

THE ST. PETERSBURG INTERNATIONAL ECONOMIC FORUM – 2009

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IMPROVING RUSSIA'S PRODUCTIVITY

Moderator:

Yermolai Solzhenitsyn, Managing Partner, McKinsey & Company (Moscow office)

Panellists:

Dmitry Konov, Chairman of the Executive Board, President, SIBUR Holding

Paul Betsis, Managing Director, Cisco EME

Rustam Tariko, Founder and Chairman, Russian Standard

Carlo Tamburi, Head of International Division ENEL S.p.a

Vladislav Baumgertner, General Director, Uralkali

Michael Calvey, Co-Managing Partner, Baring Vostok Capital Partners

Leonid Kazinets, President, BARKLI Construction and Development

Helmut Wieser, Executive Vice-President and Group President, Alcoa Inc.

Vitaly Yakovlev, General Director, Mosenergo

Dmitry Zelenin, Governor of Tver region

Arkadiy Trachuk, General Director, Goznak

Research highlights labour and cost issues. Yermolai Solzhenitsyn, managing partner of McKinsey & Company's Moscow office (and the session's moderator), highlighted the results of a six-month McKinsey research project covering a number of Russian sectors. The research indicates that the shortage of Russian labour is set to worsen; therefore, productivity will become more important, despite having increased 50% in the past 10 years. It also notes that Russia lags behind other countries on a number of sector indicators, specifically with regard to the high cost of Russian investment projects, low profit-per-worker in the consumer sector, and the slow pace of banking operations. Solzhenitsyn said Russia's growth was largely supported by the country's resources, although currently in an inefficient way.

Identifying inefficiencies, boosting productivity. Reasons for inefficient production were put forward by Vladislav Baumgertner, general director of Uralkali, who cited the use of Soviet-era technology in legacy factories and outmoded methods of building new capacity. He added that inefficient business processes often stem from numerous redundant and spare functions, low levels of automation, ineffective logistics, underdeveloped managerial skills, and multitudes of management layers. According to Baumgertner, a shortage of skilled labour – particularly, engineers – and a lack of motivated mid-level managers, are also key, indicating that 95% of low-productivity factors are internal.

According to Paul Betsis, managing director of Cisco EME, serious external issues are present in relation to infrastructure – particularly with underdeveloped IT systems which contribute about 30% of growth in developed markets. He expressed the idea that in emerging markets this can be a particularly important issue. Dmitry Zelenin, governor of Tver region, highlighted a lack of government support for re-training and improving unskilled workers, noting that a number of countries operate tax-relief schemes for these costs. He added that Russian companies that strive to make their businesses more efficient feel good, despite the current financial crisis, and that the social burden of big businesses exacerbate the productivity problem. Vitaly Yakovlev, general director, Mosenergo, pointed to the internal harmony of the Soviet-style corporate culture, characterised by strong resistance to change and lack of responsibility delegation, adding that this could be addressed through increased competition.

Moving forward. A key element of increasing productivity, according to Arkady Trachuk, General Director, Goznak, is companies' individual commitment to adding value to their products, even for government-related entities. In oligopolies and monopolistic markets, he noted, this problem is remarkable. According to Michael Calvey, co-managing partner at Baring Vostok Capital Partners, strategic and private equity investors have two tools at their disposal for fighting inefficiencies: measurement and motivation. He added that Russia is on the way to a new world, in which difficulties associated with rapid and significant growth are things of the past. Leonid Kazinetz, president, BARKLI Construction and Development, noted that slow housing starts, particularly, are due to administrative barriers and a high level of bureaucracy, which should be reduced.

Participants set out a number of ideas for improving productivity in Russia, focused specifically on high-technology education, reducing state regulation and encouraging managers to measure company performance against the market and ensure creativity and innovation.