

HUMAN RESOURCE ISSUES IN RUSSIA: A CASE STUDY

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Abstract

In the last ten years, Russia has experienced an uneasy state of continuous transition -- economic, social, political, commercial. Such change has brought excitement and opportunity, but also difficult, painful upheaval. This study examines some of the key human resource issues and concerns of businesses operating in this transitional environment, and provides suggestions for human resource professionals, particularly those from foreign countries, working in Russia. A qualitative study, it focuses on the experiences and observations from a group of seven HR specialists working at various locations in Russia.

Introduction

Statement of the problem and purpose of the study

In the last ten years, Russia has experienced an uneasy state of continuous transition -- economic, social, political, commercial. Such change has brought excitement and opportunity, but also difficult, painful upheaval. Scholars from many disciplines have taken advantage of the more open climate in Russia to examine its current state, study its experiences and project its future. This particular study focuses on human resource practices in Russia.

As we might expect, many Russian companies seem to have focused first on the technical aspects of their businesses -- how to produce a product or provide a service, how to survive and eventually make a profit. Many of them have realized at some point that understanding how to run a business from a technical standpoint is not enough; they also need to understand the people management side of the business -- organizational structure, compensation, training, communication, motivation, and so on. Russian companies and government agencies, privatized companies, international companies interested in starting businesses or joint ventures in Russia, international non-governmental organizations and others need to better understand the current status of HR practices, and the areas future trends. This study was designed to explore the areas of HR that seem to be most critical to Russian companies at this time as well as provide some insight into the status of HR in Russia.

Background

This study grew out of a volunteer project sponsored by the International Executive Service Corps (IESC), a private, non-profit organization that provides a wide variety of technical and business services to clients around the world. Late in 1997 a group of five volunteers with extensive expertise in the Human Resources (HR) field were chosen to represent IESC in various locations in Russia. The group was brought together in early February, 1998, for a three-day orientation at IESC headquarters in Stamford, Connecticut. Each person was then assigned to a particular location in Russia, depending on individual skills and experience, time availability, and preferences. Sites included Rostov-on-Don, Nizhny Novgorod, Vladimir, Vladivostok, Ivanovo, Khabarovsk, and others. The volunteer assignments ranged from 4-6 weeks in length.

During the orientation the volunteers were introduced to a general Human Resource seminar, produced by William Merkle Associates, Inc., which covered a variety of important HR-related topics. Although the details of each assignment varied, the expectation was that each volunteer would present at least one HR seminar and then follow up with one-on-one consultations with participant companies. Each volunteer received an instructor's outline, handouts, and overhead masters in English and Russian. Additional orientation activities included an introduction to the goals and key individuals of IESC, insights into the Russian culture, tips for working with an interpreter, and brief practice presentations.

In the limited time before departure, all of the volunteers devoted themselves to seminar

preparation and reading as much as possible about Russia, particularly current information about HR and business management. During this preparation period, questions emerged which served as the basis for this study. These included:

1. What are the most important HR issues from the Russians' point of view?
What seemed to be the immediate concerns of our clients?
In what areas did they seem to want additional assistance?
What were common questions or areas of interest as expressed by our clients?
2. What are common HRD and HRM practices in Russian organizations?
How are these similar to or different from fairly standard American practices?
How do these practices vary depending on factors such as size of company, industry, and age of the business?
3. From the Russian clients' perspective, what type of assistance would be the most helpful, both now and as their organizations expand?
4. What other observations help illustrate relevant HR issues in Russia?

Definitions

Due to the broad scope of the projects in which the volunteers were engaged, the term "Human Resources (HR)" is used in this study to represent both Human Resource Development (HRD) and Human Resource Management (HRM) issues and activities. While these often are seen as separate fields of study in the United States, the volunteer projects tended to blend them into a more general HR focus.

Limitations

This study provides a current snapshot of the human resource-related issues and concerns of a limited sample of Russian companies, large and small. Given the huge expanse of Russia, it would be impossible to generalize widely beyond this sample. However, unlike many previous studies, it does include data from the Russian Far East, a region that has been largely overlooked.

Additionally, the volunteers were sent to areas and companies in need of their services. As such, volunteers were more likely to work with organizations looking for answers to problems or ways to improve, a selected segment of the more general population of Russian companies. Volunteers were less likely to be involved with companies with HR departments that were well-established and running smoothly.

Another limitation to the study is the American/British viewpoint represented. While recognizing that western management theories and practices may not be entirely applicable to

Russia's environment, the volunteers were all American or British, with years of experience in western organizations. Invited to share a western point of view, the volunteers did, nonetheless, recognize the dangers of trying to transplant foreign concepts without adaptation. Although in many cases Russian firms were looking for us to give them "the one, right solution", we provided information and shared experiences and examples from western companies to enable them to develop their own solutions.

General Background - Russia

Organizations exist within certain environmental conditions which affect their operations. Because of continuous political, economic, and social change, what is said about Russia one week may be obsolete by the next. The following information provides a brief sketch of some of the key challenges facing Russia during the period that this study was conducted.

Clearly, economic conditions underlie many of the other concerns faced by Russians today. The economy has contracted 50% since Yeltsin came to power in 1991, a deeper contraction than that experienced by the US during the great depression. However, inflation, which was 2,318% in 1992, fell to 12% in 1997 and is projected to be as low as 5% in 1998. Gross domestic product and industrial production rose slightly in 1997 and were expected to more in 1998. Many Russian work 2 or 3 jobs and are paid under the table in cash or goods. As much as 40% of Russia's economy is off the books. So, according to some experts, the economy may be healthier than government figures indicate. (Goldberg, 1998, p. 109) However, as of late summer, 1998, the currency and stock market were collapsing, and the economy seemed far from recovery. (Kvint, 1998)

Tax and cash flow problems persist. Only 5 million out of 150 million citizens hand in tax returns, and companies often hide their income overseas. The government has done little to collect from certain industrial groups that traditionally ignore taxes. Although newly appointed director of the State Tax Service, Boris Fyodorov, has begun reforms, he faces an uphill battle (Kranz, 1998, p. 51). Questions surface about the ultimate recipients of IMF funds, as well, leading some to conclude that without major reform of the tax code and strong anti-mafia measures, additional funds will do little good. (Forbes, 1998)

Political uncertainty and change on national, regional and local levels lend instability to the general climate. Despite the presence of Yeltsin at the national helm for seven years, dissenting rumbles continue to emerge from legislators and other government officials. With each new economic crisis, calls for Yeltsin's resignation leader burst forth. Regional and local leaders are still sorting out their domains, as evidenced by the open, on-going feud between the governor of the Primorye region and the mayor of Vladivostok.

In a climate of political and economic transition, social problems naturally emerge. Businesses, small and large, are pressured to provide protection money to organized crime or face retaliation, sometimes fatal. Environmental degradation and continuing high levels of pollution threaten health and safety in many areas. Inadequate health care leaves many

vulnerable to illness, and life expectancy has fallen since communism fell. (Randolph, 1996) Alcoholism has doubled since 1990 (Goldberg, 1998, p. 110), and drug use is increasing.

Numerous other results of the political and economic transition remain problematic. For example, the determination of land ownership has not yet been resolved. If a company has no clear title to the land under its buildings, why should it invest in knocking down outdated structures to build new ones? A complicated, and in some cases contradictory, legal system adds to the confusion of many organizations. Roads, utilities and other features of the infrastructure continue to deteriorate, a result of jurisdictional disputes and economic woes.

Research Design and Procedures

Qualitative in nature, the research was based on a collection of case study information. This research was undertaken not to prove or disprove any particular hypotheses, but rather as an exploratory study. The researcher was immersed in the research as one of the participating volunteers.

Sample project

Each volunteer project was somewhat different, based on local needs and conditions. To better describe the data collection techniques for this study, the following summary describes the author's assignment as a sample project.

I was assigned to Vladivostok, on the southeast tip of Siberia in the Russian Far East, for 6 weeks. My first task was to prepare and teach a public seminar about Human Resource Development and Management. I presented jointly with two local Russian professors to provide both American and Russian perspectives over a two-day period. I then consulted with individuals from the seminar and other interested managers concerning specific HR questions, problems. In addition, I worked with the staff of ESC-Vladivostok (6 people, all local) to improve the internal operations of the staff. I also traveled to Khabarovsk to conduct two HR seminars, one for the Union of Businesswomen, another for clients of Working Capital Russia, an agency providing micro-loans to entrepreneurs. In conjunction with these projects, I was invited to present lectures at three different universities.

Data collection procedures

The main sources of data were as follows:

Daily journal of the author and one other volunteer

Case notes of the author

Interviews with four other ESC volunteers, an additional ADCI-VOCA volunteer who worked on an HR consulting project during the same period, and the developer of the seminar

Observations from seminars, consulting sessions as recorded in notes

As a first step, in preparation for working in Vladivostok, I reviewed current literature concerning Russia in general and Russian business management. While in Vladivostok, I recorded events and observations in a daily journal, and also kept detailed notes of consulting meetings. After I returned, I interviewed the individuals listed above by phone, and again kept detailed notes of their responses. (See list of interview questions in Appendix A.) Once all interview and journal data were collected, the results were summarized as they related to the research questions.

Summary of participation

Organizations participating in the seminars and consulting sessions represented a broad sample of Russian organizations, including joint ventures, privatized state organizations, small entrepreneurial enterprises, and non-profit agencies. Industries included banking and financial services, hotels, restaurants, spas, consulting, manufacturing (such as hosiery, ice cream, construction materials, bottling), import/export, and professional associations. Individuals from the Russian client organizations varied widely by age, education, experience, and outlook.

The volunteers each had extensive backgrounds in human resource development/management. All but one were retired executives from various private companies, with up-to-date knowledge of current HR issues and trends. As president of a training firm and professor, I was the only non-retiree in the group.

Results

Based on the data, Russian clients expressed the most interest in and seemed the most concerned about the following HR issues:

Compensation, bonuses, incentives

All of the volunteers reported high levels of interest in compensation practices. Many of the smaller companies had no standard compensation system, and were interested in how to set up systematic, equitable pay scales and incentive structures flexible enough to withstand periods of growth and change. Companies have come to recognize that the traditional system in which full employment was a main goal, and employees were paid whether they performed or not, will not work in a market economy. The challenge is to replace those systems with new ones that will fit new economic realities and yet fit with the Russian culture.

Although incentive pay was a traditional part of the Russian compensation system, most bonuses were divided equally across the organization or among members of a specific work group. Since workers received incentives regardless of individual performance, they came to see them more as an entitlement than as a reward for good performance. (Puffer & Shekshnia, 1996) Many of the individuals we worked with are still grappling with the idea of individual performance incentives. Not only do such systems go against the traditional approach, but they may also contradict inherent aspects of the Russian culture, such as collectivism and high

uncertainty avoidance. (For a more complete discussion of the cultural aspects of compensation in Russia, see Puffer & Shekshnia, 1996, and Schuler & Rogovsky, 1998).

Management of individual performance

In connection with the issue of compensation, clients also expressed a great deal of interest in individual performance management and constructive discipline. Given the emphasis in American performance management on constructive discipline, one aspect of a few Russian organizations seemed particularly unusual to the volunteer team: the use of fines as a central focus of discipline systems. Several clients described organizations in which employees were fined for every conceivable infraction, and in at least one case the list of standard fines was posted to remind employees of the consequences of breaking the rules. While perhaps not a widespread practice, such scenarios help to explain the keen interest of many of our clients in new approaches to positive reinforcement and effective feedback techniques. The idea of formalized performance appraisal and feedback, a common part of the American business world, also elicited considerable interest.

Motivation techniques

In relation to the previous two items, our clients frequently asked questions regarding the broader area of employee motivation -- not only how to motivate employees but also how to maintain a high level of motivation. A great deal has been written about the negative effects of a centralized planning system on individual motivation. (Remnick, 1994; Randolph, 1996) In some cases the sheer lack of experience in motivating workers has left company managers trying whatever seems to work at the time. One client recounted the fact that for New Year's she gave her employees substantial gifts. This did not improve their performance, however, and they expected even more the next year. Many of my clients were clearly intrigued by job enrichment, cross-training, and organizational support of training and education as non-monetary motivational strategies.

Organizational structure, authority levels

Many of our Russian clients also wanted information about appropriate organizational structures and decision-making levels for their individual operations. Developing job descriptions, determining levels of authority, and devising systems to coordinate company functions were popular topics and discussion points. Because of their familiarity with a more authoritative, hierarchical, bureaucratic type of structure, they were also interested in more participative management approaches, team concepts, and greater employee involvement; and yet many were clearly uncomfortable with some of the ambiguities and loss of authority such approaches entail. Our observations suggest that structures must be strong enough to provide stability, yet flexible enough to enable the organization to survive an uncertain environment.

Recruiting and staffing

Under central planning systems, workers were often assigned to specific jobs, precluding the need for companies to be involved in recruitment and staffing. While recruiting and staffing are fairly straightforward processes for most American companies, some Russian companies are having to start from scratch. In one case, a client seemed surprised that he should spend time and money looking for qualified employees -- he assumed that prospective employees must somehow come to him. In another case, a new entrepreneur seemed surprised by the idea that companies could develop reputations as good places to work in order to attract the best employees. Another company, with a number of kiosk vendors, had never considered advertising for new employees at the kiosks. Clients also posed questions about the merits of selection strategies, such as testing, group and individual interviewing, and application processes.

Trust and related communication issues

The need to build or rebuild trust emerged as a constant theme throughout much of the project. With a history of caution and secrecy, and the uncertain environment currently in place, the reluctance to trust others is understandable. However, this lack of trust undoubtedly has caused and will continue to be the source of communication problems and breakdowns in authority and respect. One of the volunteers, working with one company for about a week, noted that much of his time was spent dealing with the management in this area, with little time left over for the HR issues that needed to be addressed.

Delegation

Many of the General Directors (presidents) of our client companies expressed concerns about delegating -- what types of work to delegate, how much to delegate, how to supervise delegated work, and so on. As a result of their limited delegation, many work long, hard days (and nights) and suffer from the stress of overwork. Delegation of work and responsibility requires a level of trust that many organizations have not yet been able to build, as discussed above. It also implies a change in traditional views of hierarchy and authority which still exist in many companies.

Other Issues

Clients also asked about a number of other issues, such as training and development, the role of women, basic business development, marketing, and time and stress management. Perhaps one of the more beneficial results of our seminars and consulting was the introduction of a systematic approach to HR in which recruiting, staffing, training, performance evaluation, compensation, benefits, promotions and other HR activities are seen as interrelated. As in many American companies, these functions were often handled in a piecemeal way that led to conflict and reduced productivity. Although not an HR issue as such, questions about various aspects of marketing were common, as well.

Current status of HRD/HRM

As expected, the type and level of complexity of HR practices varied depending on the

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region, industry, size of company, age of company in its current form, and other factors. In many instances, organizations seemed to have adopted traditional HR practices (what they knew best) and are struggling to adapt these practices or replace them to better fit the demands of a market-oriented economy. In some cases, organizations perceived HR as a compliance function, existing to fill out forms and enforce rules, rather than a strategic part of organizational performance and success. (Not unlike the perception of many American HR departments a few years ago.)

One of the aspects noted by some volunteers was the emphasis on testing and psychological factors, which is somewhat different than the current American view of HR as an interdisciplinary field incorporating knowledge from psychology, business theory, sociology, anthropology and other fields. Small and newer companies were more likely to have a “staff psychologist” than an HR professional, in the American sense, on board. Volunteers also observed that while many of the Russians were well-educated in more technical fields, they did not seem to have as much background in the management of people, and other “soft” skills.

Another observation seems quite logical -- new companies in many cases had focused first on getting the business going and survival. After some time, they began to recognize they needed to know how to manage the people, not just the product. This seems to be a natural step in the evolution of small businesses.

What is needed

Our experiences and observations suggest the following tips for HR professionals working in Russia.

Since some of the operational approaches of Russian companies seem somewhat behind the times, it may be tempting to introduce outdated HR concepts to match this level of development. However, American and European HR professionals have learned a great deal over the last four decades. It would be more beneficial to help them skip some of the mistakes that we made as we learned through experience and introduce the latest in HR theory and practice.

Whether consulting or instructing, use a practical approach. Relate general theories or concepts to real-life examples, even if they aren't Russian examples. Also keep information simple and basic until you are able to gauge the client's level of understanding and experience.

As in any intervention address the client's needs. We all had to be flexible to answer questions, address issues and work in areas we may not have anticipated.

To better serve the customer(s), a good needs assessment is critical. In the case of public seminars, it is much more difficult to define needs than for a specific company intervention. However, some analysis of market needs is useful. A seminar participant remarked that he had attended numerous seminars, but they seldom addressed his particular concerns.

A practical tip for non-Russians: A good interpreter and accurate

translations can make or break your best efforts!

The need for Russian organizations to develop structure is strong -- people need to have more clarity, sense that things are organized and under control. But at the same time, they need to be careful to also maintain flexibility. Recognize that this is a tough balance for any manager!

A note on curriculum

Those directing the Russian higher education system may want to consider alternative types of preparation at the university level. Students in a business curriculum need practical, human management strategies and a basic understanding of HR strategies such as staffing, compensation, motivation, performance assessment and training.

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Appendix A

HRD IN RUSSIA RESEARCH QUESTIONS

Part I - Background

1. Briefly describe your project. Where? What type of work? Length of time spent?
2. Briefly describe the organization(s) you worked with in Russia.

Part II- Seminars

1. While teaching seminars, which management and HR topics generated the most interest and questions? (Some sample areas are included at the end of the survey to help spur your thinking.)
2. What are some examples of common questions asked during seminars?
3. Did the seminar participants fill out an evaluation at the end of the training? If so, what topics seemed to be the most helpful to them?
4. What comments or questions by seminar participants did you find the most surprising? What differences did you observe in the questions and comments of Russians versus a “typical” American audience (if there is such a thing!!)?
5. Was the seminar format successful? Would other approaches be more helpful for future assistance?

Part III - Consulting and On-site Work

1. How would you describe the current status/practices of HR in the Russian companies with whom you worked?
2. When working with individual companies, which management and HR areas were they most anxious to address? Why? What were their greatest needs? What seemed to be their greatest concerns in connection with human resources? What seemed to be their greatest concerns about management in general?
3. What specific aspects of HR in Russia seemed to be similar to or different from typical American companies?
4. From your observations and experience in Russia, what are the key external factors affecting Russian businesses today (taxes, political, etc)? (Could be positive as well as negative)

5. What were the most successful aspects of the consulting part of your project? What do you think were the less successful or less helpful aspects, if any?

Part IV - Observations about Cross-cultural/Social issues

1. In what ways were teaching and consulting in Russia similar to and different from similar experiences in the US?
2. What were some of the hardest things to deal with in living in Russia?
3. What were some of the charming, most pleasant aspects of living in Russia?
4. What advice would you give someone who might consult and/or train in Russia?
5. Theorists have noted that American society is more individualistically oriented, that is, more concerned with individual goals, while Russian society is more collectively oriented, that is, more focused on collective goals and objectives. Did you see evidence of this difference during your assignment? Please explain.
6. A common cultural difference among nations is the concept of time. Did you find Russians were generally different from Americans as far as punctuality, sense of urgency about time, pace of the workplace, or other time issues?
7. Another common cultural difference is the willingness to show emotions and feelings, versus a more reserved approach in which emotions are hidden, personal, not readily shown. From your observations, how would Russians compare to other cultures in this respect?
8. Another common comparison is made between cultures in terms of a more optimistic or a more pessimistic orientation to life in general. Did you see any evidence of one of these approaches being more typical in Russia?
9. What were your observations about the role of women in business in Russia?
10. What were your observations about the need for hierarchy and clear authority structures in Russian companies?
11. What differences did you observe between the “older” generation in Russia (those that probably spent most of their working life under communism) and the newer generations, particularly the 30-years- old-and-under group?

Part V - What Else?

1. What other comments can you make about your experiences and observations in Russia

that would help others better understand the practice of HR in Russia, and the needs and future direction of HR and management in general in Russia?

Reference: Suggested Critical Issues or Areas of HRD/HRM/Organizational Development

HRD/HRM

Hiring/Staffing

Employee Retention

Constructive Discipline

Executive and Management Training

Professional and Technical Training

Hourly Worker Training

Compensation/Pay

Employee Benefits

Coaching and Feedback

Performance Appraisals

Career Development

Stress and how to avoid or manage

Organizational Development

Communications within the organization

Organizational Structure and hierarchy

Leadership Issues

Teams--team management, team structures, team learning

Decision-making

Planning Organization Structure

Growth and organizational change

Total Quality, other ways to improve organizational performance

Corporate culture

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Dr. Berger spent ten years as a Training Specialist at Virginia Power, before founding her own company in 1990. She has designed and instructed a wide variety of classes including business writing, ethics, teambuilding, leadership skills, performance management systems, computer software, job analysis, facilitation and presentation skills, and train the trainer. She has also designed, developed and implemented training programs for skilled employees, including electric linemen (overhead, underground, network, and transmission), line foremen, metermen, substation technicians, customer engineers, customer service and marketing representatives, cable locators, and many others.

Her clients have included United Nations Industrial Development Organization (Vienna, Austria), Singapore and Malaysian Institutes of Management, Delmarva Power, Los Alamos National Labs, Overnite Transportation, Richmond Newspapers, St. Joseph Light and Power, Columbia Gas, New England Power, Virginia State University Executive Staff, Nabisco, Virginia Power, Philip Morris, Virginia Department of Personnel and Training, Virginia Department of Social Services, Virginia Department of Transportation, US Department of Agriculture, Lawyers Title Insurance Company, and others.

She is also a volunteer executive with the International Executive Service Corps, and spent six weeks consulting with Russian companies in Vladivostok (Russian Far East) in April and May, 1998.

Her professional preparation has included a PhD in Human Resource Development from Virginia Commonwealth University, a Masters in French from the University of Virginia, and a Graduate French Teaching Certificate from the Université de Nice, France.

She has spoken at numerous national conferences in the US, Canada, and Europe for the Academy of Business and Administrative Sciences (ABAS), American Society for Training and Development (ASTD), the International Society for Performance Improvement (ISPI), and the American Association of Adult and Continuing Education (AAACE). She is also a frequent *Human Resources in Russia: A Case Study*

speaker for local businesses and organizations.