas Cook dates back to 1841. Intourist was established in 1929. Both companies were pioneers. How did the idea of establishing a joint venture Intourist Thomas Cook come to your mind? What new prospects do the company have in this regard?**

The joint venture was established in 2011. In the early 2000s, foreign investors' goal was to enter the Russian market, and therefore Thomas Cook invested not only in Intourist. Prior to this, such major European companies as TUI, Hotelplan, Kuoni, have already decided on their presence in Russia. Thomas Cook came to this market a bit later. At the moment, only two of the world's largest brands – TUI and Thomas Cook – were represented in Russia.

Foreign corporations were looking for stable tourism business in Russia in order to make investments in this sphere. The presence on the fast-growing Russian market was indeed a strategic step for these European brands. At that time, companies with Turkish capital have already operated in Russia: Coral Travel, AnexTour, Pegas Touristic and others. Thomas Cook chose Intourist, operating as a part of a large holding AFK Sistema. The establishment of a joint venture with such a powerful brand as Intourist Thomas Cook was a very interesting step for both shareholders at that time:

AFK Sistema was supported by Thomas Cook, a very strong global strategic partner. Thomas Cook, in its turn, received access to an interesting business and the company with great history that was the leader in inbound, outbound and inland types of tourism.

Speaking about similar business models in the tourism industry, rebranding is a typical thing when reuniting. We decided to retain Intourist on the logo, as our name is recognizable in marketing, and add Thomas Cook. And both brands today are wonderfully co-cooperate and promote each other.

**How are you going to develop inbound tourism?**

Intourist has always been a leader in the segment of inbound tourism. In principle, it was created precisely for this purpose.

There was a period in the history of the country when Intourist was something like a ministry of tourism. It was a calling card for the young republic of the Soviets, later the USSR. In the 70s, Intourist employed about 29,000 people. The corporation hosted more than

a million foreign tourists a year. Today, the number of tourists is much smaller, as there is a healthy competition in the market, and the USSR does not exist anymore. Nevertheless, we have strong positions in the market of inbound tourism in Russia. Working with hundreds of countries abroad, we are actively attracting tourists from absolutely new, emerging markets. It worth noting a stable tourist flow from the regions and countries of Western and Central Europe. The process of restoring tourist flows started after a slight decline in demand in 2014. Today, growth has become possible thanks to tourists from East Asia and the Middle East. Russia has not been explored for these markets yet. We are now actively working on these areas.

**How do you assess the first five years of Thomas Cook's presence in Russia in the context of development of inbound tourism?**

Such large holdings as TUI and Thomas Cook, had no previous practice and experience in the field of outbound tourism. As a rule, they were created by mergers and acquisitions of other travel companies. The uniqueness of the synergy is that Intourist has become a strong player in the sphere of outbound and inbound tourism. Today, this experience can be useful in other countries of Western and Central Europe. In terms of incoming tourism, Intourist has experience, supplementing the experience of Thomas Cook.

**What new and interesting things can you offer your partners abroad now?**

Inbound tourism in Russia is quite specific at the moment. It is more a historical and cultural-informative segment. Recreational or beach tourism in Russia is still unknown for foreign tourists. Now we are promoting holidays in Sochi on foreign markets, especially after 2014 Winter Olympic Games that brought Sochi worldwide fame. Now this destination can be offered to spend time on a beach, ski and excursion. We are also working over gastronomic projects and ecotourism. It is important to explain foreign guests that today Russia is not only two capitals. It has become more interesting to attract foreigners to other regions of Russia. They can see in Russia what is difficult to find in other countries: coloring, way of life, local folklore.

**What else attracts foreign tourists to Russia?**

After all, mostly foreigners go to Russia to see Moscow and St. Petersburg. And if until recently our interests coincided with

"Inbound tourism in Russia is quite specific at the moment. It is more a historical and cultural-informative segment"



demand, then over the past few years we have faced certain difficulties. It became clear that promoting a single product – the Moscow-St. Petersburg package – was not that interesting.

We are working hard now to expand the product line. Earlier, tourists from the Eastern Bloc took interest in Lenin-related places of attraction. Today we're back to it. For example, we integrated Ulyanovsk into the so-called "red route" designed specifically for Chinese tourists. But, to our surprise, European travelers chiefly responded to it.

We really want to promote other regions of Russia too.

Without offering new routes and new products, it is very difficult to expect a change in demand from foreign tourists, and even more so from foreign partners. Today, Intourist strongly supports all the new projects developed jointly with the Ministry of Culture of the Russian Federation, regional administrations and the Federal Agency for Tourism. If you ask any foreigner what he imagines about when he thinks of Russia, then there will probably be fewer words like bear, matryoshka, balalaika. Today it is such recognizable symbols as the Red Square, the Kremlin, St. Basil's Cathedral, the Bolshoi Theater, the Hermitage and Peterhof fountains.

But still Russia is not associated with the beauties of the Altai Krai, the volcanoes of Kamchatka, the banks of the Yenisei River or even the Volga river. Although the Volga river is well-known. There is negligible information for foreigners about these objects. I believe we can offer foreigners absolutely unparalleled products: dog sledding, visiting Eskimo yurts, the northern lights. Adventure tourism is in high demand. I see the future in it.

Over the last couple of years, such brand tours as "Silver necklace of Russia", "Russian mansions", "Great Volga route", "Great tea route" and "Great silk road" have been created. The latter, incidentally, is part of an international project supported by UNESCO and World Tourism Organization UNWTO.

I cannot say that everything turns out perfectly: on paper it seems all well and good, but when you come to the regions, it is clear that not all is well with the infrastructure. The cost of inter-regional transportation by air is quite high, the performance of rail transportation, however, is falling behind customer expectations. We must find a certain balance – gradually develop and promote the regions that deserve or have earned

a good reputation. For example, I can note the achievements of the Republic of Tatarstan or post-Olympic Sochi. However, to effectively promote these regions, we still do not have enough direct air connections from other countries. One of the biggest problems today is the inadequate number of direct flights to Russia's major airports. By linking the cities to other countries, we could have greater incoming and outgoing tourism traffic.

**You joined the company in 2014. How did you start your professional career?**

I was born in Kiev, then still in the USSR, served in the army in different places in the Soviet Union. After graduating from the university in Lithuania and having received higher education, I migrated abroad in the early 1990s. Now my parents live in the United States, the eldest daughter lives and works in Israel. For the last eight years I have lived in Moscow with my family.

I sometimes find it difficult to answer the question, "where is your homeland?". To this I respond: "I am a man of the world".

What really cannot be taken away after living in different countries and communicating with different people is the international experience. I have acquired a colossal work practice in the international sphere, which I have used for the last 20-25 years of my career.

For several years I built IT experience in international companies. Then I moved to Russia for a job in tourism. One well-known global corporation with its head office in Israel offered me the job in Russia. In 2008, I started managing an office of a large company that promotes interests of international airlines and travel companies in other countries. In this position I worked in Russian and CIS markets and developed international travel brands in Russia. Often had to apply communication skills in different foreign languages. I speak fluent Hebrew and English, however, my Lithuanian and Ukrainian are a bit rusty. Over the years, I really had a unique opportunity to work in an international environment and to offer a quality world-known product in the Russian Federation. I communicated with high-status partners from the USA, Australia, Germany, China, Fiji, Israel, Spain, Thailand and other countries.

Three years ago I accepted an offer from Thomas Cook and became the Intourist inbound director. Certainly, it's a definite step in a career with greater responsibility, broader authority and

"One of the biggest problems today is the inadequate number of direct flights to Russia's major airports"

international scope of markets. This time the product is diversified travel opportunities in Russia, which I have fallen in love with in these years. This place is something special, it's interesting and nice to promote it abroad.

**You have been running the company for more than three years. This year Intourist employees also won an honorable award, Moscow Mayor's Award. How would you evaluate the outcome of the past three years?**

After Thomas Cook acquired Intourist, which has always been associated with something thorough, if you like, Soviet and recognizable, the merger united strong Russian traditions and European modern trends. As a result, the company integrated into business processes and introduced its valuable experience, connections, understanding of the market, expertise in marketing and sales, to take it to a whole new level.

As a common achievement of our team over the past three years, I can specify that the brand name Intourist became louder. The brand is more recognizable for inbound and outbound tourists. Intourist is a truly respected brand today. We managed to build a very good dialogue not only with partners and service providers, but also with state structures and government bodies.

**What is now worth investing in to promote the tourism business?**

Of course, online and mobile technology, where lies the future. Internet access, WI-FI availability in public places, social networks – all this has become an integral part of comfortable lifestyle, like electricity and running water. Technological infrastructure must be created in the places where tourists stay.

The Russian Federation is already making first steps to develop infrastructure and create a comfortable environment. It seems an elementary thing to take a picture, immediately connect to the Internet, make a post in social networks and attach the photo. This is a terrific sales channel.

Today people choose where to stay, eat or have fun based on reviews of other tourists. In addition, it is absolutely right to introduce classification, with all sorts of ratings included.

This serves the purpose of being recognizable among popular international or Russian online systems.

Unfortunately, the Russian Federation so far falls behind in this regard, and everything outside the big cities is still terra incognita.

**And as for the internal environment, corporate culture, the whole atmosphere of the company. What efforts, in your opinion, should be taken to achieve a better result?**

We must seek well-defined internal communication in the organization. Sometimes employees in the fields do not quite understand the company's strategy. Intourist, of course, comprises a mix of different generations. One of the employees has 50 years of consecutive service for the company. We have many cases of employing three generations of one family. There is continuity and passing down experience, buildup and expertise from one generation to another.

Nevertheless, building a modern adequate corporate culture that would meet customer expectations is an overriding goal for the management, and it cannot be solved in one day or even in one year. This is an ongoing process of training and education. We very much support and encourage the participation of our employees in all kinds of tourist exhibitions and other events abroad. They often attend professional events abroad and in Russia.

I shall note that the personnel turnover in Intourist is very low. Nevertheless, we work all the time on the proper rotation of staff and raise the professional level of employees. So, if they wish to grow, we support it.

**What is the main motivation for the company's employees?**

The company should have the right balance between material and non-material motivation. Besides salary and bonus schemes, we have a very serious social security of employees, which is also a material motivation.

We regularly ask our employees: "Why are you working at Intourist?" The majority refers to reputed brand, team work, stability. And the most important thing: people like what they do. It is impossible to work in tourism without love and without pleasure.

"Be a good example for people around you!" This is my motto and demand a similar attitude from my subordinates. If you are doing something, do it well and with love!

"Today people choose where to stay, eat or have fun based on reviews of other tourists"

# Time of Expendables is Over

Now is the time for far-reaching changes. Corporations redraw the economic map of the world, conventional resources are thinning out and start-ups embrace augmented reality in search of a place in the sun. The focal point of the global struggle for economic influence is a human: consumer, customer, and employee. The business world is expecting people with new competencies, skills, and abilities to come in the near future. But where will these people of “a brighter future” sprout from?

## All is lost?

Robotics and Industry 4.0 bring about major changes in the labor market. There are 70 million jobs in Russia, and in ten years they could shrink by as much as 5-6 million. Employers will refine requirements to another 25-30 million jobs. Tradespeople more often deal with smart mechanisms that require more skills. Are there ways to solve this problem, while the modern Russian education falls far behind the needs of the labor market?

Add to this the disturbing graduates employment statistics. The Ministry of Education claims that around 70% of specialists work in their field. Kirill Varlamov denies the official statistics. He contends that the

market evaluates this data as low as 40%. In his view, this suggests that the market is tremendously out of sync with the demand for this education. Sberbank CEO and Chairman of the Board Herman Gref agrees.

“Very few people work in their field. Individuals spend formidable 5-6 years to study at university and then work in the field far from what they invested their time in. This, of course, sparks speculation about whether higher education gives us the ability to self-learning. At that point the graduates learn everything on their own, but, probably, that is half truth. The graduate can effectively use resources, including public, to obtain precise knowledge, and spend his whole life practicing it, without trying to draw parallels with what he has been taught in an



entirely different field of higher education,” admits the head of Sberbank.

It is worth mentioning the historical problem of education leaders: it focuses on the ability to adjust to the changing landscape and continuously learn.



## The market is waiting

Last three years, labor market alterations have prompted changes in requirements for personnel. The priority is soft skills that typically include ten core competencies: decision-making ability, critical thinking, creativity, human resources management, collaboration, emotional intelligence, interpersonal skills, service orientation, negotiations and cognitive flexibility. This is the minimal rundown of competencies that a leader must possess. In one of his speeches, Herman Gref highlights the importance of developing 21st century skills.

We adopted a new competency model in 2016. We have identified six new competencies that, in fact, are basic, so that our employees can meet the challenges of the 21st century. The first is problem-solving and decision-making. The second is result management and responsibility. The third is resourcefulness. The fourth is client centricity. The fifth is cooperativeness and team management. The sixth is self-control, however, it depends on emotional intelligence, the ability to understand own and other people's emotions.

**Herman Gref,**  
Sberbank CEO and Chairman of the Board

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"The businesses that put resources into in these very skills are seven times more likely to achieve the desired results. Over the last three years, we have been actively contributing here too. We witness a very good response: increased customer satisfaction, increased productivity, improved financial performance, increased client centricity. Speaking frankly, I underestimated this. When I took the position in the bank, I believed that this, basically, was a type of job that I would do as a last resort. I had never been a financier, so it took me long time to scrutinize every technology. Over time, finally, my colleagues and I realized that we were probably a little bit irrational to put our efforts a certain way, because professional knowledge is easy to give rather than to teach these basic skills," says the head of Sberbank.

While most skills are intelligible, the development of emotional intelligence is one unavoidable question. Emotional intelligence is a new concept and it often refers to the capability of individuals to recognize their own, and other people's emotions, to discern desires and intentions and to manage them to achieve some practical goals.

The development of emotional intelligence is now included in educational curricula in schools of many countries: Denmark, Finland and others.

Whereas the Russian system of primary and secondary education focuses on memorizing facts, reading, writing, logic and analysis.

"We have gone too far in emphasizing the value and the importance of the purely rational – what IQ measures – in human life. For better or worse, intelligence can come to nothing when the emotions hold sway," says Daniel Goleman, American psychologist, science journalist and author of the book Emotional Intelligence.

Experts say, many modern leaders lack adequate EQ, and it is much more difficult to develop knowledge, so learning must start from childhood.

"If you want to be an effective leader, you need to have both of your brain hemispheres working. You must be a good specialist in theory and understand spreadsheets and charts. You should make sure that everything is done on time and that the work is emotionally charged to a certain correct degree," says President of AMBA International Sir Paul Judge.

Experts of the International Economic Forum distinguish collaboration as another important skill. "We very often talk about the personal, but we miss out the team. Today, there are competing professional groups that successfully manage innovation and know how to cooperate. For instance, we have involved a team of technicians and designers into Russian projects. The idea is quite simple: a designer joins to contribute to a presentation, not to be your partner that creates and promotes something. This concerns everybody. This is beyond our understanding of how



In this day and age, it does not make any difference if you are an IT or oil business. You can't accomplish something tangible abiding in the social paradigm of a rigid vertical hierarchy where subordinates wait for guidelines from the leadership, without taking proactive steps. Certainly, the future is in the companies that are based on the "million network principle" where every employee at a certain level does not only execute orders, but also recognizes his position in the company, who is able to analyze, communicate, and, of course, take the initiative and settle on choices within his competencies. It is, of course, difficult to build such companies in an established paradigm without a certain level of vitality and emotional intelligence.

**Alexander Dyukov,**  
Chairman of the Management Board,  
Chief Executive Officer, Gazprom Neft

to make use of those people", says Evgeniya Shamis, the general director of Sherpa S Pro, the co-founder of the international workshop "Innovations and clusters: business opportunities".

Dmitry Konov, the chairman of the SIBUR management board stresses the importance of coordinated effort within a team. Communication and collaboration are requirements companies set out for their employees.

"There exist criteria called teamwork and conflict resolution skills. We do not recruit people, who have these skills too immature, even if they suit us in other respects, because this complicates the individual's work in the company and impedes the further day-to-day management of the company", says Dmitry Konov.

However, collaboration alone is not enough. Teamwork asks for multidisciplinary and cross-functional interaction skills. A worker of the 21st century must possess multidisciplinary skills and master several professions. But the most important thing is to be able to combine these skills. Multidisciplinary skills may help resolve problems in a variety of areas. A striking illustration is the situation with the oil spill in the Gulf of Mexico, where the solution to the problem came from the Concrete Institute of Australia. The expertise of Russian companies proves the effectiveness of employees with multidisciplinary skills.

"Our company's employees, who are knowledgeable not only in biology, but in mathematics and system analysis, know what game theory and decision theory are, they are familiar with cognitive technologies, information systems, understand how to build models and how to do machine learning, they are familiar with modern approaches to management. These are ways to manage projects and integrated design. These are employees that we help develop their emotional intelligence. Undoubtedly, such employees, even if, say, the oil tomorrow would no longer be needed, will be in demand in other sectors of the economy", says Alexander Dyukov, Chairman of the Management Board, Chief Executive Officer, Gazprom Neft.



When you take a position at an enterprise, you have a very rigid order and timing. You understand that the question is not even about the money, it's about the people you don't have. The problem is not the standards, which naturally must be complied with, and not the faculty departments. The problem is that you should find dozens or hundreds of specialists in these areas immediately. Good thing there is outsourcing. But the enterprises themselves must actively involve professionals. This issue is less critical for education. The forms that we are currently searching for, bringing institutes and faculty departments to solve practical tasks, are very important.

**Igor Komarov,**  
General Director, Roskosmos

"I believe that it is critical that all people comprehend that the world has changed and it will never be the same again. We all should understand that the new reality implies that we will have to develop 5-7 professions in a lifetime, not 1 or 2. Adaptability, flexible thinking and learnability will be the main competitive advantages in the labor market. To keep pace with the times, you need to constantly learn new things", says Gohar Ananian, the head of Smart HR-Consulting and HR-tv.ru.

Globalization continues to transform the business landscape. Western experts believe that hiring priority is given to those university graduates who can acquire global skills. They include negotiations. At the point when businesses enter new markets, including international, the leaders must be able to hold a dialogue at another level. Other than internal processes, they have to deal with the outside world. They need to grasp both global and local trends, interests of all parties, know cultural features of different nations.

A 21st century employee must also possess strategic vision and implementation experience. Among the skills are two somewhat unexpected ones: insight into bureaucracy and understanding of the consistency of work in large companies. At the same time, young people are expected to bring innovations that could fuel explosive growth.

Experts estimate IT to take place in every profession in five years. Today, it is a separate field of knowledge. Kirill Varlamov, the head of the Internet Initiatives Development Fund, believes that the future economy will be rooted in the digital technology, that is, the experience in IT products and services is indispensable for specialists. According to the IIDF, the Russian labor market has 102,000 jobs that, in one way or another, produce IT products or services. At the same time, the official university intake in this field of study ranges between 25,000 and 46,000 people. Statistics show an acute deficit. This trend threatens the country with a disaster.

"We keep being told that we have potential, that there is a stepping stone. However, we don't really have this all. It's time to hear the thunder. Let's do something already", says Kirill Varlamov.

The main task today is to balance the skills and competencies that will be demanded from everyone tomorrow.

### Eternal students

Understanding what skills are required from a company's employee in the 21st century puts a legitimate question of how to teach it. The business today frankly states the noncompliance between graduate skills and requirements by employers. Experts and large businesses acknowledge the gap between the educational system and the business demand. The market is changing very quickly and, within the existing system, educational institutions simply fail to prepare professionals with the skills sought-after for today's realities.

"Technology today is advancing fast. Three years back when we discussed with the heads of universities the growing need for professionals who had just appeared in the market, we thought these professionals would be in huge demand. Today, after three years, we see that there are big technologies that significantly reduce the aggregate requirements to these professionals. Mathematical models have emerged that allow to teach another model. It has moved from manual labor to a more routine form. And we watch brand-new requirements, brand-new knowledge and skills. Our educational system does not prepare for this", says Herman Gref.

Unhappy with the quality of graduates, the business stepped up. All large Russian businesses invest in education, considering it a major strategic focus.

The 2016 study by the recruitment portal SuperJob.ru claims that from the total 729 surveyed companies, the average 58% spend less than 6,000 rubles a year per employee on training, and only 5% spend more than 24,000 rubles thereon.

The investment is aimed at training own staff or training students. Someone prefers to outsource by engaging business schools and universities. Most large corporations train their employees in their own universities. Educational initiatives are among the most important strategic directions of such companies as Rostec, Sberbank, Gazprom, SIBUR, Rostelecom and Roscosmos. Russian Railways have built a system of continuous training that begins in a daycare and ends in a training center and corporate university.

Even though the largest companies train staff, they proceed to look for the perfect employees. Some experts suggest that corporate education, in the same way as other services, will be completely outsourced.

"Business Process Outsourcing is one of the massive trends in the market. It is picking up momentum and will grow in the next ten years. It will be hard to guarantee top notch implementation of all business processes entirely in-house, so companies will contract them. The

companies should focus on core business processes", says Gohar Ananian, the head of Smart HR-Consulting and HR-tv.ru.

The solution to the problem of personnel shortage seems unimaginable without redesigning the education standardization, but it is ambiguous.

First, adequacy indicators for educational processes are required. At the moment, a consistent solution to this problem does not exist. Today, the Innopraktika fund works on this issue.

Secondly, standardization requires specialization. In 2012, the Russian Ministry of Labor and the Presidential National Council for Professional Qualifications launched a system to develop a new approach to building professional qualifications. Employers and potential employees use it to assess the qualification required to perform certain activities. Educational organizations develop and modify the curriculum, based of professional standards.

This raises a question of how to standardize learning technologies that may not yet be invented, but will appear in the near future?

"Generally speaking, standards are a vital and dangerous thing at the same time. Because you can make everybody learn by these standards what will be no longer in need tomorrow", Igor Shuvalov, First Deputy Prime Minister of the Russian Federation, reflects on the issue.

Time is not enough. That is why some analysts suggest to use the processes, training and programs that exist in universities. This requires creating a close link between employers and educational institutions. What is the bottom line for the human resources? In the 21st century, the labor market competitiveness requires a person to match at least some parameters of an ideal employee model, regardless of the ever-changing standards and needs of companies.

There is only one way out, the learning must be continuous. Modern technology not only speeds

up processes but also makes previously unique opportunities more accessible. Today, almost any information is within reach, wherever a person is. The Internet provides multiple Russian and international educational programs, a wide range of seminars and master classes. Distance learning gives access to hundreds of courses, uploaded by dozens of the best educational institutions in the world. Analysts say that there are nearly five million subscriptions to various online courses.

"There will be no classes in the future. The whole world will be a class. In the future, everyone will learn his own subject. Connect to the Internet, turn on your device and follow the program at your own comfortable rate. It will be comprehensive training, not as suggested earlier. We call it blended learning. We move from a scenario where a teacher stands and lectures in front of you. You learn basic facts, looking them up online, come to a class, and there you talk about them. You get the fundamental ideas in the Internet, and then you spend hundreds of hours enhancing your knowledge and searching for answers to the question", assures President of AMBA International Sir Paul Judge.



# Smart Career Move

World's major companies are looking for answers to global challenges and struggling for manpower. Spokespersons of Russian companies share their view on these issues with the readers of the Strategy Journal. Mark Holmes, editor-in-chief of Via Satellite and Avionics magazines, has joined the discussion as an international expert.

Mark Holmes, editor-in-chief, Via Satellite and Avionics magazines.



**What challenges in global human resources domain can you see for your industry in the next couple of years?**

The satellite industry is at an interesting stage of its development. A few years ago, it was seen as a slightly backwards industry. However, thanks to companies like SpaceX, Facebook and Google, space has now suddenly been transformed into a 'hip' industry. The biggest challenge for our industry is to tap into this renewed enthusiasm in satellites/space and encourage young people to lead the industry to a new growth phase. The satellite industry is forever seen as playing a role at the edge of society, connecting remote communities. The challenge will be can this influx of new talent bring satellite technology more into the mainstream.

**What is the Industry 4.0 in your sector and what role does HR function play in this process?**

HR plays a huge role in the space industry. The biggest issue over the last ten years has been the industry attracting new talents. With space becoming 'cooler' for young people, now is the time for the industry to take advantage of this. The 'Millennial' generation is a very idealistic generation that wants to use technology to make the world a better place. They are a perfect fit to work in the space industry, and I expect to see many highly innovative and groundbreaking ideas over the next few years. With satellites becoming more powerful and looking to tap into our 'connected' world, the industry has a huge opportunity to become even more relevant.

**What advice can you give to today's students? What do they need to do to become competitive on the global scale?**

The one bit of advice I would give students is don't underestimate the value of building personal relationships with people. I have a team of young editors that often like to do most things by email. However, sometimes you need to invest time in people, have longer conversations and really gain their trust. Out of those 'off-the-record' conversations a great idea will come. We live in an instant society where everybody wants everything yesterday! Good old-fashioned people skills are so important too. Talking to people, getting to know them and investing in them is still critical.



## Dmitry Shakhanov, Vice-President, Russian Railways

### **What challenges in global human resources domain can you see for your industry and company in the next couple of years?**

I would put forward the demographics. Today, Russian Railways, like other companies, works amid the demographic crisis. The reducing number of economically active population and increasing competition are observed in the country. There is a struggle for qualified and promising workforce. It's not just about the leaders, but also about the workers, which I relate to the technological changes. Manual labor is falling out of demand, industries use smart mechanisms that require highly qualified operators.

Besides, in this day and age blue-collar jobs are accorded less recognition. The youth is largely focused on office work. For example, many want to be programmers. We must think of ways to increase appeal to blue-collar jobs among the youth, to show the value of such occupations, their multifaceted nature and uniqueness. Two thirds of our company are manual workers. They are most held accountable for transportation safety.

The employer faces building HR policy in such a way as to attract, adapt and retain workers for long time. It is indeed difficult to find substitutes for many positions. For instance, it takes years to train an individual to work in rail transport. Today, Russian Railways has a balanced personnel structure. Over the past six years, we have increased the proportion of specialists with higher education by 9.5% to 30.4%. We employ a lot of young people: within ten years the number of employees under 30 years have risen from 21% to 26.2%, which makes us confident for the future, thus ensuring the continuity of generations, knowledge transfer and company upgrade.

Qualification of specialist is among HR challenges. The way out of this situation relies on close relationship of employers with specialized educational institutions. This is the only way to quickly update an educational program focusing on market needs. Russian Railways partakes in applying educational standards, academic curricula, along with identifying competencies of railway employees.

### **Does the company run unique programs to attract, develop and retain staff?**

Salary is a critical attractiveness and retention factor. In general, our company looks good contrasted with other businesses in the transport industry. We look closely at market salaries to remain competitive. Our benefits package is considered one of the best.

Workers deem other factors equally important: prospects of professional and career growth, learning or participation in iconic and breakthrough projects. This particularly relates to young specialists and managers.

We expand our efforts to maintain a comfortable corporate environment. People should see that the company cares about them, endorses their initiatives, supports and gives opportunities for career growth.

For example, we have the Youth of Russian Railways program developed to solve problems of hiring young HiPo employees and their adaptation in the company, to involve the young people in addressing corporate problems, including innovative and scientific activities.

The increased number of young employees, particularly among leaders, suggests that we are onto something. Young people can prove themselves in implementing the company's largest projects: construction of the MCC, upgrade of the Baikal-Amur Mainline and the Trans-Siberian Railway.

Young professionals merrily engage in the company's international projects, excitedly study and adopt the best practices of world rail operators. They find terrific interest in building the high-speed railway that will turn a new page in the history of Russian Railways.

### **What would you advise students, what awaits them when looking for jobs?**

You have to set up for continuous development. Acquire new skills, build experience, and learn languages.

Don't be hesitant to take on a new thing. And use any chance to take initiative and make the world a little better. Believe me, your endeavors will be rewarded.



**Alexander Ushenin, Deputy General  
Director for Human Resources Management  
and Organization Development, KAMAZ**

**What challenges in global human resources domain can you see for your industry and company in the next couple of years?**

Five out of the seven main areas of scientific and technological development of Russia (2030 forecast), are directly related to the business of KAMAZ: information and communication technology, new materials and nanotechnology, sustainable environmental management, energy efficiency and energy saving, transport and space systems.

Accordingly, companies require competencies to implement such production tasks. This is a major problem, given the backlog of the education system from the requirements of employers. Moreover, the popularity of hands-on jobs remains low among the population. Therefore, the global staffing challenge is to introduce a flexible, rapidly reconfigurable staff training system for business needs.

**Does the company run unique programs to attract, develop and retain staff?**

KAMAZ uses attraction and retention programs for HiPo employees. This process is regulated by the talent pool policy. The company incorporates personnel committees building HiPo talent pool for management positions, ensuring staff sufficiency for management positions (existing and potential), designing patterns for the development of the management pool. The corporate center for staff assessment and development has begun work. The center facilitates recruitment, ascertains the way an individual can progress, and chooses the development trajectory of joint activities in the organization (building a management team, developing corporate training programs and job profiles).

One of the tools for identifying strengths and areas for employee development is a comprehensive test that recognizes the abilities, personal and business qualities that are important for ensuring leadership success and solving complex tasks with a greater level

of responsibility. Based on the results of testing, the employees receive recommendations for the further development of the required competencies.

We have also implemented a large-scale project along with the Ministry of Labor, Employment and Social Protection of the Republic of Tatarstan: the summer youth vocational guidance forum "PROFdvizhenie". The motivation behind the forum is to promote engineering, technical and vocational professions and attract talented young people to KAMAZ. The company holds job fairs, top management's guest lectures in educational institutions, has a strong presence on the Internet, in particular in social networks. We plan to open a single personnel center for mass recruitment.

The company has a staff rotation procedure that provides a system of employee transferring within a department, a company or KAMAZ Group companies to new jobs, temporary or permanent. Rotation is needed to retain high-potential employees, train generalists, form a talent pool, find a more suitable position for a particular employee, rearrange departments or open new business lines in the company. There is also a mobile staff pool for those who are ready to relocate.

**What would you advise students, what awaits them when looking for jobs?**

The advice is simple: one should not follow fashion, but rather demand in the labor market. And don't fear change. Scientifically proven fact: knowledge relevance alternates twice before a bachelor graduates. In this situation, the winner is the one who is closer to technology. Technical education is a solid base that guarantees a successful career. Therefore, companies welcome candidates who have vocational skills (the more the better) or technical education.

Also, don't be afraid to start small. First, the position may not be your ultimate dream, the main thing to blend in. As a rule, those who build their careers orderly from initial positions are successful.

In other words, wherever you work, you will be successful if you are constantly engaged in self-education and development, acquire related competencies and are ready to change under time imperatives.



## Irina Beloglazova, Vice-President of Personnel, Baltika Brewing Company, Carlsberg Group

### **What challenges in global human resources domain can you see in the next couple of years particularly for your industry?**

One of the challenges is overcoming the consequences of the demographic crisis of the 1990s: acute shortage of young people, struggle for talents, aging workforce. When we involve young specialists, another challenge arises – how to effectively build interaction with the representatives of the generations Y and Z, how to motivate and retain them.

Another challenge is the rapid obsolescence of knowledge and the need to update it constantly, given the growing amount of information available. The earlier method, when a two-day training was used unchanged for 2-3 years, no longer meets the needs. There is demand for flexible modular programs, effective knowledge transfer within the company, culture that would develop an employee not in an audience, but in a workplace.

Increasing labor productivity, the need to reduce costs – I think this challenge is relevant now for most Russian companies. Globalization and urbanization, too, contribute to challenges: people tend to move to larger cities, and there is no one left to work in small ones, and then people migrate abroad from large cities.

One of the biggest challenges Baltika faces this year is related to the implementation of Carlsberg Group's SAIL'22 strategy and the new emphasis on the development of culture, as a part of this strategy.

### **Does the company run unique programs to attract and retain staff?**

When attracting staff we focus on the paid development programs for young talents "Zvyozdi Baltiki" ("Stars of the Baltic") and "Upravlyai buduschim" ("Run the Future"). For inexperienced graduates this is a great chance to start a career, to prove themselves and quickly develop professional competencies. For us it is an opportunity to attract young talents capable of thinking extraordinarily, take on routine tasks, propose and implement new ideas.

Baltika operates an entire infrastructure and system of tools for personnel development. These include PeopleBoard annual performance assessment (talent committees), individual development planning, continuity programs and much more. An important part of this system is the In-House Training School operating within the Baltika Corporate University and covering three-fourths of our training needs. Teachers of the school are our employees, experts in one or another field, who are ready to share their knowledge and experience with colleagues.

In terms of retention, we primarily focus on the most highly effective HiPo employees. Our intention is to provide them with such conditions that would encourage them to discover more and more opportunities for personal fulfillment. The dynamic and rapidly changing business environment of the company disposes to this. For example, our expanded top-60 management team not only participates in planning and implementation of strategic initiatives, but also involves a wide range of employees in these processes.

We have branches and sales offices throughout the country, so the issue of staff mobility is topical for us. Regions of the Russian Federation differ considerably from each other in terms of the level of infrastructure development and quality of life. This is one of the reasons that hinders the development of the mobility program. Despite this, our task is to support as much as possible the employees who have agreed to move in another city for work.

We distinguish three types of appointments, depending on the purpose of the relocation. The first is short-term (up to one year), the purpose is the development and training of the employee, urgent temporary coverage of a vacancy, transfer of experience. The second is long-term (three years), these appointments solve certain business problems in another region. The third is permanent (for an indefinite period), the purpose is to permanently cover a vacancy in another region.

The relocation package for each type of appointment is regulated by the national mobility policy of the company. We regularly conduct interviews with relocated employees to find out what inconveniences they encounter when moving, what they need to be productive in a new location. Today, our relocation package includes rental housing and real estate agency services, hotel accommodation during housing search, additional days of paid leave for the accommodation in a new location and some other options, depending on the type of appointment.

# Commonsense Principle

The common sense principle of Internet of Things and Industry 4.0 helps to implement projects faster and, consequently, speed up the process of decision-making. The business context is 'mutating', this is why those who hold manager positions face increasingly severe competition. Specialists in the field of human resources are no exception to the rule. How should they adapt to new realities?

## Is It All About Human Capital?

It is, but at the same time, it is not. In practice, any company is subject to the influence of a number of factors: structural transformations, a harsh external environment, and subordination between parent companies and subsidiaries.

When struggling for survival in harsh conditions, organizations often miss the importance of the human factor. In other words, they are not aware of who is responsible for a specific function. The only important things are: employees should accurately fit into the organizational chart, and every big team should be well staffed.

As a rule, such situations are typical for large corporations, but more often for transnational corporations. This tendency is a rarity in medium and small companies, as mistakes instantly affect the results and employees have to be responsible for them immediately.

## How to Choose a Prospective Employee?

What are the most common mistakes when choosing an employee among candidates? A good example from practical experience: a company, specializing in FMCG, was looking for a new commercial director for Russia and Belarus. At first sight, the situation was quite simple. It was found about 120-150 potential candidates who were tested for their readiness to change jobs. In addition, the company analyzed their innate abilities, required skills and personality. The final list included six people. Subsequently, the best candidate was selected from that final list and invited to the position of a director of the European FMCG company. Everything was alright during three months: test calls confirmed a positive trend. However, a month later the employer suddenly decided to dismiss the new employee. What happened? It turned out that the employer was developing a new sales strategy and expected that the employee would improve working

climate, encourage his colleagues, and add more creativity to the work, thus increasing sales. It seemed that the employee fully satisfied those requirements. He was sociable, open and well-educated.

However, the situation significantly differed from the real state of things. The employee was unable to calculate a P&L report and did not understand the difference between a P&L report and a balance sheet. A deeper analysis of the situation showed that the director was not aware of the whole situation in the organization and did not have a detailed understanding between production and sales. His particular specialization and business narrow-mindedness were quite successfully hidden in the interviews with the help of sound working experience, as well as a set of financial terms and clichés. It is necessary to know about such tricks and try to exclude these mistakes in future.

The first mistake is taking decisions in haste. Bosses from headquarters often say that it is necessary to fill a vacancy as soon as possible." As a result, important details remain unnoticed.

The second mistake is excessive trust. We often hear at interviews only those things that we want to hear. Bare statistics and a set of standard recommendations cannot give a clear understanding of what the candidate was previously engaged in and responsible for. Moreover, it may even play a trick on you if a candidate is an excellent interlocutor, sympathetic and makes a good impression, as sympathy is often confused with competence.

Certainly, any company needs a person who can quickly fit into the team. This is often included in the set of customer expectations, but it is not the main thing. The conclusion is obvious: the level of consultants who are engaged in recruiting people for high positions should be also high. A consultant must be well-informed about internal structures and clients' goals. Sometimes such personal qualities as a good character should be relentlessly ignored. In case of difficulties, the company will need a person who

will impartially start checking people and business processes without unnecessary emotions. The headhunter's task is to discuss it frankly this a client and begin to search a candidate if the client accepts the these terms.

## Emotional Intelligence

Emotional intelligence is an important thing, but not the most important. The corporate culture of any company is determined by its own employees, regardless guidance that had been chosen by the management.

For example, it is very important to determine whether a future employee fits into the company. How well he is getting with new employees and internal rules depends on his emotional intelligence. This term primarily describes the ability to self-management and a clear understanding of yourself and others, as well as the experience of communication.

## Agile Management

Companies started testing themselves for readiness for Agile management, i.e. the ability to be mobile, more often. First of all, in the personnel and structural plane. Everything new is beautiful, fashionable, and all novelties should be introduced. In the near future, the application of the rules of Agile management will depend on the size of the company.

Organizations that employ about 150-200 people actively use Agile management as a survival tool. Employees of such relatively small structures all over the world work in conditions of complementarity and cooperation.

Agile management is more common in the project business, but recently it has spread throughout the corporation. Training and adaptation are especially

important in this field. For example, in those cases when it is necessary to build a new team quickly, fill the staffing gap in a department where staff was temporarily transferred to a third-party project, as well as when it is necessary to help in returning an employee to a permanent job.

### Recommendations

In the near future, the distinctive skill of an effective HR manager will be the ability to form an effective team. It is especially important to combine professional knowledge with peculiarities of the

The following easy questions will help to determine the level of the emotional intelligence of a candidate:

Question	Answer
Who has inspired you the most?	The answer to this question allows to look behind the scenes. What kind of a leader/person the candidate would like to be? What are his values? What kind of behavior does he admire?
Which three values would be most important for your business reputation if you started your business tomorrow?	Honesty and trust are the two main things of all good relationships. This helps to receive a deeper understanding of the applicant's identity.
Is it necessary to set new priorities and goals when changing business? How would you announce new goals for your team?	The shift of focus occurs almost in every company. It is perfect when an employee can easily adapt to the new situation and help others in the course of the so-called 'transition process.'
Have you managed to form a lasting friendship with somebody of your colleagues?	It takes long to build long-term relationships. Only a mature person with stable emotional intelligence is capable of this. A positive answer shows that relationships with other people are important for a candidate, and he is able to be responsible for them.
Would you like to acquire any new skills or experience?	Curiosity means that a candidate is always on the way of improvement. Those people who consider that they already know everything are not interested in new ideas. This position can only do harm the company.
Can you explain us anything that is taken for granted?	For example, you can ask to explain how a coffee machine works or how to buy a metro tickets. Your conclusions will depend on candidates' answers: Had the candidate thought before responding or not; whether he has the ability to share knowledge; how he is getting with other people. Does he asks the following questions: "Does this make sense to you (my choice)?" or "Maybe you have a different approach?"
What are the three basic reasons of your success?	The answer to this question clearly shows what kind of a person the candidate should be: selfless or selfish. It is necessary to pay attention to how people talk about their success, what pronounces they use more often: I or we. It is also important to find a team player who brings positive energy into the company. Even if the candidate is a very clever person, but he does not like working with other people and he is afraid of his success, he will not fit into your company.

Source: Mariah DeLeon, VP People at workplace / Robert Alvarez, Manager Bigcommerce for the Entrepreneur website



character and the degree of emotional development of each employee. Today we live in conditions of chronic time pressure, this is why the team has to start working well together in the daily life of large industrial companies in the shortest possible time. In addition, it is necessary to categorize employees ahead of time and check their ability to form living working groups. Not every employee is ready for similar experiments. Sometimes it is necessary to identify and rely on a temporary leader who is ready to return to his previous position without any claims for promotion after implementing a project. Candidates should also understand that Agile Management and emotional intelligence are directly related with each other. The intensification of the necessity for Agile Management in organizations directly depends on the need for emotional intelligence. The time of pure technocrats has passed. It is necessary either to change depending on the management style of the company (for example, a more collegial and less authoritarian style, dual and triple power, which are forced to work together with joint teams now), or to change their job.



Is it more important to keep a comfortable working climate in a company, or to rely on a candidate's competence when employing him with subsequent adaptation? This is almost a philosophical question. In practice, several good qualities of character is a great success both for a client and an HR manager. A significant difference between the candidate's level of communicative abilities and competence for a top position can lead to mistakes in the choice of priorities and negatively affect the company. These are necessary to be taken into account at the zero cycle of HR projects.

**Susanne Doenitz,**  
Country Manager at Kienbaum in Russia / CIS

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# The Beauty of Beauty Business

Entrepreneurship in the service sector is an overwhelmingly difficult undertaking: numerous beauty salons close during crisis, not all survive competition. Business leader for 18 years, survivor of 3 economic crises, founder and president of beauty salon networks MONET and Tochka Krasoty Aleksandr Glushkov speaks to the Strategy Journal on how to hold positions in business, develop like-minded people and build confidence in a brand.

**For 18 years, you have been leading the industry and running the companies that employ over 1,000 people. Why did you choose salons and the beauty business?**

The expression "I cherish beautiful women with smart eyes" was a constant refrain when I opened the salons. Claude Monet was one of the brightest representatives of impressionism, the one I relate myself to by style and spirit. Love for art and desire to change the world for the better have inspired me to join the beauty business. The key to success is not thinking about taxes and political setting, but rather doing what brings delight, not just money. We seek to make every point of contact (mine with individuals, employee's with the customers) 5% better than yesterday. By doing everything 5% better every day you end up prominent and successful.

Our business is quite sluggish; we call it with a tongue-in-cheek name "Estonian". In this case, it warms up as slowly as it is resilient. Getting customers is exceptionally difficult, particularly in a crisis as it takes effort and money. Unlike other markets, for example, the restaurant industry, where visitors are easier to motivate with new offers, our business sees it all differently. Beauty salons lure customers as coffee shops do with the smell of coffee or pastry shops with honey buns; however, it takes much longer, about 5 years, for everybody to learn where the best salon is. This is the reason we intent to make each of the 130 salons matchless in the respective district.

**You graduated from Plekhanov Russian University of Economics and Stockholm School of Economics. What do you think is more important for running business: economic education or passion for business?**

Education, as I would like to think, is not the fundamental condition for success. Passion, enthusiasm and drive beat it. The learning helped me a great deal, now it is a prerequisite for a launch. The school and university give a person the privilege of selection, so he should experience these stages. They say the world is run by C students, I disagree. I like people who win competitions, who prematurely develop the taste for winning.

A person must compete, win and build confidence through activities. I went in for sports – modern pentathlon – and I think that the confidence and mindset of a leader are important to foster from an early age, and it is largely thanks to this that I have learned to take risks and compete.

Certainly, the entrepreneurial gene is innate, either you have or not, whereas social institutions and upbringing build the personality.

**You opened the first salon in 1998. It was a turbulent time: sovereign default, economic crisis. Tell us about the first years of the network.**

I guess I wanted to close each of currently operating salons in their early years. Then, of course, the crisis was sharper and the situation was more volatile. At that time, many were in no mind to think about beauty, everybody was saving money, having no idea what tomorrow would bring. Only a crazy enthusiast with burning eyes could save our start-up that appeared to be hopeless. We struggled for attention, for every customer. We came up with crazy marketing promotions, perhaps creative marketing dragged us through.

The competition was low those years, the market was emerging and most salons were located in alleys above or below the street level, which lent us a helping hand. In post-Soviet Russia salons had no show windows and most of our users were introverts. The salons divided into male and female rooms and were isolated from the looks from the street.

We changed the approach, combined the rooms and settled at the street level. The idea was to convert each square meter into as much as twice the revenue our competitors made.

Looking back, I realize harnessing the new trend has contributed to our success. Our targeted customers are energetic urban females who are short on time; they are in demand and want to fulfill their potential.

**The MONET network was the first in the hairdressing market to attract foreign investment. How did it affect the network's development?**

We won a major strategic investor 9 years after we opened the first salon. In August 2007, Mint Capital, a Scandinavian private equity fund, secured blocking minority rights in MONET worth \$8 million.

At that time, to draw an investor to the Russian hairdressing market was something truly unparalleled. Being "devoid of insight about corporation", I needed an outlook of experts with advanced practice in building large companies. Not only I found an incredible partner, but, along with this, got terrific experience and

"They say the world is run by C students, I disagree. A person must compete, win and build confidence through activities"

met mentors who shared my values. Today, I appreciate the Mint Capital fund, as I have developed entrepreneurial competencies, financial and corporate. We established a board of directors that is not a nominal authority; it rather takes many strategically critical decisions. The board helped extensively and unraveled many controversies, especially when the 2008 crisis broke out

**This is the third crisis you experience. Is it easier to endure than the previous ones?**

When you know how to behave in troublesome times, it is much easier to endure hardship, morally, psychologically and financially.

The rule of thumb is not to stray from the chosen strategy and principles. The key thing to remember in the early recession: the one who changes the pricing policy, drops out. It is the most dangerous move: a crisis pulls down everyone who drops in price. If you signal to your customers that you have moved towards another "field", your customers will move away, replaced by others. The segment where customers are loyal to you gets crowded with new public. Such abrupt positioning change makes big losses. During a crisis, consumers rethink their market basket. You must respond accordingly and quickly, reduce costs and remain loyal to your customers. Before the 2008 crisis, we attracted investment and opened dozens of large salons. Following the drop in demand, we did not give up the strategy and plans to create the largest network, but instead acknowledged the need to develop the segment of affordable beauty services.

**More than a third of the company's salons are franchisees. Why did you pick this practice of doing business, what are the advantages?**

When we say franchise, we mean the brand Tochka Krasoty. We call this concept "frugal fancy", it is affordable and family-friendly. We began franchising our business after 13 years of running our own salons. While developing your business, you built up expertise, but this does not imply that franchising is easy to develop successfully. The franchise was a hard decision to make, we had to mature and understand the enjoyment and drive it would bring. I even see it as a mission: to help other entrepreneurs become successful. We liken franchising to an orchestra: we must set high standards and everyone should play the same notes along. Unless there is sheet music, no nice sound

will come out. Therefore, it is imperative for us that the music plays accurately at each point. We have confidence in franchising, and plan to bring it across regions through partners.

**How would you rate the degree of impact the global practice (fashion, business models and technologies) has on your business? How integrated are you in the international framework?**

Fashion, of course, has a significant impact on the beauty business. We are integrated into the world and are aware of all trends. We identify ourselves as a European network with high quality standards. As a part of international professional cooperation, this year we welcome Paris and London stylists in our premises again.

We conform to global trends, yet understand that our women are different, they are unique, and they have a completely different sense of beauty. We relate ourselves with Russian beauty, perceive the mentality and adapt trends for our women. The notion of femininity, in my opinion, is very Russian, we are feminine-centric. In Russia, it is oddly genetically transmitted from mothers to daughters. We call this a genuine femininity.

Moreover, beauty brands find it extremely difficult to cross borders. For example, in 2008 a US company purchased a French network to enter the French market. One of the leading US companies with 12,000 salons bought the large network with 2,000 salons in France. In the end, they failed: the French culture refused to accept American management methods and business dealings.

**Salon business is poorly developed in Russia with as few as 50,000-60,000 locations across the country. Do you forecast that we might reach the leadership level: France, Italy and Japan?**

Differing average salaries in our countries, obviously, put off talking about it. We, along with other sectors of the economy, depend highly on the economic situation in the country. I doubt that beauty salons can exist in isolation from oil prices, exchange rates and minimum wages.

We will draw closer to the leaders as new customers mature and begin to care more for their looks. However, despite the small number of salons and Russians living on a shoestring budget, Russian women spend a higher portion of their income on beauty than an average European female. We have a completely different approach to beauty.

"The key thing to remember in the early recession: the one who changes the pricing policy, drops out. It is the most dangerous move: a crisis pulls down everyone who drops in price"

**Your business is client-centered. Clients want to be served by someone who they were recommended. It resembles healthcare: patients will more likely trust an experienced doctor with recommendations. What is the network's selection and recruitment policy?**

In our business, employees are the cornerstone of business, thus the industry is highly dependent on specialists. People make 100% success, so we have a tough selection process and highly motivated staff. We offer decent pay and make high demands. It is not only about professionalism, which you can teach and polish, the first and foremost is to share our values, realize that they are more important than the current profit. We are looking for like-minded people willing to play the long game.

Notwithstanding the fairly rigorous selection process, it is hard to work in a market where demand exceeds supply. We make it challenging to join the team so as to guarantee the quality of services. Basically, we select from the students of the Beauty Academy, introduced almost immediately after MONET was founded. Over 600 students graduate from the Beauty Academy every year. We have special approach: we teach from scratch and improve skills. We develop brand awareness, but at the same time understand that a first contact with a stylist is also a brand. At first, customers visit for the brand, but then return for the mastership. In our industry, undoubtedly, employees are the key to everything.

**In terms of human capacity in the industry in general, is there any improvement?**

Today, workforce capacity in the industry is still low. The old educational system has been done away with and a new one has not emerged yet, there is profound disunity in the industry. Sadly, in Russia, anybody can become a stylist in a month; unqualified, incompetent individuals overvalue their skills. The hairdressing business is difficult in light of the fact that an applicant chooses among a dozen of jobs; there is a struggle for a specialist. In developed countries where this business has been around for over 50 years, on the contrary, there are a dozen job seekers for one vacancy.

I am happy we have the logjam breaking, licensing tightening, the legislation changing, and all professionals undergoing mandatory certification. Perhaps this will help our industry.



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# The Atlas of Emerging Jobs

Big data, drones, modern computing systems should have supposedly displaced the human in the production environment. However, urban and rural schoolchildren and older people still enjoy library books, and mailmen deliver newspapers and notification cards single-handedly. What changes will the labor market have in ten years?

## Close at hand

Scientists claim that the paradigm when individuals choose life paths, follow them from school to retirement, have one or two entries in the employment record book, is outdated. Stability and linearity gave way to a process in which building labor competencies is increasingly fragmented.

In 2005, very few people knew that the demand for software engineers, video game designers or mobile application developers would peak. However, with the advent of new technologies, there developed new professional competencies that changed the labor market.

In 2014, Moscow School of Management SKOLKOVO and experts of the Agency for Strategic Initiatives introduced "The Atlas of Emerging Jobs" with the purpose to draw attention of larger audience to this



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phenomenon. Within three years, its originators conducted over 30 foresight sessions in major Russian cities. Industry leadership professionals and representatives of prominent universities of Russia attended the sessions.

"Industries experience such rapid changes, so that an industry can collapse upon itself even before a new standard of professional training is implemented. For instance, in Russia the full cycle from a business's request to the actual introduction of the standard takes ten years. Therefore, many companies are compelled to run their own schools and departments at universities. This raises a question: how to grasp the future, take a good guess and help businesses design a request, what specialist they look for to be ready for the next wave of technological development. If we could know beforehand how the things will play out, we would proactively train these specialists. In this sense, the Atlas is a landmark for those who design such training programs," Pavel Luksha, the project's mastermind and professor of the practice at Moscow School of Management SKOLKOVO, said at the presentation.

A year after came the second edition, "The Atlas of Jobs 2.0". It included 25 industries (6 times more than in the first edition) and 186 new professions that will emerge until 2030. One of them is smart travel system designer. Experts forecast growing demand for automated ticket booking, navigation and hotel booking systems.

These services have been around for quite a while already. In Russia, airline tickets aggregator AviaSales.ru, launched in 2008, has access to a global database of flights by 728 airlines, 200 flight booking agencies and 5 booking systems. Such extensive research has been carried out before. In 2013, RVC, RAEC, Pruffi agency and HeadHunter jobs portal revealed the results of the study "IT and Innovation personnel. Professions and professionals of the future". Its distinction from the project by the Agency for Strategic Initiatives is that it focused on changes in a narrower sphere of information technology. Microsoft and Future Laboratory studied the 2016 trends in the labor market, the growth rate of technological progress and identified the top 10 professions of the future. They include environmentalists, augmented reality designers and ethics lawyers.



**Business mentoring**

E-commerce, blockchain, cryptocurrency, uberization are among the mainstream business ideas Daniil Khanin worked with last year. A physicist, one of the online advertising pioneers in the Siberian District, today he is a tracker in the Higher School of Economics' business incubator and the Internet Initiatives Development Fund.

Daniil Khanin says that venture capital funds hatched this job in accelerators to help investors lead their teams the desired result.

"For me, this job is a sort of kindergarten teacher, because a tracker patronizes and leads it down a particular path from the starting point to the finish point, and at the same time ensures that it is not deviating from the right direction," says Daniil Khanin about a tracker's duties.

Universities do not yet teach tracker skills, though there exist private initiatives. Thus, the Internet Initiatives Development Fund has founded a specialized school for both beginners and experts, where they attend



NASA astronaut  
**Don Thomas**  
predicts increased demand for  
space guides  
in ten years

lectures about the techniques and methodological approaches to start-ups.

According to Daniil Khanin, tracker's professional competency must be either held back or strictly controlled, not to dictate his vision of solution to the team. While an individual of any academic background can be a tracker.

The biggest problems faced by people of this new profession relate more to issues businesses confront

in the early stages. "That's classic. Businesses do not know who their customer is, what he needs and how the company will make money. Too many theories, too few facts, so another challenge is to show the reality and determine the necessary data," remarks the tracker.

Great memory and understanding of business processes are the necessary conditions for the effective operation as a tracker.

"It is physically hard to keep the information on more than four teams in one head. I work with multiple startups, but unequally immerse myself into each team's projects," says Daniil Khanin.

While in the Internet Initiatives Development Fund accelerator, a tracker communicates with his students during hour-long sessions twice a week in order to learn what currently happens in the company, and where it heads. Further meetings are held under general reporting activities, traction meetings organized by the fund's accelerator.

Career prospects in this field, according to the professional tracker, are vague.

"This is a job for well-to-do people who want to make a difference. The only option for growth is to find a team that would want you to go along with them and grow to be a "unicorn" company.

**Capture the idea**

To eliminate the gap in competencies of college graduates, many universities have launched special programs.

Siberian Federal University launched a special engineering program back in 2012. All of them are two-year master's programs. In 2014, 19 students completed the programs. The students took internships in international training centers and large companies in Great Britain, France and Germany.

The students mastered in three programs: "Spacecraft system design" "Pressure treatment of metals and alloys" and "Engineering design automation".

Tomsk authorities drew attention to the development of educational environment. The region's administration called a special council group with members from Tomsk State University.

TSU stand-alone master's programs are extra-departmental and extra-faculty. Two pilot programs were Data Mining and Digital Humanities. This year, 10 programs has been launched. They included programs "Humanitarian information science", "Translational chemical and biomedical technologies", and "Biophotonics".

It is hard to say what triggered the change in the Russian education, "The Atlas of Emerging Jobs", other HR market studies or educational institutions themselves. This way or another, further identification of scope and ways to implement educational projects will be conducted just as extensively.

Pavel Luksha regards international cooperation as organic continuation of the Atlas development. In such manner, the authors collaborate with the International Labor Organization and in the near term they will involve the BRICS Business Council to constitute "The BRICS Atlas of Emerging Jobs".

**Future jobs**

"The Atlas of Jobs 2.0" includes such professions as old-age health consultant, online doctor, city farmer, smart house infrastructure designer, wearable power device designer, electric vehicle charging station operator, space travel manager, space geologist, recycling technologist, household robot designer, techno-stylist, clothes 3d model programmer, game master, designer of consciousness training tools, cyber detective, creative state trainer, game practitioner, emotion designer, virtual reality architect, augmented reality area designer.

# Staff Motivation: Carrot and Stick

Staff motivation is one of the key components to improve performance and management efficiency. It is a system of signals, which impel people to act consciously or unconsciously. These signals can come either from the external environment or from the person himself as a result of upbringing and culture. The relations between signals and people's actions are the answer to the question of why people react differently to the same situations.

## How to Improve Employee Efficiency?

Touching upon the topic of control in financial services, it is worth noting that even minor changes are perceived negatively by employees. However, changes are very necessary in the case of missing deadlines or low quality. Delays of operational reports for the company's management or external experts and low-quality information prepared in a hurry can also cause a serious problem.

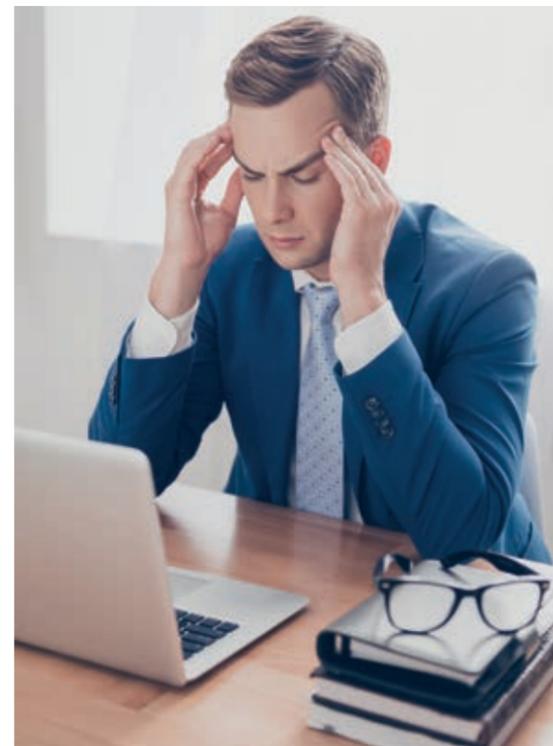
For example, one of the employees at Delo Group of Companies failed to show the required results despite all her efforts. When she missed deadlines, a manager had to interfere in the working process. The employee had to make decisions on her own, perform creative tasks, show high organizational skills. That type of work

was very difficult for her and it unavoidably reduced productivity and motivation. As a result, she was transferred to another department within the financial department. Rotation of tasks allowed the employee to focus more on technical, routine and repetitive work, show the necessary results and increase her own efficiency in the company.

In case of ignoring such situations, the company's management risks to face negative consequences: additional charges due to violation of terms (fines, penalties) or others.

For example, incorrectly prepared information can often lead to incorrect management decisions.

Sometimes it is difficult to identify weak spots that require major control. Failures often occur when several employees are responsible for one task. Their



job responsibilities may overlap. It is a common situation when one employee relies on another, but he does not feel personal responsibility for the result. The best decision in this case may be revision and clarification of working tasks in order to avoid overlap when distributing responsibilities. Job descriptions at the enterprises are formal, but they should be detailed, involving an employee in the process of updating the document.

The best thing is when one specialist is responsible for the result. If the volume of works is large enough, a working group can assist him. At the same time, it is important to ensure that each involved employee is responsible for his small area of work. We should remember that workers can fall ill or go on vacation. Ideally, we need a person who can temporarily replace a specialist. This person may be a leader or any member of his team. It is good when an employee, who is able to replace a colleague, is assigned to this role on a

permanent basis and is well informed in this sphere. Then the head of the department hedges the risks in case of dismissal or sick leave on the eve of the deadline for submitting reports.

## What If an Employee Got Confused?

Sometimes an employee makes mistakes from time to time in his work. It is necessary to start from identifying the causes of such problems and take steps to improve the situation. The employee may have little time or knowledge in order to complete his part of work in time. Training and development are the best solutions in this case.

For example, Delo Group of Companies received the status of an accredited employer in 2016 in the field of Professional Development from an international organization. Thanks to cooperation with ACCA, the financiers have been given an additional opportunity to study under the ACCA program, attend profile conferences and business breakfasts, as well as publish its articles in magazines.

Training can be implemented internally: one of the employees or the head of the department temporary support the employee if he has motivation and potential to fill the gaps. If no noticeable improvements have been identified after some of time, it is worthwhile to raise the question of whether this specialist is suitable for performing work in this field.

Another situation is quite possible in practice. Having all the necessary professional skills, the employee reluctantly performs tasks or does not meet deadlines. To put it mildly, the employee is bored, and he does not see special importance of his work. In this case, strict disciplinary measures will only worsen the situation.

First of all, it is necessary to explain him why it is important to perform the task on time, its value in the overall process, as well as what consequences are

possible if it is not implemented. Taking into account the basic needs of the employee such as involvement, competence and autonomy will be useful in practice.

One way or another all people aimed at showing good results. Involvement is expressed by showing how an employee can help a company to implement the sub-task. Competence allows him to show his skills, autonomy gives the opportunity to express his opinion freely. Management always needs to listen to ideas and always give feedback.

In most cases, the efficiency problem can be solved. At the same time, there are exceptions to the rules, in particular, if a person is lazy and irresponsible. Then it is better to say him goodbye.

### Understand Employee Temperament

Sometimes a job simply does not suit an employee's temperament. For example, it is difficult for a creative and active person to perform a long routine job of reconciling reports. If this work is performed quickly, the result will be unsatisfactory. At the same time, the employee can be useful in another area.

Aptitude and socionics tests are also very important when hiring. They can be as important as professional competencies.

If it is about performance improvement of the whole organization, then a global redistribution of tasks within the company is necessary. You can use motivator cards, i.e. incentives that encourage you to work more quickly and efficiently. They do not require additional tests, it is enough to analyze what type of work is best for specific employees, and what tasks they like or do not like.

As a rule, employees can be divided into two categories: process-oriented and result-oriented. Process-oriented employees prefer to perform a standard set of operations with projected terms and



repetitive tasks. Such employees are distinguished by discipline, perseverance. They like monotonous work, and changes often may frighten them. Non-standard tasks that require a quick solution can cause only stress and do not give the necessary results. On the contrary, people focused on the result will approach the work related to the fulfillment of unusual tasks. It can be very interesting and lead to results that exceed all expectations.

According to abovementioned examples, different methods can be used to motivate employees. They may become more successful if their job responsibilities are correctly distributed, taking into account the specific characteristics of each person. Thus, the system will be more effective when everyone will perform the work that they can do best of all.

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### Will Toughening Bring Good Results?

Despite a popular opinion, money motivation or a fear of punishment do not have a big impact on meeting deadlines and quality of work in general. These factors can have the opposite result and lead to demotivation. Employees should have an intestinal necessity to perform work of the required quality. Management should give feedback, especially when achieving outstanding results.

Management can express its recognition personally and at planning meetings. It depends on a specific person and a concrete situation in a company. For example, working meetings are held at Delo Group of Companies on a weekly basis with the participation of the financial director. Such meetings are attended by heads of departments and specialists. Everyone has an opportunity to tell about his projects, tasks, plans. Thus, all employees feel involved in the process and global tasks of the holding. In general, to achieve great results it is more reasonable to monitor the fulfillment of tasks related to meeting deadlines and quality, not employees of the company. Many managers make mistakes such as toughening disciplinary measures, following the path of fear of punishment.

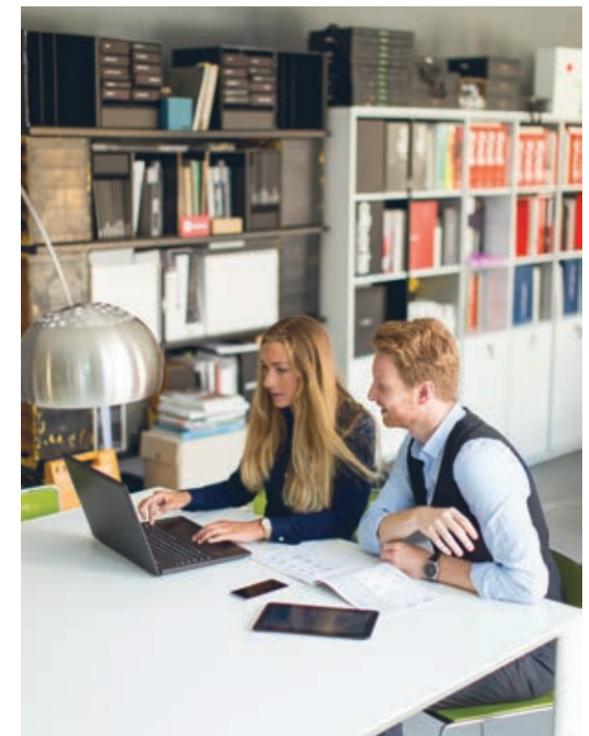
Often management believes that the constant presence of an employee in the office at fixed hours directly influence efficiency, increase productivity and improve creativity. However, it is wrong. Toughening control measures can cause a backlash – up to a voluntary resignation. Creating comfortable working conditions and assessment the results of work are much more effective tools to improve efficiency and productivity.

Above all, it is necessary to focus on staff if you want to improve effectiveness in a company. It is human resources that are the main 'capital' of the company. A competent leader is able to identify the motives of each employee and aim them at implementing of the necessary processes. Management control over activities is important, but great results can be achieved by understanding employees' needs.



A key to effective management is understanding an employee's motivation. If you are a manager who is committed to success, the first thing you should do is to know your subordinates better. You should identify the temperament of each employee: introvert or extrovert, his commitment to the result or process. Having learned the personal interests and what an employee is good at, a manager can make him responsible for more appropriate job responsibilities. As a rule, results exceed expectations only when a person is involved in activities that really fascinates him.

**Valentina Yermakova,**  
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