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Human Resource Management in Russia: Some Unwritten Rules

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Abstract

Human Resource Management in Russia: Some Unwritten Rules

In spite of the fact that Western companies have been actively developing the Russian market over the last twenty years, they are still faced with the Soviet-era heritage in human resource management. This paper gives an overview of the common Soviet human resource practices of the past. Understanding traditional human resource practices in the Soviet Union prior to the end of communism will help practitioners to design human resource management systems for Russia more efficiently today. Moreover, this article makes recommendations for HR professionals on some unwritten rules of human resource management, summarizes current best practices for the recruitment, selection and retention of employees and helps to reduce potential cultural misunderstandings and conflicts between the two different systems: market and planned economies.

Keywords

Soviet HR practices; unwritten rules; labour framework; Russia

Introduction

Over the last twenty years Western companies have been working successfully in Russia. Their challenges and opportunities are constantly discussed in academic and non-academic literature. Although tendencies in personnel management still remain under-researched (cf. Domsch and Lidokhover 2007:15), human resource management (HRM) is one of the main aspects that determine a company’s efficiency.

Based on 12 semi-structured interviews conducted in 2006 and 2008 with HR managers of Russian subsidiaries of foreign companies established in the mid 1990s and HR managers of local Russian companies with a long history, this paper describes some common Soviet-era HR practices and summarizes current best practices for the recruitment, selection and retention of employees used by foreign companies1.

Elenkov (1997), Fey et al. (1999; 2000), Alexashin and Blenkinsopp (2005), and Denisova-Schmidt (2008a) name two main challenges in HRM of foreign companies operating in Russia:

1. There are two different workforces in Russia: one with previous professional experience in the Soviet Union (or in modern large Russian corporations that retain elements of Soviet corporate culture) and one without. Both groups have different expectations from their employers and a different un-

1 Interviews were conducted before the global economic crisis. Time is always very crucial in working on projects covering Russia.
derstanding of the work assignment, the motivation to work and retention factors.

2. Western HR practices could be transferred to Russian subsidiaries, but they should be adapted to suit Russian labour regulations and cultural norms. The main challenge is to find out what should be adapted, and how, in order to operate successfully.

Empirical studies (Fey et al. 1999) show that it is a difficult task to develop a good HRM system in a foreign company that starts operating in Russia. It usually takes at least two years to implement even a basic HRM system. In order to understand how to design efficient human resource management systems for Russia today, it is important to know traditional HRM practices in the Soviet era (cf. Fey et al. 1999:70). Unfortunately, there is not much information about ex-communist company cultures (cf. Suutari 1998).

An awareness of Soviet-era practices is crucial for successful business activities in Russia, however. Western managers are not usually familiar with this topic. Coming to Russia, they try to introduce ‘new, innovative’ techniques and approaches, and encounter some difficulties in implementing those: Russian employees, especially at the age of 40 and above, recognize in these ‘new, innovative’ techniques and approaches old, well-known ones from the planned economy, and so feel uncomfortable. So, when talking about team-building activities, Western managers forget that three generations in the USSR grew up with brigades, and that there are some established, well-proven instruments in existence for managing Russian groups. Or when discussing cost-saving plans including, for example, outsourcing, Western managers might not know that there is an old, very common Soviet equivalent: privlechenie storonnikh ispolnitelei (Engl.: involvement of exterior executors).

A short ‘excursus into history’ will help Western readers to understand how HRM systems functioned in the Soviet era and so reduce risks of potential cultural misunderstandings and conflicts between the two systems: market and planned economies.

**HR Management during the late Soviet era**

Historically, Soviet companies treated employees ‘as a cost rather than as a resource’ (cf. Fey et al. 1999:70). The functions of a modern HR Department in the Communist era have been performed by the following departments (cf. Kamenitser/Kontorovich and Pishchulin 1961, Sigov 1972, Gurianov and Kostin 1973):

- **Otdel nauchnoi organizacii truda** (‘Scientific Management of Labour Department’) promoted the effective usage of material and human resources as well as the increase of labour productivity by organizing socialist emulations and individual and team work activities.

- **Otdel kadrov** (‘Cadre Department’) was responsible for all administrative work concerning hiring, transferring, firing, remuneration, retirement, and communication with external partners such as the local military authorities.
• *Otdel truda i zarplaty* ('Labour & Salary Department') was responsible for, among other things, salaries, social benefits, job descriptions, personnel arrangements, tariffication and labour-output ratio.

• *Otdel podgotovki kadrov* ('Training & Development Department') was responsible for pre- and re-training as well as further qualifications; however, most training was just a formality to meet bureaucratic demands for the accreditation of employees (cf. Clarke and Metalina 2000).

• *Yuridicheskii otdel* ('Legal Department') was required to verify all actions in order to ascertain whether or not they complied with the Soviet Labour Law.

Soviet firms provided their employees with stable salaries and good social benefits, in particular, the following:

1. Salaries: qualified workers were more highly paid than engineers (from ca. 170-180 Roubles up to 300 Roubles vs. 110-115 Roubles); in addition to the salary, all employees were paid a so-called *raionnyi coefficient* ('area coefficient') – an additional percentage for living and working under specific geographical conditions – e.g., 15% for living and working in the Ural Region. This coefficient was applicable, however, only for industrial workers; academic institutions, for example, were not included. Employees had a limited career progression and thereby decreased incentives to work hard. Salaries were increased only by promotion to higher positions. Bonuses were occasionally paid for ideological holidays (e.g. Lenin's birthday on April 22 and the anniversary of the Great October Socialistic Revolution on November 7), for professional holidays, for winning in socialistic competitions, or for length of service (five, ten, or fifteen years of service, for example). But recognition through badges, medals and official mention was more common and more desirable (cf. Suutari 1998).

2. Non-monetary compensation: It included subsidized meals at companies’ canteens, which were open twenty-four hours a day, seven days a week (at companies with shift schedules), short- (one week) and long-term (six months) gift loans, subsidized vacation trips for employees and their dependents, and products sold at cost (if applicable). A large company usually
had its own hospital and numerous health centres, and all employees were regularly provided with subsidized medical care at these centres. Soviet companies took 'social responsibility' and supported day care, kindergartens, schools, and different leisure and sports activities for children and teenagers in the area. Young families were provided with hostels and apartments. A Soviet industrial company usually had two veterans’ clubs: veterans of the company and veterans of World War II. Trips or special events in these clubs were organized and financed by the company.

3. Company loyalty: ‘Team spirit’ was created by Komsomol and communist organizations inside the company. A newspaper and a radio channel published and/or made reports on the best workers of the month or year and informed employees about the company’s strategies and plans.

4. Recruitment: A large company usually worked closely with high schools and universities, allowing students to make an internship or write their research theses in the company. School and university students could occasionally visit a company at open house events. Moreover, there was a system of raspredelenie (‘distribution’): a special agreement between factories and universities and/or technical schools for employing graduates. Each graduate had a guarantee to be hired by a certain company. Only graduates with the best academic records or those who were married had the privilege of choosing between offers or even refusing universities’ offers – so called svobodnyi diplom (‘free diploma’).

All adults were expected to have a job in the Soviet Union, and many jobs were created to ensure full employment. Unemployed people were subject to prosecution. Additionally, the ineffectiveness of the Russian labour market was made worse by poor labour mobility due to the legal requirement to have town’s propiska (‘formal permit to live in it’) and the high importance of social networks for Russians (Alexashin and Blenkinsopp 2005, Ledeneva 2006). Neither high employee turnover nor retention initiatives existed.

HR Management of foreign companies operating in Russia today

Recruitment tools

Foreign companies operating in Russia today use the following recruitment tools: internal recruitment, recruiting agencies and head-hunters, internet job engines, newspapers ads, contacts or networking, and college graduate recruitment. The choice of a particular recruiting tool is based on the type of vacancy, the internal recruitment policies and procedures and the location of a particular company (cf. Denisova-Schmidt 2008b, Frank 2007, 2009b).

Fey et al. (1999:73) argue that many foreign companies operating in Russia try to keep careful track of the Russians who are studying abroad, as they are attractive candidates to recruit when they finish their studies. Russians living abroad for a long time (re-emigrants) could, however, face some obstacles to their acceptance into Russian society (cf. Miasoedov 2003:79-81). It certainly varies from industry to industry and among different management levels, or ac-
According to the duration of the work assignment of a re-emigrant. This question has not been investigated so far. Moreover, business techniques learnt in the West might not be applicable in Russian settings on a one-to-one basis. They could be transferred to Russian subsidiaries, but they should be adapted to suit Russian labour regulations and cultural norms.

**Selection of employees**

Interviews are the most appropriate method of selecting new employees. Interviews are usually conducted in several rounds. Transcripts and diplomas are also normally looked at, but they are less important than the perception of the person as ambitious, hard-working, and beneficial to the company because of his or her previous professional experience (cf. Fey et al. 1999:73). Both Russian and Western companies require applicants to submit a CV/resume. However, since resumes have not traditionally been used in Russia, they are still poorly done and provide varying amounts of information about the candidate’ (cf. Fey et al. 1999:73). Often misrepresentations in language proficiency, computer literacy, and previous employment dates, duties and responsibilities appear in these resumes, and should be investigated. References are not usually required, but submitted references are appreciated.

Some recruiting agencies provide ‘reference check’ services. It is crucial to specify what a recruiting agency actually means by the term ‘reference check,’ however. They might just contact a referee or a previous employer and ask if she or he had written a letter of reference for a certain person, or whether this person had indeed once worked for a certain employer. In fact, consulting a previous employer without the written consent of a candidate is not allowed under Russian law, but this practice is nonetheless widespread (Russian Labour Law 2001). Moreover, as the system of providing working certificates is still in its infancy, some companies simply make a statement about a particular person in terms of whether she or he has worked for a particular company; qualifications, duties and other characteristics are not mentioned. Fey et al. (1999), Gurkov (2002) and Denisova-Schmidt (2008a) argue that developing a formal set of criteria is difficult for Russian HR Managers, and they usually rely on their ‘gut feeling’ during the hiring process.

According to Russian labour law, companies must use a three-month (for non-management and management positions) or six-month (for top management positions) probation period after someone has been hired to evaluate the new employee before entering into a long-term relationship (Russian Labour Law 2001).

**Retention of employees**

Different companies use different tools to keep their employees. It is not so simple to summarize the best practices and give a general recipe; it depends on the industry, vacancies, age, and other factors. On the basis of interviews in the field, augmented by an analysis of the literature, the author identifies the following deciding factors in retaining employees (Denisova-Schmidt 2008a; Frank 2007, 2009a, 2009b; Fey et al. 1999, Fey et al. 2000, Fey 2008; Magura 2003; Mordovin 2005; Scherl 2008):

- **Good working conditions**: enough space, security, parking, access to cafeteria, etc. – ‘Good working conditions’ in this sense go without saying for
many Western readers, but in Russia, this is indeed a crucial criterion for a job seeker. Overloaded offices, suboptimal room temperatures, and obsolete sanitary facilities are still common for some companies. Specifically, in Moscow and St. Petersburg, transport accessibility and time spent commuting to the workplace are also important factors. Long distances from home to the workplace are a huge problem in big cities in Russia. If a job seeker has to spend about two hours commuting in only one direction (which is very common), it might be a strong stimulus to look for a new job ‘closer’ to home.

• **Professional and personnel development**: training, further education – Fey et al. (1999) found that some managers would even forgo a one-time bonus of 2,000 USD in order to receive one week of training. Frank (2007, 2009b) also emphasizes the necessity of orientation and training, especially at the main corporate headquarters outside Russia. Visits to other non-Russian subsidiaries are highlighted by Fey et al. (1999) too. Some foreign companies, however, underestimate the importance to Russians of going abroad. For many, travelling abroad is more important than receiving training. Certainly, motivation to attend a training session at the headquarters (or anywhere abroad) is likely to be higher than in the case of a training seminar organized in Russia. Moreover, HR professionals should be aware that many Russians grew up with frontal teaching techniques and have different expectations from a trainer and a learning environment (Ertelt-Vieth and Denisova-Schmidt 2009, Denisova-Schmidt 2007, Blanchard-Cattarossi and Pshenichnikova 2008).

• **Open and accessible information dissemination concerning the aims, goals, strategy and (possible) changes in an organization** – Foreign enterprises should choose techniques that are more appropriate for their Russian employees. According to interview partners, Russian employees are usually happier to learn about possible changes by a simple explanation – for example, by hearing it directly from their bosses during a meeting, or through corporate newsletters or videotaped interviews – rather than through an interactive flash-based presentation with a strategy map, for example.

• **Internal rotation and promotion based on performance, knowledge and career growth** – This is still a challenge, especially in local Russian companies with a long tradition, where senior managers still try to place their friends and relatives.

• **Initiative should be welcomed.** Traditionally, bottom-up initiative is not very welcome in Russia (cf. Denisova-Schmidt 2007:83, Fey 2008:257).

• **Treating professional mistakes** – If an employee makes a mistake, she or he should not be punished, but the reason for the mistake should be investigated and appropriate corrective actions taken (e.g. additional training for an employee) (cf. Denisova-Schmidt 2007:82-83, Fey 2008: 257-258)

• **A different attitude to critical feedback** – Typically, Russians do not receive criticism in public – which could be a challenge for Western managers. Moreover, if Russians start to criticize each other, it is usually not constructive, but rather personal. The best critique in Russia is a critique in private.
• **Good salaries and competitive social benefits** – Good salaries and competitive social benefits are important to Russian employees, and firms with non-competitive salaries or benefits will have difficulty attracting, motivating, and retaining employees.

### Salary and social benefits

Salaries and social benefits are regularly handled by international and local agencies working in Russia. They use different approaches. Some perform surveys for various positions in specific industries in a particular region, e.g., only in the consumer goods sector in Moscow, while others analyze salaries according to such criteria as human relation skills, job scope and duties – so-called ‘job grading’. However, the main problem for HR in Russia is keeping up-to-date with current levels of salary and social benefits offered to managers. For example, the results of the HAY survey submitted in July will be not available until January, and they will already be obsolete in six months. This, among other factors, is related to the turnover of employees (cf. Frank 2009a:220, Smid 2009).

Moreover, some Russian companies tend to pay official and unofficial salaries. Russian enterprises have long traditions of keeping two sets of books: one with actual results for internal usage and one with desired results for external audits and/or reports by the old Soviet ministries (cf. Suutari 1998). There are still some reasons for paying in official and unofficial ways, such as the reduction of social taxation and additional options for non-authorized work on holidays, vacations, and overtime hours. This fact of unofficial income is even accepted by international banks operating in Russia and providing loans for Russian citizens.

### Labour framework for working in Russia

Many HR managers working for Western enterprises (usually young people) are very well-trained, but sometimes they are not aware of some ‘hidden threats’ to their routine duties, like for example some of the information and documents usually required for employment in Russia:

• **Internationally valid passport** – If an employee is required to travel abroad, he or she needs a passport that is valid internationally. Non-Russian firms must be aware at the recruitment stage that not all Russians hold such a document. Indeed, some are at all still prohibited by the authorities from travelling abroad and, for those who are not, obtaining a valid passport can be a very lengthy procedure.

• **Educational diplomas** – Educational transcripts, professional course completion certificates, and even driving licenses can be ‘obtained’ by means other than performance. Most of them are technically ‘legal.’ The Employer should decide if this is crucial or not for further activity. If a job candidate should be able to drive, for example, then it may be necessary to verify an applicant’s driving skills by means of a test drive to ascertain that he or she has at least one year of driving experience.

• **Military certificates or any relevant documents** such as a pripisnoe svide-tel’stvo (a document about military service) for male employees.
Not only Russian companies, but also Russian subsidiaries of any foreign company operating in Russia as OOO – obshchestvo s ogranichennoi otvetstvennost’iu – (‘limited liability company’) should be in communication with the local military authorities. Companies are obliged to provide all information regarding male employees and transportation units, and must be prepared to make both of these available upon request by the military authorities.

Conclusions

Foreign companies working and/or planning to work in Russia should know that Russia is not a terra nova. Russia is a country with a long history and many traditions that penetrate all fields, including HR management. Personnel management in turn is affected by Soviet-era practices, which can sometimes remain unknown to those Russian HR managers without professional experience in the Soviet Union or in modern large Russian corporations that retain elements of Soviet corporate culture. While considering how Western HR practices could be transferred to Russian subsidiaries, one should examine the possibility of updating Soviet HR practices instead of reinventing the wheel. Moreover, it would be very useful to study some of the unwritten and/or unspoken rules that are widely used in Russian personnel management in order to understand how to operate more successfully.

References


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Elena Denisova-Schmidt, Ph.D., MBA, is a Russian scholar with professional experience in Russian industry. She has taught and conducted research at the Humboldt University in Berlin (Germany), the Kennan Institute of the Woodrow Wilson Center in Washington, D.C. (USA), the German Institute for International and Security Affairs (Germany), and currently the University of St.Gallen (Switzerland). Her main research interests cover informal business practices in Russia, intercultural communication and HR management.
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Contents of Series One

Paper 1
Gundula Gwenn Hiller: Intercultural Communication between Germans and Poles at the European University Viadrina (February 2008)

Paper 2
Elena Denisova-Schmidt: The Transfer of Western Human Resource Practices to Russian Subsidiaries (February 2008)

Paper 3
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Paper 6
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Paper 7
Eva Lavric: Stratégies et identités plurilingues des entreprises et des individus dans les entreprises (December 2009)

Paper 8
Elena Denisova-Schmidt: Human Resource Management in Russia: Some Unwritten Rules (May 2011, this paper)