Abstract: This article explores the distinctive characteristics of the Russian system of human resource management (HRM) in comparison to that in other countries. The overview of HRM systems in other countries is based on data available through CRANET research of comparative HRM. We discovered that the prevalent features of the Russian HRM system are the undisputed authority of line managers in selection, promotion, and personnel rewards; high horizontal and vertical differentiation of wages and benefits; extremely low formalization of performance assessment; and limited possibilities of collective bargaining. Although this system has helped Russian companies to adapt quickly to the conditions of declining demand and sales in the 2008–9 period, the economic recession caused a serious deterioration in the quality of employment, especially through the worsening of payment conditions and the creation of contractual terms unfavorable to employees.

The problems of human resource management (HRM) at a time of dramatic economic change, and in a country as large as Russia, have drawn the attention of numerous researchers over the past two decades (see Appendix 1). The majority of the studies, however, have viewed the transformation of HRM systems in Russia as an isolated phenomenon. The comparison of the basic parameters of HRM systems
across countries can provide a new framework for the analysis of the essence of the problem and highlight specific aspects of the current state and potential evolution of the function of HRM. Highlighting these features may serve as a basis for evaluating the behavior of Russian companies during the current economic recession.

The emergence of a post-Soviet model of HRM

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

1. the maintenance of full employment achieved by the continuous creation of jobs in excess of production demands, primarily at industrial enterprises
2. low wage differentiation, in which the ratio of the absolute minimum (unskilled worker) to the absolute maximum (minister) wage level was 1:7
3. the predominance of a wage-scale system and base salary in take-home pay, in which various bonuses (quarterly and especially annually) made up a moderate share (as much as 20 percent) of total financial compensation
4. a large number of nonmonetary benefits, which included giving employees, either free of charge or at a nominal cost, an opportunity to make use of vacation hostels, Young Pioneer camps, industry-sponsored hospitals, and other social welfare benefits
5. a large number of incentives, including various and fairly effective forms of psychological incentives such as industry-wide and government awards for special labor achievements

The disintegration of the planned economy caused, in effect, the destruction of all these typical features of HRM. In 1992, unemployment began to increase rapidly, peaking in 1996. During this process, the number of officially recorded unemployed was consistently 20 percent to 25 percent, calculated according to International Labour Organization (ILO) methodology; meanwhile, the number of unemployed who were receiving benefits was no more than 70 percent of those officially registered as unemployed. Wage differentiation took the form of both vertical and horizontal differentiation. By vertical differentiation, we mean 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 rank-and-file employees. By horizontal differentiation, we mean the gap in wages between employees in the same unit who hold similar job titles. Here, too, the wage difference could be more than 500 percent, corresponding not only to the employees output level but also to their relationship with their immediate supervisor.

The wage-scale system collapsed. Officially set wage rates were and remained very low. The minimum wage rates were designed to reach the minimum wage level through 168 hours of work per month. For example, in 2009 the minimum hourly rate was 0.60 euros, and the highest wage rates were no more than five times the minimum ones. As the officially set wage-scale system and official rates barely
secure even a minimum subsistence level, most compensation systems for workers
and other employees are based on two segments. The first segment is the base wage,
sometimes set according to the official wage-scale system, which can be between
10 percent and 60 percent of take-home pay. When applying the wage-scale system
to managers, the base wage amounts to 5 percent to 20 percent of take-home pay.
The second segment is a bonus, which is usually given automatically in order to
reach the agreed level of take-home pay.

Finally, in the course of privatization, enterprises not only eliminated most of the
costly social welfare benefits but also discarded most types of psychological incen-
tives for employees as a legacy of the accursed past (see Gurkov 2002). As for
government awards for praiseworthy labor, their use was confined
to medals for prominent government officials who were retiring.

We should note, however, that for many reasons the adaptation of the Russian
labor market to the market economy proved more successful than the adaptation
of the national economy as a whole during the 1990s. While industrial production
in certain sectors declined by 40 percent or more, unemployment, as defined by
ILO standards, never exceeded 12 percent. This relatively favorable situation was
achieved through rapid development of new private enterprises driven by new firms
in the service sector as well as the massive proliferation of self-employment and
the partial exodus of married women from the labor market.

The post-Soviet HRM model took its final shape at the beginning of the 2000s.
The model was based on legislation that formalized the state regulation of hired
labor, including the determination of a minimum wage, the rights of employees
and employers, and the implementation of effective mechanisms of labor inspec-
tions and court adjudication of labor disputes (Gurkov and Zelenova 2009). Most
companies had adopted new psychological contracts (Rousseau 1996) based on a
deep gulf between the top managers, who were viewed as the owners’ protégés, and
the rest of the employees. The new framework was based on a perception by top
and midlevel managers of the substantial lack of initiative and irresponsibility of
most employees as a given fact, which must be taken into account but is practically
impossible to change (see Gurkov and Maital 2001). Of course, many companies
dare to change such a perception, nonetheless, the existence of such a comfortable
position of blaming unmotivated and irresponsible employees provides an easy
excuse for failures of upper levels of management.

State regulation of labor relations became increasingly stringent in the 2000s.
Labor inspectors became more and more exacting, turning into yet another gov-
ernment department that milked enterprises for bribes. The degree to which upper
management was out of touch with the rest of the employees was reflected, begin-
ing in the mid-2000s, in the widely used share option plans for top managers of
large corporations and the awarding of company shares to these managers. Such
measures were used by owners solely for the top managers, while the shares in their
companies that went to employees during privatization were expropriated. Occur-
ing at the same time was the steady rise in the level of complaints by management
about the lack of qualified employees. Studying the results of surveys of the chief executives of Russian companies that we conducted every two years between 1998 and 2004, we were able to determine that company CEOs perceived a shortage in qualified personnel. These perceived shortages turned into a major problem for the development of their firms, thornier than all the other problems, including those of financing new projects (Gurkov 2006).

Another factor is the rather high uniformity of HRM. Despite intensive efforts, we were unable to find in our research essential differences in the structure of HRM either on the basis of companies at various competitive levels or in terms of regions and sectors (Gurkov et al. 2007). On the contrary, we became convinced that the system of social and HR policies is fairly consistent: The differences in the strategies that are in use do not drive the choice of a certain form of HR policy, and the typologies themselves are designed in a manner that leads to minor variations in certain details. But in order to obtain a clear reflection of the most typical native features of the HR policies of Russian companies, we needed a mirror so as to examine the basic features from various perspectives.

The Russian HRM system in the context of an international comparison

The selection of a major research tool

Having decided to draw an international comparison among HRM systems, we turned to CRANET (Cranfield Network on Comparative Human Resource Management). This study, which is conducted in the form of biennial surveys of the heads of HR departments at companies and organizations, began in five European countries in 1989. By 2006, the study covered 7,916 companies in thirty-two countries—twenty-six European countries and eight other countries, including the United States (see Appendix 2).

Three aspects proved to be key factors in choosing a framework for this study as a basic methodology for describing the specific nature of Russia’s social and HR policies. First, CRANET is regarded as the most complete and representative independent survey of the practices and techniques of HRM in the world. Second, the focus in this study is not on ascertaining opinions on various issues and not on testing extravagant hypotheses but on scrupulously collecting data on HRM basic functions such as the daily routines of personnel administration that are left outside the bounds of official statistics. Finally, the third aspect that contributed to the final choice of this methodology is the availability of the study because any research group that wishes to conduct a similar study in a new country may receive the data set from the research center. The data obtained from the country surveys undergo rigorous verification and, if properly collected, are added to the overall database for all the countries. Thus, the size of data available for analysis to all participants in the project grows from year to year.
At the end of 2007, we contacted CRANET and, after receiving the required materials, began the process of translating and validating tools as well as setting up the network for surveying the heads of HR departments at Russian companies. In view of the world financial crisis that broke out in the fall of 2008, the objective that was set for the study was to identify the archetypal features of the Russian HRM system that can influence the effectiveness of the adaptation of companies to the evolving business conditions. The surveys were carried out in October–December 2008 and again in July–August 2010.

The basic constructs of the country comparison

The CRANET research methodology allows for the comparison of various HR practices in countries in Western Europe, that are similar in terms of living standards, labor productivity, and the degree of social protection for working people. But when the study incorporated such different countries as the United States, Switzerland, and Nepal, a question arose not about differences but about the fundamental comparability of the practices of HRM in an exceptionally heterogeneous context. We had to assemble piecemeal the elements that are not only intrinsic to any national system of HRM system but that are also, in fact, important to the processes of supporting and developing the business of any commercial entity. As a result, we were able to identify the following parameters (constructs) that are supported by the relevant questions in the CRANET questionnaire:

1. The position of the HR function in the formal and informal system of the company’s strategic management. The position in the formal system was defined by the extent to which the head of the HR department was included in the company’s top managing board, that is, the board of directors or its equivalent. The position in the informal system was defined by the level of participation in the process of developing the company’s business strategy.

2. The distribution of responsibilities for specific aspects of HR work between specialized HR units and line management.

3. The degree of formalization of performance appraisal. This construct was described by the degree to which formal systems of evaluation were applied for various employee categories.

4. The possibility of collective bargaining represented by the degree of unionization and the forms of collective and individual remuneration. The absence of trade unions makes it, according to the Russian Labor Code, virtually impossible to engage in strikes and other forms of similar work actions.

We examined each of the above parameters in a country-by-country comparison.

Results

The first item in our international comparison of HRM systems was HR’s role in the formal system of strategic management. Here we may distinguish between
three types of countries. A group of countries in which the HR functions carries
significant formal weight includes the European Mediterranean countries and
their former colonies, Sweden, and Israel. The Anglo-Saxon model, in which HR
executives hold a low position in the corporate hierarchy, is common in the United
States, Canada, New Zealand, and Great Britain. Finally, in Central European
countries, where Russia’s closest neighbors turn out to be Germany, Austria, and
Estonia, HR executives carry moderate weight in the managerial hierarchy. Based
on our surveys’ results, the HR director of a Russian company is a member of the
company’s top managing board in half of cases (Figure 1).

As for the HR director’s participation in developing the company’s strategy,
at first glance we found the practices in Russia similar to those of Germany, the
Netherlands, and Estonia (Figure 2). However, if we count the HR directors who are not included in the development of strategy at all, a few of the neighboring countries disappear from the list. The proportion of HR directors who are not included in developing strategy, according to our surveys, turned out to be 16 percent to 20 percent, far more than in the Netherlands (4 percent) and in Estonia (11 percent). At the same time, about 20 percent of the surveyed directors in Germany also do not take part in developing strategy. We should also note that the Anglo-Saxon model, despite the low formal status of its HR directors, suggests that HR directors are highly involved in strategic issues.
Thus, with regard to the question of the HR director’s degree of inclusion in the process of developing business strategy, the German (Central European) model has been reproduced in Russia: HR executives carry moderate weight in the managerial hierarchy and are removed to a fairly high degree from the process of developing strategy. To pursue any claims of participating in strategic issues, HR executives have to rely in large part on their formal status of being included in the company’s top managing boards.

The next question in the country-by-country comparison was the distribution of responsibilities for specific aspects of HR work between specialized HR units and line management. The Russian data is presented in Table 1. Line management is in a dominant position regarding every issue. In one-third of the companies, line managers completely determined all of the principal areas of HRM. On this question there was no similarity with Germany, and we have to look for other countries. The substantial weight of line managers with regard to personnel recruitment and selection in Russia is similar to that in Finland, the Czech Republic, Iceland, and Nepal. Line managers carry substantial weight regarding wage issues in Eastern Europe—Slovakia, Slovenia, Estonia, and Bulgaria—and in Nepal. The substantial weight of line management regarding personnel training and development in Russia is similar to that in Slovakia as well as Tunisia and Nepal. Line managers are predominantly responsible for labor relations in Slovakia, Bulgaria, Nepal, and Tunisia.

Thus, we see that HR departments in Russia have managed to capture a substantial degree of inclusion in matters of the development of strategy. However, on
key questions of the implementation of strategy the situation in Russia completely reflected the HR practices of the least-developed Slavic countries of Eastern Europe, such as Bulgaria and Slovakia, and was not very different from countries in North Africa and Asia. During the 2008 economic crisis, line managers tended to increase their control over the key topic of wages and benefits, leaving it for HR specialists to deal with other issues.

Another important element of a national HRM system is the degree of formalization of the system of performance appraisal that includes clear-cut, predefined criteria that makes it possible to both compare a specific employee’s level of performance with a desired performance level and to draw a comparison between employees. Table 2 presents the results of our survey. Russia has very low levels of formalized performance appraisal systems compared to international levels. In none of the countries covered by the CRANET study did the level of use of formalized systems for performance appraisal drop below the 42 percent to 45 percent range on average for all categories. The lowest levels of formalization of appraisal were in Sweden and Iceland, 42 and 45 percent, respectively. The average for EU countries was 75 percent, 85 percent for the firms surveyed in Great Britain and Canada, and 95 percent of those surveyed in the United States.

We also studied the possibilities for collective bargaining. The most important measure here is the very existence of organized labor such as trade unions and labor councils. The data obtained from the CRANET survey clearly indicate that Russian employees have extremely limited possibilities for collective bargaining. The share of companies where unionized labor actually exists is only 20 percent. The

Table 1

<table>
<thead>
<tr>
<th>Functions</th>
<th>HRM departments</th>
<th>HRM departments with line managers</th>
<th>Line managers with HRM departments</th>
<th>Line managers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages and benefits</td>
<td>11</td>
<td>22</td>
<td>20</td>
<td>46</td>
</tr>
<tr>
<td>Selection and recruitment</td>
<td>9</td>
<td>39</td>
<td>18</td>
<td>34</td>
</tr>
<tr>
<td>Professional development</td>
<td>6</td>
<td>43</td>
<td>13</td>
<td>38</td>
</tr>
<tr>
<td>Employee relations</td>
<td>34</td>
<td>25</td>
<td>0</td>
<td>41</td>
</tr>
<tr>
<td>Headcount reduction</td>
<td>11</td>
<td>30</td>
<td>23</td>
<td>36</td>
</tr>
</tbody>
</table>

Source: Authors’ survey of Russian companies conducted at the end of 2008.
corresponding figure for the Philippines is 30 percent, for Estonia 35 percent, and for the United States 40 percent. It is worth mentioning that state-owned companies are especially keen to abolish effective organized labor.

Specific characteristics of the Russian HRM model and forms of adaptation of Russian companies to the economic recession

Having analyzed the data for the basic parameters describing the structure of the Russian HR system, we can now characterize fairly precisely both the general features and the unique, specific features of the Russian HRM model. The HRM system in Russia in general, and, as a whole, corresponds to the country’s overall level of socioeconomic development. In a large number of characteristics, such as the small share of the operating costs dedicated to expenditures on personnel and the leading role of line management in major HR issues, Russian HR systems are similar to those in the poorest countries of Eastern Europe, such as Bulgaria and Slovakia, and in the Francophone countries of North Africa, Tunisia. The significant role played by line management in HR matters is a possible explanation of the low level of performance appraisal, that is, it provides line managers with additional opportunities for influencing subordinates. The low level of unionization and the extremely small share of a guaranteed wage in take-home pay make it possible to change quickly both the working conditions and the level of pay for practically all categories of employees.

Why do line managers carry so much weight on the basic issues of HR work? One hypothesis is that many companies were formed only in the last few years, and they simply have not had time to set up appropriate HR departments. This hypothesis has proved unfounded: in both young companies established after 2000 and old companies established decades ago, line manager possess similar powers.

The explanation is apparently to be found elsewhere. There is a saying that “war is too serious a matter to trust it to generals.” In Russia, it has become tacitly recognized that human resources is too serious a matter to entrust to HR executives. The reasons for this situation are the low absolute level of wages and the general

<table>
<thead>
<tr>
<th>Managers</th>
<th>38</th>
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<tbody>
<tr>
<td>Engineers and other qualified specialists</td>
<td>43</td>
</tr>
<tr>
<td>Clerical workers</td>
<td>21</td>
</tr>
<tr>
<td>Manual workers</td>
<td>40</td>
</tr>
</tbody>
</table>

*Source: Authors’ survey of Russian companies conducted at the end of 2008.*
shortage of funds for wages in most companies. There is a prevailing view in Russia, as in other postsocialist countries, that “wages paid are profits lost.” At the same time, the share of expenditures on manpower as part of the operating costs in the majority of the Russian companies surveyed was less than 30 percent, which was higher than in Slovakia (19 percent), Turkey (23 percent), and Bulgaria (25 percent), but far lower than in all the countries of Western Europe and the United States.

We may conclude that the structure of the Russian HR system, even in relatively prosperous times, was, seemingly on purpose, honed for a crisis. Indeed, line management’s principal rights on issues of wages combined with the minimal formalization of the performance appraisal system give line management virtually unlimited power in carrying out employees layoffs. Moreover, the absence of systems of formal appraisal prevents employees from substantively citing the results of recent performance appraisal in their termination appeals and provides line management with the power to solely decide wages, effectively allowing them to squeeze out employees by lowering their wage level and deprive them of bonuses and additional payments. In addition to layoffs and controlling the wage level, the established system offers additional cost-saving opportunities. Companies still possess significant reserves for enhancing the flexibility of labor relations. As a result, all these features allow us to hypothesize that firm-level adaptation to the recession at the microlevel, that is, the adjustment of companies to conditions of declining demand, will proceed very quickly.

Reality has confirmed our hypotheses but with certain corrections. Above all, the rapid drop in sales volume that began in the fourth quarter of 2008 and encompassed the majority of the companies in all sectors, except for the oil industry and the production of certain types of food products, has not resulted in a similar drop in employment. Large companies announced mass layoffs, but it was quickly made clear to them that the government supports measures such as debt refinancing were conditional on tacit commitments by companies’ CEOs to ensure minimal downsizing. As for small and medium-size enterprises, they initially harbored illusions of a rapid recovery in business conditions (see Gurkov 2009). Consequently, the part-time work (a shortened workday or a shortened work week) and leave with partial pay initiated by the employer, as well as leave without pay initiated by the employee, became the most important methods of adaptation.

In December 2008, these adaptive measures affected 2.5 million people, 50 percent of the unemployed as defined by the ILO. The most interesting aspect was that almost 1.6 million of these 2.5 million people were on self-initiated leave without pay, which could be regarded as the most terrible form of unrecorded unemployment. In March 2009, Russia’s State Statistics Committee (Goskomstat) introduced record keeping of employees who worked part-time by agreement between the employee and the employer and discovered an additional 600,000 people who were working a shortened week (see www.gks.ru/bgd/free/b04_03/IssWWW.exe/Stg/d04/15.htm). Through 2009, given all the seasonal fluctuations, 2.2–2.5 mil-
lion people were on unpaid leaves based on a shortened work week. All this made it possible to maintain relatively acceptable unemployment levels of 6–7 million people in 2009. Again, in November 2009, only 2.2 million out of the 6.1 million unemployed were registered at the state employment agency, and only 1.8 million people were receiving unemployment benefits (see www.gks.ru/bgd/regl/b09_01/IssWWW.exe/Stg/d11/3–2.htm).

There are important differences between the two groups of unemployment benefit recipients. Those who became unemployed as a result of dismissal at the employer’s initiative could receive unemployment benefits for twelve months. But those who resigned voluntarily could receive unemployment benefits for only six months. Yet as many as 70 percent of the people who left their jobs in 2009, more than 80 percent of whom work in the service sector, resigned voluntarily. Companies thereby flexibly heeded the state’s wish that they not create additional difficulties for state employment agencies.

As a result of the unwritten pact between the state and the employers, mass layoffs of more than 15 percent of payrolls applied to no more than 35 percent of companies. Losses in the wage level were much more substantial. There is a major discrepancy between official statements and trade union data. Trade unions cite a loss of 25 percent to 30 percent in wage rates between December 2008 and January 2009 and a stagnating wage rate throughout 2009. The government speaks of minimal losses in the level of real personal income based on statistical data, which have not yet been published, on wage trends in Russia for 2008–9. As for the breakdown of the wage levels, according to official statistics, no more than 30 percent of employed persons were making an above average wage, which in 2009 was 15,000–18,000 rubles a month ($500–600); 30 percent of employees had an income of 7,400 to 13,800 rubles per month ($250–450), and 10 percent of those employed had a wage below $170 a month.

Regarding the firm-level data, the results of our survey in mid-2010 depicts a broad range of anticrisis measures, including almost universal internal movement of the labor force, widely dispersed voluntary leaves, and layoffs (see Table 3). Against this background, a small group of companies took advantage of the situation to offer an alternative HRM model that included an increasing openness in relations with employees, changing the customary psychological contract in the direction of more paternalistic relations, maintaining prerecession wage levels, and using emerging opportunities to recruit (entice) new employees for the launch of new projects, such as programs for the manufacturing of new products and technology upgrades.

According to the most optimistic estimates, however, the proportion of recession-proof companies does not exceed 10 percent of the total number of small and medium-size companies. As for the large companies on the list of strategic enterprises, their current strategy does not call for any changes in their established HRM (see Gurkov and Settles, this issue). <Was this discussed in Gurkov and Settles?>
Conclusions

We have briefly explored the evolution of HRM in Russia over the past twenty years. We have seen that, despite the nominally high level of state involvement in the area of labor relations, the distinctive characteristics of the established Russian HR model include a low level of formalization of employee evaluation, low weight carried by HR departments in strategic matters, an extremely low baseline wage rate, a significant proportion of arbitrary defined bonuses, and a low rate of unionization. These characteristics enable employers to find solutions that make it possible, when necessary, to provide for a significant reduction of wages, putting employees in a hopeless situation. The experiences of the period between the end of 2008 and 2009, especially the proliferation of voluntary unpaid leaves, confirm the effectiveness of the established system at the microlevel for solving the current problems of companies that have found themselves in the midst of a crisis.

However, it is this high effectiveness of adaptation at the microlevel 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 behavior by management on matters of performance appraisal and wages. The restoration of the quality of jobs could take a long time after economic growth resumes, and the low quality of both existing and newly created jobs will have a major impact on Russia’s national competitiveness.
Notes

1. This did not apply to workers in the arts, such as writers, composers, and film actors, who too received fees according to unified, clearly established rates (e.g., per page, per shooting day, per song performed in a concert).

2. To be fair, we should note that such benefits were mostly available to employees of privileged enterprises and industries, mostly large enterprises in the military-industrial complex.

3. During this time, more than 5 million shuttle traders moved back and forth between Russia and China, bringing in inexpensive garments for retail bazaars.

4. During the Soviet era, a woman usually would return to the previous workplace six to twelve months after having a baby. Since the 1990s, the period of work inactivity after the birth has usually been two to three years.

5. It is worth noting that West European and American companies operating in Russia have offered a different HRM model, which is based on a high degree of formalization of performance appraisal, a large share of baseline salary in take-home pay, and tolerance for trade unions. On the whole, this system got a mixed reaction from Russian employees at various levels. The rank-and-file employees regarded working for representative offices of Western companies as extremely attractive, precisely because of the above characteristics, midlevel managers were indifferent, and most senior-level managers viewed employment with Western companies as boring, dead-end jobs.

6. Initially, these ways of muddling through were designed to allow employees to cope with some crises in their personal lives, such as the death of a close relative. A voluntary leave without pay initiated by the employee can last from one day to more than one year. During that period, the employee is not officially entitled to any state support, such as unemployment benefits, retraining programs, or relocation.

7. This figure was obtained during surveys of chief executives of companies conducted between December 2008 and January 2010.

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Appendix 1. Selected Bibliography in English on Russian HRM


Appendix 2. Short Bibliography of CRANET Research


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