

HUMAN RESOURCE MANAGEMENT IN RUSSIA

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Introduction

This chapter outlines the recent trends, the current situation and the likely development of HRM in the Russian Federation. The chapter is organized as follows: we briefly introduce the past experience of the Russian economy, describe the societal and institutional context of HRM, inform about the essential legislation and pay the primarily attention to the essence of HRM function – its place in company management, recruitment, selection, performance appraisal and remuneration practices, training and development. An illustrative case study presents all these points in their “natural” settings.

To move our paper out of anecdotic to more systemic evidences, we largely use the results of our own studies in HRM practices. In particular, we refer to the surveys administered at the end of 2003 and the end of 2004 respectively. Each survey embraced 1700 CEOs and 2400 managers of companies of all industries, sizes and ownership forms. We also used other Russian references. Extracts of official statistics are presented in Appendix.

The Transformation Process

Although the similar paragraphs in other chapters of this book are named “The Transition Process,” we have several reasons to name the paragraph that introduces the societal and economic transformations in the Russian Federation over the past 20 years as “The Transformation Process.” Indeed, there is a number of key differences between the changes in Russia and the similar events occurred in Central and East European countries.

First, for most Central and East European countries, despite the differences in the point of departure, there was an identified *point of destination* – to re-join the wider

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Europe, to re-establish the “normal” economic and social relations, to reach the European level of economic and social welfare. For Eastern Germany such a “leap backward” happened virtually overnight, with the reunification of Germany; other Central and East European countries have passed and are still passing their own trajectories in joining the European Union, but the target itself is clearly visible. For Russia there was never a clear point of destination, both in economic and societal aspects of transformations. Today Russia continues her search for identity, with little reference to a particular national or regional model. This means that there is no notion of an “ideal” society as well as no clear benchmarks for management models and processes.

Second, (fortunately for them) none of Central and East European countries have experienced such a well-targeted genocide of their own people. The whole cohorts of the most energetic groups of the populations (city entrepreneurs and wealthy peasants in late 1920s, industrial engineers in early 1930s, Red Army's officers in late 1930s) were totally annihilated. Millions more spent the great part of their life (in average 20 years) as state slaves in Gulag in 1937-1956. Peasants received the rights to move from their villages only in 1960s, the graduating students were offered the right to select themselves their places of employment only in 1990. This brutal tradition of forced labor is still visible. Today more than 10 million of Russian citizens bear the experiences of labor camps (as detention places are called officially)¹.

Third, the communist experiment in Russia lasted for 70 years (almost three generations) that is a generation more than in any Central and East European country. This totally excludes the possibilities to pass as family memories any habits and know-how of private enterprise and self-employment. As a result, the acquisition of such habits and skills was done at enormous costs, by own peril of the people.

All the abovementioned causes force us not only to call the process that has taken place in Russia over the past 20 years as “transformational,” but also to pay more attention to the particular stages of the process.

The first stage of the transformational process occupies 1986-1989. Three subsequent laws (“Law on Individual Working Activities” (1986), which officially permitted for the first time since 1929 any entrepreneurial activities and self-employment; “Law on Enterprise” (1987), which stipulated elections of General directors

¹ Accordingly to the official data, the average number of prisoners in 1995-2000 was around 1 mln. persons, including 107 thousand persons sentenced for murder. In 2003-2006, due to the liberalization of the criminal law, the number of prisoners decreased to 870 thousand (see http://www.rol.ru/news/misc/crime/03/06/02_008.htm; <http://www.estvse.ru/stat/vse/1080/vse/882/vse/>; www.newsru.com/crime/07may2004/killers.html)

of enterprises by the employees; and "Law on Cooperatives" (1988), which de-facto made legal the existence of the capitalist firm) created a short "golden age." Millions of people rushed to form cooperatives. Some of them quickly occupied the missing niches in production of consumer goods or in private services², while many other "cooperatives" simply channeled funds from state enterprises into private pockets by overpricing subcontracting and intermediary services. Such a system could not last for long. Additional income without additional production of goods coupled with frozen prices of the state-supplied goods and services created since autumn 1990 the situation of the total shortages of basic goods and food-stuffs. This really made the end of the Soviet Union inevitable.

The second stage of the transformational process has exact dates of the beginning and the end. It started on January 1, 1992 with liberalization of prices and ended on August 22, 1998, with the banking crisis and fourfold devaluation of Ruble. The very essence of this period is convulsions of the economic and societal systems to adapt themselves to the break up of the Soviet Union and the destruction of the system of central planning. Galloping inflation, annihilation of the savings frozen in the state saving bank, barter exchanges between enterprises, long wage arrears were among the main features of the period. Among others we should distinguish the sharp fall of industrial production that was not accompanied by the similar fall in employment. The gross domestic product decreased in 1990 -- 1998 by 42,5%, while the number of employed decreased from 75,3 to 63,6 million persons, i.e. by 15,3%. The absolute maximum of registered unemployment was reached in April 1996 -- 2,8 million persons, or 3,8% of the economically active population.

The greatest decline of employment was in industry -- 8,6 million persons. The share of industrial employment in the total employment shrunk over the 1990s from 30,3% to 22,2%. Many engineers and qualified workers (by some estimates, up to 8 million) became so-called "shuttles", regularly traveling to Poland, Turkey and China and bringing backs portmanteaus of cheap garments, footwear and electrical appliances for retail "bazaars."

However, this period was not totally dark. Russian enterprises have learned the basics of marketing and financial management. At the same time, new private sectors

² One of co-authors worked in 1988-1989 as a trainer for high school students aimed to take entry exams in Moscow State University in one of newly created "tutor cooperative." The purpose of that cooperative was to provide private lessons for 16-17 years persons in addition to their high school classes.

(including banking) have emerged. Last but not the least, this moment was characterized by the expansion of higher education – newly created and old universities alike feverishly educated marketers, financiers, economists and lawyers for a new economy. The share of university graduates in the total labor force grew from 1992 to 2001 from 17,6% to 25,2%.

Since the beginning of 1999 the current stage of transformational process starts. The sharp devaluation of the national currency eliminated foreign competition and provoked industrial revival. This trend was strengthened by the very favorable prices at the world markets for most types of raw materials, especially oil, gas and ferrous and non-ferrous metals. The “golden rain” of petrodollars enabled the state to have a significant budget profit and to assume again a “patronizing” role in the society, launching pension and social welfare reforms³. Over the last two-three years there also have been persistent and much more efficient attempts to re-establish the state control over the most lucrative sectors of the national economy. Today large Russian corporations are in direct or indirect state control (that does not hinder them to sell shares at international stock exchanges and to pursue aggressive overseas expansion). Simultaneously the state takes a more “dirigist” approach in stricter regulation of all other segments of economic activities.

The Context for Human Resource Management

Industrial Relations Context

The current context for industrial relations is predetermined by the growing force and involvement of the state into the economy and the clearly visible desire “to maintain peace and tranquility” in political as well as in social spheres. The de-jure ruling party “United Russia” (that has the majority in the both chambers of the Parliament and supports (and is supported) by the President, proclaims in its Program Declaration that “clusters of social tensions still remain” and postulates “the effective social policy”, that should protect handicapped persons and promote self-employment and entrepreneurship⁴.

At the more practical level this means that the state takes the role of the supreme arbiter in labor disputes. Such a role is enhanced because the major trade-unions united in the Russian Confederation of Independent Trade Unions are “tame” and do not present any real

³ To date, both of them have not proved to be successful by any mean.

⁴ See <http://www.edinros.ru/news.html?rid=3125>

pressing force. Needless to say that they do not dare to organize large-scale actions. The recent fierce labor disputes, for example, the strike at the Ford Motors' plant near St.Petersburg, were organized by alternative trade unions. Various associations of employers (including Russian Association of Employers, Russian Union of Industrialists (association of large businesses) and "OPORA" (association of medium and small businesses) do not hesitate to express their adherence to "civilized social partnership."

The main form of social partnership in Russia today is so-called "collective agreement." The collective agreement is a contract between employer and employees. The sides in the contract are the General Director and the local unit of a trade union. If there are no trade unions in the company, employees may elect their representative. The major clauses of the collective agreement are:

- Forms, systems and levels of wages and salaries;
- Other types of compensations;
- Employment levels, re-training and firing;
- Working time, including leaves and holidays;
- Work safety;
- Interests of employees in privatization of a company, including privatization of dwelling in company's ownership.

There is also a special article that stipulates the denial of strikes as far as the major clauses of the contract are not violated. In general, the government favors collective agreements and promotes their wider use in large companies.

When we look at the small and medium-size business, the situation is much different. There are no active trade unions in small businesses, and workers are usually totally powerless against arbitrary rule of an employer as local controlling bodies (trade inspections) rarely interfere. However, when an employee brings the case to the court, Russian courts are inclined to take the side of an employee as a "presumable victim"⁵. Thus, the very threat to bring the case to the court serves in many cases as a very good argument in individual labor disputes.

Key Labor Market Developments

⁵ See, for example Mironov, V.I. *Praktika noveyshego trudovogo zakonodatelstva: enziklopedia pravoprimerenia v zaklucheniakh experta NEPS*. Moscow, Delo Publishers, 2006

The best Russian expert in labor issues named his monograph on Russian labor market development as "Adaptation without restructuring" (see Kapelushnikov, 2001). At the first glance, this seems exaggerated. The Russian statistics presents the common trends of a post-industrial society – the decline of employment in industry and agriculture, the sharp raise of services (see Appendix, Table A1). The economy also absorbed well the additional entrants to the labor force -- the number of the population of working age experienced stable growth since 83,7 million persons in 1993 to 87,3 million persons in 2001, while unemployment remained low. In 2000-2005 the total number of unemployed stood at the level of 2 million (2,8% of the active population). The number of unemployed calculated accordingly to the methodology of the International Labor Office was in April 2005 around 5,8 million, or 7,9% of economically active population⁶. This figure remained stable in the second half of 2005-first half of 2006.

Low unemployment in many aspects is due to the expansion of the "informal" sector – unregistered employment that is free from income and social taxation as well as from any legal regulation of working conditions, payment systems etc. The major spheres of unregistered employment are construction, retail trade and catering, agriculture and different types of private services. By some estimates, the size of the informal sector is 12 million persons (16-18% of the total employment); for 7-8 million persons the unregistered employment provides the sole source of income. The informal sector is also a primary destination of migrants from other countries of the former Soviet Union (especially Moldova, Ukraine, Azerbaijan).

If we look deeper, we will notice that low unemployment figures disguise ineffective functioning of the labor market. First, there is low adjustment of employment regarding the fluctuation of production levels. Small business, presumably more vibrant, still occupies a modest place in the Russian economy, providing in 2006 jobs to 12,8% of all employees⁷. In large enterprises, complicated legal procedures of mass lay-offs coupled with low salary levels encourage to keep an excessive labor force even when there are no chances to occupy it in the future (see Gurkov, 2006).

Second, there is low cross-sectional and especially territorial mobility within Russia. While in the first half of 1990s, the level of internal migrants (persons who moved to other administrative units within Russia) was around 600,000 per year, in 2001-2004

⁶ Economically active population was in April 2005 around 73,4 million persons, or 51% of the total population of the Russian Federation.

⁷ We should remind here that Russian small businesses are largest businesses in the world. The legally set upper limit for small business in many industries is 100 full-time employees.

this number was around 100,000⁸. Low territorial mobility creates two types of problems. First problem is the excessive labor force in several regions with high birth rates. For example, in North Caucasian republics, the real unemployment rate among men is more than 30%, while married women are largely excluded from active working population. Second problem is the fragile existence of so-called “single-factory towns” – communities built around a single plant (mine). The very existence of such communities totally depends on performance of such industrial establishments. The total population of such single-factory towns is 24 million.

Low mobility of workforce also puts clear boundaries for location of new production facilities. Everywhere in Russia (except Moscow region) commuting is possible only via railroads and major motorways (local roads are usually awful), thus new production sites should be set only in existing places – townships or villages. This lesson was well learned by foreign companies. Nowadays foreign investments in production facilities (automotive plants etc.) look as their destination for medium-size old industrial towns.

The next years of the Russian labor market will be characterized by the gradual decline of the working population (as a generation born in 1989-1992, the years of the lowest birth rates, is entering the active age), the reduction of migration from the former Soviet republics due to the tightened immigration policies and the growing shortages of particular professional groups (especially industrial personnel, workers and engineers alike). The abovementioned inefficiencies of the labor market are unlikely to be eliminated.

Key legislative provisions

Two major laws that set the current framework for labor relations in Russian are the Labor Code and the Taxation Code. The taxation code set the uniform rate for taxation of personal income of any source – 13%. This helped to move “out of shadow” a significant proportion of jobs in the informal sector and removed psychological barriers for wage raises. In addition, since January 1, 2005, the maximal rate of the Uniform Social Tax (a tax paid by employers) was decreased from 35,6 to 26%. This difference was split

⁸ One of reasons for lower in-country mobility is soaring prices for housing in large Russian cities, maintained by high incomes in oil and gas sectors. Today the price for a modest family apartment in the apartment block in any large Russian city is equal to 20-30 annual average salary. The rent follows the trend. Mortgage financing is still in its infancy.

between employers and employees that contributed to the significant increase in wages in 2005.

The Labor Code, effective since February 1, 2002, that replaced the old Labor Code of 1971, targets all organizations in the Russian Federation, non-respectably to ownership, size and legal status. There are four major areas of innovations in the new Labor Code:

- The primacy of law in labor relations. Thus, all clauses in individual labor contracts, even if a contract is voluntarily signed by an employees, that deteriorate the conditions of employments regarding the existing legislation, are illegal.
- Second, the rights of trade-unions are seriously limited. For example, the approval of a trade-union in mass lay-offs is not required anymore, trade-union activists may be easily fired, employer is not obliged to provide the necessary conditions for trade-union daily activities.
- Third, a special chapter was devoted to contracts of executives, thus enabling owners for stricter control of top managers in their companies.
- Fourth, dismissal of employees became easier. An employee may be fired:
 - after a single serious violation of his/her job duties (previously it was required a series of violations),
 - if an employee refuses to continue work after the change of ownership;
 - if an employee refuses to move to another workplace for medical reasons.

In addition, the Code contains the inclusive set of reasons for temporary work contracts.

In general, Russian labor legislation became more flexible. However, some innovations have met fierce resistance; some have proved to be ineffective. In June 2006, more than 300 amendments in the Labor Code were proposed by the Duma (parliament). Most of these amendments were included in the Federal Law No. 90 and were put in force in October 2006.

Trends and Developments in Human Resource Management Practice

The Place of the HR Function in Russian Enterprises – Zenith, Fall and Gradual revival

In the Soviet times, under conditions of chronic labor shortages, non-existing marketing and rudimentary finances, HR function occupied a very strong position among all functions, just after the production. However, the HR function was largely decentralized. In any large enterprise there were five units responsible for personnel issues. The local Communist Party committee supervised general social atmosphere and had its final voice in all promotions⁹. The Personnel department dealt with routine functions of legal paperwork in hiring, firing and performance assessment. The local trade union was responsible for the social life, including holiday camps, kindergartens, sport and social events and the most important issue – allocation of housing among employees. The Salary department was responsible for salary administration. Finally, the special unit in direct supervision of the Chief Engineer dealt with issues of job design and work safety. Such decentralization meant that there never has been a clearly articulated human resource strategy at enterprise levels. Even when such programs were designed as a part of the “complex enterprise development plans,” they were mostly mechanical combination of particular measures and initiatives. Only under extraordinary circumstances (the appointment of a new General Director, massive expansion of production facilities etc.) the old Stalin’s slogan “The cadres decide everything” was re-used to adjust the system of human resource policies to new conditions. Even in such situations the emphasis was given to *resources*: to arrange with the industrial ministry higher rates for particular works, to “squeeze” from the local authorities production facilities for housing construction and to set low performance targets to have more reasons for quarterly and annual premium and bonuses – those three tricks were largely considered as a master-key to all problems in human resource management.

The destruction of the central planning, elimination of the Communist Party and fall in trade-union activism created a vacuum. Among the various units which dealt with HR issues only personnel department survived as the amount of legal paperwork related to employment issues has not changed. Salary administration was transferred to accounting departments, and the motto of any real accountant “small (checks) are beautiful” is largely applied nowadays to paychecks too¹⁰. Designing new safety measures became “a luxury” not only for the top management, but even for workers

⁹ Initializing ritual of joining the Communist party was the absolute pre-requisite to take any managerial position. A person, who received a “sever reprimand” from the local Party committee had no chances for promotion for the rest of his/her life; a person, excluded from the Communist Party could occupy only worker positions in the least prestigious segments of the Soviet economy.

¹⁰ There are many industries in Russia (for example, in retail) where competition is based mostly on minimization of labor expenses as a part of the total sales.

affected by such measures¹¹. Fifteen years after the fall of the central planning, despite new tasks and challenges in human resource management, personnel departments are still unable to fill the vacuum and to assume the pivotal role in human resource management processes (see Table 1).

Insert Table 1 here

We may see that in most cases personnel departments are separated from strategic decisions. Two thirds of the surveyed personnel departments also cannot advise executives on issues that are vital when qualified personnel are in deep shortage – analysis of job market and assessment of psychological climate. Thereby, it is not surprising that HR function occupies the lowest rank among all functions in company management. We also should mention the “personnel problem of personnel departments.” Traditionally, heads of personnel departments were two types of persons. In heavy industries they were usually retired officers of KGB, Interior Ministry and similar services. In less sensitive industries (textiles, food processing) the position was usually occupied by women in their late 40s, who passed through all ranks in personnel department, starting from receptionists and registers. Both categories are still clearly visible, especially in “old” privatized and state-owned companies. However, their successors are different. Taking into account a very limited offer of special programs in HRM¹², nowadays the vacancies of Head of personnel are fulfilled by persons of diverse humanitarian backgrounds – former school teachers, psychologists, sociologists, lawyers, experienced “personal assistants to the General director” and so on. In addition, the recent study of the executive job market in Russia confirmed that personnel function is “the dead end” in executive career – there are almost no cases for HR executives who are promoted to the top and occupy positions of CEO (Solntsev, 2006). We should stress that subsidiaries of foreign companies in Russia share such attitudes towards HR function with their local colleagues. Although HR departments of foreign subsidiaries put more

¹¹ The investigation on one of the recent catastrophes in Russian coal mines revealed that the newly installed automatic safety equipment, which stopped the work when the level of methane in the mine reached the critical level, was purposefully set out of order by miners concerned with shift productivity and daily earnings.

¹² There are only a dozen of Master programs in HRM in Russia; the number of bachelor-level programs is also limited.

attention to training, analysis of job market and evaluation of psychological climate, HR heads still struggle to enter the inner circle of strategic decision-makers.

However, in the past five years, the industrial revival created a new situation for most Russian companies that may be characterized as extreme shortage of “qualified labor force”. Today Russian top managers rank human resource issues as their third major preoccupation, after finances and marketing. When we look at businesses that are really expanding, the situation is even more alarming. The share of Russian CEOs who believe that “staffing of a new project by qualified labor force is an extremely difficult task” is 45,5%. This situation does not depend on size, current performance or even line of activities of a company. For example, in metallurgy, one of the most prosperous Russian sectors, 57% of CEOs see staffing as extremely serious problem.

Such a situation forces the majority of Russian companies to embark on experiments in staffing, performance assessment and remuneration (see Table 2). This happens in all sectors of economic activities. We should add that there is a visible trend – the better the current performance of company is, in greater extend the changes in human resource management practices have taken place over the last years.

Insert Table 2 here

The data presented in Table 2 shows that more than a half of the surveyed companies have embarked on experiments in new remuneration systems, and more than a third – in searches for new methods in staffing and performance appraisal. The reader should bear such figures in mind as we proceed to description of each process in detail.

Recruitment and Selection

Recruitment

The insufficient assistance most Russian companies may get from their HR departments in qualitative issues of recruitment and selection make such functions quite challenging. Recruitment is especially tricky as Russian managers prefer to deal with employees that do not need special training before occupying the position and also require minimal adjustment period (see Table 3).

Insert Table 3 here

Besides proved qualification and work experience, Russian CEOs respect education, not only for managers, but also for workers. We should also stress that “personal connections” is a great advantage in Russia, where most businesses depend on favorable attitudes of local authorities and tolerance of competitors and business partners.

Of course, to get such “ideal” workforce is quite difficult, so companies use the whole batteries of methods to reach the promising candidates (see Table 4).

Insert Table 4 here

Personal connections of managers and participation in professional associations (another form of personal connections) are still the main forms to get promising candidates in all sectors. However, despite their will to find the workforce with practical experience, nowadays Russian companies should look towards graduates of colleges and universities. This trend is especially visible in machine-building, electronics, pharmaceuticals. However, in timber industry and agriculture that was neglected for 15 years as desired sectors for employment, the shortage of young professionals is especially acute.

We also may see that the Internet became an important source of information for both employees and employers. However, in the popular perception the Internet is still separated from other sources of mass communications.

Although there are visible differences in use of recruitment methods at industry levels, there are no significant differences between various forms of ownership, but with one important exception – state-owned companies address more often to state employment centers (see Table 5).

Insert Table 5 here

Selection procedures

If there are a great variety of recruitment methods, selections methods in most Russian companies are limited just to two forms – interviews and probation period¹³. Other forms of selection have not taken significant place in Russian life. ***Written letters of recommendation*** are not popular due to the prevailing attitudes of employers to look at persons who leave the company as “traitors¹⁴.” Thus Russian employees prefer to find a new job, pass the selection procedures and negotiate job conditions before leaving the current employer. Different tests are also not popular in most Russian companies as selection tools. Professional tests are difficult to develop, as many jobs are believed to be unique and tailored to specific needs of a particular company. ***Psychological tests*** were very popular in 1990s, but have lost they appeal as the tests themselves became well-known and standard. In addition, managers and production engineers accused psychologists in selection units that they put to much weight to personal characteristics of pretenders and cannot capture “real professionals,” who may be too arrogant or too diffident.

As a result, interviews and probation periods remained two methods that are considered reliable and efficient. Interviews “Russian stile” are usually carried out in two or three steps. The first interview is done by a person from personnel department. Such an interview is often very formal and helps to fulfill the “job card” with personal data of a pretender. No serious decisions are taken at this step. However, if a person from HRM department discovers some strange facts in biography of a pretender, she/he must share the suspicions with a head of company’s security¹⁵. The second interview is done with the future direct supervisor. This interview is carried out in most of the cases in a very informal way. For a person who just enters for the first time the labor market, the main goal of the interview is to demonstrate the qualities Russian supervisors appreciate most – reliability, trustworthiness, obedience, modesty and willingness for hard work (see Gurkov and Maital, 2000). For a more experienced person the best tactics in such

¹³ Foreign companies, operating in Russia, for example, Arthur Andersen, use their standard procedures of selections, applicable to all countries of operations.

¹⁴ As the Russian Labor Code postulates the primacy of law, all clauses in individual labor contracts that prohibit immediate transfer of an employee to the direct competitor of the previous employer are worthless, as they contradict the freedom of employment.

¹⁵ The male co-author remembers a trilling story, told to him by one HRM Head during an executive seminar: “I run a routine interview with a person who applied for a position of truck driver in our company. I was sitting at my desk, filling the “job card” and even not looking at the man in his late 40s, who was sitting just opposite me. When I reached the point “marital status” and received the answer “unmarried,” I unconsciously put another question: “Why?” The answer I received immediately was: “I killed her.”

interviews is to mention "reference points." For each job and specialty the reference points may be different – for a qualified worker this may be technical characteristics and "tricks" of equipment he/her worked with, for a manager or an engineer this may be the name of a respectable "patriarch" of the field, he knows personally etc. We should remind that as almost 80% of jobs are found through "personal connections," the common ground is established before the interview. As far the common ground is established and the reference points are found, the pretender is considered as successfully passed the "friend-or-foe" reconnaissance system". For low-ranked positions this puts the end of the selection process. For top positions the third meeting may be necessary. For this meeting the future supervisor takes the likely pretender to *his/her own* boss. During this meeting the supervisor asserts that the person he/she brings with is the right one. The contender himself usually remains silent most of the time, politely replying to some ritual questions. If the big boss puts tough questions and shows hesitance, this means that "the meeting was badly prepared." This is considered as the weakness of the supervisor, not that of the contender.

After the positive approval of the big boss, the real bargaining on job conditions, especially on salary level, may start. The experienced pretenders try to move the agreement of payment conditions towards the very end of the selection processes, where demanded "extras" are counterbalanced by cost and time of the repeating the process all over again. To bring the agreement to the very end of negotiations is simplified by the fact that there is still no standards for remuneration for managerial positions, and the home-take sum may differ by 50-60% for similar positions in similar companies.

As far as all interviews are passed and negotiations on payment conditions reached the mutually accepted agreement, the real employment or the probation period may start. The *probation period* is still considered in Russia not as the beginning of real employment, but as trick of an employer to save on salary and benefits. Indeed, Russian employers nowadays prefer too often not to make "normal work contacts" with a special clause of probation period that cannot last more than three (for managers -- six months) and should have clear criteria of success/failure. Instead they force employees to make special temporary contracts separately for the probation period. In such contracts salaries usually are minimal. Temporary workers are also excluded from all social benefits offered to "normal fellow-workers." Such a contract may be terminated at any

time without explanations from the employer. Therefore, probation period is accepted only by persons who have no other places to go.

Reward and Performance Management

As in most other countries, the labor market in Russia is divided into three largely separate groups:

- industrial workers and front-line employees in services;
- managers (including foremen and supervisors) and qualified “specialists” with university education;
- executives.

It would be better to describe reward and performance management for these groups separately, as they largely differ in salary level and performance criteria. However, we should first to present legal provisions associated with reward and performance management to all categories of employees.

The official system of reward management is based on two pillars – minimal wage and tariff system. Accordingly to Item 133 of the Labor Code the minimal wage is set simultaneously in all the territory of the Russian Federation by a federal law. No full-time salary may be lower than the minimal wage. Since May 1st, 2006 the minimal wage in Russia is 1100 Rubles (around 32 Euro) per month. From May 1st, 2007 the minimal wage was set at 1400 Rubles and since September 1st. 2007 – to 2300 Rubles (Euro 66). Needless to say that subsistence level is much higher. For example, in Moscow city the minimal subsistence level for a working person (without dependencies) was in the second quarter of 2007 somewhere around Ruble 5800 per month.

Scale of wages is set accordingly to the tariff system. The tariff system determines the complexity of particular works and the relative level of payment for particular jobs of various complexities. The Russian tariff system includes:

- tariff rates (fixed hourly rate for the work of a given complexity);
- tariff grid (allocation of all jobs to particular tariff rates);
- tariff coefficients (difference between the particular tariff rate and the level of the lowest rate (for the most simple work)).

Since September 1st, 2007 the tariff rates were separated from the minimal wage, the regional authorities were enabled to set tariff rates higher or lower the minimal wage.

We also should remind that the salary taxes in 2006 became easy, taking away 47,2% of the total wage bill comparing to 64,5% in 2002 (see Table 6).

Insert Table 6 here

Official provisions also stipulate that jobs with special conditions (very unhealthy, work in the Far East or in the Northern territories) are paid by elevated rates. The law also stipulates that two major salary systems – time-based payment and piecework may be combined in various ways. There are no legal limitations for additional payments and benefits from net profit, as well as there are no limits to social benefits to employees (although some benefits are accounted as a salary and have a double taxation – profit tax for the company and income tax for employees).

It is important to note that the Russian legal system denies any fines of employees. In piecework payment systems operations of inferior quality may be not accepted and, subsequently, not paid. In hourly payment systems, to ensure the proper quality is the duty of supervisor. Only additional bonus for employees may be decreased or annihilated, but the basic hourly rate cannot be touched.

Practices of reward and performance management for workers and front-line employees

As the officially set tariff system and official rates secure only hungry subsistence, most reward systems for workers and front-line employees is based on two parts of salary. The basic salary, sometimes set accordingly to the official tariff system (in privatized and state-owned companies tariff system is used more often) is a first part that may occupy between 10 and 60% of take-home pay. The second part is called “premium,” but is usually considered as automatically given. Besides salary system, nowadays Russian companies re-build the system of social benefits, both in monetary and natural forms (see Table 7).

Insert Table 7 here

Among the most popular benefits are additional health insurance which that enables employees use private clinics and hospitals, meal and transport allowances and special holiday allowance. We also should stress the wider use of educational allowance. The popularity of educational allowance is partly explained by the fact that the Labor Code treats such allowance as a credit to employee that may be totally or partly repaid back to the employer when the employee leaves the company. So, educational allowance is considered as a good "anchor" to keep valuable educated employees. The levels of social benefits usually based on seniority principles – the greater the overall time an employee has spent in the company, the greater the "pie." In practice most full-time employees are entitled to all forms of benefits, only the share of their direct contribution varies. For example, the sophomore must pay 50-60% of the total value of the additional health insurance, after 5 years of service such option is given free of charge etc. In addition to all wages and social benefits Russian workers expect a special Christmas bonus – "the thirteenth salary" that indeed is roughly equal to the monthly take-home pay.

As most reward systems are composed from small salaries and solid "premiums," to ensure the proper performance of any worker is not a problem – it is sufficient to deprive a worker from a monthly premium to make him/her obedient and convenient. The performance management of workers and front-line employees is based on direct observations and registration of quantity and quality of work by a supervisor (foreman). Usually a single complain about the quality of work may result in partial or total loss of the monthly "premium," so direct supervisor usually has the total command over "life and death" of subordinates. In principle, a worker may appeal about his/her direct supervisor to higher managers, but a few workers dare to do so, as many firms build excessive lists of "de-premium causes¹⁶." For workers with piecework, directly paid for the quantity of operations of accepted quality, the worker may also be asked to compensate to the firm the whole value of a detail (item), lost for further utilization by inaccuracy (negligence) of the worker.

¹⁶ Such lists usually includes detailed descriptions of situations of "work rules' violations" or "improper behavior." The later is mostly applicable in service industries. For example, a single guest's complain about the waiter may cost the waiter a monthly premium.

Having a whole batteries of punishment measures for every worker, Russian companies nowadays are trying to avoid peer-based systems of performance appraisal (popular in 1980s), as such systems promote co-operation and unity of workers in their resistance to supervisors.

In general, reward and performance systems for workers implemented in Russian companies may look old-fashioned, but they are consistent and efficient. If the company may allocate sufficient resources for direct supervision and social benefits, the systems ensure compliance with work rules and provide possibilities to productivity improvement.

Practices of reward and performance management for managers and qualified "specialists"

If we assessed positively the prevailing Russian systems of reward and performance appraisal for workers, the similar systems for managers may be described as "chaotic" and arbitrary. At the first glance, the reward system for managers is very similar to that of workers – there is the same two-tier system of basic salary¹⁷ and premium, as well as a developed system of social benefits (that may include many additional perks as "allowance for mobile phone," "allowance for education of children," "special mortgage from the company" etc.). The difference here is the stability of salary. If workers expect stable salary for routine work of satisfactory quality, the take-home wage of managers is never secured. It consists of a permanent part (not related to performance) and a variable part, depending on performance appraisal. For production units, engineering, IT or HR functions the variable part is usually set at 20-40% of take-home pay. For sales (installation) department the variable part may be 50-70% of take-home pay. The real problem here is not the relative size of the variable part, but the performance measures that determine it. For traditional functions, like production and engineering, fulfillment of a monthly plan or timely delivery of an order is usually the sole measure of performance. Thus, the plans themselves are set as low as possible; orders are scheduled at the last accepted period. In addition, the direct costs of such an achievement are rarely taken into consideration, as production and engineering are kept as far as possible from finance and "real money."

¹⁷ If the tariff system is used, the tariff (basic) part usually occupies between 5 and 20% of take-home pay.

For relatively new functions (sales, marketing) the situation is even worse. There is neither established tradition of performance measures, nor good “cookbooks” for performance design for such specialists. As a result, the simplest observable parameters, that may be beyond the control of particular managers, became the criteria of their success/failure. For example, a Head of sales, who (usually) has no direct authority on advertising budget, no power to make alterations in the price list and no ability to prioritize deliveries is assessed by the dynamics of company sales.

When Russian companies are trying to implement newly-imported managerial “fads,” like Balanced Scorecard (BSC) the situation becomes totally absurd. BSC schemes are introduced in top-down approach, so middle managers are made responsible not for a single measure, but for a battery of measures; all of them beyond their direct influence.

The described state of affairs in performance appraisal of company managers is not new – it reflects the established Russian tradition of “delegating responsibility” to lower levels of managerial hierarchy while keeping the real power and resources at the top¹⁸.

The system also in many cases creates situations when newly appointed managers receive much higher salaries than the people who have worked in the company prolonged periods, as new appointees start bargaining with the higher level. The wide dispersion of practices of setting very different payment levels for the same jobs causes many Russian companies to force the employees to sign special documents that prohibit revealing their real income to anyone outside and especially inside the company.

The additional consequence of the situation is the visible superiority in job attractiveness of foreign subsidiaries over their Russian competitors for experienced middle managers and specialists. Foreign subsidiaries of MNCs usually offer more modest career opportunities (as top positions are often retained to expatriate managers) and (nowadays) lower salaries, but self-respected Russian middle managers value orderly and consistent performance appraisal, that makes them masters of their own destiny.

Practices of reward and performance management for executives

¹⁸ Thus for any failure the boss has all possibilities to blame “irresponsible and incapable” subordinates and remain personally innocent.

Executives are heads of companies (General Directors and, for joint-stock companies, Chairmen of Board of Directors¹⁹) and their direct subordinates (Vice-presidents, chief accountants and, in some cases, trusted personal assistants). In Russia, there is a clear divergence between reward and performance management for executives of the largest open joint-stock companies and that in smaller companies.

Russian large open joint-stock companies successfully implemented over the past 5-6 years all the “tricks” in executive compensation, developed in large American corporations over the past 30-40 years. For example, the Russian oil giant “LUKOil” models its executive compensation scheme on “Chevron.” There are three parts of the reward system for executives – basic annual salary, bonus, related to financial performance of the corporation (around 100-150% of the annual salary, paid as lump-sum at the end of the year), and stock-related rewards. Although different option plans and “phantom shares” are nowadays widely used in Russian large corporations, top executives still prefer real stock. For example, in AFK “Sistema,” the largest high-tech Russian conglomerate, at the end of 2005 the controlling owner made a Christmas present to several executives as a direct transfer of shares to their hands (valued at that time of several million U.S. dollars).

In “ordinary” Russian companies, not listed on stock exchanges, the prevailing form of executive compensation is profit-sharing schemes. It is largely believed that allocation of net profit solves the “principal-agent” problem. In addition, setting the uniform measure for all top managers of the company increases the coherence of the management team.

Training and Development

We have seen that Russian managers value education as selection criterion even for workers. The respect for education in the Russian society contributes to the rapid expansion in the past 15 years of various forms of professional and business education. Nowadays all kinds of retraining program is available to any Russian company that is ready to pay for – from one-day “update” seminars to internationally recognized programs of Doctor of Business Administration. The Russian Association for Business Education (RABE) now comprises more than 140 respectable business schools and

¹⁹ The Russian Law on joint-stock companies stipulates the separation of these two positions.

retraining centers form 33 regions. Russian business schools have recently started to be accredited by AMBA and even appeared in the list of top 100 European MBAs.

The government pays serious attention to the promotion of business and management education. In 1998, under the auspice of the President of Russia, there was launched a large-scale program that targeted managers of small and medium-size companies. This program combines intensive theoretical classes (up to 500 contact hours) with a prolonged period (up to six months) of work in another company, including the foreign one. Every year since 1998 more than 2600 managers have passed through this program, so the total pool of alumni now is more than 20,000.

Although this program is in many ways unique, the data received from its alumni presents the consequences of the well-designed management re-training program (see Table 8).

Insert Table 8 here

We may see that time and money spent on managerial retraining is a very effective investment – more than a half of all alumni immediately received job offers from other companies. Salary raise and job promotions are also likely outcomes of the retraining program.

If we look at more detailed impact of the acquisition of new knowledge and skills (see Table 9), we will see the ingredients that contribute to the career and business advancement of alumni – raise in self-respect, better understanding of company's business, better vision of overall perspectives of an industry or particular sectors of the national economy.

Insert Table 9 here

Although individual participation in re-training programs has a clear positive impact, nowadays Russian companies prefer to order special company-tailored programs. Such

programs usually embrace all managers of a particular level of the company. In some cases, the whole Managing Board (10-12 executives) is enrolled to an MBA program²⁰. Some estimates put the overall demand for MBA programs in Russia at 100,000 (Kuzminov, Filonovich, 2005).

As business and management education prospers and expands, professional retraining for workers is still struggles the consequences of its total neglect in 1990s. The most professional staff of vocational schools and technical colleges have left the public educational establishments for managerial positions in business, experienced workers and technicians with pedagogical skills are not willing to occupy poorly paid jobs in the public sector. The temporary solution many Russian industrial companies see as an effective tool to overcome the shortage of qualified younger workers is to re-build the in-company mentoring system. Unskilled persons may be taken for a special "apprenticeship" contract, which sets the obligations of the company to train a person towards particular specialty and level of qualification. More important, instructors who provide such on-job training (presumably, the most experienced and patient workers and technicians) usually receive significant additional payment for such duties.

Illustrative Case Study

JSC AC "Yakutskenergo" – warm hands in the freezing lands

How to measure the size of an energy company? We may talk about energy output in MegaWatts, sales, profits before or after taxes, market capitalization or the number of employees. But for integrated electricity suppliers, that combine production, transmitting, distribution and marketing of electrical energy, the size of the serviced territory does mean much. For this parameter "Yakutskenergo" – an electricity company in the far North-East of the Russian Federation – is the largest company in the world. It serves the territory of the autonomous republic Sakha-Yakutia that occupies 3,100 thousand sq. kilometer – bigger than the European Union with all its old and new members.

²⁰ The male co-author served in 2003-2004 as Academic Director of a corporate-tailored MBA program for one telecommunication company. The General Director and all her direct subordinates (14 persons) successfully passed two-year program.

Although only 910 thousand people live on that territory, to serve their needs 20 thousand kilometer of power lines, a cascade of hydrolytic power stations, three gas/coal power stations and 164 small diesel oil generators are used. To keep all this infrastructure 8211 people are employed in the company.

For the territory, where the usual winter temperature is -50°C , the break in electricity supply for 40 minutes means that nobody will see the light again. In addition, tough guys who serve diesel oil generators are usually the only persons with technical skills a hundred kilometers around. So the company provides not just electricity, but the life and civilization in the immense territory.

The company itself is a subsidiary of the RAO "United Electrical Systems of Russia," but it enjoys the complete independence in all questions of management, including HRM policies. Unfortunately, this independence also includes financial independence. Being physically isolated from the main energy markets, with high operating expenses, the current financial situation of "Yakutskenergo" is not bright, and profitability of sale was in 2005 just 3% (profitability of assets was 1,5%). The company must subsidize the customers in rural areas, the overall demand for electricity decreased in 2005. In addition, there is a permanent deficit in investment budget, as the reliability standards are high and the maintenance costs of dispersed infrastructure are immense. And there are good chances for the beginning of exploration of large local oil and gas reserves with ultimate consequences of losing mechanics, compressor operators, builders etc. The top management clearly sees that the effective HRM policy is crucial for the very existence of the company.

The mission of the company is written accordingly to the best examples of the sort and looks as follows: "We see our predestination in improving the quality of life of the people and creating conditions for economic development of the Far East of Russia. We reach this goal by offering quality services in electricity supply in inclement climate conditions. Under quality we mean reliability and non-interruption of energy supply while keeping technical standards. The base for our efficiency is the employees. We value them for high professionalism, teamwork and results orientation. We provide employees with deserved remuneration and opportunities for development."

Translating such grandiloquent words into plain English, we may see that the company is desperately looking for means to prevent personnel, especially "open-air

workers" (electricians, constructors) and engineers not to move to other territories or sectors. As a result, HRM policy indeed occupies an important place in corporate management. The current strategic program of "Yakutskenergo" contains the extended description of measures in HRM. Four areas are considered the most essential in HRM policies:

- Development of efficient performance management system.
- Extension of social benefits.
- Training.
- Maintaining good moral climate.

Development of performance management system was considered as a priority for 2005. The system was build with the use of external consultants. The very simple scheme was proposed for each functional department as well as operating divisions -- one negative and two positive parameters in quarterly performance assessment determine the level of quarter and annual bonus. Negative parameter is the events (variable) that must be 100% avoided (minimized). The positive parameters are the variables that should be maximized. All negative parameters are specific and reflect the responsibility areas of departments (units). One of positive parameters is specific for each department (unit), the second one is the same for all departments, thus creating the uniform attitudes towards company's performance.

Extension of social benefits is aimed to systemize all the forms used in the company. The total list of benefits looks as follows:

1. Health:

- Allowance for holiday travel expenses for employees and their children;
- Subsidies for sanatoriums;
- Organization of sport events.

2. Support for families:

- Present after birth of a child;
- Stipend to single mothers;
- 100% subsidy for children summer camps for single mothers and families with 3 and more children;
- 100% subsidy for kindergarten.

3. Support for low-paid employees:

- Additional holiday allowance;
- 100% subsidy for electricity and heat.

4. Support for retired employees:

- Additional pension scheme;
- 100% subsidy for electricity and heat;
- Present at retirement.

5. Additional benefits:

- Compensation for rent;
- Credits for house purchase;
- Participation of the company in investment projects for apartment blocks;
- Special credits and grants in extreme family situation (death of a family member etc.).

Training was considered as the necessary part of professional development. The Chief Executive Officer and Chief Financial Officer themselves passed in 2003-2004 through the extensive MBA-like program at the Academy of the National Economy in Moscow. For middle managers and engineers two educational programs offered by Canadian energy companies were organized in 2004. In the same year the company's training center was set up. It provides training for 105 working specialties. In 2004, almost 1000 workers passed through retraining programs. In 2005, the proportion of managers with university and college degrees was 91%, the same for workers was 29%.

Maintaining good moral climate was prioritized accordingly to the American-inspired model «Great place to work». A special survey that embraced 30% of all employees was administered in 2004. It demonstrated sufficient job satisfaction in corporate headquarters and in units for energy transmitting. To improve job satisfaction in production units various new forms were development. For example, the best personnel in the cascade of hydrolytic stations is offered by the title "Knight of the Cascade" or "Lady of the Cascade." There is also an objective to promote so-called "working dynasties," when several generations work for the Company. In 2005, there were 228 "working dynasties."

So far, the effects of HRM policies seem positive:

- almost all workplaces were filled – the number of unfilled vacancies was in 2006 just 2,2 percent of the total workforce;
- young professionals stay longer in the company, in 2006 more than 80 percent of young specialist stayed while in 2005 the figure was 67 percent;
- various retraining programs embraced 2100 employees, i.e. 27% of the total labor force;
- job evaluation (attestation) was performed to assess the performance of 400 employees.

At the same time, the company was under constant organizational restructuring. More than 3000 employees were transformed to other legal entities. On the one hand, this allowed some “rejuvenation” of the workforce -- the average age of workforce that was in 2005 around 43 years, became in 2006 just 38 years. On the other hand, reorganizations were accompanied by high personnel turnover. If in 2005 the personnel turnover rate was less than 8%, in 2006 it increased by 2/3 and reached 13,8 percent ([http://www.yakutskenergo.ru/social/empl/.](http://www.yakutskenergo.ru/social/empl/))

The Future of HRM in Russia

We have retraced the main features of HRM in Russia. Some of them are deeply rooted in the previous historical and social development of the country, some are more volatile and are subjects of alteration and change. In this respect, we dare to make some insights into the future of HRM.

As the whole Russian economy (and politics) is largely dependent on oil prices, the future of HRM is also predetermined by this point. The crucial assumption for all our predictions is that the current high prices for oil, gas and energy-related products (fertilizers etc.) will last for the next 3-4 years. In such a situation the following developments are highly likely:

- The energy sector in Russia will prosper, accumulating more financial resources in the large state-controlled companies.

- Two sectors that directly depend on the energy sector – the financial sector and the Russian government -- will also experience “fatty times.”
- In all the three sectors salaries and incomes will grow quickly, thus widening the existing large gap between those sectors and the rest of the economy (see Appendix, Table A5). Job attractiveness in those sectors also will be high. Besides, more and more families with high incomes earned from “petrodollars” will afford personal servants.
- With plenty coffers the government will embark on large infrastructure projects, thus creating more demand in construction²¹. Expansion of energy sectors also needs more construction works.
- Last but not least, as Russia currently “flexes its muscles” with sharp increase of defense budget, the money will also be poured into production of armaments. Re-incarnation of the Russian industrial military sector, largely neglected for a decade, will depend on creation of a new generation of scientists, engineers and qualified workers.

In general, six sectors will expand quickly in the next 2-4 years – energy, financial services, government service, heavy industry, construction, household services. The first four sectors will create demand for highly educated and qualified workforce; the two last sectors will absorb less qualified personnel. Those six sectors will be also the primary directions for young people. Job attractiveness of other sectors will be much lower. Taking into account the demographic “pause” in 2006-2008, the shortage of labor force, especially in sectors with no direct links for petrodollars, will become critical in 2008²².

Companies in those “not-so-lucky” sectors, limited in financial resources will be unable to raise the proportion of labor expenses in the total costs. The only solution will be greater attention to productivity improvement and better utilization of the labor force. Thus, we expect (as an optimistic scenario) that unprivileged sectors of the Russian economy will give the impetus to the accelerated changes in HRM. These changes are likely in several directions.

²¹ The success of Sochi in the context to host the Winter Olympic in 2014 refocuses those contraction projects just to a small strip on the Black sea.

²² For example, in Zelenograd, a satellite city of Moscow with 47,000 persons currently employed in industry and services, in September 2007 there was 6,500 unfilled vacancies.

First, recruitment will still be largely based on “personal connections,” but selection procedures will become tighter. Already in 2005--2006 there was the demand was booming for “working tests” and “qualification assessments” for workers, engineers and managers alike. In addition, for search for personnel companies will look deeper. Already in 2006-2007 companies start early recruiting campaigns in universities, attracting second and third-year students as part-time or even full-time employees for shop-floor supervising and other lower managerial positions.

Second, performance assessment will become more tight but variable, reflecting the demand for greater labor productivity. In addition, some forms of peer-review assessment will be re-introduced, especially when the possibilities to retain and to re-allocated the salary of the dismissed co-workers will be offered to their more productive colleagues.

Third, in reward systems, more attention will be given to social benefits that will be considered as a good device to both to attract new employees and to increase the costs of leaving the company for the existing ones. Thus, more types of benefits will be offered not just for an employee, but for the whole family (as we have seen in the case of “Yakutskenergo”).

Forth, more attention will be given to training and development. They will be considered more and more not as perks, but as joint investments of employee and employer into human capital. Thus, greater return on such investments will be expected both by employees (promotions and salary increases) and employer (loyalty and productivity). In training and development greater cooperation between employers, including the establishing of joint training centers, will become wide-dispersed practice.

Fifth, the greater use of flexible working is also likely, especially for engineers and other specialists. This will include flexible working times, higher use of part-time employment and teleworking. Russian employers will also embark on sub-contractors for particular works rather than employing own permanent personnel.

All the abovementioned developments will put stronger demand for HRM function, which should take the lead in such changes. This demand will be met by quick dissemination of the best practices via professional associations, informal communications of HR managers, wider use of external trainers and consultants²³. In the most optimistic case, somewhere around 2008-2009 there will be a fresh start of MBA-like programs in HRM that will combine international standards of the profession with proper attention and knowledge of the local specifics²⁴.

However, some features of HRM will not be altered. In our opinion, the position of HRM executives in the management hierarchy will not improve too much, HRM function still will be the “dead end” in executive career; and organized labor will still be an exception, especially in small business.

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²³ Already we may see in Russia the establishing of “communities of learning” within HRM function. For example, the Web portal www.hrm.ru embraces the professional monthly journal “Personnel management” (with circulation of 40,000 copies), the “Cadre Club” (a think-tank and a platform for conferences), links to trainers, consultants etc.

²⁴ The only known to the co-authors MBA-like program, that combined international standards with the proper attention to the local specifics was started in Moscow School of Economic and Social Sciences in 2004 and was closed after two semesters due to insufficient demand and promotion.

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Table 1. Functions of personnel departments

| Function | Percentage of personnel departments that assume this role |
|---|---|
| Registration of hiring and firing | 92 |
| Staffing | 90 |
| Discipline measures | 72 |
| Participation in conflict resolution | 67 |
| Training | 56 |
| Performance assessment of workers | 56 |
| Performance assessment of specialists | 54 |
| Planning the level of employment | 51 |
| Informing the personnel about the company performance | 46 |
| Sociological studies of employees | 41 |
| Design of corporate culture | 38 |
| Workplace design and assessment | 38 |
| Design of wage and benefit systems | 36 |
| Analysis of local job markets | 36 |
| Performance assessment of managers | 31 |
| Assessment of moral and psychological climate | 28 |

Source: Bizukov, P. Personnel departments – the managerial periphery. In Kabalina V. (Ed.) Practices of Personnel Management in Russian Enterprises. Moscow, ISITO, 2005, pp. 62-63.

Table 2. The scale of innovations in HRM that have been implemented over the past few years (percent of CEOs)

| Existence/scale | New methods of staffing | New methods of performance appraisal | New remuneration systems |
|------------------------|--------------------------------|---|---------------------------------|
| No innovations | 26,3 | 28,6 | 15,3 |
| In minimal extent | 33,7 | 29,3 | 27 |
| In some extent | 28,5 | 27 | 33,7 |
| In great extent | 11,5 | 15,1 | 24 |

Source: the survey of 1740 CEOs at the end of 2004, our calculations

Table 3. Requirements to the recruited personnel by Russian bosses

| Qualities | Percent of CEOs who consider such qualities as "extremely important" | |
|----------------------------|---|--------------------|
| | For managers | For workers |
| Qualification | 97,8 | 95,3 |
| Sufficient education level | 90,8 | 70,7 |
| Work experience | 82,8 | 80,8 |
| Personal connections | 61 | 14,5 |
| Recommendations | 41 | 33,3 |

Source: the survey of 1740 CEOs at the end of 2004, our calculations

Table 4. Methods to find the candidates in various industries (percentages of CEO who confirmed the use of the method in their companies)

| Sphere of activity | Methods | | | | | | |
|--------------------------------|--------------------------|----------------------|-----------------------------------|---------------------------------------|--------------|-------------------------------|-------------------------------|
| | State employment centers | Personal connections | Search for announces in the press | Publication of announces in the press | Via Internet | Via colleges and universities | Via professional associations |
| Extracting of raw materials | 18,8 | 72,7 | 13,3 | 38,9 | 13,3 | 63,2 | 29,4 |
| Energy | 23,5 | 74,0 | 43,2 | 50,0 | 43,2 | 51,2 | 56,0 |
| Timber | 18,8 | 76,9 | 26,3 | 52,2 | 33,3 | 68,2 | 72,0 |
| Chemicals | 10,5 | 66,7 | 30 | 37,5 | 23,8 | 59,4 | 71,8 |
| Pharmaceuticals | 23,8 | 70,6 | 54,2 | 59,9 | 38,1 | 37,5 | 64,5 |
| Metallurgy | 8,3 | 76,2 | 44,4 | 57,1 | 27,4 | 69,6 | 55,0 |
| Machine building | 20,7 | 77,9 | 44,9 | 52,3 | 55,6 | 62,2 | 66,3 |
| Electronics | 32,5 | 80,0 | 40,0 | 58,2 | 40,3 | 68,5 | 68,0 |
| Food industry | 19 | 83,9 | 35,8 | 51,3 | 36,7 | 48,5 | 60,7 |
| Textiles | 24,1 | 53,1 | 44,8 | 51,3 | 31,6 | 46,9 | 67,3 |
| Construction | 25,6 | 79,7 | 34,9 | 47,5 | 34,8 | 48,4 | 70,2 |
| Agriculture | 26,9 | 81 | 26,1 | 50 | 34,5 | 67,6 | 60,6 |
| Retail and catering | 14,7 | 79 | 31,8 | 50,4 | 38,4 | 53,7 | 72,0 |
| Wholesale | 12,6 | 74,4 | 35,4 | 53,6 | 45,1 | 51,7 | 74,7 |
| Information technologies | 13,1 | 79 | 29,2 | 53,3 | 40,4 | 44,2 | 72,3 |
| Consulting | 5,8 | 76,5 | 25,9 | 52,4 | 29,4 | 45,0 | 75,6 |
| Education, science and culture | 25 | 78,8 | 16,7 | 40,9 | 26,5 | 60,0 | 64,3 |

| | | | | | | | |
|-----------------------|-----|-----|-----|-----|-----|-----|-----|
| Housing services | 167 | 663 | 250 | 371 | 400 | 400 | 600 |
| Finance and insurance | 71 | 741 | 400 | 520 | 273 | 389 | 741 |

Source: survey of 170 CEOs in 2003, original calculations, published in Kyachko, T., Kama, G. Requirements of Employers from the System of Professional Education. MIMAC Press, 2006

Table 5. Forms of personnel recruitment in companies of various ownership forms

| Form | Type of ownership | | | |
|---|-------------------|------------|---------------------|---------------------|
| | State | Individual | Limited Partnership | Joint-stock company |
| State employment centers | 27,4 | 9,4 | 16,9 | 18,5 |
| Personal connections | 74,8 | 72,4 | 75,3 | 77,7 |
| Publications in mass media | 27,8 | 35 | 33,8 | 33,3 |
| Placement of publications in mass media | 39,6 | 51 | 51,6 | 52,3 |
| Via Internet | 25 | 31,6 | 40 | 35,2 |
| From universities | 55,2 | 48,8 | 47,9 | 52,8 |
| Via headhunting and recruiting agencies | 46,5 | 63 | 71,7 | 73,7 |
| Via professional associations | 44 | 31,4 | 43,3 | 53,8 |
| Via databases | 25,9 | 15,2 | 11 | 19,2 |

Source: Klyachko, T., Krasnova, G. Requirements of Employers from the System of Professional Education. M.: MARC Press, 2006, p. 42.

Table. 6 Taxation of salary – taxes paid by employer and employee – 2006 versus 2003

| Period effective | Taxes on employer | | | | | | | Tax on employee | Remained After All Taxes | |
|---|---------------------|-------------|----------------------|-----------------------|-------|--|---|-------------------------------|--------------------------|---------------------|
| | United social tax,% | | | | | Insurance,% | | Total after taxes On employer | | Personal Income tax |
| | Tax base | Federal tax | Social insurance tax | Medical insurance tax | | Financing the insurance part of pensions | Financing the accumulated part of pension | | | |
| Federal | | | | Local | | | | | | |
| Since January 1 st , 2006 | 100% | 20% | 2,90% | 1,10% | 2% | 10% | 4% | 60% | 13% | 52,8% |
| January 1 st , 2002-December 31 st , 2004 | 100% | 28% | 4% | 0,20% | 3,40% | 11% | 3% | 50,40% | 30 ²⁵ % | 35,28% |

²⁵ The maximal personal income tax rate, applicable after 60000 Ruble (\$2000) per year.

Table 7. Percentage of companies that finance particular social benefits for their employees (partially or completely)

| Type of benefit | Percentage |
|--|------------|
| Additional medical insurance | 55,7 |
| Additional training | 39,7 |
| Transport allowance | 34,4 |
| Lunch allowance | 34,3 |
| Additional holiday allowance | 32,1 |
| Additional medical treatment allowance | 26,8 |
| Pension supplement | 9,2 |
| Kindergarten allowance | 7,8 |
| Allowance for education of children | 6,3 |
| Other types | 5,4 |

Source: survey of 1700 CEOs in December 2004, our own calculations

Table 8. Consequences of Participation in Retraining Program

| Consequence | Percentage |
|---|------------|
| Expansion of power | 54 |
| Salary increase | 47 |
| New job offers from other Russian companies | 42 |
| Job promotion | 27 |
| Starting own business | 12 |
| Joining the Managing Board | 10 |
| Job offer from state authorities | 9 |
| Job offer from foreign-owned companies | 8 |

Source: survey of 2600 participants of the President Program for Retraining of Management Cadres in December 2004, our calculations

Table 9. The Impact of Retraining Program

| Impact on... | Assessment of the Impact | | | | |
|-------------------------------------|--------------------------|------------|-----------|------------|-----------------|
| | Very negatively | Negatively | No impact | Positively | Very positively |
| Self-respect | 0,35 | 0,96 | 8,64 | 35,17 | 54,88 |
| Understanding of company's problems | 0,27 | 1,12 | 6,88 | 40,19 | 51,55 |
| Vision of perspectives | 0,31 | 1,24 | 7,34 | 42,60 | 48,51 |
| Improvement in company's management | 0,90 | 2,39 | 18,43 | 44,05 | 34,23 |
| Efficiency of my own work | 1,18 | 3,25 | 21,40 | 45,20 | 28,97 |
| Relations with subordinates | 1,36 | 2,91 | 25,64 | 43,98 | 26,11 |
| Relations with bosses | 3,39 | 3,31 | 32,51 | 36,86 | 23,93 |
| Relations with colleagues | 0,97 | 3,15 | 30,29 | 41,86 | 23,73 |
| Career growth | 6,63 | 4,69 | 36,26 | 29,27 | 23,15 |
| Relations with business partners | 12,57 | 5,59 | 50,11 | 19,65 | 12,08 |

Source: survey of 2600 participants of the President Program for Retraining of Management Cadres in December 2004, our calculations

APPENDIX. SELECTED SOCIO-ECONOMIC INDICATORS FOR 1990-2006

Table A1. Employment statistics for 1990-2006

| Item | 1990 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|--|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Number of enterprises and organizations ²⁶ | 288423 | 2249531 | 2504518 | 2727146 | 2901237 | 3106350 | 3346483 | 3593837 | 3845278 | 4149815 | 4417074 | 4767300 | 4506600 |
| Average monthly salary (until 1998-thousand Ruble) ²⁷ | 0,303 | 472,4 | 790,2 | 950,2 | 1051,5 | 1522,6 | 2223,4 | 3240,4 | 4360,3 | 5498,5 | 6739,5 | 8554,9 | 10727,7 |
| Average number of employed (thousand) ²⁸ | 75324,7 | 66409 | 65950 | 64692,5 | 63812 | 63963,4 | 64327,3 | 64709,5 | 65359,3 | 65666 | 66407,2 | 66792 | 67017 |
| Average number of employed - % to the previous year | No data | No data | 99,3 | 98,1 | 98,6 | 100,2 | 100,6 | 100,6 | 101 | 100,5 | 101,1 | 100,6 | 100,3 |
| Number of small enterprises (thousand) | No data | No data | No data | 861,1 | 868 | 890,6 | 879,3 | 843 | 882,3 | 893 | 953,1 | 979,3 | 1032,8 |
| Number of employed at small enterprises ²⁹ | No data | No data | No data | 6514,8 | 6207,8 | 6485,8 | 6596,8 | 6483,5 | 7220,3 | 7458,9 | 7815,1 | No data | 8582,8 |

Table A2. Number of employed in companies and organizations of various ownership forms³⁰

²⁶ Source: Regions of Russia. Socio-economic indicators. 2005. – M.: Rosstat, 2006, pp. 384-385; Russian figures. 2007: Short statistics handbook. – M.: Rosstat, 2007, p. 176.

²⁷ Source. Ibid, p. 140-141; Federal State Statistics Service of Russian Federation – http://www.gks.ru/free_doc/2007/b07_11/07-07.htm

²⁸ Source. Ibid, p. 80-83; Federal State Statistics Service of Russian Federation – http://www.gks.ru/free_doc/2007/b07_11/06-03.htm

²⁹ Source. Ibid, p. 394-395; Russian figures. 2007: Short statistics handbook. – M.: Rosstat, 2007, p. 178.

| 195 | | | | | | 2006 | | | | | |
|------------------|---------------------|-------------|----------------------|---------------|-------------------|----------------|---------------------|------------|----------------------|---------------|-------------------|
| Total employed | Ownership | | | | | Total employed | Ownership | | | | |
| | State and municipal | Private | Public and religious | Multi-Russian | Foreign and joint | | State and municipal | Private | Public and religious | Multi-Russian | Foreign and joint |
| Thousands | | | | | | | | | | | |
| 649 | 2989 | 2837 | 441 | 1426 | 457 | 607 | 218 | 315 | 32 | 458 | 214 |
| % | | | | | | | | | | | |
| 10 | 41 | 34 | 07 | 22 | 06 | 10 | 30 | 54 | 05 | 71 | 39 |

Table A3 Employment in various sectors (thousands)³¹

| Year | Industry | Agriculture | Forestry | Construction | Transport | Communications | Trade and catering | Housing | Health and social services | Education | Culture | Science | Other sectors |
|-------------|----------|-------------|----------|--------------|-----------|----------------|--------------------|---------|----------------------------|-----------|---------|---------|---------------|
| 195 | 17608 | 974 | 286 | 6078 | 4746 | 846 | 6658 | 2991 | 4427 | 6795 | 1165 | 1684 | 4866 |
| 2004 | 14015 | 691 | 265 | 5258 | 4045 | 995 | 1141 | 3128 | 4681 | 598 | 1237 | 115 | 6898 |

³⁰ Source: Federal State Statistics Service of Russian Federation - http://www.gks.ru/free_doc/2007/07_11/0602.htm

³¹ Source: Ibid, p. 849.

Table A4 Employment in various sectors (thousand persons)³²

| Year | Total | Industries | | | | | | | | | | | | | | |
|------|-------|-------------------------|---------|-----------------------------|---------------|---|--------------|---------------------------|------------------------|------------------------------|---------|-----------------|---|-----------|--------|-------------------------|
| | | Agriculture and hunting | Fishing | Extraction of Raw materials | Manufacturing | Energy, gas and water production and distribution | Construction | Trade and repair services | Hotels and restaurants | Transport and communications | Finance | Retail services | State services, including military and security | Education | Health | Other personal services |
| 2004 | 6607 | 740 | 13 | 108 | 1178 | 190 | 473 | 1043 | 152 | 523 | 85 | 425 | 347 | 615 | 468 | 230 |
| 2005 | 6692 | 731 | 13 | 101 | 1106 | 192 | 496 | 1108 | 163 | 509 | 88 | 439 | 368 | 609 | 468 | 240 |
| 2006 | 6017 | 706 | 13 | 106 | 1125 | 197 | 505 | 1135 | 183 | 523 | 98 | 426 | 359 | 604 | 463 | 242 |

Table A5 Average monthly salary (Ruble, until 198 – thousand Ruble)

| 190 | 195 | 196 | 197 | 198 | 199 | 200 | 201 | 202 | 203 | 204 | 205 | 206 |
|-----|-----|-----|-----|--------|--------|--------|------|------|------|------|------|-------|
| 033 | 474 | 702 | 902 | 1051,5 | 1522,6 | 2223,4 | 3204 | 4303 | 5485 | 6795 | 8549 | 10727 |

Table A6 Average monthly salary in 2006 in various sectors (Ruble)³³

| Total | Industries | | | | | | | | | | | | | | |
|-------|-------------------------|---------|-----------------------------|---------------|---|--------------|---------------------------|------------------------|------------------------------|---------|-----------------|---|-----------|--------|-------------------------|
| | Agriculture and hunting | Fishing | Extraction of Raw materials | Manufacturing | Energy, gas and water production and distribution | Construction | Trade and repair services | Hotels and restaurants | Transport and communications | Finance | Retail services | State services, including military and security | Education | Health | Other personal services |
| 10727 | 4577 | 12159 | 22340 | 12519 | 12633 | 11259 | 8002 | 7671 | 13109 | 27949 | 12868 | 13278 | 6843 | 8020 | 7410 |

³² Source: Federal State Statistics Service of Russian Federation – http://www.gks.ru/free_doc/2007/07_11/0603.htm

³³ Source: Federal State Statistics Service of Russian Federation – http://www.gks.ru/free_doc/2007/07_11/0707.htm