

THE PROBLEMS OF LABOUR PRODUCTIVITY IN RUSSIA

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Nowadays Russian economy is chased by deep-seated problems in a situation of decreasing gross domestic product and industrial production. Despite of almost two decades of market reforms, labour productivity in the country is still one of the lowest in comparison with the industrialized nations.

The purpose of this study is to examine the cases of low labour productivity in Russia. In accordance with the purpose the following problems will be considered:

- Comparison of the state of productivity in Russia with foreign countries;
- Defining differences in efficiency;
- Consideration of dependence from investments.

«Strategic Partners» - Moscow consulting firm in the field of management conducted researches according to which the average labour productivity in Russia makes only 17% of the U.S. level. This number varies depending on the industry sector, starting from the lowest 6% in mechanical engineering to the highest - 22% in mining.

However there are tremendous opportunities for improvements. «If Russian's employees made at least 10% of the same level of productivity in the United States, Russia's GDP would increase by half» - said Alexander Idrisov - managing partner of "strategic partners."

A similar conclusion was made by American consult firm «McKinsey» which assessed Russian productivity about 26% of the American level.

Labour productivity in Russia is low even in comparison with the other new markets. The World Bank estimated the income generated by one employee, about 7000 dollars per person per year. This is approximately 20% lower than in India, and 40% lower than in China. But there are enormous opportunities for improvements everywhere.

To solve the first problem, we have studied the statistics of labour productivity in Russia and other countries. Over the past 20 years there were built very few large enterprises, so the technology is outdated. However, while the old technology is often a problem, many experts stress that it's not really the root of the low productivity in Russia. In general, the main factor is extremely inefficient business processes and organization.

Large Russian car manufacturers produce 85% of its parts today. Such internal production is intended for one consumer, therefore it's insignificant to reap the benefits of savings due to the large scale of production. Lack of competition also means that they have little incentive to innovate or improve quality.

Other relics of the Soviet era can be found in such diverse areas as the system of compensation to employees, sales and distribution of products, accounting and reporting. In its recent report, "McKinsey" ascribes only one third of the productivity gap between the U.S. and Russian industry to obsolete production technologies. The rest of the gap is caused by factors such as inefficiency, bad organization of work, low levels of information technology and automation and bloated middle management.

To solve the second problem, we analyzed the difference in labour productivity between Russian companies. One more conclusion of recent studies lies in diversity between firms in the same branch of industry. Despite the low industry averages best Russian steelmakers demonstrate almost the same productivity as their counterparts in the United States.

Such differences are the norm in each industry. In a recent industry survey Higher School of Economics found out that, depending on the sector of the economy, the performance of the top twenty percent of Russian companies is from 6 to 12 times higher than that of the worst twenty percent.

It's true that only improvement of management won't solve all problems of Russian industry. Usually companies with the worst indicators are located in small towns, often outlying with only one or two major employers. And there are a lot of such cities in Russia. «Most of ineffective factories can not be upgraded and it's better to close them» - said Boris Kuznetsov - leading investigator of the Higher School of Economics in Moscow.

The predominance of the core enterprises helps to explain why Russia's politicians are often hesitant to allow factories to go bankrupt. During economic crisis, Russia has provided emergency assistance to businesses.

Solving the third problem, we have considered statistics of deposits in Russian companies and the dependence of productivity from them. «Government should finance retraining, creation of small businesses and labour mobility instead of helping ineffective factories» - said Sergey Guriyev – rector of the New Economic School in Moscow. According to the analysis of "strategic partner", not less than 75% improvement in productivity in emerging markets is the result of foreign direct investment. The most efficient industries in Russia are usually those where there is the highest share of direct foreign investment. However foreign investors are repelled by juridical unreliability, corruption and bureaucracy.

Based on this analysis, we can conclude that there are many causes of low productivity in Russia.

The problem of competitiveness of Russian industry can't be separated from the broader issue of the investment climate and image of Russia.

We agree with Boris Kuznetsov (the leading investigator of the Higher School of Economics in Moscow) that one of the options to improve the situation is to close down inefficient enterprises.

Also, we agree with Sergei Guriev (Rector of the New Economic School in Moscow), that government should provide fund retraining, small business creation and labour mobility to mitigate the impact of plant closings instead of providing emergency assistance to inefficient enterprises

The possible solutions are also the following:

- Promotion of competition between enterprises (increasing the number of productive economic entities; reforming of separated branches of economy; improving the program of government funding; development of a list of restrictive measures);

- Improving the organization of labour and management (improvement of division and cooperation of labor; improvement of working conditions; rationalization of work and leisure; introduction of advanced techniques and methods of work);

- Transformation of the Russian economy (elimination of the least effective part of the production unit; optimization of the state program of investment support of certain sectors of the economy).

Under the pressure of the crisis, Russian companies began to change their inefficient habits. Perhaps the biggest problem now is «Will the government of Russia do reforms, which are more important now than ever to support the transformation of the Russian economy? ».