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Social Goals among the Priorities of Russian CEOs: Dynamics and Policy
Implications

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Social Goals among the Priorities of Russian CEOs: Dynamics and Policy Implications

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The problem

Socio-economic development of transforming economies is largely dependent on attitudes of businessmen about so-called “social issues”: job creation, wages and benefits to employees etc. The place of “social issues” within the set of companies’ goals and priorities pre-determines really implemented strategies and particular actions. In this respect, evaluation of social attitudes of key corporate decision-makers serves as a background for socio-economic policies.

The key decision maker of a company is its Chief Executive Officer (CEO). In Russia the role of CEOs (General Directors) is greater than in countries under Anglo-Saxon schemes of corporate governance and may be even greater than that in France. Therefore, the goal sets of Russian CEOs serve indeed as the main factor in strategy development and implementation.

The study

In 1998-2002, we implemented a series of surveys of Russian CEOs. The emphasis of the survey was on business and institutional environment, and company strategies. Each survey also included questions about major goals of CEOs. CEOs were asked to indicate a limited number of “main goals” from the excessive list of items.

In 1998, we surveyed 740 CEOs, in 2000 – 740 CEOs and in 2002 – 1400 CEOs. The surveyed CEOs managed large and medium-size companies in all Russian regions and in the main industries*.

Results

Overall conditions in Russian business have changed dramatically since 1998. Although the three major problems Russian enterprises faced immediately after the August crisis (“low capacity utilization,” “high credit endebtness,” “high debtor endebtness”) maintained their ranks in 2002, the perceived sharpness of that problems has decreased. In addition, a completely new problem has appeared -- “the lack of qualified personnel” is now the forth most important problem the Russian CEOs face. In such a dramatically changed situation we expected that the sets of executives’ goals has also changed dramatically. The reality exceeded our expectation.

We were able to compare the sets of visible goals of Russian CEOs over the years of surveys (see Table 1).

Table 1. Goals of Russian CEOs (percentages of CEOs stressed)

Goal	1998	2000	2002
Maintaining the company's reputation	68	41	36
Strengthening the position on domestic markets	66	38	57
Maintaining jobs	63	45	27
World quality	50	54	22
High wages to employees	32	22	22
Oversea expansion	26	12	11
Value maximization	16	8	8

The importance of particular goals has changed dramatically since 1998. Although “maintaining job” remained the third most important priority of Russian CEOs over the whole period of observations, its absolute importance has decreased significantly. In 1998, 63 percent of Russian CEOs at least declared their preoccupation with employment issues, in 2002, such a priority was important for just a quarter of CEOs.

Another “social goal” – “wages to employees” has also experienced the fall in relative and absolute importance.

We may see that social issues became to be marginalized within the set of priorities. This fact is even more evident if we compare the distribution of goals between companies in different conditions. In a survey of 2002, we were able to distinguish among “troubled”, “recovered” and “stable” companies in our sample. The base of grouping was the opinion of CEOs about the current performance of his (her) company and the trends in performance over the past two years. The distribution of answers about CEOs' goals in each of the three groups is presented in Table 2.

Table 2. Goals of CEOs who manage the companies of different performance dynamics

* Technical details about the surveys including the questionnaires used may be found in the book Gurkov, I. Innovations and Competitiveness: Essays in Russian Enterprises Development. Moscow: Theis, 2003 and also seen on the Web-site: www.gurkov.ru

Goal	Troubled	Recovering	Stable
Strengthening the position on domestic markets	50.0	55.0	66.0
Maintaining the company's reputation	34.9	30.0	31.9
World quality	15.1	15.0	14.9
Maintaining jobs	37.7	27.5	14.9
Value maximization	3.8	5.0	10.6
Oversea expansion	12.3	20.0	10.6
High wages to employees	34.0	17.5	8.5

We may see that keeping jobs and maintaining wages were important in 2002 only for troubled companies. As soon as the performance improves, “maintaining jobs” moves from the second to the third priority. For the “permanently stable companies” maintaining jobs is important only to 15 percent to CEOs. Regarding wages, CEOs of “stable companies” do not express any anxiety about the issue.

We should remind that the Russian economy is quite heterogeneous by ownership structures. Privatized companies inherited significant blocks of stock in employees' ownership. There is also a significant state ownership in a large number of companies, especially in infrastructure. The intensive inflow of direct foreign investments over the past 5 years strengthened the foreign ownership (controlling or influential) in many Russian companies. We compared the declared goals of CEOs of companies under various ownership structures (See Table 3).

Table 3. Main goals of CEOs of companies with particular influential owners (holding more than 25% of the stock)

Goals	The state	Employees	Foreigners
Strengthening the position on domestic markets	48.4	56.4	50.0
Maintaining the company's	36.4	38.5	32.5

reputation			
High wages to employees	27.7	24.3	22.5
Maintaining jobs	34.2	22.9	25.0
Oversea expansion	14.1	9.6	17.5
World quality	19.6	14.7	20.0
Value maximization	4.9	4.6	10.0

Quite naturally, companies with significant state holdings pay more attention to job security. This intention is more visible than that in companies with significant employees' ownership. This one plausible explanation is that the state is a consolidated influential shareholder, usually represented in the Board of Directors, while the employees' stock may be dissipated and therefore will not enable employees to influence the strategic decision-making.

Besides attitudes, we were able to clarify the current trends in business practices, experienced by the surveyed companies over the past few years. The special emphasis was placed to discover differences in business practices caused by ownership variations. We present here the results about the radical changes in human resource management practices (see Table 4).

Table 4. Popularity of radical changes in human resource management practices (percentages of CEOs confirmed such change in their companies in the past two years)

Type of changes	Companies with significant state ownership	Companies with significant employees' ownership	Companies with significant foreign ownership
New forms and sources of personnel recruitment	3	22	5
New forms of performance appraisal	8	27	10

New forms and methods of salary and benefits administration	20	38	23
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Companies with significant (remaining) employees' ownership are more active in implementation of radical changes in HRM practices. At the same time, state-controlled and foreign-controlled companies do not differ significantly in the speed of changes of their HRM policies.

Discussion and policy implications

Our study, albeit to be rather exploratory, clarified some important issues in the current trends of socio-economic development in Russia. The main findings may be summarized and interpreted as follows:

- Despite the increasing shortage of qualified workforce, the social component of corporate development is weakening in general and is especially weak for stable and dynamic companies. The social development of a company is ceasing to be a self-containing goal and is becoming to be a supportive element in corporate development.
- The essence of social development is the changes in HRM practices, especially innovations in salary and benefits administration.
- The ownership structure plays an important role in setting corporate goals but especially in re-designing HRM practices.

Such particular findings enabled us to speculate about the wider issues of the government socio-economic policy. Our main conclusions are the following:

- The overall social orientation of Russian business is weak now and will weaken if the positive macroeconomic trend will sustain in the near future. The increased social pressure on the Russian business contradicts the current configuration of corporate goals and the efficiency of such efforts to “re-orientate” the current business practices will be low.
- The indirect methods to show the productivity of higher social concerns may be more effective and efficient. They may include the use of state-owned or state-controlled enterprises as “show-rooms” for new, more effective HRM practices, especially in recruitment and salary administration.