

IGOR GURKOV, OLGA ZELENOVA

Human Resource Management in Russian Companies

*Abstract: This article explores the distinctive characteristics of the Russian system of human resource management in comparison to that in other countries. The overview of HRM management systems in other countries is based on data available through CRANET network of comparative HRM studies. We discovered that the prevalent features of the Russian HRM system are the undisputed authority of line managers in selection, promotion and personnel rewards; high horizontal and vertical differentiation of wages and benefits; extremely low formalization of performance assessment; and limited possibilities of collective bargaining. Although this system has helped Russian companies to adapt quickly to the conditions of declining demand and sales in the 2008-2009 period, the economic recession caused a serious deterioration in the quality of employment – especially through the worsening of payment conditions and the creation of contractual terms unfavorable to employees.*

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Dr. Igor Gurkov is a Distinguished University Professor of Strategy and Organizations, (tel.: +7 903 625 6705; fax: +7 495 628 7931; e-mail: [gurkov@list.ru](mailto:gurkov@list.ru)) and Dr. Olga Zelenova is Associate Professor of Human Resource Management, (tel.: +7 910 420 0299; fax: +7 495 628 7931; e-mail: [olga-zelenova@mail.ru](mailto:olga-zelenova@mail.ru)) at the State University – Higher School of Economics, Moscow, Myasnitskaya st., 20, Moscow 101000 Russia. ***This work was supported by a research grant No. 08-04-0010 from the Scientific Fund of the State University – Higher School of Economics.***

The problems of HR management at a time of dramatic economic change, and in a country as large as Russia, have drawn the attention of numerous researchers over the past two decades (see Appendix 1). The absolute majority of studies, however, have viewed the transformation of HR management systems in Russia as an isolated phenomenon. The comparison of the basic parameters of HR management systems across countries can provide a new framework for the analysis of the essence of the problem, and highlight specific aspects of the current state and potential evolution of the principal subsystems of HR management. Highlighting these features will serve as a basis for evaluating the behavior of Russian companies during the current economic recession.

### **The emergence of a post-Soviet model of HR management**

The Soviet HR management model, which took its final shape in the 1970s in the USSR and was exported to most of the Eastern European countries, can be described by the following basic features: (1) The maintenance of full employment, which was achieved by continuous creation of jobs in excess of production demands, primarily at industrial enterprises; (2) Low wage differentiation. The ratio of the absolute minimum (unskilled worker) to the absolute maximum (minister) wage level was one to seven; (3) The predominance of a wage-scale system and base salary in take-home pay. Various bonuses (quarterly and especially annual) made up a moderate share (up to 20 percent) of the total amount of financial compensation;<sup>1</sup> (4) A large number of non-monetary benefits and incentives. These included both affording employees an opportunity to make use, free of charge or at a nominal cost, of vacation hostels, Young Pioneer camps, industry-sponsored hospitals and other facilities of the social infrastructure,<sup>2</sup> and the use of various and fairly effective forms of psychological

incentives, including industry-wide and governmental awards for special labor achievements.

The disintegration of the planned-economy system caused, in effect, the destruction of all of these typical features of the HR management system. In 1992 unemployment began to rise rapidly, peaking in 1996. During this process the number of officially recorded unemployed persons consistently amounted to 20 to 25 percent of the labor market as calculated according to ILO methodology; meanwhile, the number of unemployed who were receiving benefits was no more than 70 percent of the number of officially registered unemployed. Wage differentiation took the forms of both “vertical” and “horizontal” differentiation. By vertical differentiation we mean the wage difference between employees at different levels in the management hierarchy. Here, in the mid-1990s, the gap exceeded several orders of magnitude. The income of general directors was several hundred times higher than that of rank-and-file employees. By horizontal differentiation we mean the gap in wages between employees in the same unit who hold similar job titles. Here, too, the wage difference could be more than fivefold, corresponding not only to the employees output level but also to their relationship with their immediate supervisor.

The wage-scale system collapsed. Officially set wage rates were and remain very low. The minimum wage rates were designed to reach the minimum wage level through 168 hours of work. For example in 2009 the minimum hourly rate was 0.60 Euro, and the highest wage rates were not more than 5 times higher than the minimum ones. As the officially set wage-scale system and official rates barely secure even a minimal subsistence level, most compensation systems for workers and other employees are based on a two parts. The base wage, sometimes set according to the official wage-scale system, may amount to

between ten and 60 percent of take-home pay. When applying the wage-scale system to managers, the base wage amounts to five to 20 percent of take-home pay. The second part is called a bonus, but is usually considered automatic in order to reach the agreed level of take-home pay.

Finally, in the course of privatization, enterprises not only eliminated most of the costly social infrastructure, but they also discarded the absolute majority of forms of psychological incentive for employees as a legacy of the accursed past (see Gurkov 2002). As for government awards for valiant labor, their use was confined to medals for prominent government officials who were retiring.

We should note, however, that for many reasons the adaptation of the Russian labor market proved to be more successful in the 1990s than the adaptation of the national economy as a whole to the market economic system. While industrial production in certain sectors declined by 40 percent or more, unemployment, as defined by ILO standards, never exceeded 12 percent. This relatively favorable situation was achieved through rapid development of new private enterprises driven by new firms in the service sector, as well as the massive proliferation of self-employment<sup>3</sup> and the partial exodus of married women from the labor market.<sup>4</sup>

At the beginning of the 2000s the post-Soviet HR management model took a final shape. The model was based on legislation that formalized the state regulation of hired labor, including the determination of the minimum wage, the rights of employees and employers and the implementation of effective mechanisms of labor inspections and court adjudication of labor disputes (Gurkov and Zelenova 2009). Most companies had adopted new psychological contract (Rousseau 1996), based on a deep gulf

between the top managers, who are viewed as the owners' protégés, and the rest of the employees. The new framework was based on a perception by top and middle-echelon managers of the substantial lack of initiative and irresponsibility of most employees as a given fact, which must be taken into account but is practically impossible to change (see Gurkov and Maital 2001). Of course, many companies dare to change such a perception, but still such a comfortable position of blaming non-initiative and irresponsible employees provides an easy excuse for failures of upper echelons.

Throughout the 2000s we could observe the steady development of trends in state regulation of labor relations, which became increasingly more stringent. Labor inspectorates became more and more exacting, turning into yet another government department that "milked" enterprises for bribes. During this period the degree to which upper management was out of touch with the rest of the employees was reflected in the widely used, beginning in the mid-2000s, of share option plans for the top managers of large corporations and the awarding of company shares to these managers. Such measures were used by owners solely for the top managers, while the shares in their companies that went to employees during privatization, were expropriated. Occurring at the same time was the steady rise in the level of complaints by management about lack of qualified employees. Studying the results of surveys of the chief executives of Russian companies that we conducted every two years between 1998 and 2004, we were able to determine that there existed a shortage of qualified personnel, in the view of the company CEOs, which turned into a major problem for the development of their firms, thornier than all other problems, including those of financing new projects (Gurkov 2006).

Another factor is the rather high uniformity of HR systems. Despite intensive efforts, we were unable in our research to find essential differences in the structure of HR systems either on the basis of companies at various competitive levels or in terms of regions and sectors (Gurkov, Zelenova, Mutovin 2007). On the contrary, we became convinced that the system of social and HR policies is fairly consistent: the differences in the strategies that are in use do not drive the choice of a certain form of HR policy, and the typologies themselves are designed in a manner that leads to minor variations in certain details. But in order to obtain a clear reflection of the most typical, “native” features of the HR policies of Russian companies, we needed a mirror, or even better, a cheval glass in which one could examine the basic features from various perspectives.

### **The Russian HR management system in the context of an international comparison**

#### ***The selection of a major research tool***

Having decided to draw an international comparison among HR management systems, we turned to CRANET (Cranfield Network on Comparative Human Resource Management). This study, which is done in the form of bi-annual surveys of the heads of HR departments at companies and organizations, began in 1989 in five European countries. By 2006 the study covered 7,916 companies in thirty-two countries – twenty-six European countries and eight other countries, including the United States (see Appendix 2).

Three aspects proved to be key factors for choosing a framework for this study as a basic methodology for describing the specific nature of Russia’s social and HR policies. First, CRANET is regarded as the most complete and representative ***independent*** survey of the practices and techniques of HR management in the world.

Second, the focus in this study is not on ascertaining *opinions* on various issues and not on testing extravagant hypotheses but on scrupulously *collecting data* on the basic functions such as the daily routines of personnel administration that are left outside the bounds of official statistics. Finally, the third aspect that contributed to the final choice of this methodology is the *availability* of the study since any research group that wishes to conduct a similar study in a new country may apply to the research center. The data obtained from the country surveys undergo rigorous verification and, if properly collected, are added to the overall data base for all countries. Thus the size of data available for analysis to all participants in the project grows from year to year.

At the end of 2007, we contacted the CRANET network and, after receiving the required materials, began the process of translating and validating tools as well as setting up the network for surveying the heads of HR departments at Russian companies. In view of the world financial crisis that broke out in the fall of 2008, the objective that was set for the study was to identify the archetypal features of the Russian HR management system that can influence the effectiveness of the adaptation of companies to the evolving business conditions. The surveys were carried out in October-December 2008 and again in July-August 2010.

### ***The basic constructs of the country comparison***

The CRANET research methodology allows for the comparison of the specific nature of a national system of HR activities in countries in Western Europe that are similar in terms of living standards, labor productivity and the degree of social protection for working people. But when the study incorporated such different countries as the United States, Switzerland, and Nepal, a question arose not about differences but about the fundamental comparability of the practices of HR management in an exceptionally

heterogeneous context. We had to assemble piecemeal the elements that are not only intrinsic to any national system of HR work but that are also in fact important to the processes of supporting and developing the business of any commercial entity. As a result, we were able to identify the following parameters (constructs), which are supported by the relevant questions in the CRANET questionnaire: (1) The position of the HR function in the formal and informal system of the company's strategic management. The position in the formal system was defined by the extent to which the head of the HR department was included in the company's top managing board (the Board of Directors or its equivalent). The position in the informal system was defined by the level of participation in the process of developing the company's business strategy; (2) The distribution of responsibilities for specific aspects of HR work between specialized HR units and line management; (3) The degree of formalization of performance appraisal. This construct was described by the degree to which formal systems of evaluation were applied for various employee categories; (4) Possibilities for collective bargaining represented by the degree of unionization and the forms of collective and individual remuneration. The absence of a trade union makes it, according to the Russian Labor Code, virtually impossible to engage in strikes and other forms of similar work actions.

We examined each of the above parameters in a country-by-country comparison.

## ***Results***

The first item in international comparison of HRM system was HR's role in the formal system of strategic management. Here we may distinguish between three types of countries. A group of countries, in which the HR functions carries significant formal



weight, includes the European Mediterranean countries and their former colonies, Sweden, and Israel. The Anglo-Saxon model, in which HR executives hold a low position in the corporate hierarchy, is common in the United States, Canada, New Zealand, and in Great Britain. Finally, in Central European countries, where Russia's closest neighbors turn out to be Germany, Austria, and Estonia, HR executives carry moderate weight in the managerial hierarchy. Based on our surveys' results, the HR director of a Russian company is a member of the company's top managing board in a half of cases.

As for the HR director's participation in developing the company's strategy, here Russia also finds itself, at first glance, in a very close proximity to Germany, the Netherlands, and Estonia. However, if we count the HR directors who are not included in the development of strategy at all, a few of the neighboring countries disappear from the list. The proportion of HR directors who are not included in developing strategy, according to our surveys, turned out to be 16/20 percent<sup>5</sup> – far more than in the Netherlands (4 percent) and in Estonia (11 percent). At the same time, about 20 percent of the surveyed directors in Germany also do not take part in developing strategy. We should also note that the Anglo-Saxon model, despite the low formal status of HR directors, suggests that HR directors are highly involved in strategic issues (Fig. 1).

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Figure 1  
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Thus, with regard to the question of the HR director's degree of inclusion in the process of developing business strategy, the German (Central European) model has been reproduced in Russia – HR executives carry moderate weight in the managerial hierarchy and are removed to a fairly high degree from the process of developing strategy. To pursue any claims to participate in strategic issues, HR executives have to rely in large part on their formal status of being included in the company's top managing boards.

The next question in the country-by-country comparison was the distribution of responsibilities for specific aspects of HR work between specialized HR units and line management. The Russian data is presented in Table 1.

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Table 1

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Line management is in a dominant position regarding every issue; at one-third of the companies it completely determines all of the principal areas of HR management. On this question there is no similarity with Germany and we have to look for other “neighboring” countries. The substantial weight of line managers with regard to personnel recruitment and selection in Russia is similar to that in Finland, the Czech Republic, Iceland, and Nepal. Line managers carry substantial weight regarding wage issues in Eastern Europe – Slovakia, Slovenia, Estonia, Bulgaria – and in Nepal. The substantial weight of line management regarding personnel training and development in Russia is similar to that in Slovakia, as well as Tunisia

and Nepal. Line managers are predominantly responsible for labor relations in Slovakia, Bulgaria, and again in Nepal and Tunisia.

Thus, we see that HR departments in Russia have managed to capture a substantial degree of inclusion in matters of the development of strategy, but on key questions of the implementation of strategy the situation in Russia completely reproduces the HR practices of the least developed Slavic countries of Eastern Europe such as Bulgaria and especially Slovakia and is not very different from countries in North Africa and Asia. We also should note that during the crisis the line managers increased their control over the key topic – wages and benefits, leaving for HR specialists to deal with more “subtle” issues.

Another important element of a national HR management system is the degree of formalization of the system of performance appraisal. The use of performance appraisal that includes clear-cut, predefined criteria that make it possible to both compare a specific employee’s level of performance with a desired performance level and to draw a comparison between specific employees. Table 2 presents data obtained in our survey.

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Table 2

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In comparing with international practices, Russia is in a unique position with very low levels of formalized performance appraisal systems. In none of the countries

covered by the CRANET study did the level of use of formalized systems for performance appraisal, on the average for all categories, dropped below the 42 to 45 percent range. The lowest levels of formalization of appraisal were shown in Sweden and Iceland, 42 and 45 percent respectively. The average for the European Union countries was 75 percent. 85 percent of the firms surveyed in Great Britain and Canada and 95 percent surveyed in the United States had formal performance appraisal systems.

We also studied the possibilities for collective. The most important measure here is the very existence of organized labor such as trade unions, labor councils, etc. The data obtained from CRANET survey clearly indicates that Russian employees have extremely limited possibilities for collective bargaining. The share of companies where unionized labor actually exists is merely 20 percent. The corresponding figure for Philippines is 30 percent, for Estonia 35 percent, and for the United States 40 percent. It is worth mentioning that state-owned companies are especially keen to abolish effective organized labor.

### ***Specific characteristics of the Russian HR management model and forms of adaptation of Russian companies to the economic recession***

Having analyzed the data for the basic parameters describing the structure of the system of HR work, we can now characterize fairly precisely both the general features and the unique, specific features of the Russian HR management model. The HR management system in Russia in general and as a whole corresponds to the country's overall level of socioeconomic development and, in a large number of characteristics, such as the small share of the operating costs dedicated to expenditures on personnel, and the leading role of line management in major HR

issues, is similar to the systems that exist in the poorest countries of Eastern Europe such as Bulgaria and Slovakia and in the Francophone countries of North Africa i.e. Tunisia. The significant role played by line management in HR matters is a possible explanation to the low formalization of the system of performance appraisal. This provides line managers with additional opportunities to influencing subordinates. The low level of unionization and the extremely small share of the guaranteed wage in take-home pay make it possible to change quickly both working conditions and the level of pay for practically all categories of employees.

Why do line managers carry so much weight on the basic issues of HR work? One hypothesis is that many companies were formed only in the last few years and they simply have not had time to set up appropriate HR departments. This hypothesis has proven to be unfounded through the survey as both at companies established after 2000 and at companies with longer histories that extend back decades have the same situation regarding line manager strength.

The explanation apparently is to be found elsewhere. There is a saying that “war is too serious a matter to trust it to generals.” In Russia it has become tacitly recognized that human resources are too serious a matter to trust them to HR executives. The reasons for this situation are the low absolute level of wages and the general shortage of funds for wages at most companies. There is a prevailing view in Russia, as in other post-socialist countries, that ‘wages paid are profits lost.’ At the same time, the share of expenditures on manpower in the operating costs of the majority of the Russian companies surveyed is less than 30 percent, which is higher than in Slovakia (19 percent), Turkey (23 percent), and Bulgaria (25 percent), but far less than in all the countries of the Western Europe and the United States.

We may conclude that the structure of the Russian HR system, even in relatively prosperous times, was, seemingly on purpose, honed for a crisis. Indeed, line management's principle rights on issues of wages combined with the minimal formalization of the performance appraisal system, give line management virtually unlimited power in carrying out personnel layoffs. Moreover, the absence of systems of formal appraisal prevents employees from substantively citing the results of recent performance appraisal in their termination appeals, and provide line management with the power to solely decide on wages, effectively allowing them to squeeze out employees by transferring them to a lower wage level without bonuses and additional payments.<sup>6</sup> Besides layoffs and controlling the wage level, the established system offers additional cost-saving opportunities. Companies still possess significant reserves for enhancing the flexibility of labor relations. As a result, all of these features allows us to hypothesize that firm level adaptation to the recession at the micro level, i.e. the adjustment of companies to conditions of declining demand, will proceed very quickly.

Reality has confirmed our hypotheses, but with certain corrections. Above all, the rapid drop in sales volumes that began in the fourth quarter of 2008 and encompassed a majority of companies in all sectors, except for the oil industry and the production of certain types of food products, has not resulted in a similar drop in employment. Large companies announced mass layoffs, but it was quickly made clear to them that government support measures such as debt refinancing were conditional on tacit commitments by companies' CEOs to ensure minimal downsizing. As for small and midsize businesses, they initially harbored illusions of a rapid recovery in business conditions (see Gurkov 2009). As a result, the part-time work (a shortened workday or a shortened work week) initiated by the employer,

leaves with partial pay initiated by the employer , and leaves without pay at the employee's request became the most important forms of adaptation.

In December 2008, these adaptive measures affected 2.5 million people, 50% of the unemployed, by ILO definition, at that period. The most interesting aspect is that almost 1.6 million of these 2.5 million people were on leave without pay, initiated by the employee, which can be seen as the most terrible form of unrecorded unemployment. In March 2009, Russia's State Statistics Committee (Goskomstat) introduced record-keeping of employees who work part-time by agreement between the employee and the employer, and immediately discovered an additional 600,000 people who were working a shortened week (see [http://www.gks.ru/bgd/free/b04\\_03/IssWWW.exe/Stg/d04/15.htm](http://www.gks.ru/bgd/free/b04_03/IssWWW.exe/Stg/d04/15.htm)). Through 2009, given all the seasonal fluctuations, 2.2-2.5 million people were on unpaid leaves based on a shortened work week. All this made it possible to maintain relatively acceptable unemployment levels of 6 to 7 million people in 2009. Again, in November 2009 only 2.2 million out of the 6.1 million unemployed were registered at the state employment agency and only 1.8 million people were receiving benefits (see [http://www.gks.ru/bgd/regl/b09\\_01/IssWWW.exe/Stg/d11/3-2.htm](http://www.gks.ru/bgd/regl/b09_01/IssWWW.exe/Stg/d11/3-2.htm)). We should note the important differences in the status of people who receive unemployment benefits. If they became unemployed as a result of dismissal at the employer's initiative, they could receive unemployment benefits for twelve months. But if they resigned voluntarily they could receive unemployment benefits for only six months. Yet as many as 70 percent of the total number of people who left their jobs in 2009, which is more than 80 percent in the service sector, resigned voluntarily. Companies thereby flexibly heeded the state's wish that they not create additional difficulties for state employment agencies.

As a result of the unwritten pact between the state and the employers, mass layoffs of more than 15 percent of payrolls covered no more than 35 percent of

companies.<sup>8</sup> Losses in the wage level were much more substantial. There is a major discrepancy between official statements and trade-union data. Trade unions cite a loss of 25-30 percent in the level of wages between December 2008 and January 2009 and a stagnating wage level throughout 2009. The government speaks of minimal losses in the level of real personal income based on statistical data, which have not yet been published, on wage trends in Russia for 2008-2009. As for the breakdown of the wage level, according to official statistics, no more than 30 percent of employed persons were making a wage above the average which was in 2009 15,000-18,000 rubles a month, i.e. \$500-600; the most numerous group, 30 percent of employees, had an income of 7,400 to 13,800 rubles a month (\$250-450), while 10 percent of those employed had a wage below \$170 a month.

Regarding the firm-level data, the results of our survey in the middle of 2010 depicts a broad range of anti-crisis measures, including almost universal internal movement of the labor force, wide-dispersed “voluntary leaves” and lay-offs (see Table 3).

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Table 3  
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Against this background a small group of companies took advantage of the situation to offer another HR management model, which included an increasing openness in relations with employees and changing the customary psychological contract in the direction of more paternalistic relations; maintenance of “pre-recession” wage levels; and the utilization of emerging opportunities to recruit (entice) new



employees for the launch of new projects (programs for the manufacturing of new products, technology upgrades, etc.).

According to the most optimistic estimates, however, the proportion of recession-proof companies does not exceed ten percent of the total number of small and midsize companies. As for the large companies that are on the list of 'strategic enterprises', their current strategy does not call for any changes in the established HR management systems (see Gurkov and Settles, this issue).

### ***Conclusions***

We have briefly explored the evolution of the HR management system in Russia over the past twenty years. We have seen that, despite the nominally high level of state involvement in the area of labor relations, the distinctive characteristics of the established Russian HR model include a low level of formalization of employee evaluation, low weight carried by HR departments in strategic matters, an extremely low baseline wage level, a significant proportion of arbitrary defined bonuses, and a low level of unionization. These characteristics enable employers to find solutions that make it possible, when necessary, to provide for a significant compression of the wage level, putting employees in a hopeless situation. The experiences of the period between the end of 2008 and 2009, especially the proliferation of the practice of voluntary unpaid leaves, confirm the effectiveness of the established system at the micro-level for solving the current problems of companies that have found themselves in the midst of a crisis.

However, it is this high effectiveness of adaptation at the micro level that raises the question of the socioeconomic costs of the recession in the context of Russia's entire national economy. The issue here is not so much the number of jobs lost as the quality of the jobs that remain. The quality of the remaining jobs has declined as a result of

even more flexible use of working hours and even more high-handed behavior by management on matters of performance appraisal and wages. The restoration of the quality of jobs could take a long time, stretching out to three to five years after economic growth resumes, and the low quality of both existing and newly created jobs will have a major impact on Russia's national competitiveness.

## Notes

1. This did not apply to workers in the arts, such as writers, composers, and film actors, who too received fees according to unified, clearly established rates (per page, per shooting day, per song performed in a concert).
2. To be fair, we should note that such benefits were mostly available to employees of privileged enterprises and industries, mostly large enterprises in the military-industrial complex.
3. At some periods of time more than 5 millions "shuttles" moved back and forth between Russia and China bringing in inexpensive garments for retail bazaars.
4. During the Soviet era, a woman usually would return to the previous workplace 6-12 months after delivering a baby. Since the 1990s the period of work inactivity after the birth has usually been two to three years.
5. Here and further on in the text we present the data from the both surveys -- the first survey as the first figure and from the second survey as the second figure.
6. It is worth noting that Western European and American companies operating in Russia have offered a different HR management model, which is based on a high degree of formalization of performance appraisal, a large share of baseline salary in take-home pay and tolerance for trade unions. On the whole, this system got a mixed reaction from Russian employees at various levels. The rank-and-file employees regarded working for the branches known as representative offices of Western companies as extremely attractive, precisely

because of the above characteristics; mid-level managers were indifferent; as for senior-level managers, most of them viewed employment with Western companies as a boring, dead-end jobs.

7. Such form was initially designed to allow the employee to cope with some crises in personal life, such as the death of close relative. The voluntary leave without pay by the employee's request may last from one day to more than one year the employer's endorsement. During that period the employee is not officially entitled to any state support, such as unemployment benefits, retraining programs, programs of relocation, etc.

8. This figure was obtained during surveys of chief executives of companies that were conducted between December 2008 and January 2010.

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