

HRM in Russian Industrial Companies: An Overview of Past Studies and New Observations

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Abstract: This paper summarizes the findings of HRM practices over the past decade and supplements them with the results of a recent survey of 200 CEOs of domestic industrial companies and CEOs of several Russian manufacturing subsidiaries of MNCs. We identify the resilient archetype of the Russian HRM system and variations inspired by the differences in strategic position and current economic performance of industrial companies.

Keywords: HRM, Russia, survey, CEO

JEL Classification Numbers: J80, M12, M50, M54

1. Introduction

In this paper, we provide a detailed account of the prevailing model of HRM in Russian industrial companies and of some ‘deviant’ practices. This paper is organized as follows. In the first section, we present the pre-recession findings on the HRM system in Russian industries and outline the development of labour conditions during the recession of 2008–2009. The second section contains the general research framework for investigating post-recession HRM issues in Russia, including the survey instrument, the rationale concerning the choice of respondents, and information about the sample. The third section presents the results that enable us to clarify the patterns of HRM systems in Russian industries. The last section provides conclusions and suggestions for further research.

2. The emergence of the current Russian model of HRM

2.1. The Soviet model of HRM

The Soviet HRM model, which took its final shape in the USSR in the 1970s and was adopted in most East European countries, included the following basic features:

- The maintenance of full employment achieved by the continuous creation of jobs in excess of production demands, primarily at industrial enterprises
- Low wage differentiation, in which the ratios of the absolute minimum (unskilled worker) to the absolute maximum (minister) wage level was 1:7
- The predominance of a wage-scale system and base salary in take-home pay, in which various

bonuses (quarterly and especially annually) represented a moderate share (as much as 20 percent) of total financial compensation

- A large number of non-monetary benefits, which included giving employees, either free of charge or at a nominal cost, an opportunity to use vacation hostels, Young Pioneer camps, industry-sponsored hospitals, and other social welfare benefits
- A large number of fairly effective forms of psychological incentives such as industry-wide and government awards for extraordinary labour achievements

The post-Soviet HRM system had some distinctive features at the factory level. The first feature was the relatively high rank of the HR function among all enterprise functions, ranking just below that of the production function. The second feature was the decentralization of the HRM function. In a large enterprise, five units were responsible for personnel issues. The local Communist Party committee supervised the general social atmosphere and made the final decision on all promotions. The personnel department dealt with routine administrative functions of legal paperwork in hiring, firing, and performance assessment. The local trade union was responsible for social aspects, including holiday camps, kindergartens, sport and social events, and most importantly, the allocation of housing among employees. The salary department was responsible for salary administration. Finally, a special unit under the direct supervision of the Chief Engineer dealt with issues of job design and work safety (see Gurkov et al., forthcoming).

2.2. Dismantling of the Soviet HRM system in 1991–1997

The disintegration of the planned economy caused, in effect, the destruction of all the typical features of HRM. The main features of HRM in the 1990s are the following:

- Rapid decrease in industrial employment and severe deterioration of payment conditions for the remaining employees
- Absence of a social security system designed to ease the consequences of high unemployment
- Growing differentiation of labour and payment conditions across enterprises, industries, and regions

First, as the centrally planned and controlled wage systems collapsed, enterprises were granted absolute freedom in setting payment standards. Piecework rates and hourly wage rates were never properly indexed and remained very low. The share of state-guaranteed wages as part of take-home pay declined to between 1% and 20% for various types of positions¹. As the official wage-scale system and rates barely secured even a minimum subsistence level, most compensation systems for employees were based on two segments. The first segment was the base wage, sometimes set according to the official wage-scale system. The second segment was a ‘bonus’, which was usually given automatically in order to reach the agreed level of take-home pay. There were no clear rules for such additional payments; in most cases, they were given at the complete discretion of managers. Consequently, extreme flexibility and variation of wages was introduced in the 1990s. At the beginning of 1999, the average real wage

was 70% below the 1991 level, while GDP contracted by 30% (Yasin et al., 2011). Even in 2009, the level of GDP in Russia at purchasing parity prices (PPP) was around 32% of the US level, while the average PPP wage was merely 17% of the US level, signifying that workers were receiving a shrinking share of the products of their labour.

Second, besides the low wage level, the actual process of paying wages was very slow and difficult. Supply interruptions, delivery delays, and subsequent late payments from customers caused large and prolonged wage arrears. In some cases, employees were not paid for several months, often receiving payment in a non-monetary form (goods either produced or obtained by their enterprises through barter transactions) (see Clarke, 1998; Earle and Sabiryanova, 2002).

However, most employees preferred to remain at their posts even with these miserable payment conditions, since the loss of employment almost signified an economic death sentence. The Soviet social security system was not designed to deal with mass unemployment. Once established, unemployment benefits were low and difficult to obtain. During the 1990s–2000s, the number of officially registered unemployed persons never surpassed 3.6 million, while the number of unemployed by the ILO's (International Labor Organization) definition was at one point at 13.8 million (18% of the total labour force). In 2009, the number of officially registered unemployed persons was five times less than the number of unemployed persons (estimated using the ILO definition). In addition, only 80% of officially registered unemployed persons received unemployment benefits. The Russian government has not yet implemented a social safety net system of food and monetary benefits for poor families.

Reaching the retirement age in Russia and ending work often leads to extreme poverty. In post-Soviet times, the size of the average pension was 60%–65% of the average salary. In 1994, the ratio was 42%, and it steadily decreased to 27% in 1994–2008. This compels aging employees to keep their jobs until they are unable to work.

The destruction of central planning also had a very serious impact on the procedures and inner workings of personnel administration in major enterprises. First, the system of HRM administration was dramatically simplified. Work planning and wage departments disappeared, and while trade unions somehow survived in the 1990s, they were unable to protect the employees from the sharp decline in payment conditions (see Borisov et al., 1993; Clarke, 2005). Unions faced the threat of mass lay-offs and lockouts, which paralyzed the practice of strikes, and the trade unions quickly lost their influence and membership during the 1990s. In addition, since enterprises were keen to eliminate expensive social infrastructure such as rest-camps, kindergartens, and other social services inherited from their Soviet enterprises as quickly as possible, there were no 'perks' to be distributed by trade union committees.

Finally, the destruction of the Soviet system led to three types of extreme wage differentiation. Vertical differentiation indicates the wage difference between employees at different levels in the management hierarchy. In the mid-1990s, the income of general directors was several hundred times higher than that of average employees; now the difference is in the thousands. Horizontal differentiation is the gap in wages between employees in the same unit who hold similar job titles. Their wage

difference could also be more than 500 percent, corresponding not only to the employees' output level but also to their relationship with their immediate supervisor (see Clarke, 2002). We should add extreme differences in payment conditions across industries and regions.

3. Assembling a new system of HRM since the late 1990s

In 1997–1998, the inefficiency of the post-Soviet system of HRM became evident. It led to a decline in employees' motivation (as only negative stimuli prevailed), lack of incentives for accumulation of knowledge and skills, and low employee morale (see Ardichvili, 2001; Gurkov and Maital, 2001), resulting in a deep fall in labour productivity. In addition, the beginning of operations of foreign multinational companies demonstrated other approaches to HRM systems (see Fey and Bjorkman, 2001).

The government and companies alike recognized the acute need for implanting new elements into the model. The first idea was to implement massive retraining programs, especially for shop floor and middle managers (see Vlachoutsicos and Lawrence, 1996; Gurkov, 1999). Second, the legal framework and state control over labour conditions was strengthened, including the determination of a minimum wage, the rights of employees and employers, and the implementation of mechanisms for labour inspections and court adjudication of labour disputes (Gurkov and Zelenova, 2009).

Third, the government proclaimed an active employment policy. Massive layoffs and strikes became politically undesirable, and the government implemented various means to punish companies for such actions (preventing access to state contracts, active negative publicity, and direct involvement of top government officials in labour disputes).

At the same time, most of the existing features remained unchanged, namely:

- The negligible share of officially guaranteed take-home payments (i.e. industry-wide wage rates or salaries based on the officially set minimum wage) (Gurkov and Zelenova, 2009).
- High rigidity of labour legislation regarding employment and redundancies (see Kapelyushnikov, et al. 2011) coupled with a very high flexibility of working and payment conditions for 'legal' jobs (Gurkov and Zelenova, 2011).
- Visible shortage of skills (Gimpelson et al. 2010) and high demand for retraining (Gurkov 1999, 2002a) coupled with the inability of the majority of industrial companies to allocate sufficient funds for personnel development.
- High uniformity of HRM practices within industries regardless of varying strategies of companies (Gurkov, Zelenova and Mutovin, 2007).

Additionally, Russian companies had other features such as a relatively low rank of the HRM function among other functions. The low status of HRM in Russian firms was exhibited by:

- Low level of personnel directors' participation in executive boards
- Low involvement of HRM heads in strategic issues

- Minimal authority of personnel departments on deciding or influencing remuneration levels and decisions about lay-offs

In our surveys, HRM directors were often unable to provide even basic data on firms' financial performance (Gurkov, Zelenova and Saidov, 2012).

The economic recession of 2008–2009 posed additional challenges to the Russian HRM system. The fall in output between the highest and the lowest points was 23% on average for all industries. The minimum decline in output was observed in oil extraction (1.2%), and the maximum, in machine-building (56.9%). However, Russian companies were able to adjust the labour and employment conditions quickly. Firms were able to cut the real take-home salary by an average of 30%, and most enterprises were able to avoid politically undesired large-scale lay-offs either by cutting the remuneration to the minimum wage (thus provoking voluntary redundancies) or by offering employees to take 'mutually agreed voluntary leave without pay'². One indicator was that in 2009–2010, the total number of those on 'voluntary leave without pay' equalled two million persons or three percent of the total labour force. As a result, the fall in output did not create a high level of unemployment (the unemployment level by ILO standards did not surpass 9% in 2009). As the economic situation improved in 2010–2011, voluntary leave without pay declined and remuneration partially returned to pre-crisis levels. Therefore, the changes between the end of 2008 and 2009, especially the proliferation of voluntary unpaid leaves, confirmed the effectiveness of the established system of HRM for solving the current problems of companies in crisis. However, it was stressed:

'It is this high effectiveness of adaptation at the micro-level that raises the question of the socioeconomic costs of the recession in the context of Russia's entire national economy. The issue here is not so much the number of jobs lost as the quality of the jobs that remain. The quality of the remaining jobs has declined as a result of even more flexible use of working hours and even more high-handed behaviour by management on matters of performance appraisal and wages' (Gurkov and Zelenova 2011, p. 76).

This prediction became true even before the article appeared in the journal. Due to political reasons in 2009, the Russian government made work migration from the Central Asia, especially Kyrgyzstan, easier. As a result, by some estimates, around 15–16 million persons entered Russia in 2011. As a great share of those migrants were seasonal workers, this added between 3 and 4 million persons to the workforce on an annual basis (the total workforce of Russia in 2006 was around 70 million). Initially, such persons were used as non-qualified workers in municipal services, seasonal construction, and agricultural works, where their supervisors seized 50–80% of their salaries. From 2010–2012, the flow of migrant workers moved towards retail and other services and industrial works, thus lowering the average salary levels in such industries. As a result, the Russian President even admitted: 'As a rule, finding a job today with a decent salary is only possible in Moscow and St Petersburg or in resource-rich regions.... This is where people go to work, study, receive medical treatment, this is where young people want to go, and therefore other regions lose active citizens willing to work and be of value' (Putin, 2012).

4. Research framework and basic assumptions

We strongly believe that in a large country such as Russia, there is no uniform model of HRM, but rather a dominant system and several deviant practices based on ownership of the company (see Zavyalova et al. 2011) and other factors (see Kabalina, 2005).

Since the literature on Russian firms (Gurkov et. al 2012) discovered limited organizational power of Russian personnel directors, we decided to use top executives, especially CEOs, to provide information about HRM systems. In doing so, we continued the tradition of using Russian CEOs to discuss HRM issues (see Gurkov 1999; Fey and Bjorkman, 2001; Gurkov 2002a; Gurkov, 2002b; Gurkov and Zelenova, 2009). Surveying CEOs on HRM issues was implemented in many other studies (for example, Brandl and Pohl, 2010) since they make the final decisions on all strategic personnel issues and shape the HRM system in their companies. In addition, we decided to narrow our focus to industrial companies. Industry was historically the leading sector of the Russian economy and set the model for human resource management in all other sectors. Although employment in the industrial sector has drastically decreased since the 1990s–2000s, industrial sectors including extraction and processing industries, electricity, gas and water, and construction still employed around 20.7 million persons in Russia or almost 27% of the total amount of employment by the 2010s.

The major survey was conducted in the second half of 2011, and the sample consisted of 201 CEOs of companies from Central Russia involved in various production activities.

5. A dominant type of Russian HRM system and ‘enclaves’ of deviant practices and routines

By using data from the 2011 survey, we were able to depict the dominant type of Russian HRM as consisting of several interconnected blocks:

- Decision making on every important issue of enterprise development is concentrated at the very top of the management hierarchy, with very limited discretion with middle managers on their departmental budgets and remuneration of subordinates.
- A low level of unionization and low state-set minimum wage enable companies to alter both payment levels and work regimes within very broad ranges.
- While job content is highly formalized and the current control of employee behaviour and performance remains tight, personnel evaluation is informal to a great extent, thus increasing the power of managers over employees.
- Russian industrial CEOs wish to see their companies as smoothly run ‘machines’ assembled from sets of well-built and effective procedures, processes, and structures. Moreover, aspiring to achieve smoothness and efficiency of operations, Russian CEOs avoid recruiting persons with unusual skills and experience as much as possible, especially employees who are exposed

directly or indirectly to Western management techniques and practices, including former employees of foreign subsidiaries of MNCs and young graduates of business schools.

- A complicated remuneration system should ensure the connection of individual monetary rewards (that occupy between a third and a half of the total take-home pay) to individual, department, and company performance.
- Systems of social benefits offered to a few employees or to carefully selected groups of employees should enable top managers to divide employees into groups with no common interests (Gurkov and Settles, forthcoming).

So far, we have seen quite familiar HRM practices and routines inherited from the mid-1990s. We have tried to discover the possible ‘enclaves’ of deviant HRM practices by identifying companies with different patterns of HRM systems. As high centralization of resources and high formalization of job content are the uniform features of HRM system (such features were observed in 90% of companies), we have concentrated on parameters with greater variance – the variable share in take-home pay, the diversity of monetary benefits, and the level of homogeneity in offering social benefits (a share of employees to whom such benefits are offered).

We were able to divide the surveyed companies into two groups by using the following variables:

- The share of variable pay for all categories of employees (managers, specialists, workers)
- The types of monetary benefits regularly used
- The types of social benefits available to all employees

The leading group (70% of the surveyed companies) is characterized by a lower share of the variable aspect of take-home pay, lower use of individualized monetary benefits, and higher uniformity in offering social benefits. The minority group (30% of the surveyed companies) is characterized by a higher share of the variable aspect of take-home pay and a greater use of some individualized monetary benefits. The uniformity in offering social benefits is the same for both the groups (see Table 1).

At the same time, we should stress that the HRM practices used in both majority and minority companies are not entirely new. Only 23% of CEOs of minority companies and 20% of CEOs of majority companies stressed that their companies have been changing the remuneration schemes over the past two years.

Determinants of deviant practices

In order to understand which factors may influence the inclusion of a company in either group, we performed discriminant analysis (see Table 2). As most companies demonstrated a high constancy for HRM, we speculated that the major predictors should be some peculiarities of company’s strategies and performance. Thus, we proposed the relative size of the company, perceived profitability (relationship between the perceived price and perceived costs versus major competitors), possibility of competitors to coordinate their activities, relative level of prices, activities, etc. as possible predictors. To our own surprise, the parameter of ‘profitability’ failed the tolerance test and was excluded from the analysis.

Table 1. Differences in HRM practices between the majority and minority groups of companies

Item	Average for 'majority' companies	Average for 'minority' companies	Significance of differences
<i>Variability of take-home pay</i>			
The variable share in take-home pay of managers	26	50	0.000
The variable in take-home pay of 'specialists'	23	50	0.000
The variable share in take-home pay of workers	24	47	0.000
<i>Instruments of remuneration</i>			
Percentage of companies that actively use personal additions to salary based on individual performance	32	44	0.151
Percentage of companies that regularly use remunerations for 'extraordinary personal achievements'	25	48	0.005
Percentage of companies that actively use personal additions to the salary based on personal merit (competences, loyalty, length of service)	28	37	0.233
Percentage of companies that actively use quarterly/annual bonuses based on individual performance	39	44	0.557
Percentage of companies that actively use quarterly/annual bonuses based on performance of a department	39	42	0.731
Percentage of companies that actively use quarterly/annual bonuses based on company performance	51	56	0.573
<i>The use of social benefits</i>			
Percentage of companies that regularly compensate health expenses for all employees	42	33	0.311
Percentage of companies that regularly give additional holiday allowance for all employees	25	21	0.554

Nevertheless, the remaining variables helped us to properly classify 67% of companies in the minority group and 60% of companies in the majority group. The discriminating function itself was significant at the 0.052 level.

Two parameters that together had 75% of discriminating power and proved themselves to be significantly different for majority and minority companies are the possibility of competitors to coordinate their activities and the level of prices (see Table 2). Almost 80% of companies in the minority group do not see coordination activities in their industries; the corresponding figure for majority companies is 58%. In other words, only 20% of minority companies and 42% of majority companies regularly strive to put competitors' actions in concordance.

Another effect was observed in pricing policies – 72% of the minority companies that set average prices and 17% strive to set higher prices for their products. In contrast, only 64% of the majority companies set average prices while 22% attempt to set lower prices. We also found that 100% of minority companies that set higher prices are doing so without any coordination with competitors, while 55% of majority companies that set higher prices are doing so with prior approval of their competitors. In general, approximate significance of the measure of association (Lambda) between the level of coordination and pricing policies is 0.091 for majority companies and 0.312 for minority companies.

It seems that the real reason for variations in HRM practices between majority and minority companies is that minority companies operate in conditions of pure competition, aspiring to win by all means but avoiding direct 'dumping'. Therefore, it is logical to place more emphasis on higher variables and occasional benefits; individual motivation should be directed towards winning.

The majority companies are more heterogeneous – some of them are competing fiercely by using dumping practices, while others are entering into oligopolistic agreements with competitors to maintain higher prices. However, both means have the same end – low emphasis on individual remuneration. From one side, dumping practices impede offering higher benefits to employees as the costs should be pushed down. On the other hand, oligopolistic agreements make efforts of workers and middle-level managers worthless – success is achieved through the bargaining and negotiation skills of top management.

6. Conclusions

We have presented a very broad picture of the post-Soviet changes in HRM system and a narrow picture of limited deviations in current HRM practices. Within the broad picture, we may see an established system that is characterized by 'extra-flexible' payment conditions with extreme absolute variations across regions and industries, powerless middle managers deprived of instruments of to reward their subordinates, toothless or non-existing trade unions, social benefits used to 'divide and to rule' the working collectives, and the acute shortage of qualified workforce coupled with an unwillingness to spend money on training and personnel development.

Table 2. Products of standardized canonical discriminant function's coefficients and structure matrix

Variable	Value of the product	Approximate significance of the difference between the groups
To what extent do companies in your industry coordinate their actions?	0.467	0.080
Compare the level of prices of your company to that of competitors	0.281	0.085
The sales of your company versus the sales of your competitors	0.130	Above 0.100
The speed of changes in the product mix	0.056	Above 0.100
The level of adaptation to changes in government regulations	0.019	Above 0.100
Compare the level of quality of your company's goods and services to that of competitors	0.017	Above 0.100
The speed of changes in production technologies	0.016	Above 0.100
The number of personnel in your company	0.015	Above 0.100
The value of your trademarks versus that of competitors' trademarks	0.013	Above 0.100
The speed of changes in marketing and promotion technologies	0.000	Above 0.100
Compare the level of costs of your company with that of competitors	-0.012	Above 0.100

Note: The total sum of products is equal to 1.00

By taking a narrow focus, we may see several enclaves of limited deviant practices. The widely used deviant practice is turning some pitfalls of the current system (namely, extra-high flexibility of payment conditions) into advantages. This can help create a workplace with great variables in take-home pay (50% and more). Examining the low formalization of the current performance assessment in Russian companies (see Gurkov et al., 2012) simultaneously offers unique opportunities to company managers:

- Saving on production costs by lowering the guaranteed salary minimum for a given position
- Encouraging high productivity from employees who are aspiring to obtain bonuses for ‘good’ and ‘extraordinary’ performance
- Exercising absolute power over subordinates, as managers’ subjective opinions usually label employee performance as ‘bad’, ‘good’, or ‘extraordinary’³

Such practices are indeed assisting Russian managers in transforming their companies into smoothly run ‘machines’ assembled from sets of well-built and effective procedures, processes, and structures. At the same time, such HRM practices strongly prevent Russian companies from extensive business innovations, since HRM system innovations are viewed by employees as pretexts for additional workloads and further strengthening of performance standards.

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Notes

¹ The author discovered that in November 2012, the share of state-guaranteed payment represented 12% of the regular monthly wage for his professor’s position in a state university.

² This form of ‘permitted absenteeism’ was introduced in the 1960s to help employees cope with some unexpected events in their personal lives, such as the sudden death of parents or close relatives. The employee must request, in writing, the permission to be absent for a specified period, and the employer should express his/her agreement. However, legislation does not limit the period of absence. During ‘voluntary holiday without pay’, an employee is exempt from all social benefits, including sick allowance. He/she is also not considered as an unemployed person, so he/she cannot apply for unemployment benefits, additional training, etc.

³ Additionally, Russian companies make arbitrary and ‘very timely’ changes to employees’ performance standards. It is not unusual to see the following situation: As the number of employees demonstrating ‘extraordinary’ performance increases, such achievements are re-qualified from extraordinary to ‘usual’ before bonus payments are made.

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