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# **HUMAN RESOURCE MANAGEMENT IN RUSSIAN MANUFACTURING SUBSIDIARIES OF MULTINATIONAL CORPORATIONS**

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## **HUMAN RESOURCE MANAGEMENT IN RUSSIAN MANUFACTURING SUBSIDIARIES OF MULTINATIONAL CORPORATIONS<sup>2</sup>**

The paper reports the results of a survey of top executives of Russian manufacturing subsidiaries of multinational corporations (MNCs). We reveal the prevailing types of job contracts and the use of monetary and non-monetary benefits, and find the similarities with and differences from such arrangements in locally owned industrial companies. We also reveal the differences in human resource management (HRM) policies based on the source of authority over HRM issues (global headquarters, regional headquarters, local groups of companies, etc.). The findings assist in predicting the possible evolution of HRM policies in Russian manufacturing subsidiaries of MNCs during the anticipated period of economic recession in Russia.

JEL Classification: F23, M12, M11, L60, L23, J32, J32

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## **Introduction**

Despite the current political tensions between Russian and the West and the ‘eye-for-an-eye’ exchange of economic sanctions, subsidiaries of foreign multinational corporations (MNCs) occupy a very important place in the Russian economy. By some estimates, in 2012, Russian subsidiaries of foreign MNCs had more than USD100 billion of output and thus contributed 30% of the total Russian manufacturing output of consumer goods [Gurkov, 2014].

At the same time, not much research evidence exists about the human resource management (HRM) practices of Russian subsidiaries of MNCs, especially those of manufacturing subsidiaries. With few exceptions [Latukha, 2014; Zavialova, Kosheleva and Ardichvili, 2011], most of the existing studies on HRM in Russian subsidiaries of MNCs do not refer to the similarities/differences between ‘genuine’ locally owned Russian enterprises and foreign-owned companies. In addition, existing studies on HRM in Russian subsidiaries of MNCs do not distinguish between manufacturing and services.

Therefore, the aim of this paper is threefold:

- to present systemic evidence of the HRM practices in manufacturing subsidiaries of foreign MNCs;
- to compare HRM practices in genuine Russian and foreign-owned manufacturing enterprises;
- to find possible differences in HRM practices between subsidiaries established through acquisitions of existing Russian companies and those established through greenfield investments, that is, enterprises without organizational memories and inherited HRM practices.

The paper is organized as follows. First, we present a literature overview of the previous research on HRM practices in Russian locally owned and foreign-owned manufacturing enterprises. Second, we present the methodology and the results of a survey of the HRM practices of manufacturing subsidiaries of foreign MNCs and compare these results with the results of a similar survey in genuine Russian manufacturing enterprises. We also identify the effects of subsidiary origin (acquisitions versus greenfield investments) and the impacts of the involvement of headquarters in personnel issues and of other factors for HRM practices. Then we present the practical implications of the study.

## **Previous research on HRM in genuine Russian manufacturing companies and in subsidiaries of foreign MNCs: Achievements and lacunas**

### ***HRM in genuine Russian companies***

The transition to a market economy revolutionized the Soviet-era practices of HRM in industrial enterprises. These processes have been carefully studied in both national and international research publications. A good overview of the Russian-language research publications is presented in Zhulzhenko [Zhulzhenko, 2012]: More than 60 Russian books and articles on the subject are summarized. Regarding English-language publications, we should distinguish three groups of studies: first, those within the tradition of industrial sociology, which are based on intensive qualitative studies [Clarke, 1996, 1998, 2007; Kabalina, 2005]; second, those on labor market issues using macroeconomic data and medium-size surveys [Gimpelson, Kapeliushnikov and Lukiyanova, 2010; Kapelyushnikov, Kuznetsov and Kuznetsova., 2011]; and third, management studies that comprise issues of company strategy, leadership, and human resource management and are based on large-scale surveys of corporate executives [Gurkov, 1999, 2002a, 2002b; Gurkov and Maital 2001; Gurkov and Zelenova, 2009, 2011]. Moreover, the first Russian survey of HR officers using the Cranfield Network on International Human Resource Management (Cranet) methodology of international comparative analysis of HR practices was implemented in 2008 [Gurkov, Zelenova, Saidov and Goldberg, 2009; Gurkov, Zelenova and Saidov 2012]. That survey allowed some international comparison of the Russian HRM system, but also demonstrated the low competence of Russia's HR officers in economic and strategic issues (for example, 40% of the surveyed HR officers were unable to indicate the share of operating costs accounted for by labor costs in their companies) [Gurkov et al., 2009].

The growing convergence of research findings allowed synthesis of the previous studies to present the 'dominant archetype' of HRM management in Russian companies [Gurkov, 2013a; Gurkov and Settles, 2013], which is characterized by

- prevalence of authoritarian leadership and concentration of decision making at the very top of organization, low discretion of middle managers on rewards and promotion of their subordinates;
- poor protection of employees' rights due to a low level of unionization and, especially, the negligible share of officially guaranteed payment (i.e., industry-wide wage rates or salaries based on the officially set minimum wage) in take-home pay;

- low formalization of employee's performance assessment, which makes good personal relations with ultimate supervisors a vital necessity for employees to stay in their jobs;
- high rigidity of labor legislation regarding employment and redundancies that do not prevent extremely high flexibility of working and payment conditions;
- low HR function authority in both strategic and current issues except for procedures of recruitment and routine personnel administration;
- prevailing unwillingness of employers to invest substantially in personnel training and improvement of working conditions (job safety, workplace automation, etc.).

We should add to this list the institutional and legal framework for the HRM system in Russia:

- extremely ineffective unemployment administration, as unemployment benefits are set below the subsistence level, and thus the number of persons receiving unemployment benefits and the number of unemployed counted under the International Labour Office (ILO) definition differ by seven times [Gurkov and Zelenova, 2011];
- poor pension protection (e.g., pension funds were frozen in 2014 to finance current pension payments), which stimulates an 'informal sector' (unregistered employment) that by some estimates occupies 20% of the total workforce [Sberbank, 2014].

In the search for international comparison, it was found that the major characteristics of the HRM system in Russia (low level of unionization, high flexibility of working and payment conditions, low HRM function authority in company management, poor unemployment protection, and feeble pension schemes) are very similar to those in Tunisia [Gurkov et al., 2009].

This system is especially unfavorable for increasing the efficiency of industrial enterprises, as it often provokes such negative effects as 'wariness of talent' [Holden and Vaiman, 2013], hostility to knowledge sharing in Russian firms [Michailova and Husted, 2003], and suppression of innovative capacity [Chadee and Roxas, 2013].

### **HRM in Russian subsidiaries of foreign MNCs**

Foreign direct investment in Russia was permitted in 1987 after almost of 60 years of complete prohibition. The very first steps of joint ventures and wholly owned subsidiaries of foreign companies attracted a significant number of researchers [Lawrence and Vlachoutsicos, 1993;

Nigh and Smith, 1989; Nigh, Walters and Kuhlman, 1990; Rosten, 1991]. Quite quickly, the flow of studies on joint ventures and wholly owned subsidiaries of foreign firms in Russia diverged into two types of studies – prescriptive and descriptive. Prescriptive studies synthesize the results of observations of foreign firms in Russia and prescribe ‘how it should be’ [Fey and Shekshnia 2011; Shekshnia, 1994, 1998]. Descriptive studies mostly rely on surveys. Here we should acknowledge the extreme narrowness of the empirical base for descriptive studies of HRM in Russian subsidiaries of MNCs. The largest survey of executives of foreign-owned companies to date surveyed 101 joint ventures and wholly owned foreign subsidiaries in Russia from January to March 1998 [Fey, Björkman, and Pavlovskaya, 2000]. The questionnaire included constructs on such topics as incentive systems, job security, employee training, employee promotion, and HRM strategy alignment [Fey and Bjorkman, 2001]. That dataset was subsequently used in a number of studies, including cross-country comparisons of HRM practices in foreign subsidiaries [Bjorkman, Stahl, and Vaara., 2007; Fey and Denison, 2003; Fey, Pavlovskaya, and Tang., 2004; Fey, Morgulis-Yakushev, Park, and Björkman 2009; Minbaeva, Pedersen, Björkman, and Park., 2003]. Fey’s major initial findings on the HRM system in foreign subsidiaries in Russia may be summarized as follows:

- The remuneration system is based on good basic salaries that are slightly higher than the basic salaries in neighboring enterprises.
- Bonuses range between 20 and 40% of basic salary.
- There are rich additional non-monetary benefits, including free or heavily subsidized hot meals during the shift and additional medical insurance.
- Significant efforts are put into retaining employees of all ranks.
- Attention is given to training and development.

Fifteen years later, Gurkov [Gurkov, 2014] synthesized his observations and interviews in 14 foreign-owned Russian subsidiaries, where he visited 16 plants. He generally confirmed the previous findings, including a free or subsidized three-course meal for employees in the middle of the shift. At the same time, he observed that the share of the variable part of take-home pay in manufacturing subsidiaries was generally lower. A notable exception was subsidiaries of German multinationals, where a Soviet-era system of generous bonuses for employees who proposed effective solutions for product and, especially, process improvements was observed [Gurkov and Kossov, 2014]. Multi-plant Russian subsidiaries also actively plasticized rotation of

managers, engineers, and skilled workers between their Russian plants.

In general, HRM practices in foreign subsidiaries in Russia should be compared to HRM practices in genuine Russian companies. Unfortunately, the research comparing foreign subsidiaries in Russia and genuine Russian companies is even scarcer. We found only two relevant studies – in one study [Zavyalova et al., 2011], 14 foreign-owned companies were compared to 16 Russian-owned companies, all in the IT sector. In the second study [Latukha, 2014], answers from managers of 30 foreign-owned companies were compared to answers from managers of 30 Russian-owned companies. As companies from 10 sectors ‘were almost equally represented in the sample of the study’ [Latukha, 2014, p. 11], just six manufacturing companies were surveyed.

Thus, instead of proving some specific hypothesis, we found that our study should be of a more explorative nature – we had to compare locally and foreign-owned Russian enterprises for key ‘archetypical aspects’ of HRM – the share of the variable part of take-home pay, the principles and practices of performance appraisal, attitudes towards training, investment in improvement of working conditions, and so on.

## **Research framework**

### ***The point of comparison***

To make a comparative study, we had two options – either to conduct a survey of both foreign- and locally owned enterprises or to use as a reference point the results of a recent survey on the HRM practices of locally owned firms. Because of funding limitations, we choose the second option and identified as the reference point the recent study by Gurkov and Settles [Gurkov and Settles, 2013], which is based on a survey of 200 CEOs of domestic industrial companies. What is important is that survey excluded subsidiaries of foreign companies, so there is no overlap between that sample and our sample.

### ***Constructs and measures***

The questionnaire applied by Gurkov and Settles [2013] was partially presented in Gurkov [Gurkov, 2013b], but we used the complete original version of the questionnaire. Among the constructs used in Gurkov and Settles [2013], we picked up those devoted to measuring

- type of remuneration system (assessed by evaluating the proportion between the fixed and variable parts of take-home pay for three categories of employees – managers, non-

managerial white-collar workers, and those who work on the shop floor);

- variation in remuneration (assessed by the frequency of the use of various monetary incentives and benefits and the applicability of non-monetary benefits to various categories of employees);
- degree of shortage of particular types of employees and difficulties in filling the particular types of position.

As we dealt with manufacturing subsidiaries, that is, industrial enterprises that are subsidiaries of MNCs, we supplemented Gurkov's instrument with a set of specific constructs. First, we added to the standard information at the firm level (industry information, absolute size of a company measured by the number of employees) questions about the position of a subsidiary within a corporation (relative size of a company in relation to its sister subsidiaries; the perceived levels of technical efficiency, reliability, and robustness of production processes in relation to the average level of the parent). Second, inspired by Fey's and Gurkov's observations on the efforts of foreign firms in Russia to retain employees, we added specific questions about the proportion of the enterprise workforce using different job contract types (permanent job contract, long-term job contract, short-term job contract, non-job contracts, and leased personnel). Third, we borrowed from the Cranet questionnaire on comparative HR practices a question on operating costs accounted for by labor costs [Cranet, 2011]. We believed that CEOs would be better informed on that point than HRM officers were. Fourth, we asked the respondents to indicate at which level (corporate headquarters, regional headquarters, a set of enterprises located in Russia, a particular enterprise) 15 types of decisions (selection forms, appointments, remuneration levels, social benefits, forms of performance assessment, forms and intensity of training) in the HRM sphere were determined. This was also a development of the instrument used in the Cranet survey to measure distribution of authority over HRM issues between the global headquarters, regional headquarters, local production sites, and so on [Cranet, 2013]. We split the original six items into 15 items to get more detailed information on the allocation of authority for particular HRM decisions. Finally, we included in the questionnaire a set of questions about the history of the surveyed enterprise. Based on Gurkov and Filippov's [Gurkov and Filippov, 2013] findings on the particular trajectories of inclusion of a Russian enterprise in a foreign corporation, the respondents were able to select among the following options:

- 'Our enterprise was created in Soviet times (before 1991) and later acquired by a foreign firm.'



- ‘Our enterprise was created after 1991 and later acquired by a foreign firm’
- ‘The foreign firm acquired some production facilities of the existing local enterprise and established a subsidiary.’
- ‘The foreign firm leased some production facilities of the existing local enterprise and established a subsidiary.’
- ‘The foreign firm purchased an abandoned production site and established a subsidiary.’
- ‘The subsidiary was created by greenfield investment, away from existing active or idle production sites or facilities.’

The outlined variants of enterprise ‘pre-history’ enabled us to change the dichotomy ‘acquisition – greenfield investment’ used in most studies on foreign direct investments into a triad ‘acquisition – brownfield – greenfield’ in order to get an impression of the possible variations of HRM practices depending on the presence/absence of experience with the functioning of the enterprise as an independent, locally owned firm.

### *The sample*

We identified 400 Russian enterprises as manufacturing subsidiaries of foreign MNCs. From that set, we were able to contact 261 companies and get the responses from the top executives of 56 companies (response rate 21%). The surveyed companies represented all the favored locations for foreign subsidiaries in Russia. Regarding the age of subsidiaries, there was a good combination of ‘adults’ (24% of enterprises were created before 1998; ‘teenagers’ – 50% were created between 1999 and 2008; and ‘infants’ – 26% were created after 2008). We used 1998 and 2008 as cutoff points, as these were years of deep economic crisis that divide the recent economic history of Russia into three distinctive periods – high inflation and accelerated fall in industrial output (1992–1998), steady economic development (1999–2007), and slow economic recovery and unstable growth (2009–2013).

The size of the surveyed enterprises ranged from 12 to 4,000 employees with a mean of 730 persons and median of 370 persons. We were able to identify both the intermediate (nominal) and final parents. Intermediate owners were primarily companies located in the Netherlands, Luxemburg, and Cyprus, while the final parents represented most of the OECD countries.

There was also great variety in the ways in which the surveyed subsidiaries were established. In

a quarter of cases the subsidiary was established by an acquisition of a Soviet-era enterprise or an enterprise built after 1991; in 36% of cases there was ‘brownfield’ investment (purchase or leasing of idle production capacities); and in 35% of cases there was greenfield investment. We should highlight the stability of ownership of Russian subsidiaries – the transfer of subsidiary ownership from one foreign company to another was reported in just four cases (out of 55 valid cases).

## **Findings**

### ***Position of the Russian subsidiary within the corporation***

In order to properly understand HRM practices, it is necessary to outline the context of Russian subsidiaries’ operations. Regarding the output volume, Russian enterprises are slightly smaller than the average enterprises of the parent corporations: 45% of respondents indicated the size of their enterprise as ‘average’ for the corporation, 38% as ‘smaller’ than the median size of the parents’ subsidiaries, and only 15% presented their enterprises as ‘big’ or ‘very big’ compared to the average size of sister subsidiaries. At the same time, the surveyed companies presented themselves as very dynamic enterprises regarding the output volumes: 61% of the surveyed executives indicated the output of their companies had grown over the past three years, and in 10 companies the growth was spectacular (more than 50%). In addition, in the majority of cases, between 10 and 50% of the increase in output was achieved by increasing the operational efficiency of already installed machinery and equipment.

We should indicate another important point in the position of Russian subsidiaries within their parent corporations. The majority of the surveyed executives (85%) indicated that labor costs accounted for less than 30% of operating costs. That is far below the share of operating costs labor costs account for in the corporations’ home countries (especially in Denmark, Finland, Sweden, and Belgium), and even slightly lower than the average for Russian firms [see Cranet 2011, pp. 13–14].

The surveyed executives of Russian subsidiaries reported a ‘positive bias’ regarding the assessment of reliability and efficiency of their enterprises’ manufacturing operations (see Table 1). Of course, we may consider such a biased assessment to be a ‘boast.’ However, we cannot deny the fact that the majority (50–60% of respondents) assessed all technical parameters of the

manufacturing processes and production facilities in their companies as ‘average’ for the corporation, and there were also respondents that indicated their enterprises significantly lagged behind the corporation’s average, especially in terms of logistics (reliability of supplies and volume of necessary storage facilities). At the same time, the assessment of ‘centrality’ (robustness) of manufacturing processes – the key element for ‘world-class manufacturing practices’ – was predominantly positive. Although we cannot reveal the names of corporate parents, we may assure the readers that among the respondents were a dozen subsidiaries of famous machinery and equipment manufacturers from Belgium, Denmark, Germany, Japan, South Korea, Sweden, and Switzerland. We found no differences in the overall assessment of the technical level of the enterprise depending on the way in which it became a subsidiary of a foreign corporation. In addition, there were no statistically significant differences in the assessment of particular parameters of production efficiency between ‘adults’ (subsidiaries established before 1998), ‘teenagers’ (subsidiaries established between 1999 and 2008), and ‘infants’ (subsidiaries established after 2009).

Table 1. Assessment of the parameters of manufacturing processes in Russian subsidiaries of MNCs

Parameter	Assessment			
	Worse than the average in the corporation	The same	Somehow better	One of the best enterprises in the corporation
Reliability and robustness of supplies	9	57	18	15
Reliability of the transport scheme	9	50	26	15
Technical equipment of production facilities	9	44	33	13
Size and equipment of storage facilities	11	53	24	11
Robustness [“centrality”) of production processes	4	62	23	11
Production culture and operational discipline	0	56	24	20
Unit costs	6	65	20	9
Reserves of production capacities to increase output	6	52	29	13
Reserves of production facilities	9	52	28	11

The last point is of crucial importance. This means that Russian subsidiaries were able to achieve

at least ‘average’ positions within their parent corporations within relatively short periods. We presumed that such an achievement would be impossible without active multi-faceted support from the corporate parent and sister subsidiaries. Our proposition was confirmed – the majority of the surveyed enterprises continue to receive ‘significant’ support from the parent in all areas of enterprise management. Moreover, ‘adult,’ ‘teenager,’ and ‘infant’ subsidiaries do not differ in terms of the degree of parent’s support for any item. However, HRM issues (new methods in HRM and forms and intensity of training) are areas in which the parent provides less support (statistical difference between the intensity of ‘support in design of new products’ and ‘support in training’ is 0.086). To look deeper into the issue, we performed correlation analysis for intensity of parent support in particular areas. We revealed low correlation between the support for technical development and the support for development of HRM methods, while for training, there was a reverse direct concordance – the higher the involvement of the parent in the launch of new product production, the higher the parent’s support of a subsidiary for personnel training (corr. 0.411, sign 0.000; see Table 3). *Thus, training is considered a technical function, unlike other HRM issues.*

However, the support for development of an HRM system may come not only from the headquarters, but also from sister subsidiaries. We evaluated the assessment of cooperation of the surveyed Russian subsidiaries with foreign sister subsidiaries for various aspects of enterprise development. While financing of development projects is mostly the prerogative of the headquarters, Russian subsidiaries actively cooperate with their foreign sister subsidiaries in most other areas, especially in launching new product production (53% of respondents indicated intensive cooperation with sister subsidiaries on that issue). Again, HRM issues involved only occasional cooperation with sister subsidiaries (only 27% of respondents indicated ‘close cooperation’ on that issue, which was the lowest score among all items). The above results enabled us propose that Russian manufacturing subsidiaries are exposed to greater local embeddedness for HRM issues. However, to prove this proposition, we needed additional evidence on the ‘discretion’ of Russian subsidiaries in designing HRM systems.

### ***Discretion of Russian subsidiaries over HRM system design***

Sister subsidiaries have only ‘expert’ or ‘referent’ power over Russian subsidiaries on HRM issues, unlike the parent, which has coercive power for both strategic and operational issues. Thus, we clarified respondents’ perception on the headquarters’ influence for particular aspects of HRM practices (see Table 2).

Table 2. Authority over particular areas of HRM.

Type of decisions	Decision is mostly taken at			
	Single enterprise	A group of enterprises in Russia	Regional headquarters	Worldwide corporate headquarters
Headcount	38	35	20	7
Sources of recruitment	64	27	5	4
Criteria of personnel selection	42	40	13	5
Appointment to line management positions (shop manager, plant superintendent)	40	40	11	9
Appointments to functional managerial positions (head of department etc.)	29	47	13	11
Methods of performance assessment	38	29	18	15
Salary and benefit systems	30	33	22	15
Level of salary and benefits	20	41	24	15
Forms of social (non-monetary) benefits	28	48	11	13
Amount of non-monetary benefits	43	22	24	11
Forms of training for managers	39	35	11	15
Forms of training for workers	44	34	11	11
Intensity of training for managers	36	41	11	11
Intensity of training for workers	47	37	8	8

We should explain the difference between the ‘group of companies in Russia’ and ‘regional headquarters.’ Although the latest fashion in corporate organizational design is to have ‘dispersed’ corporate headquarters, such disaggregating mostly pertains to staff functions (e.g., the finance department may be located in one country, marketing in a second country, and R&D in a third country), and manufacturing still has a clear and univocal chain of command. Corporations with a limited number of enterprises in Russia and a modest proportion of local production to worldwide corporate sales (up to 15% of the global sales) still prefer to manage their Russian operations through ‘regional headquarters’ that supervise not only enterprises in Russia but also those located in other Commonwealth of Independent States (CIS) countries or in Eastern Europe. Sometimes, a corporation’s activities in Russia are managed separately from operations in other countries. Thus, ‘country headquarters’ are established or the coordination role is passed on to a ‘flagship’ Russian enterprise [the biggest and oldest Russian subsidiary of the corporation] that takes on the responsibility of a ‘doyen,’ setting performance standards, rules, and patterns of operations and organization.

We can see from Table 2 that ‘foreign’ influence (we account for regional headquarters as ‘foreign entities’) is mostly visible in salary and benefits (almost 40% of cases) and in performance assessment methods (a third of cases). The often mentioned superior attention of foreign subsidiaries to training and development (compared to locally owned Russian firms) turned out to be local initiatives, especially in terms of intensity of training for managers and workers. In addition, such areas as selection and recruitment were totally determined at the site level or within a Russian group of enterprises.

The high discretion of Russian subsidiaries of MNCs in dealing with HRM issues made it especially intriguing to reveal the ‘pillars’ of HRM systems that enable such enterprises to catch up quickly with their foreign sister subsidiaries and become both efficient (in terms of the reliability of manufacturing operations compared to foreign sister subsidiaries) and effective (in terms of the smaller share of operating costs accounted for by labor costs compared to locally owned Russian companies).

### **Major pillars of the HRM systems of Russian subsidiaries of MNCs**

In this section, we present the major results of the survey. *We reveal four pillars of the HRM systems of Russian manufacturing subsidiaries of MNCs: predominance of permanent job contracts, high proportion of the non-variable part of take-home pay, relative narrowness of*

*additional benefits and forms of moral recognition for employees, and richness of social benefits.*

### ***Permanent job contracts***

The predominance of permanent job contracts was reported in the absolute majority of cases (in 93% of cases, more than 60% of employees had permanent contracts; in 33% of cases, more than 90% of employees had permanent job contracts). In a few cases where a low share of employees had permanent job contracts, long, fixed-term [more than one year) contracts supplemented the permanent contracts. In the absolute majority of cases (75%) annual (or shorter) fixed-term contract were used for 5% of employees of fewer, there was not a single case in which such contracts were used for more than 40% of employees.

Leasing of employees was used to some extent (between 10 and 50% of the total number of employees) in only five cases; the share of enterprises using employees with special types of job contracts (governed not by labor law but by civil law) was merely 5%, and in such enterprises the share of employees with civil-law contracts was between 6 and 14% of the total headcount.

### ***Dominance of the fixed part of take-home pay***

The predominant use of permanent contracts creates a rare sense of employment stability. Such a sense of stability is reinforced by the fact that the greatest part of take-home pay is not variable but fixed remuneration. The average share of monthly bonuses is merely 13% of the basic monthly salary for managers, 21% for non-managerial white-collar employees ('specialists'), and 22% for workers. Annual bonuses form an average of 27% of the basic annual salary for managers, specialists, and workers alike. *This makes the total share of the variable part of take-home pay 28% for managers, 32% for specialists, and 33% for workers.*

Regarding the comparison with locally owned enterprises [Gurkov and Settles, 2013] the share of the variable part of take-home pay at Russian manufacturing subsidiaries of MNCs does not differ for shop-floor workers and specialists, and is lower for managers. An ANOVA analysis of variance confirmed that there are no statistically significant differences in the total share of the variable part of take-home pay depending on the type of subsidiary creation (acquisition, brownfield, or greenfield), period of subsidiary creation (pre-1998, 1999–2008, after 2008), or point of authority for determining wage schemes (global headquarters, regional headquarters, Russian group of companies, single site). Such uniformity of remuneration schemes is a very important sign. It means that manufacturing subsidiaries of foreign MNCs, regardless of mode of launching the operations and length of operations, are striving to implement schemes highly



similar to those implemented in locally owned companies: identical for non-managerial employees but slightly different for managerial employees.

***Relative narrowness of bonuses and forms of moral recognition***

We compare the types of measures for additional remuneration (reasons for benefits and measures of moral recognition; see Table 3) with those in locally owned companies [Gurkov and Settles, 2013, p. 3637].

Table 3. The shares of the firms that regularly use various measures of material remuneration (percentage).

Measures	Frequency		
	Not used	Occasionally	Regularly
Bonuses based on individual results			
Personal additions to the salary based on achievement of individual targets	42	27	31
Personal additions to the salary based on scrupulous execution of job duties	50	33	17
Irregular bonuses for extraordinary achievements	31	35	34
Bonus for invention, valuable suggestion, creative solution of a problem	33	31	36
Bonus for expansion of job duties (widening service area, combining specialties)	35	36	29
Quarterly/annual bonuses based on individual performance	19	27	54
Merit pay			
Personal additions to the salary based on unique competences	54	29	17

Personal additions to the salary based on qualification improvement	46	31	23
Personal additions to the salary based on the length of service	52	15	33
Bonus based on performance of a department			
Quarterly/annual bonuses based on performance of a department	41	15	44
Bonuses based on company performance and profit sharing			
Quarterly/annual bonuses based on company performance	25	17	58
Stock options	75	17	8

In general, Russian subsidiaries of MNCs are more reluctant than locally owned companies to remunerate an employee on his/her individual merits or results. In global corporations, it is widely believed that the development of competencies, scrupulous execution of job duties, and achievement of individual targets are simply parts of the employee's responsibilities, and thus such actions should be remunerated by the basic salary, not by special bonuses. The frequency of the use of bonuses based on department or company performance in Russian subsidiaries of MNCs does not differ statistically from that in locally owned industrial companies. At the same time, we found statistically significant differences in the frequency of the use of particular remuneration measures depending of the source of authority for the design of remuneration schemes. In addition to salaries based on length of service, bonuses for extraordinary personal achievements and industrial inventions are likely to be widely used if the authority to design remuneration schemes belongs to single Russian enterprises or to a group of Russian enterprises, rather than to the global headquarters ( $p = 0.100$  for bonuses for industrial inventions,  $p = 0.044$  for bonuses for extraordinary personal achievements,  $p = 0.011$  for additional salary based on length of service). When the global headquarters determines remuneration schemes, such reasons for additional remuneration (especially additional remuneration for seniority and for industrial inventions) are virtually nonexistent. Regarding seniority, Russian subsidiaries of MNCs are trying to emulate the contemporary HRM practices in locally owned companies. Regarding additional remuneration for industrial inventions proposed by employees, Russian subsidiaries of

MNCs are trying to replicate the Soviet-era practices of generous benefits for industrial inventors on the shop floor rather than modeling contemporary practice [see Gurkov and Kossov, 2014].

Assessing the measures of moral recognition used in Russian subsidiaries of MNCs (see Table 4) and comparing those with the measures used in locally owned companies, we see that again Russian subsidiaries of MNCs are more reluctant than locally owned companies to use many forms of moral recognition. This is especially applicable to such forms as written recognition in a decree (approximate sign. of difference = 0.000), inviting employees to events at which the firms receive awards or prizes (approximate sign. of difference = 0.005), and submitting of employees to state awards (approximate sign. of difference = 0.000).

Table 4. The use of measures of moral recognition [percentage of companies).

Measures	Frequency		
	Not used	Occasionally	Regularly
Verbal recognition in private conversation	22	24	54
Verbal recognition in presence of his/her colleagues	20	23	57
Verbal recognition in presence of top management	17	43	40
Written recognition in a decree*†	30	44	26
Recognition before colleagues (the board of the best employees, radio announcements, Intranet announcements, etc.)†	37	26	37
Invitation of employees to events where the firms receive awards, prizes, etc. *†	48	28	24
Dignity ‘The best in the firm’ etc.* †	54	29	16
Industry honorary titles*†	65	26	9
Presentment to state orders*	62	26	12

Notes:

† -- approximate significance of difference with locally-owned firms is 0.05 or less

\* -- two-tailed significance of difference between subsidiaries where remuneration policies are determined in single sites or local group of companies and those where remuneration policies are

determined at the global headquarters is 0.05 or less

We also found that Russian subsidiaries of MNCs at which remuneration schemes are determined at single sites or within a local group of companies use several ‘locally specific’ forms of moral recognition (namely, written recognition in a decree, inviting employees to events at which the firms receive awards or prizes, top employee awards, honorary industry titles, and presentment to state orders) with the same intensity as their locally owned colleagues, whereas Russian subsidiaries of MNCs at which remuneration schemes are determined by the global headquarters generally avoid such measures (statistical significance of difference is 0.05 or less).

We can see that Russian subsidiaries of MNCs, especially those at which remuneration policies are set at the global headquarters, are not ‘sentimental’ places to work – they set competitive basic salaries and impose high standards for employee performance that are considered ‘natural’ – with no additional benefits or measures of moral recognition for employees who meet the performance standards. Even extraordinary job achievements, including ingenuity and willingness to develop valuable improvements and inventions, are rarely remunerated. Russian subsidiaries adhering to ‘global HRM practices’ generally neglect specific local measures of moral recognition, mostly inherited from Soviet times, like inviting employees to events at which the firms receive awards or prizes, top employee awards, honorary industry titles, and presentment to state orders.

The result of such a situation is a very interesting configuration of the reported shortage of particular categories of employees among Russian subsidiaries of MNCs with different centers of HRM policy setting. Russian subsidiaries of MNCs at which remuneration policies are set locally have a less acute shortage of qualified workers and young line managers than do Russian subsidiaries of MNCs at which such policies are set by non-Russian regional headquarters or by global headquarters (sign of difference is less than 0.100); there is no difference for employees performing staff functions (finance, marketing) or with overseas experience. Russian subsidiaries of MNCs at which remuneration policies are set locally experience greater shortages than those at which remuneration policies are set outside Russia (sign of difference is less than 0.100).

Nevertheless, despite such subtle differences, in mid-2014, Russian subsidiaries of MNCs were very well placed in local job markets – if 20–25% of local firms reported acute shortage of particular types of workers, especially employees with ‘rare specialties’ [Gurkov and Settles, 2013, p. 3635], only 12–16% of the surveyed executives of Russian subsidiaries of MNCs reported shortages of such employees. For other categories of employees, only a few firms

reported acute shortage. In general, more than 90% of the surveyed executives stressed that ‘vacancies are filled quickly.’ The quality of applications was also assessed as relatively high. Serious difficulties in selecting employees who correspond to selection criteria were reported by 24% of the surveyed firms for managerial positions, by 14% of firms for non-managerial white-collar positions, and by only 7% of the surveyed Russian subsidiaries of MNCs for shop-floor worker positions. We may add that difficulties in selecting contenders for all types of positions do not depend on where the selection criteria are determined (global headquarters, regional headquarters, or local groups of companies).

### ***Abundance of social benefits***

Thus, despite the narrowness of additional benefits and forms of moral recognition, Russian subsidiaries of MNCs stay highly competitive in local job markets. The key for such a position is the variety of social benefits offered to employees (see Table 5).

Table 5. Types of social benefits offered to employees (percentage of companies).

Type of benefit	Not offered	Offered to selected employees	Offered to selected categories of employees	Offered to all full-time employees
Free corporate transport from domicile to the work site	13	14	16	57
Free (subsidized) meal in factory canteen	18	7	11	63
Covering medical expenses in a case of professional disease	29	7	9	54
Additional sickness allowance	49	14	7	29
Additional medical insurance	9	18	16	56
Additional medical insurance for family members	38	14	25	22
Holiday premium	46	11	6	36
Compensation of training (education) expenses	13	20	27	40
Subsidies for education of children	58	25	11	6
Housing allowance	29	36	29	6
Credits to employees	49	26	16	8
Additional pension schemes	56	24	16	4

We can see that the social benefits observed at the end of the 1990s in Russian subsidiaries of MNCs, like free or subsidized meals for employees and additional medical insurance, are still in predominant use today. Among other widely used forms of social benefits, we should mention free transportation to/from the production site and compensation for employee training (education) expenses. This again confirms the earlier observations on the attention to training and development.

The hypothesized significance of the Soviet-era heritage for social benefits was not conformed. Russian subsidiaries of MNCs created through acquisition, brownfield investment, and greenfield investment differ only on one point – transportation to/from work sites. Subsidiaries created through brownfield and, especially, greenfield investment use this measure more often than do those created by acquisitions. However, there is a natural explanation for such a difference. Enterprises created in Soviet times and further acquired by foreign MNCs are mostly located in industrial towns, and thus are served by the existing network of public transport, whereas enterprises created by greenfield investment in many cases occupy plots of land previously used for agriculture, and thus production sites can be located 3–10 kilometers from any town or village, so corporate transportation (together with large parking lots for those employees who prefer to use their own cars) is not a benefit but a necessity.

It is important to note that the ‘width’ of the sets of social benefits does not depend on the absolute size of an enterprise (number of employees), its relative size (the output volume compared with the average size of sister subsidiaries), or the period of its creation (before 1998, 1998–2008, after 2008). At the same time, we found numerous statistically significant differences between the sets of social benefits offered by subsidiaries at which authority over such benefits is placed within Russia and those at which such authority rests abroad (see Table 6).

Table 6. Types of social benefits offered to employees by corporations with difference centers of authority over social benefits (percentage of companies).

Type of benefit	Source of authority over the forms of social benefits			
	Single site in Russia	Group of companies [national headquarters) in Russia	Regional headquarters outside Russia	Global headquarters
Free corporate transportation from domicile to the work site	91	92	67	86
Free (subsidized) meal in factory canteen*	67	96	67	71
Covering medical expenses in a case of professional disease	67	77	50	71
Additional sickness allowance*	33	69	17	57
Additional medical insurance	93	96	67	86
Additional medical insurance for family members	40	76	50	71
Holiday premium**	33	77	17	43
Compensation of training (education) expenses*	73	100	100	71
Subsidies for education of children**	20	69	17	14
Housing allowance**	60	92	50	43
Credits to employees*	26	69	50	43
Additional pension schemes**	33	65	33	0

Notes:

\* -- two-tailed significance of difference between groups is less than 0.100;

\*\* -- two-tailed significance of difference between groups is less than 0.010



The biggest differences were found for such measures as

- holiday premiums;
- housing allowance;
- corporate pension schemes.

For all these and some other measures, the widest use of social benefits was reported in cases in which authority over the forms of social benefits belonged to the group of companies in Russia (country headquarters), and the lowest use in cases in which the forms of social benefits were determined at global or regional foreign headquarters.

Comparing this data with that presented in Gurkov and Settles [Gurkov and Settles, 2013], we could conclude that, in general, Russian subsidiaries of MNCs surpass their locally owned competitors in the use of social benefits [except for the use of additional sick leave). At the same time, Russian subsidiaries of MNCs in which the forms of social benefits are determined in the local group of companies (almost 50% of the sample) use the advantage of dual embeddedness in designing the social benefit systems and surpass both other Russian subsidiaries of MNCs and locally owned companies in the variety of social benefits offered to employees.

## **Discussion**

We performed an exploratory study of HRM in Russian manufacturing subsidiaries of MNCs. The absolute majority of the surveyed subsidiaries occupy worthy places in the parent companies based on the efficiency of operations. In addition, labor costs account for a much smaller share of operating costs in Russian subsidiaries than the average for their parents' home countries.

Such efficiencies have been achieved with continuous support from the headquarters and, to some extent, from sister subsidiaries. However, HRM issues (new methods in HRM and forms and intensity of training) are receive less support from the parent and, especially, from sister subsidiaries. As a result, the absolute majority of manufacturing Russian subsidiaries of MNCs enjoy high discretion on most of personnel issues. In 60–85% of cases (for particular HRM issues), the authority belongs to the management of single manufacturing sites or to Russian groups of companies within a corporation (managed through a separate local headquarters or by a 'flagship' local factory).

The discretion of Russian subsidiaries on personnel issues has enabled them to develop a

distinctive set of HRM policies. First, they prefer to use permanent contracts that create the sense of job stability. Second, they set uniform standards for employees' individual performance of work integral to their duties. Achievement of such standards is mostly remunerated through the basic salary, rather than through regular bonuses and occasional additions to salary. The methods of moral recognition are also rather limited, most consisting of within-company measures. The 'liability of foreignness' prevents Russian subsidiaries of MNCs from the wide use of such measures of moral recognition of employees as inviting employees to events at which the firms receive awards and prizes, honorary industry titles, and presentation to state orders, as such measures require deep companies to be deeply embedded into local business and political networks.

At the same time, Russian subsidiaries of MNCs, especially those that enjoy high independence from global or regional headquarters in their design of social benefit systems, have developed rich sets of such benefits. Taking into account the different degrees of use of such measures (their applicability to all employees or to selected groups of employees), we can speculate about the different purposes for which different types of social benefits are used:

- Free corporate transportation, subsidized hot meals for employees, covering medical expenses in the case of a professional disease, and additional medical insurance are used in the majority of cases for all employees and their use does not depend on the source of authority on such issues (global headquarters or local group of companies). These are institutionalized attributes (since the 1990s) of a normal foreign-owned employer in Russia. As the system of additional education for adults in Russia [both business education and industrial training] has evolved during the 2000s, such attributes have been supplemented by compensation for educational expenses, offered by virtually all Russian subsidiaries of MNCs, and in most cases to many categories of employees or for all full-time employees.
- Holiday premiums, used by Russian subsidiaries of MNCs mostly when social benefits are set by local headquarters and, in the majority of such cases, for all full-time employees, are just additions to the fixed part of take-home pay.
- Additional medical insurance for family members, subsidies for children's education, housing allowance, and, especially, additional pension schemes (the latter is totally neglected by global headquarters when they determine the social benefit system) are offered mostly for selected employees or selected categories of employees as measures to

retain the most valuable employees. Such measures (especially additional pension schemes) are partial substitutes for the extremely weak social protection and, especially, pension schemes in Russia. The pension scheme situation in Russia became even worse in 2014, when the government partially expropriated pension funds.

The uniformity of remuneration schemes, including the share of the fixed part of take-home pay, additional bonuses, and social benefits in subsidiaries created through greenfield (or brownfield) investments and through acquisitions of previously locally owned companies, as well as in 'adult,' 'teen,' and 'infant' subsidiaries, indicates the low impact of corporate history on the HRM systems of Russian subsidiaries. We can assume that all the necessary actions (transformations) for designing HRM systems, including the launch of the system of social benefits, are performed during the first years of a subsidiary's operations. This assumption is in line with qualitative studies on Russian subsidiaries of MNCs [Gurkov and Filippov, 2013].

Our study also reveals a very interesting configuration of dual embeddedness of Russian subsidiaries of MNCs. Local headquarters and groups of companies that simultaneously manage several Russian enterprises (sometimes several dozen, e.g., PepsiCo, the largest food company in Russia) are becoming more like local companies by increasing the variety of bonuses and measures of moral recognition while preserving the most visible signs of 'foreignness' (free transportation, compensation for training expenses). At the same time, such groups of companies are increasing the variety of social benefits applicable to selected categories of employees above that offered in local companies.

We have seen that such a policy can be very successful – subsidiaries at which local headquarters set HRM policies experience fewer problems attracting employees in different categories.

The biggest challenge will be for Russian subsidiaries of MNCs to preserve their HRM policies in the near future, as most forecasts for 2015–2016 foresee the stagnation of the Russian economy coupled with accelerated inflation [World Bank, 2014]. We suspect that corporations that see adverse business conditions in Russia as merely temporary will compress the levels of bonuses, reflecting fluctuations in company performance, while preserving or even expanding the sets of social benefits offered to counterbalance the decrease in the total amount of real take-home pay. The most intriguing question is whether permanent job contracts will continue to be the predominant type of job contracts in Russian subsidiaries of MNCs. The experience of the previous recession (2008–2009) demonstrates that permanent job contracts offer Russian

companies great flexibility, especially for temporarily adjusting headcount (through ‘voluntary holidays without pay,’ etc.) [Gurkov and Zelenova, 2011]. Whether the local embeddedness of Russian subsidiaries of MNCs will go that far could be revealed in future surveys of foreign-owned enterprises.

### **Practical implications**

We presented an overview of the HRM systems implemented in Russian manufacturing subsidiaries of MNCs. Our study has several practical implications.

First, our results should be taken into consideration by corporations with Russian subsidiaries where HRM policies are set at global or regional corporate headquarters. Widening the sets of offered social benefits and introducing several new types of bonuses (including bonuses for valuable inventions and process improvements) can make such corporations more competitive in local job markets.

Second, our results can help to redesign the HRM policies of Russian manufacturing subsidiaries of MNCs in the current situation of economic stagnation and the drying up of social security and pension funds. In our opinion, Russian subsidiaries of MNCs should expand the use of additional pension schemes to employees, offering them more often and for a wider range of employees. In addition to the visible advantages such measures offer in terms of retention (especially of older employees who Russian laws deprive of state- supported additions to the basic pensions), wider use of corporate pensions can assist MNCs in overcoming the suspicion of foreign businesses in Russia that has been growing since the first rounds of economic sanctions.

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