Successful Digital Transformation and HRM Humanization

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This paper investigates a core role of Human Resource Management (HRM) humanization for successful digital transformation in digital economy. The term "humanization" is applied to an iterative method of human relation development for human resources satisfaction and high results of organizational performance. The author summarized the peculiarities of digitalization in Russian companies in the context of the Russian labor market trends. The paper focuses on factors that determine human potential utilization and development in modern condition. The author grounded linkage between HRM humanization and digital transformation projects effect by three examples of Russian companies. The results let us conclude importance of HRM humanization and define core problems and directions in Russian context.

Keywords: humanization, Human Resource Management (HRM), digital economy, knowledge economy, digital transformation, soft management, labor market

Introduction

The term "humanization" is applied to an iterative method of human relation development for human resources satisfaction and high results of organizational performance in digital economy. Humanization of Human Resource Management (HRM) bases on a set of strategic HRM values and principles, such as mutual trust, respect and understanding, collaboration, delegation, development, cross-functional teams, engagement, flexibility. Nowadays digital technologies (DT) are widely used not only in software engineering, which is why it requires the introduction of methods that are linking best soft management practices with DT to provide competitive advantage in digital economy.

According to Hewlett Packard Enterprise, digital transformation is a process of digital technologies integration to any aspects of business that needs radical organizational changes in areas of culture, technology, operations, production, and service (Hewlett Packard Enterprise, 2019).

Digital transformation generates an opportunity for developing companies to overtake the leaders on domestics and international markets. In this paper we share the definition "Digital Economy" as production based on digital technologies, including new methods of data processing, storage and transmission (International Monetary Fund, 2018). Modern digital companies use managerial models based on Internet platforms, digital supply chains, e-commerce, and digital content. It lets develop labor productivity and business environment challenge quick response. At the same time highly qualified personnel replaces the low-skilled staff.

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Russia has a very ambitious digital strategy in economic and social areas but negative dynamics of digitalization. Russian place in overall rating was 45 in 2017 (Ambroskin, Zaitsev, Idrisov, Knobel, & Ponomareva, 2019). The main problem consists in special features of Russian labor market that mismatches digital development. Another problem is poor HRM systems based on suppression of initiative and freedom, dehumanization of HRM for operational goals and profit. It does not let to discover and use all potential of human resources and digital technologies. Humanization of HRM is the only way to be integrated in digital economy positive.

Theoretic Base

Emerging economies attract a lot of attention from researchers studying various economic and managerial problems (Dunnagan, Maragakis, Schneiderjohn, Turner, & Vance, 2013, Sita & Panapati, 2013; Latukha, 2015). In addition, the growth of such markets leads to the need to create effective HRM systems that would be able to successfully solve ambitious projects in the digital economy (Collings, 2014; Mcafee & Brynjolfsson, 2019). The digital economy creates opportunities for developing countries. Thus, McKinsey believes that with the help of the Internet, job creation is uneven; in growing countries, 3.2 jobs are created per 1 lost, and developed only 1.6 (McKinsey Global Institute, 2012). However, the emerging markets provide not only huge opportunities, but also risks arising from various specific features, including cultural and managerial (Hitt, Haiyang, & Worthington IV, 2005; Cooke, Saini, & Wang, 2014). In Russian context the core risk consists in Russian labor market that mismatches innovation and digital transformation against the background of developed human capital (BCG, 2017; Deloitte, 2018). Another risk is a non-humanistic approach to digitalization that ignores people's interests and feelings, focusing solely on the technical or economic components of digital transformation.

The digital economy shapes people's fears of losing their jobs or their value to the employer. Judging by articles in the Russian media, these fears are typical for many categories of Russians[1]. Sometimes digitalization is not carried out correctly, which leads not so much to improve the efficiency of an organization, but creates problems for both the organization and its customers[2]. These fears are the basis of human resources resistance to the goals of digital transformation of Russian companies and state structures. Linking digital strategy with HRM strategy can give the effect of "digital humanism", in which the fears of people are realized not so much as the hope for the disclosure of personal and professional potential, freeing staff from routine work for creativity and welfare. In this case effective HRM system is a way to avoid the market risk and to provide business strategy and digital strategy with the right human resources. In modern context effective HRM system has strong humanistic features based on strategic HRM.

The HRM system consists of at least three subsystems with relevant practices: (1) providing the company with the necessary competencies (training and development, selection and hiring); (2) performance management (control, evaluation, rewarding, and compensation); (3) capacity development (involvement in decision making, work design, group work) (Jiang, Lepak, Han, Hong, Kim, & Winkler, 2012; Jiang, Takeuchi, & Lepak, 2013). Humanization of HRM is associated with the shift of the traditional approach to management, based on control and subordination, to the approach based on values (Pruzan, 1998). Under this forward-looking approach to the practice of management by instructions and objectives they give place to

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[1] https://www.mk.ru/economics/2019/06/06/bolshinstvo-rossiyan-boyatsya-ostatsya-bez-raboty-izza-cifrovizacii.html.
[2] http://vomske.ru/blogs/12304-tsifrovizatsiya_idiotizma/.

management by values (Dolan, Garcia, & Richley, 2006). At the same time, there is a tendency to decentralize organizational structures, delegation of authority to the operational level of management (Vogelsang, 1998; Brafman & Beckstrom, 2011).

From the middle of 2010 talent management as scientific area develops faster (Vaiman, Collings, & Scullion, 2017). The researchers justified that talent management is a key for company success (Boudreau & Ramstad, 2005). High technological sector prefers a system of talent management, not that disparate practices deal with talent staff.

Continuous learning and development is the basis for sustainable growth of the company in a dynamic environment of the knowledge economy and at the same time a condition for the humanization of HRM system (Collings, 2014; Werner, 2014). At the same time, human resources development is important for the organization both from the point of view of retaining staff in a war for talent (as a factor of employer brand), and from the point of view of training employees for the strategy implementation (Wang-Cowham, 2011; Swailes, Downs, & Orr, 2014). The digital economy defines a set of special digital competencies of personnel. But the success of a company is determined no less by social competencies which are closely connected with a process of humanization of organizational environment.

There are a number of factors that determine the humanistic nature of the HRM system. First of all, HRM should be linked to organizational culture (Mandhanya & Shah, 2010; Agnew, 2014). Managers should pay special attention to the processes of organizational development and motivate employees, especially those who support the innovative culture of development (McNally, 2014; Ready, Hill, & Thomas, 2014).

Humanization of management contributes to the efforts of management to ensure the balance of personal life and work; concern for the welfare of staff (Ewerlin, 2013; Agnew, 2014). The key role in this process belongs to the organizational leaders. Modern challenges facing leadership are changing the requirements for leadership competencies (McNally, 2014; Muhlfeit & Costi, 2018; Yin, Stecke, & Li, 2018).

Humanization as a mainstream of HRM accepts modern HRM theory and practice (Haak, 2019). Despite this, the process of humanization of HRM system is not sufficiently developed; we can state the lack of research, which pays special attention to the factors of humanization and the sequence of this process.

In Russia, as in the world, the phenomenon of humanization of management is generated by practice. In the conditions of digital transformation, the need for an appropriate transformation of HRM system was realized by companies of high-tech business.

Russian Digitalization and Labor Market Trends

Many Russian companies understand the importance of digital transformation and are making some efforts in this direction. However, in reality, digital transformation is difficult. According to a study conducted by KMDA in 2018, the leaders of digital transformation in Russia are telecommunications, IT, and the banking sector (Ryzhkov, Nefedova, Tarasova, & Chernov, 2018). They are followed by companies from the sectors of trade, security, education, and transport. The pillars of the domestic economy—companies in the oil and gas sector and industry were lagging behind.

This study revealed the most popular areas of digital transformation, such as the innovation development 67.2%; digital customer service 65.6%; extensive use of data 57.8%; HR policy and digital culture 50.0%; opportunities for external integration with partners 48.4%; and the development of value propositions 37.5% (Ryzhkov, Nefedova, Tarasova, & Chernov, 2018, p. 9). It turned out that the main barriers to digital

transformation are insufficient competencies and knowledge 64.1%; lack of qualified personnel 60.9%; lack of strategy 53.2%; fear of change 45.3%; insufficient funding 39.1%; management position 31.3%; and risks 23.4% (Ryzhkov, Nefedova, Tarasova, & Chernov, 2018, p. 31). All these barriers are somehow derived from a weak HRM system and dysfunctional corporate culture, the main features of which are a lack of humanism or fake humanism.

These data are fully consistent with other studies. Management practices in Russia and special features of the education system predetermine the labor market, which does not correspond to the knowledge economy and does not allow Russian companies to strengthen their competitiveness in the global environment (BCG, 2017; Deloitte, 2018). Key weaknesses of HRM systems in Russian organizations are a gap between real practice and declaration values, such as double standards, violation of business ethics and labor legislation; equalizing wages, low budget for HRD. Poor HRM system determines low level of trust and understanding between management and personnel, stress, fear of losing your job, or professional burnout (Yakhontova, 2019).

The goal of this paper is to investigate core factors and directions of HRM humanization within digital transformation in Russian context.

Research Methodology

The methodological approach to the empirical research is based on three case studies. Thus, case studies reveal the relationship between digitalization projects in Russian companies and efforts to humanize HRM practices. The case studies were based on a set of deep interview with top managers and project managers of companies.

This approach contains both descriptive and explanatory elements (Yin, 2014). Through the description of the process of humanization of HRM system, contextualization is carried out, namely, an explanatory model of the formation of a humanistic human resource management system is constructed and the main obstacles to the digitalization and humanization projects are identified.

Three Cases From Russian Practice

Case 1

The industrial company does business in the Moscow region in the conditions of high competition in B2B market and the growing shortage of qualified personnel in the labor market. Despite this, the management until then adhered to the principle of secondary value of human resources, preferring to rely on hard approaches to management. The management believed that the authoritarian management style, compliance with labor laws and wages, corresponding to the average indicators in the local market are sufficient conditions for the image of an attractive employer.

Starting programs on modernization of production, automation of planning and controlling systems in conjunction with the implementation of LEAN system, as conceived by top management, will increase productivity as well as engagement and satisfaction. The projects of implementation of LEAN system and automation were not accompanied by corresponding changes in organizational structure and decision-making system. Human recourses development also had formal and fragmentary character.

As a result, the company did not receive the expected effect in the growth of labor productivity, as well as the growth of employee satisfaction. On the contrary, the introduction of the LEAN system was accompanied

by hidden resistance, outdated structure, and regulations contradicted the automated processes. Employees had to spend more time working. Turnover among highly qualified specialists began to grow. These strong signals prompted top management to reconsider its principles and approaches to HRM. It was decided to improve the organizational structure and HRM on the basis of delegation and teamwork. The company has developed a project of transformation of the structure and management system, designed for three years.

This project has three stages: (1) structure transformation, pilot project of delegation implementation, and base managerial skills development for delegation; (2) managerial style improvement, informational system development, expansion of delegation practice; (3) new corporate culture development based on humanism and soft management. Already at the first stage of the project positive results are visible—satisfaction and engagement of participants increased. Staff turnover also began to decrease.

Case 2

A research institute with a rich history specializes in the development of computing devices for civil and military tasks. About half of the staffs are candidates and doctors of science with extensive experience; the average age of the staff is 50 years. The company has formed a management system that is inadequate to the knowledge economy, but provides stable functioning in conditions when age-related personnel are not in great demand in the labor market and are committed to their profession. The company is dominated by an authoritarian managerial style with weak internal communications.

In the context of the economic crisis, the company faced the problem of reducing the number of profitable projects. Top management solved this problem through restructuring in order to reduce costs. Human resources development costs and corporate events have also been cut. But as a result, the overall efficiency began to fall, as well as staff motivation for the result. Attempts to "tighten the screws" increase control and pressure on employees did not have an effect. In this situation, the top management was forced to admit the existence of problems and to develop measures to address them.

Among the priority activities was the development of internal communications to inform staff in a timely manner and the creation of channels for feedback. At the same time, the practices of recognition of merits and formation of succession, which were previously actively used, but were recently ignored by the management as "not corresponding to the spirit of the time", were restored. As a result, the situation began to improve; the climate in the company became more favorable for effective work on projects. While, management is not ready for a more ambitious and systemic changes in the principles and approaches to management, as well as a breakthrough development.

Case 3

The management of one of the major Russian banks has decided to implement agile in the project work, as has already been done or is being done by market leaders. The company implements a strategy of innovation and digitalization aimed at improving internal processes. For more than three years, the company has been consistently automating internal processes based on modern IT tools.

Traditional waterfall-based project management was not effective; most projects were deemed not to be successful. The main reasons were a significant excess of deadlines and budgets, as well as increasing customer dissatisfaction with quality. Project managers attributed this to high competition for resources and low employee engagement. The decision to implement agile was made without analyzing the readiness of the management system, organizational culture and structure for the effective use of this technology. Training

was conducted for project managers and some project teams. Projects began to work in the agile mode, but with poor efficiency. Terms of projects again constantly broke, and quality of the projects did not satisfy customers.

The reasons are obvious to all participants. The company has a high formalization and bureaucratization of rules and procedures, a weak tradition of delegation of authority, and a weak willingness of project managers to bear personal responsibility for the result. The company also has poor feedback, and it is not accepted to openly discuss problems; there is a stereotype that employees do not have the right to make mistakes. Not all staffs including project team trained in agile. The project management system, namely, setting goals, the procedure for opening and closing the project, decision-making, the formation and development of team competencies, team bonuses, remained focused on cascade (or waterfall) projects.

Project managers and project team members, however, are interested in the consistent implementation of agile. All managers interviewed understand that in order to get a positive effect from the introduction of advanced technologies, the company needs to make systemic changes in management practices and organizational culture. But this will have to change and top managers are not yet ready for this, as well as not ready to abandon their decision to implement agile.

Conclusions and Discussions

Sustainable HRM trends are associated with strategic management and the consistent implementation of soft, humanistic approaches to HRM. Features of the digital economy also determine the priority of continuous development of human resources, including the development of organizational leaders. However, most Russian companies respond to the challenges of the knowledge economy mainly through the digitalization of individual elements, mainly through the automation of processes and production. Modernization of the management system is fragmentary. As a rule, it does not affect the ideology and policy of HRM. This does not allow companies to benefit from digital transformation and increase their competitiveness. At the same time, this management practice determines the discrepancy of the domestic labor market to the demands of the digital and knowledge economy.

Our research allows us to identify a set of reasons:

• Weakness of leadership. Top managers in their outlook and value orientations are not able to become agents of humanization of management, to approve in their organizations the principles and approaches of management according to digital trends in knowledge economy. Weak leaders cannot rely on employees to provide trust and support for their projects of digital transformation.

• Transformation of HRM and organizational cultures to the requirements of the modern business environment is carried out mainly not in the goodwill of managers, but under the pressure of circumstances. And transformation projects are inconsistent and haphazard.

Of course, leaders need special developmental activities aimed at improving their outlook and strengthening humanistic values. It is likely that many managers also need to pay more attention to the development of their competencies in change management and transformation of management systems. It seems that in addition to developing activities, practitioners need high-quality methodological developments in the most relevant areas. It should also be noted the importance of more in-depth and comprehensive studies of modern digitalization practices.

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