HRM Policies and Practices in Kazakhstan

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Abstract: Human Resources Management Practices play a crucial role in company’s competitiveness and sustainability. Oil and Gas industry of Kazakhstan has long been regarded as a symbol of national strength. Since the Oil and Gas industry is closely related to economic stability and national development, it can be considered as a national strategic industry of Kazakhstan. This article provides an overall characterisation of the main human resources management (HRM) practices implemented by National Company KazMunayGas (NC KMG) and compares them with the benchmark models proposed in the literature.

Key words: Human resources practices • Strategic human resource • Work organisation • Training and development • Performance appraisal • Compensation system

INTRODUCTION

In a highly competitive economic context, characterized by such phenomena as the globalization of markets, changing customer demands and increasing product-market competition, people and the way they are managed acquire greater importance because many other sources of competitive success are less powerful. Nowadays, the whole world recognizes that human resources are vital to achieve success in the most effective and efficient ways. Only a small number of firms are able to elicit the hidden power of human resources and bring them into use to become leaders in the markets. The first formal human resource function and department were initiated since the 1920s [1]. Traditionally, HRM function was considered by managers as a tool to deal with staff function, record keeping and file maintaining for organizations. However, the HRM function has evolved into being strategic partner, sharing ideas, perspective and resources with marketing, finance and accounting departments [2, 3]. A number of researchers found a link to HRM practices with some influential variables seeming to increase firm performance. For example, Richard and Johnson conducted a study to understand the impact of human resource diversity practices on firm performance [4]. They employed business strategy as a contingent factor and found that business strategy moderates the relationship between human resource practices and firm performance.

This article analyzes integrating approach to HRM in National Company “KazMunayGas” (NC KMG). Oil and Gas industry of Kazakhstan has long been regarded as a symbol of national strength. Since the Oil and Gas industry is closely related to economic stability and national development, it can be considered as a national strategic industry of Kazakhstan. Furthermore, National Company “KazMunayGas” improved the financial performance of its production activities in 2010 [5]. The volume of oil and gas-condensate production amounted to almost 22 million tons [5]. The company’s share in the country's liquid hydrocarbons production volume grew to 28 percent [5]. The company’s total profit rose almost threefold, the financial soundness improved. The company remains one of the principle sources for recharging the state budget. The KazMunayGas group of companies accounts for 2.9 billion dollars in taxes and payments to the budget of the republic. This is a quarter of the state budget revenues and almost a third of all tax revenues of the budget. The National Fund of the republic is 70 percent formed using the receipts from the group [5].
Literature Review: The influence of HRM on organizational outcomes has become an important topic of research starting in the 1990s. It has been mentioned that HRM attaches importance to the motivational aspect of organizational practices in the development and best utilization of human resources. Thus, HRM was defined as an integrated strategy and planned development process for effective utilization of human resources for the achievement of organizational objectives [6]. Mondy, Noe and Premeaux defined HRM as the utilization of individuals to achieve organizational objectives [7]. HRM involves the development of an individual’s abilities and attitudes in such a way that the individual is able to grow personally and contribute towards organizational interests. Noe, Hollenbeck, Gerhart and Wright defined HRM as referring to the policies, practices and systems that influence employees’ behaviour, attitudes and performance [6].

However, the important thing is to define the boundary of HRM practices. Huselid defined HRM practices as employee recruitment and selection procedures, compensation and performance management systems, employee involvement and employee training [8]. Mondy et al., thought the practices of HRM include five basic functions, including staffing, human resource development, compensation and benefits, safety and health, employee and labour relations and so on [7]. Pfeffer proposed that use of 16 management practices, then latter reduced the list to seven: employment security; selective hiring of new personnel; self-managed teams and decentralization of decision making as the basic principles of organizational design; comparatively high compensation contingent on organizational performance; extensive training; reduced status distinctions and barriers, including dress, language, office arrangements and wage differences across levels; extensive sharing of financial and performance information throughout the organization [9].

In summation, the HRM literature emphasizes the importance of human capital in enhancing firm performance or even creating competitive advantage. From the above discussion, this article suggests six key HRM practices that are likely to be positively associated with firm performance, product quality, production cost, product delivery and production flexibility. The six HRM practices are: training and development, recruitment and selection, compensation/incentives, HR planning, performance appraisal and health and safety.

Training and development refers to the amount of formal training given to employees. Organizations can provide extensive formal training or rely on acquiring skills through selection and socialization. Training is targeted on skill development, whether technical, clinical or soft skills such as team working, leadership and interviewing. Training can influence performance in two ways: first, training improves relevant skills and abilities; and second, training increases employees’ satisfaction with their current job and workplace. Training can consist of on-job training, off-job training, formal training, skill training, cross-functional training, team training, literacy training and so on [11].

Compensation or incentive is contingent on performance (e.g., individual or group incentive pay). One of the primary means organizations use to enhance employee motivation is providing performance-contingent incentive compensation to align employee and shareholder interests. According to Gomer-Mejia et al., there are three kinds of compensation plan: first is base-compensation (fixed pay to employees). Second is pay incentives (bonuses and profit sharing). Third is indirect compensation (health insurance, vacation, unemployment compensation) [11]. Normally, compensation is based on two categories: financial incentives and non-financial incentives.

HR planning includes the forecasts of personnel requirements, the budget on selection staff, the numbers of people involved in selection and structured and standardized interviews [12]. Firms need to predict the supply of labour required to meet future demand. According Schuler, firms have to take the following things into consideration: (1) What is the rate of availability of a future workforce? (2) Are there enough potential young workers in the labour market, in the next two years or five years? (3) What is the level of education of those potential workers? (4) Do firms need to help invest in the educational system to help upgrade education of the potential workers or not [2]?

Performance appraisal is used to evaluate employee performance. The purpose of performance appraisal is to improve goal setting and feedback processes in order that employees can direct, correct and improve their performance. It can be based on results or behavior. Considerable evidence shows that the extent and sophistication of appraisal are linked to changes in individual performance [13]. Performance appraisal helps the top level of management to clarify and communicate
organizational objectives and expectations to internal employees and helps them understand the capability of its own workforce. Gomer-Mejia et al. have mentioned that performance appraisal system can be used for administrative purposes which are related to employee’s work conditions, including promotion, termination and rewards [11].

RESULT AND DISCUSSIONS

Human Resources Policy of KMG: Today NC JSC is the owner of 44 Oil and Gas onshore fields in Mangistau and Atyrau regions. Total fields area is 837, 4 square km. The production divisions of the company have been in operation for more than 90 years and their specialists have deep knowledge and solid experience. NC JSC provides 65% of oil transportation, 100% of gas transportation, 50% of tanker transportation, carried out on the territory of Kazakhstan [2]. Pipeline Oil transport is performed by «Kaz Trans Oil» JSC, gas transport-by «Kaz Trans Gas» JSC, tanker transportation is carried out by “National Maritime Shipping Company «Kaz Mor Trans Flot>» JSC. The company runs main refineries in Kazakhstan («Atyrau Refinery» LLP; PetroKazakhstan OilProducts» LLP; «Pavlodar petrochemical plant» JSC) and owns refineries in Romania. NC Kaz Munay Gas JSC sells oil and products of oil and gas refining, protects interests of the state in the export policy in trading these products.

The main value of JSC NC “Kaz Munay Gas” is its personnel working in different places of Kazakhstan, as well as in near and far abroad throughout the world. To date, the total number of personnel, including those with subsidiaries, exceeds 64 thousand people. The 2011-2015 Human Resource Policy of JSC NC “Kaz Munay Gas” was developed in accordance with the Long-Term Strategy of JSC NC “Kaz Munay Gas” and provisions of the 2010-2020 Human Resource Policy for the Group of Companies of the NWF Samruk Kazyna JSC [2]. The Policy outlines main areas and approaches of HR management for the implementation of the mission and strategic goals declared by KMG.

The main goal of KMG Human Resource Policy is to improve the efficiency of human resource management through the establishment of an integrated system of human resource management focused on making the maximum profit and ensuring leadership in the competitive environment, based on economic incentives and social guarantees and facilitating the balanced recognition of employer and employee interests and development of relations between them to the benefit of the Company. KMG not only sets tasks for its employees, but also creates conditions for them to improve their professional expertise and skills, develop their professional and creative abilities, build up personal potential and have carrier growth prospects. The basis for successful activity of JSC NC “Kaz Munay Gas” are the corporate values and standards that are designed to provide trust and respect to business community, partners, representatives of the government and all those on whom the success and prosperity of JSC NC “Kaz Munay Gas” are depended. They cause a sense of pride to workers of JSC NC “Kaz Munay Gas” and desire to achieve the best results at their work. Honesty and impartiality are the basis of KMG activity and business reputation. KMG tolerates no conflict between personal and professional interests. Deception, concealment and false statements are incompatible with the status of a KMG officer or an employee. Responsibility is the guarantee of KMG performance quality. KMG bears responsibility in accordance with its commitments, legislative requirements, contractual obligations, normal business practices, moral and ethical principles. KMG realizes its social responsibility to the state and society. KMG employees and partners have the right for honest and fair treatment, irrespective of their race, language, political and religious beliefs, sex, nationality and cultural association. The integrated HRM system of KMG consists from six basic functions: employees’ training and development, employees; career development, performance appraisal, compensation, recruitment and selection and HR planning.

Employees’ training and Development: Training is the process of making proficient through instruction and hands-on practice that is expected to be used in the performance of assigned duties. Research on employee training has stressed the impact of training on different types of outcomes. A popular distinction in what training may contribute is made in the four-level model of Kirkpatrick. This model distinguishes; (1) reaction criteria that represent attitudinal and affective responses to the training; (2) learning criteria, learning outcomes of the training without reference to the performance for which the training was meant; (3) behavioural criteria, actual
on-the-job performance; and (4) results criteria, distal and macro criteria that relate to productivity and profits. Training can be beneficial to organizations but, in practice, obstacles in the implementation may lead to diminished outcomes. Although investment in training might be a wise decision, it may not necessarily lead to improved productivity. For example, in a survey on the impact of human capital investment on business productivity, Lynch and Black found that the number of employees trained did not have a substantial impact on productivity. There may be many reasons to engage in training programmes and not all may be expected to lead to improvement of organizational output.

The purpose of KMG personnel training and development is to build and maintain the required level of professional expertise in a view of the requirements and prospects of KMG strategic development. The training costs are long-term investments in the development of KMG human resources. KMG objectives in the area of personnel training and development are as follows:

- Develop and implement the training system that includes identifying of training needs, training planning and budgeting, organization and control of training efficiency;
- Establish corporate training in accordance with the specifics of KMG business processes;
- Develop corporate training standards;
- Use the best world experience, knowledge and good practices of labour organization in the process of personnel training and development;
- Ensure general development of personnel in the training process: establish the institute of internal coaching, mentoring, development of managerial personnel pool, enhancement of corporate culture;
- Motivation of employees to improve work efficiency.

Training and development of KMG personnel is based on the following principles:

- Systemic-all elements of the professional training system and professional development shall be subordinate to the KMG strategic goal;
- Dynamism and flexibility-any adjustment of KMG goals and objectives shall result in the change of training goals, topics, priorities, methods and forms;
- Regularity and continuity-training and development shall not be occasional, but systematic and well planned;
- Effectiveness-training and development shall be accompanied with clear and measurable criteria for assessment of achieved results;
- Practical orientation-training and development shall be, primarily, oriented on growing professional expertise and business skills;
- Joint responsibility-an employee, who takes the training course, a coach (teacher), a head of a respective structural subdivision and HR Department shall be jointly responsible for the training effectiveness.

Kaz Munay Gas pays special attention to the issues of training and human resource development. For the development of the corporate training, the Company uses the resources of training centers of the Kaz Munay Gas group of companies and collaborates with long-term partners for joint development of human resources. A set of actions, aimed at acquisition of knowledge and skills by the employees of the KazMunayGas Group of companies, instead of the traditional individual training, has made it possible to train 25,494 people for the total amount of 2,298,205 thousand tenges, with the average cost of training amounting to 90,146 tenges 91 tiyns [2]. In addition, in 2010 trainings for the employees of the KazMunayGas group of companies were held mainly on the territory of the Republic of Kazakhstan for the purposes of the Kazakhstan content development in the services purchased and support to the domestic training suppliers. Workshops and courses in the engineering specialties in the absence of similar offers from the domestic suppliers, programs for the development of the succession pool and discharge of obligations on long-term agreement were an exception. The majority of the training activities were designed for the operational personnel-64% of the total number. The capabilities of such corporate training centres as Educational and Courses Centre of “Intergas Central Asia”, Training Centre of the “Ozen Munay Gas” PB and LLP “Embaokuortalygy” were used for re-training and development of competence of the operation personnel. A significant assistance to the solution of this issue is provided by PE “Corporate University “Samruk-Kazyna” (earlier named PE “Unified Human Resource Development Center”), which organizes training for the employees of the KazMunayGas group of companies and develops its own training programs both for KazMunayGas and other national companies, which are part of JSC NWF “Samruk-Kazyna”. Development of universal curricula,
especially related to managerial skills, allows forming unified requirements towards the knowledge and skills of the administrative and managerial personnel, as well as engineers and technology employees. Overall, we expected training to have a positive effect on organizational effectiveness because raising the level of workers’ competencies would imply a broader repertoire of behaviour that may be used in the organization to improve performance. A substantial number of studies indicate a positive relationship between HR interventions and organization level performance. Studies indicate that the effects of training on organizational productivity and profitability are less well researched than those examining the effect of training on trainees’ attributes (such as wages or mobility).

As it was mentioned above total investment of KMG in employees’ training and development programs in the year 2010 was 2,298,205 thousand tenges. The total amount of trained employees was 25,494 people, that 300% above number of people how were trained in the year 2009. Now let’s examine the key financial and performance indicators of KMG for the last 3 years.

In the year 2010 The total income was 2,252,197 mn KZT and total profit 305,309 mn TKZ, that indicates 275% increase against year 2009. In spite of many opponents can argue that it could be direct correlation between investment in training and total company’s profit, we can conclude that the rise of KMG’s productivity and profitability in some sense is the result of its HR policy, specifically its training programs.

Career Development: Besides systematic implementation of short-term training and retraining programs, a constant work is done on training the succession pool for managerial positions. For this purpose, such methods of human resource development as secondment and traineeship are actively used. Employees are seconded under the projects which are jointly implemented with international partners (Tengizchevroil) and to the newly created structures and operating companies (Kazakhoil-Aktobe, CPC and others). Every year, under the partnership on these projects, as well as within the framework of the relations established with oil companies in foreign countries (JCCP, JOGMEC, Chevron etc.), employees are sent for traineeship to international offices of the partner companies for the exchange of experience with the leading oil and gas companies. The employees, who are sent for secondment or traineeship, enjoy the possibility to learn the experience of the leading oil and gas companies. The Company continually works on establishing the HR Pool of managerial and administrative positions of KMG Group from specialists of KMG Group motivated to carrier growth with a high level of professional expertise and managerial competency. The candidates for enrolment to the HR Pool undergo through the selection process of two stages: First Stage: tests of employee skills on analyzing numeric and verbal information and writing an essay. Second Stage: assessment of business and leadership competencies by the assessment centre. Based on the test results the individual carrier development plans for improvement of professional knowledge and managerial competencies are worked out for the employees enrolled in the HR Pool. At the same time, the regulations on the Integrated HR Pool for KMG Group are being developed to ensure continuity in appointment on the key positions of the company. The work is continuing on forming the Common Administrative Succession Pool for the KazMunayGas group of companies applying up-to-date methods of assessment of the nominees by means of staged selection (testing, essay analysis, assessment center). An individual career plan is developed for each employee enrolled on the administrative succession pool for gradual preparation of the succession candidate to the assignment to a key executive position within the KMG Group of companies. At the same time, as part of the project, NWF “Samruk-Kazyna” is forming a management candidates’ pool for the development of succession plans for occupation of the key management positions within the group of companies of the “Samruk-Kazyna” Holding Company.

Performance Appraisal: Performance appraisal (PA) is among the most important Human Resource practices. PA has increasingly become part of a more strategic approach to integrating HR activities and business policies and may now be seen as a generic term covering a variety of activities through which organizations seek to assess employees and develop their competence, enhance performance and distribute rewards [13]. Thus, both practice and research have moved away from a narrow focus on psychometric and evaluation issues to developmental PA, which may be defined as any effort concerned with enriching attitudes, experiences and skills that improves the effectiveness of employees. Performance appraisal can be defined as a periodic evaluation of the output of an individual measured against certain expectations. The process involves observing and evaluating employees’ performance in the workplace in relation to pre-set standards.
Conventional approaches to performance appraisal treated it as a measurement exercise, while more contemporary approaches are more concerned with information processing within the performance appraisal decision-making process. Performance appraisals are used for a number of reasons and can have a significant impact on salary administration, performance feedback, promotions, training, development and identifying an individual’s strength and weaknesses. Several human resource scholars suggest the importance of performance appraisal in providing backup information for management decisions when salary rises, transfers or corrective actions are called into question. According to Smith and Rupp performance appraisals can be a critical part of a company’s success because they allow the company to retain and reward high performers and offer guidance and improvement to poor performers.

KMG applies a system of performance appraisal oriented on two components to provide comprehensive and objective evaluation and rational management of personnel efficiency:

- Management by Objective that is the system of quarterly assessment of progress and quality of objectives achieved by an employee. Based on the assessment results a bonus is paid as per the differential scale of ratings and ratios.
- Competency Assessment that is the system of annual assessment of performance as per the indicators set out for the achievement of objectives by the most acceptable way. Based on the results the decisions are made on further professional development of an employee (enrolment in the Human Resource Pull, sending for training, promotion, etc.). Annually according to the assessment results the employees make up their individual development plans, which include trainings necessary to achieve the goals assigned. Along with the assessment system of the KMG personnel there is an appraisal system of the human resources to define the employees’ compliance with their positions. The personnel appraisal is carried out not more than 1 time in 3 years by testing the employees in their professional area. At the moment the assessment system of personnel is transmitted to the KMG subsidiaries so as to create a unified corporate approach that will allow facilitating adaptation of employees in case of their transition inside the KMG group and to create transparent and objective conditions for professional growth of the employees.

Compensation System: As in any other activity, the design of the compensation plan is an important element to be taken into account within the human resources management of the firm. These plans should be stimulating, flexible, easy to understand and administer, fair, competitive and guarantee the security of the employee. According to literature, the employee compensation plan [11] has the following main functions: to remunerate the employee for his work (compensation), to channel his efforts towards a variety of activities in accordance with the objectives and priorities of the firm (management and control) and to induce him to dedicate the greatest possible effort to his task (motivation). In this section we will discuss the most relevant aspects of KMG compensation policy.

When determining the financial compensation of its employees, the firm must take into account the composition of each one of the different types of plan. Thus, there could be a fixed part, or basic salary and a variable part, made-up of commissions and bonuses and also some additional components such as social benefits or expense allowances [14]. The fixed part, or basic salary, is a fixed payment made to the employees at predetermined intervals and which is guaranteed independently of the result obtained during the period immediately prior to it. This component makes the employee who occupies a specific job feel that he is incorporated into the firm and it tries to satisfy his need to maintain a stable income. Its amount is usually a function of worker's experience and ability, together with the time during which the individual has carried out the task. On the other hand, commissions represent an incentive to stimulate performance. They are defined as a variable payment based on short-term results, generally with reference to sales, performance or profits achieved. These two mechanisms are usually combined, offering a remuneration with both a fixed and a variable component, which supposes a tendency that distances itself from the traditional compensation formulas. One of the main responsibilities of management is to properly motivate its subordinates in such a way that they dedicate a greater effort to achieving the general objectives of the organisation. Many firms fundamentally depend on the motivation of their employees and have developed a range of compensation plans to guarantee such motivations.

KMG is striving to provide a competitive remuneration and social support system for its employees, making it possible to employ the best specialists in the oil and gas sector with sufficient motivation effect for
the increase of labour productivity, enabling to get an objective assessment of contribution made by each employee for the achievement of common goals of the Company. In a view of this purpose KMG is working on the establishment and implementation of a single policy in the area of labour remuneration and social support for our employees in all regions where the Company operates. Company sets high expectations for its employees and, therefore, the remuneration in KMG directly depends on the result of a personal contribution and performance quality.

CONCLUSION

The human resource management strategy of KMG supports innovation management, company’s effectiveness and environmental management with the same degree of importance. HRM practices of KMG such as training and development, benefits, career development and performance appraisal have significant effect on employee productivity. All HRM practices help improve firm performance. In order to increase personnel’s role in implementation of strategic directions of the Company, KMG has determined integrated policy in human resources management system. HRM as an integrated strategy and planned development process for effective utilization of human resources for the achievement of organizational objectives.

HRM system of NC KMG involves the development of an individual’s abilities and attitudes in such a way that the individual is able to grow personally and contribute towards organizational interests.

The purpose of KMG personnel training and development is to build and maintain the required level of professional expertise in a view of the requirements and prospects of KMG strategic development. The Company continually works on establishing the HR Pool of managerial and administrative positions of KMG Group from specialists of KMG Group motivated to carrier growth with a high level of professional expertise and managerial competency. KMG applies a system of personnel assessment oriented on two components to provide comprehensive and objective evaluation and rational management of personnel efficiency.

NC KMG compensation system is stimulating, flexible, easy to understand and administer, fair, competitive and guarantees the security of the employee. It has the following main functions: to remunerate the employee for his work (compensation), to channel his efforts towards a variety of activities in accordance with the objectives and priorities of the firm (management and control) and to induce him to dedicate the greatest possible effort to his task (motivation). Company sets high expectations for its employees and, therefore, the remuneration in KMG directly depends on the result of a personal contribution and performance quality.

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