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## **STRATEGIC DECISION IN PERSONNEL MANAGEMENT IN THE CONTEXT OF RETIREMENT AGE REFORM IN RUSSIA**

**Abstract:** Since 2019 in the Russian Federation is a smooth increase in the retirement age. Over the next ten years, the retirement age will be raised by five years to 60 years for women and 65 years for men. A feature of the Russian labor market is a fairly high level of ageism, manifested in the reluctance of employers to hire people older than 40-45 years, to train and promote workers of pre-retirement age.

The decrease in the number of young generations and the increase in the proportion of older people actualize the tasks of working with aged personnel. Given these circumstances, organizations will respond to external challenges, adapting their personnel policies to new realities.

The paper consists of two parts. In the first part authors analyze the trends associated with increasing share of older generations in the Russian labor market and the qualitative characteristics of this group of workers. The information base is Russian Federal State Statistics Service microdata (labor force survey) and Russian Longitudinal Monitoring Survey. On the basis of this there are made conclusions about the segments of employment of pre-retirement age workers (50 years for women and 55 years for men) in the labor market and their competitiveness.

The second part of the paper presents results of the author's expert survey of employers on the need and opportunities to expand the use of labor of pre-retirement age workers, including transformation of personnel management technologies to new realities:

- possibility and conditions of using attractive for older workers working hours;
- willingness of employers to participate in the training of personnel of pre-retirement age and conditions of investment in their human capital;
- changes in the practices of recruitment, adaptation and release of personnel, taking into account changes in the Russian legislation.

In general, stereotypes about the quality of the labor force of workers of pre-retirement age are still visible. In these circumstances, we should expect potential problems with the protection of the interests of workers of pre-retirement age, seek flexible incentives for employers and develop state programs for the adaptation of persons of pre-retirement age in the labor market.

**Keywords:** personnel management, ageism, older workers.

# 1. INTRODUCTION

The Russian Federation is among the countries with an aging population. Percentage of the population of the retirement age in 2018 has risen above 25% of the total population for the first time ever. And according to the demographic prediction, this level will rise above 30% by 2035. It's widely known that the population aging reduces the flow of new labor force in the economy and reduces the total labor force as a whole. It also creates an additional burden on the working population concerning the support of the non-working population. There are three global solutions to the problem of aging population, allowing to minimize its negative impact on the economy and laboring market:

- the immigration of working population from the economically less developed countries;
- automation of production processes that can help to reduce the demand for labor;
- increasing the age of involving in the labor market.

The analysis of Russian case shows the limited capacity of using the methods mentioned above.

Firstly, the country has the annual average zero surpluses of the working-age populations' migration.

Secondly, the level of technology and the economic sanctions are leading to the significant backlog of Russia from the world's leading economies in the automation of production processes (Work in Transition, 2018, p.17). In addition, the wide dissemination of low-skilled and low-paid laborers makes the substitution of capital for labor economically prohibitive.

Therefore, the main solution to the problem of aging population in Russia is increasing the age of people who are involving in the labor market. It should be noted that the retirement age in Russia is one of the lowest in the world. Before 2019 it was 55 years for women and 60 years for men.

Since 2019 in the country had begun the pension reform which was to the smooth increase of retirement age. By 2023 the retirement age for women will be 60 years, and 65 years for men. It is expected that this measure will enable to solve the main problems.

Due to the increase of participation in the labor of the older population, the decline of the number of young people in the labor will be offset by this.

Raising the retirement age pension would lead to the balance of income and expenses of the Pension Fund of the Russian Federation and also would lead to the amount of the retirement pension.

However, the solution to these issues is ultimately dependent on the behavior of economic agents and the configuration of benefits and costs. The increase of the duration of staying the older population in labor is the result of both labor supply and labor demand.

On the one hand, currently it is rightly to raise the issue of the increase of age of labor force participation due to the increase of actual level of labor force participation of people who have reached retirement age, to the increasing in life expectancy and to improvement in public health, due to job losses with poor working conditions in the industrial production and the increasing of number of workplaces in the services sector, due to the increase of the educational level of aging population and a fairly strong level of their competencies (Klepikova & Kolosnitsina, 2017).

From the other hand, according to the theory of human capital, knowledge and expertise by employees are having lost their value with age; therefore, the wage of workers is starting to decline. This decline will be higher with increasing the need for the physical effort of employee and with the need of using the competency connecting with the flexibility and the adaptability of the employee. (Gordo & Skirbekk, 2013, Gimpelson, 2018). The experts, who are examining the labor market are noting the existence not only theoretical dependence but also a number of negative stereotypes related to the use of employees in older age. (Hedge, Borman & Lammlein, 2006, Conen, Van Dalen & Henkens, 2012).

With regard to the Russian market, it also notes a widespread prevalence of age discrimination – ageism. After the age of 40 the Russian workers have problems in finding employment, the workplaces for elder workers are limited by sectors of the economy with low wages, the wages of aging workers are lower than the wages of younger workers, other things being equal (Klepikova & Kolosnitsina, 2017, Gimpelson, 2018). The imposition by the government in 2018 a criminal offense for the unjustified refusal to hire a worker with 5 or fewer years before retirement age or unfair dismissal of such category of workers was an attempt to solve this issue.

These problems demonstrate the need for analyzing the characteristic demand for labor among the elder workers not only by way of macroeconomic assessments but also microeconomics research. Many of them facing the challenges of the recruitment of workers of the necessary number and necessary qualification in the labor market. However, this does not mean that they will respond to the message from the government and will commonly use the labor force of older workers.

## 2. RESEARCH METHODS

The study consists of 2 blocks. In part one, we will access the labor force participation of the older population and qualitative characteristics of this labor force group. In the light of pension reform, which started not long ago, and the changing age structure of the population has highlighted the increase in labor force participation of the older population.

The information bases for research are representative of the Russian Federation Rosstat's microdata from existing the population on employment problems (2017)<sup>1</sup> and RLMS-HSE (2017)<sup>2</sup>.

The second part of the study is geared towards estimating the employer's reaction to adjustment of retirement age. The study is based on the experts' survey of employers of Omsk city – the city, which on their economic, demographic and socio-economic characteristics occupies a middle rung among major cities of Russia with population 500,000 people and more. This suggests that the situation connecting with the use of the labor force of aging workers in Omsk is typical for the major cities in Russia, which labor markets are the ones that are developing the fastest.

We interviewed the experts, who have represented 38 organizations of large and middle business, operating in Omsk with regard to the question of using the labor force of the aging population. For workers of the appropriate age, we considered workers starting with early-retirement age (today there are women in the age of 50, and men in the age of 55).

The survey was consists of the following blocks: the work characteristics of older workers; the work's productiveness of older workers in perspective of workplaces; opportunities and conditions for the increased use of labor force of older workers; adapting practices of personnel management for older workers.

The processing of the results has been carried out using the method of descriptive statistics.

### 3. OLDER WORKERS ON THE RUSSIAN LABOUR MARKET

The Russian population of elderly people has a high level of participation in the labor force. The high level of participation in the labor force in the early-retirement age (50-54 years for women and 55-59 years for men) are reducing nearly doubled in the first five years after retirement age and subsequently represent about 10%. In doing so, the level of aging women in the labor force is slightly higher (table 1).

**Table 1:** The participation in labor force the Russian elderly population, %

Group	employed	unemployed	inactive	total
Men	67,5	3,8	28,7	100
including: early-retirement age	75,5	3,8	20,7	100
in the first five years after retirement age	37,8	1,4	60,8	100
after 5 years since retirement	8,3	0,3	91,5	100
Women	52,8	2,8	44,3	100
Including: early-retirement age	83,0	3,1	13,9	100
in the first five years after retirement age	45,6	1,6	52,9	100
5 years since retirement	9,0	0,3	90,7	100

Source: authors

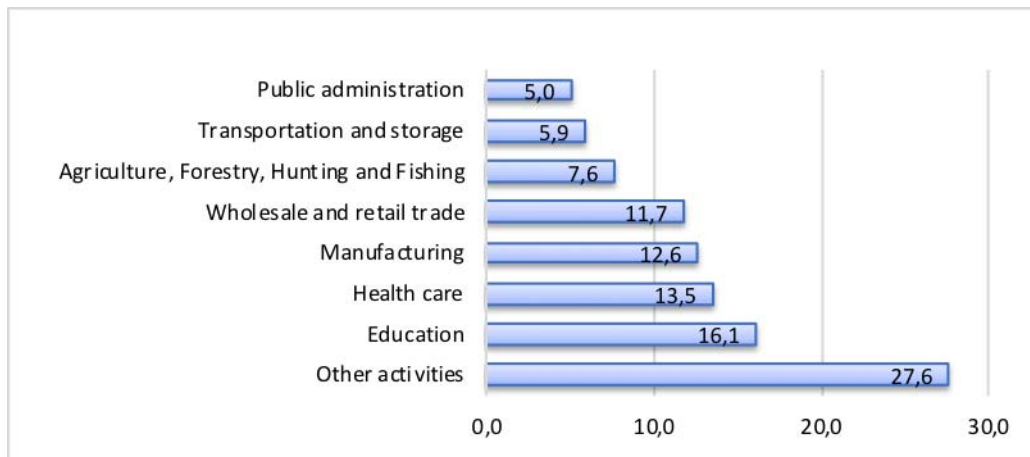
The increase of the retirement age by five years will lead to an increase in the level of participation in the labor force of the population, who now belongs to the “the first five years after the retirement” group. Calculations show that with an increase in the level of participation in the labor force of this group, women aged from 55 years and men over 60 years will constitute 14-15% of the total labor force against 8.8% at present (authors' calculations). Such a substantial increase in the labor supply of this group of the population requires a more careful study of its characteristics.

According to the authors' calculations, workers in this age group have a fairly high level of education. According to the classification currently used in Russia, higher education is recorded in 24.4% of the representatives of this group, and secondary education – in another 44.4%. Over the past year 4.6% of employees passed the extra professional training.

More than 90% of employees are employed and are concentrated in a relatively small list of economic activities (Fig. 1).

<sup>1</sup> Microdata from sampling survey of the labor force of the Federal State Statistics Service: [http://www.gks.ru/wps/wcm/connect/rosstat\\_main/rosstat/ru/statistics/wages/labour\\_force/#](http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/wages/labour_force/#)

<sup>2</sup> «Russian monitoring of the economic situation and public health of the RLMS-HSE», conducted by the National Research University «Higher School of Economics» and «Demoscope» with the participation of the North Carolina Universities' Population Center at Chapel Hill and the Institute of Sociology of the Federal Research Sociological Center of Russian Academy of Sciences. (Survey sites of RLMS-HSE: <http://www.cpc.unc.edu/projects/rlms> и <http://www.hse.ru/rlms>)».

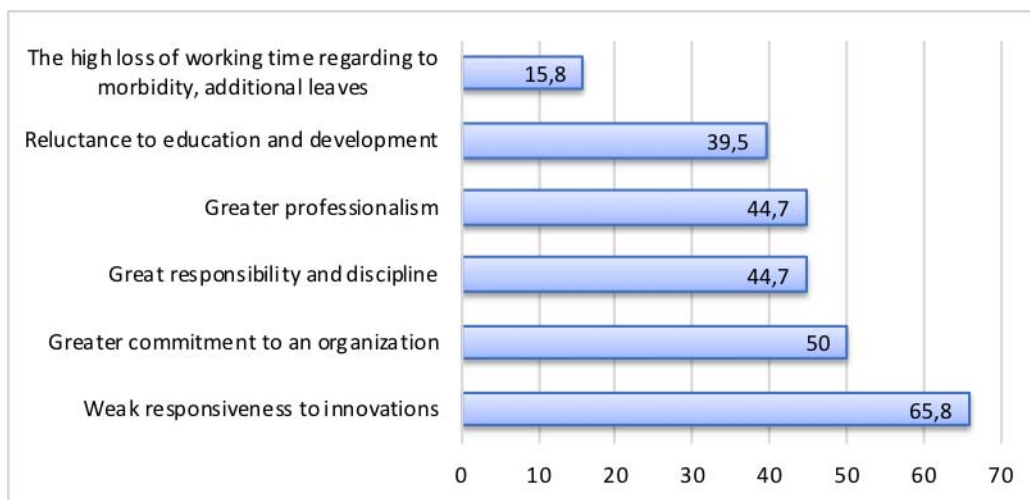


**Picture 1:** The work characteristics of older workers (percent of the total experts surveyed)  
Source: authors

Most frequently, employees of the “new” early-retirement and retirement age are employed as skilled workers (20,4%) and as experts (38,2%). About 15% employees are employed in trade, 13,9% are unskilled workers, 8,3% are managers at various levels (authors' calculations).

#### 4. PERSONNEL MANAGEMENT IN THE CONTEXT OF PENSION REFORM

The expected growth in the labor supply among older workers should obviously have an impact on the labor market and on the company's personnel policy. Let's stop on the results of the survey of experts. The results confirmed the presence of certain stereotypes regarding the characteristics of older workers (Fig. 2).



**Picture 2:** The work characteristics of older workers (percent of the total experts surveyed)  
Source: authors

From fig. 2 is clear that older workers have prescribed both positive qualities (commitment to an organization, professionalism, responsibility, and discipline), and negative ones (especially often – weak responsiveness to innovations, reluctance to education and development). At the same time, state-owned companies or companies with state participation in the authorized capital are more likely to have the commitment and high professionalism, and private companies – to the weak responsiveness to innovations and loss of working time. Probably, these differences to a certain extent are the result of differences in the market position of companies. Relatively low wages in the public sector determine the demand for commitment and loyalty, and the highly competitive environment of private business – the demand for susceptibility to innovation.

The majority of respondents confirm the existence of the problem of ageism on the Russian labor market. In answering the question of whether the experts are aware of cases of refusal in employment because of their age, 92% of respondents reported that they know about such cases. More than half (58%) of experts believe that such cases as the development of pension reform will occur more frequently. Overall, 84,2% of experts express concerns that the position

of older persons in the labor market will get worse. We note that while answering these questions, experts assessed the situation on the labor market as a whole, and not in their companies.

Speaking about the efficiency of older workers in their organizations, experts identified two niches – highly skilled workers and specialists. This is where, in their opinion, the high professionalism of these workers can ensure maximum results. At the same time, the efficiency of the labor of this group of workers at the workplaces of managers, especially linear ones, is low.

Increasing the number of older workers as the retirement age increases will require employers to adapt to the new situation. Except for some niches in the labor market, where the employment rate of older workers is traditionally high due to high qualification requirements and (or) low wages (for example, education, health care, industry, transport), other companies will have to adapt to the new situation. So, it is known that older workers more often have a need for flexible working hours. The extension of the period of work activity actualizes the issues of training and development of this group of workers. Objectively, the worst state of health of older workers increases the demand for corporate social programs related to maintaining health and medical care.

Our study showed that employers are generally receptive to the need to raise the retirement age, and tend to believe that their organizations will be least affected by pension reform. The majority of respondents (more than 80%) are ready to expand the use of labor of older workers only under the condition of changing external conditions (a significant increase in demand for products, the provision of financial benefits from the state, the introduction of additional requirements for the use of older people's work by the state). Only about a quarter of experts reported that they have or are developing personnel management technologies adapted for the use of older workers. The main changes employers associate with the development (use) of part-time employment programs, flexible working hours, transfer of older workers to workplaces with less workload, which allow to save the employee and use his labor potential (Table 2).

**Table 2:** The willingness to use staff management practices, adapted for older people, % Percentage of those questioned

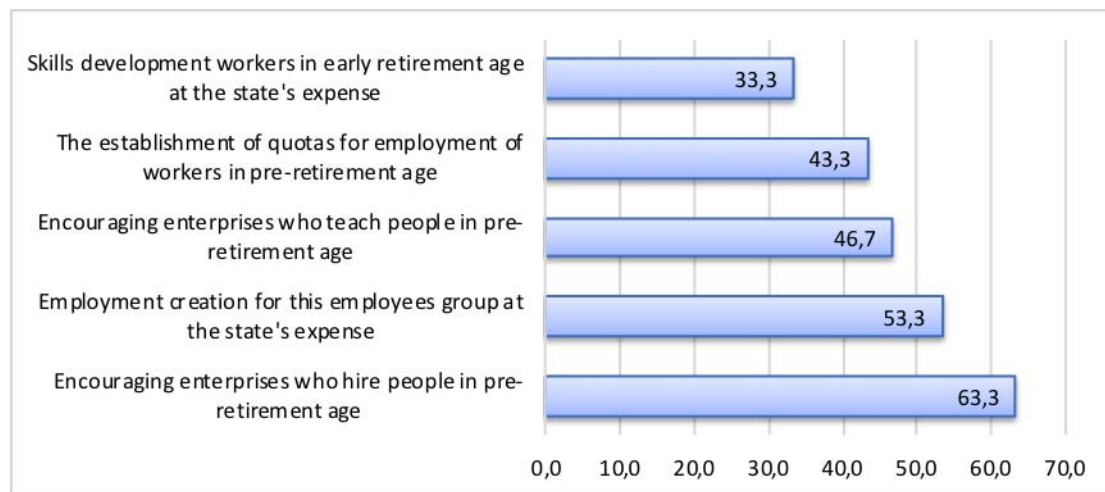
Length of the programme	Choice of answers	
	exist	Doesn't exist, but it is planned
Part time work for older workers	10,5	5,3
Flexible working time for older workers	10,5	13,2
Preparation for retirement	15,8	10,5
Additional days off for older persons	0,0	7,9
Creation workplaces for older workers	0,0	5,3

Source: authors

Some employers also state about a partial adjustment of the recruitment, adaptation, and development of personnel practices. At the same time, there is a definite dependence of the mention of these practices with the conditions in which the organization operates. More often than others, relatively small non-governmental organizations with a staff of up to 100 people point to the use and development of practices for working with older workers.

Outdated knowledge and skills are considered to be one of the main problems in the use of older persons. The most frequently noted need for the development of soft skills, computer skills, skills in engineering and technology (37-45% of respondents).

However, the majority of employers fail to bear the costs associated with training this group of employees. More than half of the respondents believe that maintaining the competitiveness of this group of workers is solely the task of the state. Another 24% believe that this task should be solved by the state together with other stakeholders. Employers are ready to join this work either with incentives or by the state using an additional administrative resource. A significant number of employers are ready to use non-market methods of solving the problem through the creation by the state of jobs for this group of workers, by analogy with the practice of subsidizing jobs for people with disabilities, which are quite actively used in the country (Fig. 3).



**Picture 3:** Distribution of responses to the question «What do you think, what kind of effort from the government are necessary to take to not cause negative consequence for older workers because of the increasing the retirement age?» (percent of the total experts surveyed)  
Source: authors

The introduction of criminal punishment for unreasonable refusal to hire, or for unjustified dismissal by most experts (more than 80%) is not perceived as an effective measure. This is largely due to the failure of the norm itself and the ambiguity of interpretation of unreasonable refusal or dismissal. On the other hand, the application of this provision will lead to the fact that unreasonable refusals and receptions will be applied in advance, before the onset of retirement age established by law.

## 5. CONCLUSION

Thus, facing challenges of a labor shortage of the right quality under conditions of pension reform, firms which are operating in highly competitive markets are starting to think about changing the practices of working with workers and strategic decisions regarding work with older workers. At the same time, most employers are not yet ready to change the practices of working with personnel and adapt them to the increase in older labor in the labor market. They are either waiting for additional impacts from the state or rely on increasing the intensity of employment of workers of younger age.

Separate mention must be made on the problem of personnel training. Increasing the retirement age will require investment in the training of older workers for new skills. And this need will be the higher, the more complex work is performed by the employee. Theoretically, an increase in the retirement age increases the return on investment in human capital, but only 5% of the experts said they are expanding the practice of training older workers. The fears of the others are connected with the already mentioned low mobility of this group towards innovations and lack of readiness for learning.

Thus, employers are ready to use the work of older workers in highly skilled workplaces of workers and specialists, but they are not willing to invest in their development, hoping for state assistance. However, the lack of clear messages from the state, as well as the practice of training by the state (with the exception of training for the unemployed) shows that this issue of retirement reform is not sufficiently developed. A study of the pre-retirement age in the labor market is required.

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