

Innovations and Legacies in Russian Human Resource Management Practices: Surveys of 700 Chief Executive Officers

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Abstract

In 1998 we administered a survey to 740 Russian chief executive officers (CEOs), which enabled us to raise the question of the current human resource management (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 HRM innovations are implemented on a trial and error basis, without reference to international practices.

From the beginning of 1999 the Russian economy started to recover after 10 years of recession. The GDP rose in January–December 2000 by 7.7%, while industrial production rose by 9.6% and investment rose by 17.7% over the previous year. Russia enjoyed a massive trade surplus of over US\$60 billion. Even real wages rose by 22.5% in 2000 restoring the living standards of the Russian population to 70% of their 1992 level.

Now it is time to look deeper into the possible changes in local management practices, which may sustain the current positive macroeconomic trends. We decided to concentrate upon the recent changes in human resource management (HRM) that might have taken place in Russian industrial companies. We expect to see three types of changes:

- Firstly, in order to expand their activities after many years of contraction, Russian companies need to ‘re-master’ or even ‘re-invent’ recruitment and personnel selection methods.
- Secondly, the ‘activation’ of recruitment practices must be translated into changes in other areas of HRM, especially in remuneration schemes and performance assessment methods.
- Thirdly, such changes, implemented on a large scale, may make Russian chief executive officers (CEOs) more receptive to Western techniques in HRM.

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Table 1. Assessment of the current economic situation of their companies by the CEOs surveyed (%)

Assessment	Percentage
Bad	16.0
Satisfactory	65.9
Good	16.0
Excellent	0.8
Difficult to say	1.4

In addition to these propositions, we may expect several additional circumstances to influence the magnitude of changes in HRM in Russian companies. One possible factor is the rate of expansion of a company. Obviously a rapidly expanding company experiences more challenges in HRM in order to sustain the positive trends in performance. The other possible factor is the length of service of a CEO in his/her present position. It is probably true that a newly appointed CEO brings a breath of fresh air to performance assessment and selection routines.

There may be other factors that influence the depth and breadth of changes in HRM, and that may be discovered by a closer examination of the current management practices in recovering Russian industries.

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.¹ The absolute majority of the CEOs surveyed are male (the few female CEOs were in textile and food-processing companies), 46% of the CEOs surveyed are between 30 and 49 years old; 38.7% are in their 50s and almost 13% are older than 60. Regarding length of service in their present position, almost 40% of the CEOs surveyed have occupied their present positions for between two and five years, 25% have occupied their positions for five to 10 years, and 24% for longer than 10 years. We also discovered a group of newly appointed CEOs (10% of those surveyed). We were therefore dealing mostly with ‘sophomore’ CEOs, but also had the possibility to compare novices with veterans.

Around a quarter of the CEOs surveyed manage companies involved in production of machinery and equipment, 14% represent food-processing industries, and 10% come from electronics. Textile companies, producers of chemicals, metals and timber were also represented in the sample, with more than 40 respondents in each industry. As a result, our survey may be representative for Russian large and medium-size industrial companies, as 61% of the CEOs surveyed manage companies with more than 500 employees.

Industrial Recovery and the New Challenge for Company Management

Firstly we asked CEOs to assess the current performance and the recent trends in performance of their companies (see Tables 1 and 2).

More than 70% of CEOs reported the improvement of performance over the past

Table 2. Assessment of performance trend in the past two years by the CEOs surveyed (%)

Assessment	Percentage
Much worse	6.7
Somewhat worse	10.4
No change	11.3
Somewhat better	51.2
Much better	19.2
Difficult to say	1.2

two years. This was in sharp contrast to the results of our survey in 1998.² We divided all the companies surveyed into three groups. The first group was formed from companies whose CEOs assessed the current situation as ‘bad’. The second group consisted of companies whose CEOs assessed the situation as satisfactory. Finally, the third group comprised the companies whose CEOs assessed the situation as ‘good’ or ‘excellent’ and also the companies in a ‘satisfactory situation’ which showed a very positive performance trend.

In accordance with the goals of the study, we identified what changes have occurred in various aspects of enterprise management within the three groups of companies (see Table 3).

We can clearly see that our proposition about the positive relationship between the speed of recovery of a company and the intensity of changes in HRM practices was true. The most successful companies (Group 3) demonstrated a greater magnitude of changes in all the three identified areas of HRM practices—selection, appraisal and remuneration. The largest differences between recovering and troubled companies occurred in searching for new forms of personnel selection.

Table 3. Intensity of changes in various areas of enterprise management (% of CEOs stressing)

		No changes	Magnitude of Change	
			Minor	Major
New methods in financial management	Group 1	74.1	19.6	6.3
	Group 2	59.3	32.7	8.0
	Group 3	40.8	42.5	16.7
New marketing channels	Group 1	61.2	31.9	6.9
	Group 2	41.2	43.7	15.1
	Group 3	34.5	39.4	26.1
New forms of personnel selection	Group 1	70.7	23.3	6.0
	Group 2	52.0	34.4	13.6
	Group 3	34.2	42.0	23.8
New forms of personnel appraisal	Group 1	61.9	26.5	11.5
	Group 2	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

Table 4. The sets of declared goals of Russian CEOs (%)

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

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

We may speculate that the changes in management practices in successful Russian companies are not purely opportunistic but are related with the goals of the top management. In order to prove that proposition, we compared the sets of declared goals of the Russian CEOs expressed in surveys in 1998 and in 2000 (see Table 4).

We can clearly see that 'quality became king' in the perception of Russian CEOs. Reaching 'world standards of quality' is top of the priorities of the most successful companies. Russian CEOs are also becoming more focused in their goal setting. In 1998 on average a CEO indicated 2.5 'main goals', while in 2000 there were on average 1.3–1.6 main goals.

However, we can also see that the sets of goals of CEOs of successful companies present a series of contradiction. The biggest contradiction here is an attempt to combine 'world standards of quality' with Russian standards of salaries. The problem here is not even the absolute level of salaries, but unwillingness to compromise costs for better quality. Improving quality standards requires stricter technological discipline and better job attitudes. It is impossible to improve job attitudes without job enrichment, greater workplace safety and, last but not least, higher salaries. Moreover, an increase in salary level will usually justify the raising of performance standards, greater selectivity in staffing and more rigorous performance appraisal. This results in better quality at lower costs. Such a combination strengthens the competitive position of a company on both domestic and overseas markets. This was the basic lesson the Japanese taught the Americans in the 1980s, when they took over the management of several American manufacturing companies.³ The key issue here is the time horizon of the management. In the short run personnel expenses are variable costs. In the long run personnel expenses are investments in corporate assets with potentially the highest ROI among all assets. The very low attention of Russian CEOs towards the company's value clearly indicates a rather short time horizon.

Now we can also understand the specific attitudes of Russian CEOs towards the applicability of Western management methods (see Table 5).

Russian CEOs, especially CEOs of successful companies, highly respect Western methods of production management and quality management. There are statistically significant differences in means between Group 1 and Group 3 at the 0.05 level for all the areas of possible application of Western management methods except human resource management. Indeed, almost a half of CEOs in all the groups do not believe

Table 5. Opinions of Russian CEOs on the applicability of Western management methods in various areas of enterprise management (%)

		Completely inapplicable	Low applicability	Medium applicability	High applicability
Production technologies	Group 1	7.3	22.7	57.3	12.7
	Group 2	2.1	22.2	58.6	17.1
	Group 3	1.7	19.9	50.3	28.2
Quality management	Group 1	11.8	31.4	49.0	7.8
	Group 2	4.9	23.6	58.7	12.8
	Group 3	4.6	18.9	52.6	24.0
New product development	Group 1	12.1	30.3	50.5	7.1
	Group 2	4.0	33.0	54.5	8.5
	Group 3	2.2	29.1	53.8	14.8
Human resource management	Group 1	14.3	44.9	38.8	2.0
	Group 2	10.1	44.0	40.3	5.6
	Group 3	10.3	34.9	48.6	6.3
Financial management	Group 1	14.4	40.0	43.3	2.2
	Group 2	7.1	38.9	49.4	4.6
	Group 3	7.5	32.9	51.4	8.1

in the applicability of Western HRM to Russia. We may conclude that ‘reaching world standards’ of quality is still viewed by the majority of Russian CEOs as a technical problem in the production management and quality control areas rather than as a problem of job attitudes.

We expected that the newly appointed CEOs would bring a breath of fresh air to traditional HRM practices. The data collected did not support that hypothesis. We ran several *t*-test aimed at discovering differences in the intensity of changes in HRM practices implemented under the guidance of fresh CEOs. CEOs who had served one, two and even three years were compared with their more experienced colleagues, but they neither reported more changes in HRM practices implemented under their guidance nor demonstrated any significant differences in attitudes towards Western human resource management techniques. We should note here that these newly appointed CEOs are not newcomers to their present companies. On average, a CEO who has served no longer than two years in his/her present position has at least 13 years of experience in other managerial positions in the same company. Among those CEOs who came into their positions in the past two years, only around a quarter had moved from other companies. So the majority of the newly appointed CEOs have many years of conformity to the existing HRM practices and routines.

Mastering HRM Innovations

Despite the fact of limited depth of HRM innovations in Russian industrial companies, we cannot deny the breadth of innovative practices. The question is how Russian companies develop those new forms in HRM. In order to answer that question, we administered an additional survey to 130 top managers in January–March 2001 on such issues as

- sources of HRM innovations in their companies and
- the role of personnel departments in HRM administration.

The results of the additional survey revealed the mechanics of innovation processes

Table 6. Sources of innovative ideas in HRM
(% of top managers stressing)

Our own invention	58
From the specialist 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 HRM practices. First at all, in-house inventions, nourished by studying the specialist literature, are the main source of HRM innovations in Russia (see Table 6).

The role of idea transfer between companies (either along value chains or through formal and informal networks of colleagues and competitors) is also quite significant. At the same time we should stress the very rare occurrence of HRM innovations initiated by newly recruited employees. This means that most HRM initiatives still originate from the very top of organisations. 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 innovation in HRM is quite limited, as any ideas will take a considerable time to reach the top of an organisation before being accepted as valid.⁴ Secondly, it became clear that, 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. Therefore, we tried to identify the role the personnel departments play in various aspects of enterprise management (see Table 7).

Despite the need to implement new forms of HRM, personnel departments in Russian industrial companies are mostly preoccupied with routine functions of personnel administration—performance appraisal, retraining, quantitative and qualitative planning of the workforce. In the strategic issues, including the development

Table 7. The role of personnel departments in various areas of enterprise management (% of managers stressing)

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

Table 8. Difficulties in enterprise development (assessment by top managers)

	Mean
Financing enterprise development	3.81
Mastering new distribution channels	3.17
Reaching necessary level of quality	3.12
Staffing	2.96
Overcoming 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

Notes: The scale used was from 1 = 'quite simple' to 5 = 'extremely difficult'.

of new wage schemes and the recruitment of top managers, the personnel department has a very weak voice.

This low position of the personnel department within the internal hierarchy of management functions may be explained by the perceived difficulties in enterprise development (see Table 8). Financial, marketing and operational issues occupy the primary attention of Russian CEOs, as they are perceived to be the most difficult ones. Organisational problems are viewed by top managers as of minor importance.

Conclusions

Let us first briefly repeat our main findings:

1. Russian CEOs are quite satisfied with the current performance of their companies and the performance trend in 1999–2000. Better economic prospects enable Russian CEOs to set more ambitious goals, including 'reaching world quality standards'.
2. In order to achieve the proclaimed goals, Russian CEOs have initiated serious revision of existing HRM practices in their companies, especially 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. The overall applicability of Western management techniques in HRM areas is seen as low. The role of professional HRM experts (either internal experts from personnel departments or external experts from consulting firms) in designing appropriate forms of HRM innovations is also quite limited.
4. Although around a quarter of CEOs were appointed over the past two years, they do not differ from their more experienced colleagues in their attitudes and practical measures in HRM areas. In reality, the majority of the newly appointed CEOs were promoted from within and share the same experience and beliefs.
5. Moreover, in general Russian CEOs exhibit a tendency to underestimate HRM and other organisational issues in enterprise development. Russian CEOs are mostly preoccupied with financial, marketing and technological aspects of business development.

We may see a serious contradiction in the present development pathways of Russian companies. On one side, CEOs are eager to improve the quality of goods and services in order to enhance competitiveness and sustain company performance. On the other side, CEOs do not see the improvement of salaries as a priority. Combining 'world standards of quality' with low wages is possible in some rare cases, for example, when ready-to-use technology is provided by world-class companies that are willing to compromise their trademarks for the saving from manufacturing in low-cost countries. However, in Russia in 1999–2000 there was no 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 and other elements of HRM systems in their companies, but in a piecemeal fashion.

A more consistent approach towards HRM innovations may be related to an extended time horizon among Russian CEOs. The goal of value maximisation may be a sign of an extended time horizon and greater acceptance of Western approaches to HRM. However, at present value maximisation is at the very bottom of CEOs' priorities. The new wave of takeovers which started in Russia in 2000 makes the extension of the time horizon of Russian executives even more unlikely.

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

Notes

1. The Russian and English versions of the questionnaires together with the technical justification (reliability coefficients for scales etc.) are available from the Centre for Organisational Studies, State University—Higher School of Economics, Kochnovsky proezd, 3, Moscow, Russia 125319; e-mail: hsestud@online.ru.
2. See I. Gurkov & S. Maital. 'How will Future Russian CEOs Manage?', *Journal for East European Management Studies*, 6, 2, 2001.
3. See K.S. Cameron & R.E. Quinn, *Diagnosing and Changing Organizational Culture* (Reading, MA, Addison-Wesley, 1999).
4. See R. Hull, 'Firm Objectives, Control and Organization: the Use of Information and the Transfer of Knowledge within the Firm', *R&D Management*, 30, 2, 2000, p. 197; D. Zilelinsli, 'Have Your Shared a Bright Idea Today?', *Training*, 37, 7, 2000.

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