

INTERNATIONAL LABOUR ORGANIZATION  
UNITED NATIONS ECONOMIC COMMISSION FOR EUROPE

## REGIONAL FORUM

# “Social Aspects and Financing of Industrial Restructuring”

26 and 27 November 2003, Moscow, Russian Federation

Topic 1. Industrial restructuring as a means of enhancing  
national competitiveness: overview of the problem

Social Goals among the Priorities of Russian CEOs: Dynamics and Policy  
Implications

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(This paper is being circulated by the secretariat as received from the author)



UNITED NATIONS

## **Social Goals among the Priorities of Russian CEOs: Dynamics and Policy Implications**

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### **The problem**

Socio-economic development of transforming economies is largely dependent on attitudes of businessmen about so-called “social issues”: job creation, wages and benefits to employees etc. The place of “social issues” within the set of companies’ goals and priorities pre-determines really implemented strategies and particular actions. In this respect, evaluation of social attitudes of key corporate decision-makers serves as a background for socio-economic policies.

The key decision maker of a company is its Chief Executive Officer (CEO). In Russia the role of CEOs (General Directors) is greater than in countries under Anglo-Saxon schemes of corporate governance and may be even greater than that in France. Therefore, the goal sets of Russian CEOs serve indeed as the main factor in strategy development and implementation.

### **The study**

In 1998-2002, we implemented a series of surveys of Russian CEOs. The emphasis of the survey was on business and institutional environment, and company strategies. Each survey also included questions about major goals of CEOs. CEOs were asked to indicate a limited number of “main goals” from the excessive list of items.

In 1998, we surveyed 740 CEOs, in 2000 – 740 CEOs and in 2002 – 1400 CEOs. The surveyed CEOs managed large and medium-size companies in all Russian regions and in the main industries\*.

### **Results**

Overall conditions in Russian business have changed dramatically since 1998. Although the three major problems Russian enterprises faced immediately after the August crisis (“low capacity utilization,” “high credit endebtness,” “high debtor endebtness”) maintained their ranks in 2002, the perceived sharpness of that problems has decreased. In addition, a completely new problem has appeared -- “the lack of qualified personnel” is now the forth most important problem the Russian CEOs face. In such a dramatically changed situation we expected that the sets of executives’ goals has also changed dramatically. The reality exceeded our expectation.

We were able to compare the sets of visible goals of Russian CEOs over the years of surveys (see Table 1).

**Table 1. Goals of Russian CEOs (percentages of CEOs stressed)**

| Goal   | 1998 | 2000 | 2002 |
|--|------|------|------|
| Maintaining the company's reputation           | 68   | 41   | 36   |
| Strengthening the position on domestic markets | 66   | 38   | 57   |
| Maintaining jobs                               | 63   | 45   | 27   |
| World quality                                  | 50   | 54   | 22   |
| High wages to employees                        | 32   | 22   | 22   |
| Oversea expansion                              | 26   | 12   | 11   |
| Value maximization                             | 16   | 8    | 8    |

The importance of particular goals has changed dramatically since 1998. Although “maintaining job” remained the third most important priority of Russian CEOs over the whole period of observations, its absolute importance has decreased significantly. In 1998, 63 percent of Russian CEOs at least declared their preoccupation with employment issues, in 2002, such a priority was important for just a quarter of CEOs.

Another “social goal” – “wages to employees” has also experienced the fall in relative and absolute importance.

We may see that social issues became to be marginalized within the set of priorities. This fact is even more evident if we compare the distribution of goals between companies in different conditions. In a survey of 2002, we were able to distinguish among “troubled”, “recovered” and “stable” companies in our sample. The base of grouping was the opinion of CEOs about the current performance of his (her) company and the trends in performance over the past two years. The distribution of answers about CEOs' goals in each of the three groups is presented in Table 2.

**Table 2. Goals of CEOs who manage the companies of different performance dynamics**

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\* Technical details about the surveys including the questionnaires used may be found in the book Gurkov, I. Innovations and Competitiveness: Essays in Russian Enterprises Development. Moscow: Theis, 2003 and also seen on the Web-site: [www.gurkov.ru](http://www.gurkov.ru)

| <b>Goal</b>                                    | <b>Troubled</b> | <b>Recovering</b> | <b>Stable</b> |
|--|-----------------|-------------------|---------------|
| Strengthening the position on domestic markets | 50.0            | 55.0              | 66.0          |
| Maintaining the company's reputation           | 34.9            | 30.0              | 31.9          |
| World quality                                  | 15.1            | 15.0              | 14.9          |
| Maintaining jobs                               | 37.7            | 27.5              | 14.9          |
| Value maximization                             | 3.8             | 5.0               | 10.6          |
| Oversea expansion                              | 12.3            | 20.0              | 10.6          |
| High wages to employees                        | 34.0            | 17.5              | 8.5           |

We may see that keeping jobs and maintaining wages were important in 2002 only for troubled companies. As soon as the performance improves, “maintaining jobs” moves from the second to the third priority. For the “permanently stable companies” maintaining jobs is important only to 15 percent to CEOs. Regarding wages, CEOs of “stable companies” do not express any anxiety about the issue.

We should remind that the Russian economy is quite heterogeneous by ownership structures. Privatized companies inherited significant blocks of stock in employees' ownership. There is also a significant state ownership in a large number of companies, especially in infrastructure. The intensive inflow of direct foreign investments over the past 5 years strengthened the foreign ownership (controlling or influential) in many Russian companies. We compared the declared goals of CEOs of companies under various ownership structures (See Table 3).

**Table 3. Main goals of CEOs of companies with particular influential owners (holding more than 25% of the stock)**

| <b>Goals</b>                                   | <b>The state</b> | <b>Employees</b> | <b>Foreigners</b> |
|--|------------------|------------------|-------------------|
| Strengthening the position on domestic markets | 48.4             | 56.4             | 50.0              |
| Maintaining the company's                      | 36.4             | 38.5             | 32.5              |

|                         |      |      |      |
|-------------------------|------|------|------|
| reputation              |      |      |      |
| High wages to employees | 27.7 | 24.3 | 22.5 |
| Maintaining jobs        | 34.2 | 22.9 | 25.0 |
| Oversea expansion       | 14.1 | 9.6  | 17.5 |
| World quality           | 19.6 | 14.7 | 20.0 |
| Value maximization      | 4.9  | 4.6  | 10.0 |

Quite naturally, companies with significant state holdings pay more attention to job security. This intention is more visible than that in companies with significant employees' ownership. This one plausible explanation is that the state is a consolidated influential shareholder, usually represented in the Board of Directors, while the employees' stock may be dissipated and therefore will not enable employees to influence the strategic decision-making.

Besides attitudes, we were able to clarify the current trends in business practices, experienced by the surveyed companies over the past few years. The special emphasis was placed to discover differences in business practices caused by ownership variations. We present here the results about the radical changes in human resource management practices (see Table 4).

Table 4. Popularity of radical changes in human resource management practices (percentages of CEOs confirmed such change in their companies in the past two years)

| Type of changes                                | Companies with significant state ownership | Companies with significant employees' ownership | Companies with significant foreign ownership |
|--|--|---|--|
| New forms and sources of personnel recruitment | 3  | 22  | 5  |
| New forms of performance appraisal             | 8  | 27  | 10   |

|   |    |    |    |
|---|----|----|----|
| New forms and methods of salary and benefits administration | 20 | 38 | 23 |
|---|----|----|----|

Companies with significant (remaining) employees' ownership are more active in implementation of radical changes in HRM practices. At the same time, state-controlled and foreign-controlled companies do not differ significantly in the speed of changes of their HRM policies.

#### Discussion and policy implications

Our study, albeit to be rather exploratory, clarified some important issues in the current trends of socio-economic development in Russia. The main findings may be summarized and interpreted as follows:

- Despite the increasing shortage of qualified workforce, the social component of corporate development is weakening in general and is especially weak for stable and dynamic companies. The social development of a company is ceasing to be a self-containing goal and is becoming to be a supportive element in corporate development.
- The essence of social development is the changes in HRM practices, especially innovations in salary and benefits administration.
- The ownership structure plays an important role in setting corporate goals but especially in re-designing HRM practices.