The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Economy Faces Stagnation Unless Productivity Increases

By Lena Smirnova

October 09, 2013



Increasing workforce productivity can help the country avoid economic stagnation but doing this will not come cheap.

Correction appended:

The Russian economy will stagnate if companies do not increase their labor productivity, which currently averages at 40 percent of that of the Fortune 500 Global companies, according to an annual ranking that Expert Rating Agency presented Wednesday.

High prices for natural resources and cheap labor are no longer factors that Russia can use to get an edge on the global market, so the only way for the country to stay competitive is to change the productivity and attitude of its workforce, according to the Expert-400 ranking.

"If you look at the economic and wage structures in Russia, you will see that people get a disproportionally large amount of money for little work," said Mikhail Shamolin, president

of multi-industry conglomerate AFK Sistema. "The ideology should be completely different. We should propagate through all the means of mass communication that only through hard work will you make a decent living."

Despite its allegedly low productivity, state-owned Gazprom once again topped the rating as the company with the highest sales volume. Its net revenues reached 1.2 trillion rubles ($37 billion) in 2012.

LUKoil, Rosneft, Russian Railways and Sberbank, which moved up one position from last year, rounded up the top five. Analysts at Expert Rating Agency have forecast that a company from the banking sector will top the rating by 2020 instead of the traditional natural resource monopolies.

The total revenues of the 400 largest companies in Russia were $1.4 trillion in 2012, which is a record amount since Expert started compiling the rating in 1995. However, the actual growth rate in revenues hit a record low of 10.4 percent, as compared to 23.4 percent in 2011. A lower figure was only recorded during the 2009 crisis year.

Growth rates will likely be cut in half for the 2013 rating, said Fyodor Zherdyov, head of the industrial policy department at Expert Rating Agency. The agency estimated that total revenues of the 400 largest companies in 2013 will be $1.5 trillion.

One of the major challenges ahead for Russia is that it no longer has the market advantage of cheap natural resources and labor. Local industries pay 55 percent more for electricity than their counterparts in the U.S., while gas and coal prices for Russian power stations are on par with the American ones.

The average net salary in Russia was 23,410 rubles per month in 2012, which is higher than the wages in all other countries in the Commonwealth of Independent States as well as some European Union members, such as Hungary, Latvia and Lithuania.

Increasing workforce productivity can help the country avoid economic stagnation but doing this will not come cheap. Companies have to invest at least 4 trillion rubles more per year to increase work productivity by 1.5 times in five years, according to Expert Rating Agency.

Productivity levels among Russia's largest companies were on average $183,000 per worker in 2012, which was 3.4 times below the productivity of Japan's largest companies, three times lower than in the companies from Western Europe and the U.S., and 1.7 times lower than in the BRICs.

Shamolin said he went to the Samsung headquarters in South Korea recently and saw workers who came to work at 6:30 a.m., left at 10 p.m. and worked on Saturdays. On a different trip, he saw Chinese telecommunications workers who had mattresses for sleeping over at the office. A similar approach to work should be promoted in Russia, he said.

But Russian attitudes to work are not what officials and company managers want them to be. A culture of paternalism now triumphs above self-realization in the Russian workforce, Deputy Transportation Minister Valery Okulov said.

The chief of the Tactical Missiles Corporation, Boris Obnosov, agreed that the Russian work

ethic can depress production results.

"How can we create competitive products if my engineer runs off from work at exactly 5 p.m.?" Obnosov said. "You can not force him to work for any kind of salary. It must be in his blood."

Asking workers to do more does not always lead to desirable results. When their workload increases, workers tend to flee to higher-paying, more relaxed jobs in the government monopolies, company managers said.

The productivity levels of companies that work in competitive sectors are comparable to those of companies in the West, but monopolies trail far behind, Shamolin said. For example, Sberbank and VTB make $200,000 per worker annually, which is comparable to the $175,000 at Deutsche Bank, while Russian Railways makes $47,000 per worker.

As a cost optimization effort, the rail monopoly announced Wednesday that it would require its managers to take nine days of unpaid leave by the end of the year, the Prime news agency reported.

Shamolin said Russia would not have a deficit in labor resources if workers were freed up from their unproductive activities in monopolistic organizations.

The lack of professionals is a key issue in the country, Obnosov said. The Tactical Missiles Corporation employs about 40,000 people, but there is a trend of workers going to higher-paying jobs at Rosatom and the defense industry.

Ruslan Alikhanov, president of the FESCO transportation group, has a similar problem except that his workers go to Rosneft.

Alikhanov was in South Korea last week where local managers told him that they decided to hire 10 new people last year and received over 3,000 applications. This news left Alikhanov, who has been searching in vain for a well-paid secretary for almost two months, a bit distempered.

"I do not want to fight for labor resources. I want labor resources to fight for me," he said. "And if I force them to run with a sledgehammer quicker, they will say, I will go and work at Rosneft."

State-owned corporations are not the only places people want to run to. Moscow is another strong rival for managers, even in companies with ties to the Kremlin. Maxim Poletayev, Sberbank's deputy chairman, said he lost a lot of workers to the Russian capital when he worked at the Siberian branch.

"There was always a large exodus of personnel when we paid our annual bonus," Poletayev said. "People had enough money now for a ticket to Moscow."

Correction: Due to an editing error, an earlier version of this article said that Gazprom had the highest productivity level. In fact, it had the highest sales volume.

Contact the author at e.smirnova@imedia.ru

Original url:
https://www.themoscowtimes.com/2013/10/09/economy-faces-stagnation-unless-productivity-increases-a28468