

Human Resource Management Practices in Russian Industrial Companies: Innovations and Legacies*

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Abstract

In 1998, we administered a survey to 740 Russian CEOs, which enabled us to raise the question about the current HRM practices in Russian industrial companies. In October-December 2000, we administered another survey among 735 Russian CEOs. This time we observed a major drive towards some modern instruments of HRM policies. However, an additional survey, devoted to the source of innovations in HRM revealed that most of HRM innovations are implemented on “trial and error” basis, without reference to the international practices.

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1. Introduction

The year 2000 was the most successful one for the Russian economy for the past ten years. The GDP rose in January-December 2000 by 7.7%, while industrial production rose by 9.6% and investments rose by 17.7 over the previous year. Russia enjoyed a massive trade surplus of over US\$ 60 billion. Even the real wages rose by 22.5% recovering the living standards of the Russian population to of 70% of 1992 level.

In such “a fanfare atmosphere,” there is a time to look deeper into the possible changes in local management practices, which may sustain the current positive macroeconomic trends. One of the main area of enterprise management is human resource management. It is impossible to absorb and master technological innovations (the prerequisites for gaining competitiveness in the world economy) without organizational innovations – alterations of organizational structures, staffing, performance assessment and remuneration practices. Therefore, we decided to concentrate upon the changes that might have taken place in Russian industrial companies over the past two years.

2. The empirical foundation of the research

In October-December 1998, we implemented a survey that embraced 740 CEOs of Russian industrial companies. In October-December 2000 we repeated the survey. This time we collected 735 questionnaires. The distribution of the companies surveyed in 2000 by their line of business is presented in Table 1.

Table 1. Lines of business of the surveyed companies

Line of business	Percentages
Machine-building	26,3
Food-processing	14,1
Energy	11,2
Electronics	10,2
Wholesale operations	9,3
Light industry	9,1
Transportation	7,5
Chemical industry	6,8
Retail trade	6,4
Extraction industry (oil, gas)	6,3
Agriculture	6,1
Metallurgy (ferrous and non-ferrous)	6,1
Timber industry	6,0
Construction	5,9
Housing	4,6
Information services	3,5
Finance	2,2
Education and science	2,2

For most of the surveyed companies such activities as trade, finance, transportation, housing and education were not the primary business areas, but auxiliary activities. As a result, our survey may be representative for Russian large and medium-size industrial companies, as 61% of the surveyed CEOs manage companies with more than 500 employees.

3. Findings

Who are these surveyed CEOs in terms of their age, length of service within the company and the present position? The absolute majority of Russian CEOs are male (the few exceptions of women CEOs observed in textile and food-processing companies), 46% of them are between 30 and 49 years old; 38,7% of CEOs are between 50 and 59 years old, and almost 13% of CEOs are older than 60.

However, the most interesting characteristic of the CEOs is their career history. *We may say about the real revolution in Russian executive echelons. More than 30% of the surveyed CEOs occupy their present positions less than three years, 50% of the CEOs occupy their positions not more than 5 years, and 75% of the CEOs occupy their positions not longer than 10 years.* Therefore, we cannot say that we are dealing in our survey with young managers, but we are dealing with “sophomore” CEOs. For those CEOs who occupy their positions not longer than 5 years, we may stress another important characteristics. Although the median difference between the stage in the current position and the overall length of service in the firm for such CEOs is exactly 10 years, for 33% of CEOs that difference was

less than 3 years, and *a quarter of CEOs were moved to their present positions directly from executive positions in other companies.*

In general, we may observe a situation of growing mobility of Russian CEOs and, even more, we may speculate about the emergence of an executive job market. In additional point related to our survey is that CEOs indeed proved themselves to be quite reliable informants. From one side, they have significant experience in the present or similar positions to provide the assessment of the company's situation and the recent trends in performance etc. From the other side, a large proportion of the surveyed CEOs still has a relatively "fresh look" on their present companies.

The first question we proposed to answer the surveyed CEOs was to assess the current performance and the recent trends in performance (see Table 2 and Table 3).

Table 2. Assessment of the current economic situation of their companies by the surveyed CEOs

Assessment	Percentage
Bad	16,0
Satisfactory	65,9
Good	16,0
Perfect	0,8
Difficult to say	1,4

Table 3. Assessment of performance dynamics in the past two years

Assessment	Percentage
Much worse	6,7
Somehow worse	10,4
No change	11,3
Somehow better	51,2
Much better	19,2
Difficult to say	1,2

More than 70% of CEOs expressed the improvement of performance in the past two years. This is in a sharp contrast with the results of our survey in 1998 (Gurkov and Maital, 2001). Therefore, we decided to divide all the surveyed companies into three groups. The first group was formed from companies whose CEOs assessed the current situation as “bad.” The second group was formed from companies whose CEOs assessed the situation as satisfactory and stable. Finally, the third group comprised companies in satisfactory situation, which showed a very positive performance dynamics (“the situation has much improved”), and companies with good economic performance.

To study the differences between the selected groups we firstly explored the changes that have occurred since 1998 in goal sets of Russian CEOs (see Table 4).

Table 4. The sets of declared goals of Russian CEOs

Goal	Percent in 1998	Percent in 2000		
		Group 1	Group 2	Group 3
World standards of quality	50	33	54	66
Expansion of Russia's and CIS' markets	66	32	38	42
Maintaining employment	63	65	47	29
High wages for employees	32	20	23	24
Establishing the presence on overseas markets	26	9	12	15
Maximization of the company value	16	4	8	10

We may see that only troubled companies nowadays are preoccupied with just “maintaining the employment level,” while successful companies are attempting to reach “the world standards of quality.” However, troubled and successful companies alike neglect completely the maximization of company’s value and do not pay much attention to “high wages for employees.”

To look deeper into the issue, we identified which changes have occurred in various aspects of enterprise management within the three groups of companies (see Table 5).

**Table 5. Intensity of innovations in various areas of enterprise management
(percentages of CEOs stressed)**

Area	Group	No changes	Changes	
			Minor	Major
Financial management	<i>Group 1</i>	74,1	19,6	6,3
	<i>Group 2</i>	59,3	32,7	8,0
	<i>Group 3</i>	40,8	42,5	16,7
New domestic business partners	<i>Group 1</i>	48,3	38,6	13,2
	<i>Group 2</i>	32,8	52,0	15,2
	<i>Group 3</i>	24,3	46,0	29,6
New foreign business partners	<i>Group 1</i>	80,9	15,7	3,5
	<i>Group 2</i>	66,1	25,9	8,0
	<i>Group 3</i>	59,1	28,5	12,4
New marketing channels	<i>Group 1</i>	61,2	31,9	6,9
	<i>Group 2</i>	41,2	43,7	15,1
	<i>Group 3</i>	34,5	39,4	26,1
New forms of personnel selection	<i>Group 1</i>	70,7	23,3	6,0
	<i>Group 2</i>	52,0	34,4	13,6
	<i>Group 3</i>	34,2	42,0	23,8
New forms of personnel appraisal	<i>Group 1</i>	61,9	26,5	11,5
	<i>Group 2</i>	41,3	43,1	15,5

	Group 3	34,8	44,2	21,1
New wage schemes	Group 1	51,7	36,2	12,1
	Group 2	32,2	44,3	23,5
	Group 3	22,8	44,0	33,2

Despite their (self-proclaimed) negligence of employee salaries, transformations of wage schemes became the most popular innovation in successful companies. Almost 80% of successful companies have tried to implement at least some changes in their traditional remuneration schemes and in the methods of salary administration. In addition, two thirds of successful companies have started to amend their recruitment and personnel selection practices.

In order to understand the sources of the reported innovations in HRM we administered an additional survey among 100 CEOs. We used in this survey a series of questions about the source of innovations, and the role of personnel departments in various aspects of enterprise management.

The results of the additional survey revealed the “mechanics” of innovation processes in HRM practices. First at all, we asked the source of innovations in HRM (see Table 6).

Table 6. Sources of innovative ideas in HRM

Source	Percentage
Our own invention	58
From the special literature	55
From suppliers	45
From producers in the same line of business	32
From management consultants	19
From foreign partners	18
From newly recruited employees	7

Note: multiple answers were allowed so the sum exceeds 100%.

In-house inventions, nourished by studying the special literature is the main source of HRM innovations in Russia. The role of idea transfer between companies – either along value chains or through formal and informal networks of colleagues-competitors – is also quite significant. The role of foreign partners, although limited, cannot be neglected. In average, less than 25% of Russian companies have nowadays any exports (see Gurkov, 2001). In addition, only 12% of the surveyed companies have regular contacts with foreign trading partners and only 1% of the surveyed companies called such contacts as “real partnership.” For the remaining export-active Russian companies exports are organized through various intermediaries, with no or occasional contacts with foreign customers. Therefore, the reported figure of 19% of

companies that received some innovative ideas in HRM from foreign partners may be regarded as quite high.

At the same time, we should stress a very rare occurrence of HRM innovations initiated by newly recruited employees. This means that most of HRM initiatives start from the top of organizations. The role of management consultants in initiating or supporting the implementation of HRM innovation is also rather limited. Those facts have two main implications. Firstly, they mean that the speed of innovations in HRM is quite limited, as any ideas should take considerable time to reach the top of an organization before to be accessed as valid (see Zielinski, 2000; Hull, 2000). Secondly, in their attempts to introduce new methods of selection, performance appraisal and wage administration Russian CEOs have no choice than to rely on internal consultants – managers of personnel departments. We asked CEOs to identify the role the personnel departments play in various aspects of enterprise management (see Table 7).

Table 7. The role of personnel departments in various areas of enterprise management (percentage of CEOs)

Type of activity	Level of involvement of personnel department		
	Minimal	Limited	Great
Performance appraisal of managers	10	20	70
Curriculum development of retraining programs	12	23	65
Organization of retraining programs	11	25	64
Employment planning	19	37	44
Identification of necessary competencies of the personnel	14	43	42
Development of new wage schemes	24	49	27
Headhunting	30	46	24
Strategic business planning	37	45	17

Despite of the needs to implement the new forms of HRM, personnel departments in Russian industrial companies are preoccupied with routine functions of personnel administration – performance appraisal, retraining, quantitative and qualitative planning of workforce. In the strategic issues, including the development of new wage schemes, and the recruitment of the top managers, the personnel department has a very weak voice.

Such a position of a personnel department within the internal hierarchy of management functions may be explained by the perceived difficulties in enterprise development (see Table 8).

Table 8. Difficulties in enterprise development (Assessment by CEOs)

Area	Mean
Financing of enterprise development	3,81
Mastering new distribution channels	3,17
Reaching the necessary level of quality	3,12
Staffing	2,96
Overcoming the competitors' pressure	2,94
Orchestration of the work of various departments within the company	2,60
Changes in job descriptions and responsibility areas of managers	2,54
Maintaining new performance requirements	2,54

Note: the scale used -- 1= “quite simple”, 5 = “extremely difficult”

Still financial, marketing and operational issues are in the focus of attention of Russian CEOs, as they are perceived to be the most difficult ones. Organizational problems are viewed by CEOs as of minor importance. The revenue comes quickly. The majority (54%) of the surveyed CEOs stressed that the main obstacles for implementation of innovations in technology and marketing – the passivity of

managers, their unwillingness to take responsibility. It is also important to note that CEOs of the most successful companies complain more on their “passive subordinates,” despite all new wages schemes implemented over the past two years in such companies.

4. Discussion

Let firstly shortly repeat our main findings:

1. Russian CEOs are quite satisfied with the current performance of their companies and the performance dynamics in 1999-2000. Better economic perspectives enable Russian CEOs to set more ambitious goals, including “reaching the world quality standards.”
2. In order to achieve the proclaimed goals, Russian CEOs have initiated in their companies the serious revision of existing HRM practices, especially the salary administration and recruitment methods.
3. In such innovations Russian companies rely mostly on their own ingenuity and imitation of the experience of their business partners and competitors. For export-oriented Russian companies the role of foreign partners as the source of innovative ideas in HRM is also significant. However, the role of professional HRM experts (either internal experts from personnel department or external experts from consulting firms) in designing the appropriate forms of innovations is quite limited.
4. Moreover, Russian CEOs exhibit a tendency to underestimate HRM and other organizational issues in enterprise development. Russian CEOs are mostly

preoccupied with financial, marketing and technological aspects of business development. At the same time, Russian CEOs, especially CEOs of successful companies continue to complain about passive and “responsibility-averse” subordinates.

We may see a serious contradiction in the present development pathways of Russian companies. From one side, CEOs are eager to improve the quality of goods and services in order to enhance competitiveness and sustain company performance. From the other side, CEOs do not see the improvement of salaries as a priority. Combining “the world standards of quality” with low wages is possible in some rare cases, for example, when ready-to-use technology is provided by the world-class companies who are willing to compromise their trademarks for manufacturing in low-cost countries. However, in Russia in 1999-2000 there was not an influx of world trademark holders with massive investments in ready-to-use production assets, except in a few consumer-oriented sectors (breweries, tobacco, household detergents). As a result, Russian CEOs are forced to change the wage schemes in their companies, but in a piecemeal fashion.

We may support such a conclusion with an additional reasoning. In the main survey we asked CEOs about how they view the applicability of the Western management methods, and also asked CEOs to provide the reasons of they consider applicability of such methods as low (see Table 9 and 10).

Table 9. Opinions of Russian CEOs about the applicability of Western management methods in various areas of enterprise management (percentages)

Area	Group	Completely inapplicable	Low applicability	Medium applicability	High applicability
Production technologies	<i>Group 1</i>	7,3	22,7	57,3	12,7
	<i>Group 2</i>	2,1	22,2	58,6	17,1
	<i>Group 3</i>	1,7	19,9	50,3	28,2
Quality management	<i>Group 1</i>	11,8	31,4	49,0	7,8
	<i>Group 2</i>	4,9	23,6	58,7	12,8
	<i>Group 3</i>	4,6	18,9	52,6	24,0
New product development	<i>Group 1</i>	12,1	30,3	50,5	7,1
	<i>Group 2</i>	4,0	33,0	54,5	8,5
	<i>Group 3</i>	2,2	29,1	53,8	14,8
HRM	<i>Group 1</i>	14,3	44,9	38,8	2,0
	<i>Group 2</i>	10,1	44,0	40,3	5,6
	<i>Group 3</i>	10,3	34,9	48,6	6,3
Financial management	<i>Group 1</i>	14,4	40,0	43,3	2,2
	<i>Group 2</i>	7,1	38,9	49,4	4,6
	<i>Group 3</i>	7,5	32,9	51,4	8,1

While Russian CEOs, especially CEOs of successful companies highly respect the Western methods of production management and quality management, almost a half

of CEOs does not believe in the applicability of Western HRM for Russia. We selected those skeptics and tried to identify the roots of their doubts (see Table 10)

Table 10. Causes of inapplicability of Western HRM in Russia (percentages of CEOs who do not believe that Western HRM methods are applicable in Russia)

The main doubt factors	Percentages of “agreed”
Western methods work in a stable society	58,0
Western methods work with another wage level	54,2
Western methods do not correspond to the Russian managerial culture	44,3
Western methods work within another system of business transactions	31,1
Our personnel is not qualified to use such methods	19,2
Western methods work with other customers	12,0

Mentioning the “need for the stable society” belongs to the usual Russian blaming of “fools, bad roads and unpredictable past, present and future.” However, more than a half of Russian CEOs logically pointed out that is extremely difficult to implement the advanced Western methods of HRM when the average salary is merely US\$110 per month.

It seems to be a virtuous circle: improving the quality standards requires stricter technological discipline, and better job attitudes. It is impossible to improve job attitudes without job enrichments, greater workplace safety and, last but not least, higher salaries. Moreover, the increase of salary level usually may justify the strengthening of performance standards, greater selectivity in staffing and more rigorous performance appraisal. This results in better quality or/and lower costs, that strengthen the competitive position of a company on both domestic and overseas markets. This was the basic lesson the Japanese taught the Americans in 1980s, when they took over the management in several American manufacturing companies (see Cameron and Quinn, 1999). The key issue here is the time horizon of the management. In the short run, the personnel expenses are variable costs. In the long run, the personnel expenses are investments in corporate assets with potentially the highest ROI among all other assets.

What may be the reasons for long-term orientation of Russian CEOs? One prerequisite for long-term goals is the general political and macroeconomic stability. However, another reason for long-term orientation of the top management is the stability of ownership and control. In this respect it is quite noticeable to compare the goals of the newly appointed CEOs (who occupy their positions less than 2 years) with “more established” CEOs (see Table 11).

Table 11. Comparison of goals of newly appointed and “veteran” CEOs

(percentages)

Goal	New CEOs	Established CEOs	2-tailed sign. of difference
World standards of quality	34	56	0,001
Expansion of Russia’s and CIS’ markets	44	37	0,271
Maintaining employment	48	45	0,610
High wages for employees	14	23	0,038
Establishing the presence on overseas markets	8	12	0,227
Maximization of the company value	3	8	0,015

We may see at least three statistically significant differences in goals sets of “sophomore” and “veteran” CEOs: in their attitudes towards quality, employees and shareholders’ value. In all the three points the recently appointed CEOs are much less insistent than their established colleagues. In addition, we were unable to find statistically significant differences in the scope and depth of the recently implemented innovations in HRM, initiated by newly appointed and established CEOs.

5. Conclusions

The results of 1998 surveys enabled us to speculate that human resource strategies, especially the maintaining of employment were the main concern of Russian CEOs in the midst of economic crisis. Two years later, in much more rosier settings of economic revival, Russian CEOs are trying to deny their preoccupation with personnel issues. CEOs, especially CEOs of successful companies, prefer to talk about the world standards of quality, while preserving the uniqueness of Russian methods of managing the personnel. However, CEOs of successful companies cannot deny that they are re-assembling the traditional personnel practices. The innovations in recruitment, selection, appraisal and remuneration deal with the very essence of HRM. Such innovations have mostly a top-down design, with minimal involvement of external or internal experts.

In addition, the recovering Russian industrial companies experience a real “managerial revolution.” More than a quarter of the current CEOs have taken their offices after the financial crisis of 1998. Unfortunately, such “sophomore” CEOs are preoccupied with “quick fix solutions” in order to improve company performance, and have short-term orientation in their goals.

Therefore, it is highly probable that human resource management innovations in Russia will continue to be initiated and implemented in unsystematic mode, and on a “probe and trial basis.” It is unlikely that HRM innovations will seriously contribute to strengthening the competitiveness of Russian companies on local and overseas markets.

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