

EXAMINING HUMAN RESOURCE MANAGEMENT IN POST-SOVIET KAZAKHSTAN

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Abstract

In post-Soviet Eastern Europe, the former communist nations have increasingly internationalized through inward foreign direct investment initially from Western European and North American multinationals and more recently, from other transition economy multinationals. This paper specially explores human resource management (HRM) practices in foreign-owned subsidiaries in Kazakhstan to examine the development of HRM in Kazakhstan and the extent to which practices and policies are reflective of their countries of origin, older-style Soviet and post-Soviet practices, or an emerging Kazakhstan. The discussion is based on the findings of research which utilized a questionnaire-based survey, supplemented with secondary data and informal interviews with HR managers. The paper concludes with suggesting that the HRM and employee relations practices utilized in these subsidiaries in Kazakhstan are a hybrid of old style Soviet practices and Western-based approaches (both US and European), and provides some implications for theory and managerial practice.

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INTRODUCTION

As increasing numbers of markets and businesses internationalize, issues associated with the human resource management (HRM) practices utilized in these acquired, merged or newly-established wholly-owned foreign enterprises (WOFEs) or joint ventures (JVs) that result from foreign direct investment (FDI) take on increasing importance for both global organizations and national governments alike. Moreover, understanding the factors that determine the HRM practices that are produced in these organizations as a result of FDI has become more pronounced as academic researchers and business practitioners grapple with understanding the operationalization of these emergent HRM practices which are often a hybrid blend of host country practices with practices of the country of origin of the foreign direct investor. The actual impact of the introduction of management and HRM practices from foreign investors is even more pronounced where the foreign investors hail from dramatically different political, economic and social systems, as occurs where there is Western investment in transition economies in the former East European Soviet bloc. One such nation is Kazakhstan, a nation that was a republic of the former Soviet Union, now a member of the Commonwealth of Independent States (CIS) and positioned in northern and central Eurasia with part of its territory located in eastern-most Europe, and is regarded by UNCTAD (2006) as being part of Southeast Europe.

Following independence in 1991, Kazakhstan has made significant reforms to the Soviet command-economy and monopolist political power and development of a market economy and fledgling democracy (Arystanbekov, 2005; Promfret, 2005; Tatibekov, Adams & Prochaska, 2004), yet much of the Soviet-style management and work practices remain as a legacy of the Soviet-era (Charman, 1998; Griffin, 1999; Muratbekova-Touron, 2002; Safavi, 1997). While, like many of its former Soviet republics and its neighbor, China, Kazakhstan has a large agricultural sector (which remains the source of livelihood for a large percentage of its population) (Cseh et al., 2004; Tatibekov, Adams & Prochaska, 2004), Kazakhstan has experienced negative GDP growth but since 2000 has enjoyed substantive economic growth in the post-Soviet era, in no small part due to its large oil, gas and mineral reserves (Arystanbekov, 2005; Promfret, 2005). The oil and gas reserves are estimated to be the 3rd largest in the world and Kazakhstan is in the top twenty in oil production (Promfret, 2005). These oil, gas, mineral and energy reserves have made Kazakhstan a very attractive prospect for FDI. Yet, while there is a growing body of literature exploring FDI in Kazakhstan, limited research has been undertaken into the implications of such investment for HRM practices. This paper seeks to address this gap in the literature by examining the extent to which Kazakhstan's post-Soviet experience of internationalization from inward FDI has affected its HRM practices. The rationale for examining Kazakhstan is because of - a) its potential strategic importance to international businesses, especially petrochemical and mining organizations seeking to expand their international operations into relatively untapped markets, and b) because it has experienced international capitalist market economic integration and transformation more slowly than other former Communist nations in Central Eastern Europe. In 2001 and 2002 respectively, the EU and the USA recognized Kazakhstan as a market economy and its GDP has grown by 51 percent over the last five years through OFDI.

In discussing the impact of inward FDI on HRM practices in the Republic of Kazakhstan (hereafter referred to as Kazakhstan) and the extent to which the practices remain Soviet in orientation, are the product of foreign direct investor organizations, or a reflection of Kazakhstan's increased integration into Europe, this paper makes particular reference to a survey of HR managers of 70 foreign subsidiaries in Kazakhstan. The questionnaire, which was developed from the well-established Cranet Survey on International Strategic Human Resource Management (see Brewster et al., 2001), addressed seven areas of HRM. The survey results are also supported by secondary documentation and informal interviews with HR managers.

The paper commences with a review of the literature on foreign direct investment in Kazakhstan, the emergence of HRM in Kazakhstan and the impact of FDI on HRM practices in Kazakhstan. This is followed by an overview of the research methods and then the key findings of the research. The paper concludes with our analysis of conclusions about HRM influences in Kazakhstan and future and relevant implications that can be drawn for theory as well as practice.

LITERATURE REVIEW

A critical aspect for the success of an international venture for an MNC is how they manage their human resources (Schuler, Budhwar & Florkowski, 2002). The system that is comprised of a “set of distinct activities, functions, and processes that are directed at attracting, developing, and maintaining an MNC’s human resources” is an international human resource management (IHRM) system (Taylor, Beechler & Napier, 1996: 960). There are four basic approaches a multinational corporation (MNC) uses to manage human resources in a non-domestic environment, ranging from ethno-centric through regio-centric. Table 1 outlines those approaches.

Table 1: IHRM Approaches

IHRM Approach	HRM System	Decision-making Location	Manager Nationality
Ethnocentric	Home	Home HQ	Expatriates
Polycentric	Host	Primarily Host	Host
Geocentric	Global Hybrid	Global HQ	Based on ability; not location
Regiocentric	Global Hybrid	Regional	Based on ability; not location

Source: Shen, 2005

Schuler, Dowling and De Cieri (1993) demonstrated that exogenous and endogenous factors affect the transfer and adaptation processes of IHRM systems. Exogenous factors were either industry characteristics (e.g. business type, technology, and competition) or country/regional characteristics (e.g. economic, political and socio-cultural conditions, and legal approaches). Endogenous factors encapsulated an MNC’s structure, experience, strategy and the approach headquarters management utilized.

Shen (2005) reviewed all the factors and concluded that they could be broken down into three categories that were based on Schuler, Dowling and De Cieri’s. Shen (2005) expanded the factors by adding the host country/regional economic, political, socio-cultural and legal characteristics. Thus IHRM could be affected by firm, home and host country characteristics. Sanyal and Guvenli (2000) put forth that management control techniques were a key factor employed by MNCs to ensure success. Although they concentrated on financial control techniques, their results foreshadowed Shen’s findings. The relationship between control techniques and form or percentage of ownership was found to be not significant. Therefore if management of human resources and management control techniques are critical to the success of an MNC the question remains as to what system provides the greatest opportunity for success.

FDI in Kazakhstan

After independence in December 1991 Kazakhstan followed Russia’s economic reform policies for the transition to a market economy (Promfret, 2005; Tatibekov, Adams & Prochaska, 2004). The strategy was based on price liberalization and privatization of state enterprises. However due to the abrupt halt of large financial transfers from the former Soviet Union (which Kazakhstan relied on to finance government expenditure), unstable oil prices, and subsequent Kazakhstan government policy, the 1990s were plagued by hyperinflation, negative GDP growth and a large government deficit (Griffin, 1999; Wilson, Gardner, Kurganbaeva & Sarharchuk, 2002). A

continued reliance on Russian markets resulted in economic trends that mirrored the Russian economic environment (Wilson et al., 2002). Kazakhstan's abundant natural resources provide a viable pathway to procure FDI in order to alleviate the reliance on Russian markets.

The need for FDI was based upon the desire to ensure stable economic growth (Umurzakov, 2003). In order to accomplish that goal, seven key factors were recognized: 1) lack of domestic funds; 2) state debt; 3) outdated technology; 4) need for working capital; 5) increase competition; 6) access to foreign markets; and 7) large current-account deficits (Arystanbekov, 2005). However, factors hindering FDI were perceived by investors to be an unstable economic environment (Arystanbekov, 2005; Charman, 1998), weak infrastructure (Arystanbekov, 2005), poor corporate governance, especially in the small to medium-sized enterprises (Griffin, 1999; Umurzakov, 2003), lack of transparency in the legal and tax systems (Arystanbekov, 2005; Umurzakov, 2003), corruption and crime (Charman, 1998; Umurzakov, 2003; Wilson et al., 2002; Wu & Chen, 2004), heavy bureaucracy (Arystanbekov, 2005; Umurzakov, 2003; Wu & Chen, 2004), and government intervention (Umurzakov, 2003). Despite these drawbacks, FDI has steadily increased since 1992 (Promfret, 2005).

Early FDI centered on the purchase of state assets or management contracts that included purchase options. For example Almaty Tobacco plant sold to Philip Morris (US) for US\$296 million; Shimkent Confectionery plant sold to RJR Nabisco (US) for US\$65 million; and Unilever purchased Almaty and Karaganda Margarine plants for US\$60 million (Promfret, 2005). However, the concentration of FDI is on mineral extraction, especially the oil and gas sector. As an example, in 2001 the oil and gas sector accounted for 81 percent of all FDI (Promfret, 2005; Umurzakov, 2003).

To date the United States of America (US) has been the single largest investor in Kazakhstan. In the period of 1993 to 2000, Canada and the United States accounted for 36.8 percent of FDI. United Kingdom was the second heaviest investor accounting for 13.2 percent of FDI for the same time frame. In total, FDI from Western nations accounted for over 55 percent of the foreign investment in Kazakhstan (Umurzakov, 2003). Once again the bulk of that investment has been in oil and gas. For example, Chevron Texaco American's US\$2 billion joint venture with Tengizchevroil and ExxonMobil's combined investments of US\$1.2 billion (Umurzakov, 2003). The Kazakhstan Embassy in the UK (2006) suggests that the top five investor countries are the US (29.8 percent), the Netherlands (11.6 percent), the UK (11 percent), Italy (6.2 percent), and Switzerland (5.1 percent) and that there are about 7,000 joint venture OFDI currently in operation (<http://www.kazakhstanembassy.org.uk/cgi-bin/index/65>)

The Asian nations have also invested significant amounts into Kazakhstan. From 1993 to 2000 the Republic of Korea, China, Japan and Indonesia were responsible for slightly over 21 percent of the total FDI (Umurzakov, 2003). China initiated diplomatic and economic relations shortly after the declaration of Kazakhstan independence and in the mid 1990s started to increase their investments (Promfret, 2005). Since that time China has become the fourth largest investor (Umurzakov, 2003) and with the purchase of PetroKazakhstan, China National Petroleum Corp. (CNPC) assumes the mantle of the second-largest oil company in the country (Liao, 2006).

The advantages for China to invest include geographic proximity (shared border), a wealth of mineral and energy resources, and the possibility to increase their sphere of influence in the area. To that end in 1996 China along with Russia, Kazakhstan, Kyrgyzstan and Tajikistan created the Shanghai Cooperation Organization, also referred to as the 'Shanghai Five', to strengthen political and economic ties in the region (Liao, 2006; Wu & Chen, 2004). The establishment of this body can be seen as an attempt by both countries to alleviate investors' concerns of political and economic stability, and corruption.

The Emergence of Human Resource Management in Kazakhstan

The literature on HRM and its development in Kazakhstan since 1991 is scant. The vast majority of the articles centre on general management and/or leadership. Safavi (1997) discusses the need for management education in Western management theory and practice. Charman (1998) in his study of JVs echoes Safavi's call for more educated managers. "Fundamental principles that underlie business decisions in the West - such as "investment", "profit", "return on capital employed" and "net worth" - are generally very poorly understood in former centrally planned cultures like those of Kazakhstan..." (Charman, 1998: 18).

Social policy and the transformation to a market economy is the subject of Griffin (1999). However the article deals more with the macroeconomic stability than it does social protection. When it does discuss social protection it is in a broad sense and recommends employment creation initiatives. Griffin also raises the issue of the lack of management skills and knowledge in small to medium-sized enterprise managers but in his recommendations failed to suggest any solutions to the lack of management skills and knowledge (1999). Griffith, Zeybek and O'Brien propose that the knowledge transfer in JVs influences commitment and satisfaction positively. The findings indicate that knowledge sharing can be used as a relationship building instrument but warned that the "...acquired knowledge must be translated into behavioral changes." (Griffith, Zeybeck & O'Brien, 2001: 12).

Five articles used Hofstede cultural values as indices to measure and compare management styles of Kazakhstan and other former Soviet Union nations. A series of three articles by Ardichvili and co-authors include leadership styles and cultural values in their analysis of five former Soviet Union nations (Ardichvili, 2001; Ardichvili & Gasparishvili, 2001; Ardichvili & Kuchinke, 2002). The common message of these articles was that "...organization development interventions based on Western HRD theories should be tailored to each country's culture" (Ardichvili 2001: .379). This statement was confirmed in a study of organizational culture and socio-cultural values which once again utilized five former Soviet Union nations (Cseh et al., 2004). Differences were found between Russia and Kazakhstan in leadership styles (Ardichvili, 2001; Ardichvili & Gasparishvili, 2001) and significant differences surfaced between Kazakhstan and German and American leadership styles (Ardichvili & Kuchinke, 2002). Kazakhstan demonstrated the lowest score on inspirational motivation, indicating a more formal 'by the book' hierarchical style of management. It was recommended that cultural assessments should be undertaken within each organization (Ardichvili, 2001).

Two British researchers teamed with two Kazakhstan researchers to analyze the effect of reforms initiated within the public administration sector. The results from 195 participants indicated that they overwhelmingly believed that new management skills were required for the transition to a market economy. Further, only 23 percent believed they had sufficient knowledge of HRM (Wilson et al., 2002). Thus, the authors reiterated Safavi's earlier call for more management training.

In regards to the management style of Kazakhstan and managers, it was succinctly summed up by Muratbekova-Touron (2002) in her comparison against Russian managers utilizing the perceptions of French expatriate managers. To begin, the influence of the communist regime of the former Soviet Union remained clearly visible in the heavy bureaucratic and hierarchical management structures (Muratbekova-Touron, 2002). Cultural levels of high power distance facilitated an autocratic management style that outcome was a respect and obedience to power. The desire to avoid risk or uncertainty (high uncertainty avoidance) had been countered by "heavy bureaucracy and, centralization and detailed and strict law" (Muratbekova-Touron, 2002: 218). Thus managers generally lacked initiative, were afraid of making decisions and avoided taking personal responsibility for decisions. A problem arising from this was that reports reflected what management wished to hear and not necessarily the truth. The resultant low flow of information was also bolstered by the use of information as a tool of power. A consequence was that managers distrusted everyone and felt the need to constantly supervise. As noted by previous authors, Kazakhstan demonstrates a collectivistic culture where the family unit and where you are

from are important. Therefore, in the business environment, nepotism and relationships (family and friends) are often the keys for a successful management career. Similar to the Chinese concept of '*guanxi*' (a network of social and interpersonal relationships) relationship building is important; who you know is important and introductions were seen as a necessity (Muratbekova-Touron, 2002). Finally the only article that had HRM as a focus was Tatibekov, Adams and Prochaska's (2004) analysis of labor market characteristics and HRM in Kazakhstan.

The labor market was influenced by a declining population, the transformation to a market economy, and labor and employment law revisions. Until the year 2000 labor law was based on Soviet labor law systems implemented in the 1970s. HRM was influenced by the rapid increase of private sector; by 1999 more than 65 percent of the work force was employed in the private sector, which included approximately 3 percent employed in the foreign-owned sector (Tatibekov, Adams & Prochaska, 2004). HRM issues that arose were poor health and safety conditions; poor recruitment and selection and retention, which led to high levels of voluntary turnover; negligible training in private-sector; and poor compensation systems, which led to inequity of wages and significant variance according to economic activity. The authors concluded that management and employees needed to change their business attitudes and behaviors and as put forth by other authors, education was seen as the key (Tatibekov, Adams & Prochaska, 2004).

METHODS

The research presented in this paper examines HRM in foreign-owned subsidiaries in Kazakhstan and is based on the findings of a questionnaire-based survey supplemented by secondary data and informal interviews with HR professionals in Kazakhstan. Due to the absence of the reliable data sets available from companies, the initial contact list was developed from a business directory published by PriceWaterhouseCoopers and contacts one of the authors had established amongst the HR community through previous projects. Initially HR managers from 200 foreign-owned subsidiaries were contacted and requested to complete the questionnaire, which was developed from the well-established Cranet Survey on International Strategic Human Resource Management (described and discussed in Brewster et al., 2001). The questionnaire consisted of seven sections addressing the following: HR Policies (3 questions); Organizational Planning and Staffing (6 questions); Employee Transfer, Training and Development (11 questions); Compensation Management (3 questions); Performance Appraisal (4 questions); Employee and Industrial Relations (7 questions); and Firm Performance (4 questions).

Selecting appropriate, knowledgeable key informants was critical since the reliability of information about activities related to a subsidiary depended on whether the selected persons had the required knowledge. Questionnaires were addressed to a HRM Manager/General Manager of the focal subsidiary. If the initial contact manager was unable to complete the survey, s/he was requested to forward the questionnaire to another senior/middle level manager with sufficient knowledge of HR practices within the organization to be able to address the survey questions. The respondents were assured in the confidentiality of their responses.

The survey elicited usable responses from 70 companies (a response rate of 35 percent). The responding subsidiaries were of the following country origins: USA (21), Turkey (9), the UK (6), Switzerland (5), Canada (3), the Netherlands (3), Singapore (2), Korea (2), Germany (2), Belgium (1), Denmark (1), Saudi Arabia (1), Russia (1), Malaysia (1), and Sweden (1). Half of the subsidiaries were wholly-owned (100 percent foreign-invested capital), 18 subsidiaries were majority wholly-owned (more than 51 percent foreign capital) and 8 subsidiaries had less than 50 percent of foreign capital. Nine respondents declined to reveal such company information. All subsidiaries were established after 1991. The respondent subsidiaries were drawn from a multi-industry profile including: food and consumer goods production (13); oil and gas (12); banks (10); service (8); consultancy (6); sales (6); telecommunications (4); construction (3); energy sector (3); transportation (2); agriculture (1); metal industries; (1), and one company declined to respond in which industry it operated. The achieved response rate is relatively high compared to the

response rates of similar studies. For example, an average response rate of the Cranet survey on International Human Resource management was 16.6-22.5 percent, varying between countries (depending on different attitudes towards surveys and other national context considerations).

The results of the survey were analyzed using SPSS statistical analysis software. Secondary documentation was also used to triangulate results. The secondary documentation included company reports and government data, some of which was accessed through official and unofficial websites. It should be noted that such information is not always accurate and is subject to some interpretation; therefore the majority of our analysis is based on the survey data.

Informal (non-transcribed) interviews were also conducted with two HR professionals (directors of a training agency and a recruitment firm) and two senior managers of well-known global consulting firms. These interviewees provided a valuable analysis of the state of HRM in Kazakhstan as they had provided training to a large number of organizations that are represented in our survey. Yet, while the interview data informed our understanding of HRM practices in foreign invested subsidiaries in Kazakhstan, the findings reported herein are drawn only from the survey results.

RESULTS AND DISCUSSION

Of the larger study, six HRM areas form the focus of this paper, including: job analysis and design; recruitment and selection; training and development; compensation; performance appraisal; and employee relations and communication. Figure 1 presents the results of level of formalization of the HRM policies in the named areas. Policies exist in written form for a majority of the companies, but mainly for 100 percent foreign-owned companies (see Table 2). Compensation, performance appraisal, and recruitment and selection policies received most attention by organizations.

Figure 1: Organizational Policies in Specific Human Resource Management Areas

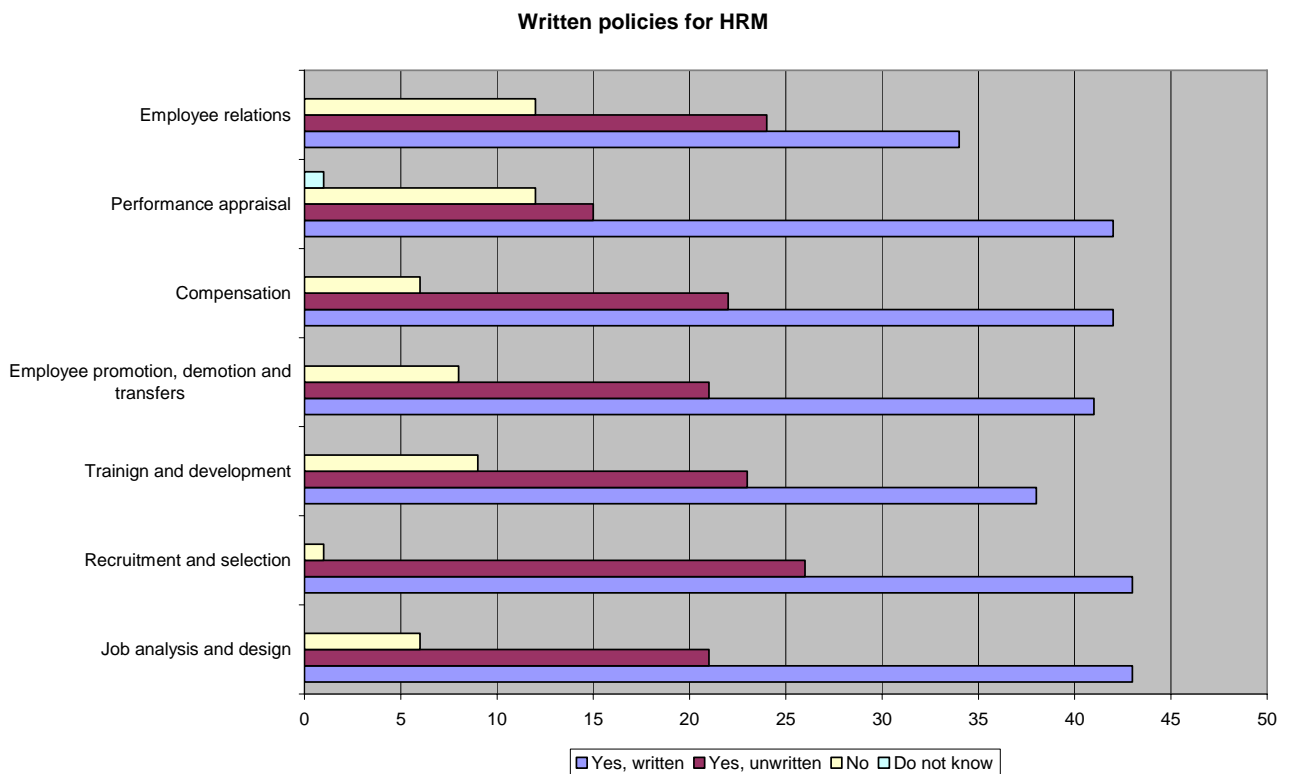


Table 2: Written Organizational Policies for Human Resource Management Areas

Please circle your answer	100 percent foreign-owned	Mixed ownership
Job analysis and design	21	16
Recruitment and selection	25	12
Training and development	21	10
Employee promotion, demotion and lateral transfer	23	12
Compensation	26	11
Performance appraisal	25	10
Employee relations and communication	20	7

While decentralization has long been regarded as “a best practice” in HRM, it is not practised in foreign subsidiaries in Kazakhstan. A dominant ethnocentric approach in all policy areas is observable (see Table 3). As expected, whenever it comes to direct financial and control matters, organizations are more likely to dictate policies centrally. Surprisingly, job analysis and design opted for the highest degree of centralization. Decisions in the areas of employee promotion and transfer as well as employee relations are least centralized.

Table 3: Locus of Determination for Policy Areas (as a percentage)

	Job analysis and design	Recruitment and selection	Training and development	Employee promotion and transfer	Compensation	Performance appraisal	Employee relations
HQs	71	67	67	57	60	60	59
Subsidiary	27	31	30	41	37	37	40
Non-response	2	2	3	2	3	3	1

Respondents reported that responsibility for particular personnel policy decisions rely on line managers working together with HR departments (see Table 4). This is especially true for employee relations, performance appraisal and job analysis. The latter is not surprising due to the fact that there are no manuals or handbooks which can be used by HR people. There are certain recommendations issued by the Ministry of Law, but they are often too general and inapplicable. Hence a majority of the foreign-owned subsidiaries use the ‘home-made’ HR practices and adjust them to the local (mainly socio-cultural) conditions using local knowledge of line managers. It is common practice to ask line managers to write a job description or make a performance evaluation of a subordinate.

Table 4: Primary Responsibility for Policy Decisions (as a percentage)

	Job analysis and design	Recruitment and selection	Training and development	Employee promotion, demotion and transfers	Compensation	Performance appraisal	Employee relations
Line managers	26	20	21	23	23	36	27
Line+HR	33	36	36	34	27	24	37
HR	10	21	16	16	17	13	17
HR+HQ	14	11	10	10	16	9	6
HQ	14	9	13	14	14	13	10
Non-response	3	3	4	3	3	6	3

Flexible working practices are not used to a very large extent, except sub-contracting and outsourcing. Job rotation is used by large MNCs, when two people share the same full-time position. For example, this is done in Tengizchevroil (US-Kazakhstan JV) to provide non-stop support for oil exploration activities. It is considered as a best practice to have an expatriate and a local manager as rotation partners.

The findings suggest that a relatively high proportion of people within the preceding year took part in internal or external **training activities**. In many cases foreign investors are obliged to provide such training by Kazakhstan legislation. The government implemented a workforce nationalization policy which included the required investment of one percent of all companies' operating capital to be allocated to training of the Kazakhstani national workforce. Respondents were asked to indicate on a Likert-type scale (ranging from 1 – always to 5 - never) the frequency of using various **recruitment methods**. The most often used method is promotion from within (mean 2.57), closely followed by employee referrals (so called 'word of mouth') with mean 2.24. We asked our respondents about factors which they take into consideration while making **promotion decisions**. Surprisingly, personality and professionalism were rated higher than seniority (which should have been important given the Kazakh cultural characteristic respect for age). This could be explained by the fact that foreign subsidiaries usually attract younger employees. Indeed, the average age of the workforce in the studied organizations was 35.5 years old.

Through examining the bivariate correlations between various recruitment methods, we can observe some indications for potential interdependencies between those methods (see Table 5). For example, those few companies which use employment agencies also tend to use executive search firms, job fairs and career conferences. Organizations which could not afford such expensive recruitment methods rely on own advertising, unsolicited applications, job search advertising and (although very seldom) state employment agencies.

Table 5: Correlation Matrix for Recruitment Methods

	1	2	3	4	5	6	7	8	9	10
1. Promotion from within	1.000									
2. Own advertising	0.205	1.000								
3. Employee referrals	0.007	-0.121	1.000							
4. Walk-in-applicants	0.192	0.417***	-0.024	1.000						
5. Direct recruitment from colleagues and universities	-0.015	0.106	-0.271**	0.434***	1.000					
6. State employment services	-0.144	0.262**	-0.020	-0.068	0.234 [†]	1.000				
7. Private employment agencies	-0.153	0.120	-0.093	0.0093	0.175	-0.034	1.000			
8. Executive search firms	-0.137	0.040	0.187	0.129	0.031	-0.048	0.411***	1.000		
9. Job search advertising	0.060	0.564***	0.140	0.512***	0.236 [†]	0.225	0.057	0.053	1.000	
10. Job fairs and career conferences	0.164	0.144	0.007	0.332**	0.464***	0.081	0.351**	0.215	0.247*	1.000

*** - $p < 0.001$, ** - $p < 0.01$, * - $p < 0.05$, [†] - $p < 0.10$

Considerable differences were observed between occupational groups in the perception of **recruitment difficulties**. Recruitment difficulties are in particular present when organizations are looking for managerial knowledge (middle and line managers) and specific professional/technical skills (including IT). Organizations almost never experienced any problems in recruiting clerical workforce or manual workers.

There are some differences in the **channels used for fulfilling job vacancies** (see Table 6). One-on-one interviews were used for every appointment in 42 organizations. On average 8 people are interviewed for each hire. Job application forms accompany the recruitment and selection process in 35 subsidiaries, while they are not used at all in 16 subsidiaries. Tests are not used very much, although there are observable sectoral differences (e.g. professional tests are used more in banks and consulting firms than in other industries). Respondents gave credit to references while they are used only in 17 cases for every appointment. Assessment centers are not popular since only recently HRM agencies have been established and started offering such services. **Orientation programs** are formally established in more than half of the sample (43 cases).

Table 6: Use of Selection Methods (as a percentage)

	Interview panel	One-to-one interview	Application forms	Psychometric and ability tests	Assessment center	References	Professional tests
For every appointment	27	60	50	14	0	24	14
For most appointments	17	29	14	7	4	31	13
For some appointments	29	6	6	16	9	29	20
For few appointments	14	3	7	16	13	11	21
Not used	13	3	23	47	74	4	31

Uzhneftegaz (previously state-owned oil company) by Canadian Hurricane provided training programs for selected management and employees consistent with their needs and that of Hurricane. Further to the training areas defined in the purchase contract, Hurricane undertook a complete evaluation of the safety measures in place and implemented the necessary safety training in all company departments. To accomplish this task, training facilities were upgraded, personnel were added to the training staff and comprehensive training programs were initiated. During the first five years most of the approximately 5,700 employees have been subject to a large-scale training, which was provided and administrated mainly internally. Training has been provided in all areas of the company's operations including, but not limited to, all field operations, maintenance, environmental, safety, and management skills.

Large foreign-owned organizations have now turned their training strategies into long-term HR development planning and set the tone for both the prices and products offered by training agencies. This has been the case with several large MNCs such as Phillip Morris, PetroKazakhstan group of companies, Tengizchevroil, Kellogg Brown Root, and Agip. Other medium and smaller-size companies, both international and national, still exercise a rather chaotic, reactive approach to training so their training strategies respond to the particular production needs at the time. However, even within this approach, there is evidently a tendency for a rather packaged training service that should include not only single-subject training but also additional topics and areas relevant to the main subject.

Respondents were asked to indicate on the Likert-type scale (ranging from 1 – strongly disagree to 5 – strongly agree) the extent to which they agree with the following statements: “We provide a considerable amount of training for all level employees” (mean 3.50) and “Management ensures that all employees are given a fair chance for training and advancement” (mean 3.61). Their answers were then compared with their responses to the question: “Results of performance appraisal are used as basis for decision on training and development” (the same Likert-type scale). The responses were highly correlated ($p < 0.001$), indicating a potential relationship **between performance appraisal and training practices**. As for the practices oriented at **management development** – ‘formal career planning’, ‘high flyer schemes’, ‘international experience schemes’ – companies clearly prefer the latter over the first two. Finally, in those organizations where training and development are in active use, employees’ behavioral outcomes (motivation, skills and abilities, employees’ commitment, job satisfaction) were rated significantly higher.

Questions related to **compensation** in many cases were not answered since they were regarded by the respondents as ‘confidential’. Yet, respondents named various **benefits** in use, mainly pension schemes and medical insurance for employees and their families. Maternity leave is only practised within the requirements of the Labor Law which grants women seventy calendar days before the childbirth and fifty-six (seventy in case of complicated childbirth or delivery of two or

more children) days after the childbirth. Paternity leave is only practised in cases of adopted newborn children. Often maternity leave is cut short by young mothers, both because they want to get back to the job and because they experience some informal pressure from the company. Social benefit packages are more and more used as the way to attract and retain talented employees, although the best way still remains a salary increase.

Fifty-five respondents agreed with the following statement: "We regularly (at least once per year) use a formal **performance appraisal** procedure". Majority of the organizations use supervisors in their appraisal process (mean 3.72), followed by assessment made by the HR managers (mean 3.12). Evaluations from subordinates, peers and self-evaluations are seldom practised.

Performance appraisal is mainly used as a means of control and evaluation of an employee's appropriateness for a position (in terms of knowledge and skills). The results of performance appraisal are used for decisions on promotion and demotion, compensation, training and development and less often for contract renewal, layoffs and work reduction. Ascending forms of **communication** are seldom seen. Although foreign-owned companies try to establish progressive work practices to enhance upward communication (such as employee feedback program, suggestion systems, etc.), the actual use of those practices is rare. Only 19 respondents agreed with the statement: "HR departments have to deal with trade unions and collective bargaining on an everyday basis". The responses to this question were not correlated to the responses to the question of whether there is a written policy for employee relations and communications. Finally, the reported average annual staff turnover was 7.38 percent and absenteeism was 4.3 days per year per employee.

CONCLUSIONS

The paper explored HRM practices in foreign-owned subsidiaries in Kazakhstan. Below, we discuss the extent to which the studied practices are reflective of older style Soviet and post-Soviet or Western (both US and European).

The findings concerning the level of formalization of HRM to some extent mirror the average EU figures. According to Brewster et al. (2001), the areas most commonly addressed by policy are training and development (in 68 percent of organizations), closely followed by pay and benefits (in 65 percent of organizations), while the least addressed are equal employment opportunity (37 percent), communication, and management development (38 percent each). Our data suggests that foreign subsidiaries in Kazakhstan are more likely to formalize policies for compensation, recruitment and selection, and job analysis and design, and less likely to do so for the areas of employee relations and communication. The latter could be ascribed to the low level of unionization of the workforce and employee involvement (e.g. work councils, committees, etc.). This suggests a convergence with the HRM practices of foreign subsidiary organizations while maintaining a tendency to utilize employee relations policies consistent with the influence of old Soviet practice. The latter is consistent with the findings of Dickmann (2003) who suggests that it can be expected that issues such as wage determination, the role of unions, and working hours and work conditions are determined by the local environment. Ergo, the HRM and employee relations practices currently in operation are a hybrid of old style Soviet Kazakh practices and Western-based approaches.

Our data indicates that main policy development is happening at the central level, i.e. headquarters. This is in line with Cranet findings in a southern European bloc (Italy, Portugal, Spain and Greece). Importantly though, the transferred HRM practices need to be adapted to the local, mainly socio-cultural, conditions.

The role of the HRM department has shifted over time from being an administrative back up system, which dealt with paper work, to a managerial unit, which sees people as resources to achieve organizational objectives. Further, HRM was pushed closer to line managers. We found

indications of sharing responsibilities between HR and line managers especially in the areas of employee relations, performance appraisal and job analysis. Overall, the finding is consistent with the Cranet's findings in Europe although the areas of cooperation between HRM and line managers slightly differ (for Cranet they are pay and benefits, training and development, and industrial relations). As argued, organizations in Kazakhstan only recently started to consider training strategically, and still use it to fulfill the deficiency of knowledge rather than develop employees for the future – an emphasis on the induction and training rather than education and development aspects of human resource development (HRD).

A shift from the Soviet (and post-Soviet) recruitment procedures is easily observable. In the Soviet era, organizations practised direct recruitment from universities and colleges as well as state employment agencies. In our study only one organization reported that they would always use direct recruitment, while more than half of the respondents said that they would never use state employment agency for recruitment. Studied organizations favor two recruitment methods: promotion from within and 'word of mouth'. The limited use of the external recruitment sources is typical for collectivistic cultures (Bjorkman & Lu, 1999). However, although Cranet data and follow-up studies on societal culture and HRM (Papalexandris & Panayotopoulou, 2004) did reveal systematic international differences in the main recruitment method, those differences were not significant and could not always be ascribed to cultural differences, even within regions. For example, in Europe 'word of mouth' is popular in Sweden and Spain, but not in Italy or Portugal.

In line with previous findings on lack of managerial competencies, our respondents reported difficulties in the recruitment of middle managers, line managers and supervisors. However, we also observed a new trend - the skills shortage in professional/technical occupations. It was believed that the comparative advantages of former Soviet Union countries were in the availability of technical skills due to the relatively high level of technical education. However, management education was in fashion in the 1990s, leaving technical universities behind and resulting in the current tight labor market for professional and technical skills.

For most appointments, organizations use interviews, accompanied by an application form and references. This is in accordance with Cranet findings: in 1999 a one-on-one interview was used for most or all appointments (79 percent of cases), application forms in 68 percent of cases and references in 44 percent of cases. Furthermore, Kazakhstan organizations practise several interviews at various levels of the selection process. Such practice was reported by Papalexandris and Panayotopoulou (2004) as being related to uncertainty avoidance.

Flexible working practices, praised especially in Northern Europe, will not work in Kazakhstan due to socio-cultural characteristics. The majority of organizations are still quite rigid, with vertical structures and a no-trust culture. Only one form of flexible working practice was reported as being used: as a result of restructuring, outsourcing has been a strategy for some organizations to get rid of extra staff but to avoid serious conflicts. For example, Hurricane restructured its operations and closed a big part of non-core operations (such as transport department, catering, cleaning). Employees who worked in these operations were given help to establish their own companies and offered one-year guaranteed sub-contractor agreements with Hurricane.

In the area of training and development, we see shifts not only from Soviet but also post-Soviet (the beginning of 1990s) style of HRM. It should be mentioned that until 1991 the word 'training' did not exist in the Russian language. Hence, the concept, and then later the practice, were transferred from the West. After 1991, there was a great need for updating of managerial skills. The majority of foreign companies at that time offered training for their employees often only to fulfill legal requirements. Our findings indicate that nowadays there is a shift towards a more strategic, long-term approach to training with emphasis on not only functional areas but also strategy formulation, people management, etc.

Performance appraisal procedures were transferred from the West but were adapted to the local socio-cultural conditions. For example, the 360-degree feedback favored in many North American

organizations is not in use in Kazakhstan. This is in line with the previous research indicating that multi-source feedback requires low power distance (Fletcher & Perry, 2001). In the 1980s, in the Soviet Union, some sort of mandatory performance evaluation (used on average once every 3 years) was implemented in a majority of the organizations. It was called '*attestatsiya*' (attestation), and had a purpose of checking whether an employee meets the requirement of the position or not, but did not serve a developmental purpose. Such mandatory evaluation still exists in Kazakhstan but only for public sector employees. Performance appraisal in its current form still has emphasis on control, but much less than before. We found that at least in foreign-owned subsidiaries the results of performance appraisal are used for promotion, compensation, training and development.

In Soviet times social benefits were not considered as a part of a compensation package. Workers expected their organizations to take care of them and their families. After 1991, wages and benefits fell behind hyper-inflation. Today social packages are negotiable and may be a tool for attracting and retaining employees. This is due to the absence of back-up social safety nets, which are especially present in the Western European welfare state (e.g. Scandinavian countries and the UK).

IMPLICATIONS, LIMITATIONS AND FUTURE RESEARCH ISSUES

In Table 7, we present an overview of HRM practices in Kazakhstan with comparison to Soviet practices and Western (American and European) practices. The summary is an adaptation of the work of Brewster (1993) in which he provided a 'European' model of HRM. It should be noted that such models do imply some degree of generalization and the notions of convergent 'European', 'US' and 'Kazakhstan' HRM. It should be noted that in Kazakhstan there are large variances in the formal and informal institutional frameworks (such as policies, attitudes, education, wages, etc.) across regions. It is likely to develop as has Russia, where a large number of organizations practising Western-style HRM practices within a central region (Moscow City, Moscow oblast, St. Petersburg, and Leningrad oblast) influence other organizations to follow suit (Bjorkman, 2002).

In Table 7, the first row identifies the link between HRM and the corporate strategy. Such a link was absent in the Soviet times. Nowadays, there are no expectations that the HRM issues should be taken into account (as there are in US and European HRM). HRM is expected to follow the corporate strategy, ethnocentrically formulated at the HQ and implemented in the subsidiaries. Yet, especially in foreign-owned organizations, HRM is at least getting closer to the senior management team. In the organizations studied, the job of the HRM department shifted from the Soviet and post-Soviet towards the universalist US approach – the goal is to ensure the achievement of organizational objectives (see the second row in Table 7). A clear shift is also observable in relations of HRM with the environment. The established HRM-related legislative framework grants a great degree of freedom to organizations (see the third row in Table 7).

Table 7: A Comparison of Kazakhstan, Soviet, American and European HRM Practices

Areas	Old (Soviet)	Western		Emerging Kazakhstani
		American	European	
HRM role	Administrative back-up	Strategic partner ¹	Strategic buffer ²	Strategy implementer
HRM objectives	Bureaucratic	Organizational objectives	Social concern and organizational objectives	Organizational objectives
Relations with the environment	Top-down legal restrictions	Deregulated	Negotiated legal framework	Deregulated
Relations with employees	Union (state level)	Non-union	Mainly union	Non-union
Relations with line managers	No	Specialist as support to line	Specialist /line liaison	Specialist/line liaison

The weakness and, in majority of the cases, the absence of trade unions (see the fourth row in Table 7) allow management to unilaterally regulate employer-employee relations within the requirements of the Constitution of the Republic of Kazakhstan and the Labor Law. A trend of assigning greater responsibility to line managers echoes the European trend (see the fifth row in Table 7). The rationale for that may be different. In Europe managers accept such responsibility pragmatically (“responsibility is difficult, but we cannot achieve our objectives otherwise” in Brewster & Larsen, 2000a: 221); in Kazakhstan such responsibility is taken by managers as a given (respect of their authority in decision-making and superiority of knowledge).

Jackson (2002) has argued that Western (instrumental) HRM practices are more appropriate within individualistic- and achievement-oriented cultures, which he suggests is supported by cultural convergence in advanced industrial economies. While Kazakhstan evidenced a relationship- and group-focused culture in Soviet- and to a lesser extent pre-Soviet times, like other former communist nations such as China it has readily adapted from a collectivist approach to highlight an emphasis on individualism. Thus, ‘Western’ compensation and performance schemes focused on individual incentives and rewards and individual appraisal have been implemented with some success in Kazakhstan as a result of exposure to Western business practice internally and through labor mobility, general internationalization of the population economically, politically and socially, as well as through an increase in the strength of certain ‘needs’ (usually those which emphasize status and achievement – which corresponds with an existing cultural emphasis on status, albeit often other than financial).

While our study focused on people working in foreign subsidiaries, who tend to be young and well-educated, there is evidence that at least amongst this sector of the population collectivism is declining at the same time as high uncertainty avoidance is increasing, which has been said to lead to high commitment HRM in other former Soviet nations – Russia (Fey & Bjorkman, 2001) and Ukraine (Buck et al., 2003). In Russia, organizational commitment is outweighed by offers of better salary packages. That and the highly competitive and tight (for some professionals) labor market will put pressure on companies to invest into Western-style retention programs.

1 HRM is a part of the corporate strategy and be judged by how well it fits with corporate requirements (Brewster and Larsen 2000b).

2 HRM and corporate strategy “operate in a symbiotic fashion, with ‘fit’ being achieved by keeping the two strategies informed by and, to a degree, commensurate with the dynamic fluid nature of strategy in practice, correlated with each other at all levels.” (Brewster and Larsen 2000b: 33)

There are some implications for professional firms offering HRM-related services that arise from the findings of our survey. Given Russia's massive expansion in recruitment agencies providing executive searches and headhunting as a result of the changing and dynamic nature of the labor market, Kazakhstan is likely to follow. Workforce nationalization will fuel growth in training agencies and centers providing training, particularly in certified specialized courses for key market sectors like oil and gas. Finally, HRM is becoming a profession. Hence, there is a strong need for HRM education (both graduate and post-graduate), professional associations, conferences, etc.

Limitations and Issues for Future Research

While this paper presents some of the first data about FDI in Kazakhstan in the post-Soviet era and adds to our theoretical and managerial knowledge of HRM practices in transitional economies in Europe, we are cognizant of some limitations of this research which do warrant examination in subsequent research. First, this research explores a large cross-section of organizations in Kazakhstan but while 70 companies is a large number to study in a developing market economy, the sample may have an inherent bias in that, being drawn from the PriceWaterhouseCoopers listing, it represents companies who are agreeable to being identified and discussing their practices and as such may not be representative of all subsidiaries in Kazakhstan.

Second, our survey explores only foreign organizations and is making comparisons between their practices and practices that were observable during the Soviet era. As we have not analyzed local Kazakh companies, we have no evidence of how their practices might also have adapted in the post-Soviet era. Thus, future research would benefit from an examination of a wider range of foreign organizations accessed through multiple means as well as comparison of practices between foreign subsidiaries and local companies. To do so would allow for greater drilling down of the influence of Kazakh culture and Soviet institutions on organizational HRM practices.

Third, while we have explored how HRM practices have emerged and evolved in post-Soviet market economy Kazakhstan and made some assessment of the extent to which practices are influenced by company headquarters strategy and policy or Kazakh culture and local institutions, we have not explored country-of-origin effect in systematic detail. Country-of-origin effect can be measured on several dimensions including how organizations from different countries manage distinctly, the extent to which the organization's practices are influenced by national culture and institutions of the respective country in which they operate, the propensity to transfer skills and knowledge, the role of an expatriate assignment for management development, position filling or control and coordination in the subsidiary operations. These factors are also associated with organizational industry, choice of mode of entry, ownership in the foreign operations and confidence in the local workforce's capabilities. Thus, future research might examine whether the mode of entry of foreign organizations and the industry in which they are located alters the country-of-origin effect.

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