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# **Soviet Management and Transition: The Case of the Russian Textile Industry**

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## Declaration

Some of the material in Chapter 4 has been included in Morrison, C. (1999). Case Study on Textile & Apparel Sector: Globalisation and Social Exclusion. Warwick University - Centre for the Study of Globalisation and Regionalisation, EU Project "Globalisation and Social Exclusion" (EC contract SOE2-CT98-3062).

Some of the material in Chapter 6 has been included in Morrison, C. and G. Schwartz (2003). "Managing the Labour Collective: The Wage Systems in Russian Industrial Enterprises." *Europe-Asia Studies* 55(4): 553-574. None of the contribution of G. Schwartz is included in this thesis.

The thesis is all my own work and has not been submitted for a degree at another university.

Claudio Morrison.

## Summary

The purpose of this thesis is to evaluate the rationality of the continued use of soviet management practices in post-soviet industrial enterprises a decade after the 'transition to a market economy' on the basis of a detailed case study of a textile enterprise in Ivanovo oblast' in Russia.

The thesis consists of two parts. The first part of the thesis comprises a critical review of the western literature on the management-controlled enterprise and the literature on the soviet industrial enterprise. The thrust of the critique is that the dominant management discourses abstract the enterprise from its social context and present western management practice as the epitome of rationality. Against this, Marxist-inspired approaches emphasise the embeddedness of the enterprise in a particular form of social relations, and so the embeddedness of management rationality. This provides the underlying theoretical thread of the analysis of the case study material.

The second part of the thesis comprises a detailed case study of one textile enterprise. The analysis of the case study material is presented in three chapters, covering management structures and practices, the wage and payment system and labour discipline. The analysis of the case study data shows that the rationality of soviet management practices is underpinned by the peculiar character of the social relations in the workplace which were characteristic of the soviet system of production and which have been sustained, and even strengthened, in the chaotic and unstable circumstances of the market economy as managers put a priority on maintaining social stability as a condition for maintaining the stability of production. The central findings of the thesis are briefly summarised in the conclusion.

# 1. Introduction

This study analyses post-soviet management and managerial informal practices at a Russian enterprise in order to understand the content, nature and direction of industrial restructuring in the Russian privatised sector. This work developed out of a comprehensive case study at a textile firm in the Ivanovo region and is based on extensive fieldwork (Bell and Newby, 1977; Parker, 1998). The research has focused on changes in ownership, management and labour organisation and problems of reform experienced by the researched enterprise after privatisation and continued well after the emergence of outside ownership. The aim of the research is to address the issue of enterprise behaviour in the context of transition in the face of the claim that Russian managerial strategies are irrational (cf. Hendley, 1998).

The transformation of the Russian economy in the 1990s has been understood by economists as a relatively simple transition from one system, the planned economy, to another, the capitalist market economy (cf. Sachs, 1993; Aslund, 1995; Blasi et al., 1997). Enterprise behaviour has mostly been examined to establish the degree to which it conformed to, or departed from, a pre-established Western capitalist model (see Ericson, 1998). Institutional legacies have been largely neglected or regarded as remnants of the past order. However, comparative and historical studies make it clear that differences between managerial practices and structures are determined by the environment in which they developed (Clark, 1979; Sapelli, 1990; Lazonick, 1991; Dore, 1973). Accordingly, changes in Russian management practices under transition can be better considered as pragmatic adaptations to a changing environment (Grabher and Stark, 1998; Clarke, 1993; di Leo, 1993). I maintain that the continuity

in managerial practices can only be understood in relation to the peculiar nature of the past Soviet social order.

Drawing on the studies of Marxist authors such as Bob Arnot (1988), Simon Clarke (1993), Rita di Leo (1973), Donald Filtzer (1986), and Hillel Ticktin (1992), I contend that the Soviet system was founded as a form of domination on the limited control over production by the ruling elite. These scholars found that, while Soviet workers were never allowed to decide what (and how much) to produce, they retained considerable autonomy in the workplace. In practice, they were left alone to sort out the vagaries of Soviet planning. It is to this condition that the concept of 'negative control' is applied<sup>1</sup>. The ruling elite is torn between deciding to assume direct control over production through managers, and the need to preserve the social foundations of its power. A central argument of this study is that the existence in the former Soviet Union of "(negative) workers' control over production" continues to hinder the full transition to capitalism (Arnot, 1988; Clarke, 1993; di Leo, 1973; Filtzer, 1986; Ticktin, 1992).

### *Background to the research*

This research project has developed out of my previous academic background and subsequent working experience. I read for my first degree from 1988 to 1993 in the Faculty of Political Sciences of the Naples Institute of Oriental Studies (I.U.O.),

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<sup>1</sup> Interpretations differ about whether to consider the increasing control by workers as the result of worker resistance. D. Filtzer (1986) supports this view, while S. Clarke (1993) argues that it results from the retreat of management. R. di Leo (1973) interprets managerial retreat as a result of a political compromise between management and workers. All of these scholars share the view that for the capitalist transition to succeed a change of social relations in production has to take place with the risk of igniting class conflict.

specialising in the Economics of the Socialist Countries and in Economic History. My final thesis on 'Scientific Management at the Fiat motor company and in Russian Factories' combined my disciplinary interests.

The window of opportunity for such research occurred later in 1997, after I joined a foreign trade ministry sponsored programme, which included a paid internship in private firms operating in the former socialist countries. This way, I managed to spend five months working for a consulting firm that was involved in an enterprise restructuring project in the Ivanovo textile region of European Russia. I spent most of this time on placement in one Russian firm, living and working closely with Russian managers. This gave me an invaluable insight into the problems and opportunities facing the textile sector in Russia and particularly the range of problems facing Russian managers, as well as into the communication gap between Russian managers and western European consultants. Formal and informal contacts with a variety of agents involved in the restructuring process made me aware of a set of unsolved questions to which western business tools and their theoretical underpinnings had no solutions, hence prompting my commitment to resume my academic studies in search of an answer.

For this reason I registered at Warwick, working within the Russian Research Programme directed by Simon Clarke. After two years at Warwick spent reading literature and working, among others, on an EC report on the textile industry and employment, having been accepted for a PhD and obtained full funding for it, I set to return to my Russian site to conduct my fieldwork research.

### *Sources and methodology*

The bulk of the fieldwork for this study was conducted in the 2000-2002 period. During the first stage, I worked for four months in the factory. I lived in the town and visited production managers in the shops daily. My later fieldwork consisted of several visits, which together amounted to more than one year. During these visits, I spent most of my time in managers' offices so as to become a 'piece of furniture' in the shops (Parker, 1998). The research was conducted by means of in-depth, semi-structured interviews with workers, managers, and industrial consultants. It included participant observation, and the examination of published and unpublished data about the enterprise and the town. Individuals were surveyed with the help of a questionnaire followed by interviews. Production managers were surveyed in this manner, including one chief of production, five shop chiefs, and altogether 20 foremen and leading technicians. Approximately 100 workers were collectively and individually interviewed by me.

Given the considerable suspicions toward formal interviews, my existing position as a factory insider was important for the successful completion of my fieldwork. My fieldwork was made possible by unrestricted access to the research settings. This does not mean it was easy to achieve. Becoming an insider has been an essential part of my activity on the site, which implied cultivating friendship, participating in local life within and outside the factory, becoming in my work as much as possible 'one of them'. The role of gatekeepers was essential in keeping continued access against the threat posed by continuous changes in management and their attitude toward an awkward foreign student. In turn they became my key informants on most issues I researched and the mediators with other sources in this and other factories.

I tried to offset the risk of biased findings derived from relying on key informants by triangulation, direct observation, consulting local documents, and comparisons with other cases researched in the department. Direct observation was an essential part of my work. Barriers to communication often made it impossible to achieve information by interviewees in a neutral context, irrespective of their willingness to co-operate. My constant presence in managers' offices allowed me to reformulate research questions on the basis of common observable experience.

'Then I became alert to the "Russian ways" and undertook to explore them. In so doing I tried to combine the participants' view of the subject and their self-understanding, on the one hand, and the descriptive discourse which would make it clear for an outsider on the other' (Ledeneva A. V., 1998, p. 4).

In general, my personal experience as an insider, with the risks it entails for objectivity, has been constantly taken into account by me, rather than concealed, in the data analysis (Bell and Newby, 1977).

### *The Struggle for Access: Exposing the Centrality of Personal Relationships*

The objective of this section is to chart the difficulty of access, to uncover the obstacles, practical, relational and cultural, which surrounded my life and research work at the enterprise and its surrounding community for more than three years and the ways I tried to overcome them.

One conviction, I can confidently and continuously refer to, stands at the centre of this experience: the centrality of personal relationships. Writing on doing research I

feel that, other than narrative and methodological concerns, this endeavour is constrained and inspired by the need to walk back through the memory of the whole of these years' struggle to recover the essential passages of becoming an insider. A glance at the circumstances of my latest visit to the company town can offer a starting point.

After waiting for a visa for several weeks, in mid June, I could eventually confirm to my friend in town that the long promised travel was in fact to take place. Arrangements were to be made in a rush despite terrible communication problems: the slow mail, unreliable Internet and lack of telephones. Well enough, they had relatives in the city with a telephone and a car and they agreed to collect me at the airport. They could drive me safely home, he is a police officer among others, with a six hours ride to town directly from the airport. My landlord, whom I have known since 1997, was ready to receive me without problems despite the last minute confirmation. The real struggle was to begin the next day, and for a week to follow, to get a pass (*propusk*) from the new administration. This did not prevent me from entering the factory, though reluctantly, security personnel remembered and trusted me sufficiently. As for my work, I turned to what has now become an old habit both for me and the managers who host me in their offices. I would sit with them, present my questions and concerns, arrange under their advice and guidance, but never without substantial arguments, whom and how I should interview people or seek information. Now that I am conscious of the invaluable advantages of following them in their daily business, I would not have failed to note and record (but not on tape!) as many conversations, meetings and events that took place in this office. My life at the office, for all the disturbances the Russian chaos could bring to us, was safely modulated by the reassuring "*vse reshaem*" (we'll fix it all) of my

manager friend, to which I could anticipate with the, equally peculiar to him, “*ya uzhe dogodalsja*” (I already suspected). At the end of the period I had collected more answers than the questions I asked, for the first time my field-note diary was overloaded with interesting anecdotes. Social life well complemented my stay, at moments in between a talk about prices, the hassles of “family” life and the high spirits of a birthday party I felt I had become a town dweller, almost forgetting and making me forget the temporary character of my stay. For a sufficient number of people my resources, my knowledge and my origin had become more of a resource to spend in relationships than an obstacle to their establishment.

When I headed for the first public presentation of my work in late June 2001, what I had in mind was in fact to explain how becoming an insider was an intrinsic necessity of my research work and inextricably tied to the command of my topic, managerial practices and behaviour. The question, which in turn emerged and I will try to answer here, is in fact why I was led to think and operate in this direction and how I actually managed to achieve such a level of intimacy with this working and social environment, with those areas of it that I found useful or simply accessible to my intervention. The questions at the forefront, both chronologically and methodologically, relate to the experience of access beginning in 1997: the need to escape isolation and rejection, breaking out of my association with consultants; the gradual integration into the social structure of the company town; last but not least the development of strong ties with a gate-keeping figure.

*Out of neutrality, taking the Russian side.*

What is the kind of approach one should take towards one’s investigative environments? Should one assume it possible to carry out fieldwork in a sort of

uncompromising self-sufficiency or rather incorporate into one's working style and interpretative framework those inputs emerging from respondents and their community? If so, where is the line where compromise endangers our pledge to "neutrality"? All these questions, the answers to which could make up a good deal of our research strategy, were not actually on my mind once I was dispatched to the field to support the research work of our consultants.

My position at the enterprise was immediately defined by the conflictual nature of the relationship between "western" consultants and Russian managers. Aside from substantive issues, it was primarily their working style, that put them at odds with the Russians.

First, their psychological attitude was generally formal, assertive and inflexible. Even those who demonstrated sympathy for Russian reasons could not manage to modify the western research approach and interpretative framework.

Second, consultants were subject to a high turnover, justified by the need to provide specific expertise. Furthermore, they travelled back and forth, keeping their working time with Russians within a tight schedule. They could communicate only through an interpreter and did not venture outside the luxury hotel where they were confined in their spare time. It is noticeable that Russians openly lamented the limits that this working style imposed on the development of personal relationships, which they clearly deemed a precondition for any further co-operation.

Third, they limited their contacts to senior management, which with the exception of the Director and his cronies, were a series of dull figures unprepared, as I learned, to provide any useful insight into enterprise issues.

The outcome not surprisingly was that on both sides a sense of discomfort reigned, which bred suspicion and non-cooperation, and hopelessness at understanding each other. Not secondary, this was ensued by continuous questioning on the side of the Russians concerning our right to conduct research and use enterprise resources.

My reaction was to open debate with the Russians on all those matters that were objects of controversy. I also made myself available to accept their guidance and advice in conducting my work, eventually identifying room for co-operation between my personal research agenda and their need to cope with Italians.

Practically, I accommodated myself modestly in the town and moved to conduct my research with production managers in the shops on a permanent basis. This in turn allowed me to open serious discussions with them about the analytical tools we normally used for data collection, meeting their interest and consideration for my willingness to take into account their opinion. The outcome was somewhat outstanding, I not only was granted the right to conduct research on an individual basis, overruling previous decisions to evict me from the city, but I was elected to accompany their delegation abroad. This when neither my skills nor my status alone could justify these decisions says something of the premium paid by Russians to trust and friendship.

My moves, far from being a strategic or ideological option, were at first dictated by the immediate need to secure my presence in the research settings but were also motivated by sympathy and desire to understand the reasons on the other side. Taking sides was neither limited to a manifestation of sympathy nor fell into a mere surrender to others' expectations. Breaking out of a supposedly neutral professionalism, which was in fact seen by respondents as a constant discrimination, was a precondition to gain their trust and access the research field.

*The role of gatekeepers: gaining access.*

A preliminary and fundamental task for a researcher on fieldwork is to secure continued and safe access to investigative settings. In the case of a Russian industrial enterprise the role of gatekeepers is played necessarily by the Director or anyone able to influence his decisions. Through the process described above I became acquainted with key managers who were determinant in deciding my fate on this ground. In particular, I established a trustful and long-standing relationship with a young shop chief whose help was paramount in securing my position at the enterprise and supporting the practical and intellectual challenges my fieldwork entailed. Here I try to unveil the determinant role of personal relationship in deciding, and delimiting, access.

Nik was first presented to me by the consultants as a young, intelligent and ambitious shop chief who worked as a contact man for any practical and formal concerns at the enterprise. Not surprisingly, for a soviet enterprise, a man from production was selected to act as reference point rather than a PR person, as he had the appropriate knowledge, the language skills and the interest to interact with foreign specialists. More importantly, for the matter discussed here, he was a protégé of the then-Director and a good friend of the Chief Engineer.

As mentioned in the previous section, the Director's reservations about the presence of consultants at the enterprise were strong enough when I arrived and relationships deteriorated markedly over time. His irritation reached a climax when he openly refused to send a car to fetch one of our specialists after he had been deployed to a far-flung factory. I was the next "victim". After a twelve hour long journey from Moscow, I presented myself at the factory gates where, to my bewilderment, I was told that the Director wanted me to leave and a car was waiting to take me back to

the regional capital. The most curious aspect of this decision was that he implicitly extended his authority outside the factory premises. In fact, as a feudal chief or police authority, he was practically expelling me from the city radius. As I had familiarity with the militiamen at the gates they allowed me to contact Nik who, in turn, arranged to conduct a negotiation. The meeting itself was a piece of theatre of past soviet times: my friend asked me to assume a humble posture, keep silent and assent to any remark on their side. In the presence of the Director he explained that I was going to conduct research independently, severing connections with the consultants, putting myself at their disposal for any further need. Consent was achieved.

For the rest of the time my co-operation with the enterprise, in practice the mutual exchange of ideas and favours with Nik and less often with the C. E., further contributed to consolidate my position.

In the following years friendship and support, including invitations, were confirmed. Yet, when PhD fieldwork proper was to be initiated in fall 2000 the situation changed abruptly. New owners were taking over the administration; changing names at the top and jumbling established networks. Let's look at how previous connections operated in the new context and the attitude of outside ownership.

A new Director was sitting now in the command room with whom I was told I had to renegotiate my right to access and work at the factory. The fact was repeated twice as the situation was constantly evolving, under bankruptcy proceedings, in between the end of 2000 and early months of 2001. My friend once again volunteered to open the gate but this time he muttered there was no guarantee of success. The new Director was quite suspicious because of my attachment to the old management but primarily for the

intrinsic weakness of his position in between two combatants, insiders and outsiders. I had to complement the efforts of managers by introducing myself as a researcher from a "prestigious" academic institution. The accent in any case was on long-term ties with the enterprise, where I was universally taken as a trusted collaborator. I also had to present formal statements and a work plan, promising to report regularly on my activity. It was clear though that what we were seeking was merely his tolerance. In fact once the goal was achieved he did not bother inquiring as to my dealings. The split within managerial ranks, under greater external pressure to subordinate, further complicated the situation. The relationship between Nik and the C. E. deteriorated, weakening my position. The C. E. at one point remarked "you do not need credentials, we know you very well", but later he admitted his hopelessness with the new authority. Again we were able to sort it out, but only because the cooling down of insiders/outside infighting combined with the *fait accompli* of my continued presence. The entanglements produced by take-overs, quite frequent in the area, were replicated in another enterprise where we were seeking access. Here, despite the usual presentation, presents and internal lobbying, our efforts were nullified by direct orders from above.

These events call for some comments. First, in traditional enterprises there is no middleman, secretary or PR, dealing with non-business visitors. (But new ones did not differ, all my interviews for a trade report in Moscow with SME new entrepreneurs were held with the Director.) One has to go through the internal hierarchy moving right to the top.

Secondly, it is clear that a direct appeal to the top management (*Vyshee Rukovodstvo*) implies them handling the matter personally. What does a personal

relationship mean in this context? The dynamics reported above suggest: *a)* the idea of absolute discretion, in spite of any reciprocal recognition of respective functions and deployment of a set of procedures; *b)* therefore, the strictly individual character of the relationship with authorities, depending on their political agenda, authority, at worst caprice or personal interest (presents are always welcome up-front!); *c)* the centrality, to the contrary, of status and connections.

Thirdly, when anyone from the former FSU heard my tale, they would almost automatically remind me that “in Russia you start to build the house from the roof (*krysha*)” or “You don’t start anything there without protection”. Still, this point has to be handled carefully: long-term acquaintance does not always produce trust and the conflictual, and ever changing, political and economic status of an enterprise weighs heavily on this point. The difference can be made by agreement with gatekeepers rooted in the personal and social experience at the factory, which creates a lasting commonality of interests.

#### *Integrating into the social texture of the enterprise*

The initial biographical experience of a researcher in an alien and unfamiliar context, as a tiny provincial town of Russia can appear at first glance, is dominated by loneliness, fear of rejection and a natural tendency to seek acceptance.

Building connections is obviously functional to qualitative research, providing opportunities to find respondents and collect information informally. Here I would like to stress that this process took place as a response to the primary need to overcome insecurity and feel socially and morally in accord with the researched community.

The questions were how and where to socialise with people and possibly open ground to find reliable respondents. As I have noted, access was not formally bound to specific guidelines, nor did it offer some hint or support concerning whom I should work with and how.

My contacts with those I could first get in touch with, from militiamen to canteen workers, revealed how easy it was to get about in the factory and familiarise with people. The impetus was offered by my desire to prove my adaptability, living in a poor area, showing up regularly in the factory, taking on their eating, and especially drinking, customs. Discussions were no less important, as one can imagine the curiosity of people who had hardly seen foreigners. Here empathy played a major role in securing confidence.

On the other side, office (non-production) managers, who were in turn my main target, demonstrated themselves, even when superficially amicable, less open to any sort of complicity.

The climate was altogether different in production. My friend Nik, every time I travelled there, felt it natural that I would stay with him in his office, alternatively he selected among other shop chiefs a "quiet" and "reliable" place where I could stay. Though I tended at first to accept with reservations, I had gradually to admit that it was both a pleasant and useful solution. These offices, adjacent to production shops, were constantly stormed by personnel of every sort. Workers, clerks and other managers popped in or congregated for complaints, talks over personal or work matters or simply for a chat. It seemed that people were quite free to move around, this obviously more in the case of managers and technicians than mere (female) workers.

Nik was of the view that nowhere else could I find support and an approach from outside was senseless, "people have their talks and chats at the factory, they cannot dedicate their spare time to you", he used to say. Not only was social life flourishing, in these managerial corners, but also social life outside the factory was organised along the same lines. To my surprise, parties were often organised on a brigade or shop level and even partners, whichever their sex, would hardly participate. Outside managerial circles, both male and female workers were equally committed to sticking to their fellow comrades both inside and outside the factory. I therefore spent more and more time there, becoming almost "a piece of furniture" in managerial offices.

Though people of every status and profession visited the offices, and my friends had acquaintances also in the central offices, I established a stricter relationship with their closer fellow mates in production. It was among these managers that I tended to look for help and support, not only to find respondents or information, but also to satisfy some basic needs like transport, accommodation, food etc.... Since my availability of resources was, as one would expect, much larger than the majority could afford this was a controversial point in any relationship. I had the perception that this large divide would rather keep people at bay. To the contrary, with these managers exchange of favours would tend to offset this material and psychological gap, turning my knowledge and financial resources into a resource to spend in a relationship. Eventually I got accustomed to the idea that asking a friend was always the first option to purchase and a recommendation could do better than a formal impersonal request.

While my inquiry into managerial structures was registering the malfunctioning of formal command lines and horizontal co-operation, creating abysses in between

employees and offices, my experience was telling me about personal relations based on friendship and mutuality, a network of connections and obligations, which I gradually joined.

Nik and his friends more than once made reference to their group as a “Mafia” or “*Komanda*”, as opposed to other groups within the enterprise and to the fact that I was now “one of us”.

My gradual integration into Nik’s “*komanda*” reverberated in the rest of the labour collective. In my country, in Italy, a traditional form of asking a stranger about his identity, his name, is the question “to whom do you belong?”. I realised that during casual encounters with people from outside our circle, to disentangle from the awkwardness of mutual unfamiliarity, continuous references were made on both sides to my friends and whereabouts in production. Ideally, they represented a response to such a question. My status and the corresponding prerogatives were being defined by the set of relationships I was able to maintain.

### *Structure of the Thesis*

This study consists of two main parts, a literature review, where I present the main theoretical and historical issues concerning the theory of the enterprise in the West and in the USSR, and the analysis of the case study proper.

In the first substantive chapter, I introduce the study with a review of the theories concerning the nature of the firm and the role of salaried managers in shaping it. The reconstruction of the main strands of thought contributing to the debate around the modern business enterprise will help understand the theoretical underpinnings of the western economic models applied to transition and restructuring. Further in the chapter I will look into alternative approaches which could offer an interpretation of

social and political implications of structural changes in the world of production on the basis of the analysis of its mode of production and labour process.

In the second substantive chapter I provide an historical and analytical account of soviet management. I look at the formation, crisis and attempts at reform of the soviet economic system with a focus on management and the labour process. Management in the soviet experience has been fundamentally viewed in two different ways: mainstream economic analysis has stressed its character as a command system directed from above, advocating liberalisation as the only solution to the stalemate of economic stagnation. A different approach by social historians and critical scholars of the Soviet Union has stressed the autonomous role played by workers and managers in moulding the system. Their analysis provides the key contradictions of the system, which are at the basis of the problems in transition.

Subsequently, I introduce the case study with a background chapter, reviewing the main features and developments in the textile industry and markets both at world level and in Russia. This will help focus on the main operative and strategic concerns of Russian managers and to understand the environment in which they move and the set of threats and opportunities they face.

Chapter Five is concerned with the organisation and functioning of enterprise managerial structures and their evolution during transition. I will report extensively on functions, role and activity of key units and explain the problems they faced. The first part is dedicated to attempts at reform under insiders' control. I will show the rationale behind managers' decisions to retain most of the elements of the past order and the obstacles to restructuring they encountered in the market. The part on outside ownership will show how lack of change resides in the interests of the new business

elite and how post-soviet management has been modified to operate in the new market environment.

The two other chapters of the case study focus on specific topics, which represent key issues in management, namely wages and discipline (i.e. the stick and the carrot), and permit us to analyse the labour process. In order to understand the forms and reasons for widespread resistance to reforms by workers and managers, I will make extensive use of narratives and discourses by senior and line managers as well as workers.

In Chapter Six an analysis of the functioning and change in the reward and incentive system will be carried out. This represents a key managerial function and therefore is crucial to understand what sort of adjustment is taking place in post-soviet management. The chapter provides an account of the formal and informal practices, which reproduce the soviet form of social relationship on the shop floor and the modifications they undergo under new and old management. I explain why, despite its inefficiency, the soviet-time wage and incentive system has been fundamentally retained.

In Chapter Seven I present and analyse cases of labour and technological discipline violations. I discuss the policies carried out before and after privatisation by management. Professional identities, gender issues and forms of authority will also be covered to ascertain the intricacies of conflict and consent on the shop floor. I eventually look into the labour process to ascertain managerial rationality in tolerating violations and the conditions forcing workers to perform them. The findings of my research are briefly summarised in a concluding chapter.

# **PART ONE**

## **2. The rise of the managerial enterprise in the West**

The problems of the Russian enterprise are commonly understood among practitioners and scholars essentially as managerial matters to be coped with with the traditional tools available in the field. Nevertheless it is equally agreed that the whole society is experiencing an holistic transformation which entails redesigning all the major institutions and the roles of their constituent members. If this is so, the process of restructuring management should include a rethinking of the role, prerogatives and mutual relationships among the corporate actors, in particular management-employee relations, relative to both the market and non-market environment.

The investigation of these issues requires a broad theoretical consideration of the nature of the firm and the capabilities of management in shaping its features. This part of our work is precisely devoted to equipping us for this analytical task. The reconstruction of the main strands of thought contributing to the debate around the modern business enterprise will satisfy two objectives. We want to understand the theoretical underpinnings of the western economic models applied to planning transition programmes and, at enterprise level, the recommendations for restructuring. At a different level we are searching for alternative approaches which could offer an interpretation of the social and political implications of structural changes in the world of production.

The specific needs of our work lead us to limit this review to the basic assumptions, trends and mutual relationships of the major strands of thought.

Our enquiry into the theoretical underpinnings of the practice and ideology of transition has brought us to focus on two different but related fields, namely the theory of the firm envisaged in neoclassical economics and strategic management as

part of a broader strand of organisational and managerial theories. On the one side, we have those scholars, mainly economists, who continue to cling to the paradigm of the "market economy", though substantial differences have grown out of the new Industrial Organisation (IO) economics (R.H. Coase, O.E. Williamson, H. Demsetz, A. Alchian). As we shall see, this approach, which exceeds the boundaries of neoclassical orthodoxy, has mainly attempted to inject realism into model-based theories. It is held that IO economics, while making organisation a legitimate subject of enquiry, continues to maintain that limits to firm control over markets and managerial discretion are desirable, even though implausible, because of their praise for the perfect competition ideal (W. Lazonick, 1991; G. Sapelli, 1990).

Secondly, the field of Strategic Management deserves special consideration. In the first place, it represents the box of tools of consultancy discourse and practices; at the theoretical level the most thoughtful contributions from this field offer a valuable insight into managerial issues (I. Ansoff) while others seem to retreat into integration with IO economics (M.E. Porter).

A completely different approach stems out of those works which recognise the modern business organisation as the most influential economic institution of capitalist countries and the pace-setter of economic growth. It is within these diverse, though in our view complementary and concomitant, set of studies that we have found the methodological, analytical and theoretical elements which have shaped and sharpened our research focus as well as contributing to the elaboration of our interpretative framework. The main references in economic thought are the classical conceptions of Schumpeter, Marx and Marshall and the more recent seminal works of E. T. Penrose and A. Chandler. On the methodological ground the boundaries

erected by the neo-classics are challenged to admit contributions from other social sciences and a central role is attributed to historical inquiry.

In this perspective the enterprise is dealt with as an organisation which struggles to survive by matching internal resources and capabilities with external challenges. A marked difference with the traditional interpretation offered by conventional economics rests on the role of strategy, the conscious co-ordination by managers as opposed to the invisible hand of the market. The theories of business organisation hold organisation and strategy to be key to performance and focus on the conditions and determinants of innovation within the firm in a dynamic and multi-sided relationship with the environment. The field of reference is primarily Business History and the Italian *Storia d'Impresa*. As for the first, other than Chandler himself, we will look at the work of William Lazonick, whose comprehensive critique of equilibrium economics has been a key to our understanding, and Neil Fligstein for the analysis of the internal dynamics of managerial groups and the institutional and legal aspects of firm growth. The works of the Italian historians of the enterprise are equally essential to understand the nature of the enterprise in an historical perspective as an increasingly complex institution of the capitalist economy. The main loci of their researches of interest to us are technological change and the organisation of labour and the historical development of the managerial elite and its institutions. Their work will be placed in the larger category of the Marxist interpretations of the growth of modern capitalism, assuming the creation and extraction of surplus value in the workplace as a powerful and unsurpassed framework for the explanation of innovation. This will lead us to touch on the main elements of the current controversy about technological and social change centred on the concepts of Fordism, post-Fordism and flexibility.

Differences of perspectives notwithstanding, historical approaches to the innovative firm share a tendency to develop a theory of the firm with strong analytical and predictive force.

The role that the vast array of theoretical contributions presented hereafter plays in this work might become clearer by considering the place they occupy in my intellectual biography and under which circumstances they came to be part of it.

The encounter with business management and conventional economics was prompted by the brief but intense experience, recalled earlier in the methodological section, in the world of consultancy in Russia and Italy. Neo-liberal economic policies, after having inspired a precipitous privatisation programme in the early 90s, continued advocating State withdrawal from economic affairs, other than macroeconomic stabilisation. Enterprises were left struggling in an uncertain environment while the entire social and institutional infrastructure of the country was experiencing a process of rapid decay. 'Democratic' policy-makers and mainstream western economic analysts deemed these disastrous outcomes a necessary adjustment process, confident in the restoration of the 'natural' laws of the market for an exit to the crisis. At the same time they seemed to ignore entirely the complex social and economic dynamics their reforms had unleashed. To the extent that these policies were justified and legitimated by the ideals of market economy and free enterprise, enshrined in western conventional economics, I felt the need to critically enquire into such theoretical arguments so as to identify their interpretative flaws and expose their fundamentally ideological character.

The urge to look into managerial theories has been more immediately related to my initial involvement in enterprise restructuring. Practitioners of business management

were by training and professional experience alerted about the difficulties faced by management and the complexity of the tasks imposed by privatisation. They could display opinions diverging from 'marketeers' on key economic policy issues. This notwithstanding, what I observed were enormous difficulties faced by consultants in establishing effective communication with their Russian counterparts on the basis of a common understanding of enterprise affairs and problem. The question arose whether it was the operative and analytical tools they were equipped with that could be responsible for the limited capability of consultants, fostering a specific enquiry into the materials which appear to me the most relevant to the profession.

If the firm of mainstream economics and business management stands for the ideological and operative foundation of respectively transition and restructuring in Russia, it is from their critical appreciation that our research departs. It is also for this reason that it seemed logical to treat these theories first.

The literature that occupies the final part of this chapter, namely business and labour history and labour process studies, provides, instead, the reference point for my analytical orientation. Business and labour history has long been part of my theoretical and analytical background since the early 1990s when I embarked on a comparative study of labour organisation in Soviet factories. Its understanding of the enterprise as a complex institution structured by the interplay of social, economic and political elements has greatly enhanced my ability to compare and contrast the development of soviet and capitalist economic organisation as fundamentally different, historically grounded, experiences. Labour history, and labour process analysis in particular, has provided the key focus for comparative analysis, namely manager-worker relationship, and therefore the formulation of our initial research questions. It is the main theoretical underpinning of our argument that social

relations in production, their inherently contradictory character and potentially conflictual manifestation, should be taken into account to understand the constraints to the action of agents and the nature and direction of change.

### *The firm in the market economy*

#### *The firm of the "Theory of Firm".*

The main issue conventional economics set out to deal with is the allocation of scarce resources to alternative uses. It argues that it is the price mechanism, commonly referred to as the market, that guarantees that resources will be bid out to the most valued uses. Most of the efforts in economics were devoted to building up and refining equilibrium models where exchange across the market between demand and supply guarantees an efficient outcome, understood as the highest utility of the parties. The concept of efficiency, which arises from this approach, is apparently static in so far as no concern is paid to the mechanism by which resources are actually created and further developed. The main focus of the discipline is exchange not production.

As for development issues, the idea of the division of labour taken from Adam Smith is interpreted by referring to his proposition that it is the extent of the market, with the appearance of new firms and new industries, that determines the growth of the economy, even though Smith himself had elsewhere pointed to the division of tasks within the firm, with the example of the pin factory, to explain rises in productivity.

To the contrary, the prevailing idea was that the market not the enterprise was the most efficient form of economic organisation. The capitalist economy was to be

designated, and still is, as a market economy or rather a free market devoid of any bureaucratic control or co-ordination obstructing free competition.

The classical economists leaned in favour of a highly decentralised economic system, with individual firms operating through the impersonal mechanism of price-based exchange, as they polemically opposed the monopolistic institutions of the mercantile age. In the hands of their successors their framework was to become a substantially dogmatic and ahistorical model. The highest representatives of neoclassical thought (L. Robbins in Lazonick, 1991; pp. 67-68) concluded that the creation of wealth was not of concern to the discipline, which instead has to set the relevance of issues according to the internal values and pressures of the discipline itself. What is the role of the firm then, and what is the role of the entrepreneur, other than exchanging inputs and output on the market? If we look at microeconomics textbooks we find a theory of the firm reduced to cost curves, whose determinants are either presupposed as given or determined by the market (S.G. Winter, 1991; pp. 180-185). The entrepreneur is free to expand the output until marginal costs equal marginal revenues, driving profits close to zero under perfect competition. The exclusive concern for prices and output levels led Edith Penrose (E.T. Penrose, 1963; p. 10) to think that the conventional theory of the firm was rather to be ignored altogether than to quarrel with, since it was of no use in understanding the firm in the "real world". One contradictory aspect of this theory lies in the concept of the firm itself (see S.G. Winter, *ibid.*). Market economics conceives the agents in the market as profit-seeking individuals exemplified in the latest marginalistic models by consumers/owners of inputs. Nevertheless it is the firm not the individual that holds the stage in the theory, apparently betraying the commitment to methodological individualism. This implies recognition that the firm be intended as a collective party

where diverse interests, potentially conflicting, have to be amalgamated to guarantee full co-operation. The case made by A. Smith confirms that the issue was considered of relevance by the classics. Nevertheless, their commitment to individual ownership with its intrinsic limits led them to doubt the significance of its internal dynamics in the achievement of economic outcomes. Beginning with A. Smith and J.S. Mill, the fathers of the discipline professed a very low opinion of salaried managers, then referred to as stewards or even servants, treating their employment as unnecessary or dangerous (see S. G. Winter, *ibid.*). When they looked at the British economy of the first industrial revolution, it was not the growth of firms but the extension of the market by innovators-entrepreneurs which afforded the growth in productivity and the expansion of the economy via market exchange and fierce competition (and the brutal exploitation of a new kind of labourer, the wage worker). Alfred Marshall, while distinguishing between internal and external economies and diseconomies, expressed a strong belief that external economies continue to dominate, limiting for a long time ahead the incipient establishment of oligopolistic and monopolistic forms of economic dominance.

History was to tell another story, where firms and their constituent parts played an essential role, but economics as a discipline was to be established on this approach. This made possible, among other things, the establishment of a clear-cut separation of economics from the other social sciences, depriving it of essential methodological and empirical foundations. Conventional economics in this respect performs essentially an ideological function as the repository of the myth of the market on which capitalist societies, whatever their real mode of operation, rest.

The firm of the marginalist theory is a production function, its scale and scope adjust to technological indivisibilities and, in turn, technology is taken as given. In the perfect competition model, the assumptions about perfect rationality and absolute mobility of factors and information make it impossible for individual firms to become dominant and reap higher returns. In this way, it is argued, resources are effectively employed, allowing the principle that the seeking of personal gains by self-interested individuals can serve the good of the whole. It is of utmost importance to understand how this doctrine continues to inform both methodology and practical considerations when economists turn to investigate and command solutions to problems in the "real world".

As we shall see, greater complexity and change of assumptions notwithstanding, conventional economists continue to regard perfect competition as an unchallenged ideal of efficiency; any departure from it produces disturbances and distortions of the "market". Historical events as well as technological constraints and managerial strategies are commonly regarded as extra-economic accidents which explain the failure of the model to materialise. In particular, the attainment of higher returns by firms, usually in the presence of asset concentration, is viewed as a cause of higher prices and lower output than might be achieved under perfect competition. The argument in favour of less state regulation is usually justified on this ground, as it should elicit greater competition and so limit managerial discretion.

Even when the hard fact of large enterprises was admitted in the theory, usually on the ground of technological considerations, no theory of growth was developed, leaving the causes and trends of integration unexplained and so maintaining a suspicious attitude to managerial strategies.

*The theory of the firm revised*

The lack of interest in the firm and its internal dynamics are common features among marginalist economists, but at least from the 70s a new strand of thought emerged that accepted dirtying their hands with the oddities of economic life, though continuing to praise the marvels of the market ideal; they are, respectively, Transaction Costs theories, Agency Theory, Game theory and Evolutionary Theory (see W. Lazonick, *ibid.*, also pp. 181-188; G. Sapelli, *ibid.*, also pp. 7-33; O.E Williamson and S.G. Winter, 1991; D. Schendel, 1991). These new approaches aim at devising explanatory models of industrial organisation focusing on the market/organisation relationship, internal dynamics and behavioural issues.

These theories are built around a set of problems and behaviours drawing on discrete phenomena among those commonly observed in the real business world, undermining the smooth operation of the market conceived by the neoclassical view. Their starting point is the admission that the perfect competition model is inadequate to analyse organisational phenomena because it relies on absolute decentralisation permitted by the untenable assumptions of costless information, technological knowledge and perfect rationality. Therefore different combinations of new assumptions are introduced, namely bounded rationality, informational asymmetries, asset specificity, uncertainty and opportunism. Through this it became possible to explain the emergence of firms other than as mere production functions.

The enterprise is regarded as a different form of organisation characterised by managed, i.e. conscious, co-ordination as opposed to the impersonal mechanism of

the market. Nevertheless, criticism of the traditional theory notwithstanding, market co-ordination remains the desirable choice while organisation/hierarchy arises out of market failures and is regarded as a last resort.

Thanks to its greater attention to details and higher complexity, IO economics elaborated sub-models analysing specific economic phenomena which have attracted great attention from practitioners as well as scholars from other social sciences, and managerial studies in particular. As a result, hopes have been raised about co-operation across disciplines as well as fears of a renewed attempt by economics to assert its dominance without shedding its dogmatic approach (see D. Schendel, 1991; *ibid.*). These theories enjoy a widespread appeal and are currently used to analyse governance issues such as the employer-employee relationship, vertical integration, governance control and managerial behaviour and strategies. Among them, T. C. theories are of particular interest because they represent a more coherent attempt to create a new paradigm of economic organisation, distancing themselves from conventional explanations and utilising in a new way the notion of costs.

The theoretical bases of the new approach were laid by the articles of R.H. Coase (1937), "The nature of the firm", and F. Knight (1921), "Risk, uncertainty and Profit" (R.H. Coase, 1993, pp. 18-75, and H. Demsetz, 1991; pp.159-179; on Coase see W. Lazonick, *ibid.*, pp.168-170, on Knight, pp.175-6).

' Knight's analysis of the firm as an institution for efficient risk sharing is based on risk aversion and costly knowledge; Coase's theory, known as the transaction cost theory of the firm, has as its central theme the relevance of costly managing and exchanging.' (H. Demsetz, *ibid.*; p. 161)

The development of the TC theory came with the elaborations of Williamson and Alchian and Demsetz; they attempt to build a new theory of economic organisation based on the comparative analysis of costs within the firm and across the market. We shall treat them separately as their approach differs in some respects, though their common features and limits are the object of a critical consideration.

Williamson concentrates on Coase's argument that market and hierarchy/firm are different forms of economic organisation and differ in the cost of their use, identified as transaction costs. His aim is to "operationalise" these propositions in order to devise a logic of economic organisation. The starting point is the market, its observable replacement by managed co-ordination raises the question of why hierarchy is preferred to market exchange, known as the "make or buy" option. Moving from a traditional economic perspective, he concludes with Coase that when transactions are more efficiently dealt with by hierarchy they are internalised. Williamson rejects the orthodox view of the firm as a productive unit and pays no consideration to technological aspects. He chooses, therefore, transactions as the basic unit of analysis. The aim of his analysis is to identify factors responsible for transaction cost differences.

This analysis would allow T. C. theory to assume a predictive and operational character regarding the choice of the most effective form of organisation. The puzzling question about the nature of the firm and its size, he argues, can be answered by aligning transactions with governance structures in a discriminating way.

The last focal point of Williamson's research is the discovery of inter-temporal process features as uncertainty impedes ex ante incentives to determine the outcome of transactions. We should underline that the introduction of a dynamic perspective

on a logical ground differs from dynamics drawn on historical investigation and appears closer to a Game Theory perspective.

The conditions for market failure, according to Williamson, lie in the new behavioural assumptions of bounded rationality and opportunism.

Bounded rationality implies human agents are rational, i.e. profit-seeking, but only limitedly so. Opportunism is 'defined as a deep condition of self-interest-seeking that contemplates guile' (O.E Williamson and S.G. Winter, *ibid.*; p. 92).

The combination of these two elements makes the economic environment uncertain and risky. Under these conditions, transactions characterised by frequency of recurrence and asset specificity become difficult to arrange and fulfil under a contractual agreement. The risk of opportunism and the related costs of contract arrangements can be avoided by resorting to integration. Under hierarchy the high powered interests of agents are replaced by low powered interests of employees incurring the need for incentives and safeguards with their own specific costs.

Asset specificity plays the central role in determining the choice between market and hierarchy, the higher its level the greater the risk of opportunism and the advantages of managed co-operation (see W. Lazonick, *ibid.*, pp. 206-227).

In a contractual framework, asset specificity stands for long-term commitment by one of the parties, which derives from investments in non-redeployable assets and implies risk of heavy losses. The function of assets in the theory resembles technological indivisibilities in the classical view, as they impede costless and perfect mobility of inputs.

Equally, the reason for asset specificity is not searched for precisely because Williamson has not developed any argument accounting for managerial decision-making, other than mere choice among given options.

Williamson's position about the managerial role and the enterprise is fully unfolded when comparing what he considers the two main approaches to the job of managers, "economising" and "strategising" (O.E. Williamson, 1991; pp. 75-95).

The "strategising" option, in his view, is stuck to power issues which are either irrelevant or short-lived in an appropriate economic perspective. Strategy here is essentially intended as a deterrence policy, building on market power.

Economising, on the contrary, deals with efficiency and relies essentially on cost matters. In the long run Williamson claims cost differences decide the competitiveness of business organisation and he insists that rather than differences among organisational solutions within firms, we have to focus on the tension between market and hierarchy.

He distinguishes between first order economising (FOE), effective adaptation and reduction of waste and second order (SOE), lower production costs, and so prices, and increased quantity. What is left for managerial discretion, and for the firm to manoeuvre, is a policy of adaptation to external circumstances, FOE, while efficiency remains to be checked by the traditional cost function, SOE. Integration, extending managerial co-ordination, is not the first choice option for Williamson but the last resort in case of market failure because bureaucracy imposes a high cost due to adverse selection.

Williamson departs from the neoclassics also by affirming his interest in historical research and the possibility of testing his framework against the empirical findings of

economic historians. He provides an historical explanation for Take Over (TO) movements which exemplifies his conception of business management as well as the methodological links which he intends to establish with other social sciences.

Two opposing views apply to the issue, one stressing TO as resulting from excessive managerial discretion, powered by expansion drives; the second highlighting the importance of a free market for corporate control for healthy selection of managerial teams and as a permanent threat to their greed.

In Williamson's view, an historical explanation seems more plausible where the TO movement in the 60s is linked with the generalisation of the M-form, as emerges from A. D. Chandler's findings about the North-American managerial enterprise (O.E Williamson and S.G. Winter, *ibid.*; pp. 104-108).

The M-form comes as a result of the attempt to solve the overload on general managers in the former U-form. The new form yields unexpected efficiency gains due to separation between top and divisional managers, driving the former off the operational ground. TO, as well as divestment, can rather be understood as the selective device which spreads the new more efficient organisational mode.

Here TO represents the reproductive link in the biological analogy. Interestingly, such an explanatory construct, taken from functionalist sociology, was deemed useless and misleading by Edith Penrose (E.T. Penrose, 1963; p. 2) in respect of being devoid of consideration of the role of human decisions.

Whatever his professed consideration for other social sciences, Williamson seems to ignore their major contribution: the inquiry into human actions and the investigation of their causes, among which human conscious decisions are to be taken into account.

In tune with the latest discourse around the nature of enterprises, Williamson concludes that strategic management makes central offices operate as internal capital markets, while divisions begin to be understood as profit centres.

The approach from A. Alchian and H. Demsetz diverges from the above for the deeper reliance on the neoclassical assumptions. Their critique of Williamson focuses on his clear cut distinction between firm/hierarchy and market. They understand the firm as a nexus of contracts and coherently refer to it as firm-like arrangements. The existence of these arrangements does not depend on problems inherent in difficulties in devising long term contracts. Nor can a case be made for TC alone, as opposed to more efficient firms, because governance costs are to be considered with market exchange, as incorporated in purchased goods, and within-house production. Their point is that Williamson continues to presuppose production costs equality and therefore does not focus on intra-firm cost comparison, confronting instead the firm with market.

They make the internal functioning of the firm their central theme. Consistently with their contractual approach, the firm consists of a horizontal relationship among teamworkers/input providers. Adopting assumptions from agency theory, moral hazard and opportunism, they observe that output restriction, the form assumed by opportunism within the firm, leads to the adoption of performance monitoring. It explains the supervisory position of management and governance costs. What strikes one here is the credit paid to the idea of free labour, which clearly contrasts the very reason for shirking, a typical form of workers' resistance to work intensification. As for the nature of contracts, as S. E. Masten points out, parties in a contractual agreement are free to pursue their personal goals within the limits set by contractual clauses and any other general legal rules applicable to contracts (S.E. Masten, 1993;

pp. 196-212). Quite different is the position of employees, who are always held to act in the interest of the employer and under his undisputed direction, with the only limit being that which is unlawful.

Far from posing problems of monitoring, teamwork under managerial control has been able to increase to a greater extent the measuring of individual efforts, affording the "special productivity" which, according to Demsetz, offsets internal costs (H. Demsetz, 1991, *ibid.*).

The understanding of horizontal, mutually agreed, co-operation within the firm descends from the belief in the perfect mobility of inputs/factors. Along with it, the right to hire and fire by management would be offset or even outweighed by threats by employees to leave. Unlike Williamson, Demsetz does not concern himself with the problem of asset specificity, in the form of non-redeployable fixed capital, because of the above mentioned presumption. In reality the mobility of the labour force is the condition for the existence of a labour market, where it is freely available for the firms to hire. Conversely, strategies by firms to establish effective control of different segments of the labour force determine the forms and the degree to which they can secure privileged access to resources and gain dominance among competitors.

It is an intrinsically contradictory construct, which cannot be solved once and for all but can only be observed and analysed, relying on the partial solutions that have emerged to the present as a result of continuous innovation by firms.

The idea of the firm as a nexus of contracts based on non-hierarchical co-operation is currently referred to to explain or urge the flexibility discourse on enterprises. It would represent a shortening of contracts, for rapid moral obsolescence reduces the need for long-term mutual commitment and cumulative knowledge advantages.

The TC theories all agree on this proposition, that the firm at its best is nothing else than the continuation of markets by other means, and the managers, if not given to opportunism, replicate the co-ordination of resource allocation normally operated by the market.

As for the other theoretical strands, Game Theory appears to have little practical impact. Agency Theory, though set to study a limited set of phenomena, has gained, as we saw, great appeal. Its main assumptions are opportunism and informational asymmetries. It maintains instead the belief in perfect rationality and derives models of complete contracting. It is concerned with the design of incentive agreements and the allocation of decision rights among parties with conflicting interests. The central themes are the principal/agent relationship and corporate control. This theory tends to consider all managerial problems as depending on incorrect incentives, assuming away any other source of malfunctioning.

Evolutionary Theory instead presents itself with a sharp and thoughtful criticism of conventional theories (ET) challenging the alleged dynamic feature of the TC approach (about the ET see S.G. Winter, 1991; pp. 179-196 and G. Sapelli, 1990; pp. 8-9). Consistently, the adoption of an explanation based on evolution by selection brings forward the idea of an innovation process fuelled by interactions with the environment.

R. Nelson and S. Winter introduce the important concept of routines. Routines guarantee the reproduction of the organisation but also constitute a limit to the possibility of change. Their routine-based evolutionary firm is clearly at odds with the selective approach to firm problems implied by the use of transactions. They judge it more appropriate to consider the firm as a whole; its size can be considered the result of cumulative adaptations more than spot choices between market and

hierarchy, the level of efficiency is more realistically established at firm level while individual subunits may continue to operate below average if it is consistent with the overall functioning of an integrated system.

### ***Business organisation and Strategic Management***

The lesson we draw from conventional economics can be synthesised as the following; 'A well-functioning economy is a market co-ordinated economy. The ability of an organisation to influence the allocation of resources and the distribution of income is an undesirable abnormality - "market imperfection"' (W. Lazonick, *ibid.*, p.62). This approach has clearly little to say about the real world. At their best these models can offer a guide for adaptive strategies. Reality tells us that they are short-lived, only structural change prompted by innovative strategies can sustain growth and overcome potentially system-threatening crises. The growing ability of firms to perform these strategic tasks has been a function of the development of internal organisational capabilities embodied in a multiple layer of managers.

The increase in consistency of their functions has brought forward a new field of studies, a direct expression of the business world. Strategic Management (SM) focuses on current and forthcoming issues of concern to the practitioners with a strategising perspective (D. Schendel, I. Ansoff and D. Channon, 1980; R.P. Rumlet, D.J. Teece and D. Schendel, 1991). SM represents the emergence of a reflective consciousness of this professional group, the content and consistency of its analytical tools reflect its changing perception of the environment and the level at which responses meet challenges. The field has flourished, on the practical ground, out of teaching and consulting activities providing services to the business community.

The seminal works of Penrose and Chandler laid the theoretical and empirical foundations, which permitted overcoming the intellectual barriers to the study of the

managerial firm, affording scientific legitimacy. Essentially, the SM field rests on the belief that 'the strategic direction of business organisation is at the heart of wealth creation in modern industrial societies.' (R.P. Rumlet, D.J. Teece and D. Schendel, *ibid.*, p.6).

In the first post-war decades the strategic field, originally known as Business Policy, was concerned with long range and lately strategic planning. These managerial systems reflected the then-secondary and periodic priority attached to the relationship with the environment (for the idea of managerial systems see Ansoff, 1980, pp. 131-149; for the history of the discipline see D. Schendel, I. Ansoff and D. Channon, 1980, *ibid.*, and D. Schendel, 1994). It becomes immediately evident if we consider the long-term effect and relative stability of investment decisions by big corporations in the 50s and 60s. General Managers in charge of planning were primarily concerned with a quite narrow range of issues consisting of markets, products and technology. The division of labour between top level and operational areas reflected itself in the idea of corporate strategy as divided into two organisational activities: decision and implementation, i.e. content and process. They are somewhat equivalent to Chandler's strategy-structure model where strategy formulation comes logically and historically prior to structure, which is to be set in place and instructed to execute the former. The tension between these two moments is one of the recurrent themes in the field.

The other "fundamental dilemma" lies in the way the relationship with the environment should be understood. 'For those who learned about strategy in the 60s (...) the field of SM (...) has always been about opportunity and threat, somehow raised by forces *out there*, matched by strengths and weaknesses, something *in there*, possessed by the firm and manipulated by managers.' (D. Schendel, 1994, p.1).

Significant changes, from the 70s onwards, were to reshape both the managerial agenda and the paradigm of the field, leading to the SM conception. The separation between conception and implementation subsided, replaced by the inclusive concept of strategic change; preoccupation with behaviour and action outgrew traditional concerns with decision.

The new issues on the managerial agenda were corporate capability, the environment-strategy-capability relationship and strategic change processes, including resistance to change. The successful manager in the field paradigm was conscious of the need for both plan and organic adaptation, avoiding the extremes of tight planning and unplanned incrementalism.

On the theoretical ground, the main question was about the causes of superior performance. Till then, the state-of-art in the field was dominated by the idea of "fit" (M.E. Porter, 1991), a loose general framework, through which individual cases were looked upon as devising specific solutions. Strategy was meant to unify functional policies, to establish general goals, to align strengths and weaknesses to opportunity and threats and to create and exploit distinctive competencies.

From the 80s two conflicting views divided the field, regarding the relationship between the firm and the environment and the major determinants of economic outcomes. One is Porter's powerful analysis of Competitive Advantage (CA), the second is the Resource-Based View (RBV), inspired by Penrose's insistence on internal resource development to drive enterprise growth.

Porter intended to build a new theory to overcome the generalising framework of the "fit" approach so as to provide tools to understand a firm's competitive environment and its relative position. He was responding, it seems to me, to the functional need for tools which could guide general managers and consultants, irrespective of the

discrete industry/product and size/structure of the selected firm. The need resulted from the shortening of the time period for strategic change, greater managerial turnover and increased division of labour among managerial layers.

Preliminary challenges in theory building were identified in the choice between model and framework, the understanding of the chain of causality, the related choice of the time period and finally the basic unit of inquiry (M.E. Porter, 1991).

Porter's approach (M.E. Porter, 1991, pp. 80, 85) has delivered a theory of competitive advantage, seeking the causes of superior performance of the firm at a given period of time, what he will later refer to as the cross-sectional problem. It 'addresses the choice of strategy given whatever array of capabilities the firm and its rival possess at any time' and whatever 'the process by which the superior positions were attained' (M.E. Porter, 1991, p. 105). The basic unit of analysis is the single business or industry, irrespective of the number of activities under corporate control.

Porter makes his central theme the idea that 'firm success is a function of two areas: the attractiveness of the industry in which the firm competes and its relative position in the industry.' (M.E. Porter, 1991, p.99). The short time horizon and the focus on the industry effect made Porter's view popular but contested in the field since he really constrained managerial discretion and firm action within a narrow range of options.

To understand industry structure Porter devised the popular five-forces model, featuring threats by new entrants and substitute products, bargaining power of buyers and suppliers, and internal degree of rivalry. Notably no mention is made of any factor other than conventional economic ones. Within industries, Porter continues, firms are successful if they reach an attractive position, that is one that guarantees a sustainable competitive advantage relative to competitors.

The search for CA leads Porter to study firm internal configuration, which he understands as a collection of activities. Activities use and create assets such as skills, routines and knowledge. 'The activities in a firm can be schematically arrayed in what I term the value chain. (...) A firm's strategy is manifested in the way in which it configures and links the many activities in its value chain.' (M.E. Porter, 1991, p.102). Last in the chain are "drivers", the empirical firm-specific determinants of superior performance of activities.

The determinants of CA are neither permanent nor valuable in themselves. They tend to fade away if not reinvested in and especially because of changes in buyers' and competitors' positions. This relates to the idea of value and value chain. The value Porter refers to is the buyer's value, "customer satisfaction", speaking business language.

Activities create value neither because of the intrinsic properties of assets nor because of their use independently from the market. Activities may contribute to create value but certainly they are a source of costs. By breaking down the firm into its elemental parts as activities and reassembling them into a chain, Porter creates a device to analyse the contribution in terms of costs and value of each of them and to identify precisely value and costs mismatch.

This formulation seems to be in stark contrast with the view of the centrality of enterprise inspired by Penrose, as in fact:

'The resource-based view (RBV) of the firm, founded on the ideas developed by Penrose (1959), suggested that what was really more important than industry structure was the resources possessed by the firm, deployed by the manager, and used and further developed by the organisation.' (D. Schendel, 1994, p. 2).

While the point about resources and capabilities seems largely agreed upon, and in fact incorporated by Porter himself, the problem with the RBV is deemed to be its circularity or tautology. Why are resources valuable? And why do they make the enterprise more competitive? Porter may answer, consistently with his idea of value, that only a competitive structure, the market, can give the answer, 'stress on resources must complement not substitute for stress on market position.' (M.E. Porter, 1991, p.108).

The two theories reflect two different perceptions of firm problems, which happened to trouble managers and academics at different times. While RBV is regarded as suitable for relatively stable environments where competition is low and enterprises can safely plan their expansion with an inward-looking perspective. Porter's view appeared and became popular because it delivers a conception that allows problem-evaluation and problem-solving, at a time when enterprises were, and still are, troubled by stiff competition, low productivity and rapid obsolescence and so were pressed for constant change. Furthermore, the idea of a value chain to which each component of the enterprise contributes, with its services compensating for its costs, replaces the traditional top down model, implying conflicting interests and exploitation, with a neutral horizontal model.

From the theoretical point of view, Penrose's view radically challenges conventional views by putting the firm and human decisions within it at the centre. To the contrary, Porter apparently reconciles his approach with the belief in the ultimate centrality of the market, and opens up to the new IO economics still opposed by RBV scholars.

The greater concern for theory, and the converging trends in SM and IO economics fields, make it necessary to redefine the “fundamental issues in strategy” and its relationship with economics and other social sciences at large.

SM, it is argued, is about the direction of business organisation and it is of concern to senior managers. Firms are organisations struggling to survive in a competitive environment and this implies making choices. Strategic choices include the selection of goals, the choice of products to offer, policy-making for positioning in the industry (competitive strategy), the design of organisational structure and administrative systems.

They assume that these choices have critical influence in success and failure of firms’ performance; it is the integration of a set of choices to make a strategy (see R.P. Rumlet, D.J. Teece and D. Schendel, 1991, p. 6).

Economics and SM, they insist, rejecting beliefs in future merging trends, do not match as disciplines since their object and content differ, as well as their methodological approaches. The main object of the former remains market exchange, while it is organisational capabilities for the latter. Microeconomics has a strong inclination for modelling which entails little attention to ongoing processes and the retention of a strong doctrinal component. To the contrary, SM has to choose the object of inquiry aiming at sustaining its predictive power. Therefore its content is constantly changing. In particular its exponents reaffirm that Competitive Strategy, allegedly closer to new economics, is methodologically integrative, requiring contributions from a broad variety of knowledge bases.

The potential of the most thoughtful contributors to the field to overcome intellectual standstill from a conventional static perspective is highlighted by Porter’s attempt to move “towards a dynamic theory of strategy”, setting a new starting point for

research. In order to go beyond immediate concerns for competition, asking questions about why enterprises are what they have become, a new perspective is needed which he refers to as the longitudinal problem. The long-term determinants of enterprise development and success he identifies boil down to managerial choices and environmental dimensions. Porter is driven to the consideration of factors which broadly fall into the category of external economies, such as state support, intense competition and co-operation with locally based firms. He nevertheless admits that none of them can predict economic outcome or long-term performance. Empirical evidence shows that unfavourable conditions can be as strong a spur to innovate creatively as the best environment can prove ineffective to stimulate competitive responses. Nevertheless the question remains unanswered regarding 'the balance between environmental determinism and company/leader choice in shaping competitive outcomes.' (M.E. Porter, 1991 p.115).

The theme is still one of major concern in the field and is in fact one of significance in other approaches too, as we shall see. The latest contributions in SM advocate that 'both organisation and competition are clearly important in shaping strategy and performance.' Therefore it is pointless to maintain that they are separated and instead it should be admitted that they are 'fundamentally endogenous. That is, reciprocal interactions at multiple levels of analysis between the environment and the firm shape business strategy and performance, while interactions between strategy and performance, in turn, shape both organisational capabilities and competitive environments.' (R. Henderson, W. Mitchell, 1997, pp. 5-14).

Historians and non-conventional economists have long advocated such an intellectual outcome, though now the debate has shifted further than this early recognition. Whatever the limits, social and ideological, of the discipline itself, they should not

diminish the significance of the broadening scope and greater complexity of the analysis. They reflect the greater ability of corporate senior management to understand and intervene in a systematic way in different and ever changing environments, but also the growing difficulties that they experience in dealing with the job.

The permanence of a troublesome dimension in strategy-making is confirmed by the alarm launched lately in the *Strategic Management Journal* (D. Schendel, 1997) and the attempt to regain a general view matching global competition with strategy at the level of the corporation, if not beyond. Quick adaptation, which prevailed from the 80s, enshrined in IO models, is rejected. Greater attention to people and process issues is emphasised as an essential component of effective execution. The need for policy making, also in co-operation with political and public policy, is eventually declared. These points are certainly innovative and again respond to the permanent feedback from changes in the business world. Yet the way major changes are looked upon as unforeseen, almost accidental events, while desirable to counter excessive self-confidence from a certain managerial ideology, still falls short of the role large groups have played consciously or unconsciously in shaping these events. But for understanding this we have to put aside the concern for the success of the individual firm and focus on the firm as an historical institution, key to the growth of modern capitalist society.

### *The managerial enterprise*

The works of E. T. Penrose and A. D. Chandler, from different perspectives, were a milestone for following generations of economists and historians (E. T. Penrose, 1963; A. D. Chandler, 1962, 1977, 1990). They made the growth of the firm their

central theme, recognised the development of organisational capabilities as key to this process and made it possible to look at planned co-ordination, not the market, as the engine of economic development. They talk about entrepreneurial functions, as distinguished from operational management, operating through conscious strategies put in place by an administrative structure whose capabilities are at the heart of long-term growth and superior performance of individual firms. Penrose's reference to the goal of long-term profits and Chandler's clear point about the managerial structure becoming entrepreneurial highlight the collective, organisational rationale of firm behaviour, which is devoted to growth by constant innovation.

### *Business organisation in historical perspective*

Penrose states the purpose of her study to attempt to construct a general theory of the growth of the firm. Unlike any previous economic argument about the firm, she is not interested so much in the size as in the '*internal process of development leading to cumulative movements in any one direction.*' (E. T. Penrose 1963; p. 1) In her opinion, there are neither given limits or definite tracks constraining this development, which is the outcome of the internal dynamics of the firm.

She makes the firm the basic unit of analysis and sets the task of abstracting out of empirical cases the principle and determinants of its growth. The external environment, admittedly omitted to focus on internal resources, can be adequately interpreted in the perspective of management. Furthermore, she reverses the common understanding of economic reality by defining the modern economy as a 'private enterprise industrial economy' as opposed to a market economy (E.T. Penrose, *ibid.*, p.6). Conversely the nature of the economy is defined in terms of the kind of firms that compose it.

She further specifies the object of enquiry to ground it in an historical and organisational perspective. The firm she focuses on is the modern managerial firm emancipated from individual ownership. A remarkable point is made here that, with the institution of the limited liability company, the firm has removed an essential organisational and economic limit to growth. The separation of ownership from control is the logical and historical consequence without which no managerial role and no growth can be imagined beyond the limits of individual entrepreneurial and financial capacities.

The managerial firm is defined, in the first place, as an autonomous administrative unit. It is a discrete organisation distinguishable from a broader category of institutions for its attachment to the use of a collection of tangible and intangible resources for productive purposes. The use of these resources is the job of managers, the 'how' of it depending on their decisions. As for the time period and the scope effected, decisions can be distinguished as strategic and operational. Conflicting claims arise between general and operational managers over the use of resources.

Penrose highlights the difference between resources, freely disposable for multiple purposes, and the services they render, which are a function of an activity. Internal capability as a source of competitive advantage is relative to the way activities are carried out and resources combined. Capabilities she refers to are especially human and derive from co-operation and learning by doing. (see W. Lazonick, 1991, *ibid.*; pp.299-301).

Which is the motivational drive leading managers constantly to increase the scale and scope of their activity and engage in innovation? The answer, she argues, is not to be found in the pursuit of traditional individual goals. Profit-seeking may be a

plausible one if understood as total long-run profit, which itself represents only a measure of success and the base of further expansion.

A few years after "The Growth of the Firm", the historical findings of Chandler were to relieve the scarcity of empirical sources Penrose lamented. Chandler's pioneering historical research provided an open recognition and an early explanation that by the last quarter of the last century powerful forces in western societies were conjured up to replace the entrepreneurial business firm, driven by profit maximisation and individual self-interest, with a hierarchical organisation which took over many of the functions mainstream economics attributed to the invisible hand of the market.

Historical findings prompted him to put forward a new principle of industrial organisation, synthesised in the strategy-structure framework. This organisation was the industrial managerial enterprise, its main features appeared to be hierarchical organisation, characterised by a multiple layer of managers, and the concentration of assets by horizontal and vertical integration.

The managerial enterprise, Chandler argues, was to become by the 20s the most influential non-governmental institution in the western countries, the highest intensity, and the pace-setter of the industrial growth, being in the United States. The starting point of Chandler's narration is the technological revolution that occurred at the end of the nineteenth century, bringing a new set of business opportunities both in product and process innovation.

Those entrepreneurs who made the three-pronged investment in production, distribution and organisation were to dominate the new industries of the Second Industrial Revolution and shape their future advancements. They did so by exploiting the competitive advantage provided by the economies of scale inherent in mass production technologies. In those sectors where high volumes did not imply

economies of scale, large organisation failed to consolidate, where markets were fragmented and dispersed, the early development of mass production facilities was impeded. Though it seems here that Chandler engages in a static competitive analysis of organisational and technological units, his explanation based on economies of speed, when understood correctly, avoids the risks of a functionalistic interpretation.

But why could a small firm with smaller productive outlet not master the new technology and why was the incorporation into a centralised organisation to prevail over looser forms of institutional arrangements devised to co-ordinate the different stages of a production line? The answer lies in a combination of technological constraints, cost advantages and market opportunities which arise from the link between mass production and mass consumption.

The starting point of the argument is the assumption that the second industrial revolution had delivered a new set of technological devices and possible products which allowed substantial economies of scale if plants of optimal size were to be built. The development of mass production in this way was to have far reaching consequences on the form through which business was administered.

Mass production, as Henry Ford outlined, is not just production of goods in large number, it is rather a highly standardised production process where any stage is to be co-ordinated and often physically connected to the others, making this activity resemble a line oriented to the final product. Chandler underlines in fact that the rated capacity of a large plant only in principle guarantees the drop in unit costs which account for the economies of scale of mass production. The actual economies of scale are given by the measure of throughput, it is the flow speed that determines the effectiveness. And while the rated capacity refers to physical characteristics, the flow speed comes as a result of managerial skills. A large integrated plant with a

high steady flow of inputs and outputs necessarily needs to be co-ordinated with backward and forward stages, so as to avoid high inventory costs, stoppages and uneven production which could offset the economies of scale.

The use of product-specific machinery, responding to the need of standardisation, calls for professionalized managerial capabilities, both in the production and distribution outlets. As a result, the development of mass production and mass distribution, made possible by new technology, requires a third factor, namely organisational capabilities, to accomplish the new tasks posed by the former. They are, in the first place, the scheduling of orders and the specification of standards. Managerial hierarchies accomplish these tasks by presiding over three functions: co-ordination, monitoring and allocation of resources in a multi-unit enterprise.

Three layers of managers are recognised as essential to a model-type organisational lay out: the lower level which directly commands the operations in a single unit, overseeing the employees' activities; and the middle and top management, which co-ordinate, monitor and allocate resources to the individual units - middle managers carry out their tasks in the region of day-to-day operational activity within a functional sphere, while top managers, comprising corporate office members, are in charge of strategic decisions and respond in this respect to the shareholders' committee.

Managerial operation was not sufficient, although necessary, for the enterprises to enter a stable path of growth in the face of fierce competition by other giants. Managerial control at top levels was equally important.

Salaried managers were committed to the long-term growth of the organisation as they expressed a lower preference for short-term gains, unlike owners and shareholders who, in turn, were more hesitant to re-invest their profits and move

into new product and geographical markets. They also guaranteed continuity in the management of the firm by constantly recruiting, motivating and evaluating their heirs and subordinates.

The birth and consolidation of managerial enterprise having been explained, there remains to account for the forms it assumed in its further historical development.

Chandler recognises that changes in strategies have occurred since the 30s, but maintains that a sea change should be fixed around the 60s and makes clear, while attempting to draw an explanatory picture, that his work falls short of this historical period, which deserves an entirely new research.

Because a major competitive threat to large companies, first movers in a product market, came from well-established challengers in related industries and other countries, managers reacted by expanding abroad and into related markets, which resulted in a drop of single-business or dominant-product firms and the introduction of the multi-divisional forms. Large companies remained entrepreneurial by adjusting to constantly changing technologies and market opportunities under pressure of growing competition, revitalised by the free trade shift in the post-war decades.

The focus on the growth of the North-American industrial group leads Chandler to minimise its evolutionary character and causes for variability and change. Successful performance appears an acknowledgement of superiority over other economic forms, with the prevailing one representing a higher stage of development in the history of economic progress.

Chandler's account focuses more on the organisation at the top, replacement of co-operation based on the market mechanism with an internal hierarchical relationship,

than with the new pattern of relations at the bottom, where technology plays a central role in shaping resources and conditions of management power. This clearly suggests an idea of the neutrality of technology and the smooth character of its transformation. These limits can provide an explanation for the appropriation by institutional economics of the sympathy of Chandler himself and their attempt to use his findings in a critical way to reaffirm a substantially conventional approach.

Economies of speed are fundamental here, because as fully unfolded they clearly break the ground to understand that productivity implies eliciting efforts on the shop floor. But, left as it is, this concept falls under the criticism of technological determinism.

*Business organisation: Organisational change and innovation strategies*

On these many points, criticism as well as consideration has ensued, fostering further theoretical and empirical research. We will consider those scholarly works on the coming of the large enterprise which, while recognising the pioneering work of A. Chandler, outline its flaws and limits and bring forward new hypotheses in a dynamic, socially and historically grounded, perspective.

They came to develop tools which are much more sophisticated and interpretative frameworks which suit a constantly shifting environment where conflict and change are the rule not an exceptional event.

The work of Neil Fligstein recognises the groundbreaking role of Chandler, while departing from his conclusions in many respects. The main theme of Fligstein's research is invention and initiative by economic and non-economic agents, as well as resistance to them, representing the key to explain organisational innovation. These are not reactions to the market, as an objectively described context, but imply

altering completely the notion of what is normal business, a notion that is historically determined and not subject to any universal rationality. Fligstein undertakes this research by applying concepts taken from the theory of organisations to the history of the managerial enterprise. This theory overcomes the sterile presumption that social actors are either bound to an abstract economic rationality or to an all-embracing social construct which underpins the dominant approach of transitional theories and marginalist economics. Any collective task requires co-operation and a permanent organisation is just its most formalised expression. It can be defined as a structured field of action where actors interact according to a specific set of rules. The relationships developed in this space are the main determinant of both the position of the actors and the functioning of the organisation itself.

This approach stems from the consideration that, whatever the formal aspect of this relationship, it remains largely dependant on the continuous negotiations between the parties, where the dominant party has his freedom of action limited in his ability to influence that of the subordinated. At any stage of a formal hierarchy a struggle takes place to limit the intrusiveness of the higher officials and attempt to seize any opportunity to increase the scope of action. The concept of strategy can be understood as a regularity inferred ex-post in relation to the above mentioned actions.

The main consequence of structuring a field of action is to re-address the objective uncertainties of the problem concerned by shaping a new vision where it can be partially understood and solved. The control over uncertainties becomes an essential asset for the freedom of action of the actors.

We can define power as the outcome of any structured relationship. Organisations are a source of power and their life, and in the first place their transformation, always implies conflict. Any resistance to change should be not dismissed as a form of

backwardness but just as the defensive aspect of a strategy aimed at preserving the freedom of an actor vis-à-vis an attempt to increase the constraints on him by augmenting the predictability of his actions.

Theories of organisation have played an important role in understanding firm internal dynamics, but they risk overlooking the specificity of the firm with its hard core of technical economic rationality, as we are reminded by Penrose. As we will see, the conception of control devised by Fligstein and its corollaries incorporate many of these principles. The idea of control itself rests on the admission that the operating principles of an organisation are not set once and for all in its book of procedures and organisational charts. They are rather the outcome and the cause of informal relations, which include conflicts as well as co-operation. This is so because no organisation perfectly matches the context in which it operates, i.e. is subject to instability, but rather embodies an historical, accidental, interpretation of this context, one upon which a certain group has built its legitimacy to govern.

Managers of large enterprises divided into sub-units, he argues, develop a vision of how the business should be operated which partly reflects the social environment, partly the specific area in which they are active. These visions are conceptions of control over the uncertainties they face and offer a partial solution by introducing some practices which have proved successful. The chance for managers from a sub-unit to claim decision-making power over the company depends in the first place on their strategy spreading and becoming dominant in the external environment. This is made up of organisational fields encompassing the community of business actors they compete and co-operate with and the State.

Historically, four stages in business history can be individuated, related to as many visions and domination by a certain group of managers: competitive, manufacturing,

marketing and financial. Their appearance and replacement by another stage is not an evolutionary process nor does it imply any improvement, it is just the outcome of contingent attempts to find a solution to the problems stemming out of the current structure. In fact each vision, by reshaping the relationship between the areas of business and the terrain on which co-operation and competition should take place, secures an area from uncertainties but opens up new unexpected problems.

So the early tactic of unfair competition, based on systematic disruption of the supply and sales chain of competitors, led to high concentration of assets along the production line as a safety measure. It posed the problem of their internal effectiveness which reflected itself in the problematic choice of a form of co-ordination on a legal ground.

The attitude of the State in allowing or constraining binding relations among firms, through the development of an anti-monopolistic policy, was another terrain on which different strategies confronted each other.

The rise of the single-product integrated combine satisfied at a given time all the questions posed by the market, the state and internal efficiency requirements. When its efficiency demonstrated itself to be one-sided by the rapid saturation of the market with a narrow line of products, the need to find a market for the large plant became dominant, but the initial reply by the manufacturer was just cuts in production, divestment and price rises. That is, they reacted according to the limited rationality provided by their organisation and interpreted their environment according to the dominant idea of what business was.

When some less integrated and structured enterprises demonstrated that they could succeed by expanding their offer of final goods and pushing on sales, a new strategic vision confronted the existing one. Nevertheless, a new organisational field,

characterised by the dominance of multi-divisional firms, did not develop until the State began to target sole-commodity monopolies and the prolonged crisis of the 1930s demonstrated their vulnerabilities to overproduction.

The crisis is specifically the result of the difficulties of abandoning widely accepted business practices, which had made the fortunes of top managers and shaped the whole structure of enterprises and the web of their relationships.

Equally the intervention by the State appears to be far more problematic than the anti-monopolistic rhetoric seems to present. Investigations led usually to unfavourable rulings towards specific forms of action which seemed particularly harmful, so allowing new ones to develop with the same purpose. Fligstein argues that state regulation and antitrust policy did not harm competition but rather stimulated it. It did not happen because of a particularly effective set of rules or their enforcement but as `a result of a social and political process that defines and redefines markets` (Fligstein N., 1990; p. 32).

Fligstein's work pushes a great deal further the boundaries and the depth of business history, yet the scope of his work continues to lack essential elements of the picture. As regards the relationship between technological and organisational innovation as well as the social implications of it, he seems to discard them at a theoretical level, even though he affirms the making of the managerial enterprise to be the outcome of a social and political process. It seems difficult for many to surrender to the fact that the enterprise, if it is an organisation and a social institution, accomplishes many functions which entail different rationales. The organisational one is certainly one of them, but it does not suffice.

William Lazonick offers a comprehensive theory of innovative business organisation which attempts to combine economic theory with historical evidence. He develops a

systematic critique of conventional economics, including new IO economics, arguing that it has misused the legacy of the classics. Economists have outlawed a theory of capitalist development, precluding themselves from understanding the dynamics of economic growth and the real nature of enterprise. The classics had fundamentally individuated the dynamics of the capitalist economy, which resides in the growing division of labour within the enterprise accomplished by innovative change of both technology and organisation and performed by the entrepreneurial function. If only the economists would have continued to pay attention to history, which saw a shift in the economic dominance from British personal capitalism to USA managerial capitalism and eventually to the co-operative one in Japan, they would have discovered the growing role of managed co-ordination and the centrality of the managerial-controlled firm to it.

The importance of historical research for economic analysis is paramount, still the use of history is not sufficient. In fact, every time traditional economic theory has been applied to empirical data in order to individuate sources of growth in productivity and explanation for firm behaviour, it has failed to answer its questions. In fact, as we have already seen, focusing on output and prices, it was impossible to find out the reason for higher productivity, which resides in factors' quality and is not always measurable quantitatively.

A theory of economic development is needed to make sense of the empirical data. Lazonick sees in the combination of the lessons of Marshall, Schumpeter and Marx the possibility to build such a theory. What they lack, because of the different time horizon, is the clear leaning in favour of the enterprise and its organisational capabilities as the long-term dominant institution in the economic realm. Lazonick refers to Penrose but centres on Chandler's historical approach to back his thesis.

The innovative concept which emerges from his exposition of economic development is the combination of planned co-ordination and differentiation. That is, greater division of labour requires, and does not contrast with, integration within firm boundaries. On these foundations he revises the traditional theory of the firm, presenting one where the equilibrium of the neo-classics is the starting point from which to escape, not the end to aim at.

He takes the idea that strategy is the logical starting point to explain economic outcome, the attainment of competitive advantage. He therefore distinguishes an innovative strategy, where external constraints are set to be overcome, according to the Schumpeterian model of the innovative entrepreneur, and an adaptive one which corresponds to the 'firm in equilibrium'.

The existence of the former limits the ability of the latter to survive in the long run because, implementing dramatic changes in technology and organisation, the innovative firm is in a condition to produce goods of better quality at lower cost. Thanks to continuous innovation, the innovative firm can gain and sustain competitive advantage, leaving the adaptive ones in a marginal position.

He introduces the idea of competitive advantage, following the managerial literature, as constant development of internal capabilities, especially managerial, which allows for sustained superior performance and determines the position of firms and countries over time. His economic hypothesis, conversely, is that the equilibrium of the classics, where enterprises take technology, information, et cetera as given, is plausible in the short term but is the result of an adaptive strategy, which includes maximisation of returns from given factors and technology. This strategy leads to economic stagnation and decline because there are limits to the possibility to command greater returns from a given configuration of resources. But firms face

risks too; competitive and internal uncertainties constantly threaten the attainment of the expected returns.

The development of capabilities through innovation is only one condition for competitive advantage, the other is the ability to use them, the distinction here is between economies of scale and economies of speed first introduced in the analysis by Chandler. In the firm the ability to obtain the expected economies of scale, turning high investment costs into low unit costs, relies on a combination of organisational and technological devices which determine a certain throughput. Unlike Chandler, Lazonick argues that this essential component of internal economies, and in fact of industrial dynamics, consists of the ability of managers to elicit sufficient efforts from workers. Lazonick recognises that competitive advantage begins with the relationship on the shop floor and accepts, though with revisions, the Marxian idea of value. In a strategic perspective, here too the enterprise has a choice between sweating workers and pursuing innovation by introducing effort-saving technology. He argues, to support his thesis, that Marx himself admits effort-saving innovation which could raise productivity without increasing the level of exploitation, or even reducing it. But while Marx distinguished between relative and absolute surplus value, to separate the effect of greater pressure on the work-force from the one implying structural changes determining a growth in the productive forces, Lazonick limits his argument to the first.

If production and distribution are related as Marx and the classics thought, so that the productivity of factors depends on their expectations of returns, an innovative firm can share the higher returns expected by new technology with the workers in order to gain their co-operation. History shows that enterprises which have dominated the

different epochs of capitalism have always shown some form of amelioration of class conflicts, due to the need to gain co-operation from workers to yield the expected gains from higher productivity. It would be pointless to overload workers ushering turmoil in the work-place, because this would jeopardise production and affect productivity. Lazonick too considers the fact of deskilling and the introduction of managerial control on the shop-floor but he does not relate it to the Marxian hypothesis that technological innovation and organisational change strengthening the position of managers vis-à-vis workers would lead to further exploitation. His point is that co-operation is in the interest of management, which is true, and he fundamentally believes that a model like the co-operative relationship established in the Japanese system is taking the lead (whether this partnership interests the workers is another point). A process of segmentation and integration is individuated, through which functional specialisation is coupled with productive co-operation. Historically, neither British nor American capitalism solved the problem of limited and contrasted relationships with workers. The underdeveloped management in Britain succumbed to craft control, which upheld traditional working methods and prevented restructuring; North-Americans won over craft labour, but at the cost of establishing a permanent divide between white and blue collar workers, the relationship between generalists and specialists in the managerial hierarchy was based on the exclusion of workers. The Japanese, according to this model, represent the revolutionary and ultimate solution of collective capitalism. This utopian hypothesis of a definitive amelioration of class conflict and the reality of a third industrial revolution to accomplish it has held the scene, and still does (though weakened), from the mid-80s, and we will look at it in the next section. Here we anticipate so as to highlight a controversial point in Lazonick's argument, that he fails to recognise the main point

Marx makes about relations in production being not just a concern of unremunerated efforts but of social subordination. For this we need a theory which accepts the plurality of rationales in the enterprise and its nature as a social institution which internalises not just economic functions but also decision-making powers over every aspect of workers' life and the organisation of the social environment. The limits to effective corporate control and strategic planning notwithstanding, the co-operation of workers and employers implies necessarily the interests of the latter, as entrepreneurs and managers, to dominate. The alleged return of the skills to the shop floor is not a step back into the nineteenth century, craft management for Lazonick himself was to fail, but necessarily implies the workers assuming the point of view of the enterprise so as to limit the need for supervision and tight control. How did it occur and to what degree can we accept that such a radical change has truly taken place? The review of Marxian approaches in the next section entails the debate attempting to answer these questions.

### *The enterprise in the capitalist economy*

Until now our discourse has followed a trajectory moving from market absolutism to the gradual recognition of the firm; managerial decision and some sort of dynamic perspective based on historical analysis; the tension between inside and outside the firm; and organisation at a general level, related or opposed to the market and the broader society out there. Historical and managerial perspectives escape this dilemma as far as they recognise that the world out there is immanently related and interacts with the world of production and the latter is the key to change in the former. The mechanism generating the movement, though, is not agreed upon and it seems that even when Marxist ideas are adopted the aim is to demonstrate that in the

end development by enterprise innovation may be contradictory and troublesome but these conflicts are ephemeral if they can be composed, as in Lazonick, or they pass into a larger category of conflicting interests which power the engine of change, without affecting the quality of economic activity or economic institutions which host them.

If we define the firm/market dilemma as an horizontal problem, the relationship among capitalists/firms/economies, a Marxist perspective is built around the vertical problem of the capitalists versus working class relationship. The capitalist firm creates value in the process of production, but it also invariably extracts surplus value from alienated workers because this is the only condition for it to generate profits. Furthermore, the alienated relationship which allows exploitation implies that the society itself is organised according to relations in production, so that these relations are immediately identifiable as social relations. So, in the first place, no amelioration is possible, either within production or outside it, compromises are held to be temporary and subject to instability.

Marxist economic theory is essentially a theory of capitalist development, that is of the attempts of the capitalist system as a whole to overcome its contradictory relationship with workers. Individual enterprises, their own dynamic and strategies, are often of little interest to Marxists. They assume the market as a fictional element, for distribution is not separated from production but dependent on its organisation, competition among enterprises is secondary and serves only to determine the most advanced front of capitalist development.

Marxist economists and historians, and latterly sociologists, have concentrated on organisational and technological changes to detect the forms assumed by the capitalist organisation of the creation and extraction of surplus value. Here different

stages or modes have been derived according to the technological patterns within the general tendency to subordinate labour to capital in order to increase relative productivity. We will see in more detail the controversy about whether these stages have a stable configuration or they are better understood as a more blurred, varied sequential succession of strategies.

Top level organisation has invariably been interpreted by influential contributors, from M. Dobb to Sweezy and Baran, as leading towards greater concentration of capital. The ideas of a monopolistic epoch and the “financialisation” of capital have captured some aspects of the picture, but the explanatory framework remains vague and the internal mechanism and structures are not detailed. Most of these theories foresee this process of concentration as leading to the last stage of capitalism. Management has been largely looked at in its role at middle and lower levels to monitor, exert command over performance and ultimately replace workers’ knowledge of the production process with “scientific” instructions from the top.

The body of Marxist theory is so vast and the ramifications of the related debates so varied that we would not dare to summarise them in a thorough manner. Consistently with our focus on the managerial enterprise, we review those contributions which can cast light on the understanding of the nature of the enterprise and changes in organisational and technological patterns, as they openly criticise and integrate theories presented in the previous sections of the chapter.

### *The enterprise as historical subject and institution*

The intellectual contribution we want to refer to here fully assumes the capitalistic nature of the firm, in the Marxian sense of generator of surplus value, without losing anything of the complexity inherent in the study of this institution. This theory assumes the possibility of contributions from social sciences from authors oriented to

understanding the firm in a dynamic organisational perspective, as opposed to contractualistic and neoclassical models.

In the first place, the theme is one of redefining the concept of the firm in relation to the environment (G. Sapelli, 1990; pp. 3-32). The question, Sapelli argues, is no more one of having accepted the use of history but the role of historiography as combined with other social sciences.

The contributions of Penrose and Chandler are fundamental to define and describe the firm as an administrative organisation with an economic function. The other contribution to consider is the series of studies of financial and patrimonial groups, which reveal the complexity and richness of the organisation of different bourgeoisies. A crucial role in advancing on this ground is also given by reflections about the nature of the organisational phenomenon in business enterprises.

The idea advanced by J. D. Thompson seems to overcome the conflicting views of organisational theories about the proper rationality. It assumes that a threefold rationality operates in the enterprise: the business-specific core dominated by technical-economic rationality aiming at efficiency through routines; a second one characterised by the competitive and interactive relationship with the external environment; while the last one is the managerial system proper, with the strategic function of overseeing the relationship between subsystems (G. Sapelli, *ibid.*; p13). This plurality of "cultures" and rationales defines the enterprise as a social and technical organisation whose individuality is determined by the way in which it accomplishes these functions.

Secondly, it leads to an idea of a relationship between enterprise and markets which is defined by organisation. Developing this point, Sapelli makes it clear that the only way to go beyond the "*vexata questio*" is to answer 'the question (...): can a rich

array of markets exist without organisations that generate them?' (Paul Auerbach, 1988, in G. Sapelli, *ibid.*, p. 21). Here we reach the heart of the problem which enables us to overcome both managerial and contractual theories; the enterprise is not a thing but a process which creates social and functional ties and so organises the environment, reinventing its own space both within and outside its boundaries.

The market properly speaking does not exist, we have rather competition among organisations within an institutional, political and legal context. The internal dynamic of the firms cannot be reduced to any static picture, they are invariably altered by discretion, creativity and social mobility. This explains why they are a strong source of power, through social change, as well as one of conflicts.

One of the laws governing industrial dynamics that is apparently recognised here is the differentiation via managed co-ordination which can include both "market" and "firm" according to the strategic decision of management. Greater social co-operation is subsumed under more sophisticated organisation. It assumes greater liberty of the actors within the boundaries of the organisational goals.

At this stage not just the separation between firm and market/society falls but it is to be recognised that the political and social worlds are being revolutionised by the growth of the managerial capabilities of the firm. The internalisation of functions does not refer only to the economic sphere but also to the political one. On this theoretical basis it is possible to attempt a history of dominant business groups whose organisational forms have characterised capitalist development (G. Sapelli, *ibid.*; pp. 43-66).

The concept of group refers to the centralised management of autonomous enterprises by an economic subject. The relevance of placing the research at this level is given by the possibility of identifying the strategic level and the different

forms it has assumed over time. He individuates five different forms, patrimonial, financial, industrial, managerial and networks. They should be understood not as a rigid taxonomy but rather as prevailing forms which have characterised the development of the group, the older ones being peripheral.

The first is typical of the transition from feudalism to capitalism. Its core is usually represented by a family and the main strategic drive is the maximisation of returns from productive and commercial enterprises. It is the reflection of the strengthening of mercantile relationships.

The financial group dominated in Continental Europe through the nineteenth century, determining the investment decisions of controlled firms. It was responsible for the high rate of industrial development in the second half of the century.

The industrial group, which immediately became dominant in the USA, unifies financial prerogatives with competencies in industrial management. It was at this stage that a revolution of many aspects of production, distribution and R&D started.

The managerial group grows out of the industrial one. It can be identified with the M-form described by Chandler, with the oft-quoted separation between planning and operation.

The determinants that Sapelli identifies governing the development of groups are: "symbolic capital", differentiation and hierarchical governance.

The first refers to the crucial role played by the creation of the limited liability company and the separation of the existence of the enterprise from the fate of individual capitalists, identified by economists like Penrose as well as historians. It can grow beyond the limits of personal finances and live a life of its own. The separation of ownership and control means that the concentration of the former,

related to individual matters, does not influence the latter, where concentration is more effectively subordinated to the imperative and forms of valorisation.

Functional differentiation is a general principal of social organisation. Here it stands for the functional specialisation of economic activities. Its governing principle is the valorisation of capital. It appears either as integration of previously autonomous activities or as internal subdivision, like the Japanese *zaibatsu*. In any case, the unifying element is the development of managerial capabilities which directly or indirectly attempt planned governance of the growing division of labour. They allow the effective subordination of a greater number of activities to the economic and technical rationale satisfying higher capital valorisation.

Sapelli underlines that differentiation and the growth of capital seem immanent to the system, operating as laws of its long-run development. The efficacy of the strategies which sustain corporate control cannot be assumed as such. The ability to command authority and the forms to impose managerial power depend on scarce managerial resources and are constantly under threat.

The other research track along which this strand of historians proceeds is the analysis of technological innovation and labour organisation. It is a common locus of Marxist scholars and the ground on which much of the current debate about the actual state and tendency of capitalism has developed. The exposition taken from Sapelli leads to the contribution of significant Italian economic historians like Castronovo, Bezza and Bigazzi (G. Sapelli, *ibid.*; pp. 273-293).

The specific subject to which this argument applies is the rationalisation in Italian and continental industry in the inter-war period. The phenomena hereafter considered have come to be viewed under the inclusive and generalising concept of Fordism. Its use in different frameworks has been used to explain either a process of deskilling

and subordination with the introduction of the assembly line and/or a macroeconomic stabilisation model matching mass production with mass consumption. The account we discuss here highlights how the pace and form of innovation are more uneven and varied than this framework seems to suggest and offer a more grounded explanation of the underpinning determinants and dynamics. The research is conducted on three interrelated fields: technological innovation, social and economic change and managerial and entrepreneurial “culture”.

The empirical research has shown that technological innovation represented by the introduction of new machinery is not a steady process, varying among sectors and localities. The introduction of new machinery itself can be taken only as a general indicator of the underlying changes in the organisational sphere. The introduction of scientific management, then, cannot be reduced to an unavoidable stage of technological innovation which itself commands social change. A conscious plan from the management aimed at rationalising is to be admitted. Rationalisation can be defined as ‘deployment of discrete resources (technical and human) to the pursuit of specific aims (increase of the rate of surplus value extraction).’ (G. Sapelli, *ibid.*; p. 279).

A necessary implication of such a strategy was the development of a technical elite between top management and ownership, on the one side, and workers, on the other. This new stratum was to accomplish the function of “scientific” study and the implementation and monitoring of new methods so as to assume full control over the production processes. The process involved the individual tasks of workers, breaking them down to their elemental components, as well as the overall planning of activities in administrative and manufacturing establishments.

This rationalisation implied the strengthening of the command over the work-force and the greater independence of the enterprise hierarchy from outside influences, in the first place from the state. State intervention, though aimed at sustaining this process at a general level, was regarded as a threat to corporate authority. During fascism the enterprises, while taking advantage of the complete defeat of the working class movement, were strongly antagonistic to attempts by the regime to lead modernisation through its institutions. When state intervention in the economy took place later, in post-war times, it became, together with stronger pressure from the labour movement and organised unionism, a factor in the weakening of the form of control attempted with scientific management (SM).

The position of the working class, its relative strength, affected the implementation of SM, its timing and the forms it happened to assume. Not until an historical defeat occurred were the enterprises able to advance towards greater control over the work-force. Nevertheless it does not mean that the industrial front reacted in the same way to the favourable conditions offered by political supremacy under fascism. Only large enterprises underwent a program of thorough modernisation while traditional sectors, dominated by small and medium enterprises, limited themselves to introducing direct control and minor mechanical devices to curtail employment and increase effort. The dictatorship did not appear to be the best environment for introducing rationalisation. The most relevant factor is here the dualistic character of the industrial structure in Italy and the persistence of despotic dominance of capitalists which lasted until the late sixties. In the post-war period the growing cost of labour and international competitiveness were to stimulate change more than the Keynesian growth of internal demand. Innovation was coupled with a direct attack by industrialists on timid attempts to restore workers' rights in the workplace.

The limits and contradictions of the Italian experience due to political circumstances and economic backwardness notwithstanding, we would like to check the explanatory capacity of these principles against North-American experience. In this way, we can introduce the latest arguments about Fordism and Post-Fordism.

*Fordism, Post-Fordism and the flexible enterprise*

The emergence of the managerial enterprise adopting mass production techniques described by Chandler saw the introduction of revolutionary changes on the shop floor. Two basic innovations are seen as leading the change: Taylorism and Fordism (see for Taylorism : C.R. Littler, 1978; J.E. Kelly, 1978; for Fordism: see N. Gilbert, R. Burrows, A. Pollert, 1992, and, in particular S. Clarke, 1992, pp.13-31);. These are both well-known topics as well as objects of long controversies.

At a general level we can distinguish two different approaches, which identify these concepts with ideal-type models with a well-defined set of features. Regarding Taylorism, we have the separation between planning and execution, bureaucratic and hierarchical management, individual incentive systems; Ford was to introduce the technical device, the assembly line, to bring the ideal of scientific control of production into reality. The main problem with this system, at production level, was the rigidity implicit in the mass production technology which became evident when the market became saturated and demand differentiated under pressure of the demands for a more individualistic life style from mass-workers themselves. A specific strand of thought concentrated on the features of the system at macroeconomic level, individuating its condition of stability in the oft-quoted high salaries policy integrated by state welfare, allowing for mass production to be matched by a sustained demand. The loss of control by workers over production

started by Taylorism and consolidated by Fordism was compensated by a more fair distribution of gains yielded by higher productivity.

These theses owe their attractiveness to the fact that they seem to fit perfectly the extraordinary economic boom and the social-democratic compromise of the post-war period. The history of industrial development and industrial relations are nevertheless more complicated than their political and ideological outcomes seem to depict.

An alternative view stresses the substantial continuity that these phenomena had with the whole history of capitalist development: the gradual erosion of workers' control over production and the attempt to place it in the hands of capitalists' agents in an effective manner. In this perspective, it 'must not be thought that Taylorism was the only cause of an increasing division of labour. (...) Systematic management grew out of the intensified problems of the integration of the new division of labour. These had been created by larger factories, more specialised machines and job roles pre-Taylor, and the failure of the internal contract system under changed conditions.' (C.R. Littler, *ibid.*, p. 189) The reality of deskilling accelerated by the divorce of planning and doing and the effective task control should not be opposed to the myth of craft control, left intact until Taylor and then Ford intervened to reap workers of their skills. Equally the idea of bringing skills back to the workplace, which should follow the end of Fordism, is fallacious and misleading. The innovations fostered under these revolutions had far reaching consequences consisting of 'the internalisation of technological dynamism, and the incorporation of scientific and technical progress into the labour process.' (S. Clarke, 1992, p. 17). The general principles of these productive methods are the decomposition and recomposition of the production process. This is fundamental to understand where lay the limit of the specific solutions this revolution brought about. Technology itself was not sufficient

to command the productivity level and labour subordination, that is the system was sufficiently flexible, *ceteris paribus*, only if workers were disciplined somehow. The early project of comprehensive control across the boundaries of the factory, a despotic and paternalistic social utopia, elaborated by Ford proved untenable against workers' resistance (see S. Clarke, 1992, pp. 20-23; F. Gambino, *ibid.*, pp. 5-7). As in the marketing strategy, where Sloanism was to take over, the Ford-specific strategy was a substantially short-lived attempt. It is to be separated from the significance it acquired on the ideological ground and as a moment of the process of rationalisation. The same can be said of Taylorism, where the specific rules of this North-American engineer never saw widespread implementation and the ideological stress moved soon to human relations strategies. Yet the far-reaching effect of these revolutions in the management of the division of labour are to be distinguished from the strategic and tactical turnabouts imposed by inter-capitalist competition and social conflicts.

The institutionalisation of social bargaining, the recognition of unionism and the welfare state, as far as you could get from Ford's own view, came as a strategic answer to the inability to manage the relationship with the workers. Far from bringing stability to the system, these were to destabilise it as soon as workers began to put in question managerial prerogatives in the factories and the institutional framework which granted authority to the work imperatives. Where these views divide is in the conceptualisation of stages. The followers of the thesis of A. Negri, so called autonomists, accept substantially the idea of Fordism, even though giving it a completely different interpretation, and set out to individuate the new contradiction of the Toyotist model, that they find not less "Fordist" than its predecessor. S. Clarke

seems to stress more the continuity underpinned by the permanent instability and unevenness of capitalism's solutions to its contradictions.

This critique admittedly has implications for the interpretation of the changes which have occurred since the seventies and the legitimacy of a new mode of production which allegedly they brought forward, namely Toyotism based on lean production and shop-floor co-operation and the flexibility discourse-based variants of the western economies.

First of all, we have an ideological interpretation imagining the end of mass production as an historical occasion to build the employer-employee relationship on a new co-operative basis, on the basis of the recognition from the first that the age of global competition and high-tech production necessarily implies a new kind of worker, polyvalent, educated and prone to co-operation and self-activation. The reference is in the first place to the Japanese model (see T. Ohno, 1988; G. Bonazzi, 1992; T. Kono, 1984). Here it is argued workers and technical experts jointly constitute a team committed to sort out problems on the line, these work-teams co-operate with each other on a horizontal basis according to the well known *kamban* system. Participation in decision-making as well as profit-sharing and employment stability guarantee workers' loyalty to the company. The outcome is internal flexibility, constant improvements which allow better goods at lower cost. A variant is represented by Sabel and Piore (1984) who argue in favour of industrial districts as an historical alternative to mass production. Their flexibility, contrary to the Far East giants, is given by external economies, that is co-operation and mobility across small and medium firms, with political and functional institutions guaranteeing centralised functions.

These praises to flexibility have been criticised on two grounds; questioning the actual advantages for the working class of these new models and the consistency and relevance of the changes themselves.

The critical leftist version of the information-technology-led revolution foresees the transition from Fordism to Toyotism as the disintegration of a till-now highly concentrated and centralised productive structure and its institutional framework. The concentration of decision-making power and financial resources do not correspond any more to the production of tight social and productive links. The effect is massive social and territorial displacement and the constant threats by multinationals as well as small firms to delocalise establishments, redeploy resources and shed workers.

The labour market is the ground where control is exercised, since the new leading industries can limit access to jobs of a large army of unskilled labour while securing the services of a scarce and limited stratum of skilled labour.

Within production, the rationale of Total Quality Management absorbing and institutionalising the informal aspect of relations on the shop-floor prevents workers from reproducing individual shirking practices and redirect co-operation and solidarity within a safe gulf. The *kamban* system, replacing formally up-down transmission of instruction with the pulling by each station from the previous one on the line, eliminates much of the room for conflicts with the hierarchy and the need itself for long command lines and strict surveillance, replaced by information technology devices. Each team at any station depends horizontally on an equal group and they are all pulled by the market.

At the macroeconomic level this new model, if it satisfies the need of more sophisticated markets, does so under constant pressure from competition internalised

by the *kamban* system. The result is that labour-saving technology becomes predominant, with disastrous effects on social stability if coupled with dismissal of the "welfare state" reoriented towards dealing with pauperism.

Those who do not attach to Fordism any distinctive capacity to innovate or transform capitalism seek to demonstrate the mere tactical nature of the current changes, their lack of consistency or the capacity rather to intensify than to reverse the process set in place during Fordist age (the Neo-Fordist hypothesis); and actually plenty of evidence is available, as well as uncertainty about the future, which hardly confirm the strength of any trend.

As for the dualism in the labour market, it does not seem that a dual system has been set in place which guarantees a minority and introduces greater flexibility for the peripheral workers. Not only in the west, where the question was out of consideration, but also in Japan it is increasingly difficult to guarantee full-time life-time employment to core workers. On the other side, flexibility for the unskilled/peripheral is more the result of lack of strategies and inability to cope with uncertainties than long-term clear-cut choice (see T. Elger, P. Fairbrother, 1992, in N. Gilbert, R. Burrows, A. Pollert pp. 89-107). In small and medium businesses part-time work seems to derive more from rigidity of the job market, especially the young and married women, than from entrepreneurial orientation. Employers prefer the use of flexibility in the sense of longer working time with fictional short-time and part-time contracts, simply because they want to profit from the general weakness of the workers' movement, but their poor organisational capabilities impair the flexible use of manpower. In Italy, flexibility in the use of existing workers and the intake of new ones under short-term contracts has been observed to vary considerably among the factories of the same group according to the bargaining power of the parties. The use

of these contracts is related to changes in job classification, usually at lower wage levels. The only certain point is that the defeat of the movement and the defensive position of the unions allows the introduction of new contractual forms oriented to cost saving on wages of *both peripheral and core workers*.

As for job classification, as G. Sapelli observed about the previous phases of rationalisation, we should never consider it at face value because rationalisation always includes a political component of managerial power.

A theme we would like to stress concerns understanding where the innovation is essentially “political”, aimed at asserting managerial control to discipline workers, and where instead it is a real advancement of the productive forces guided by the imperatives of economic efficiency. This is certainly not easy to assess, especially if we think that to experiment and attempt innovation has always required a defeat of the workers’ movement and/or low level of its mobilisation and organisation.

### ***Summary and Conclusions***

In the early 1990s the then-soviet elite declared its intentions to initiate the full transition to capitalism. Western neo-liberal economists openly favoured such resolve and set themselves to offer guidance to the new leadership as to ensure the full marketisation of the economy. Consequently, a stream of consultants, advisors and policy-makers swung into former soviet countries to teach the new course, while new generations of practitioners in the area began to be taught economics and business management by mainstream western textbooks. Within the limited scope of our study we asked, as a preliminary question, whether mainstream economics was equipped for this task. In particular, we wondered how it understood the functioning of the enterprise, which is fundamental for restructuring and therefore transition, as

well as being the main topic of our research. The results at first sight are quite disappointing. For all its praise for economic freedom and free enterprise, the theory of the firm has very little to say about the enterprise itself and the behaviour of its actors. In fact, it recognises very little room for their manoeuvre vis-à-vis the self-regulating mechanism of the market. Then again, to denounce the theory of the firm, and more generally mainstream economists' approach to enterprise affairs, solely on the ground of their unrealistic assumptions would be no less unfair than incorrect. As, in fact, serious efforts have been exerted within the discipline to overcome these original limitations. Perfect rationality and complete knowledge have been amended, history and institutions have been brought into the picture and inter-temporal phenomena considered to account for change. The behaviour of agents has been rendered less predictable, dependent on many more factors, and therefore the models have assumed a much more sophisticated outlook.

Such attempts at injecting elements of reality into conventional economic models have not resulted in the elaboration of a new explanatory framework. The introduction of new variables has simply blurred the original picture allowing it to postulate outcomes other than free market perfection. Despite allowing greater uncertainty about market outcomes and admitting a wide gap between desirable and expected configurations, it has rather shifted the pendulum of the discipline in favour of reasserting the desirability of ideal model-type principles. Renouncing the pursuit of genuine, i.e. critical, scientific enquiry has led those who have chosen this path to assume a fundamentally ideological function in favour of dominant capitalist institutions. This explains why, notwithstanding the diminishing predictive capacity, neoclassical economics has not lost anything in terms of academic authority and influence over decision-making, rather reinforcing its predictive power (see

Bourdieu, 1998; Clarke, 1996, p. 2). This has important implications for the kind of theory and analysis brought forward in the discipline, but I shall turn to it after considering the different case of business management as this is a key element that, despite all the differences, the two disciplines seem to share.

As far as managerial disciplines are concerned, one should expect a greater degree of realism. Knowledge in the field is both produced by and addressed to practitioners, therefore one would imagine it necessarily taking into account all social, cultural and political factors that permeate and constantly influence organisational structures and behaviour. On the other side, the peculiar function of this literature imposes some limitations. While managerial and organisational studies are open to all fields, it is also true that their scope is as limited by the need to teach and offer guidance to managers and companies rather than simply study them. As we observed earlier, the level of understanding that this literature offers can be seen as expressing the self-consciousness that insiders possess regarding their own profession and broader social role. Therefore, unlike conventional economics, SM distinguishes itself not only by holding the managerial business enterprise as its main object of study but also for admitting the possibility and desirability of conscious human action in economic affairs. As we saw, this also led it to consider the relationship with the non-economic environment. The difficulty encountered at this level in shaping a long-term causal relationship between internal and external factors is an indicator of the limitations of this literature. It has been claimed that one of the reasons for the failure to successfully deal with these issues is the current short-sightedness which afflicts managerial work, narrowing down the perspective of analysts and practitioners alike to those factors and phenomena that determine successful performance in the short term. This is what has led SM to resemble conventional theories with their static

narrow treatment and directly to borrow their arguments. This has led to such a paradox: that, at the time when the corporate world has extended enormously its geographical and operative scope, making the enterprise the model of excellence in organisational performance, individual enterprise managers seems less confident and are thought to be much less able to shape their course of action. The paradox, it seems to us, is only apparent and very much reflects that ideological function initially attributed to conventional economics. As observed by reviewing alternative approaches to enterprise studies in the second part of the chapter, the crucial element, which both disciplines systematically fail to consider, is the origin, nature and consequences of power and conflict in economic organisations. This omission accounts for the lack of the key determinant that structures enterprises (and the surrounding environment) and constrains behaviour. No less significantly, the rejection of conflict deprives these theories of the possibility of explaining change other than at a fictional experimental level.

### **3. Russian Management - Soviet Legacy and Future Prospects**

This chapter provides our research into post-soviet management of industrial firms with an analytical and historical background. We will discuss how soviet economic institutions functioned and indicate the scope and limits of reforms attempted by the soviet leadership in the 70s and 80s, leading to the present attempt at capitalist restoration. This will serve a twofold purpose:

To test the explanatory potential of the orthodox theory of the firm and of mainstream approaches to managerial behaviour presented in the previous chapter, as applied to the soviet context. This will shed light on the limits of, and to such an extent refute, those interpretations of the soviet system and transition theories based on them, which, by considering soviet management as a distorted version of its western equivalent, fail to grasp its peculiarities and fundamental contradictions.

To present an alternative account of the functioning and evolution of soviet economic institutions, which draws on critical approaches focusing on the labour process as the determinant of managerial practices and enterprise behaviour. This will allow us to identify the social-economic structures and processes that resisted reforms under soviet rule and survived institutional change following its demise, allowing the soviet legacy to be fully accounted for in shaping transition and constraining restructuring.

Hence we will first try to understand the position that the enterprise assumed and the role management played in the wider framework of the soviet economy. Here the focus is on long-term structural features as they emerged from the debate among western and soviet scholars when unsuccessful reforms from the 60s onward produced growing awareness of both the specificity of the soviet economic system and the critical state in which it then existed. Although the organisation of the soviet economy had its roots in Stalinist industrialisation in the 1930s and in the period of post-War reconstruction, we will be primarily concerned in this chapter with the essential features of the 'mature' soviet system as it became bureaucratised after Stalin's death and persisted, without fundamental changes, until Gorbachev dismantled it in the late 1980s. Although we will review the failure of various attempts to reform the system to highlight the persistence of its fundamental inadequacies, we will not look in detail at the important, though not fundamental, changes that took place over this period.

The soviet economy has been universally recognised as a specific economic system, but depending on the theoretical approach different pictures have been given of its nature, characteristics and evolution. We will first look at those studies that view the soviet enterprise as an irrational variant of its western counterpart and explain its features as a result of its subordination to the command administrative structure. These studies have provided an invaluable insight into soviet managerial practices but for the most part have failed to address the main contradictions of the system. The failure of reforms before and after the demise of the USSR demonstrates that the removal of the institutional structure of the soviet system did not automatically imply the development of market forces and transition to capitalism.

We will therefore turn to the comparative contributions of a group of scholars who have developed their analysis on the basis of Marxist attention to relations in production. They all assume that the soviet system was characterised by a form of social domination in which the dominant stratum controlled the production surplus but not the production process.<sup>2</sup> This explains the chaotic nature of the production process and the ambiguous position of management. Enterprise managers were torn between the pressure from above to achieve growing production targets and the need to secure the co-operation of workers in pursuing plan fulfilment. Managerial practices were therefore a rational response not simply to an institutional framework but to the constraints of a social process. The blurred process of transformation of Russian enterprises is a reflection of the contradictory attempt of the elite to secure its position as a capitalist elite without entering into open conflict with workers.

We maintain that, historically, the soviet system was not the result of the installation either of economic planning or of a systematic bureaucratic direction of the economy. It resulted from the social conflict around the management of the economy initiated by the political drive of the Stalin-led Party to make the direction of the economy its permanent base of power. The outcomes of the soviet system, namely the atomisation of society and workers' negative control over the production process, were to remain fundamentally untouched by successive attempts at reforms in the

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<sup>2</sup> The soviet system, as a form of domination founded on the limited control over production by the ruling elite, is described by such Marxist authors as Rita di Leo (1973), Donald Filtzer (1986), Bob Arnot (1988), Hillen Ticktin (1992) and Simon Clarke (1993). These scholars argued that while soviet workers were never allowed to decide what (and how much) to produce, they retained considerable autonomy in the workplace. In practice, they were left alone to sort out the vagaries of soviet planning. It is to this condition that the concept of "negative control" is applied.

post-war years, ultimately accounting for its long-term decline. These are the issues we should turn to, first when briefly considering the theoretical arguments about the nature of the system, subsequently when we will discuss the functioning of the enterprise.

On the other side, economic growth and organisational changes introduced by reforms from Khrushchev to Gorbachev modified significantly both the material and institutional contexts in which managers operated. No less important, it is in the context of the late soviet period that growing expectations met with increasing disillusion about the possibility of modifying even slightly the status quo in the management of factories. This appears to have affected significantly managers' and workers' attitudes, including those featured in our case study, during transition. For these reasons our account of the features and problems in the soviet enterprise focuses on the late soviet period, followed by a discussion of the reforms up to the latest attempt at capitalist restoration.

### ***Managerial Control and its limits in the soviet economy.***

What were the position of the enterprise and the role of its management in the soviet economy? In formal terms the soviet enterprise was the last link in the chain of a command system characterised by strict uniformity and a stress on fixed hierarchical relations of authority and standardised tables of organisation. Managers were mainly engineers or accountants, selected and trained by the Party to carry out instructions from above. Western scholars of economics saw this as a deviation from the experience of free entrepreneurship and organisational diversity of the West (Berliner, 1957, 1988; Granick, 1960; Gregory, 1989; Linz and Mosckoff, 1989; Schroeder, 1989 for this and the next sections). The replacement of a horizontal

market relationship with a vertical administrative hierarchy impeded rational decision-making based on market prices and the discipline imposed by profit-seeking in a competitive environment. Even admitting the growing scope of conscious management in resource allocation, they pointed their fingers at organisational rigidity and over-centralisation as a limit to efficiency and economic development.

It was soon realised, though, that the real practice of planning and plan fulfilment defied the description of a simple top-down command system. Starting from the post-war period, soviet authorities and western analysts recognised that managers had larger autonomy than formerly stated and that their decisions could be detrimental to economic performance. Managers were able to meet plan targets only at the cost of systematically violating instructions and regulations, defying any attempt at imposing effective use of resources. Command levers were unable to achieve more than gross quantitative targets and the control system failed to detect infractions effectively. Well-known and largely accepted explanations from pro-market western scholars provided a great deal of documentation about the various levels at which contradictions appeared; we will sketch them before passing on to give an account of an alternative approach.

### *The soviet system: a centralised command economy?*

The shortcomings of the planning mechanism, its inability to synthesise and convey in an operational form the objectives of the centre to operative units are radical and undeniable. Since ultimate decisions about what and how much to produce lay in the hands of top-level political bodies, they incorporated the preferences of an elite rather than the needs of the population or the capacity of the productive system.

Nevertheless, orthodox analysis has focused on the technical ability of the system to ascertain its allocative efficiency.

The planning mechanism was plagued by the separation of power and information. In order to design viable plans, the centre had to base its decisions on information concerning productive capacity and resources, which was available only at enterprise level. Secondly, it had to set targets consistently with this information, making sure that balances between supply and demand be guaranteed at every level of the production-distribution chains. The plan was in fact drafted for the whole economy simultaneously and left no formal channel for adjustments. Several assumptions should be met in order for this mechanism to work smoothly: unambiguousness of target indicators, willingness and ability of subordinates and control bodies to disclose information.

The ability of the centre to convey its quantitative priorities to enterprises in an operative and unambiguous form has been much debated. Planners used synthetic indicators and normative coefficients in physical terms and since they were defined at aggregate level they corresponded only approximately to what had originally been required by users. Descending the bureaucratic hierarchy they were disaggregated, becoming amenable to manipulation. Other than clarity of targets, another problem was the priority scale among them, which emerged every time targets conflicted. Administrative transmission of targets did not provide quantitative elements for decision-making. Attempts at introducing "normative" (technically validated) planning and "economic" (price-based) indicators proved ineffective because they extended rather than reducing the scope for independent decisions by managers.

The failure of planning was twofold: it was unable directly to manage the operation of enterprises because of inconsistency of targets but it was also unable to regulate

them by providing incentives to efficient decision-making. Managers were deprived of direct control over resources and their use but were not guaranteed that targets imposed from above would match inputs assigned to them. The uncertainty over supply was the cause of well-known managerial practices aimed at building a safety factor. Managerial performance was assessed primarily on the achievement of gross product in physical terms, so managers manipulated information about capacity and input availability in order to achieve easy plans. In this way they further undermined the rationality of planning, in particular they inflated demand for labour and supplies. More importantly, the pressure on production targets led to indifference towards costs and quality with consequences of generalised scarcity and poor quality of goods. The response at the level of the individual enterprise was hoarding of labour and supply, production autarky, modified product mix and so on. A vicious circle was established, where managerial practices tended to limit uncertainty and avoid risk of plan failure, which generated disruptions along production chains, reproducing the conditions which were the very cause of these practices. These analyses led to the conclusion that: a) the planning mechanism did not provide an effective framework to regulate the soviet economy; b) managerial behaviour was a rational response to the set of constraints and opportunities in which they operated.

The inconsistencies of planning favoured the idea that the soviet economy could be better described as an administrative-command system rather than as a planned one. Administrative methods were the actual means by which resources were allocated. Ministries, the bureaucratic machinery that functioned as a mediator between political decision-makers and the production units, played a dominant role in the running of the economy. In the day-to-day experience of managers, most of the blame for vagaries of planning was in fact referred to the reality of ministerial rule

and both soviet and western analysts came to concentrate on ministry-enterprise relations as the actual source of economic malfunctioning.

The soviet bureaucracy was affected by monopolisation, a high level of concentration of power and autarkic tendencies. A study of the behaviour of line managers in the ministries concluded that the logic of ministerial rule reflected the same rationale as enterprise management since they responded to the same set of constraints (Gregory, 1989).

In relation to enterprises, ministries exercised "petty tutelage", a practice of direct intervention to question current management and production, which was a further source of insecurity and instability of factory life. Ministerial intrusive attitudes at the same time stifled managerial autonomy and stimulated their resistance to the disclosure of information. At the same time, such attitudes were justified by the need to guarantee co-ordination between enterprises and among branches. The bureaucracy managed supply insecurity, and the perpetual deficit of supply was therefore the condition to justify its existence and the base of its enormous power.

From an orthodox point of view, the analysis of soviet economic organisation proved that the practices of the agents were a rational response to the irrationality of the system. The absence of the naturally equilibrating forces of the market left agents to pursue their interests in an environment characterised by unequal distribution of information leading to the establishment of a seller's market with all its negative consequences. Western economic orthodoxy concluded that the historical experience of planning had generated an over-centralised administrative hierarchy that kept the economy in a monopolistic grip and resisted any attempt at partial reform to avoid relinquishing its power.

The restoration of economic rationality should pass through the dismantling of the ministerial system and the resurgence of market relationships.

In so far as this approach can be related to the expectations raised by the reform programme of transition started in 1992, it did not find confirmation in the experience of its implementation. Evidence shows that managerial practices intensified or evolved in new forms rather than being supplanted by western managerial styles.

### *The soviet economic system: an imperfect system of social domination*

The limits of the orthodox understanding of the firm in the capitalist economy have been treated at length in the past chapter, so here we underline the following points in a comparative perspective. In the first place we have the idea that economic problems have a universal character enshrined in the rationality of economic man. This led western analysts to apply to the soviet economy and its agents the same methods of assessment developed in a capitalist context, despite their recognition of the absence of market relations.

Secondly, the idea that market relations allow co-operation on an equal basis and that the market clears any position of advantage based on unequal distribution of information led them to consider, when recognised, the dominant position of the economic elite in the soviet context as an extraordinary case.

Organisations though are more than simply technical devices or social functions, they are always social constructs where power relations materialise. Organisations in the economic realm are the formalised product of social relations of production that decide how wealth is produced and distributed.

As a *sui generis* social formation the soviet system, like the capitalist one, was a form of domination with its own specific rationality. Its peculiarity, and the cause of its instability, manifested in poor economic performance, was that the ruling stratum depended for the reproduction of its position on the control of surplus product but did not achieve the control of surplus production.

Money could not play its regulatory role, imposing its universal and impersonal discipline on producers (both managers and workers) and guaranteeing distribution of rewards consistently with the position occupied in the production process. Without the medium of the commodity, social authority had to manifest itself in a direct way in the form of personal relations of dependency and surplus extracted in kind (a feature many suggest has rather strengthened after transition, despite capitalist penetration in the economy).

Such a system was intrinsically unstable and required hyper-centralisation to counter centripetal tendencies coming from different layers of the elite, all competing for the appropriation of surplus<sup>3</sup>. This explains, among other things, why the strictly hierarchical administrative structures centred on branch ministries remained the only viable mechanism to manage the economy in the soviet system. Any attempt to decentralise the system and grant greater autonomy to production units, aimed at gaining efficiency, resulted in loss of co-ordination and greater shortages, threatening to bring chaos to the economy<sup>4</sup>.

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<sup>3</sup> This is the central argument made by Tickin (Tickin, 1992)

<sup>4</sup> Naishul' observes that reforms based on the 'introduction of "economic methods" damaged the entire economy.' (Naishul', 1991, p. 33). This was the case with the introduction of 'sovnarkhozi' at the end of the 50s and the 1965 enterprise reform. The more so with perestroika that, by loosening control over enterprises 'has resulted in the disruption of co-ordination through vertical links.' (Ibid., p. 34). In a system characterised by overall

A corollary of highly personalised and hierarchical management is the separation of power and information<sup>5</sup>. Hyper-centralisation in industrial management brings as a consequence a de-facto decentralisation. This results from the inability of the centre to handle all the decisions it is formally entitled to, producing disorganisation and waste of resources in production. Such a problem became common in large enterprises of the then-developing heavy industry in the West at the turn of the last century. It can be added that the sheer size of waste and the evident disorganisation of soviet production were the inevitable outcome of extending such a form of management, with the ensuing problems, to an entire economy. The response in the West was the managerial revolution, which meant, on the one hand, transferring decision-making over specific functions and areas down to professional managers, on the other hand, introducing scientific management in production, revolutionising the labour process.

To understand why the soviets were unable or unwilling to make such a move we have to look at the other side of the spectrum of society to see what was the form assumed by the labour process in the soviet system<sup>6</sup>. The establishment of such a form of control implied that society was extremely atomised. This meant that workers were deprived of any collective form to express their interests and raise

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interdependence, but where producers respond to higher bodies rather than customers, granting freedom to individual economic units means permitting the arbitrary alteration of production programmes which in turn would create imbalances along technological chains.

<sup>5</sup> Filtzer argues that 'the elite could only maintain control through hyper-centralisation'. This engendered such a contradiction that the elite also needed managers to provide perfect information and loyally execute its plans. Evidently no incentive was provided for that as, in fact, the incentive was the opposite, both managers and workers had every reason to collude in circumventing instructions and concealing results (Filtzer, 1994, p. 2).

<sup>6</sup> See a brief but extremely clear statement of this argument in Filtzer (Ibid, 1994, pp. 2-6).

grievances, reacting instead with individualised forms of resistance, including disregard for quality, slack work, deceit and a high level of turnover. This exacerbated the level of disruption already resulting from the disorganisation of the economy. Managers, differently from what one would expect in capitalist economies, showed a lenient attitude toward discipline violations. They tolerated low productivity and sometimes colluded with workers in circumventing instructions, especially concerning the observance of safety rules, maintenance and quality standards, in order to bring in the plan and protect customary earnings.

Managers entered into this pattern of informal bargaining and resisted any attempt by the Party-State to modify its terms as they needed workers' co-operation to overcome the numerous bottlenecks and uncertainties that plagued production at enterprise level. That is to say that workers, while deprived of any effective power, were forced to sort out for themselves the vagaries of the system, being granted in such a way a form of 'negative' control over the design and execution of their jobs. Managers had to do so partly because of the shortage of labour and partly because they had neither better means to discipline workers, in the first place the power to hire and fire, nor incentives to elicit their efforts. It is apparent that this was a self-reinforcing process where workers' and managers' practices furthered disruption while trying to overcome their immediate consequences with the intention of preserving their interests. Despite the fact that most disruptions derived from these very practices, the behaviour of workers and managers retains its rationale in the fact that they confronted the reality of soviet production as an external given environment. The a-conflictual nature of industrial relations<sup>7</sup>, which is at the same time a cause and a

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<sup>7</sup> It is the main argument of di Leo's interpretation of the soviet system, which she refers to as the 'Stalinist compromise', that the soviet leadership retained its power by avoiding direct

consequence of alienation and demotivation in society, was the founding pillar of the political domination of the elite. At the same time, it was also the major barrier to economic development, therefore an obstacle to the long-term material reproduction of the system<sup>8</sup>.

Without anticipating our conclusions, this brief theoretical overview allows some considerations about the features of soviet industrial management, which in turn help sharpen our focus. In the 60s scholars seemed to recognise a common trend in industrial societies reaching across the iron curtain, imagining a converging trend dominated by the technological imperatives of mass production and bureaucratic forms of administration. Though abandoned in its original formulation, this 'convergence' approach<sup>9</sup> has surfaced again in the interpretation of the soviet economic decline as the failure to replace a 'fordist' rigid framework with the flexible and decentralised environment required by digital technologies. The discussion of the soviet economic system outlined above should suffice for outlining the centrality of social relations in production to the definition of economic problems and, to this extent, for highlighting the peculiar character of the soviet experience as compared to capitalist countries.

In this perspective it emerges how the soviet system was not simply an imperfect system of economic administration, but more fundamentally a power mechanism of

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confrontation with the working class, therefore escaping any attempt to force economic discipline into the workplace (Di Leo, 1973). Seemingly, Simon Clarke argues in terms of a 'retreat' of management from the workplace engendering the limited control of workers over the production process (Clarke, 1993).

<sup>8</sup> See Filtzer (1994) pp. 6-7.

<sup>9</sup> Rita di Leo, opening a discussion about future perspectives in post-soviet Russia, warns about the recurrent tendency 'to fall into the error of seeing convergence between the communist world, post-communism and our own world.' (di Leo, 1993, p. 3).

social control. The pattern of informal bargaining at shop-floor level that emerged within its framework amounted to no less than a specific form of labour process, therefore requiring more than simply new incentives or technology to be overcome.

Finally, it is important to stress that the informal nature of managerial practices, their emergence and continued survival, indicate how the economic mechanism reflected no less pressures and autonomous, unforeseen, reactions from below than the strategies of the elite and the analyses of scholars.

It is our task now to provide an historical account of enterprise structure and functioning in the late soviet period. We will present features and problems of the soviet economy from Khrushchev onward, describe the organisation of the enterprise and managerial practices and finally we will see how unsuccessful reforms led to the decision by the elite to reintroduce capitalism.

### ***The Enterprise in the soviet Economy***

In the previous section we have stressed the fundamental continuity in the type of economic management that prevailed in the Soviet Union on the basis of its underlying system of social relations as they emerged from Stalinist industrialisation. This does not mean that growth did not take place, modifying both the material bases and the terms of the economic problems and therefore the solutions that were put forward by the elite.

#### ***Problems and perspectives of the soviet enterprise from Khrushchev to Brezhnev.***

From the 1950s the soviet economy saw the gradual erosion of the conditions which had permitted the high growth rates of the first five year plans. The expansion of the industrial base had been achieved by an extensive growth of production capacity at

the expense of productivity. The constant expansion of fixed capital led to the absorption of reserves of labour, ending the condition of labour surplus and calling for a switch in development strategy (see di Leo, 1980, pp. 7-26; Naishul', 1991, pp. 15-17). The mobilisation of labour reserves in the countryside and among the female population required the expansion and modernisation of the low-productivity service and consumer sectors, including agriculture, which had so far been neglected by the planners.

Between the 1960s and the 1970s the soviet economy assumed the structural features of mature industrialised countries (di Leo, *ibid*, pp.65-77). The comparison, though, stays at the level of statistical aggregates. The reality was more one of adapting old structures toward new uses. The production of consumer durables was assigned, for example, to heavy industry. Industrial enterprises could be required to provide materials and labour to modernise collective farms and bring in the harvest. These practices, while putting strain on the enterprises involved, brought few advantages to the recipient consumer sector. Equally problematic was the case of new plants in this sector.

New enterprises continued to be established following the model of the large integrated factory, which dominated heavy industry in the inter-war period, despite the fact that, especially for consumer goods, the western experience was one of decentralisation. This option had less to do with bureaucratic inertia or myopia of the planners than with the peculiarities of soviet planning and enterprise management at this stage. In the first place, concentrating the many production stages required for manufacturing a single good into a single factory, and under a single branch-ministry roof, meant reducing the economic links required to co-ordinate its production. This would simplify the job of the administrative system already strained to control

resources (see Naishul', 1991, p.16, 17, 31). Secondly, the role of the enterprise as the sole provider of social services for its employees (housing, rest homes, child care, sometimes schooling, training, sport facilities), which had actually been expanding in those years, led to a preference for large, single-site establishments. This meant also that these enterprises were often oversized and undercapitalised.

The priority criteria discriminating between sectors A and B (heavy and light industry), productive and non-productive work, which had been set during Stalinist industrialisation, continued to affect the allocation of resources, reflecting the different bargaining power of various branches, ministries and individual enterprises.

The consumer sector was plagued by a relatively higher scarcity of resources with which to entice workers from other industries, while tighter plans meant heavier work loads and harsher working conditions. Under these circumstances this sector suffered a high turnover and a continued scarcity of qualified personnel (di Leo, 1980, pp. 82-89). In general, the lack of collective means by which workers could raise their grievances and improve their conditions made changing job across regions, industries and enterprises the only available mechanism for mobility.

The continued preference for capital goods industries was justified by the need to provide additional resources for the expansion of the economy, in particular the consumer sector, but the under-funding in this area of the economy translated into low productivity and low quality of output. The low quality and scarcity of consumer goods were, in turn, causes of demotivation among workers and a reason for hoarding resources and engaging in unplanned or illicit activities on a worrying scale. These phenomena assumed the character of a vicious circle generalised to the whole economy.

The need to reverse this trend, raise living standards and so entice the workforce to actively support the efforts of the elite to restore efficiency in the system was first attempted with a spate of reforms by Khrushchev and Kosygin in the 1950s and 1960s.<sup>10</sup>

The first initiatives following the death of Stalin were the repeal of the repressive legislation victimising workers for discipline violations and the introduction of new measures aimed at revitalising the initiative of Party and Trade Union basic units. Short of returning workers their political or union rights, the new policy was yet entrusted by the leadership with raising the morale of the population and should have mobilised the rank and file towards the modernisation of the productive apparatus. The wage reform, staged in the years 1956-1962, was to provide the material incentives to this end. The objectives of the reform were primarily a) to bring under control the wage structure and therefore the growth of the wage bill, b) to align wages with productivity by introducing 'scientifically-validated norms' (for a detailed discussion of the wage reform see Filtzer, 1992).

'Under Stalin the wages system had been dominated by a plethora of different rates and wage scales' (Filtzer, 1994, p. 65), so that the same job with the same skill content could be paid at different rates even within factories of the same industry. The result was to deprive wages of any incentive function, except stimulating turnover. The reform set to simplify and centralise the system, restoring a relation between effort and reward (see Filtzer, *ibid.*, p. 58).

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<sup>10</sup> Here we will concentrate briefly on the effects on enterprise organisation and activity, looking in more depth at the aims of the 1965 enterprise reform in a separate section (see di Leo, *ibid.*, pp. 105-112; Filtzer, 1994, pp. 56-60).

The centrepiece of the reform was in any case the attempt to force managers and workers into accepting 'scientific norms', i.e. centrally established output quotas. Under Stalin the policies of productivity had favoured individual norm overfulfilment to break factory level resistance to ambitious plan targets<sup>11</sup>. The lack of relation between individual output quotas and plan level, though, meant that managers kept norms low, allowing easy overfulfilment by workers. In this way managers tolerated a low level of productivity and inflated the earnings of rate-busters, in exchange for their co-operation in overcoming production bottlenecks. Since the introduction of new norms was to achieve a generalised increase in output quotas with a corresponding loss in workers' earnings, the reform also proposed a corresponding increase in basic wages.

The reform was asking managers to rationalise production, strengthening their control over the production process. This notwithstanding, managers resisted new norms and systematically circumvented the wage system because the irregularity of supplies and the unevenness of the production process required continued reliance on workers' co-operation, which in turn could only be achieved by the flexible, discretionary use of the payment system.

The incentives introduced with the more organic 1965 enterprise reform were to suffer the same fate. The reform introduced specific funds for bonuses and social welfare, which were to be financed by the enterprise directly out of its revenues. In this way, the amount available for rewards was made dependent on enterprise performance, i.e. overall plan fulfilment. Together with the provision of specific funds for welfare provision, this new incentive mechanism was intended to make the

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<sup>11</sup> For an insight into the politics of productivity at the height of workers' mobilisation under Stalin see Siegelbaum (1988).

entire workforce benefit from better performance, stimulating collective responsibility.

As part of a larger scheme aimed at introducing greater managerial autonomy and accountability, the reform faltered, therefore failing to establish any relation between greater effort and larger funds. The fact that revenues depended on administrative pricing and technical evaluation meant that they did not necessarily bear any relation to actual economic activity. More simply, decisions to concede funds and grant actual supplies had a purely political character, as well indicated by the situation of the consumer sector, including textiles, which used to have its revenues systematically siphoned off to subsidise heavy industry (see Filtzer, 1994, pp. 168-170). More generally, size as well as branch and location had more significance for provision of social facilities than actual enterprise performance.

On the other hand, managers once again manipulated the system, turning welfare provision (priority access to housing, scarce goods and services) into a discretionary tool to reward the efforts of individual workers. In so doing they were thwarting the objective of the reform while, at the same time, acquiring a powerful means to assert their authority and elicit workers' efforts.

The combined effect of these processes was, at macroeconomic level, continuing low productivity, waste of capital resources and high wage expenditures. The planning system ended up strained by the need to co-ordinate a complex network of dispersed technological chains and by pressures to provide resources for wages and investments to all sectors (Naishul', 1991, pp16-17). The enterprise management, more contradictorily, acquired greater leverage over workers by the personalised use of bonuses and the large array of social benefits now available. This overall had a 'corrupting effect on workers and managers alike, has reinforced workers'

atomisation, and thereby has strengthened the elite's political control over the system' (Filtzer, 1994, p. 58). These are the elements which ushered in the Brezhnev era, combining economic stagnation with a cautious attitude to changes nurtured both by political self-confidence and by a greater understanding of the limitations of the system.

*The enterprise in the Brezhnev era: managers and the planning system.*

The overall result of the struggle over the functioning of the planning system in the thirties was, as is well-known, the establishment of a rigidly centralised mechanism of production and distribution which formally limited the control by management over the factors of production and their utilisation. The job of managers consisted in the negotiation and fulfilment of the plan. Factors of production as well as fixed capital were provided by the State and their characteristics and use defined in detail. The ultimate goal on which managerial work was assessed and rewarded was the achievement of the planned level of production in physical term. The most pressing constraints to which management was subjected in its pursuit were the insecurity of supply, the shortage of wage funds and materials and the irregular rhythm of the production process. Though all these phenomena resulted ultimately from the action of managers themselves, they appeared to each enterprise as objective conditions. To overcome these constraints managers engaged in well-known informal practices. Despite the substantial changes in the political and economic environment, which we outlined above, they remained strikingly similar over time, constrained as they were by the contradictions of the soviet system of social relations. In the following sections we will see how managerial practices led to the definition of the relationship with both workers and the state, contributing to shape the dynamic of the system as well as the position they occupied in it.

The Party-State faced a two-fold challenging task, on the one hand it had to convey its targets to the enterprises and provide the necessary resources to accomplish them, on the other hand, it had to ensure that these were used according to its specifications. To these purposes, a vertical and horizontal chain of command had been put in place to convey decisions and control their implementation, namely ministries and chief administration on the one hand and party, trade union and financial officials on the other.<sup>12</sup> These were also the main information channels through which the planning agencies received data on the current state of the productive system and the plan drafts negotiated at any level of the hierarchy from the single enterprise upward.

The actual exercise of authority by the Party-State took place at two stages of the economic process: the negotiation of the plan and its actual implementation.

The actual formulation of the plan itself, despite the formal involvement of all parties concerned, was fundamentally a top-down process, incorporating the preferences of the elite. Managers and workers *alike* had therefore no ground to co-operate in its conception and no interest in providing honestly the information required for its correct formulation. The golden rules that presided over the formulation of plans, 'taut planning' and 'planning from the achieved level', meant that enterprises were obliged fully to utilise capacity and constantly to increase output. The fact that managers were held responsible for the fulfilment of the plan, but were not guaranteed supplies nor had sufficient control over production, made their interest

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<sup>12</sup> On the control mechanism put in place by the Party-State to check managerial work and a detailed description of deceptive practices by managers we rely on the account of Berliner, J. (1957; 1988) and Granick, D. (1954; 1960).

run against the elite's determination constantly to increase productivity and therefore surplus extraction. Managers would therefore try to negotiate an easy plan, understating their actual capacity and availability of resources and inflating their requests for supply while planners would rather raise figures in the opposite direction. The plan itself was therefore a reflection of the relative bargaining power of the parties to the negotiation. Managers, particularly directors, despite being a section of the elite, acted as representatives of their community in trying to extract greater resources from the centre and their popularity and prestige was also dependent on it. This resulted in continuous imbalances along technological chains, which again justified managerial resistance to disclosing information. This in turn called for higher bodies to overcome managerial resistance by putting enormous pressure on managers and control organs towards the achievement of output targets.

Within the enterprise the overwhelming stress on gross output targets led production managers to silence those officials who were responsible for the financial and economic aspects of the activity. In a planned economy these were necessarily secondary aspects of the economic system, but they were still essential to measure its effectiveness and guarantee a flow of information to the centre. Their subordination to the production units cleared the way for manipulation of this means by managers so as to conceal information and cheat about actual performance. Outside the factory, enterprise management tried to establish a web of connections, providing them with additional resources to face shortages and with silent approval in case of outright failures, lubricated by the exchange of favours usually referred to as *blat* (see Berliner J., 1957; Ledeneva A., 1998).

The ministerial structures soon learned that their performance was to be judged by the same criteria applied to the enterprises they were supposed to control. They were

quite eager to obtain a branch plan which could be safely attained by 'their' enterprises and help them to receive all they needed. Nevertheless, the interest of the individual enterprise could well contrast with that of the higher administration because the latter was just interested in the branch output regardless of the individual results of each enterprise.

Local authorities too were held responsible and made their careers out of the productive success of their enterprises so they were all too interested to promote them at the expense of their control function. Furthermore, the social burdens imposed by the state on enterprises, as means to guarantee the loyalty and participation of the work-force, extended beyond the boundaries of the factory, strengthening the mutual involvement between economic and political bodies. Here too the ability of the top managers to exert their influence did not pass without consequences. Many functions performed by civil and political bodies relied in reality on the enterprise resources and their officials were often on the enterprise payroll.<sup>13</sup>

Other bodies that performed a control function were the banking system and the state financial agencies. Unlike the former, they had no connection with the enterprises and were in a better position to perform their duties. The banking system was responsible for running the accounts of the enterprise, allowing wage payments and inter-firm clearings. The enterprise was usually successful in circumventing control over wage expenditures, which were decisive to continue production with bonus-

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<sup>13</sup> On the 'mutual involvement' between managers and political bodies see Berliner, J.(1957), for the non-economic burdens as a source of conflict and diseconomies see Siegelbaum, L.H. (1988).

driven storming.<sup>14</sup> The same could not be said of investment funds that, though made available by the law on profit in 1965, were usually held up or “confiscated” by ministries and fiscal agencies. In general, enterprises learned never to use capital funds or to ask for credits as this may involve intrusive actions by the banks.

The fiscal system was directly connected to the payments mechanism: as enterprises operated on a non-cash basis and their finances were forced into compulsory holdings, tax collection was exerted on settlement. As a result, enterprises were always strapped for funds. This aspect of the economic belt between the centre and the enterprises was undoubtedly of secondary importance to the extent that the flow of goods was independent of financial balances, i.e. guaranteed at fixed prices by the planning bodies. They gained in relevance as soon as the reforms introduced self-financing<sup>15</sup> and enterprises themselves began claiming greater control over formal economic levers. The results were discouraging mainly because these bodies were quite effective at siphoning off financial resources from the most profitable enterprises. As a result, commodity currency remained for managers a safer means of exchange and they grew warier about reforms which left the last word about the allocation of resources in State hands.

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<sup>14</sup> Before the late 1980s, when Gorbachev’s wage reform forced enterprises into full self-financing, the wage fund, at least for basic wages, was subsidised in full by the state. One way to inflate the wage fund was therefore to increase artificially the number of jobs. This exemplifies how formal controls were quite strict but had no regard to the economic viability of the operations involved.

<sup>15</sup> A first attempt to introduce profit-and-loss accounting or *khozraschet*, in practice enterprise self-financing, was made with the so-called ‘law on profit’ envisaged in the enterprise reform introduced by Kosygin in 1965 (see di Leo, 1983). Partial and then full self-financing were respectively introduced in 1987 and 1990 (see Filtzer, 1994, pp. 129-147).

The growth of the economy, as we said in the previous section, exacerbated the problem of co-ordination between branches. The ministerial system, though, proved irreplaceable after the ill-fated attempt at decentralisation under Khrushchev. As a result 'executive bodies proliferated' (Amodio, 1993, p 228). This could not remain without consequences. Unlike in the case of basic industries erected during the first five-year plans, the new ones required a greater number of diverse input per type of output, calling for a considerable number of executive and technical bodies to be involved in decision-making. The nature of negotiation changed as a result, resembling less a simple command system, featuring a top-down relationship between a single administration and its subordinate enterprises, than an 'administrative market' based on an 'economy of getting approval'.<sup>16</sup> In reality, the complexities of plan negotiation and adjustment that this change entailed and the greater uncertainty about supplies that it generated led to a growth in the scale and scope of the informal practices put in place by enterprises and ministries.

Enterprises strove to reduce dependency on suppliers by engaging in autarkic production of goods and components. This required substantial investments, which in turn turned out only sub-standard output at higher costs. In the case of new technologies imported from the West, for which spare parts might be unavailable,

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<sup>16</sup> It is the main argument of Naishul' (1991) that an entirely new system of administration emerged in the Brezhnev era, namely the 'administrative market' as opposed to an earlier command system. Actually all of the tendencies and problems that appeared at this stage had manifested themselves much earlier. He nevertheless provides a powerful description of the mechanism that led the planning system to a gridlock and succeeds in pointing out both its conservative character and extreme vulnerability.

this practice undermined the improvements in quality and productivity they were meant to achieve. Another practice was to reduce the range of goods and the number of components necessary to manufacture them. Standardisation, though, was carried out without reference to the needs of users, generating more problems for recipient industries and dissatisfaction among consumers.

The growing inability of the planning organs to stay ahead of the pressure from below to provide a growing array of goods and services for collective and, increasingly, private consumption, led to the expansion and consolidation of informal networks exchanging and producing goods outside the sphere of the plan. Economically this was again another blow to the system as it drove resources out of the planned sphere of production and distribution. Socially it was also problematic as it generated a visible disparity in privileges and consumption and undermined any official incentive policy (see di Leo, 1985). Politically, it helped the entrenchment of the economic and party elite at the expense of central organs, providing a powerful base for centripetal forces.

As we observed, these tendencies were present at all times, stemming from the instability of the system and generating conflicts among different layers of the elite to appropriate surplus. In the late Brezhnev years, the inability of the centre to generate additional resources led to a stalemate.

Linz's research on bureaucracy, based on first-hand interviews, provides evidence for this thesis (see Linz, 1988). Her main conclusions are as follows: a) the economic bureaucracy had increased its ability to estimate firms' capacity, hence managers had less scope to win lower targets. b) They could still negotiate more resources to fulfil the plan, but they had to face increasing difficulties in procurement. c) The system was approaching its limits as the bureaucracy simply struggled to overcome

economic stagnation by stretching further the extraction of output without offering additional resources either for current production or investments. d) The work of managers was made more difficult by changes in norms and indices and renewed interest in quality and assortment.

This critical point was reached as a result of the fundamental inability of the system to achieve significant increases in productivity, ultimately demanding greater efforts from workers. It is in the work place that one has to search for an explanation of the failure to modernise the economy and switch to an intensive form of development.

### *The enterprise in the Brezhnev era: Managers and workers*

The position occupied by managers in the factory, their functions and relationship with the workforce, were very different indeed in the Soviet Union as compared with its western counterparts. The struggle for power and industrialisation by the soviet elite shaped in an absolutely novel fashion the economic system by establishing a particular relation of domination over the working masses. The technical-scientific intelligentsia in general was marginalised and excluded from decision-making to the advantage of the Party elite and a new administrative apparatus. Factory managers in particular saw their control and authority over workers seriously undermined. With Taylorism the capitalist enterprise had brought job conception into managerial hands, using continuous technological change to break workers' resistance and unity. In soviet factories, managerial authority, given the limited control over technology and allocation of resources, rested essentially on paternalistic relations.

The soviet factory was primarily identified as a production unit and production managers, mainly engineers, were the core of the managerial structure. Nevertheless,

managers had little control over the production process. Central offices exercised little control over workshops, to which most managerial functions were decentralised. The command line privileged vertical relations, with little care for co-ordination among different stages of production. Each shop acted like the enterprise with superior bodies, bargaining for its targets, price and supply. Even at shop level in fact line managers were not permanently involved in scheduling production and supervising workers, which was rather the job of foremen and shift leaders. The apparent result for observers was a production process proceeding in an anarchic fashion, with workers left alone to cope with the well-known vagaries of the soviet workplace. Workers' behaviour seemed to follow suit, with extraordinarily high rates of idleness, unjustified leave and turn-over and all the related consequences of low discipline. Why did managers flee from production and hand over their functions to workers, why in the face of continuous campaigns was the state unable to stimulate managers to manage and workers to work?

This can be explained partly as a direct consequence of the peculiar nature of the planning system and the set of constraints and objectives it imposed on managers. The real goal on which managerial performance was assessed was the fulfilment of the plan target in physical terms, making secondary any consideration of costs and so reducing the incentive to verify how production was actually carried out at shop-floor level.

Secondly, the main problem managers had to face was the uneven flow of supply, the poor quality of materials and equipment which directly or indirectly jammed production flow and effectively impeded any tight scheduling. On the contrary, it required the constant co-operation of workers to overcome these disruptions.

Scarcity also applied to labour, which meant that workers were in a strong bargaining position, as managers were very keen to keep extra staff to meet peak-time work demands (the all-out efforts to meet plan targets) and extra-factory work.

Furthermore, "taut planning" meant that managers had an incentive to underestimate capacity and resist upgrading of norms and the introduction of centrally determined output quotas. This also represented an essential ground for collusion between the workforce and managers.

Managers therefore, unlike their western counterparts, had little incentive to make their way into the production process constantly to increase productivity and cut manufacturing costs, while they had every reason to accommodate with workers.

This does not mean that managers had no authority over workers. Workers operated in an unhealthy and often very dangerous working environment and were forced to accept heavy workloads, especially when plan deadlines approached. Soviet workers had no right to strike or otherwise to act collectively to further their grievances. The Party and official trade unions acted formally in the interests of workers but only in so far as it coincided with the line of the enterprise direction and the higher bodies. Political atomisation meant that workers could resist managerial pressures only in an individual form, depending on their specific circumstances.

In soviet factories, workers' performance still in the 80s was controlled by the use of the piece-rate system. This system was amenable to manipulation from below in capitalist enterprises, usually in the form of output restriction, in so far as both managers and workers were keen to achieve stable standards of output and maintenance of appropriate earning patterns (see Granick, 1957). Managers were interested in constant production flow and stable wage costs and bargained with workers over speed. It should be understood though that in the West it was central

offices that set standards and upgraded them constantly thanks to continuous organisational and technological change. In any case, output restriction in a capitalist enterprise could not be maintained indefinitely, as low productivity immediately activated pressures from above on the side of rising costs.

In the soviet environment, lacking this form of check, managers left output norms to be set on the shop floor by informal bargaining with workers, tolerating low standards and high rates of overfulfilment. In this way they acquired an easy mechanism of incentive through bonuses for overfulfilment, but at the cost of low productivity, abnormal differences in earnings and equally high disparities between tight and loose norms within and among workshops and factories. The State, worried about declining productivity growth and rising wage costs, tried to counteract this with campaigns, reforms and incentive schemes aimed at tightening up discipline, raising norms and inducing managers to greater organisational efforts. Managers, though, resisted any attempt to modify the status quo.

The main explanatory factor here is identified in the vicious circle between labour scarcity at general level and workers' negative control in the work place. The low discipline and the ensuing low productivity were tolerated in order to retain workers but these phenomena only reproduced the conditions of poor economic performance and continuous disruptions that led managers to labour hoarding. This argument has led to the consolatory conclusion that, once the distorting constraints of soviet planning were lifted and mass unemployment reintroduced, managers could regain control of production and achieve rationalisation (see Clarke, 1993).

The labour process engendered by Stalinist industrialisation corresponded to a structuring of a hierarchy in the shops and a corresponding labour organisation that defied managerial rationalisation no less than genuine workers' autonomy.

The soviet workforce was very far from being a homogeneous mass, it was in fact highly stratified and this was the base on which fragmentation and alienation could be realised and control achieved.

Production was effectively organised around a restricted number of production and auxiliary workers who guaranteed the achievement of the plan. These shock workers enjoyed extensive privileges granted at personal level and usually disguised under the banners of socialist competition. They were the trouble-shooters and rate-busters on whom managers relied to bring in the plan.

As for the large mass of unskilled auxiliaries and clerks who filled the factory payrolls, Clarke correctly points out that they did play a different role, being otherwise of little help in carrying out the production process. They represented the pool from which reliable "cadre" workers could be recruited and against whom the working elite could reflect its privileged position, but also an internal "reserve army" that could counterweigh the claims of skilled production workers, labelled as careerist by the less fortunate or less ambitious "others".

So the soviet workshop resembled at first glance the organisational model prevailing in capitalist factories until the inter-war period, before the rationalisation exemplified by the introduction of the assembly line. Yet, it did not stage the antagonistic confrontation found in the capitalist countries of highly organised skilled workers versus a managerial hierarchy determined to break workers' control and privileges.

This kind of organisation did not simply restrain output growth but represented a formidable barrier to technological innovation, at least in the form in which it was taking place in the West. Still in the 1960s and 1970s the soviet leadership continued to look at western technology as a model and relied heavily on imports to fill the technological gap. To run production processes centred on assembly lines efficiently,

at the same time extremely rigid and vulnerable to minimal disruption, required an absolute control over the workforce no less than of the flow of supply. If managers did not feel practically in a condition to assert it because of the practical limitations they encountered in organising production, for the elite it was essentially a political problem. As we will see in more detail in the next section, the 1965 reform envisaged a revitalisation of managerial functions as a conscious response to the requirements imposed by the western technologies.<sup>17</sup> It rapidly ran into the contradiction of assigning the task of introducing the assembly line to those very shop hierarchies, which it would probably have supplanted.

Under the Brezhnev leadership the idea of introducing western managerial practices was shelved, replaced with an appreciation of the specific forms of soviet labour organisation. The more general relaxation towards informal practices reflected the new approach. These policies though did not address the problem of modernisation in a new fashion, as they continued to rely on western imports and models. They did even less to address the dramatic fall in productivity growth, now approaching stagnation levels.

### *Crisis and reforms: the soviet system in question*

The history of reforms attempted by the Party during the whole post-war period can be viewed in two different ways: they can be understood as a genuine effort to enable

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<sup>17</sup> This seems to recall the earlier situation in the 30s that party leaders and planners faced when trying to adapt massively acquired western technology to start large-scale industrialisation with the new social and political conditions produced by the revolution (see Bailes, 1978; Bertolissi, 1978; Sutton, 1968).

enterprises to accomplish their productive functions by easing pressure on targets and making planning more reliable<sup>18</sup>. The official political drive and the urge of planners and economists all pointed at reducing the “petty tutelage” of the ministries, allowing more freedom in the use of resources and even recognising the contribution of formerly illegal practices – use of resources for non-planned sales and services.

Consistently with the theoretical approach outlined in the first section, we appreciate the argument that the perennial search for solutions was indeed driven by the elite’s determination to restore control over the process of surplus extraction. The methods might differ, reflecting the different appreciation that the elite had of the contradictions of the system and the severity of the crisis that crippled it. But they all had to address the problem of labour productivity and foundered on the fundamental task of restructuring the labour process (see Filtzer, 1994, p. 4). We will sketch them briefly, before considering the dilemmas posed by the decision to attempt the full transition to capitalism.

### *The new policy of productivity: reforming through incentives*

Under Khrushchev, the early reformers gave themselves the task of overcoming the opposition of the producers to intensification of their efforts, looking at the large western producers of consumer goods as a model.<sup>19</sup> They felt as a key determinant

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<sup>18</sup> Analysts became more aware of the contradictions of the system and increasingly sceptical about its ability to adjust itself over a long period of time (see Berliner, J. (1988) and Di Leo, R. (1980;1985)). But it was not until the final collapse of the USSR that the state of disengagement from and dissatisfaction with the ‘socialist system of social relations’ of the elite fully unfolded. A role was probably played also by self-interested considerations by scholars on their academic positions. For an ex-post analysis of the crisis and collapse of the soviet system from a radical prospective see Filtzer, D. (1994).

<sup>19</sup> On the social policy of USSR from Khrushchev to Brezhnev see Di Leo, R. (1983), on the Khrushchev reforms see Filtzer (1992).

the need to guarantee to the enterprises a safer environment. The introduction of a generalised system of welfare in the enterprises together with higher wage equality was meant to establish a new social pact with the work force to reduce labour turnover and elicit the production discipline of modern enterprises. At the same time, the burden of the coercive system was abandoned in favour of material incentives. Top managers aspired to enjoy greater dignity and more resources for themselves and their workers. In reality, the implementation of the reforms appeared more problematic. The higher administrations continued to retain the same prerogatives as in the past and the most ambitious attempts to shift the economic levers in favour of other bodies failed to materialise (Filtzer, 1992).

The management was given a powerful means to exert its authority, but also an economic burden, which was not fully recognised and was to be paid for at the expense of production. Managers saw it as a means to reduce turnover, increase co-operation and the productivity of their work force. Hence they used welfare as a new resource to pursue their usual strategy, making the consumption of these benefits dependant on the availability of resources and on the merit of workers. Under Khrushchev housing construction almost doubled, in an attempt to reduce labour turnover, one of the main causes of which was housing shortages (Filtzer, 1992, p. 51), but shortages persisted and turnover remained, by soviet standards, high. The ruling class had imposed its welfare and wage reforms as a means to guarantee social stabilisation, combining full employment with effective control. But the idea of the reformers was to introduce a welfare system to redirect the strategy of the producers towards a model closer to the western system of high productivity and high consumption.

With the command system unchanged, top managers could nominally be entitled to a large amount of surplus for bonuses and social expenses but had neither greater confidence nor better levers in claiming them. Only the privileged sector had enough resources to afford the effectiveness of welfare and it implied ironically the continuation of the poor provision of consumer goods by the beleaguered light industry, which in turn undermined the effectiveness of incentives even for workers in heavy industry.<sup>20</sup>

Despite its approximation, the Khrushchev wage reform and its accompanying political measures already revealed the difficulty of the task that the successors of Stalin had to face. The populist concessions over wages and welfare and the political mobilisation of the rank-and-file did not yield active support or raise morale in the factories, nor did they succeed in tying wages more closely to output, instead provoking crises in the system as wage differentials precipitated serious labour shortages (Filtzer, 1992). The uneven increase in wages and welfare provision under the Khrushchev reforms, which bore little if any relation to increases in productivity, undermined the concomitant attempt to consider labour a factor of production whose productivity had to be increased 'scientifically' by managers. This led to the abandonment of the Khrushchev wage reforms in 1964, to be followed by a more focused experiment with western managerial methods.

#### *Reforming labour organisation: the Shchekino experiment and its consequences*

The continued reforms of the economy never intervened in the fundamental contradictions of the system. In the 1960s, though, the idea of introducing western

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<sup>20</sup> For the role played by enterprise welfare in strengthening the enterprise profile see Di Leo, R.(1980) and for the divide between sectors A and B, and its poisonous consequences in terms of economic effectiveness and social balance see Filtzer, D. (1994).

technologies prompted a reorganisation of labour, which amounted to a serious attempt at rationalising the labour process. Its failure showed the impossibility of reforming the soviet system.<sup>21</sup>

In 1968 the soviet leadership resolved to attempt an experiment which contained many elements of novelty and seemed to indicate that the soviet economy was eventually coming to terms with western 'rationality' in industrial management.

The soviet economy was experiencing a slow-down in productivity and low levels of resource utilisation that, coupled with the decline in natural population growth (in 1970 92% of the able-bodied working-age population was already at work), would have made the model of extensive growth, with no further employable people, unviable, putting at risk further economic growth.

The underlying causes were identified as labour shortages, low labour discipline, high labour turnover and underutilisation of capacity. While all of these elements were in fact familiar faults of the system as it had existed so far, they were now seen as an impediment to economic development. In those years in fact the country was trying to make consumer goods a priority while maintaining the heavy burden of the military sector and without the possibility to access additional resources, especially labour. The need to increase the productivity of the heavy industry servicing the secondary sector became a priority. In particular, the focus fell on the poor utilisation of the labour force in auxiliary jobs, which lowered productivity and hoarded labour.

The Shchekino experiment was carried out in a large chemical plant in Tula *oblast'* in central European Russia, not far from Moscow. The experiment, as in previous

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<sup>21</sup> This section is based on accounts of the experiment in Arnot (1988), from page 106 onward, and di Leo (1973, 1983).

cases, was aimed at raising labour productivity by relating rewards more closely to results. In this case, though, the use of incentives was made dependent on the 'scientific' reorganisation of labour leading to the elimination of overstaffing. The economised wage fund would be redistributed among the remaining workforce while those made redundant would be made available to other production units. Reorganisation was achieved by a) raising workers' qualifications; b) introducing multitasking; c) introduction of 'technically substantiated norms'; d) the use of internal committees supported by outside specialists to identify surplus labour. The result was combination of jobs and amalgamation of facilities leading to the shedding of excess labour, tighter discipline and (to a lower extent) higher wages. Productivity grew enormously and so did state revenues. This type of reform was extended but initial successes did not replicate themselves elsewhere and lost their momentum at the original sites as well.

What were the causes of failure? They have to be partly ascribed to the planning mechanism. The experiment tightened control over labour but also increased managerial responsibilities. Managers agreed to participate on the basis of guarantees of a stable environment (i.e. even flow of supplies, stable plan and wage fund); the impossibility to replicate this condition across the entire system made reformed enterprises more vulnerable against the caprices of ministerial planning and procurement. Managerial reluctance is only fully understandable against the difficulties they faced in the shops. The initial experiment had involved a great deal of studying and bargaining with workers but made clear their initial resistance to intensification of work and subsequent disappointment at the meagre economic rewards. Fear of dismissal was paramount in bending their resistance. Again these conditions could not be replicated. As managers themselves would not jeopardise co-

operation with workers against the uncertain outcomes of rationalisation, large-scale restructuring was bound to fail. Moreover, much of the reduction in the labour force had been achieved by dismissing workers in 'peripheral' areas, reducing the social and welfare benefits, most importantly housing, that the enterprise could provide for its workers. Finally, the experiment was strictly limited in its scope, since the removal of workers who could be sacrificed without jeopardising plan fulfilment could not be repeated (Arnot, 1988). The very same combine that staged the initial experiment was outperformed by other factories a year later, raising concerns about the long-term effects of this strategy. According to managers themselves, the problem lay in the adjustment of planning to the new conditions in the enterprise which deprived managers of the usual safety net, extra labour and resources, necessary to face an uncertain environment (di Leo, 1973).

More significantly, the experiment left unanswered the crucial question as to how further increases in productivity could be achieved. The Soviets always regarded new technology in a neutral way, lacking appreciation of the resistance to innovation displayed by management. Other than the risks of disruptions imposed by planning, the problem lay in the lack of self-generating innovation within the enterprises. As we saw in the previous chapter, the Fordist revolution put into managerial hands the ability constantly to revolutionise production techniques, with workers' ability to regain partial control over production (and over surplus distribution through collective action) providing an important incentive constantly to increase surplus extraction. The lack of this tool in managerial hands and the refusal of the elite to endanger its position through open confrontation with workers meant that these experiments, even when successful, were necessarily short-lived and gave only partial relief to the otherwise stagnating economy.

### *Reforms under Brezhnev*

The quite different type of reforms introduced in the 1970s indicates that the Party leadership considered much safer the utilisation of traditional administrative means of surplus extraction coupled with the traditional appeal to workers' self-activation.

Instead of replacing the administrative command system with new bodies or with economic levers, as tried before, the party set to improve the system itself by incorporating the informal practices which had so far emerged spontaneously to adjust and compensate for its deficiencies.

The most important measures were the 1979 decree 'on the improvement of the planning system', which envisaged the introduction of the enterprise 'passport' and the introduction of the 'counter plan', stipulated in 1983, to be presented by enterprises (di Leo, 1986, 319-320).

The intention to fill the missing links in the planning system was also complemented by the introduction of an intermediate body, the *ob'edinenie*, or industrial association, which was supposed to co-ordinate innovation, sales and procurement policies of a group of enterprises in the same branch. Supposedly associations should have been able to manage enterprises more closely and effectively than distant bureaucratic ministerial bodies (Schroeder, 1989). The immediate reference in the West was large corporations. This institution, and in general the policy of re-centralisation, was also to characterise the initial stage of Gorbachev's reform of the ministerial system with equally disappointing results, other than the further entrenchment of the ministerial elite.

Labour organisation, away from western rationalisation, saw the experiment of the work brigades introduced in 1979 and generalised thereafter until 1984. The system at the same time recognised the practice of informal adjustment of work organisation and corresponding wage payments and expected it to be formalised, providing incentives for improvements. The key element was the introduction of collective responsibility for results that should supplant the individualistic approach to norm fulfilment. In theory workers were asked to save on use of labour and materials, participating in savings (see Filtzer, 1994, 70-71). This system endangered the authority of the shop hierarchy, which could only exist in the grey area of informality, it became therefore prey, like other incentives, to manipulation by foremen and line managers. By the same token it raised workers' suspicion. In any case, general problems that affected production flow made it simply impossible for these groups, any more than enterprises as a whole, to cut production buffers without running the risk of failing to fulfil their contract.

### *From reforms to Transition: a bird's-eye view*

This account provides us with all the contradictory elements on the ground at the time when the last attempt to reform the system took place under the Gorbachev leadership.<sup>22</sup> The well-known outcome should not be viewed in any of its aspects as

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<sup>22</sup> The failure of Gorbachev's economic reforms is well explained by Filtzer (1994). It is important to notice that they differed little from previous attempts. The substantial difference with past situations was the absolute lack of additional resources in the economy to foster change, and therefore the need to increase surplus extraction. This led reforms 'too far', freeing enterprises from even the imperfect control which ministries exercised on them, generating an irreversible crisis. At that point the problem became essentially political, i.e. the socio-economic base, with all its problems, remained untouched.

the necessary result of a mechanical process. Once the parties recognised their inability to pursue their goals within the old framework and the whole system became the object of reform, each of them tried at the same time to make the most of their previous assets and to reach a better position in the new spheres opened up by the shift to an unregulated economy.<sup>23</sup> Conflicting interests which were previously subjected to negotiations within the framework of the planned economy and involved a high level of co-operation were to become the leading force of disintegration.

Top management at first resisted Gorbachev's reforms, particularly of enterprise management, and continued to operate in the traditional way, with directors subverting attempts to introduce workplace democracy and asserting their rights to 'one-man management'. Many directors did not even welcome the increasing independence that was being offered to them, preferring the relative security that ministerial control provided them with. But as it became clear in the late 1980s that the transition to a market economy was proceeding, a growing number of directors met the reforms with enthusiasm and interpreted the reforms as an opportunity eventually to assert a fully recognised control over the enterprise.<sup>24</sup> Its vision of the economic reality was nevertheless limited to its traditional sphere of control, as was its perception of the social process set in motion by the political split within the ruling stratum. Enterprise directors failed to detect the risks implicit in liberalisation,

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<sup>23</sup> Di Leo, reflecting in 1993 about the failure of Gorbachev, noted how the soviet economic oligarchy first supported him, achieving independence from Gosplan and the Central Committee, then turned to the radicals, hoping to profit from the advancing process of economic and political disintegration. The two factions, though, split dramatically as reformers took a strong pro-market anti-industrial stance, aimed at regaining control over the economy (di Leo, 1993, p.5).

<sup>24</sup> A debate about the position of directors in the age of transition is reported in Lester, J. (1995)

which left them completely powerless against foreign competition and internal trade speculation. On the political ground, the emergence of the radical leadership of westerners utterly reversed their expectations: the double standard assumed by the new politicians between new entrepreneurs and old directors made it clear that a new set of interests had been established at the expense of the latter.

We should then turn to investigate, on the one hand, the resetting of economic institutions, focusing on the privatisation process as part of a more general political and ideological “revolution”, on the other hand, we will see the adaptation of managerial strategies to the new economic environment.

The team of “reformers” put together by A. Chubais at the end of 1991 inherited the task of reasserting control over the economy, i.e. the red directors, but this time both the means and the goals were to be, at least nominally, radically different. They engaged in a battle to lead the country on the road to capitalism and did so with ruthless determination. Compromise was still considered an actual necessity with both the new businessmen and the directorial elite but they successfully imposed themselves as the only force with the capacity, and with the determination, consistently to pursue the restoration of capitalism in Russia. Their clear ideological stance gained the favour of leading academics and politicians, especially in the U.S., which provided them with the resources and the international political support to strike the balance of power in their favour. At that point the discourse, if not the reality, of the struggle over the economy turned into a crusade to set the country on the road to capitalism. This ideological overtone has almost entirely characterised mainstream discourse on both sides of the former iron curtain, until the general collapse of the financial system in 1998 opened the way for criticism to gain ground and respectability. Needless to say, it was the market, the firm and economic man,

which featured in the “myth of the market economy”, the cornerstone of the reform ideologues and practitioners.<sup>25</sup> For radical reformers, it was only after private property had been secured in the hands of genuine entrepreneurs that an effective check of property over management would have been possible, permitting thorough restructuring. They therefore concentrated their expectations and efforts on carrying out a rapid privatisation process rather than restructuring enterprises<sup>26</sup> or reorganising the regulatory framework of the economy.

### *The Privatised Enterprise in Post-soviet Russia*

Privatisation of state enterprises was a pillar of the ‘transition’ designed by reformers; it was also an utmost necessity once the gradual liberalisation of economic organisation under Gorbachev, on the one hand, and the collapse of the ministerial system, on the other, had left no option but to set enterprises free. But while for reformers this was a means to prevent or reverse managerial bailouts, a *de facto* privatisation in favour of old management, for the latter it was a way to consolidate their autonomous existence. As for the specific scheme that should have been adopted for privatisation, the idea of open auctions allowing direct entry from outside/international investors was discarded in favour of “people’s” privatisation. This was a variant of the Czech privatisation program based on the issuing of

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<sup>25</sup> The ideological stance of ‘westerners’ is well presented in Lester (1995, p. 84-96). ‘Without doubt the dominant theme that lies at the core of the Westerners’ hegemonic strategy is the emphasis on...the notion of *possessive* individualism...The cash nexus and private ownership, of course, are the ultimate rewards and the ultimate driving forces of the newly engendered acquisitive instincts’ (Ibid. p. 92).

<sup>26</sup> A summary of the ‘popular’ arguments in favour of immediate mass privatisation and its alleged accomplishments can be found in the *Economist* surveys ‘A silent revolution’ (08/04/1995) and ‘In search of a spring’ (12/12/1997). The latter is much less triumphalist in tone but no less ideological in the arguments.

vouchers to the population with a certain nominal value to be used for share purchase at open auctions. It was expected that vouchers would mostly have been traded on the secondary market and pooled in management funds so as to allow the concentration of stocks in the hands of block-holders. The major divide between the reformers and the directorial elite concentrated on whether the labour collective was to be conceded majority ownership, since in the second case, it was argued, insiders' control would have persisted through collusion between workers and management. In the programme designed by the government, the first option 'allocated 25% of the shares to the workers free in the form of non-voting stocks with the right to buy a further 10% with a 30% rebate' (S. Clarke 1994; p.6). The second option, strongly advocated by the Industrial Union of A. Vol'skii, represented the interests of industrial management. This 'allowed the workers to purchase a controlling interest in the enterprise directly, instead of having to bid at auctions (...), under the second option a full 51% of the shares were available (to the employees) at a purely nominal price.' (S. Clarke 1994; p.6)

As observed by K. Hendley in her study of early managerial privatisation, the support for employee ownership (EO) by management should be taken more seriously than a short-sighted attempt to grab state property to continue pursuing rent-seeking strategies. While designing a suitable form of corporate governance, top management linked privatisation in the form of employee ownership to a strategy aimed at enhancing productivity and workers' loyalty. EO had been pursued since spontaneous privatisation and then became the main argument of the industrial lobby when the formal mass privatisation scheme was designed. The motives brought forward in favour of its adoption focused precisely on promoting 'the harmonisation

of the interests of various social groups at the same time as (...) a rather high degree of economic effectiveness.' (K. Hendley, 1998, p.189).

According to S. Clarke, a managerial strategy aimed at maintaining and strengthening the "partnership" with the labour collective developed at different stages of the privatisation process and almost independently of the form it assumed. It was embedded in the paternalistic-authoritarian methods of rule typical of the soviet system, which were accentuated by the circumstances of transition. In a situation where control was not substantiated by clear property rights, workers' support and subordination was essential for preventing threats from outsiders which might use corporate bodies for hostile take-overs. To the contrary, the reformers were giving voice to the growing anti-worker feelings of the political and intellectual elite and urged the reforms to 'put those who work and those who rule back in place' (R. di Leo, 1993).

An objective analysis of the situation was to reveal that there was little room for alternatives, if privatisation was to be implemented. As observed later by Frydman, though outside ownership is the standard in Western experience of corporate governance and was the invariable outcome of a successful transition programme, this was hardly attainable with the first stage of privatisation (Frydman, R., Gray, C.W. and Rapaczynski, A., 1996). In the first place it was largely recognised that the magnitude of the nominal shares' value far exceeded the then available level of market capitalisation. Secondly, massive entry of foreign capital was discouraged by the "externalities" related to the high social costs of restructuring (Frydman et al., *ibid.*, p.23). Given the priority of introducing hard budget constraints into the economic system and the low desirability of continued state ownership, the only feasible option was allowing employee ownership.

Not surprisingly, the second wave of the privatisation process, 1992-1994, 'marked an almost total capitulation to the demands of the industrial *nomenklatura*' (S. Clarke 1994; p.6). The implementation of the programme proceeded consistently with their requests. As many as 74% of the privatised enterprises chose the second option (I. Gurkov 1998) and later surveys estimated that at least 65% presented all insiders' shareholding (Blasi et al., 1997). To stress even further the balance in this direction, it has been noted that the other option was favoured by managers when they feared that the workers' stake may end up in outsiders' hands. Managers furthermore pursued different strategies aimed at consolidating their position, from the purchase of shares from workers and on the secondary market to pooling and freezing the remaining shares under the direct control of the board (see S. Clarke, 1994).

The above referred surveys confirm that the real working of the corporate institutions of privatised companies provides more reason to believe that managers remained firmly in control with little possibility for them to evolve into outsider-owned companies. (Blasi et al., 1997, p. 49). This has been sufficient for advocates of reforms to blame on management the setback of the Russian transition programme, the lack of restructuring and the frailty of Russian recovery at the end of the decade.<sup>27</sup> Their main argument initially was that Russian managers were inherently incapable of understanding and practising western management, then as the crisis deepened, that it was their irrational strategies that produced the distortive effects,

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<sup>27</sup> The liberal politician Yavlinsky, at a public speech in Washington, noted how '...82% of all enterprises in the Russian Federation no longer belong to the State. But he suggested that few of them were actually publicly owned. Instead, their owners are in fact the old communist-era managers. And these people view their new possessions more like the collective farms of the past than the private enterprises of the market economy' (Goble, 1997).

causing the derailment of an otherwise certain path to capitalism and prosperity. It is the task of our study to prove otherwise. We can briefly recall the literature which has countered these arguments on theoretical grounds as well as undertaking empirical research.

'As for the essential nature of the capitalist system that is actually being constructed in reality...according to Michael Burawoy and Pavel Krotov, the optimists of the western orientation have grossly exaggerated... the depth of economic transition in post-communist Russia. [Because] what certainly has not changed is the old type of relations in production... where "monopolies retain their grip on the supply of crucial commodities, and workers continue to retain their hold on production". A similar line of argument has been taken by Simon Clarke' (Lester, 1995, p. 118-119).

In order to understand why managers continued to rely on traditional institutional arrangements and practices we have to look into their strategies and the factors which influenced their formulation and implementation. Grancelli (1995) categorises the enterprise position and the corresponding strategies according to three types of approaches: rent-seeking, short-term profit-oriented, market-oriented. While many mainstream analysts (see Gurkov, *Ibid.*; Polonsky and Edwards, 1998) place a high value on managers' culture and capabilities to explain the hazardous behaviour contained in the two earlier lines of action, empirical findings also refer to the difficulties managers have to face and the possible rationality of their choices (Hendley, 1998; again Polonsky and Edwards, *Ibid.*). It is with the systematic case-study based programme directed by Simon Clarke that the aims, objectives and rationale of Russian enterprise management come to the fore.

His main findings about the strategy of Russian management in the early stages of the reform can be summarised in the following points:

These three elements [rent-seeking, market-oriented strategy, paternalism, C. M.] are by no means mutually exclusive, differences between one enterprise and another relate to the balance between them... Moreover, in conditions of extreme economic and political instability a conservative strategy may be the best way of securing the long-term profitability of the enterprise... However the substantive differences in strategy are often far less than the contrasting rhetorics might indicate, because the enterprise is severely constrained by both its internal relationships and external circumstances in what it can do... Therefore privatisation provides very little incentive to investment or even significant reorganisation (S. Clarke, 1994, p.13)

The case study will unveil in what these external and internal constraints consist, how management responded to them and to what extent outside ownership could modify a substantially managerial approach.

## ***PART TWO***

### ***CASE STUDY:***

#### ***Restructuring the Upper Volga Textile Combine***

## 4. Case Study Background: A World of Textiles

In this section I introduce my case-study research with background information about the latest developments in the industry and the markets both at world level and in Russia.<sup>28</sup> This will help us locate the position of the case study enterprise and the region in the economic geography of world textiles. This framework provides the set of threats and opportunities which constrain the industry and the enterprise. For however far Russian management practices and problems might differ, as we shall see, from world standards, all the major actors encountered in our research will set their strategies in relation to this wider context. Transition and restructuring in fact has meant for Russian management not only the requirement in theory to confront Western models but also to face the reality of international competition. At the end of the section a background to the case study enterprise provides the key co-ordinates in terms of production, organisation and corporate history.

### *Market and industry in textiles: the global context*

The textile sector represents a mature industry with a relatively low level of investment and technological innovation and with low economies of scale. This industry exists in most developed and developing countries and the growth in output and export from the former has fuelled fierce competition in the past thirty years. Its

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<sup>28</sup> For sources about world and EU textiles see C. Morrison, 1999, Case Study on Textile & Apparel Sector: Globalisation and Social Exclusion, Centre for the Study of Globalisation and Regionalisation/EU Project-"Globalisation and Social Exclusion"/EC contract SOE2-CT98-3062, (main sources: ILO, EIU, OETH, OECD, and EC). For Russia and the Ivanovo region data and information has been found in Gain reports, FAS/USDA (Foreign Agricultural Service/ US Department of Agriculture), annual and update issues from 1998 to 2002.

importance for employment in most countries has prompted the introduction of a protectionist regime, the Multi-Fibre Agreement, which has not hampered trade growth but distorted it. Both developed and newly industrialised (NICs) countries have heavily restructured, introducing newer technologies, and have shifted to niche markets or delocalised production. This has created a new world division of labour, penalising the new entrants in developing countries (Russia among them). Workers have paid for it almost everywhere with the threat of unemployment, worsening working conditions and downward pressure on wages.

### *Basic features of the industry*

It might be useful to commence by reporting some features of the industry, which represent at the same time the common traits it has assumed in its historical evolution and the bases of its latest developments and contemporary problems (see Singleton 1997). The textile industry, generally in association with clothing (TCI), is usually referred to in historical and economic contexts as one of the lesser or light industries. This is to imply one or more of the following characteristics:

- a) The TCI represented the leading sector in the first industrial revolution and has set itself in the first stages of industrial development in second-comer and developing countries.
- b) The industry rapidly became 'mature'; i.e. it presents a lower rate of investment, technological progress and rate of profitability relative to other industries. It also means that it lost its strategic character as soon as countries developed a robust industrial and service sector.
- c) The lower intensity of capital also means that: 1) TCI retained to various degrees labour-intensive stages of production. This has lent the industry a new strategic

significance in employment policies; 2) in terms of enterprise structure, TCI firms are smaller in size and limited in scope.

d) These features combine with a high percentage of low-paid, unskilled (often harshly exploited) female workforce. ILO statistics place female employment at around 40/50% in textiles and 70/80% in clothing production (see ILO Reports, 1995, 1996).

e) TCI is also a basic industry in the sense that it provides essential consumer goods and exists in almost all countries.

### *Trade and production in the TCI: major post-WWII trends*

The combination of these historical factors (accessibility of mature technology, labour cost advantages, availability of local skills, demand for basic goods) has made TCI into a major source of income and employment for most Developing Countries (DC). This has been raising concerns among Industrialised Countries (IC) interested in retaining their dominant market position and employment levels. Since the Second World War there has been considerable growth in trading of TCI goods, characterised by fierce competition between the two blocs and among DCs. This has induced, in the last thirty years, substantial modifications in the world division of labour in the sector, in market quota distribution and in the structure of production. These changes can be summarised in the following points:

The EU (and USA) as a whole is still a world-leading exporter of textiles and clothing, second only to PR China; extra-EU trade accounts for 14.6% of world textile exports and 9% of world clothing exports. All major European producers figure in the top ten of world exporters. EU countries are also major importers and the EU as a whole is a net importer of textiles and clothing, despite a positive trade

balance in textiles. The deficits in trade balance have been deteriorating over time to the advantage of developing countries, Asian and lately OPT<sup>29</sup> partners (see Spinanger, 1999).

A process of regional integration with neighbouring countries rapidly developed at the turn of the last decade, only partly captured by data on OPT. It complements sourcing policies in the Far East and has set the industry on the way to internalisation of production. Mediterranean countries and ECE and former-USSR countries provide 21.4% and 20% respectively of EU imports. Both areas show a surplus in total T&C trade with the EU but OPT partners are in deficit for textiles and they register stable import growth of clothing as well (see OETH, 1999).

The growing role of DCs in production and the competition by NICs, now principally from PR China, have induced a) the establishment of considerable customs barriers (the MFA agreement imposing quotas on DCs); b) the restructuring of the industry in IC countries. The 1970s have seen a peak in imports as well as the heaviest losses in employment with closures of the largest production outlets. The response has been a combination of technological innovation to cut costs and specialisation in technical and high-quality goods. Clothing and most low-cost/low-quality commodities were outsourced or relocated abroad, boosting OPT trade in textiles. Later in the 1990s, textiles for clothing are being threatened with being gradually outsourced too.

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<sup>29</sup> Outward Processing Trade, a form of outsourcing consisting in the enterprise exporting temporarily a semi-finished good for processing abroad in order to save labour costs by taking the more labour-intensive stages of production abroad. OPT specifically referred to EU agreements with neighbouring countries, regulating these practices. While the OPT regime is being phased out, outsourcing trade similar in practice to OPT is growing.

The fundamental changes that trade and restructuring have promoted in the ICs can be summarised in the following points:

- Despite data that might indicate the emergence of an autonomous competitive edge by DCs, specific research on industry structures indicates that imports do not come as a result of aggressive export policies of Developing Countries but 80% originate from EU-based manufacturers, distributors and designers.
- Distributors are assuming an increasing role in dealing with these functions, bypassing traditional manufacturers. They are responsible for the increasing contraction of manufacturing in the sector.
- There is an ongoing shift from production to service activities. These businesses focus on the last and most profitable part of the production-distribution chain, retaining logistics, marketing, design and finishing functions. All the rest is outsourced.
- Conversely DCs, while playing a growing role in production and export, suffer greatly from a) the procrastination of the quota system and anti-dumping policies by ICs; b) an unfavourable division of labour which relegates them to providers of low-cost commodities or commission-based orders; c) an extreme competition, both political and economic, to gain a gateway in ICs markets, which depresses revenues with heavy effect on salaries and working conditions in Developing Countries.

### ***Market and Industry in textiles: Russia and the Ivanovo Region***

The Russian TC sector was badly equipped to confront integration into the international market. Apart from the typical distortions of a soviet-type industry it

suffered from the marginality of consumer goods production under planning and a historical prevalence of textile commodities in its product assortment. Trade liberalisation and the disruption of the command chain have resulted in the collapse of production with ensuing social dislocation and the absolute dominance of imports in the internal market. The Ivanovo region, dominated by the TC sector, has suffered badly by the slump in production and the loss of the traditional ties with soviet cotton-producing countries. It has survived in the 1990s thanks to state support and is now undergoing restructuring under the lead of Central-Asian and Moscow trade companies. The dominant activity has remained the processing and export of low-value cotton fabrics, light cloth for state procurement and other inexpensive low-quality commodities.

### *The industry structure*

In 1995-7 the 'Cast management consultants' conducted a thorough examination of the state of the TCI in Russia; the analysis focusing on enterprises in the Ivanovo region. The local industry output amounted to over the 60% of the Russian output of cotton fabrics, up to 50% of linen output, while wool-made goods were only 5% of total Russian output (GosKomStat data). The analysis outlines their main features, highlighting their organisational and operational dysfunctions as considered in comparison with standards of their western and Asian competitors.

Their main features are a) dominant role of production among business areas; b) functional organisational structures, notwithstanding the scale of production and the product range; c) integrated production chain within individual enterprises; d) highly specialised dedicated machinery; e) prominent role of the welfare system.

The internal organisation was set consistently with no alteration of the previous soviet establishment. It is described along these points:

- 1) Corporate management was bureaucratic;
- 2) There was no relation between formally appointed positions and real jobs;
- 3) Last but not least, sales and accounting functions were little taken into consideration.
- 4) Marketing was weak or non-existent and commercial functions were tied to barter deals rather than busy with market sales, pricing and competitors' analysis.

At the all-industry level, the lack of co-operation among individual enterprises was remarked on, especially where there was a significantly high geographical specialisation, as in this area. Enterprises did not show any interest in or ability to develop a division of labour and persisted in manufacturing the same kind of goods, resulting in destructive competition. Still, they have not been able to set a common standing towards suppliers and final customers in order to strength their position in terms of price and quality. As a result their contractual power was low and many of them had virtually become a mere productive unit under large financial-industrial groups or ambiguous intermediaries.

### *The Market structure*

It was admitted that the current enterprise organisation and its management were consistent with the situation in the industry and the "market" in Russia. In fact, the collapse of the command economy has not delivered anything close to competitive open markets. On the supply side, the "retreat" by the State had meant partly a mere change of the legal status under which former state agencies operated, partly the entry of new subjects like banks, investment funds and trade intermediaries. The lack of funds limits the choice of suppliers, strengthening the position of these subjects.

These companies pursued a rent-seeking strategy aimed at maintaining their monopolistic position instead of fostering investments and business-oriented restructuring.

On the demand side, the positioning of the enterprises was equally weak. With shrinking orders from the State, textile industries were supposed, as any other consumer-oriented industry, to be led by mass consumption. Again like the other consumer goods manufacturers, they found themselves overtaken by foreign competitors. Many industries were forced to look at exports of cheap commodities as the vital source of revenues, while their market share at home was at stake. As a result these enterprises were operated in survival mode with no chances to survive in the long term.

### *The 1998 crisis and latest developments*

Production trends partly reflect this difficult situation. By 1996 fabric output had fallen to 1,401 million square meters, down from around 2000 million in 1994<sup>30</sup>. A further slump was suffered in 1998 under the effect of the economic crisis. Since then, though, production has recovered and stabilised at levels above those of 1994. Partly this is the result of the buoyant trend guaranteed by the cheap rouble cutting down imports and boosting exports and local consumption. Partly these results have to be ascribed to changes in production characteristics and industry structure not always of a positive nature.

In terms of output assortment, recent years have seen a growth in the share of cotton fabrics amounting to almost 78% of the whole fabric output in 2001 (Goskomstat

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<sup>30</sup> Data source: Gain Report #RS2013, 2002;

data). These goods were of declining quality, i.e. 'getting thinner', and within this category gauze-type fabrics are still prevalent.

The Ivanovo region with its 1235 million square meters produced already in 2000 is 'only' 34% below the 1990 annual output total and has acquired a share of 67.8% of the total Russian output. Reports indicate that most mills in the region, around 80%, are still unprofitable, burdened with social costs and equipped with outdated machinery.<sup>31</sup> A major obstacle to restructuring is the dominance of traders and intermediaries. It is calculated that 90% of textile output is produced under 'tolling' or 'processing-only'<sup>32</sup> agreements, which stifles manufacturers' revenues and decision-making powers.

The future of the Region is clouded also by the fact that its low level of economic diversification offers little prospective for alternative development paths (see Keune, 1996).

The social and political situation offers an equally bleak picture. High levels of real unemployment, the lowest income in European Russia and high levels of criminal activity are just indicators of a generalised social decline.

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<sup>31</sup> Data source: Gain Report #RS0026, 2000, p. 4;

<sup>32</sup> The termination of barter arrangements with Uzbekistan, which lasted into the late 1990's, resulted in the domination of "for processing only" or "tolling" imports, an arrangement where the raw cotton and the finished products remain the property of the raw material suppliers and mills are merely paid for processing... Although tolling lowers costs by allowing imports to enter free of duty and value-added tax and removes the need for Russian mills to buy cotton with hard currency, it also removes a mill's decision-making power over production and marketing and blocks the development of a recovery strategy which could attract investment (Gain Report #RS0026, 2000, p. 3-4).

### *Case Study Background: The Upper Volga Textile Combine*

The Upper Volga Textile Combine is an integrated cotton-processing enterprise. It is located in a company town in the crisis-ridden Ivanovo region that is dominated by the textile industry. The enterprise is the only employer in the locality.<sup>33</sup> The factory's main products include gauze and cotton fabrics for kitchen and bed linen production. The company has developed a profitable export business since the late 1980s, amounting to 5-10% of its output. The bulk of production was used for barter with suppliers. The enterprise used to run the bulk of the company town's social services. Although this responsibility has been downsized, it remains a heavy financial burden.

The organisational chart of the enterprise corresponds to a simple functional model (Lipsic', 2000).<sup>34</sup> The director, the chief engineer, and the main functional officers at the top constitute the administration (*AKhO*). Directly subordinated to the chief engineer, production is divided into four units: spinning, weaving, finishing, and a large maintenance section. Each production department maintains its accounting, wages, and labour offices. Departments are headed by a chief production manager, below whom are the shop managers. Equally important are cadre workers (foremen

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<sup>33</sup> The Expert Institute selected the company town as representative of industrial decline in Russian company towns. The town is characterised by shrinking population, high unemployment, low economic diversification, and underdevelopment of the service sector. Together, these conditions have resulted in social pessimism and overall economic depression (Lipsic', 2000).

<sup>34</sup> Data and analyses pertaining to the organisation of the enterprise were found in the reports of consulting firms which advised the enterprise; these were the Italian *CAST* (Milan) and the Russian Expert Institute (*Ekspertnyj Institut*, Moscow).

and brigade leaders), who have disciplinary and organisational powers.<sup>35</sup> Although formally the organisation is highly centralised, in practice it is decentralised and there is little standardisation of procedures. Power remains strongly personalised.

At the top, the executive director and the chief engineer hold decision-making powers on all strategic issues. They also have the last word on most petty questions – including individual cases of hiring, firing, holidays, and so on. The functional departments (in particular the personnel, and the labour and wage departments) are understaffed and under-qualified. They serve as mere transmission belts along the hierarchy. The chiefs of production are in charge of overall production planning and budgeting for their units. However, it is in the shops, and between shop chiefs and cadre workers, that decisions relevant to workers are made. Hiring and firing decisions, disciplinary matters, and performance assessments are first made at this level, which are then moved upward for approval. Production managers are the backbone of the managerial structure. They form a parochial defence of their units' interests against the demands of the administration. Privatisation has not substantially modified this organisational hierarchy and decision-making process.

Currently, the workforce stands at 3,000, down from the 5,000 employees of a decade ago.<sup>36</sup> Two-thirds of the workforce is concentrated in the main shops and is predominantly female (e.g. Bowers, 1996; Rossman, 1997).<sup>37</sup> The main shops are

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<sup>35</sup> Shop managers and cadre workers will here be collectively referred to as line managers, the direct representatives of managerial authority in the shops.

<sup>36</sup> The town population was 12,400 in 1997, and declining. Working age population was 6,400, with official unemployment standing at 508 (Lipsic', 2000).

<sup>37</sup> The position of machine operator in manufacturing is generally a well-paid male profession in Russia. In textiles, though, the operation of looms is left to women workers. This probably draws on traditional gender segregation, but also reflects the (allegedly)

staffed by female machine operators, and male mechanics and auxiliary workers.<sup>38</sup> The Soviet-time wage system has hardly been touched. Workers are paid by piece-rate plus bonus, while ITR and auxiliaries are paid by time-rate plus bonus (Kirsch, 1972). Wages vary considerably between, and within, work categories and (covertly) by gender. Shop chiefs manage the pay system in a discretionary manner so as to augment their leverage on workers, though lamenting the overall abysmally low level of pay (Morrison, 2003).

The company was formally privatised in 1993, but remained in the hands of its Soviet-time Director and his close aides. Declining revenues and growing costs were countered by stressing output volume. While maintaining enterprise paternalism, the management tried to tighten discipline and increase workloads. Mounting economic and social difficulties presented a window of opportunity in 1998-1999 for a hostile take-over by an industrial-financial group pursuing an aggressive acquisition policy in the region.<sup>39</sup> These new owners have worked hard to foster tighter production and

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feminine skills matching the job requirements, such as manual dexterity. Jobs which require greater acquaintance with machinery and involve heavy or dangerous working conditions are assigned to men. Similarly, managers and specialists are invariably male, while women fill clerical and low status positions (see Bowers, 1996; Rossman, 1997).

<sup>38</sup> The Soviets had a liking for meticulous worker classifications. This was originally justified on the basis of adhering to the Taylor system of scientific organisation. Later it was used to fragment and divide workers. White-collar personnel were sub-classified as ITR, engineering, and technical personnel (including managers, but excluding clerks). Blue-collar personnel were classified between main production workers, who operate core business technology, and auxiliaries (such as loaders, cleaners, and maintenance workers).

<sup>39</sup> The outside company, TMS – itself a subsidiary of a financial/industrial group – entered into business with the case-study enterprise as its supplier. In 1998-1999, TMS managed to acquire considerable influence over its operation through the so-called *daval'cheskaya skhema* arrangement (commission-based production scheme), which entails a well-known Russian strategy of acquiring a company. It consists of business interests imposing high

financial discipline, but they have been cautious not to undermine the basis of shop managers' informal control.

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input prices and low revenues on a target enterprise by means of the monopolistic control of the enterprise's sales and supply channels. TMS forced the case-study enterprise into bankruptcy and, though still under a temporary administrator (*konkursnyi zaveduyuschii*), installed its people and dictated its policy. Currently, the enterprise is waiting to be auctioned off, but TMS prefers to prolong bankruptcy procedures for fiscal advantages and as a means to intimidate the workforce.

## **5. Structures and Strategies in Transition: A decade of Management and Managers at the case-study enterprise**

In this chapter we introduce our analysis of the case study with an overview of the firm's structure and strategies in the 1990s. The enterprise has been subjected to detailed reviews by business analysts who have highlighted the shortcomings of its organisational features and presented recommendations on how better to meet forthcoming challenges. The main point resulting from these reports was the anachronistic permanence of most soviet-time features in its structures and its passive adaptation to changes in the external environment. In the theoretical chapter we argued that the enterprise can be analysed as a complex economic, technical and social institution, which struggles to survive by matching internal resources with external challenges. This approach is put to work through the analysis of the real power structure and its interaction with the market and institutions in order to find a rationale behind managerial behaviour. The overview of the corporate and organisational structure is aimed at presenting the relative weight of the various layers and functions of management, in particular the overwhelming role of the director and production managers in relation to functional organs and of social concerns over financial soundness. Following Fligstein's example, this permits us to understand the constraints that this over-centralised organisation, with its production-oriented and populist managerial culture, poses to change in general and to market-oriented change in particular.

From privatisation in 1993 to bankruptcy in 1998, the enterprise tried different strategies to settle in to the market, from soviet-style expansion to downsizing and from barter to export deals. The exploration of these actions demonstrates that the slow pace of change and the ultimate failure to sustain an autonomous existence were not simply due to managerial conservatism or entrenchment. The interaction with an external economic and institutional environment appears actually to have nurtured the most cautious attitudes while acting as a powerful restraint on managers themselves in the pursuit of alternatives. Eventually, the position of the enterprise under temporary administration is analysed in order to ascertain the opportunities and limitations offered by outside ownership in fostering the effective reorganisation of management and the business. With outside ownership, transition as a struggle for survival comes to an end, as the parent company insulates the combine from the immediacy of external threats. Problems are now internalised into the conflictual dynamics between the new owner and combine management. The outsiders' restructuring strategy reveals ambiguities and contradictions as they attempt to subordinate enterprise management without modifying its key features from bureaucratic centralism, and actual decentralisation, to paternalistic industrial relations. This leads to the detection of, yet unexplored, powerful internal constraints, introducing the analysis of production management and labour relations on the shop floor as the major determining factor in the settlement of restructuring issues, which is the object of the next two chapters.

### ***Organisation, Ownership and Control: formal structures and real powers***

The corporate and organisational structure of a firm can be analysed in order to provide an understanding of the relative efficiency of these arrangements. The analyses of the organisational structures and forms of ownership prevailing in Russia during transition, which have been made available by mainstream transition literature, have mainly focused on indicating their shortcomings by measuring their departure from established western models. In the next sections, an attempt is made to understand the internal logic, stemming both from historical and contextual elements, of these arrangements and, hence, the reason for (limited) change and (overwhelming) continuity. The ownership issue and the governance structure are treated first, followed by a detailed account of the organisational structure. The conclusion will try to grasp the major characteristics and changes in the organisational features of the enterprise until bankruptcy.

#### ***Ownership and control: an employee-owned managerially controlled enterprise***

In 1993 the enterprise was transformed into a joint stock company. The privatisation was carried out according to the second option, which allowed employees to hold an absolute majority stake in the new company. Procedures and ownership structure, including behind-the-scenes dealings, were confided to us by a key informant:

Privatisation started with the establishment of the "people's" (*narodnogo*) enterprise. The labour collective is granted around 50% of stocks. From such a stake no individual could hold more than 2.5% of the stocks. The remaining shares were divided up among physical and legal holders by respectively 26% and 24%.

The former consists of pensioners and citizens of the company town while among the latter figure the largest stakeholders. The largest individual stake of 10% was left, according to the law, in state hands. The second largest stakeholder, 8% of shares, was (formally) another enterprise, a major supplier of the combine. In fact it was controlled by the general director by means of a behind-the-scenes interlocking agreement among the directors [of the two enterprises]. Considering that state property played no active role in decision-making, its part of the shares was controlled by the director too. (Interview with the Head of the weaving department, December 2000)

*Table 5.1 Share Distribution*

<i>Typology of shareholders</i>	<i>Number of shareholders</i>	<i>%</i>
Labour Collective	2955	49,87
Physical Persons	2023	26,05
Legal Persons	5	24,08

Further episodic evidence suggests that top management increased its stake in the company by acquiring shares in the secondary market. In particular, the Chief engineer claimed to have devoted a then-substantial sum to the purchase of enterprise stocks.

The way privatisation was carried out meant that top management in general, and the director in particular, had, both formally and practically, absolute control over the new decision-making body of the enterprise. The coincidence between corporate and managerial structures meant that ownership became a function of managerial control and its organs conducted a shadowy existence, mirroring the dynamics in the

enterprise managerial power structure. The enterprise survived as an independent company for a relatively short period of time; with bankruptcy in 1998 a new administration and a new owner came forward. During this time managers maintain that the role of corporate institutions added little to the running of the enterprise. The director as a result of the above-referred settlements dominated the board. As for the representation of rank-and-file shareholders, the elections brought about mostly production cadres, supportive of the director, as representatives of the mass of workers and clerks. Therefore, meetings and reports to the board turned into empty rituals, something of a repetition of the sort of manipulation observed directly on similar occasions, such as the trade union congress or labour collective conferences.

Reactions to privatisation and the establishment of an independent company differed significantly between managers and workers. The Head of weaving, who later sat on the board, recalled how 'privatisation produced at first an euphoric sentiment of freedom [*euforia svobody*] and a sense of proprietorship in the labour collective' (Ibid.). For workers though, the whole affair, the constitution of the company, the distribution of stocks, the proceedings of the board and so on, was just 'a matter of managers', something from which they expected results but felt at the same time excluded. This reaction was sparked by a perceived sense of continuity with the past, the idea that nothing fundamental had changed for employees. There was also widespread uncertainty about the real long-term intentions of those in Moscow. For several years myths proliferated about the possibility of a complete reversal of the reforms. Later, in the mid-1990s, the steady deterioration of living standards, contrary to the expectations raised by democratic propaganda, fuelled doubts and suspicions about reforms among the rank-and-file, nurturing dismissive attitudes toward the rights and obligations of shareholders and private property in general. For

top management, independence meant the widening of the areas where decision-making at enterprise level were not constrained. From their point of view, privatisation appeared less a watershed change than a good point struck in a long-term struggle for independence. In fact, they felt that the increasing autonomy gained during perestroika was still challenged by political attempts at petty tutelage, questioning the formal acceptance of free entrepreneurship and private property. Moreover, powerful threats were posed by the growing power of suppliers and intermediaries, which made the market appear nothing else than a new battleground for the power struggle of this provincial company town with the "Muscovites". Therefore, to fully understand the emergence of such a form of corporate governance requires turning attention to managerial structures and strategies analysed in the following sections.

*Organisational structure and managerial power in the 1990s: a business analysis*

The organisational structure of the enterprise saw a relentless reshuffling of positions, departments and sub-units over the decade, without any significant change of its main features. When it was thoroughly scrutinised by management consultants in 1997 and 2000, both concluded that soviet features had largely survived and advised substantial 'market-oriented' revisions. Findings from fieldwork allow us to supplement these business analyses with greater knowledge about the role and the functioning of individual departments and to achieve an understanding of the internal power structure. The formal analysis is presented first, highlighting the main features of a soviet-type organisation as opposed to western standards. Another section will follow, trying to present and explain its internal dynamics and unveiling some of the constraints to the changes advocated by consultants.

Looking at the organisational chart, as it was in 1997, we can see that the enterprise presents a structure of a functional type with some significant variations. The organisation is highly centralised, with a large number of units and individual positions directly subordinated to the general director (GD) and the chief engineer (CE). According to soviet nomenclature, the structure can be divided into two different functional elements. The superior part of the structure, containing top management and central offices (*glavnye kontory*) was referred to as *AKhO*, the administrative-economic section (*administrativno-khozyajstvennyi otdel*). This was intended as a service structure of a bureaucratic type, performing control functions and handling the information flow between the planning organs and the director, on the one side, and production, on the other. Subordinated to the CE, there are three separate production departments (*proizvodstva*), spinning, weaving and finishing, plus a large maintenance and repair unit. Other operative departments like construction and transport, agriculture and social services are all assigned to director's deputies. Work among departments is divided alongside stages of the production process; shops are organised as sections of the production process, each of them containing a stage of the chain, irrespective of product lines or market destination. Production management is distributed on three layers: the Head of production with budgeting and planning responsibilities, the shop chief and the foreman. Production and maintenance have their own administrative and technical offices subordinated to the head of department but operating in accordance with specifications of their respective functional main department.

The first consultant studying the enterprise internal organisation found that this was set consistently with no alteration of the previous soviet establishment. Their criticism and subsequent recommendations focused on two points. Firstly, they

argued, the functional model was inadequate given the scale of production and the large range of products dealt with by the enterprise. At the same time, managerial organisation was bureaucratic and there was no relation between formally appointed positions and real jobs. Furthermore, sales and accounting functions were little taken into consideration. Marketing and design functions were non-existent and commercial activities concentrated on barter rather than developing market sales, pricing and competitors' analysis.

As for the Accounting Department, the western understanding of this function is, generally speaking, one of careful analysis of costs and margins in order to determine the contribution of each production line and service to overall costs and profits of the enterprise. It allows the assessment of resources and the potential of productive assets and determining which are the areas deserving development and which are those to restructure or close down. The staff in place in the Accounting Dept. was not meant to perform these tasks, hence was in no condition to do so. They were mere bookkeepers, registering data provided from other departments. As a result, the enterprise, which faced bleak financial conditions, was unable to implement a thoughtful cost-cutting policy.

The lack of a proper sales and marketing department was identified as another major obstacle to successfully operating in a market economy. The existing commercial department was peripheral to the command chain and had no authority on price policy, design and development activities. Again none of these functions was performed by, nor was in the capacity of, the present staff of the commercial department at the Combine.

Consequently, the enterprise was advised to decentralise and divisionalise its core business organisation. In order to shift the focus from production to customer and,

therefore, the managers' ultimate goal from physical to economic targets, it was recommended to establish and improve the operations of the above-referred departments and to strictly co-ordinate manufacturing operations with marketing.

The general response of the enterprise to western recommendations will be treated as part of the overall restructuring strategy in the next section. Here it will suffice to consider the fate of the new marketing and design offices, whose establishment was the only one of the consultants' proposals that enterprise management seemed to meet with enthusiasm.

The appointment of a designer, in itself a sign of willingness to change, was obviously not meant to produce a great change on its own. Unfortunately, like marketing, it was simply added to the existing structure and did not represent a first step toward thorough organisational reform. The problems that arose from its functioning are in any case a good indicator of the difficulty of moving away from production-oriented management. Design, as part of product development, appeared to be a function of the CE, to whom the office was subordinated. The enterprise had been assigned a design advisor as a member of the foreign consulting team; her arguments with the CE provide a clear picture of the problem. All the time the issue of new products was discussed it seemed that they failed to reach an agreement because the main concern of the production manager was with technical feasibility rather than consumer appeal. In fact, the advisor used to lament that these engineers, as consumers, were quite ready to appreciate imported textiles but not equally prone to manufacture similar cloths as producers. In this latter case, their choice was driven by the desire to put technologies available to good use, irrespective of the end result.

As for the marketing department, it had a good start but was never allowed to make its own policy, let alone interfere with production plans. Several young graduates

were recruited, headed by a young and ambitious economist. They initially dedicated themselves to market research, participation in fairs and experimenting with new technologies. Soon, though, it became clear that this new department was not to assume a strategic role and its chief preferred to move to the more traditional but also more advantageous procurement office where, it was alleged, he managed to satisfy the needs of production much less than his own. A private report to the new owners by our key informant so described the situation with marketing in 2001:

A few words about marketing. Currently, at our enterprise, the marketing department performs essentially sales functions. Timid attempts to realise marketing activities are carried out without considering production requirements, volumes or competitiveness. Such an approach was typical of marketing [as it used to be in the West, C. M.] at the beginning of the 1980s. In reality, we began to do marketing from the basics and we should get in touch with the latest trends in the business: production analysis, costs and production volume, study of the difference between earnings and variable costs (profit margin), costs, prices, [competitive, C. M.] advantage. [...]. These analyses are not carried out at all. (Nikolaj A. Internal Report to TMS, 2001)

In 2000 a Russian research institute conducted another comprehensive investigation at the Combine (Lipsic', 2000, p. 75-79). While praising management for its attempts to renovate production and find new markets, they found that the situation with organisation and personnel qualifications revealed widespread inefficiencies. In particular, they pointed out that internal organisation and decision-making processes were unreformed and the strategic marketing and finance departments were 'weak'. Management suffered from excessive centralisation and bureaucracy. There had been

no transfer of powers to lower managerial layers, which forced senior management to deal with petty issues and waste their time on purely administrative tasks. Decisions required the approval of all units, which meant that decision-making was slow and production burdened with bureaucratic controls. They drew the following picture of the way financial issues were handled almost a decade after privatisation:

Financial accounts were predisposed essentially for fiscal and administrative control purposes; data processing was developing very slowly; management lacked a timely and useful flow of information; qualification of employees was very deficient...financial documentation was still hand-written...there was no satisfactory financial planning. The organisational structure of financial services was inefficient. All enterprises presented the following units: planning, finance and accounting. The activity of these units was uncoordinated and often they did very much the same things. (Ibid., pp. 75-76)

The picture, here roughly detailed, delivered by business analyses, which inspires a great part of the literature on restructuring and transition, highlights the evident continuity with the past displayed by the enterprise and the consequent inability of the latter to face the allegedly emerging market. This outcome might lead us to consider this case as the end-result of managerial conservatism and Russian lingering backwardness.

Yet, research experience in the field has proved that a conventional analysis can provide only a partial account of organisational issues. This literature, in fact, invariably retains the assumption of the full comparability of managerial positions and structures relying on the assumption that superficial similarities might account

for identity of functions and aims and therefore regards Russian enterprise organisation as simply a backward duplicate of its western equivalents.

To highlight the peculiar configuration of a post-soviet organisation and to unveil the constraints which led restructuring on an unexpected path requires an account of managerial practices and informal relations within the factory and with the surrounding environment, which are the object of the next two sections.

*Organisational structure and managerial power in the 1990s: a still-soviet enterprise*

In this section some general features of the enterprise organisation are presented, representing a substantive difference between western and soviet management. Despite the inevitable similarities with already well-documented soviet-time practices, these have been elaborated by drawing on the experience of both Russian managers and foreign consultants involved in post-privatisation restructuring. They were generally understood and referred to as the main causes of misinterpretation of enterprise problems as well as barriers to the introduction of western managerial techniques.

First, the system is deeply imbued with a strong hierarchical sense, which means that those higher in the hierarchy, starting with the director and the chief engineer down to lesser production managers, count more than could be expected from just looking at the organisational chart. The uncertain scenario opened by privatisation reinforced the attitude of passive reliance on higher-standing figures.

Verticalisation is strictly interwoven with personalisation. Managerial jobs cannot be understood just in terms of abstract functional roles but should be referred to considering the role of individuals and their power in the hierarchy. This is why, as

emerged during the drafting of the organisational chart, there are not departments to which individual positions are attached but, on the contrary, individual posts presiding over functions.

The focus on individuals also means that managers suffer from high exposure in case of failure and are therefore reluctant to take on new functions without guarantees of additional resources. Since access to resources in the enterprise is made dependent on bargaining powers and status, previously marginal departments are the less prone to accept new responsibilities. This is even more the case in a situation in which growing scarcity is making inter-departmental co-operation less stable and harder to achieve.

High centralisation in decision-making is compensated by a *de facto* decentralisation of real management, due precisely to natural limits of the personalised forms of exertion of power and to weak informational support by functional departments. Consequently, a large gap exists between formal and informal practices and roles. Technological decay, uneven production pace and normative uncertainties widened this divide by forcing managers to look for easy fixes and compromises, which reinforced the lack of initiative referred to above, at least in the conventional understanding of the term.

Furthermore, managers themselves have to rely greatly on workers' co-operation and support. The continued drive for higher output volume and the use of the piece-rate incentive system reflect and strengthen this situation, preventing any attempt to standardise and regularise the production process.

Eventually, we should keep in mind that a soviet enterprise was, first and foremost, a productive unit and its privatised successor has retained this feature. In fact, the downfall of the command economy, rather than boosting new market-related

functions, has even increased difficulties in the shops, making technically skilled managers with responsibilities in production the backbone of the managerial power structure.

This early analysis provides some evidence in favour of the relevance of the soviet legacy on enterprise behaviour, suggesting that such features make this organisation qualitatively very different from its western equivalents. Further investigation of the functioning of the command chain and the characteristics of managerial work right after transition help substantiate this argument and unveil its consequences for restructuring.

### *Management in transition: managerial functions and hierarchical power*

The organisational structure of the enterprise appears as a pyramid hinged on the person of the Director. Looking at this figure is the best starting point for an in-depth analysis of its character and mode of operation. Literature on 'red directors' has long made clear that the nature and extension of their authority went beyond the formal attributes assigned to this institution. The Director was not simply the all-powerful head of an organisation but also the leader of a community, the 'little father' to whom any of its members could turn, expecting a fair and benign intervention. Direct observation of the exercise of directorial powers confirms that the autocratic and paternalistic character of the organisation had remained intact at least until 1998-1999. On this issue a foreign senior management consultant during an interview commented thus:

The structure was certainly very hierarchical, whatever the question at issue it was the General Director who had the last word. We can define it as a managerial firm with centralisation of decision-making – one of the kind that could be found in a Southern European family business as opposed to

the impersonal management of the Anglo-Saxon model – and decentralised running of daily business. The “1” of May”, for instance, is more of an entrepreneurial firm with all the powers wielded by its director-businessman (Interview with L. F., management consultant; 1999)

In functional terms the GD was the only decision-maker in all strategic issues. There was no aspect of enterprise activity that he would not concern himself with and decide personally (Schelkov and Antonov, 1998). During numerous meetings held in 1997 in which I took part or I had direct notice of, his presence was constantly required when a decision had to be taken, whether it was about the terms and conditions of a sales contract, the discussion of investment plans or bargaining with local authorities concerning the transfer of social assets. Conversely, functional managers, particularly from the commercial department, were more often than not absent. A cross-analysis with interviews of top management executives proves that there were no staff personnel who could collectively or individually possess the knowledge and the skills to contribute significantly to the decision-making process at this level. The CE instead played a significant support role, partly because he was in charge of the daily management of the production complex, partly because technical aspects were still the decisive parameters in every enterprise venture. It is indicative of their marginality that neither staff executives nor the CE have posed particular problems to the newcomers and none of them has been targeted for demotion or dismissal.

In the bureaucratic code of the enterprise the director was in almost all cases the only subject who could validate an internal order. Furthermore, he was the ultimate authority who could settle a dispute or meet a claim in the final instance. Normally, in cases of hiring and firing or disciplinary issues involving workers as well as in

cases of conflict among managers, it was the role of the second line in the hierarchical scale to intervene and to provide all the elements for a decision. Then again, obtaining the signature of the director was always advisable, as my 'gatekeeper' taught me as soon as I started my fieldwork;<sup>40</sup>

Once again running into the snow from the factory to the administration building, Nikita and I, papers in hand to get a Director's stamp. And I cannot restrain myself from asking him again what's so important about it. He replies – to have a signature from the Director is a guarantee that no one will challenge us. Anybody else's is just paper but with the Director's it is different, they have to take it seriously. This is the way you do things here.

Significantly, when a complaint came to him he used to deal with it personally, there was no secretarial staff or representative in between him and the other party, as one would normally expect of top executives in western business enterprises. This function, though secondary as compared with real decision-making powers, was a fundamental source of prestige and authority. Operating through direct and personal contact without mediation was practically inefficient, as it overloaded management with dealing with petty issues, but symbolically was of enormous potential. The director's authority was also a source of legitimacy for lower managerial layers and, while it obviously limited their autonomy, it relieved them from taking full responsibility for their decisions.

A third and consequential aspect of the director's role was the strictly interrelated function of leader of the labour collective and benefactor of its larger working

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<sup>40</sup> A detailed record of my first encounter with the Director, representing a significant example of the form in which he exercised his power, is presented in the methodology section.

community. The analysis of this aspect will be carried out in the following section on strategies for its significant policy implications. Here it suffices to report how he liked to be presented to the public in official publications:

Interviewer: 'You won't find anyone more popular than Ivan Ivanov [the General Director, C. M] in town...everyone from workers to pensioners, from single mothers to the young have words of gratitude for Him...The town is sincerely grateful to Ivan Ivanov for, in the most difficult years for his enterprise, he did not leave the town to stand on its own – says the Head of the city administration.' (Schelkov and Antonov, 1998, pp. 57-69)

### *Management in transition: scale and scope of managerial work*

In the previous sections it has been strongly underlined that one of the main shortcomings of the enterprise organisation was the excessive centralisation of decision-making. This refers implicitly to the scale of managerial powers (*polnomochie*) or the amount and relevance of issues decided by the highest enterprise authorities.

Managerial powers, though, presented another dimension, namely its scope (*krugozor*), no less rich in implications. The scope of managerial authority is to be understood as the horizontal extension of their powers, within the sphere of action of enterprise activities. So, the GD's influence could legitimately extend within the region and beyond, stretching down to Moscow. The CE was allowed to operate at enterprise level with the right to intervene on issues concerning clients/competitors. The Heads of production departments were constrained within the section of the production process assigned to them and so it was for lower managerial layers. This information, provided by a production manager, the key informant N. A., confirms that non-production executives were not considered part of the command chain,

suggesting that the problem with their work is less one of competence and qualifications than a more serious one of status and authority. Relevant implications were also raised by the informant about the general efficiency of this form of organisation, particularly in relation to the co-operation among departments.

In fact, as he explained, organisational reforms specific to the enterprise had already been attempted without success far before privatisation. In 1985 the enterprise experimented with the introduction of production control (*dispetcherizatsiya*), aimed at achieving greater co-operation among subsections of the production line. A new managerial position was appointed, the dispatcher, who was supposed to guarantee horizontal co-ordination of activities, and therefore achieve a regular flow of production between shops working under different production chiefs. The idea had been drawn from Italian counterparts and was inspired by the Japanese *kamban* system of lean production. The reform failed to achieve the expected results and the position was scrapped a year later. This happened, in the opinion of the informant, for a twofold set of reasons. First, the rigidly compartmentalised hierarchical structure was left unchanged. The dispatcher, placed in the shops, was in permanent conflict with higher-ranking managers who paralysed his action beyond shop and departmental boundaries. Secondly, these people did not receive 'managerial education' and had no 'managerial culture'; i.e. 'they did not take decisions'. Therefore the profound gulf between responsible and pro-active management and the reality of the limited scale and scope of the job with which managers of intermediate layers had to confront represents another, more serious than expected, barrier to change.

*Management in transition: assessing and rewarding managerial work*

The permanence of a highly hierarchical and compartmentalised structure well after privatisation did not stimulate a rethinking of managerial work and therefore a reform of the job profiles and incentive system. At the same time, the new problems produced by privatisation led enterprise top management to intervene in the control system so as to regain efficiency. This resulted in a somewhat contradictory outcome where lower managerial layers felt oppressed by a cumbersome organisation while top management complained of continuous attempts by subordinates to avoid responsibilities and conceal failure. The continuous remoulding of the control mechanisms (*organizatsiya upravleniya*) was so described by our major key informant:

For the last decade, a great number of managerial organisational models have been experimented with: repressive with ritual subordination to the leader [*s podchineniem komanduyuschemu paradom*]; bureaucratic [*byurokraticheskaya*] with lots of stamps, papers and signatures; imitative [*uchenicheskaya*] with duplication of alien models; informal [*smazochnaya*] with the cancellation of reciprocal claims. Presently, all of these models can be found to a certain degree at the enterprise. The managerial structure in my view is cumbersome and unmanageable. There is no trust of subordinates toward superiors. (N. A. Internal Report to TMS, 2001)

The analysis of findings from observation and interviews with production managers reveals the inadequacies of the mechanism of evaluation and stimulation of managerial work and the increased gap between formal requirements and actual practices it produced.

The enterprise has retained, for the entire period considered in this study, all the key features of the payment and incentive system existing in soviet times.<sup>41</sup> Under such a system, managers, specialists and white-collar workers are entitled to a monthly wage consisting of an hourly pay plus a considerable bonus, which could amount to up to 100% of the basic wage. The bonus is granted on the assumption that all tasks assigned to the manager have been successfully fulfilled. For as much as a wage system can be held responsible for results in managerial work, a system based on bonuses for individual task fulfilment, in an environment leaving little room for horizontal co-operation, would rather foster the insurgence of parochial interests and the pursuit of the bonus at every cost. This had been very much the case in soviet times, especially with production managers, whose only real goal was output quotas in physical terms.

The enterprise kept output volumes as the only target for managers until the year 2000. The setting of targets by top management and the provision of resources available to managers in the shops had been changing, especially in the second half of the 1990s, making it difficult for the latter to achieve results and for the former to ascertain responsibilities. Managers first voiced to me their arguments about the dysfunctions of the managerial system during a routine meeting, held in December 2000, between the Head of the weaving factory and one of his shop chiefs. My fieldwork notes report:

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<sup>41</sup> The payment system is treated comprehensively, for all employees, in a separate chapter. Firstly, because, retaining the soviet-time framework, managers were formally considered simply another category of employee. Secondly, the administration maintained a unitary approach to wage issues. Thirdly, differentials in money wages were not altered and, despite preferential treatment, cadres with managerial functions did not gain the status of a superior, autonomous and well-defined category of employee.

(Head of factory) In relation to the incentive system, it is still based on bonuses, which are in any case considered part of the regular wage. There's been no change in the managerial system; i.e. no western-like model has been introduced. Managers (*nachalniki*) are judged on the basis of results – output by metreage and index of plan fulfilment – there is some consideration of production costs and quality, the latter only for export. Assessment of results is the sole responsibility of superiors. Soviet-time practices have not changed, problems are not solved openly, rather it is common practice to resort to trickery. In this respect there's been some change. In the past, production peaks were met by the use of extra machinery.

(Shop Chief) We had lots of looms working in an efficient state and spare parts were available in large quantities. Now most of these machines lie idle because of lack of spare parts and shortage of personnel produced by layoffs. Higher productivity is now achieved at the expense of quality and by extensive use of extra work because the labour cost is low. Consider that the relative weight of wage expenditures in production costs amounts to only 5% of the total against 80% of raw materials and 15% of energy costs. The problem is that while production plans vary according to demand, output volume is constrained into a narrow range by objective causes.

(Head of factory) The only way to avoid reprimands by top management is to study and carefully report all information about capacity, costs and production trends. It is more difficult to attract criticism when you can prove what kind of problems you are facing.

Top management has therefore continued to employ what was known in soviet-times as taut planning, the use of high, above capacity, targets in order to achieve the

maximum level of utilisation of productive resources. Only now management could no longer rely on buffers between nominal capacity and assigned targets. Information on the state of the art in production continues to be the object of controversy as managers manipulate data in order to justify failures, while top management deliberately ignores the difficulties faced by subordinates. This makes it impossible to achieve trust and build the common knowledge necessary for careful planning and swift problem-solving. The aleatory character of planning and assessment and the dramatic shortage of resources mean that top management has to intervene with individual managers in a personal and discretionary manner in order to keep pressure high for results. This produces, though, competition for resources and intersectional conflicts among managers of intermediate layers and hinders the smooth operation of production and the efficient allocation of resources among 'factories'. The Head of the weaving department referred to this in a written questionnaire concerning relations with top management, i.e. mainly the CE, and complementary departments:

Particular attention has to be devoted to the securing of production supplies and to lobbying with the Director on behalf of the department...[Our main problems, C. M.] are among others: the acceptance of yarn (claims for quality, type, weight and humidity of yarn) [from the spinning department, C. M.]. Solutions are the following: filing claims; checking the adherence of claims to GOST [public legal standards, C.M.]; soliciting the Chief Engineer to punish spinning technicians for non-observance of quality standards. The same happens in dealing with the finishing department: just here our task consists in defending our department from the claims on the side of finishing (observance of quality standards and typology of fabrics).

Control and incentive systems were the object of continuous intervention by soviet planners in the struggle to achieve greater managerial initiative, and specifically higher attention to quality and costs. They usually proceeded with the introduction of new targets tied to monetary incentives, relying on bureaucratic mechanisms for assessment. The conventional criticism of this approach held that the substantial inability to foster efficient management was due, among other things, to the absence of truly economic, i.e. financial, targets, which could provide subordinates with the only clear indicator for prioritising targets and controllers with an equally manageable tool for evaluation. Under the old Director, there was no sign that staff management had acquired a greater role in providing an objective and impersonal control mechanism. On the other side, the urgencies of production led, in any case, personal relations between line managers along the hierarchy to prevail, transforming any new form of control into a ground for informal bargaining. The Head of the weaving department provides a comprehensive picture of the degradation of control mechanisms that occurred over the transition period:

Since the end of Socialism there was no plan as such – rather it was merely contingent because lack of resources imposed flexibility. In three years I never lost my bonus for failing to meet planned targets. We used a fine-based system [*sistema strafovaniya*], i.e. bonus quotas were deducted from the wage for failing to carry out tasks. How is assessment carried out? Bargaining [*torgovliya*], i.e. there are neither objective elements of evaluation nor an impartial function in charge of assessment. It is up to the hierarchy to decide, with the last word in the hands of top management [*vysshoe rukovodstvo*]. It is therefore under these circumstances that, by means of relying on seniority and connections or using blackmail [*shantazh*], one acquires protection from top managers. Every month we

work to fabricate justifications for the non-observance of some kind of instruction. Those rewarded are not the ones who produced more and better but those who manage to throw on someone else the responsibility for one's own failures.

*Management in transition: wage system, wage differentials and managerial status*

Retaining the soviet-time wage and incentive system implies also the preservation of soviet categories, which do not differentiate among white-collar employees in the same way that their western counterparts do. The Soviets recognised the role of officers with managerial functions, the cadres, which also included, though, blue-collar workers such as foremen, supervisors and leaders. Yet, on the one side, there were executive posts, primarily among staff managers, which did not enjoy the powers and functions generally understood for senior management. On the other side, payroll categorisation was based on qualification rather than function so that managers (*rukovoditeli*) were included into a much larger group, ITR, comprising all qualified office personnel. The fact that no intervention has been attempted in this area has serious implications. A key informant so commented on this point in an internal report:

It is impossible to decide personnel issues without a well-thought-out payment system. A year ago [2000, C. M.] different systems were considered, reforms started and from the beginning, in my view, we allowed a big mistake. For all activities, employees' categories, a single system for work assessment has been adopted. (N. A. Internal Report to TMS, 2001)

If all white-collar employees operate formally under the same system, differences in status and actual power and responsibilities are reflected in significant wage differentials. So, as exemplified by a list of wages for top executives, managers

continue to be paid very differently. In particular, the low wages for many specialists and staff managers has fed the low consideration for these functions, diminishing their own self-esteem while preventing new recruits from entering these professions. Top management seems particularly preoccupied with keeping wage differentials unaltered. This policy, as we will see further on in greater detail, is inspired by the need to maintain the higher status of production managers and, more generally, the delicate social balance within the labour collective as a whole. The most significant fact that in any case inhibited an active wage policy since privatisation was the downward trend of the real value of take-home pay, which demoralised the entire managerial personnel and was responsible for a dramatic outflow of qualified personnel, particularly from 1998 onwards.

*Managers staff and line: what do we need ITR for?*

In the previous sections we have learned that the enterprise was governed almost single-handedly by the Director and his aides, that a thin line of production managers administered operations on his behalf, while staff management was quite marginal to decision-making. Above-referred enterprise-level studies tell us at length about how bureaucratic the administrative machinery is at the enterprise and how badly equipped its personnel is in carrying out new, strategic, market-related activities. It remains to understand what these people are actually doing and why they have been left untouched for so long by the axe of restructuring. Some basic figures about their staffing levels, location within departments and relative wage costs, might help identify the consistency, role, status and problems posed by enterprise white-collar employees.

**Table 5.2 Distribution of employees**

	Managers	ITR	Auxiliaries	Total
AKhO	59	145	15	219
Production Departments	51	111	14	176
<i>Tot.</i>	<i>110</i>	<i>256</i>	<i>29</i>	<i>395</i>

Number of non-productive employees at the Combine, 1997;<sup>42</sup>

At the enterprise the number of “non-productive” forces amounted to around four hundred people, including managers (*rukovoditeli*), specialists (*spetsialisty*) and office workers (*sluzhaschiya*). Their absolute number might seem impressive, still if we consider their proportion<sup>43</sup> relative to the overall workforce it is a mere 10% of the 3882 people officially employed by the enterprise in January 1997.

Another noticeable fact is the high number of office and department chiefs, ranked *managers* in the table, while office workers as such were almost non-existent. This is

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<sup>42</sup> These figures are my own calculations from official enterprise data made available to me on behalf of the Consulting Firm operating an EU-sponsored restructuring program. The information was collected more or less formally at shop and office level with the help of N. A., who had been entrusted with providing support to the foreign consultants.

<sup>43</sup> Granick (1960, pp. 167-171), in a pioneering work on soviet management, noted that ‘not only Russian plants have a lower proportion of administrative and clerical personnel than do Americans... but the trend since 1940 has been downward’. The data shown in his work, in between 15 and 20%, indicate that, if this proportion remained unchanged, our enterprise fared quite well in saving on white-collar staff. On the other side, Russian plants were normally operating on a much larger, often below efficiency, scale which means that the lower proportion of white collar employees stands against an inflated workforce. This is more evident in the case of the textile sector where in capitalist economies, since the 1970s, large establishments were washed away by a tide of downsizing and outsourcing to smaller productive and service units.

because there were plenty of technical and planning offices monitoring every aspect of enterprise activity or piece of equipment. This also explains why, despite centralisation, there were almost as many bureaucrats in production as featured in central offices.

The almost consensual anxiety that ITR was an unbearable bureaucratic burden raised among managerial and workers' ranks alike can be better understood if we look at the wage costs that come with it. While accounting for only 10% of the workforce, the white-collar employees' wage fund<sup>44</sup> amounted to one third of the manual workers' one; this is an exceptional figure in the view of the average soviet man and woman and certainly a huge financial burden for the enterprise.

In order to understand the role and the fate of these people it should be noticed that their functions and earnings<sup>45</sup> are quite diverse indeed. Managers proper, i.e. decision-makers, amount to a handful of deputy directors in the AKhO and around one-third of the white collar employees in production. The large mass of non-productive forces are therefore staff managers, divided more or less equally between engineers and other science specialists, working in monitoring or maintenance and

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<sup>44</sup> Wage costs in roubles per month for non-productive forces were 616,311,150 Rb according to official enterprise data provided by the Labour and Wage office in May 1997. The wage fund of manual workers amounted to 1,880,819,799 Rb per month. The commercial exchange rate in the course of the year fluctuated in between 5000/6000 roubles for 1 \$US (in June a Moscow branch of MostBank paid to non-residents 5750 Rb for 1 \$US).

<sup>45</sup> A quick look at wage costs among departments yields the impression that production-related services, and therefore technical specialists, fared much better than trade and financial units. In the AKhO, for example, the 32 strong staff of the Chief Engineer earned collectively about 50 million roubles while the same number in S&M totalled only around 32 million. The engineering department, featuring mostly maintenance and repair works, achieved an even more substantial 78 million with 48 employees. Not surprisingly these are the shops and offices which experienced redundancies later in the 1990s.

repair, and economics graduates employed as planners, accountants, trade specialists et cetera, but fundamentally controlling the conduct of production managers.

As for technical specialists, there seems to be a consensus at least among production managers that they are essential to the good functioning of the enterprise as a complex technological system. As Anatolii Borisovich, then the chief mechanic of the weaving department, put it:

You should understand that we need a large engineering department because unlike western enterprises we have to do most of the repair and reconstruction ourselves. I perfectly understand how people work in the West; if, let us say, a piece of equipment breaks down you pack it up and send it to the producer. But then again everything works smoothly up there, repair is not an everyday business, and in any case you have to make arrangements for this service and they do not come cheap. The printing machine we got from England was bought without guarantees and hardly any instruction. We had to adjust it to our systems and now it is only us who can deal with it.

The autarchy imposed by the planned economy remains a necessity as scarcity continues to plague production, this time because of economic constraints. The point was clearly made by the toolmaker of the carding shop regarding the need to repair damaged spare parts:

In order to save money, they purchase sub-standard materials that then we have to rectify and so we lose in terms of quality. I will give you some examples: there is a spindle made of plastic, it breaks when it falls. We had to manufacture one of wood ourselves. This valve, the original is a metal cast; they say it is too expensive so we have to make it ourselves in plastic.

Still, while it was hard to find, the price was one and a half roubles, while our own one costs fifty roubles.

This judgement might not be intended for all specialists and would not prevent extensive criticism by line managers of opportunism and amateurism in the work of auxiliary services. Shop-level managers and technicians often pointed out that because of 'not working for the plan' and 'being autonomous units', auxiliary services were less than diligent and reliable in carrying out their job. Yet, admittedly, unsatisfactory pay and lack of personnel did contribute to undermining the quality of their work.

Here the problem is 'double subordination' (*dvojnoe podchinenie*), one of the basic arrangements of soviet economic organisation. It had been designed in soviet times to prevent line managers from spoiling resources to achieve the short-term goals of the plan and concealing information to avoid the blame of superiors. While presenting itself as a nuisance to production managers, and an anachronistic one after transition, this was and still is indeed a key function of staff management.<sup>46</sup> This system continues to operate insofar as the work of production managers has been left very much unchanged.<sup>47</sup> Its contradictions though, at least within production, became

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<sup>46</sup> The distinctive feature of soviet staff management as a control system and some of the problems related to the behaviour of its members are clearly delineated in Gregory (1989). The soviet economic bureaucracy can be classified into two distinct categories: '*Khozyaistvenniki* (persons who do the actual resource allocation and are held responsible for results) and *apparatchiki* (persons who issue instructions and rules)' (p. 511).

<sup>47</sup> This might seem a typical vicious circle, where the unaccountability of the staff manager is paramount to his/her reliability as information broker and norm-setter, but permits the former to be inefficient (see Gregory, 1989, pp. 514, 523). The reform should have put an end to this dilemma by precisely subordinating both staff and line managers to the discipline of profit. The description of the control and incentive system shows how soviet inter-managerial

particularly pressing only after bankruptcy, when the combined effect of tighter plans and outflow of cadres sparked a bitter conflict over resources and responsibilities between production and auxiliary services.

The staff-line divide, institutionalised by professional, organisational and wage discrimination, with the ensuing perennial conflict between categories, contributes to organisational stability also at another level. The victimisation of auxiliaries, reaffirming shared values about the nature of productive work, the corresponding status of different groups of employees and the legitimacy of the hierarchy as a whole, in fact provides enterprise administration with an important ideological tool for social control. There are, therefore, solid arguments militating in favour of retaining a large apparatus of staff management. Then again, considering the costs it entails, the functional role played by staff management has to be understood within the context of the economy of scarcity to which the financial hardships produced by 'hard budget' external constraints now make a significant contribution. This will become more evident when treating the case of administrative and clerical personnel.

#### *Managers staff and line: the apparatchik in transition*

Clerical and administrative personnel were the apparatchiki *par excellence*; it was they whom enterprise employees generally had in mind when voicing criticism of ITR. The low consideration for these workers certainly owes a lot to the traditional soviet-time disregard for non-manual and non-technical professions. It was a clerical employee, a senior accountant, who provided me with the most straightforward

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dynamics have sharpened rather than been subdued but it is the analysis of the manager-worker relationship forthcoming in the next chapters that will attempt to provide a rationale for such a case.

formulation of this ideological conception. In a quite emotional speech she argued that:

One hundred people in the AKhO earn as much as the whole enterprise. They do nothing, especially the personnel and the marketing department. It is a scandal that white collar employees earn more than workers; in the end these are the ones who produce. We simply live out of their work.

To be sure you would not find many managers supporting this 'communist' view in such terms and most people in the AKhO might be quite cynical about enjoying a privileged position. Yet, our experience of discourses at the enterprise indicates that prejudices against ITR were widespread and universal. In the tense atmosphere dominated by bitter competition and a perennial search for scapegoats, which established itself in the crisis-ridden transitional period, they were the common and easy targets of character assassination. So, when I approached the new Director to secure formal permission for them to be interviewed he stigmatised with derisive remarks their early unwillingness to concede interviews: 'Ha! They do not want to talk; I do not understand what they might be afraid of, they know nothing!' In the opinion of most production managers too, planners and accountants were 'mere clerks who know nothing'; a fact confirmed by their heavy reliance on precisely those production managers they were meant to control. Not surprisingly our main informant denounced how these uneven relationships in the shops brought about the systematic forging of data.

Workers, and in particular cadre workers, were more rather than less critical towards ITR, whom they described as being a parasitic group serving the interests of senior management. The main points in these arguments were the fact that white-collar employees regularly 'escape blame for failures' and therefore 'do not risk losing

their bonus', that 'they enjoy protection from senior management' as 'they always support the administration', often by staffing the trade union committees. Accusations of involvement in corruption and theft in relation to procurement deals or in cases of disappearance of large amounts of output were also quite common.<sup>48</sup>

The aleatory character of their jobs, the low level of qualification and the poor credit enjoyed in the collective make administrative workers a vulnerable category amenable to manipulation by senior management (see Clarke, 1993). The eminently 'political' role played by ITR in the enterprise represents a clear sign of continuity with the soviet organisational and social framework and is fully understandable within that context. Yet it tells us more about what they do than about why they continue to operate in such conditions. To understand it requires looking into their specific functions, seeking for their contribution to enterprise activities and the constraints to significant change in their jobs. One point we would like to stress is that the transition from plan to market did not make *ipso facto* the skills of these employees obsolete or their jobs anachronistic. Whether this was the case depended very much on the effective changes to the normative, organisational and relational contexts relative to their sphere of activity.

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<sup>48</sup> Workers did not point necessarily at ITR only; general reference to senior management or simply management made a rare appearance. Since most interviewees were cadre workers, close to shop managers, and in any case interviews were often held in their offices, one may suspect a strong incentive to show compliance, however genuine it could be, to the argument of sustaining the common interests of the shop. The most sceptical among managers, though, were quite adamant in directing their blame at higher levels, as workers did when reckoning the whole of management (*nachal'stvo*) in their condemnation. One may conclude that, whatever the level of consciousness of these actors, they might find it more convenient to safely address their claims at ITR rather than risking direct confrontation with the Director and his aides.

At the level of central offices there were, for example, two departments, Labour and Wages and Accounting (i.e. Finance) offices, which displayed a remarkable ability to survive changes and layoffs. Their Chiefs not only managed to avoid relocation or replacement but also got promoted, despite the fact that these were the strategic economic departments where westerners would expect a high turnover. In the case of the former, the fact that no changes either at legislative or at enterprise level intervened on labour issues meant that norm-setting and wage calculations required only partial and gradual interventions within the limits of pre-reform rules. Furthermore, the sensitivity of such an issue as wages advised for extreme caution and a good deal of dissimulation at the top, which these bureaucrats are quite good at, leaving all the rest to the skilful manoeuvring of production managers themselves. Even when changes were relevant, like in fiscal or trade areas, they were neither consistent nor univocal and more importantly what remained very much the same was the attitude of the counterparts, such as state officials, banks and partly trade partners. To fend off the stubborn determination of the taxmen, the intrusiveness of creditors and local politicians required the manager primarily to circumvent rules and conceal data, a job similar to the tactics employed in soviet times against ministerial petty tutelage. On the other side, the lack of investment funds and complex partnership or sales deals made the call for up-to-date financial and planning services nothing more than a literary exercise. Another key issue was instead to guarantee secrecy. When I questioned my main informant as to why a proper financial department had not been established before and the fifty or so handwriting accountants replaced by computers, he confided in me that:

After the advice of foreign consultants we began to think about establishing a finance office but we did nothing about it because the terrible state of our

finances put us in a very delicate position. The Director thought that a move in this direction might bring sensitive information into the open, endangering the enterprise's position vis-à-vis intrusive creditors and suppliers.

Significantly little information leaked as to how the enterprise managed its funds and arranged its export deals, even when foreign consultants attempted a thorough scrutiny of the enterprise's situation.<sup>49</sup> This leads us to remember that trust is among the scarcest currencies in Russia and the heads of administrative offices, traditional stalwarts of senior management, continue within certain limits to be rewarded for their loyalty and support.

What has been said above does not mean that the situation with main departments was simply frozen, as changes in Sales indicate. Apart from the short-lived attempt to launch a marketing activity, the former commercial department had to adjust to the new position of the enterprise in the market. With the exception of an economically significant but quantitatively limited export activity, the enterprise was forced into processing-only agreements to access vital cotton supplies; what was left from it was for the most part sold on a barter basis for general supply purposes. Procurement rather than sales or marketing became the key office in the area, while the strategic hard-currency deals and cotton-based agreements remained in the hands of the

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<sup>49</sup> The round of interviews with the Heads of administrative offices, which I conducted in 2000/2001, encountered an equally high level of resistance at releasing information. All of the deputy directors, unlike production managers, required written permission to concede interviews. Even so, 'heavy' units such as accounting and procurement gave an outright refusal to co-operate while others, such as sales, marketing and personnel, proved to be very little informed about their own affairs. In the mean, all displayed uneasiness at touching on sensitive issues, such as redundancies, conflicts with production management and bankruptcy.

Director. This last development suggests two lines of argument. One could at first regret the fact that functional departments were not allowed to take charge and develop skills and experience and certainly speculate on how the imbalance of power worked as a hindrance to this end. Then again it is difficult to overlook the powerful constraints that external relations imposed on the enterprise.

### *Managerial strategies: the enterprise versus the market and the state*

Enterprise management had reportedly acquired substantial autonomy in investments and export in the perestroika period; from 1993, once the enterprise was transformed into a joint-stock company, they were set free to decide about organisation, output and staffing levels, while conversely being forced to find customers and suppliers autonomously. Therefore, management was expected to elaborate its own strategy and operate in a supposedly free market, constrained only by the resources internally available and by external regulatory and economic constraints. What were the vision and the operative conduct of the combine's management, on the one side, and the limits and obstacles they encountered in practice in the external environment, on the other, is the object of analysis in the following sections.

The history of the enterprise during the 1990s presents most of the elements of what has been defined in the literature as a 'survival strategy'.<sup>50</sup> Senior management was

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<sup>50</sup> Survival, i.e. the struggle to stay afloat against adverse and uncertain conditions, was for most enterprises, especially in the immediate aftermath of transition, the only option available (Clarke, 1994; Hendley, 1998). More importantly, here survival stands for the ideological approach of management that understands 'the survival of the enterprise ... in terms of its survival as a productive unit, and above all as a labour collective.' (Clarke, *ibid.*, p. 12). Clarke also maintains that the three main strategic options available to management, the others being the market-oriented approach and rent-seeking (Clarke, 1994; Grancelli, 1995), should not be intended as mutually exclusive. It should be pointed out that, in this

admittedly committed to retain 'what has been built in the past', referring to both productive and social assets. Despite this ideological commitment, there was, since privatisation began, the understanding that radical changes were necessary, in particular technological innovation and productivity growth to catch up with Western efficiency standards. Tangible measures were in fact carried out in this direction, such as investments, cost-saving innovations, changes in labour organisation and redundancy of unproductive personnel and units. The determination of enterprise leadership to pursue change grew toward the end of the 1990s, when high indebtedness, fading state support and dependency on suppliers convinced management that the current configuration of the enterprise was unsustainable. As suggested by manager-respondents themselves, it is possible to distinguish a period of gradual adjustment, from privatisation to 1997, and a second up to 1999/2000, shorter in time but abundant in fast-developing changes, when dismissals and lay-offs were precipitated. In both cases, managerial strategies fell short of restructuring and the bankruptcy procedures initiated in those years apparently make the case for such a conclusion.

It would be unwise, though, to consider strategy only in terms of managerial agency and its direct consequences, bringing onto management alone the full responsibility for the event. If strategy is intended instead as the ex-post reconstruction of the enterprise path of development, then external relations come to the fore as major determinants of the managerial course of action. The 'market' and the 'State' will appear to have had a much more ambiguous role than expected, undermining in fact the bases for any serious attempt to restructure.

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particular case study, evidence seems to suggest that profit-seeking rather than rent-seeking was another key ingredient of enterprise strategy.

*Managerial strategy in the 1990s: from expansion plans to the struggle for survival.*

In the late soviet period, the Combine was in every respect a successful enterprise, at least by soviet standards. As many managers reported, often with nostalgia but not without a sense of disillusion, 'output was counted by millions of metres' and 'profits were high'. The factory was proud of the state of its technology too. In the 1980s, I was told, the Director had managed to obtain a large consignment of machinery originally planned for another destination, a fact that also spoke for his political influence and business consciousness. What really made the pride of the enterprise and its Director, and boosted managerial self-confidence, was the 'visionary' decision to install the STB 330 weaving looms<sup>51</sup> for export production. The enterprise managed to export to Italy, triangulating with a Yugoslavian partner in order to circumvent the EC quota system. In 1991, thanks to this partnership, it was able to purchase ten second-hand Italian looms, the newest machinery still available to them, expanding their export capabilities. The same year the enterprise carried out another major investment, the purchase of an English yarn dyeing system.

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<sup>51</sup> In 1997 there were at the factory 7 weaving production lines counting 1195 looms of which 80 only, the STB 330, achieved the minimum width in fabric output that makes it qualified for export (official enterprise data gathered during my 1997 internship). The standard nominal width of the looms that western contractors were interested in was three metres. The fabric obtained therefrom could be used for bed linen manufacturing. In case shorter width might be necessary, the use of a cutting edge could turn those looms into a double head, saving considerably as opposed to shorter single looms. At the enterprise, excluding the 650 looms employed in gauze production, all the remaining ones produced cloth 100 or 180 cms in width and their output was too narrow for any use against the standards prevailing in the Western bloc. The above-referred observations emerged from trade talks with foreign clients, which I participated in, having accompanied the enterprise delegation on its trip abroad.

This, reported our informant, was the last major investment carried out at the enterprise for since then liberalisation, privatisation and economic crisis had jeopardised initial managerial plans. These events in fact resulted in a series of shocks for the enterprise. Firstly, there were the financial difficulties produced by price liberalisation and hyperinflation. My notes on the main facts that occurred at the enterprise in the decade, as reported by my key informant, record that:

In 1992 the enterprise obtained a loan from a State bank at a yearly rate of 80%, to be returned by 1995. The loan was granted only to a few among the most solid enterprises. The enterprise was forced to take it since working capital was lost following the monetary reform by Prime Minister Pavlov and the enterprise experienced difficulties in cotton purchase. To make it worse, at the end of the year interest rates jumped up to 440% and payments and fees rose accordingly. It came as a result of Gaidar's statement that there was no need for Russian textiles. The loan allowed for keeping on with production but threw the enterprise into financial quandaries. The Director expected growing debts eventually to be written off by the state/regional budget, according to previous soviet practices, to compensate for maintenance by the Combine of employment levels and the social sphere (an expectation which was to prove groundless).

Problems, though, were not limited to the availability of funds. The collapse of State procurement led to the break up of inter-enterprise supply chains and produced physical shortages. Cotton supplies, which were key to the survival of this industry, came to a halt just after the collapse of the Soviet Union and continued to be a troublesome issue thereafter. As the Director himself declared, 'what creates problems is the embargo imposed by the Uzbek government... even in these circumstances we have found our own way to acquire cotton from our old friends...

It is precisely these connections that help our production stay afloat' (Schelkov and Antonov, 1998). Shortages of raw materials had immediate repercussions on technical and human conditions of production. The Director on this point noted that:

    Serious complications have arisen with raw materials, which means degradation of technology, nervousness, fall in output and financial complications. Only because of acute shortage of cotton, the enterprise in 1992 has worked quite worse than in the previous years 1990-91. But if we compare this fall with [the situation in, C. M.] other factories then it will appear one of the most moderate. Every enterprise has stayed idle on average for two months while we did for two weeks all in all. During the year, the wage has been raised by 13.8 times and reached no less than 18000 roubles, second place in the Trust. Then in order to economise we did not resort to closures of educational institutions like similar enterprises in the region. We did not stop housing construction [but went on with building programs, C. M.]. There is much talk about privatisation of individual flats, [but, C. M.] we keep running the waiting list. Substantial resources are devoted to subsidiary departments, in particular agriculture. Some time ago we bought up part of the *sovkhoz* and now activity is directed to reconstruction and re-equipment. (Schelkov and Antonov, 1998)

Lack of funds for restructuring and the above-referred problems in production prevented managers from reaping the advantages offered by privatisation. N. A. points out that in 1993, out of the free-hands 'euphoria' produced by privatisation, 'top management expected to rapidly proceed with massive lay offs so as to catch up with western standards with little consideration of the state-of-art in production. The labour market turned out unfavourably, buying out the best workers and leaving the enterprise in constant need of skilled personnel'.

The enterprise therefore was able to weather the initial post-privatisation shock by relying basically on its long-established connections with the local Party and suppliers. This did not come without a price. Politics required employment, and therefore capacity, to be maintained at high levels. The unsophisticated and unstable market-oriented production was marked by quantity rather than quality. Expansion plans were downscaled and the soviet principles of management prevailed in inspiring decision-making. The Director stated in such a way 'the goals for the current time': 'survive in the approaching market; avoid loss of cadres so as to hold on to the present position and also to preserve our [output, C. M.] volumes capacity.'

The period from 1993-1994 up to 1996-1997 was characterised, according to our manager-informers, by the attempt 'to make the enterprise profitable by increasing output volumes'. The approach was for most managers a taken-for-granted of their "socialist" education. As our key informant confessed:

Investments continued to be considered only in view of increasing production volumes and modernising equipment. Decisions were made on the basis of availability of financial resources rather than on expectation of orders or profitability. We had been taught at the *Institut* that the more solid enterprises were the largest and the well-being of the enterprise was ensured by the continuous growth of equipment and production.

In any case there was more than an ideological pledge or cultural backwardness to account for this choice. This strategy responded, firstly, to the objectives already stated for capacity and employment and to the more general political understanding that in so far as the enterprise remained large its social visibility would attract special consideration by the authorities. On the other hand, growth of output became the only means of surviving in a market dominated by barter. Once again the

confidences of my key informant help clarify what elements led the situation in this direction. Reading from my notes:

After the collapse of the centralised supply system the enterprise adapted to trade autonomously, mainly by barter. Since 1994 the 'Mafia' has entered the textile market. In fact, notwithstanding its low profitability, the short cycle made it attractive for those seeking short-term returns against small-scale investments. Gauze entered the top ten for most barter-trade goods – fuelled by exaggerated expectations of State support and a renewed wave of orders due to the conflict. Problems with cotton supply at national level led to the establishment of *RosKontrakt* [state agency in charge of the reactivation of the supply line from central Asia, offering financial support to agents, C. M.], yet funds ended up stolen or diverted. The Combine decided to solve its cotton hunger by working on a processing-only basis. The agreement consisted in receiving cotton supplies on terms of processing-for-a-share-of-output. The raw material left available went to feed other production lines, which could be sold on the market for a return. The Combine decided to boost processing-only goods production with the gradual introduction of the *Ital'janskyi grafik*<sup>52</sup> so as to increase cotton

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<sup>52</sup> The Soviet textile sector had long worked under a three-shift rotation system referred to as *Ivanovoskyi Grafik*, i.e. Ivanovo's timetable, because of the historical concentration of the industry in this region. The system was one of the hardest in USSR industry. It consisted in alternating 6 days of morning shifts, including a single night shift, and 5 days of afternoon shifts. There were two rest days at the end of each period but no end-of-week full-scale interruptions (white collar employees though have always had a regular working week and so do most managers and auxiliaries). Rotation of workers' gangs allowed for continuous production, with limited stoppages for maintenance and re-equipment. The new system features 6 working days – two for each shift (day, afternoon, night) – increasing the monthly load of hours worked on the four shifts from 538 to 713, with the increase resting mostly on the night shift which grows from 14 to 49/56 hours per month. Output and revenues grew

supply for the whole enterprise. No change of any sort took place at shop floor level.

As a result the enterprise, unlike other neighbouring combines, kept production going and survived, but accumulated a debt burden unsustainable in the long term and saw a deterioration of its working conditions. Public records confirm that 'still in 1995 the enterprise was putting out the highest volume of production in the region, totalling 134 billion roubles. The whole sum though was ending up in expenses' (Schelkov and Antonov, 1998). In fact, barter negatively affected enterprise business in many ways. As it did not permit the ascertaining of the real value of the goods exchanged, it tended to depress the virtual return from sales. While the enterprise was eager to get rid of its goods for badly needed spare-parts, raw materials, such as fuel, gas and cotton, were bought at above-average prices. The end result was a constant weakening of the enterprise trade balance.

As far as barter was performed to catch supplies and deal with intermediaries rather than final customers it made it impossible for the enterprise to develop commercial skills, favouring the transfer of commercial activities from the Director to a dedicated department. It also prevented market signals from reaching the enterprise and making marketing and product development the leading functions. Leo, the senior consultant leading the restructuring project in the field, during an interview observed that:

The key problem is the absence of retailing, there are no shops, an enterprising trade sector that could operate as a medium with customers and allow producers to establish the market value of their goods. The

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accordingly and so did the pace of production. Yet, because workers had less time to rest and worked longer time with limited supervision, output quality and labour productivity decreased (See Table 5.3 at the end of this chapter).

manufacturers offer their goods to clients as it is, without considering that for each kind of good there is a wide range of offers from specialised firms. These are the outcomes of barter, which makes it impossible to ascertain the relative value of commodities. Barter in itself would not be a problem as far as it is performed by operators directly in the market.

Instead, as a manager put it, procurement-oriented trade consisted in 'exchanging our rubbish for theirs'.

Furthermore, since barter trade could hardly guarantee regularity of consignment and certainty about the characteristics and quality of goods purchased, scarcity continued to plague production. Therefore, increases in output and barter trade created more problems than they were meant to solve. Other than financial difficulties and marketing problems they allowed, or forced, the continuation of soviet-time practices in the shops.

### *The 1996-1999 period: from foreign-led restructuring to insolvency*

In the second half of the 1990s, the Director and his aides made a last attempt to save themselves and the Labour Collective by employing a more drastic strategy of cuts. In the meantime they tried to take seriously the offers and suggestions that foreign consultants, sent to the region under a joint EC-Russian restructuring programme,<sup>53</sup> were putting forward.

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<sup>53</sup> The project fell into the framework of a broader co-operation agreement between The Russian Federation and the EC (Tacis) to provide support for the transition towards a market economy. This specific project was aimed at rescuing this sole-industry area, badly affected by the ongoing slump in production, which was a cause of major political concern for the high level of unemployment and pauperisation. The Management Consulting Firm, in collaboration with other leading firms with expertise in the field of machinery and cotton, successfully bid for the project tender. Their job consisted in: a) the delivery of a market

Consultants produced an analysis of the state of the enterprise and presented a business plan with recommendations for restructuring. I was able to examine these materials and participate in their presentation to Russian senior management in 1997. The analysis presents elements that confirm managerial concerns for the situation in the market and set the most problematic tasks related to restructuring. The business overview consists basically of a traditional market analysis, placing the Russian textile industry and enterprise individual business in the context of the world and domestic market in order to sort out their most valuable business opportunities and feasible perspective of development. The analysis refers to structure, strategies and operational mode: since the first topic has already been treated at length before, here the argument is limited to the remaining two areas of concern.

According to the consultants, the enterprise current activity was characterised by chronic scarcity in cash flow, huge rates of idle productive capacity, low profitability of current output and lack of direct and/or long-standing relationships with partners/suppliers.

The Combine continued to operate large shops where relatively new machinery lay alongside "archaeological" equipment, which wastes raw materials and requires steady maintenance work. Since a great deal of output was given in barter in exchange for supplies it seemed that these productions were justified solely by the

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analysis; b) the assessment of the situation of individual enterprises in the area; c) the selection of the most promising; d) Eventually, the preparation of business plans and recommendations to the selected enterprises and support in seeking suitable partners abroad. A more detailed description of the organisation and work of foreign consultants at the case-study enterprise can be found in C. Morrison, 1999, *The Restructuring of a Russian Textile Combine: a case study of the failure of Transition*, Warwick University (unpublished).

ability to catch supplies, which was still far from self-financing, let alone allowing profit margins.

It was admitted that the current enterprise organisation and its management were consistent with the situation in the industry and the “market” in Russia.

At an all-industry level, the lack of co-operation among individual enterprises was remarked on. Enterprises did not show any interest or ability to develop a division of labour and persisted in manufacturing the same kind of goods, resulting in destructive competition. They had not been able to set a common stand towards suppliers and final customers in order to strengthen their position in terms of price and quality. As a result their contractual power was low and many of them had virtually become a mere productive unit under large financial-industrial groups or ambiguous intermediaries.

In fact, the collapse of the command economy had not delivered anything close to competitive open markets. On the supply side, the “retreat” of the State had meant partly a mere change of the legal status under which former state agencies operated, partly the entry of new subjects like banks, investment funds and trade intermediaries. The lack of funding, limiting the choice of suppliers, strengthens the position of these subjects. These companies pursue a rent-seeking strategy aimed at ensuring their monopolistic position instead of fostering investments and business-oriented restructuring. On the demand side, the positioning of the enterprises was equally weak. With shrinking orders from the State, the textile industry was supposed, as any other consumer-oriented industry, to be led by mass consumption. Again like other consumer-goods manufacturers, they found themselves overtaken by foreign competitors. Many enterprises were forced to look at exports of cheap commodities as the vital source of revenues, while their market share at home was at

stake. As a result, it was argued, these enterprises were operating in survival mode with no chances to survive in the long term.

In order to haul themselves out of the present dire conditions and retrieve their position as viable business makers the selected companies were assigned a business plan. The plan consisted of three parts: The restructuring of the organisational structure; the implementation of immediate actions to regain efficiency; the development of a comprehensive strategy.

The measures to regain efficiency in the short term were all urged by the aim of cutting running costs and increasing productivity. They usually included energy conservation, waste reduction, lay-off of unnecessary workers and dismissal of auxiliary activities, first of all the welfare system.

The strategic proposal included the following medium-term actions: upgrading of the productive capacity of the factory to raise the standards of its output up to the requirements of the world market; reshaping the product range to focus on the most marketable articles; improving the enterprise outward profile to deal directly with customers and suppliers; dismantling the welfare system. Given the serious shortage of internal financial resources and the already high level of indebtedness, argued the consultants, the only way to plan investments rested on partnership with foreign manufacturers. On the contrary, the domestic market was regarded as too insidious and lacking expertise for partnership or financing. Expectations were placed instead on the local authorities to cope with the unemployment resulting from factory lay-offs and the dismantling of the welfare system. It was their duty to elaborate a retraining scheme and plans to foster the development of business activities other than textiles, to absorb redundancies and to accept having the enterprise welfare system switched onto their budget.

Among the many measures contemplated by restructuring, cutting jobs and closing unproductive outlets was certainly the most needed but was also a quite difficult and painful one to carry out. Other than the fear of discrediting management and the Director, there were the complications already pointed out in relation to white-collar employees. Without changing the overall labour and production organisation, any redundancy would create holes in the staff, making the work of those remaining harder. For these reasons production managers resisted and utterly refused the layoff of cadres and workers. For this very reason it was difficult in the first place to determine which were unnecessary workers, as staffing was decided at lower managerial levels where informality and approximation reigned.<sup>54</sup> Senior management adopted a three-pronged strategy:<sup>55</sup> a) they favoured the natural loss of cadres due to the low level of wages; b) transferred administrative staff into production jobs; c) resorted to outright layoff for peripheral outlets and socially marginal categories.

Already in the first half of the 1990s, the enterprise got rid of the worst among its employees, first of all alcoholics. Furthermore, in the 1992-1994 period there were no new recruits. The closure of schools, nurseries and shops brought the enterprise working population down to around 4000 from the initial 5000. Another thousand were to be lost in the period under consideration. Beginning with the redundancy of 400 pensioners, more redundancies were achieved with 'the merging of the

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<sup>54</sup> I had a taste of it in 1997 when collecting data for the foreign consultants in the shops about the manning of production lines. There was a tangible tension with managers over decisions to classify workers' jobs, whether direct producers or auxiliaries, as they felt clearly that in the latter case they could qualify for dismissal.

<sup>55</sup> Information provided by the Chief of the *OtiZ* (Department of Labour and Wages) in a written interview.

construction and transport department into the economic-transport unit (*KhTO*). Factory canteens were also either shut down or made into private businesses, as was the health resort. Housing was eventually transferred to the local authorities, though maintenance of flats continued to rest on factory resources. As for labour productivity, the whole operation was a failure as the natural loss of cadres more than compensated targeted cuts, forcing the enterprise to recruit the very same people, unskilled and underqualified, they had been trying to get rid of. My key informant pointed out that 'when I entered the factory as assistant foreman I was replacing the last cadre without formal qualification, now the process has reversed'. In any case the problem was that the structure of costs did not change. Firstly, because unprofitable shops were not shut down, awaiting for investments and technological reconstruction; secondly, as the bulk of the social and town-maintenance services continued to burden the enterprise budget.

The failure to carry out investments was the outcome of a combination of factors, but managers pointed at the disappointing relationship with potential foreign partners and, secondarily, to state intervention in identifying those to blame for the bad fate of the operation. Together with the foreign consultants, a plan for investments was drafted to be used for gaining a credit line from banks; having their own money, senior management decided in any case to send a delegation to Western Europe to shop for equipment and look for contracts.<sup>56</sup> Their objectives were ambitious: a new set of second-hand weaving machines had to be purchased, together with a new sizing machine (*shlikhtoval'naya mashina*), a new automatic spinning line was to be acquired with a barter deal; contracts for export of fabrics were also discussed and

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<sup>56</sup> I took part in this business trip, sponsored by the EC project, as a translator and a guide to the Russians.

the hypothesis to procure cotton in European markets emerged. Despite disagreements which emerged during talks, from financing to technical details, unveiling serious differences in trade behaviour and techniques, it was a stunning surprise to hear that talks had collapsed without results at the end of 1997. With the help of my informants I attempted to produce an explanation; my notes tell it as such:

With the Italians in 1997 we attended a course of business strategy which allowed us to focus on cost accounting and profitability assessment when deciding over production matters. The business plan we elaborated at that time did not incorporate these elements and in fact was rejected by banks. Italians were also meant to help with export and investments. The Director eventually decided to reject their offer for sales of fabrics when he discovered that their real value on the Italian market was three/four times higher than our selling price, while they were asking for a few cents discount. As for investments, we planned the purchase of weaving machines and were considering an offer on a barter deal for spinning. The former failed when our funds were frozen in 1997 as a result of restrictive monetary policy and the latter talks failed as we insisted on purchase rather than barter. We did not like the fact that Italians were trying to buy cheap from us and impose unfavourable deals, trying to compensate with promises of handouts to those managers participating in talks.

The role of public authorities was no less detrimental, as it was referenced in both periods in several complaints by enterprise managers. The Director in 1998, when the situation had become desperate, expressed all his disillusion in this outburst:

The first sign of the forthcoming disaster appeared in the years 1996-97. The collective "lost itself" when they borrowed at an 80% annual rate to buy raw materials. [...] 'Then our problems with sales also began – remembers [the

Director, C. M.] with sorrow – which we never had before...interest mounted up and...our bank account was frozen for two years. Immediately afterwards several social setbacks also appeared: non-payment of wages, stoppages, lay offs and so on. The situation became untenable: non-payment of wages ran up to nine months'. [Interviewer, C. M.] 'Will it continue for long?' [Director, C. M.] 'It will while the government pursues its truly genocidal policy toward the textile sector [...]. Paradoxically in our times it has simply become unprofitable to run a good business! Where is our own state leading us, to full disruption, to misery, to social break up? (Schelkov and Antonov, 1998)

One could find disagreement over the wording, but the substance of this argument was unquestionable. As suggested by Leo, the senior consultant leading the restructuring project in the field, the absolute lack of industrial policy was striking. In his own words:

The enterprise has to face harsh competition in the market as a result of wild liberalisation of foreign trade. Personally I find this latter decision quite counterproductive. Under such conditions you do not favour competition, you simply wipe out the whole industry. Russian industry is now in a situation comparable only to that of some countries in the immediate aftermath of WWII. But post-war liberalisation in those cases was conducted much more cautiously in order to allow for adaptation and gradual restructuring.

The role of the state, at the level of central authorities in Moscow, was indeed mostly remarkable for its absence. There was no selective liberalisation of import-export, which could stimulate competition while fostering foreign investments; neither financial nor fiscal support to national exports or credits for the purchase of

machinery and raw materials. It took years to stabilise trade relationships with cotton-producing CIS countries and when this happened it was to the advantage of a new lobby of intermediaries. They channelled low-quality cotton to Russian producers while selling the best of their harvest abroad and this with public money supposedly destined to guarantee supplies to local producers. 'Foreign' cotton remained instead out of reach because of high import duties and lack of hard currency.

Another very unusual issue relates to the situation of the nearby military installations. Formally the base did not exist, so fuel and gas bills as well as infrastructure, including a railway terminal, were a further financial burden for the enterprise. According to managers, it was a matter of political expediency not to raise the issue with the authorities; this explains their anger and disbelief when political support failed to materialise in a situation of desperate need.

The role of the local administration was more ambiguous. They in fact channelled funds to the enterprise as long as they could, as confirmed by the director of the local association of textile manufacturers. Then again, this fostered confusion as to the division of roles and responsibilities between the economic and the political sphere. Leo, who witnessed talks between the enterprise senior managers and the Governor, inferred that:

The regional administration has greater powers than its western counterparts. Enterprises are held under tutelage. The administration has agreed to channel credits to the enterprise to cover its debts but has refused to take on the costs of the company town welfare system; it maintains that this is a step that can be made only after reassurances from Moscow. The administration has also refused to liberalise trade, lifting a heavy fiscal and

administrative burden and a high levy of 10% to 15% on profits. The administration justifies its fiscal policy with the need to subsidise loss-making enterprises.

Left without allies, short of funds, including working capital, 'the enterprise fell on speculators, basically cotton traders, taking advantage of these troubles' (Schelkov and Antonov, 1998). What ensued was, at factual level, a short-lived struggle for control between outsiders and the Director that ended up with a declaration of insolvency and consequently his ousting. The dramatic ending of this crisis meant also, and more significantly, the failure of this last attempt at restructuring as part of the long struggle of the enterprise to operate independently in the post-reform economic environment. It now appears clearly that the enterprise, its structures, strategies and mode of operation maintained most of the pre-reform features, or at least continued to respond to soviet managerial principles. Nevertheless it is equally evident that: a) management was neither unaware nor ideologically opposed to adaptation;<sup>57</sup> b) restructuring was in fact pursued within the limits set by knowledge and availability of resources; c) the enterprise, due to demonetization and scarcity, was in fact very much constrained in its strategic choices. Therefore, it was rather the case that managerial behaviour was a rational response to external inputs and that

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<sup>57</sup> Despite the many, not always unbiased, claims that the management did not understand market economy and wanted to live 'under socialism', evidence and observation have convinced me of the rightness of Leo's view:

'The discussion around the business plan has given me these impressions: the Russians fully understand at conceptual level the technological and qualitative requirements of market competition but are prevented from putting them into practice. From this results also a profound frustration. Plunged into the day-by-day running of the factory, managers are forced to shelve their plans for modernisation.'

such a continuity with the soviet past should not be interpreted as managerial resistance to market competitive forces but as an adaptation to the *modus operandi* of those very forces.

### ***Outsiders' take-over and outsiders' control: consequences and questions***

In 1998 the Volga Textile Company was filed for bankruptcy i.e. declared insolvent, put under tutelage by authorities and became totally dependent on creditors. A year later all its economic indicators had appreciably worsened, the Director was forced to leave office and its leading creditor, the 'tolling' contractor TMS, obtained full decision-making powers over the management of the company. The employee-owned company was disbanded, replaced by a temporary administration regime with the official task of restructuring the enterprise to full recovery so as to avoid proper bankruptcy. By the beginning of 2000 the old Director had lost hope of recovering his position, his supporters at the enterprise were removed or forced to quit, meanwhile local politicians achieved a deal with TMS as for its responsibility in running the company town. Who are the outsiders, how did they manage to take over the company' and what is their strategy are the issues outlined in this section. This will recast the problem of restructuring and introduce our analysis of outsiders' policies carried out extensively in the next chapters.

In order to understand the take-over, two points should be kept in mind. First, this event fits into a general trend, not limited to the industry and the region, which saw industry-led groups, based on soviet-time personal ties and supply chains, being supplanted by financial-industrial groups, operating as intermediaries and therefore

in control of access to markets and credit (Johnson J., 1997). Secondly, the take-over was a multistage and multifaceted process:

- a) It required not only economic superiority but also political clout;
- b) it was not limited to the assertion of legal rights of outsiders but entailed direct actions, including the 'physical' assertion of authority, aimed at asserting the full subordination of the old enterprise employees to the new owners. The change was therefore ambiguous in terms of its efficiency outcomes and uncertain as to the conflictual nature of its evolution, not only at the top but also at the bottom of the enterprise hierarchy.

*The outsider company: structures and strategy*

The structure and scope of operations of TMS and its parent company, the "Home Trading Company", were outlined by the President and leader of the latter, Anatolii Zaryanovich, in an interview given to the factory paper.

The Trust has operated in the textile market for more than seven years. There are more than fifty enterprises in our sphere of influence, from different industrial sectors and in different provinces and republics of the Federation. The main task of the TMS company, as part of the Trust, is the production of textile goods, competitive in the local as well as in foreign and near-abroad markets, the processing of cotton, the production of yarn, grey cotton and mixed fabrics, the production of apparel and also the development of new products. We process up to 1500 tons of cotton a month. The supply of cotton, on the basis of direct contractual relationships with cotton-producing republics, is performed by the company ITR, which is part of the Trust too. Sales, marketing and participation in fairs at home and abroad are all managed by another associated firm, ITOT. The Trust also

includes enterprises working with linen and manufacturing linen fabrics but even ones operating in other industrial sectors. (Smirnov E., 2000)

The origins of such a successful business are much less clear and according to confidences from insiders they have to be sought in the “dark economy” that sprang up in the late Gorbachev period.<sup>58</sup> Our key informant, after a stage at the Trust headquarters in 2002-2003, reported at length about its history and later developments, which I summarised as such in my notes:

The founding party of the business was a group of friends, who started as videocassette retailers in the late 80s. They managed to become dominant in the cotton trade in the region through connections in the criminal underworld. The Trust is now well-organised and staffed with young, qualified professionals but they have not changed their way of doing business. They deal with partners on the basis of half-legal/half-criminal (*blatnoi*) relations. They aim at achieving virtual monopoly over every aspect of the business regardless of costs. A remarkable example of their aggressive policies is given by the very circumstances of *Nikita's* recruitment. After having being forced out of his place at the combine he was called back by TMS to work on a restructuring project at another enterprise formally owned by a ‘vassal’ firm. When the latter offered for

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<sup>58</sup> One of the few interviewees that I managed to contact on this issue was an engineer, once an independent entrepreneur, who was working as a TMS controller at the Combine. He confirmed that the Trust had a three-pronged structure (cotton procurement, handling of processing contracts, sales of finished goods). He specified that its mode of operation in relation to manufacturing enterprises was one of provision of services and continued intervention whenever technical problems or conflicts arose. In the latter case the Trust sought the unofficial support of Moscow and *oblast'* level authorities to foster its case. He eventually added that it might have been difficult to extract information from them, in fact he advised not to, as they ‘run a dirty business’.

him to stay, TMS imposed its veto and pressed for him to move to a different site. Presently he has been allowed to regroup his old managerial team at the Combine. When I asked: 'what's all this for', he replied: 'this is the wrong question, the issue is not 'what for' but 'against whom'. They want experienced cadres and do not care about overstaffing; they pursue this strategy for no purpose other than stripping qualified personnel out of the market, against potential competitors, their nominal allies included.

The hegemonic plans of the Trust extended beyond the bilateral relationship with individual plants to encompass the reorganisation of the regional industry under the auspices of its own textile manufacturers' association. In fact, after privatisation, the soviet-time associations grouping the forty-two textile enterprises in the region reunited into a single joint-stock company, *Ivanotextil*, but then centripetal tendencies prevailed reducing it to an empty shell. The new association,<sup>59</sup> 25 members strong, has now taken a leading role in co-ordinating the activities of its constituent members in order to stabilise the market and foster recovery through co-operation. Organisational features, achievements and goals of the association and its founding members, the merchant houses, are well expressed by its Director:

The industry has suffered heavily from a decade of crisis but is recovering.

The regional framework is playing an important role and is a guarantee for

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<sup>59</sup> The association I refer to in this case is one of three currently existing and the strongest in number of associates. There is enough evidence to suspect that the association is a creature of the Trust. Until the year 2000, Anatolii Zaryanovich served as its president. The Director of the association, who volunteered this information in 2000, showed himself during the interview to be on good terms and in fact to be quite familiar with TMS operations and the specific case of the Combine. He spoke passionately in favour of TMS's restructuring 'mission'. He had a quite different opinion of previous industry leaders, the 'red governor' and the competing *Ivanotextil*, which the combine's previous Director had been very fond of.

the future. The lead has now been taken by the merchant houses, which are gradually taking over the factories/enterprises. The current strategy of merchant houses is to constitute micro holdings so as to bring enterprises once again under a single roof. Holdings will manage finance and trade, leaving production and personnel management at enterprise/factory level. The association is actively supporting this strategy, for example, we managed to obtain an *oblast'* law which formally recognises these trusts. The association is also working hard to foster co-operation so as to overcome the structural problems existing in this market. In the first place, we managed to put an end to price fluctuations (up to 20%) due to the seasonal character of the industry which forced enterprises to work at a loss (or stay idle) during summer. The management system under the soviets was not entirely wrong. In my opinion a great mistake was made when enterprises were allowed to manage their businesses independently. They never dealt with buying and selling and failed badly. These functions, i.e. trade and finance, have to be returned to specialists, the holdings.

Furthermore, when I questioned him hard about the responsibilities and intentions of traders towards enterprises he admitted that: 'Traders have accumulated high profits [at the expense of enterprises, C. M.]', though he added 'but now they are ready to take responsibility'.

Therefore, the Trust had so far operated as a mere intermediary but was gaining greater involvement in production even when this did not formally appear in terms of direct ownership. Enterprise management was quite sceptical about the prospective contribution of outsiders, claiming it was a mere speculative, and dubious, business, which was simply tightening its grip on enterprises better to squeeze them. Then again, the hostility between the two groups (the soviet managerial elite and the new

Russians) could be better interpreted as a conflict over resources, neither of them having a greater legitimacy in managing the industry on the basis of past performance. In any case, the hostility of enterprise management explains the difficulties faced by the newcomers to enter the industry and their efforts to legitimise their role, partly depicting themselves as modernisers, partly by making reference to best soviet practices. On the other side, the purely commercial, and speculative, nature, of their activities so far raises the question as to whether they possess the ability and determination to carry out restructuring. Their involvement with the Combine presents an opportunity to investigate this issue.

### *Zakhvat or the take-over*

TMS was one of the Combine's suppliers and rapidly became a major creditor, in this quality it sided with the bankruptcy public authorities in overseeing enterprise activities after insolvency. The circumstances surrounding these events became inevitably the object of claims and counterclaims from both sides (Schelkov and Antonov, 1998; Smirnov E., 2000).<sup>60</sup>

In the first place, enterprise management objected to the very legitimacy of the declaration of insolvency. As reported earlier, in fact, a substantial amount of enterprise debt burden could well be attributed to costs arising from the non-

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<sup>60</sup> Without reaching the climax of other Russian cases of hostile take-overs publicised in the press (see the interview with A. Isaev, deputy chairman of the Russian parliamentary committee on workers' rights, in Dakli's article), this conflict did not lack the vocal bitterness and the dramatic consequences proper to them. The Director and the representative of outsiders accused each other in the press of responsibility for the bankruptcy. The positions of the opposing factions were then voiced in interviews and conversations held at the factory during my fieldwork.

productive sphere, social and even military installations. It was therefore a political decision to proceed with bankruptcy.

Another disputed issue was the rightfulness of TMS intervention. Its leaders claimed that it was the enterprise management's fault, not having observed the clauses of their agreement, preferring to pay out other creditors, therefore allowing for TMS credits to run high. Our key informant, though, had an entirely different story to tell on this point. Until then, he explains, the Combine Director had taken care to distribute liabilities evenly among partners/suppliers in order to avoid precisely this kind of situation. Once, though, a State administrator was dispatched to the enterprise to put things right, he began to accept offers by TMS to contribute to expenses or financial obligations<sup>61</sup> which in principle should really have been postponed, given the state of enterprise finances. In this way, enterprise managers maintain, TMS bought out the company. This controversy calls for several considerations:

a) First, the fact that the fate of the enterprise was decided with the help of political clout comes rather as a confirmation than a surprise, as it commonly found in literature (Clarke S., 1994; Johnson J., 1997). This stands in favour of managerial arguments;

b) On the other hand, it is equally evident that, once the enterprise plunged into crisis, the authorities, whatever personal interest they might have in interfering with it, were still called on to solve the situation. Being themselves short of funds, they had to rely on those investors, namely the Trust, who were very able and willing to intervene.

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<sup>61</sup> Namely, purchase of materials and machinery and payments to the wage, social and pension funds which had been so far postponed (the former), or frozen (the latter).

Yet, the main argument raised by management was that the very financial situation in which the enterprise lay and its inability to restructure and recover was due to its unequal relationship with suppliers. The contractual regime under which the enterprise and outsiders co-operated is known as *daval'cheskaya schema*.<sup>62</sup> The Director claimed that this system deprived the enterprise of decision-making powers and, with the outsiders dictating enterprise policies to their own advantage, it was impossible for the enterprise to recover. To the contrary, outside contractors claimed that they had little say in enterprise affairs as it swallowed resources, which they provided in order to recoup the original debt. It would not be immoderate to maintain that both sides were perfectly right in their own respect. The problems with this kind of agreement, in principle not unique to Russia, are the ones proper to barter for supplies. It cuts off the enterprise from the market and leaves it working as a mere production unit. The system is particularly pernicious in view of the need to restructure. This can be explained by comparing the present relationship with the one the enterprise entertained with higher bodies under the planning system. Under the current agreement the enterprise receives a minimum plan, which is the output agreed for delivery, but it is responsible for saving on resources provided by outsiders in order to cover its expenses and make a profit. As a senior production manager noted, the enterprise was never in a condition to produce much more than the quota due to the outsiders as traditional inefficiencies prevented them from 'making the plan'. From this perspective it can be said that market reforms did

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<sup>62</sup> Literally commission-based production, a kind of agreement similar to a processing-only contract which had become very popular among textile producers in the region after the 1998 monetary crisis. As we said before, it consisted in the enterprise processing raw materials provided by the outside contractor, agreeing to deliver a certain volume of output in exchange for a quota of cotton.

achieve their goal, i.e. to subordinate the enterprise to hard budget constraints. The enterprise was made responsible, i.e. financially liable, for its failures, which is where insolvency came from. But it did not go any further than this, rather making more acute than relieving soviet-time problems.

Therefore, whether outsiders intentionally used the scheme to strengthen their grip over the enterprise or they simply viewed it as an easy way to raise profits, it was clear that once brought into direct management of the enterprise they had to modify their approach and carry out reforms. Which is what, at least formally, they were set to do, as from the above-mentioned declaration of intentions.

### ***Okupatsiya or the second stage of the take over***

From 1999 to summer 2003, TMS, directly or indirectly, intervened systematically into enterprise affairs, bringing changes to almost every aspect of its organisation and procedures. The organisational chart was constantly revised; managers received new instructions on quality standards, rewards, wages and penalties. Changes were not limited to procedures but affected people too: the enterprise saw a new Director almost every year and key production managers were replaced. Here I provide an outline of the changes that affected the managerial layout of the enterprise, leaving more substantial issues of labour and work organisation, the overall change in the social constitution of the organisation, to the next chapters.

The 'new' philosophy inspiring the actual restructuring of the enterprise moved from the above-mentioned idea that the enterprise should once again focus on production. As an immediate consequence, quite visible in the new organisational charts, was the slimming down and regrouping of the main departments. In particular, the commercial department disappeared altogether and marketing was filed for disbandment.

The president of the HTC further specified the measures and tasks to regain efficiency. First, the number of ITR had to be reduced, he judged intolerable that one-third of enterprise employees were still out of main production jobs. Secondly, both managers and workers should plan and carry out their work more carefully, putting an end to squandering of materials, waste of resources and delivering of defective products.

To these ends, over a period of two years several actions have been brought forward, featuring forms of indirect and direct control as well as incentive mechanisms. Beginning with lay off, already in 2000 the Chief of the *OTiZ* had to declare that 'layoff and transfer of staff into production' were ongoing and 'further reductions in staffing levels' were expected. This was achieved with the reduction of Planning and Sales into pocket offices and the abandonment of the objects in the social sphere. More general cuts to auxiliary and maintenance jobs, visibly in the Chief Engineer's Department and in Production, were also lamented by production managers. Natural wastage and transfer into other units helped to make the process socially less painful<sup>63</sup> and blurred the impact and the visibility to the observer in terms of employment decline.

A different issue was the cut of manual jobs in the shops. Notwithstanding traditional western views on this point, the Director of the Association reassured me that no

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<sup>63</sup> The social impact of displacement for office workers varied greatly. Certainly accepting the offer of a job in production (which was due by law, if available) was generally traumatic, if accepted for lack of alternatives. Many regretted the loss of benefits such as shorter and more regular shifts (especially for women who staffed the lower ranks in offices), better working places and the status of 'intellectual workers'. It seems that opting for the private sector or relocation in the factory was mainly conditional on availability of connections in one or the other area while age and education or 'entrepreneurial spirits' might favour success at a subsequent stage.

such thing as a 'massive lay off' was going to happen. First because 'we do not look at the western option, the automated factory, [secondly, because] ...our problem is to keep high output volumes'.

If the new owners did not mean to get rid of their new employees in great numbers, for sure not in the initial period at least, to gain their consent and please politicians, they were much at odds with the way people worked. If production has to be the focus of enterprise management, then 'the rouble' should become 'the main criterion for good or bad' (Smirnov E., 2000), warned the President of HTC from the columns of the factory paper. The appointment of the Chief Accountant as managing director, a mature woman with no prestige, breaking a long-standing tradition that the Chief Engineer should take the vacancy, was the clearest materialisation of this precept. So managers very soon saw their wage made dependent on additional elements rather than just volumes, such as quality, costs, and level of waste. All managers interviewed in this period indicated that their responsibilities had grown, direction was more authoritarian and there was less room for compromise.

It is not that changes were simply entrusted to individual initiative, controls were also introduced. The two last organisational charts show how the Security Department grew into a diversified body fighting embezzlement, waste and theft of funds and materials through physical and bureaucratic routine checks. The Quality Control unit was also revitalised, with the appointment of a prestigious and skilled chief, previously head of spinning, and the assignment of more personnel, deployed both in factories and in the laboratory. Last but not least, TMS began to send its own people into the factory; controllers appeared in the shop chiefs' offices checking on the state of production and the correct implementation of orders. Weekly and monthly briefings were also scheduled at the offices of factory managers to review

the implementation of the plan. These initiatives no less than the previously mentioned controls, produced traumatic effects on managers who felt unjustly harassed or simply pointlessly disturbed. As a result, for at least a year, production management fell into a complete state of confusion as fear spread among managers and their subordinates of punishment by demotion. It seemed quite clear that the newcomers played on personal jealousies and factional rivalries in order to secure control over the labour collective and defeat those still on the side of the old Director.<sup>64</sup>

TMS therefore, not without costs and contradictions, installed itself into the enterprise organisation and began to integrate (subordinate) it into its system. The question arises how these events were survived and perceived by managers and what real changes they brought to their daily work routine. An interview with the newly appointed Chief of Quality yields the first impressions about lights and shadows in the new administration's plans. On her appointment and its general meaning in the new course she maintains:

I have been transferred to this position because of my determination; the previous chief has been demoted for lack of character... In the past, until perestroika, we had a strong department for technological control, which

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<sup>64</sup> The main target of these 'punitive expeditions' turned out to be precisely my key informant Nikita, then working as Head of the weaving factory, and his closest associates. When he eventually left the enterprise in February 2001, the domino effect drove out of the factory many valuable specialists while breeding disillusion and anger among those workers who felt personally loyal to him. It is quite an irony that in early 2003 TMS rethought its decision, giving him the job of Chief Engineer. As a result he managed to get rid of all those 'incompetent careerists' who had previously taken advantage of his ousting. The moral here seems to be that the newcomers could not easily dispense with the ideas and experience of the old cadres.

oversaw the qualitative aspects of production. This was put aside and abandoned after perestroika. Now, TMS pay a lot of attention to quality, there is competition and they are ready to spend money on it. Now we keep count of every kopeek, they have taught us to value money. The budget is fixed centrally and if you need more you have to provide justifications for extra expenses, though usually they let you go with it. (Interview with the Head of the Quality Control Department, 2001)

Nonetheless, neither her work nor the general state of production management seemed to be perfected and faultless, both in practice and conception. In fact, as she put it:

The main problem lies in the laboratories, they are subordinated to production and their judgement can be influenced. When possible I try to have a word with them, I am on good terms with the senior managers there...Well, there is bargaining – between production and the administration. I am afraid there is no planning, centralised management. Our working conditions do not allow us to have an unquestionable plan. Production departments cannot foresee what is going to happen. We are still in transition. In the end, they are the owners, they want to decide how to spend their money and want to see results. (Interview with the Head of the Quality Control Department, 2001)

### *Summary and Conclusions*

For the following two years TMS struggled to impose an even production pace and responsible behaviour on managers and workers and then again transition and its problems and practices continued. Nikita suggests that, despite much criticism, the new owners know and tolerate these practices very much for the same reasons the

previous authorities did. He calls it *obman*, cheating, the bargaining game in the managerial structure between an 'absent' centre and the 'irresponsible' managers. It consists in the administration providing fewer resources than required for achieving the targets they have themselves planned. The efficient combination of factors remains the sole responsibility of production and lower managers, who are constantly kept under pressure.<sup>65</sup> The disproportion between the planned results and the resources available, which results from taut planning, is an insuperable instrument to achieve good results at low costs but also a formidable barrier to planning and modernisation and the introduction of western managerial techniques. So far it has been taken for granted that the only way to make the enterprise into an efficient firm is no less than thorough restructuring and that conversely to prevent it means the continuation of soviet-time practices. To understand why marketisation, hard budget constraints and even outside ownership could not achieve this goal and what it means for the enterprise to reproduce these practices in an entirely new economic and institutional context requires us to walk down into the shops and open the box of social relations in production. As for the outsiders, it will help to explain how they confronted themselves with the unresolved contradictions from which they had so far profited. Their strategy and the conditions for restructuring can only be analysed in relation to the constraints imposed by these relations.

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<sup>65</sup> This practice corresponds to what the literature on soviet management called 'taut planning'.

**Table 5.3 Reasons for Transferring to the Ital'yanskyi grafik**

<u>Ivanovskiy grafik</u>																															hours				
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	m	e	n	total	
1	m	m	m	m	m	n	o	o	e	e	e	e	e	o	o	m	m	m	m	m	n	o	o	e	e	e	e	o	o	m	88	80	14	182	
2	e	e	e	o	o	m	m	m	m	n	o	o	e	e	e	e	e	o	o	m	m	m	m	n	o	o	e	e	e	80	88	14	182		
3	n	o	o	e	e	e	e	e	o	o	m	m	m	m	n	o	o	e	e	e	e	e	o	o	m	m	m	m	o	80	80	14	174		
																															<b>538</b>				
<u>Ital'janskyi grafik</u>																																			
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	m	e	n		
1	m	m	e	e	n	n	o	o	m	m	e	e	n	n	o	o	m	m	e	e	n	n	o	o	m	m	e	e	n	n	o	64	64	56	184
2	e	e	n	n	o	o	m	m	e	e	n	n	o	o	m	m	e	e	n	n	o	o	m	m	e	e	n	n	o	o	m	56	64	56	176
3	n	n	o	o	m	m	e	e	n	n	o	o	m	m	e	e	n	n	o	o	m	m	e	e	n	n	o	o	m	m	e	64	56	56	176
4	o	o	m	m	e	e	n	n	o	o	m	m	e	e	n	n	o	o	m	m	e	e	n	n	o	o	m	m	e	e	n	64	64	49	177
																															<b>713</b>				
m = morning shift																																			
e = evening shift																																			
n = night shift																																			
																															<b>175</b>				
																															<b>Increase in time</b>				
																															<b>175</b>				
Hourly output of woven fabric														12.61 Thousand metres																					
Output volume with Ivanovskiy grafik														6783 Thousand metres																					
Output volume with Ital'janskyi grafik														8990 Thousand metres														Increase in volume				2206.52			
Average cost per metre														9 Roubles																					
Output value with Ivanovskiy grafik														61051.3 Thousand roubles																					
Output value with Ital'janskyi grafik														80910 Thousand roubles														Increase in value				19858.7			



## **6. Controlling Workers: the Policy of Productivity in Transition**

In this chapter an analysis of the functioning and change in the reward and incentive system will be carried out. This is made on the understanding that this was, and still represents, a key managerial function and therefore is crucial to understand what sort of adjustment, if any, is taking place in post-soviet management. Payment systems are usually defined as being aimed at providing employees with reward and motivation, which we will rather translate in the sense that they simplify the function of controlling labour. This is obviously by far not the only means by which employers can regulate, and increase, the productivity of their subordinates.

In between the two world wars, then on a larger scale in post-war years, manufacturing industries in the West have seen the emergence of always more sophisticated managerial and technological devices, which if not eliminating certainly put in second order the combination of the piece-rate and the “watchdog”.

In Soviet enterprises, as explained in the historical section, the form assumed by the labour process meant that incentive pay remained the predominant form for controlling labour and increasing productivity. What we have in mind for change is therefore not simply the introduction of a more “rational” incentive system but a relative change of its weight in carrying out managerial functions.

Observation of managerial behaviour, carried out now for several years in the case study environment, convinced us that, not surprisingly, this is still a crucial area in managerial work. Enterprise administrations have found that the old payment system was, under the new circumstances, less effective and almost unmanageable.

Nevertheless they have been extremely reluctant to change it precisely because their reliance on the workforce has increased rather than decreased relative to the soviet period. On deeper scrutiny, it has been noted that it is the more aggressive managers from production who are liable to propose and sustain change as they are the ones who have to buffer the inadequacies of administration policy in the face of growing workers' discontent. At the same time, their proposals, even when put in place, demonstrate the limits of a conception of labour organisation still relying on the idea of incentives as a key command lever.

Between 1999 and 2001, a wave of take-overs in the local industry radically modified the property framework, prefiguring also a change in strategy. Nevertheless the idea that outsiders might undertake what old managers were, as the mainstream literature claimed, unwilling to do or incapable of doing does not meet with comforting evidence. It is certainly true that the new, widely adopted, wage systems, with their stress on performance and other "quality" indicators, their attentive differentiation for professional figures, describe formally a move from pay-by-results to performance-related pay. Still the enormous social and cultural change that stands in between the two is not visible or not consistent.

Managerial circles continue to be very fond of incentives and rely heavily on workers' motivation, sustained and nurtured by enterprise paternalism. This choice, it is candidly admitted, is not devoid of problems and contradictions. Yet the efforts are concentrated at striking a balance which would retain, rather than reverse, the old order. In this vision the payment system is viewed as a crucial device for social control, including its discretionary informal use by managers, and the factory/enterprise as a mere production unit, founded, socially and organisationally, on the exertion of this control.

This chapter consists of four sections. In the first I will outline the characteristics of formal and informal mechanism of the soviet wage system. In the second and third I will present and analyse the evolution and change the system undergo under the effect of transition and the action of the old and new management of the Combine. Eventually, I will report on the implementation and response by line managers and workers as to understand the limitations of reforms, the rationale of retaining the old system and some important modifications it has undergone under transition.

*The 'socialist' wage system and its post-reform legacy: formal and informal practices.*

This section is devoted to the description and analysis of the formal and informal institutions of the payment system established under socialism and maintained by the enterprise well after privatisation. The wage system and the highly articulated system of benefits and incentives functioning under the soviet system was highly centralised. Wage structure, pay scales, grading and incentives were drafted and defined in Moscow, at ministry level, and were substantially uniform across industries, reflecting Party policies in the field. Liberalisation and factual decentralisation in the early 1990s, then the severing of formal ties following privatisation, set the enterprise free to make its policy decisions. In practice it left enterprise managers in charge of administering the system without the resources and the guidance once provided from the centre. Until 1998, the wage system did not undergo any formal review at the enterprise. The institutions and practices referred to here are therefore the ones which managers inherited as official policy from the 80s and continued to operate until the late 90s.

*The formal settings*

The payment system at the enterprise featured two basic forms, piecework, which comprises most manual professions, and hourly pay, applied to white collar workers or ITR. Both categories received a bonus that, for direct manual workers and production managers, was tied to the fulfilment of the production plan. The analysis will focus on the piece-rate wage, given the strategic importance of its earners and the centrality of its administration in managerial work.

In the factory the two major production departments are spinning and weaving, with a quite similar professional structure and pay scale. Piece-rate workers in their shops comprise machine operators, weavers and spinners, mostly female, and foremen assistants, in charge of light repair and maintenance work, a male-only category. Highly paid but scarce in numbers are the fitters, dealing with more complex technological services.

The regular wage of these categories consisted of a basic wage and a bonus. The former was made up of two components: the flat-rate pay, amounting to around 30% of the basic wage, and the piece-rate, which occupied the remaining 70%. The bonus (premja) for plan fulfilment was calculated at 75% of the basic wage.

The incentive mechanism hinged on the piece-rate. This was calculated on the basis of production norms, a statistical average of output per machine per hour, and the price, or tariff. Norms could differ, as a manager put it: 'It is well known that [piece-rate] computation is made according to a formula and depends on the tariff, the normative capacity and the production norm. But if the tariff is the same for all spinning workers, yet capacity is dependent on the sort of yarn produced, therefore production norms cannot be the same' (Ivanova N., 2001, p. 1)

The standard tariff varied among categories and could be corrected upward or downward by coefficients. A higher tariff was paid for extra-work, first-quality output and nights or Sunday shifts while lower tariffs applied to second-quality output and cases of idleness, or *Prostoi*.

*Prostoi* is an indicator of idle time due to stoppages. Idle time was accounted for separately and, in cases where workers were not held responsible for halting production, it was paid for compensation at a lower rate. In practice this system allowed workers to get away with the corresponding loss of output. *Prostoi* was reported by foremen and was an important component of shop floor bargaining.

#### *How did it work: informal practices*

It is well known that the soviet wage system was much less motivating than it might appear at a formal analysis; managerial attempts to buy workers' co-operation led to manipulation of incentives and proliferation of extra wage payments, which in turn undermined the financial rationality of the system. The study of the actual functioning of the system in the case study offers supportive evidence, providing greater insight and some industry-specific peculiarities.

In order to explain wage formation we should first identify the responsibilities of different managerial bodies in assessing and rewarding workers. In this, like other areas of decision-making, powers were concentrated in the hands of the Director and a few other senior managers. Middle managers formally had no powers nor did wage offices, present at central and departmental level. On this point our key respondents were quite clear-cut:

The wage or time and methods officials are only in charge of statistics, they are mere "clerks". The administration is the only one in charge to solve these

questions but managers can influence their decisions because they assess workers' performance and they provide all the necessary information.

(Interview with the Head of weaving department, 2001)

Observation of daily managerial work reveals that: wage officials were fully dependent on managers to make their calculations; managers were constantly dealing with workers' grievances; they were actually able to mediate with the administration and tended to find individual solutions within the limits of the system and its resources. The way line managers describe how wages were paid unveils the centrality of their role as well as revealing some frustrating limits posed to the exertion of their discretion.

Our key respondent has been working now for a decade at the enterprise, occupying the positions of shop chief in spinning and chief of production in weaving. He had been in charge of calculating the wage fund and was active in proposing and implementing its reform; he is therefore particularly qualified in explaining the real functioning of the system. He explains that the "piece-rate and premium wage", as managers called it, was generally paid in full to all workers. In his argument this was not due to a well-tuned system but to lack of incentive and bad design.

He justifies his argument on the ground that the piece-rate had in reality a much lower weight in the wage than it could appear at first sight. In fact, 'if we consider the three components of the wage, the hourly pay, the piecework and the bonus and we calculate their per cent contribution to the total wage, we obtain respectively the following: 17% for flat rate, 26.9% for piece-rate, 56.1% for the bonus' (ibid.). Since 'the hourly pay *and* the bonus can be both considered fixed components, then piecework in practice makes up less than 30% of the actual wage' (ibid.).

Technological constraints also have their part. He observes that 'nobody could fail to meet the norm [i.e. they were set very low, C. M.] and even so only the hooligans were penalised with the loss of bonus'. In his opinion the specific character of textile production does not allow output to vary significantly. He explains that in weaving and spinning 'all you have to do is do up the threads when they finish or break to avoid machine idleness, if any other factor is excluded. It is a routine task and given a certain number of machines it cannot yield substantial variations in output.' In fact, he argues that piece-rate does not add anything to the performance of textile machine operators. He even wondered why the Bolsheviks in the first place opted for this system in his industry. In his experience, the practice of storming, stimulated by this incentive, demonstrated its harmfulness as workers try to overcome bottlenecks by violating technological discipline and safety rules. Though, elsewhere, he gave plenty of evidence that managers must tolerate it in so far as they are pressed for output targets.

Technology alone, though, does not tell the whole story. The rigidity of the system, as it emerges clearly from the statements reported above, was at least equally dependent on established conventions between workers and managers. He himself openly stated that 'the bonus must be paid' and line managers, interviewed on this matter, were all convinced that the bonus was an integral part of the wage. This also implies that plan-fulfilment was guaranteed. In fact production norms had not been revised for years.

This is not to say that the large majority of workers were not concerned with meeting managerial expectations for plan-fulfilment nor that it was indeed an easy task. Workers considered making the norm a paramount task and they had to put a lot of effort into making sure that they accomplished it.

Yet the piece-rate and the related bonus were not considered in themselves as an incentive, that is a flexible means in the hands of managers to discipline workers. As a manager noted: 'in the last years of perestroika we had probably the highest wage in the manufacturing sector but this had no effect on productivity and morale.' (Interview with the Shop Chief of the weaving shop n. 1, 2000)

The limits of the formal incentive system based on scientific assessment of results were overcome by personal bargaining between workers and managers. Managers were admittedly urged to use a stick and carrot tactic to discipline workers and elicit their co-operation.

'At the Institute', our key respondent reminds us 'we were taught that the job of managers consisted in exercising authority by using both the carrot and the stick.'<sup>66</sup>. To make sure that subordinates do fulfil their tasks, the manager has to educate them by paying by results.' (Interview with the Head of the weaving department, 2000). The wage system, tied to individual performance and offering a wide range of means to differentiate earnings, is used by the experienced manager as a tool to graduate rewards and punishments among subordinates. The character of this relationship is strictly personal: it can manifest itself in a simple one-to-one relationship or be extended to a collective whose leader, a good mechanic, brigade leader, foreman, shop chief, demonstrated managerial abilities.

Managers had several means to achieve workers' co-operation in a direct and effective way. These ranged from the discretionary decision over recruitment, relocation and promotion of workers to distribution of bonuses and individual rewards. The existence of six levels of grading, numerous professions and piece-rate

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<sup>66</sup> Or '*knut i pryantik*', as it is known in Russian.

differentials provided a wide range of earning differentials. Line managers were directly in charge of recruiting, training and promoting workers and they consciously used their discretion on these matters to discipline workers.

We have observed that, irrespective of their aspirations, background and formal education, people working at the enterprise entered their working place at a lower step on the ladder. They progressed over time under the guidance of their direct superior combining experience, further education and evidence of law-abiding behaviour. Access to better jobs generally implied further education, which the enterprise offered on its premises, including special training courses and the more formal schooling at the branch of the technical Institute. Managers usually selected candidates, offered tuition, advised and even instructed their candidates before exams.

Workers who had no aspirations or skills to become cadres and enter positions of authority could still improve their condition and earning opportunities by moving to a different production shop or working station. It was in the manager's hands that a worker be trained to work on a certain machine or be judged sufficiently skilled and conscious to be allowed in his shop. In principle the system allowed also for reverse measures, though social and political conditions made it more difficult for a manager to punish, demote or relocate workers to lower positions. Our key respondent found that 'these measures are unpopular'.

The most simple and immediate way to implement the pay-by-results policy was, and still is to a certain extent, to literally agree with individual workers or brigades to pay a lump sum, usually under the guise of a bonus, for the accomplishment of a specific task. As a manager put it: 'you have to pay [i.e. bribe, C. M.] a man if you want the job to be done' (Interview with the Chief Mechanic of the Weaving Department).

This is a quite vast area, which clearly borders on informality while being tied for payments to the use of official incentive funds.

In so far as current practices in the shops may give a hint of how bargaining took place also in the past, our observation leads us to conclude that the use of individual incentives at the factory strongly resemble practices usually described in the literature as informal bargaining. The case suggests two specifications. First, managers stressed the centrality of continuous bargaining at individual level to literally buy out workers co-operation. This practice was intended as the communist, i.e. official, way to deal with workers' grievances and motivational problems.

Secondly, a clear pattern was observed which differentiates between professions as for the frequency and consistency of bargaining. Skilled workers, the technicians in charge of repair and maintenance services, were more likely to deal directly with the shop chief to schedule their work plan and settle their payments. The quote reported above regarding the need for extra payments, referred in fact to male workers only: 'women would do their job anyway' he added. Women did actually raise grievances, usually concerning tariffs, norms and bonus coefficients. Differentials also arose thanks to different productivity between individuals or shops. Nevertheless, machine operators had less room to exercise control over their work and for them the bargaining was confined to minor adjustments within the system. This phenomenon can be fully understood only if keeping in mind the fact that male workers and managers felt a strong sense of comradeship among themselves *and* a higher standing over their female colleagues, therefore feeling under lower pressure when dealing with them. This is consistent with the fact that the sector scored high productivity rates, as the tighter plan targets would suggest, and yielded high "profits".

So far we have discussed the functioning of the payment system with reference to monetary pay and incentives. Yet it is well-known how in the soviet system money played a much lower role than it does in capitalist societies. In particular, key goods and services were made available directly by enterprises and were made dependent on workers' status as cadres. This system was tied to the peculiar political and social features of the socialist states and has therefore no equal to any incentive scheme in the industrial world. In the managers' opinion it was an essential pillar of the social structure of the enterprise, playing a greater role than any other monetary incentive. We will therefore report it in the following section before making an appraisal of the payment system as a whole.

*Non- monetary incentives: the moral and material rewards of cadre status*

Bonuses and other handouts administered more or less informally by shop managers all represent forms of monetary reward. However much their consistency, denomination and mechanism of distribution might have changed they are still very much the same today. Therefore, if analysis would be limited to those aspects of the payment system the idea of continuity would certainly be exaggerated. As our key respondent put it: 'throwing a five-rouble coin in someone's hands was not the way to make, or reward, cadres in soviet times. Every alcoholic could get a bonus for a good piece of work.' Under Socialism, alongside monetary rewards there were moral (political) ones, which were of incomparably greater importance. Generally they consisted in the awarding of an *orden* (badge of honour) and were administered on consideration of both political activism and work professionalism. Their superiority over material incentives has to be judged on a twofold argument: an *orden* raised the social status of the holder for life, if he behaved carefully he could be safe that his/her opinion would not be challenged both at work and in political bodies.

Privileges of a more mundane character were also part of the package and again they could not be reduced or suspended. Nikita Aleksandrovich remembers that: 'When the latest consumer goods were assigned to the factory for distribution, he would be offered purchase without queuing, if cars were available, he had only to go and get it, the same would happen with an apartment.' Therefore, this form of incentive added to the sense of security of workers, both socially and economically, in a way monetary incentives, as they were designed and have largely been maintained, could hardly compare. The end of the socialist institutional framework and the centrality assumed by market-like transactions has made these incentives obsolete but has left a void that material rewards – inconsistent and episodic – can only struggle to take up. The problem here is not simply to elicit workers' effort but to rebuild their confidence and consent on a stable and solid base. This necessarily includes restoring the moral and material status of cadres, also as an incentive to attract new recruits among the young. Our key respondents seem confident that high, stable wages giving access to a western-like level of private consumption could be a solution. Unfortunately, current trends suggest that, as one of them put it, 'so far no Ford has appeared in Russia, who understood that his wealth can be erected on people's welfare.'

The major characteristics of the payment system can therefore be categorised as follows. Piece-rate administered under soviet conditions of production means highly differentiated salaries and continuous bargaining. Its more visible negative features were: excessive pressure on workers to achieve norms, marginalisation of managerial work, distress for managers involved in bargaining and budgets strained by unplanned growth of the wage fund. Managers though were still very fond of it and more oriented to reform than replacement. We discussed with our respondents

whether it was not the piece-rate system in itself that was the problem rather than its design or targets. They argued firmly in favour of the virtue of the piece-rate system as opposed to flat hourly pay as a means to elicit workers' efforts, asserting that 'workers won't work otherwise.'

Bonuses are a relevant component of the wage system. In the first place there was the bonus for plan fulfilment, consisting of 75% of base salary, but this was a regular part of everyone's earnings at the factory. In soviet times other bonuses were administered in relation to specific campaigns, the latest known were related to the introduction of the brigade system, the anti-alcohol campaign, quality improvement et cetera. Several respondents stressed the importance of социалистическое соревнование, socialist competition. All of them were actually used by line managers to provide extra pay to motivate workers.

*Prostoi*<sup>67</sup> was extremely important in the calculation of individual wages and had relevant effects on labour costs. Each worker, the ones considered here are weavers, was assigned a number of machines whose output was used to calculate her wage. It was not unusual for some of them to lie idle during the shift, or stay out of work even longer, because of breakdowns and repairs, lack of parts or yarn et cetera. In this case the worker would obviously lose the equivalent of lost output, furthermore, she would risk failing to fulfil the plan if output losses were considerable. Generally workers would raise a claim to have the loss compensated and not considered for bonuses depending on plan-fulfilment. It should be underlined that, even before the crisis began, this practice fell under scrutiny as a result of increasingly frequent stoppages and the need to tighten up financial and organisational discipline. Since the

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<sup>67</sup> The output loss, its compensation, and the "virtual" output entering wage calculations are all referred to in factory jargon as *prostoi*.

practice was still in use, though restricted, after wage reform, as we shall see, we can also observe that managers tended to attribute stoppages rather to objective causes than to conscious negligence of workers and so were inclined to accept workers' claims.

Bonuses and piece-rate differentials, their availability for discretionary and discriminatory use by managers, constitute not the only but certainly the most important means in the traditional, soviet, way of management.

In order to comprehend how wages actually worked as a means to elicit workers' efforts and maintain managerial authority we have to consider the circumstances under which production was carried out and how relations between workers and managers were maintained. In soviet times, on everyone's admission, conditions of production were optimal, the enterprise output was counted in millions of meters and accounts registered high profits. Still results and benefits were not equally distributed among shops and employees. Production managers had to fight their daily battle against the well-known vagaries of soviet production. The most significant recorded here were lack of co-ordination along the production line, permanent conflict with the central offices which pressed for plan-fulfilment and failed to deliver on key procurement, the poor quality of technology which imposed constant concern for maintenance and replacement. All this diverted the manager's attention from his main business and constantly threatened the achievement of his or her goals, production targets. We have to add that subordinates varied greatly as to their skills and motivation since traditional disciplinary measures, firing in the first place, were unavailable. One of the main tasks of production managers, other than overseeing technology, consisted in carefully selecting the skilled and reliable people to whom they could safely delegate tasks and on whom they could rely in case of difficulties.

The system was ingrained and often distorted so as to guarantee that these workers would be recruited, rewarded and retained.

The system was an essential device in the mechanism that structured and reproduced the social relations in the enterprise, whose stability was in turn perceived as a precondition to the normal organisation of production. Therefore, the old management felt no need to significantly modify it till its distortions on the current activity of the enterprise were no longer acceptable. In the 1992-1998 period the administration was dormant on this issue and the story is more one of retain than reform. The nature and effect of the latest reform spurred by outside owners is less obvious, appearing both conflictual in its implementation and controversial in its conception. We will look at both in the next sections.

### *Crisis and reform: the wage system in transition*

During the 1990s the wage and incentive system remained substantially unchanged. Still the radical modification of the technical and economic conditions in which the enterprise operated made its flaws even more evident, fostering partial modifications. A vicious circle established between declining purchasing power of take-home pay and low workers' motivation, on the one side, and technological deterioration and lower productivity, on the other. Senior management lost control over the growth of the wage fund and line managers saw a growing gap between the ability to elicit greater efforts and the corresponding results. They responded by using target-related bonuses, increases in the incentive component of the wage and finally the introduction of collective bonuses. The growing bargaining power of managers did not stop productivity decline and put into question the very effectiveness of the piece-rate system.

*1990-1996 Business as usual: the system retained.*

At least until 1997, Combine senior managers did not address openly and decisively the issue of productivity policy and more generally worker-manager relations. Radical changes to the wage and incentive system did not enter the restructuring agenda. This despite the fact that discipline was poor and productivity declining. They actually tried to cope with it in other forms, relying on the assumptions that it was poor technology, low incentives and the weight of the less able and motivated to hinder productivity and poison an otherwise harmonious atmosphere among members of the Labour Collective

The Director took a position of least resistance, expressing his determination to sustain and even extend the productive and social assets of the 'labour collective', relying on the efforts and loyalty of its manager and worker cadres (Interview: General Director in Shelkov and Antonov, 1998, pp. 57-69). Reviewing productivity issues, he focused on introducing new machinery or improving manufacturing techniques, clearly avoiding any reference to grand schemes in the field of work organisation<sup>68</sup>.

It should be noted that traditionally an increase in production "norms" was usually tied to technological renewal, as confirmed by a prescriptive article included in the last collective agreement. Yet it does not seem that norms played any role in raising productivity, showing in this sense continuity in informal bargaining practices. As shop managers confirmed in interviews, norms did not really mean anything, they

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<sup>68</sup> In reality, managers were well aware of restructuring options based on 'Western models' and harboured plans of deep restructuring and massive lay-off. However, they were forced to shelve them as the crisis deepened their reliance on workers, making such plans unpopular and economically unsound.

had never been raised for decades and their recent adjustment played no influence in their efforts to get more work done.

Nevertheless, since 1990 the plan had been discontinued and both supply and sales had to be managed differently with far-reaching effects also on the way work was carried out and paid for. On this point our key respondent refers:

With the supply of cotton uneven and uncertain, it became impossible to meet planned targets at prescribed deadlines, we worked as much as we could once we received the material. [Therefore], managers paid the settled wage plus bonus pay irrespective of piece-rate calculations...payment was made under considerations of the way they worked. [The way they proceeded was] to talk with foremen and see how their shifts were performing. (Interview with the Head of the weaving department, 2001)

From the point of view of a scientific approach aimed at matching rewards with results, this occurrence was a further drift away from a rational system of wage calculation. In practice, this meant an increase of managerial discretion but also greater room for complaints and ensuing bargaining. Managers and foremen might now have an upper hand over individual workers or shifts but for the most they were, or felt themselves to be, compelled to pay full wages despite the deepening negative trends in productivity and discipline. Enterprise administration, in turn, lost any possibility to command over the wage funds and plan a more efficient use of resources.

Transition also required that the enterprise had to pay for supplies and cope with rising costs and this meant, according to the strategy then adopted, producing more and faster. This prompted the piecemeal introduction of the fourth shift. This decision boosted both absolute productivity and wages but also posed problems of

manageability. The introduction of the extra shift was subject to approval from the production management who had to guarantee the necessary increase in the staffing level. This was one reason why line managers resisted or procrastinated. Whatever the case, staffing did not seem sufficient at any time, leaving shop managers to cope with it by agreeing with existing workers on longer working days and extra work (*sverkhurochna*). It seems as if shock-work was reappearing under a new guise, compensating for the high levels of absenteeism and low individual productivity. At one time, some shops tried to cope with “understaffing” by introducing twelve-hour shifts. This was, though, a temporary solution. The practice continued but as a rule longer shifts were bargained at individual level. The other option was to ask employees to work on rest days. In all later cases extra work was not made compulsory but workers felt a strong pressure to comply. Self-interest, that is the need to supplement a meagre wage had its part but so did the pressure of managers and fellow workers to fill vacancies and not to let them down. In terms of labour costs this solution was effective in the short term. In current managerial discourse it meant the achievement of greater flexibility in the use of the workforce, saving on the cost of recruiting extra workers who tended also to be even less productive. Yet, one can only imagine the consequences for both production and workers’ life of a twelve-hour long shift. The extensive recourse to extra work indicates at one and the same time the reproduction of traditional bargaining practices centred on line management and the growth of managerial powers. This confirms how much their early idea of transition did not contemplate any structural change to worker-management relations. They simply imagined to use the free hand gained by privatisation in order to strengthen their discretionary power over workers.

Yet our judgement on the behaviour of the enterprise management would be partial and unfair if we did not mention the gradual emergence of alternative strategies and the difficulties encountered in implementing these new options. Managers in fact explained that their expectation of productivity gains lay in staff reduction, an idea again quite familiar to scholars of the late soviet reforms. What they had in mind was a selective cut, addressing the unproductive and “antisocial” elements in the labour collective. Looking at experiences from other enterprises, in 1995 the legal advisor went as far as advising a guided bankruptcy. Some managers embraced the idea but then the Director put it aside. Later, the “unproductive” became all those workers who did not directly or indirectly contribute to production, so they proceeded to some internal reshuffling or cut of service units.

As was sadly recognised by the Department of Labour and Wages, all this did not produce any significant change in the wage fund balance. Our key respondent pointed out that the failure of this strategy was due to the unexpected activation of the labour market, which significantly reduced the traditional hold on key sections of the work force. ‘The enterprise did not recruit in between 1992-1994...’ he said, and ‘...to the contrary of what we expected we lost the good ones and had to keep and recruit more of the bad ones’ (Interview with the Head of the weaving department, 2000)

### *Reward to retain: wage and personnel policy*

If the wage system was to operate effectively, a new variable had now to be considered, namely its ability to retain and recruit workers. This was an absolute novelty to the management, used to a uniform wage scale spread across the industry.

The initial strategy of the Director to retain all the elements of the past welfare as well as the “insularity” of the company town might have stemmed the flood. In the

second half of the 1990s though, the outflow of specialists made evident the shortcomings of the conservative approach. It became clear that the current level of wages could not satisfy the most needed skilled workers and specialists. This might at first surprise considering that, as explained before, the socialist system was in practice very flexible and already favouring these categories. Still, if one bears in mind the relevance of the non-monetary component and the role of incentive funds, now curtailed or disappeared altogether, it is immediately understood that differentials in the current monetary wage were insufficient to remunerate the exceptional work of cadres.

The more so because inflation was eroding the purchasing power of salaries and money was acquiring the highest consideration among the employees. Therefore a decision was made to raise the wages of fitters and mechanics, mostly foremen assistants, altering the traditional wage differentials. Managers recount that this decision led to a spontaneous uprising of both the other workers and the ITR, forcing the administration to retreat. The problem was left in the hands of line management who had to juggle with funds and norms in order to save their specialists.

*The 1997-1999 crisis and attempts at reform: the triumph of the bonus.*

Managers resolved to experiment with changes to the wage and reward system in the 1997-99 period under the consideration that it did not any more provide a viable form of stimulation, indeed labour productivity had fallen sharply and workers seemed no longer to be motivated. Such a decision only came after a profound crisis had strained the cohesiveness of the labour collective, heavily compromised managerial authority and those regulatory mechanism like the wage and reward system, eventually forcing managers themselves to search for new approaches to control workers and manage production. Crisis was manifested in several forms, we

will now look at those which had an immediate impact in production, and the responses which they attracted from managers and workers.

First of all, growing external pressure in the form of higher input costs and narrow margins on sales had imposed increasingly harder financial constraints on expenditures. Furthermore, a sky-high debt charge led the authorities to freeze enterprise resources. The response by top management was to begin a cost-cutting policy, including staff reduction, cuts to current expenditures and obviously a postponement of any plan of capital renewal. Coupled with a policy aimed at output increases, this series of circumstances produced a deterioration of technical and organisational conditions of production in the shops, frustrating managerial attempts to keep production flow under control and depressing workers' earnings and working conditions. Yet the consequence with greater and immediate effect on people's lives and morale was the non-payment of wages, which led to the accumulation of a full year of wage arrears in the 1997-1999 period. Let us see now how workers and managers experienced and interpreted these phenomena and how the wage and reward system came to be identified as a distorting mechanism and therefore a key tool for corrective action.

The situation in production in 1997 is vividly and thoroughly referred to in an interview conceded by the then head of the weaving department to the Labour Collective's weekly:

We work in difficult conditions, first of all production overheats continuously because of physical-mechanical conditions of the yarn. I am sorry, we have not been forced to deal with cotton of such low quality before. Breaks have grown sharply and we had to compensate workers for two months because they worked with low quality cotton. Secondly, we

failed to keep pace with the production schedule because of irregular provision of yarn from the spinning and preparation shops. As a result, *prostoi* have grown and final output has fallen. In order to increase material incentives for workers and managers, daily and monthly output targets have been set and rewards are administered for plan-fulfilment. The work schedule also has been reinforced, with the first shop now working round-the-clock on four shifts. Still we cannot meet the expected output targets, basically for two reasons. First, as mentioned, because of lack of yarn, secondly, which is much more complicated, because of the human factor. A sudden generation turnover and a sometimes ill-conceived cadre policy have led to such a situation that the professionalism of weavers and assistant foremen has notably declined. It has to do not with training but rather with dedication. They lack the will to learn and work slackly. We cannot deny that we are living in hard times, many circumstances affect people's life, among them non-payment of wages and the hardships of everyday life. Those problems, which should require immediate actions, are first the deficiency of spare-parts. The machinery is on average 10-15 years old and obviously machines break quite often. Because of the lack of spare parts we may have up to 30 machines idle for a shift. Obviously now their purchase is not a problem, it's just that we cannot afford them. This epidemic of thefts continues to be equally worrying among our miseries. This is one reason why our production lies in much worse condition. All measures taken by the administration have turned out to be ineffective. We have installed alarm systems in all warehouses. It obviously gives results but until people understand that they are robbing themselves, until they stand up to preserve enterprise assets, there will be no change. (Svetlakov L., 1997, p. 2)

The concern of the production manager focuses on the fall in productivity and the lowering of output quality, which directly affects the fulfilment of his targets. As a top manager in charge of the whole weaving department he also has concerns for the major determinants of this situation. He individuates the interplay of objective, i.e. beyond reach of production managers, and subjective factors, the "human" component. The non co-operative attitude of workers appears to him as a justifiable, still worrying, phenomenon and an unprecedented one, at least in its scale. Solutions though amount to nothing else than the re-introduction of "elements of the planned economy" as the interviewer defined them, i.e. target-related individual rewards. Not surprisingly they were short-lived.

An interview with his successor, made at the end of 2000 but covering the whole period, allows a more detailed look at the dynamics of the wage and its interactions with relations in production. The new head of production, our key respondent Nikita Aleksandrovich, had to face a situation that, while depicted in his own words as very similar to his predecessor's, was aggravated on both sides of the hierarchy. On the one side, there was the greater determination of the administration to introduce order into production to gain efficiency and, on the other, workers' disillusion was probably at its highest level. In between 1998 and 1999, we should keep in mind, the enterprise reached the bottom of its crisis: production halted for the first time, leaving workers with food rationing. Then bankruptcy meant a shift in decision-making power in favour of creditor's hands and in rapid succession the replacement of the director himself. Now traditional concerns for output growth were not replaced but combined with requirements for higher quality and lower costs and workers were made the object of a discipline campaign by the administration.

'In 1998-99', our key respondent observed, 'we experienced a worsening of technological discipline' (Interview with the Head of the weaving department., 2000). On the state of manager-worker relations, required to comment, he burst out: 'We have to force employees to work!' (Ibid.). In his opinion, this had much to do with the ill functioning of the wage and reward system. My field notes on the point say:

A look at trends in the structure of the wage reveals its distortive effects.

The *prostoi* coefficient has been growing steadily, as a result plan is overfulfilled but real output declines. Actually, the piece-rate amounted to only 30% of the salary, the rest consisting of bonus (*premiya*) and *prostoi*.

Productivity had fallen to 17 metres/hour.

As he himself reasoned, the natural deterioration of working conditions, accelerated by the introduction of the new shift, augmented stoppages and breakdowns, depressing productivity. But the practice to compensate workers in order to preserve their earnings meant that lower output did not result in lower wages. As a result, top managers lamented, reward lost any real relation with work. An earlier response, under the new Head's mandate, did not differ substantially from previous interventions:

At the beginning of 1999, a first move was attempted in order to reverse this trend with an increase to 100% of the plan fulfilment bonus. Admittedly the advantage was that the relative weight of piece-rate theoretically grew and so with it the interest of the worker to increase output. The disadvantage was that clearly workers were more than ever determined to achieve their planned target ...at the cost of actual output. As a result productivity on

gauze fell from 23 m/h to 10-12 m/h. (Interview with the Head of the weaving department, 2000)

Before turning to the wage reform it remains to examine what were the causes of workers' discontent, and why traditional interventions did not relieve it, and then see how it worked to lower productivity. The shrinking of resources available to managers for bargaining with workers against the required upward adjustment in productivity meant that the wage and reward system inherited from socialism lost any sense. As our familiar respondent put it: 'managers had been left with the whip to govern' their subordinates. The chief of the wage and labour department (*OTiZ*) explains: 'The old piece-rate and bonus system basically disintegrated as a result of the abysmally low level of wages' (Interview with the Chief of the *OTiZ*, 2000).

Such a situation though did not produce generalised and overt conflict but individual responses, which further depressed productivity and revenues. The new unfavourable circumstances in which the enterprise found itself, coupled with technical and organisational flaws of soviet times, combined to produce this effect.

Workers already strained by higher workloads and longer working hours could not possibly react but with tricks and discipline violations against attempts to elicit further efforts. The individualised payment system halted co-operation among shifts and between machine operators and maintenance workers, while cementing collusion between operators. As many put it: 'why give way to repairs if machines can still produce and let someone further on sort it out' (Interview with Assistant foreman, 2000). The shop chief agreed that any measure to speed up production, though unorthodox, was understandable in view of the need for greater output (Interview with the Shop Chief of the weaving s. n.1, 2000).

The gender divide further complicated the situation with female machine operators on the one side and technical personnel, generally male, on the other. The first, under greater pressure to produce and bring the plan home, the second, more scarce in numbers, due to voluntary outflow, and difficult to manage for lack of appropriate incentives.

In March 1999 the decision was taken for a full-scale reform with the introduction of a collective system of payment, the brigade system. Brigades were established at “zone” level comprising machine operators and assistant foremen servicing the “zone” over the four shifts. Each brigade was put on self-financing (*khozraschet*) and asked to sign separate contracts. As far as the wage structure was concerned, we had the following:

The individual piece-rate coefficient was integrated with an indicator of the “zone” overall output to force workers into greater co-operation.

Plan fulfilment bonus (*premiya*) rose up to 200% of the basic salary.

Furthermore the key question of *prostoi* was eventually made the object of a cut-throat decision. First, a ceiling was established to the amount of *prostoi* eligible for compensation. Secondly, decision-making over this matter was passed over from foreman to shop chief.

Immediate results were visible: shop statistics recorded a stabilisation of productivity at the higher pre-crisis level while average salary grew too. Now workers were paid according to results, managers maintained; the piece-rate coefficient weight rose to 35% of the overall take-home pay and wages grew on average by 2.5%. Also differentials, at least among brigade members and within shops, were reduced

making life easier for shop managers forced to deal with recurrent complaints and permanent bargaining.

Admittedly the new system was only a partial and short-term solution to work organisation problems. The major defect was its applicability, since each brigade had to sign a separate contract and some could differ significantly from the collective one.

Its introduction, rather than being planned from above, was proposed and designed by top production managers and then extended gradually with the collaboration of middle managers in order to achieve consent and smooth down technical or organisational inconveniences. Like the introduction of the new work schedule, the new payment system encountered resistance and suspicion by middle managers. The field notes on the situation in the shop report:

In November 2000, our key respondent occupies the post of Head of the weaving department. He has managed to introduce a new payment system, the brigade system. The new system has not been extended automatically to all shops. As he maintains, change should be introduced with "democratic" methods not imposed from above. He is therefore trying to convince his friend and subordinate, the shop chief, to adopt it in his shop. The shop chief is not convinced about the effectiveness of the new system. In fact, to him it does not appear new at all. He asks whether his superior has in mind the constitution of "communist" brigades of shock workers. The situation in the shop seems to lean in favour of the pro-brigade argument. The shop chief asks for his superior to adjust the coefficients for wage calculations of several workers: the problems lay in the fact that the piece-rate depends, among other things, on the number of machines operated and obviously there is not an even number for all workers. The situation is further

complicated by the fact that some machines are better than others, so workers fight for the best "zone" and then complain with him. The Head of the department assents to his request but insists that the new system, by equalising wages with the collective coefficient, would smooth down differentials and so the complaints. The shop chief did not provide a clear explanation for his opposition; a response, though, can be looked for in the worker's attitude to differentials, which emerged vividly also in this shop.

The reform also led to a substantial increase in wages; still it did not help with the continuous complaints by workers over wage differentials and discrimination in the allocation of resources. Traditional intra- and infra-category differentials were left in place. Yet, the deterioration in capital stock and continuous changes in production programmes meant that differentials between brigades and shops continued to manifest themselves and earnings remain volatile. Stress on quality, cost reduction and rationing of raw materials and spare parts were constantly used to justify wage cuts and loss of bonuses. On this ground both workers and shop managers felt endangered, as the latter were considered ultimately responsible for workers' failures. Managers could use their discretionary powers to match the best workers with the best-equipped working stations but this inevitably raised jealousies and complaints.

I could observe how the situation in the shops had reached an explosive climax when a shop chief summoned the chief wage accountant of the weaving department to face grievances by workers. From my notes:

Workers' representatives argue that the wage has remained substantially unchanged despite the introduction of the fourth shift, they complain that other shops receive better pay without specific justifications and lament

bonus losses on excessive strictness of quality control. The shop manager confirms the claims, maintaining that his shop has been discriminated against in setting the piece-rate price. The wage office employee rejects accusations, though remarking that poor quality and high level of *prostoi* were possible causes of differences observed. She is basically unable to face the argument and ends up simply defending the authority of the central wage department to act according to the data available.

The argument was probably no novelty to all participants. What appears to be new is the determination from above to impose decisions at the expense of managerial authority on the shop floor. Managerial support for workers' claims reveals the extent to which the new policy was endangering traditional bargaining practices on the shop floor.

We discussed these issues with the head of the department at the time these problems emerged and he agreed that the core problem was precisely the retaining of the piece-rate and bonus system and its underpinning philosophy of voluntaristic mobilisation. If technological discipline was to be achieved, workers should be guaranteed a reasonable wage for an acceptable work plan. In his opinion, the piece-rate component had to grow up to 60%, an homogenisation of production targets provided, and piece-rate workers themselves had to be reduced to only 30% of the staff total, essentially machine operators and assistant foremen. Quality had to become the corner stone of rewards. He was equally adamant that without investments and radical restructuring of the managerial structure the traditional soviet informal practices were the only control mechanism available, which he himself demonstrated to master and practice extensively. A wider shake up in the area was therefore expected but it came to coincide with the greater involvement of

outsiders in the enterprise management. Its analysis has to include the different interventions in the payment issues that they carried out in order to consolidate their hold on employees.

### ***The 2000-2002 outsider control: a new wage policy?***

When outsiders effectively took over the situation at the company, wage policy was certainly one of the major areas in which they had to intervene. First, they had to decide what to do with wage payments as wage delays and wage arrears had built up since 1997 creating an enormous financial and motivational problem. Secondly, they had to review wage policy, that is intervening on differentials, if they wanted to counter skilled personnel outflow. Third, they had to inaugurate a new policy in line with the idea of “western” efficiency and modernisation they constantly spoke of as their aim. This included new incentive pay, which will be discussed extensively later, and a change to prioritised professional categories, in order to favour managers and economists.

#### ***Wage payment and wage arrears***

TMS, the outsiders’ company, agreed to repay gradually wage arrears and to restore regular payment of wages. The first action was made conditional on the financial performance of the enterprise and was clearly linked to workers’ increased efforts in restoring high productivity levels. We should recall that the enterprise had fallen into financial difficulties since 1997, which culminated in 1998 in the paralysis of production and complete default on wages. As a result, workers had accumulated huge arrears, which were “frozen” and were meant to be paid separately, like other consolidated debts. They are therefore referred to here as “historical” arrears, for their computation and payment was distinguished from delays in payment of current

take-home pay. In mid 2001, looking back at the previous year, official reports<sup>69</sup> said that “historical” arrears had been substantially reduced from 4630 thousands Rb to “only” 606 thousands. The high level of “current” arrears remained instead substantial, running at a high 6420 thousands. This last arrangement should not be overlooked because delay in current payments meant that workers were now receiving deferred wages, for example April wage in July, May wage in August and so on, that is devalued ones.

Workers, several times, went confrontational on these matters in a collective fashion. In April 2001, they were refused the right to celebrate Easter holidays, still not on the official holiday calendar, with the justification that the enterprise could not afford to discontinue the production process even for one day. Workers therefore raised the issue of wage arrears and threatened stoppages. The Direction, then, countered with the threat to remove bonuses. Eventually an agreement was reached, which contemplated payments to production workers only, excluding ITR and auxiliaries.

The worker<sup>70</sup> who reported this story commented angrily about the event, observing spontaneously that the administration had been able to head off workers’ protest by making concessions to a privileged category. This is especially remarkable for a worker, a low-paid female quality controller, who demonstrated herself in other circumstances to be much less confrontational and was often well disposed toward

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<sup>69</sup> Data presented by the Chief Engineer at the trade unions conference in May (Smirnov E., 2001b).

<sup>70</sup> The woman in question is currently working as a quality controller in the finishing shops. She has been one of my key informants particularly for issues regarding women workers. She used to be the chief of one of the factory canteens before cuts to ITR positions and social services forced her to take a blue-collar job. Like in the cases of others suffering the same fate, her demotion was the result of ostracism targeting her as a single mother with serious family and personal problems.

the newcomers. She previously commented, in fact, that the outsiders were at least able to pay salaries while the previous Director had failed to meet his promises.

Again, later in August, an enterprise trade union meeting offered the occasion to present TMS leaders with a request to anticipate arrears repayment on the ground that workers were unable to meet education expenses for the approaching school year. Workers maintained that their wages were too low to withstand these costs. The scornful reply by the TMS president was later reported in an interview given by the above mentioned to the factory paper. It can be safely synthesised as follows:

'I want you to understand this clearly', he said, '...notwithstanding the enormous financial efforts in modernisation sustained by our firm, we still do not see the expected results'. [Then he continued complaining about] '...falling productivity, absenteeism, discipline violations...' [and so forth. He pointed out that] 'in the spinning shops, after the introduction of the new wage system, workers can easily earn up to 3000 roubles a month...' [therefore, concluded that] '...we have the impression that in their majority workers simply do not want to earn a good wage.' (*Privolzhskiy Rabochii*, 2001d)

Another measure contained in the financial adjustment package, of little significance in itself, but cause of pernicious consequences, was the reintroduction of cash payment for meals consumed in the factory canteens. Prices in the past had been heavily subsidised and the collective farm guaranteed a steady supply of fresh foodstuff. During the crisis the direction decided to deduct the costs of meals from wage dues, recurring in practice to in-kind payment. Workers were obviously unhappy with it, as they preferred to see cash instead of increasingly worse food. In any case, the decision to restore payment, at much higher prices than in the past, up

to 20 roubles for a full menu, resulted in workers deserting the canteens and resorting to consume their home-made meals in the shops. Doctors declared this practice a serious health hazard and related it to an increase in registered cases of infections. The fact that now many managers and ITR were heading home for their lunch break was also detrimental to work-time discipline. Furthermore, the de facto loss of this service meant that women had now to take this burden at home. The economic rationality of the decision was doubtful, bearing in mind that deserted canteens had now to be run at a loss, but perhaps this move anticipated their definitive closure. Workers anyway met this measure with resignation. As one woman commented: 'women in any case must cook for their family, therefore there is no need for canteens' (Interview with female worker, 2001).<sup>71</sup>

The ability of management to defuse collective action and the timidity of workers' moves were quite apparent. This can only be understood considering that workers were neither used nor intended to bring forward their claim at enterprise level, through collective bargaining. In reality, as demonstrated by these cases, workers raised their grievances in a collective fashion only occasionally, prompted by external circumstances. The problem tended rather to be solved on a personal basis in the shops. It was in this context that workers felt in their own right to raise their grievances either individually or in small groups, at shift or shop level.

If workers regularly resorted to managers for any problem related to pay, payments of arrears were no exception. In one case a worker turned to the shop chief to discuss the problem of delays in wage payments. As said before, workers were paid deferred

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<sup>71</sup> Looking at the early soviet banners propagandising the new communal facilities as a way to liberate women from the traditional family burdens one could not suppress the feeling that their disappearance was also marking the obfuscation of the rights connected with it.

wages, the worker quite rightfully explained the point and wondered why people should not be paid the “real” current wage. He underlined that it was unfair for them to be paid less than they actually earned. I cannot fail to notice that this was in fact the first time I myself heard about this problem in these terms. The observation was correct but for the case that the worker was posing the problem in terms of a personal arrangement with the manager. The manager in that case did not dismiss the request but outlined that it was rather the job of the trade unions to sort out these questions.

More commonly, workers appealed to the manager to request advances on the arrears due. Once having a walk with the shop chief’s family we came by a worker who warmly greeted and thanked the manager. The former explained later to me and to his wife that he had successfully applied, at the worker’s request, to the administration for the receipt of his wage arrears. The worker, he told us as a justification, was in urgent need of cash to buy a new flat. He was meant to pay for the flat by selling a room in the communal house, where he used to live. Yet, he was not allowed to sell without a signed contract for the new house and, at the same time, he could not sign the contract without a prior cash deposit. Obviously he had no money of his own to sort out this bureaucratic jam.

Several conclusions can already be drawn. The new administration proved to be extremely attentive in making the most out of the economic and financial difficulties of the enterprise. At the same time, they proved equally cautious in building up their legitimacy as new owners, avoiding direct confrontation with the labour force as a whole. Restoration of regular payments was in fact important to restore a minimum of confidence and facilitate the outsiders in breaking through managerial resistance.

Malignantly, the outsiders' adversaries commented that the move was a propagandistic carrot thrown at the workers, nothing less than a poisoned chalice for the enterprise, now skying up its indebtedness, and its dependence, on the outsiders.

In order to defuse conflict they continued to rely on traditional practices. As far as they were forced to take general measures, they managed to transform them into sectional problems, reinforcing conflicts and divisions among the workforce. This will be shown more clearly in the next section about differentials. By doing this they were transforming what could appear as a right, regarding each and everyone indistinctly, into a privilege that could be granted only to those who deserved it. In this way they confirmed and reinforced the paternalistic and hierarchical nature of social relations in the factory. This was only possible by allowing, in fact forcing indirectly, middle management to deal personally with wage-related claims as results vividly from the analysis of the implementation of the wage-system.

### *Pay scale and wage differentials*

The new administration also came under pressure to review its wage policy in order to retain and recruit specialists and skilled workers. This called for a review, altering wage differentials between occupations as to favour specific categories and, secondly, for the definition of a wage level sufficient to shelter the enterprise from trends in the labour market. The conflict arisen around differentials shows, nevertheless, that the search for consent among the workforce had to remain the main drive in this area of wage policy.

Being located on the border with the much richer Moscow economic area, the local labour market suffered a constant drain of cadres. The situation was made acute by the practice of individual enterprises to retain workers from scarce professions with an aggressive wage policy. Despite all the official calls for unitary action among

industrialists and the condemnation of unfair competition, this practice did not seem to come to an end. This problem was strictly intertwined with difficulties in attracting and training young professionals, making old cadres a more crucial resource. The result, as a manager underlined, was that 'in the past there did not exist any difference in pay for the same profession in the same industry when now differentials are proliferating' (Interview with the Head of the weaving department, 2001).

Already under the previous administration the wage drift in the labour market had made unsustainable the policy of retaining historical differentials among categories. Yet a generalised increase in salaries in favour of fitters and mechanics led to an uprising of both operators and ITR, heading off the attempt.

The same fate was to meet the outsiders' plans to shake up the entire pay scale, privileging managers over workers and economists among them. As our key respondent commented: 'ITR and workers reacted with obstructionism, making the newcomers think better of it' (ibid.). The respondent further commented that:

A European policy aimed at planning wage scales consistently with skills and professions needed at the factory was bound to fail as it requires too many resources and a strong bargaining power of the employers. The lack of appeal of industrial jobs in the province seriously undermines the threat of dismissal and to the contrary reinforces the bargaining power of selected categories. Therefore, the newcomers, in an opportunistic move to consolidate their grip over the enterprise, are forced to adopt traditional soviet tactics. (Ibid.)

As already seen above, they accepted making partial concessions to this or that group of workers in order to silence them and avoid a direct generalised clash with labour

or managers. Some data on the wage level of selected professions and groups of workers provide evidence about the structure of differentials and its evolution.

*Table 6.1 Average wages*

	Average wage <sup>1</sup>	Average wage <sup>2</sup> (weavers)
1998	-	850
1999	585	1050 <sup>4</sup>
		1780 <sup>5</sup>
2000	958	1800*
	1227 <sup>3</sup>	
2001	1359	2200*

<sup>1</sup>Data provided by the Chief Eng. at the trade union conference, 25/05/2001; <sup>2</sup>Data provided by the Department Chief; <sup>3</sup>End of the Year; <sup>4</sup>After first bonus increase; <sup>5</sup>After brigade reform; \*Estimates by production managers.

The few available data might be patchy, though some conclusions can still be drawn when supported by further evidence from interviews. The first not surprising element is the high differentiation between production workers, including machine operators and the even better-paid foreman assistants, and the rest of the workforce.

This is particularly evident for the crisis year 1999. At that time, evidently the administration struggled to maintain its core workers by substantial increases in wages, leaving the others the choice of accepting wage cuts or leaving. Since staffing levels fell from around 4000 to less than 3000 between 1997 and 2001, especially as a result of spin-off of the social sphere and auxiliary jobs, this might be seen as an accompanying measure, which facilitated dismissals. Shrinking staff can also account for the narrowing of the gap in later years. Although, at the same time, the

growing concern of managers for the loss of cadres, amid crisis and non-payment of wages, should remind us of the extremely limited room for consistent strategies and the enormous side effects of the crisis on the quality of staff.

*Table 6.2 Wages of selected managerial positions in December 2000\**

N.	Gender	Position	Stipend
1	M	Managing Director	5000 roubles
2	M	Chief Engineer	4300 roubles
3	F	Chief Economist (vice-director)	4000 roubles
4	M	Vice-director for General Affairs	3000 roubles
5	M	Quality Control Chief	2000 roubles
6	M	Security Chief	3000 roubles
7	M	Chief of 2 <sup>nd</sup> Department	1000 roubles
8	F	Chief of Personnel Dept. (cadres)	1500 roubles
9	M	Legal Consultant	2000 roubles
10	F	Chief of Secretarial Cabinet	1000 roubles
11	F	Senior Economist of the Planning Dept.	1280 roubles
12	M	Chief of Wage & Labour Dept.	2000 roubles
13	F	Chief Accountant	4000 roubles
14	F	Chief Accountant Assistant (accounting)	2000 roubles
15	F	Chief Accountant Assistant (finances)	1900 roubles
16	F	Chief of Computing Office	1000 roubles
17	M	Chief of procurement Dept.	2000 roubles
18	F	Chief of Sales Dept.	1600 roubles
19	M	Chief of IT Dept.	1600 roubles
20	M	Chief of Health & safety Dept.	1500 roubles
21	F	Chief of Training Centre	1300 roubles

22	M	Senior Engineer for Construction	1500 roubles
23	M	Director of Transport-Economy Dept.	1800 roubles
24	F	Vice-director of Transport-Economy Dept.	1600 roubles
25	M	Director of Central Tech. Laboratory	1500 roubles
26	M	Vice-director of Central Tech. Laboratory	1400 roubles
27	F	Director of Spinning Production	2400 roubles
28	M	Vice-director of Spinning Production	2000 roubles
29	F	Director of Weaving Production	2400 roubles
30	M	Director of Finishing Production	2400 roubles
31	M	Chief Mechanic	2500 roubles
32	M	Chief Mechanic Assistant	2000 roubles
33	F	Chief of Trade & Catering	1450 roubles
34	F	Chief of Housing Dept.	700 roubles
35	M	Chief of Health & Sport Complex	1200 roubles
36	M	Editor of Factory Paper	1000 roubles
37	F	Director of technical school	580 roubles

\*Data contained in the General Director's Decree as published by the factory paper (*Privolzhskii Rabochii*, 08/12/2000). Stipend does not include bonuses and "emoluments" attached to the position.

Comparing workers' wages with data on individual positions of managers and ITR reveals that the divide between workers and managers, including senior managers, was not so clear-cut. Neither responsibility nor education was in principle a guarantee of higher wages. Production workers could claim and in fact earned higher wages than the bulk of ITR as deduced from the fact that workers' wages were already higher than the ones of many office chiefs. As a female senior accountant confessed, it was still believed that direct producers were the core of the collective: 'it is scandalous', she passionately argued, 'that the administrative body earns such

huge salaries, the workers are those who produce, they in fact maintain us!'. Many might not express it so heartily, but both workers and senior managers reasoned that office workers were of little use and therefore did not deserve such high pay.

Obviously there were privileges attached to the position that could outnumber the disadvantage of the low pay. A former *Komsomol* officer now working in production remarked how 'for a woman it is much better to work in an office. The working timetable fits family duties and the working place, quiet and clean, is more adequate to women' (Interview with woman worker, spinning shop, 2001). Workers also lamented that managers had obvious social clout, which could shelter them from fines and reprimands. Last but not least, key positions offered chances to make personal gains, augmenting substantially what at first glance might seem a meagre wage. It remains the fact that social conventions required maintaining traditional differentials. In mid 2001, further wage increases, constantly needed to compensate for inflation, allowed for a 70% rise to workers and 45% to ITR. This should indicate that the newcomers in the meantime were committed to their observance.

The wage gap between workers was even more startling. The use of piece-rate and incentive pay, as we have seen, tended inevitably to generate differences among workers' wages even within the same occupational group. Yet, the enormous gap between "direct" workers and auxiliaries, and in particular between spinners and weavers on one side and other production departments, remains a striking feature of the pay scale.

The general understanding that sweeper or quality controller are jobs with low professional content to be left to the less skilled, and often less motivated workers, makes common sense. Several managers and technicians, though, noted with regret that specific categories of auxiliary workers continued to be paid risible wages. They

were alarmed that their poor performance might be extremely detrimental to production and economic results. A foreman assistant lamented:

A lot of money is squandered here. Take this case. Machines sometimes break down because production waste has not been duly removed. What can you expect from cleaners? This is the lowest job, they earn 600 roubles, and they work as much as they are paid. Still, the machine has to be repaired and output is defective! (Interview with the mechanic-repairer of the combing-carding shop)

Production managers were left once again alone to work out how to get new recruits and stem the flood of cadres from their shop. Our key respondent, working from 1998 to 2000 as chief of the weaving department, referred, during our early interviews, to the fact that he adjusted upward the tariffs of the scarcest categories. As a senior manager he could plan his wage fund. Since part of the outflow of workers was due to temporary leave for more lucrative jobs in the capital city surroundings, he sheltered his staffing levels from fluctuations by making seasonal adjustments to wages.

Most of the work though, was made at the lower level where retain and reward were indistinguishably tied to the continuous bargaining over pay between workers and their shop chief. Discussing with a shop chief over discretionary forms of payment, the case of a fitter-mechanic emerged, whom he paid a higher wage under-the-table, admittedly to prevent him from quitting.

This worker is really a special case...he does all the repair and looks after maintenance. In the past there was a special brigade for that but they have been dismissed. So I pay him thousands of roubles more. I managed to create a special fund for that with the wages destined by the administration

for people who do not work here any more. The administration does not know about that and it would be very serious if they did. I do not pay him because I have to...It is to give him a certain status. Otherwise I suppose he might leave for a better paid job. (Interview with the Shop Chief of the combing-carding shop, 2001)

As for the level of wages as compared with other enterprises in the local industry, the combine seemed to feature well for certain categories of workers while losing out for specialists. The average wage at the enterprise, as one worker noted at the trade Union conference, was now only approaching the minimum subsistence level (see Smirnov E., 2001, p. 2). Still, the president of TMS, rejecting grievances over wages, noted that 'as for the level of wages the enterprise is rated 13<sup>th</sup> out of 43 textile enterprises in the region' (*Privolzhskiy Rabochii*, 2001d, p. 1). In fact the factory, while having problems with recruiting specialists, was doing quite well with workers' recruitment. One respondent, a chief mechanic who had just moved to a new factory, referred to the fact that they had lost some weavers to his old employer. In that factory wages for main workers were apparently lower, staying at 1300 roubles. The Director of the factory complained that competing companies in the surroundings were putting a serious threat to the stability of his collective by raising wages. He further explained that: 'they are taking advantage of bankruptcy procedures. The state of bankruptcy permits them to get away with taxation and leave resources for paying better wages' (Interview with the Director of the "Factory N.2").

The outsiders, therefore, preferred continuing to favour traditional categories, upholding the customary differentials. They retreated over policies aimed at modifying the pay scale. They also froze plans to centralise and restructure offices

dealing with wage and personnel management. Recruiting and retaining cadres was to remain a major task of production managers. The objective pursued with this policy was to consolidate the labour collective, restoring the administration's authority and avoiding generalised conflict. This comes with some specifications. The "conservative" move has to be put into the larger perspective of the parent company, which was building modern managerial capabilities outside and above the enterprise and had therefore less need to restructure.

The crucial conflict with the workforce, and therefore with management, arose from the attempt to combine this policy of least resistance and concessions, with the transmission of qualitatively and quantitatively different targets. To understand its nature and outcomes we have therefore to look at the reform of the wage system and its actual implementation by management. In a traditional soviet policy, it is in fact the wage system that has to carry the modernisation drive through incentive schemes. Still its manipulation is the essential device by which production management can achieve workers' consent.

### *Outsiders 2001: a new wage system*

In between late December 2000 and May 2001, due to developments in bankruptcy proceedings, the outsiders' role strengthened, permitting a greater involvement in the management of the enterprise. One of the most significant measures taken was the remaking of the payment and incentive system. Fulfilling the expectations of the Union and experts, the flat rate component of the basic wage, i.e. excluding bonus, was raised to around two-thirds of the wage. The new priorities of the administration led it instead to replace the traditional bonus tied to the fulfilment of plan targets in physical terms with coefficients depending on a combination of qualitative, quantitative and discipline-related targets. The reform involved both managers and

workers and prescribed for each different goals, consistently with their role in production. In this section we concentrate on the changes to the salary of piece-rate workers. The new incentives were meant to modify the way workers made the plan and therefore also the job of the managers, who had to motivate and reward workers and make sure that the new targets were properly achieved. Differently from the brigade wage system, the reform extended to all production departments (spinning, weaving and finishing) with little variation. The main features of the new system can be summarised in the points given below:

a) The hourly pay was raised to around 63% of the basic wage, ranging from 62.9% in weaving to 64.9% in finishing. The wage of the piece-rate workers, we shall remember, consists of three main components, the tariff component, the piece-rate and the bonus. The two former considered together form the basic salary to which the bonus is added to as a per cent coefficient. The manager could calculate the piece-rate in advance on the basis of production norms and piece-rate tariff, presupposing fulfilment and *prostoi* at given rates. The reform altered the structure of the basic wage, increasing the tariff or flat-rate component at the expense of the piece-rate. Considering the piece-rate component as given, the change consisted in raising the wage to the point when the other component approached one-third of the total.

b) The incentive mechanism was completely redesigned. A range of coefficients replaced the single bonus, related to the fulfilment of production plans. Workers were to be assessed and rewarded mainly for achieving output quality standards and observing technological and labour discipline. Foremen and shop chiefs, who are stipend earners, had their bonus paid on condition of fulfilling both qualitative and quantitative targets.

c) The mechanism of computation was also modified. In the previous system the bonuses were ideally added to the wage on condition of achieving certain targets. Now workers were entitled to a sum made up of all the wage components and had them deducted for failures to meet tasks. Managers talked now of a fine-based system replacing the previous bonus-based one.

Theoretically, the objectives of the new system were: to increase workers' motivation, achieved by offering higher and more stable salaries; to increase productivity and achieve greater accordance between results and reward, by means of using of targeted fines.

The first point was worked out with the participation of the trade union and appears formally as the implementation by the enterprise administration of the commitment to improve workers' remuneration. As reported in the factory paper:

According to a tripartite agreement between the Ivanovo administration, industrialists of the Ivanovo region and the trade unions, it was established that the salary had to be taken to such a point that the tariff component would amount to almost 70%. (Smirnov E., 2001)

The reform indubitably achieved an increase in nominal salaries, though workers and even the collaborative unions were unsatisfied with the actual figures. The stability of wages should have been another outcome of the reform, giving workers greater confidence over future earnings.

This goal seems also to match with the improved and more stable conditions of production produced by the take-over. In a highly unstable working environment, heavy reliance on the bonus was understandably the last resort for pressuring managers and workers to elicit any effort to keep production going. Now, when the

outsiders had provided the financial and material resources to stabilise production and work at full capacity, the priority balance shifted in favour of productivity and quality targets. The reform moved in this direction by reducing the weight of the piece-rate in the basic salary and disentangling it from the calculation of bonuses. Workers were now asked to concentrate on improving their performance, while the achievement of output targets was the sole concern of the foremen and the managers who had to organise and supervise the fulfilment of the plans.

It has already been observed how nobody among the managers was willing to dispose of the piece-rate despite concerns about its growing inadequacy. An interview with a top brass representative of the textile industrialists' association confirms an identity of views with factory management in terms of finding a mid-way between the flat-rate pay prevalent in the West and the Russian appreciation for incentive schemes.

I think that workers will remain essential to assuring quality in production. This means that we have to attract and motivate qualified workers. I admit that the critical point is to strike a balance between stimulation and stability. Yet the payment system has to reflect the importance of workers' qualification and dedication. This is why we have to maintain a piece-rate wage. Paternalism is necessary, despite all the criticism raised around the collusion between managers and workers. We could not cope otherwise with such low wages (Interview: Director, "Regional Association of Textile Industrialists", 2001).

In any case, observation of its implementation indicates that the rationale of the new system, its motivating potential is not univocal and should not be taken for granted. A satisfactory account of the impact of the reform cannot be made without reference

to the actual experience of its implementation, carried out by workers and middle management and the response it yielded from workers.

*Work and wages after the reform: managerial implementation and workers' response*

The reform was formally aimed at achieving higher and stable wages, redirecting workers' concerns from quantity to quality and easing the work of managers left in charge of plan fulfilment. Implementation on the shop floor demonstrates how its rationale turned out to be different from what was intended. Calculating the new wage, line managers showed that the stable component of the wage had been reduced and workers had to expect cuts in their upcoming pay. Managers and workers felt that the new focus on quality was nothing but an excuse to cut wages. The pressure to meet the plan was not reduced. Rather, targets were more ambitious and stringent than ever before, and the complication that came with it had changed little. Workers rightly maintained that quality has to be a managerial concern, because it depends on the state of technology and cotton. They therefore responded to the reform by resorting to a combination of trickery and common understanding with managers. For their part, managers, while stamping out the most overt violations, have continued manipulating quality indicators and output reports, trying to favour the more reliable workers. Therefore informal practices continue with the consequence of continued conflicts and bargaining over pay, piece-rate prices and workloads. Workers show themselves to be even more divided as they compete for a shrinking wage fund.

*Managers' understanding and implementation of the reform*

We should now turn our attention to the shop floor, where I carried out participant observation, so as to verify the implementation of the reform and record people's reaction. As far as managers were concerned I expected satisfaction with a reform that met in principle their expectation for a loosening of incentive pressure. It is certainly true that managers were going to lose a lever of command, but since the old incentives had little motivational effect one might appreciate other, positive, outcomes of the reform. First, flat-rate pay would have lowered the conflict over pay and put an end to the jiggles with norms and the fabrication output reports aimed at "saving" workers', and manager's own, bonus. Secondly, it would have offered greater scope to plan production away from workers' individual struggle to meet their norms. If these were the wishes of, at least, the manager of this shop they went unsatisfied.

A comparative analysis of the two payment systems from the point of view of those in charge of their implementation, i.e. transferring them into the real context of worker-management bargaining, will expose its drawbacks and the substantial lack of innovation. If we look at the figures of the old pay in percentages we recall that the tariff, i.e. flat-rate pay, amounted to around 30%, piece-rate to 70% to which was added a bonus of 75%. In practice, the manager<sup>72</sup> explains, the only variable was the piece-rate component. Informal arrangements between managers and workers, dating back to soviet times, had led to the practice of considering both tariff and bonus pay a must: roughly calculating, 105% of guaranteed pay. Now, applying the same logic

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<sup>72</sup> This is Nikita Aleksandrovich, our main informant. In mid-2001 he was again working in the combing-carding shop as shop chief after losing his job as head of production due to conflict with TMS.

to the new system, it turns out that the 63% new tariff pay plus the 40% coefficient gives a roughly similar figure of 103%. More importantly, within this percentage has now been incorporated a 10% bonus/fine for absence due to illness. Therefore, the manager concluded, it might well be said that the stable component of the wage has in fact been reduced and workers should expect cuts to the upcoming pay.

Managers, moreover, feel that the pressure to meet the plan, and the traditional complications that comes with it, have changed little. So the piece-rate continues to operate as a contradictory mechanism spurring productivity at the expense of technological discipline. Evidence from various sources among senior managers of both the enterprise and outsiders' circles confirms that this is not a distorted perception of those in production. TMS managers at formal and informal meetings continued to stress the need to achieve higher production targets and heavily remarked failures. The official policy, maintained a well-informed representative of local industrialists in September 2001, is one of maximum utilisation of capacity. The Chief Engineer, a few months earlier, confirmed, not without a note of criticism, that quantity not quality remains the priority.

What then with the new imperative for quality to which the bonus is now related? Several examples from everyday life in the shop reveal how the new element has in fact been incorporated into working arrangements and paid the necessary attention, but not without conflicts and contradictions. A reminder of perestroika when, it was said metaphorically, reforms implementation implied changing the wheel without stopping the vehicle driving.

Technical and organisational constraints are a major obstacle to quality improvements, but since this is not the major point here we will reserve to discuss it elsewhere. It is sufficient to highlight that, in any case, managers did their best to

overcome poor co-ordination and interdepartmental conflicts to keep quality of materials processed under constant check. Foremen and workers' co-operation remains a key question.

In one case a foreman complained at the loss of bonus, urging that having met her plan she felt there was no wrongdoing on her side. Arguments about bad quality of output and poor discipline of her workers did sound a novelty to her. The more so workers, both operators and mechanics, who rejected any remark on the achievement of higher quality claiming they only felt responsible for the quantity of work done while quality results were rather to be made dependent on the materials and conditions provided by managers.

In another case, in the face of another apparent drop in quality, the manager convened the foremen and technicians of his shop to make clear the priority of quality and again explained its determinant weight on bonus payment. He then enumerated possible causes of failures, including technical and human errors. He clearly urged that workers had to put an end to violation of technical prescriptions to speed up or ease their work, but he consciously remarked this had to be done 'at least on the line designated for export'. He was adamant that quality characteristics continued to be manipulated in order to meet formal standards. Therefore, the expected effect of the new coefficient in redressing management priorities, and therefore workers' behaviour, from quantity to quality was, at least at this early stage, minimal.

For all the expectations and the determination to change, once again, a general assessment of the situation let him to conclude the conversation with the remark that little has changed in the way production in the shop is dealt with. This means that, as

exemplified by the analysis of wage computation earlier in this chapter, informal determination of wages remains a consolidated practice.

The key question is therefore the effective discretion of middle management in the use of incentives in their struggle with both administration above and workers in the shops. Recalling the many examples provided above we can already assume that individual bargaining over wages was present and its intensity had not decreased. It remains to widen on its evolution within the new framework established by the reform, looking again at evidence of bargaining practices observed in the shops.

During observation of managerial work in the factory, at least until fall 2001, it was extremely frequent to hear about "*kompensatsiya*" (compensation or indemnity). Workers requested or were granted compensation under very different circumstances. Nevertheless, these cases seem unified by the consideration that an adjustment is possible when the "expected" or "deserved" wage differs from the one that workers would be paid, if their job was to be computed according to statistics.

A typical case is when workers fail to fulfil the plan or incidents occur which prevent them from satisfying all the conditions settled to achieve a higher wage, like output quality, numbers of hours worked, machine operated et cetera. Here the question arises whether the worker should be paid in full. That is to receive compensation approaching or equalling the expected wage.

After privatisation the unevenness of production had, as we have seen, multiplied grievances and related payments. In any case, until a couple of years ago the payment of *prostoi* allowed to compensate almost automatically at least for losses due to machine idleness. Now these institutions had been obliterated but the pressure was kept high for managers to intervene. As a foreman assistant noted: '...when problems arise the women [i.e., machine operators, C. M.] go cry to the manager and

sort it out “somehow”. Basically, everyone tries to sort it out by himself” (Interview with Assistant foreman, combing-carding shop, 2001).

It is a quite different case when the worker claims a higher wage with their foreman or shop chief, on the ground that his/her work is not adequately rewarded. These are the cases commonly observed in shop chief offices. Workers require higher wages irrespective of the number of hours worked, output quality, professional eligibility to higher pay rates et cetera, because they are in need, they did unrecorded work or simply are used to receiving such a pay. In these cases the manager has first to decide whether the claim is grounded. Our key respondent, working in summer 2001 as chief of the combing-carding shop, rumbles: ‘there are too many workers turning to the managers after a chat with fellows pretending that they work better and they should get more’. Then the manager is presented with different options: he can use the incentive funds available, of which presently a dramatic shortage is felt, or apply for individual compensation, in this case there are no guarantees of approval, as workers complained.

Interviews with the most valuable cadres<sup>73</sup> in the shop tell of the expectation of same sort of supplementary payments for extra work and more or less explicitly confirm the manager’s continued willingness to compromise: ‘...with the shop chief we can

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<sup>73</sup> These are namely two assistant foremen and a fitter-toolmaker. The assistant foreman is a key figure within the shops. This is a male only profession. It requires technical knowledge and a high level of practical skills. The post is usually granted after an exam requiring technical school attendance. The assistant foreman works in constant touch with line managers and enjoys their trust and support. As reminded by the Combine Director himself, he is a natural leader in the shop. assistant foreman is in charge of fitting looms, replacing spare-parts and performing emergency repairs (*avariinyi remont*), as opposed to scheduled overhaul and major repairs, (*kapital’nyi remont*) which is the job of a separate sub-unit, the RMO.

come to an agreement on these matters'<sup>74</sup>. Their discontent with the situation also made clear that the manager now had in fact less room to secure resources for compensating their services:

They do not pay me anymore what they should. I get only 10% more than those who drink the entire shift around...[says the fitter<sup>75</sup> and]... they do not pay us as we deserve... but he [the shop chief, C. M.] himself has not the power to change the situation...[adds the foreman assistant].

A last resort, the shop chief confessed, is to arrange outside the official channels, offering as reference the above-referred case of the mechanic. In order to reward a mechanic for his essential contribution to machinery maintenance and repair he diverted funds of the enterprise constituting a shadow fund made up of the wages of "dead souls", i.e. workers made redundant and no longer working at the enterprise.

The shop chief makes me notice how this is a slippery ground for analysis where different phenomena can be observed and changes have occurred over time. We have to distinguish the institutionalised practices which descend from the then (i.e. under

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<sup>74</sup>Workers and managers referred to informal practices of bargaining and mutual understanding with the well know saying: '*kak platyat tak i rabotaem*' (we work as much as they pay us) or '*vy delaete vid, chto platite zarplatu – my delaem vid, chto rabotaem*' (you pretend to pay us and we pretend to work).

<sup>75</sup> The repairer or fitter (*slesar'*), like the assistant foreman, is a highly skilled mechanic. He enjoyed the status and the privileges attached to skilled manual professions. This job in particular requires higher skills and experience than that of the assistant foreman as he decides over the restoration and reconstruction of looms. For this reason he has his own engineering shops. He works in pair with the shop chief with whom he exchanges information and decides over major technological problems. Here there is overlapping with other auxiliary repair services. This can be partly explained by the soviet practice to break down tasks and partly with the tendency to autarchy, which dominated at every level of the production organisation.

“red” directors) approved policy of “stick and carrot” from those managers arranged autonomously to favour their cadres.

The whole case about compensation boils down to the need to use funds in a discretionary manner at shop level so as to guarantee workers’ loyalty. But we are inclined to think that while in the past this was a widely accepted policy now it seems to have become the sole concern of the line manager struggling with the administration to achieve the necessary funds. Managers have seen with favour the gradual elimination of the institutionalised forms of compensation, like *prostoi*, but only in so far as these are replaced by other mechanisms under their direct control. The shop chief suggests for example that the 200% increase of the bonus under the brigade system worked to this purpose. Yet, now that the administration pursues a stricter financial policy the system has become more rigid and this is felt detrimental to managerial authority and to the manageability of the labour force. On this ground the historical loss of the plethoric incentive apparatus offered by the socialist system continues to be felt negatively and the grip of outsiders on the concession and use of compensation is interpreted as a further limitation. A tentative conclusion should therefore concentrate on the following points:

Objective constraints, technological as well as organisational, still force managers to engage in individual bargaining;

Manipulation of targets and incentives continues but the scarcity of resources has seriously undermined the scope of managerial action;

The conclusive outcome, as commonly reported by respondents, is the transition from a system based on incentives to one managed through fines.

For a general appraisal of these aspects it would be useful to explore workers' opinions and reaction. Not simply because they are the other party upon whose co-operation the system relies. Workers, despite having little say in decision-making, are still recognised at every level of the managerial hierarchy as a pillar of work organisation. Managers, as emerges clearly from the previous account, have to come to terms with the limits and opportunities offered by their co-operation. Secondly, poorly paid and evidently mistreated, workers can offer an entirely different prospective on how their work is paid for and why it is not sufficiently stimulated. Thirdly, any change should inevitably be understood, at least partly, in the forms and within the limits it effectively influences their work.

*Low wages, little incentive: workers talk*

There is very little at the factory workers could be satisfied with and wages are, as universally in Russia, a major ground for complaint. Here will be reported those causes of discontent directly related to the working of the wage system and its effect on work organisation and practices.

A methodological observation is also due. Workers' opinion has been collected, as for managers, in semi-structured interviews, generally with key informants, with questionnaires responded collectively by two shifts of the combing carding shops, and more generally in discussions, often prompted by workers themselves. In any of these cases workers response was more fragmented, less "reasoned", than the ones offered by managers and also more reticent. Workers know little about the way they are paid, though more than they would like us to believe. They stressed in interviews that they are hardly informed about the functioning and changes of the payment system. We are forced to believe them looking at their pay slip: a badly- printed

piece of paper, the size of a memo, with no explanation or notes just a few figures and the corresponding bureaucratic voices.

Workers, like any employee, are in the first place concerned with the total amount of their take-home pay rather than the way this is structured internally. This does not mean they ignore completely the functioning of the incentive mechanism, at least in term of the priority managers attach to the accomplishment of certain targets and tasks. Again, workers pay attention to differentials both within the shop and among categories within the enterprise. Those who show a higher mobility, men more than women, the younger and skilled more than others, always have an eye on the local labour market. Thirdly, there is a marked gender divide not only in the amount but also in the form of pay, strengthened by informal practices.

The overwhelming concern of workers, always lying at the top of their grievances, is the abysmally low level of wages. This is obviously a feature of the country as a whole and particularly in this region and sector. Is there therefore any specific significance or consideration to attach to this claim? The average wage, according to data provided by the Chief Engineer at the union conference in May 2001, amounted to less than 1000 roubles in the previous year and was approaching 1300 Rb – the subsistence minimum - at the end of the year. But manager-respondents tended to give figures higher by at least one-third, probably having in mind the well-paid professions, operators and mechanics, which make up the bulk of workers in the shops.

Wages, in any case, vary greatly among categories and within shops: just to give examples, from the average wage of weaving and spinning operators around 1700 roubles, to the three, even four thousands paid to a mechanic, the best paid manual profession so far. At the bottom, we find the six hundred roubles for cleaners,

internal transport workers and the bulk of the finishing department – considered the workers' graveyard - mostly unskilled. Clearly, for the latter, a low wage means they cannot hope to sustain themselves on their wage only, for the better paid it is to renounce the pattern of consumption they had got used to since the mid seventies. Irrespective of differentials, they all feel their work is not adequately rewarded. The reference is both to their particular job in the enterprise but also to the industry or manufacturing in general. Some respondents also pointed at growing disparities with lower managers' pay and to the fact that managerial clout let them get away with failures unlike workers. Though this should not bring us to the immediate conclusion that any sort of collective consciousness exists, let alone ground for collective action, beyond the boundaries of a shift or shop collective.

In fact, workers claims for fairness steer away from any idea of equality we might be used to from traditional European working class discourse. Both men and women, operators and mechanics, complained at the fact that differentials were minimal and pay seemed to be calculated irrespective of individual performance. This is what the workers of the carding shop said about their salary:

Furthermore they calculate us [wages, C. M.] all the same. For example, it can happen to work all month and make the plan or take half of it off and still the wage will be the same. (Interview with shift n.1 of the carding shop)

A typical drive in discussion was to throw any responsibility on “drop outs”, the alcoholic journeymen who had little to lose and drove down productivity. This was to disguise a ferocious competition, primarily among shifts, which were “stealing” from each other cotton threads, tools, spare parts et cetera: a practice, managers commented, coming as a result of the piece-rate, bonus-driven, mentality.

Seemingly, complaints about the existence of “unfair” differentials continued to poison the atmosphere of the working places. Workers seem to pay enormous attention to even the slightest difference in the level of payments within the factory, especially when it comes to the same profession. In one case, reported below, the complaint concerns differentials between spinners working on the same type of machinery and allegedly producing the same articles. The fact seemed to be so serious that complaints were published on the factory paper and managers felt compelled to intervene with an explanation.

The workers' letter was published in the factory paper in February 2001 and a sequel of managers' replies and workers' counteraccusations followed in the next two editions (see Ivanova N., 2001, p. 1; Taranova V., 2001, p. 1; *Privolzhskii Rabochii*, 23/02/2001, p. 2). According to the workers in one shop, the others are paid an unjustifiably higher rate. They also maintain that they had their piece-rate price cut from 27 to 23 kopecks and accused the Assistant Head of Production of favouring ‘the spinners of the 4<sup>th</sup> floor’.

The reply was provided by the Head of the Department, followed by an article from the chief engineer for norm setting in the spinning shops. The former presents itself as an attempt to clear up what seemed to be a misunderstanding: she explains how the tariffs were in reality much lower and only lately raised, to 23 kopecks for the 3<sup>rd</sup> floor and 27 for the 4<sup>th</sup>. Then, she goes on to explain the reason for this difference in pricing (Ivanova N., *Ibid.*). The point made here is that, given the use of piece-rate and the intricacies of norm setting, one should not expect any easy grasp of the matter or a straightforward solution. More explicative but also more paternalistic was the second article. First, the engineer explains the details of norm setting in the case in question.

On the 4<sup>th</sup> floor, [she says], the norm consists of 6.11 kg of yarn an hour, on the 3<sup>rd</sup> floor this amounts to 7.4 kg an hour. Why do norms differ? This is because they are affected by the spins. On the 3<sup>rd</sup> f., it amounts to 1330 spins a meter; on the 4<sup>th</sup> it is 1370. (Taranova V., *Ibid.*)

At first look, it appears that price setting was intended to equalise wages by conceding the shop with the lower production capacity a more favourable price. Not surprisingly though, the managers do not make the point in their argument. She concludes, provocatively: 'so, my dears...if you want to work with higher prices let's ask a favour. The others [on the 4<sup>th</sup> floor, C. M.] will take your place with pleasure...' (*Ibid.*)

Workers did not seem fully satisfied with this. To the contrary, they raised doubts about the truthfulness of the engineer's account – '...we dare say that this difference [in spins, C. M.] has arisen only recently...' - and urged more serious accounting: It is obvious that an account about differences in production norms should not be given in simple words'. (*Privolzhskii Rabochii*, *ibid.*)<sup>76</sup>

What emerges here is, in the first place, an enormous gap in knowledge, made more difficult by lack of information. Yet, communication proves difficult, given the high level of mistrust, and resentfulness, on both sides. Workers might be badly informed, still they feel quite safe at talking about their job and do not appear to accept being contradicted.

The use of piece-rates, as the managers themselves suggest, is certainly an objective cause of these conflicts. In so far as it naturally produces differentials it results in a source of jealousies. What workers claimed, in the end, was higher prices to

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<sup>76</sup> Open letter sent to the enterprise weekly paper by 'The spinners of the 3<sup>rd</sup> floor'.

compensate for increased efforts and greater planned output but the only form they felt appropriate to formulate their request was to take it out on other workers rather than raising an open claim with the administration.

Consequently these workers, while claiming equal prices, do not seem to show any solidarity with their colleagues. For all the criticism spelled against managers, workers still make them their only and immediate reference, neither other workers nor the trade unions are called into the question. Though at a price, we suspect that this might rather reinforce than undermine the managers' authority.

A separate case should be made for cadre workers, essential figures like fitters, repairers and mechanics who suffered particularly from the lack of ad-hoc measures to compensate for extra-work. These workers are in charge of repair and maintenance and their work has immediate effects on the good state of technology. Their activity, given the poor state of technology and the lack of planning, is difficult to measure but, at the same time extremely valuable. No wonder it is subject to individual bargaining with managers, always in search of an artifice to channel extra money to them. The fitter in the combing-carding shop reported that his work includes partial machine redesign and reconstruction, for which he used to be paid by a special department existing during soviet times. The department had been closed and now he had to "bag" every time to get this kind of work paid somehow. Another mechanic, an assistant foreman, complained how his overtime repair work was agreed upon with the manager but then remained unpaid as 'up there' rejected the manager's applications.

These accounts stand for the continued dominance of the piece-rate and the goal of making the individual norm. Again, the existence of differentials and conflicts

between workers reproduces a situation where the manager-worker relationship is highly individualised to the advantage of managerial authority.

Workers, as we saw, also stressed their annoyance and disbelief in a policy aimed at stimulating them but closing room for sustaining differentials. What therefore about the new incentive mechanism, the coefficients?

Workers' criticism was pointed at both the quality and illness bonuses. During the previous months these had been the cause of partial bonus losses and this was clearly felt as an unjustified and punitive intervention. Workers maintained in conversations that they could do little to increase productivity and quality standards. In particular, they stressed the contradiction between the two goals. Female operators and mechanics referred to the long night shifts and weekends, when auxiliary services are unavailable and managers are away at home, as the time when quality suffers the most. They concluded that this was simply a mechanism to reduce wages. The loss of bonus for illness absences was particularly stigmatised. The shop fitter commented angrily:

What I found really offensive is the fine for illness leave. In the past, we were paid a lower wage but the rate was made dependent on grade and seniority. Now workers only [the ITR are excluded from this measure, C. M.] are subject to an outright 10% wage cut. Furthermore, those who will suffer most are the women, who fall sick quite often because of the bad working conditions. (Interview with the fitter of the combing-carding shop)

This was clearly a disciplinary measure aimed at discouraging "self-reduction" of working time. High in the complaints of many managers was in fact the unjustifiably

high level of absences due to illness<sup>77</sup>. Workers, though, felt this was fully in their rights given the low level of wages.

Problems and conflicts also arose along the gender line, represented, in the shop under my observation, by the professional divide between female operators and male mechanics. The female collective of the shop reported that men and women had their own professions, which were therefore paid differently. Engendered pay discrimination was not felt as such primarily because women workers intended their factory job as something alien to their life. 'We consider that there are no professions adequate to women in this enterprise...' (Interview with the shift n.1 of the carding shop, 2001) they reasoned; an argument which reappears constantly in the answers of female cadres and managers to this question.

What they complained about, as far as wages are concerned, was that women were forced to take up men's tasks: 'if there is no *vozchik* (male carrier) or *ugarshchik* (male machine cleaner) then they can put even a woman and, we think, this is not fair.' (Ibid.)

Another shift of women operators openly voiced at the manager their complaint about the continuous absence of auxiliary males. More and more often they were forced to take up "male" tasks in order to keep the machines going in their absence. The issue was becoming critical because of serious lack of technical, male, personnel and growing workloads for those remaining due to deteriorated technology. Women pointed out that they received no compensation for that unlike, it might be added, skilled male workers.

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<sup>77</sup> This and other issues of workers' 'indiscipline' and defiance and policies aimed at achieving greater control over workers will be discussed in detail in the next chapter.

On their side, mechanics, whose bonus was calculated according to results of the brigade, felt particularly penalised by the new system. They openly stated that they did not like to see their pay depending on someone else's performance. One of them complained how, in case of failure, 'women' went to the managers and solved the problem 'crying and shouting' (Interview with Assistant foreman, combing-carding shop, 2001). While he suggested he had to find the way 'to make it up', on his own 'somehow' (*koe-kak*), referring to the informal bargaining with the manager.

Workers' general dissatisfaction could be moderated by the observation, with which they closed interviews to justify their patience and resignation, that even this was better than the terrible years of non-payment of wages and there was not anything better out there. Women in particular with their family responsibilities felt little room for escaping what is still the only job in town. Men, especially skilled, were more flexible, making the life of managers harder with the constant threat to leave.

### *Summary and Conclusions*

In summary, we can see that technological and organisational constraints still force managers to engage in individual bargaining. The new wage system has failed to put an end to these practices and reorient manager-worker relations to the achievement of quality or efficiency targets. The only significant change, the transition from a system based on incentives to one managed through fines, indicates that workers (female more than male, unskilled rather than skilled) are paying the price of adjustment. By sustaining differentials and keeping wages low the system tries to foster atomisation, defuse conflict and promote enterprise survival despite numerous inefficiencies.

The point of sufferance was therefore discipline in its various aspects. Not surprisingly this issue became another crucial goal in the struggle of the administration to strengthen the effectiveness of the production process. It is clear in fact that incentives could work only in a normalised environment, that is where workers had no choice but to adhere to the prescribed path. Moreover, discipline violations are another major element of departure from the experience of capitalist industrialised countries. They therefore deserve a specific analysis, which will be carried out in the next chapter.

## **7. Labour and technological discipline: Chaos and order in production management**

This chapter presents an analysis of cases of discipline violations and disruptions of the production process, in an attempt to trace the ultimate causes of their endurance at the enterprise and the implications it bears for restructuring. These phenomena may vary greatly as to their immediate causes and consequences and it could be questionable whether they should indeed be grouped and analysed under a single heading. Still they seem to find a common root in the traditionally limited form of managerial control over the production process. Their combined effect, reinforced by the material and psychological consequences of transition at the enterprise, provide a direct and visible representation of the state of production management at the factory and the reasons why half-hearted reforms, including the wage reform seen in the previous chapter, are not succeeding. In fact, they account for, and are strictly interrelated with, the chaotic state of production, its inefficient and irregular operation, and represent a formidable obstacle to the assertion of managerial control.

Loss of working time, absenteeism and other discipline violations (theft, alcoholism, slack and careless work, output restrictions) were a persistent feature of the labour process in soviet factories from Stalin onward (Arnot, 1988; Filtzer, 1986). They deepened in the 1970s and 1980s and escalated out of control in the final years of perestroika due to labour shortage and the aggravation of supply problems (Filtzer, 1992, 1994). The situation was such that it is impossible to distinguish between objective and subjective causes, i.e. the system both compelled and allowed workers to commit such violations. Immediate causes were the most diverse (lack of co-

ordination, poor pay and motivation, bad working conditions). There is an active component in these events, which expresses the conflictual character of manager-worker relations (attempts by workers to free time for themselves, access scarce goods and exercise control over the production process). The sheer size of the phenomena is due to the fact that managers *and* workers alike violated procedures to protect their earnings and meet the plan. Their ultimate causes lay in the social relations on the shop floor, which resulted in workers' atomisation and managerial leniency.

The case study enterprise presents a record of these phenomena before privatisation, which have been growing into a problem of major importance lately, as appears from the outcomes of observation and interviews presented hereafter. Discipline violations and the more general effects they cast on work organisation and the structuring of social relations will be taken into account for each of the most recurrent forms of violation. Two categories of violation have been identified, namely those of labour discipline and technological discipline: the former comprising loss of labour time, theft and alcoholism, the latter referring to workers' circumvention of work instructions aimed at easing work or simply making the plan.

The focus in this chapter is on the labour process and managerial strategies. However, professional identities, gender issue, and forms of authority will also be covered to ascertain the intricacies of conflict and consent on the shop floor (Collison, 1992). This chapter consists of two sections. In the first section I analyse different types of discipline violations. In the second section I provide an account of the disciplinary campaigns assumed by the enterprise administration and present an account of shop floor practices that shed light on the contradictions of the production process and explain the continued failure of these initiatives.

### *Transition to Increased Indiscipline*

Since the second half of the 1990s, discipline violations in the factory have increased, undermining an already deteriorating economic climate and further poisoning manager-worker relations. At the factory, there are problems of absenteeism, on-the-job time losses, theft, and alcoholism. Staffing levels are plagued by high levels of sickness leave and other kinds of administratively authorised absences, and by workers simply not coming to work. Idle time, especially during shifts, is due to repairs and due to conscious violations, such as extending the break period. Theft has raised as much concern among management as does absenteeism, and it causes security problems. Alcoholism affects almost all cases of discipline infractions. I review below these phenomena, presenting the findings of interviews and observation in order to identify their causes and the extent of managerial involvement.

#### *Absenteeism*

Truancy problems were first brought to my attention while studying the official factory diary at the office of the Head of Production. The book contained a record of the staffing level and absences in the shops, arranged in three columns. The first column presented the level of staffing minimally needed relative to the production capacity installed in the shops (*po spisku*). The second indicated the maximum staff number allowed to insure managers against absences and unusual production peaks (a 10% addition to the first figure). Last, there was the actual figure of those at work (*po yavke*) reported on a daily basis. As far as one could see, that figure, though fluctuating, was always below the required staffing minimum. The manager

commented that there were invariably too many people off work with some excuse or another - especially sickness - and that he had to struggle to keep them at work.

Workers have two legitimate ways to stay out of work for one or more days. They could do so either by obtaining a medical certificate or by asking for days off "on their own account" (*za svoi schet*). In the eyes of the administration these allowances were being abused by managers and workers to justify truancy. Detailing the daily bargaining between managers and workers helps to illuminate this issue.

In the case of medical leave, a certificate has to be sought from medical services either at the factory infirmary or at the hospital<sup>78</sup>. The procedure is bureaucratic and cumbersome, and the quality of healthcare services inadequate. It does not come as a surprise, therefore, that doctors tend to be permissive and, especially after their wages declined, amenable to bribes<sup>79</sup>. Pressure from senior management to restrain

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<sup>78</sup> Under socialism, workers were entitled to paid leave on medical grounds for as long as medically needed. The only significant exceptions were cases of accidents when it could be proved that the injured had been acting recklessly (usually in a state of intoxication). This general rule was continued for a period of time after privatisation. The new owners have recently decided that each absentee case will be judged individually.

<sup>79</sup> The economy of personal favours, known as *blat*, was an important feature of Soviet society (Ledeņeva, 1998). Here I turn to a case of absenteeism on medical grounds to illustrate its operation under current conditions. During my fieldwork in 2001, a friend of mine working at the factory had a bad accident which required my help. Since we had neither a car nor a telephone, I had to rush to our neighbours asking them to make a report to the foreman (he had to arrange for a replacement). Secondly, we had to go to the hospital so that the injured friend would be granted her medical certificate. Thanks to my personal connections, I managed to obtain the help of the deputy director's driver and, since his wife served as a nurse, we received preferential treatment at the hospital. This case suggests that personal connections are essential to overcome inefficiencies in the provision of services. It must be remembered, however, that informal relations, just as formal ones, have their own rules that impose constraints and opportunities. On many other occasions, it proved much harder for me to seek or offer favours due to the following reasons. Firstly, becoming a

these permissive attitudes was already mounting in 2000, before the newcomers required more stringent action, as illustrated by the following occurrence at the office of a weaving shop manager. Quoting from my fieldnotes,

A male worker comes into the office asking for a day off on medical grounds because he has to take a relative to the hospital. The shop chief enquires whether he has obtained a medical certificate, to which the man replies that they have so far rejected his request; he carries on trying to push his case with the manager. At this point, the shop chief cuts short the discussion, making clear that things have changed. There are orders from above and he [the chief] is certainly not going to expose himself without the infirmary giving its consent.

The pressure from below is equally strong. Two factors lead to the inflation of sickness leaves. First, there is an increase in cases of illness directly related to the worsening working conditions<sup>80</sup>. This emerges clearly from the speeches of the

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factory insider meant that I entered a network based on mutual obligations. This implied, among other things, that relations with non-members, who enjoyed different status and resources, were discouraged or precluded. Secondly, the very same trend of pauperisation and loss in security that resulted in close-knit groups, led others to break up, making traditional informal social means unavailable. Workers, oriented to survival, tended to follow the former path; managers, more concerned with career and under greater competitive pressure, reacted in the latter way. This indicates that personal networks are playing multiple roles in shaping social relations during the transition. On the one hand, such networks, while working as a safety net, reflect a social system based on inequality and fragmentation. On the other hand, in relation to corporate interests they also have a dual character - as an autonomous source of obligations they are an obstacle to the extension of formal, centralised management of personnel; by the same token, they help to buffer the inefficiencies of management and the state, thereby providing some social stability.

<sup>80</sup> There is plenty of evidence that the sanitary situation in the town has deteriorated in recent years. Reversing this trend, as managers and workers unanimously reported, has been

delegates at a factory trade union committee meeting, held at the end of February 2001.

No less emotionally, the issues of working conditions and the situation of drinking water were discussed, which are directly related to workers' morbidity. Information on this matter was provided by the chairman of the commission for production standards...Leaking roofs, leaks in the water pipes, messy and dirty toilets and showers...these facts appeared again and again (in his report). Basically, all living spaces on the production premises call for desperate attention... The issue of living standards was taken further by the Assistant Chief Doctor of the town's state hospital... He remarked that unhygienic and unpleasant working conditions in several shops constitute one of the causes for the rising incidence of diseases among workers... This at a time when hepatitis and tuberculosis are "running" in the town and at the enterprise: their incidence has grown already tenfold! (Smirmov, 2001a)

This was stated without considering that faulty equipment may also result in disasters such as fires and explosions. The State Inspector, visiting the factory after a serious incident, had to declare that:

The investigation has found out that people in your production work with malfunctioning equipment. Such a [slovenly] attitude of factory technicians

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postponed due to production requirements and for lack of funding – and this in a polluting industry with many dangerous processes. The ventilation system in the shops, for example, works at 50% below standard, working premises are literally falling apart, cleaning is carried out superficially, and canteens have no washing machines. The situation is more serious in bleaching and dyeing shops where aggressive chemicals are handled without precautions, prompting one foreign consultant to suggest its closure. Consequently, high levels of respiratory diseases, infections, and cases of gangrene exist.

toward labour protection not only meets my disbelief, but outrages me deeply (Svetlakov, 2001).

Another factor causing absenteeism and bringing havoc to work scheduling is the presence of working mothers in the workforce, especially single mothers. In fact, they are entitled to a permit to look after their children. Managers, not surprisingly, are not particularly fond of single mothers and consider them the worst category of workers in terms of performance. This issue has grown into a problem of its own after the transition started. First, the relative proportion of working mothers in the workforce has increased, as they are the least likely to leave and the most unsuccessful in finding better-paid jobs. Second, during the transition period their specific needs have grown leading to more absences.

Workers are also entitled to request days off without pay for personal reasons. Though costly, this is a common solution for workers who want to manage family businesses and see to bureaucratic obligations in a town where services are either unavailable or flawed by access barriers. Absenteeism worsens during summer time when workers and managers alike spend most of their time on the family plot, and when some workers leave for seasonal jobs in major cities<sup>81</sup>. Difficulties managers encountered in handling this issue are exemplified by the following case taken from my fieldnotes.

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<sup>81</sup> For the majority of employees, leaving permanently for a new job/location is impossible. Most workers are unskilled or trained only in the textile line. There are few attractive jobs outside this industry in the region, and the high cost of living in the cities prevents even versatile professionals from abandoning their local dacha or flat for good. Existing services, such as housing and schooling, help retain married or single mothers. In addition, the company town, with its close network of kin and comrades, represents an essential safety net against economic disruptions and social dislocation.

An argument in the office of Nikita Aleksandrovich (shop chief). Women who work on the cotton supply unit complain about the continuous absences of the mechanics, without whom it is difficult to repair the machinery. Nikita Aleksandrovich replies that it is difficult to impose tight discipline and that, in the end, things have always been going this way, the more so when there is the risk of walkouts whenever people are put under even the slightest pressure.

“What about higher wages?” [I later suggested]

The reply was that, ‘people are working in the fields, you have to understand, and this is the only way they could prepare for the winter.’

Absenteeism appears to be well rooted in the social and economic upheaval of the transitional experience at the factory. Evidence indicates that managers show compliance with workers’ claims and leniency towards cases of truancy. Yet, workers do not benefit equally from managers’ understanding. Greater pressure is imposed on the more vulnerable workers, the young, the unskilled and working mothers. This seems to breed overall absenteeism by creating a mismatch in time management between workers’ needs and managerial concessions. The general attitude is to let the issue slip down the hierarchy, leaving the problem to the foremen and other workers’ “leaders.” Ultimately, it is up to the workers themselves to avoid visible holes in staffing and to ensure that essential duties are covered.

### *Time Losses at Work*

Another form of discipline violation that has increased during the 1990s is the practice of arriving late at work and leaving before the end of the shift. While discussing discipline violations, one key informant maintained that,

Arriving late at work has become common practice. People do not even bother to seek justification for it - they simply said they overslept (*ya prospal*). It is not like in Stalin's times when, as I was told, you could walk a long way through the snow to the combine and still you could get imprisoned for several days for a five minutes delay.

Managers consider late arrivals especially pernicious as they create delays and bottlenecks in the production flow when the work has to be passed on from one shift to another. One cause of this type of indiscipline is dissatisfaction of women workers with a new timetable. Replying to my questionnaire, women operators of the carding shop wrote:

The change in the shift system has cast a significant influence on our work. [The old system entailed a night shift only twice a month, now it has increased to twice a week, C. M.] We believe that it is very difficult for women to work on a night shift, both physically and psychologically. Night shifts are particularly tiring, but for women there is no chance to rest afterwards as they still have a family, a home, and a plot of land [to manage]. Vacation days are no longer felt as such. (Interview with the shift n.1 of the carding shop, 2001)

The most typical forms of time loss are those taking place during the production process itself. Textile production is characterised by relatively simple and repetitive production tasks; in fact, female workers did complain that their job was as tiring as it was monotonous. Therefore, despite the lack of processing material, faulty machinery and so on, the working life of women machine operators was, and still is, very much confined to the supervision of looms.

Matters are different for ancillary and auxiliary jobs staffed mostly by men. They enjoy greater autonomy in their work than others do. While regularly inspecting factory premises, it was possible for me to spot loaders, cleaners<sup>82</sup> as well as repairers and mechanics wandering around apparently with purpose. Often, it was difficult to determine whether the workers' behaviour was related to a production task or was mere loafing. Loaders and shop cleaners, usually young unskilled males, are notorious for their indiscipline. Still, if these show so little motivation in carrying out their duties, it is also true that their working conditions provide a good excuse for such behaviour. As managers complained, loading and unloading devices are primitive or non-existent, shipments from the preparation shop are irregular, and the shop chief often fight with the manager of the neighbouring spinning shop for the use of trolleys. Equally, cleaners, who were often criticised for their poor work, could be granted some excuse. With no proper clothing and appropriate tools, they have to deal with polluting material scattered all over the shop with a faulty ventilation system. In general, the problem for ancillary mechanics is that most of their work is left to their own judgement and resourcefulness, and to their ability to bargain with the managers. As one assistant foreman put it,

Of course our work is scheduled, but then again problems begin: no parts, no personnel to help out, and no co-operation. We have to do everything in a rush because managers want as many machines as possible at work, so we simply make them up and so we keep going! (Interview with assistant foreman of the carding shop, May 2001)

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<sup>82</sup> Here we refer to the *ugarshchik*, usually male worker taking care of industrial waste removal and cleaning of looms. The cleaning of offices and other living premises is another profession (*uborshchitsa*), generally carried out by women.

Whether failure to meet job specifications was the immediate result of higher plan targets or workers' attempt to skip them, it is clear that managers found it difficult to judge on the matter. Therefore those who were controlled less and/or had greater bargaining powers could more easily get away with discipline violations

*Soaring Theft: Misappropriation or Reappropriation?*

The outbreak of large-scale theft in 1996-1997 and its continuation over time tell us much about the nature of the enterprise as a social organisation, and it indicates the state of crisis in which management-employee relationships exist. Moreover, it is an indication of the inability of management to enforce property rights, a serious matter for an enterprise in transition to capitalism.

By 1997, the second year of shortages of supplies and non-payment of wages, senior managers were denouncing in the factory paper the outbreak of thefts.

This epidemic of thefts continues to be equally worrying among our miseries. This is one reason why our production shows worse conditions. All measures taken by the administration have turned out to be ineffective. We have installed alarm systems in all warehouses. They obviously give results, but until people understand that they are robbing themselves -- until they stand up to preserve enterprise assets -- there will be no change (Svetlakov, 1997).

The factory paper started a regular a section about *zaderzhany c pokhischennym* (detained with stolen property), reporting full details about employees stopped and charged with theft. These notes read as follows:

6<sup>th</sup> of February, K. Vladimir. V., loader of the packaging shop, [found in possession of] 6,9 m. of bleached calico.

14<sup>th</sup> of February, K. Galina V., machine operator of the combing carding shop, [...] 850 gr. of copper.

19<sup>th</sup> of February, Sh. Konstantin V., assistant foreman of the weaving section, [...] 860 gr. of aluminium parts of ATPR looms (*Privolzhskii Rabochii*, 2001a).

16<sup>th</sup> of May, L. Ljubov' V, [female] accountant of the catering shop, [...] 4,4 m. of bleached calico (*Privolzhskii Rabochii*, 2001b).

Managers lamented that all were involved, though men were more likely to steal than women, because their profession as auxiliaries gave them easier access to goods and greater freedom to move; by contrast, workers (mostly female) stole more than ITR because of their greater need. The fact that employees continued to plunder the enterprise property, irrespective of the controls and punishments administered, reveals that senior management was not equipped to control such an outbreak of insubordination.

The long-term causes of this situation can be traced to the Soviet approach in allocating the means of production. The fact that there was no identifiable owner to assume its proper use is usually blamed for the large-scale misuse of state property. That said, the situation on the ground seems to point to a more complex set of causes. State ownership and a planned economy meant that the state enterprise owned everything and the people nothing; shops were empty, and most essential goods and services were unavailable for individual purchase. The illegal private use of enterprise property was an unavoidable consequence of this situation. Yet, under the Soviets misappropriation of enterprise property did not mean generalised and unregulated plundering. In contrast to the later transition period, there were strict,

even if informal, rules about who could have what. Under the Soviets, at the core of this mechanism were not property or money but status and authority. This enabled managers to retain customary income and wealth differentials between themselves and workers.

With most goods and services nowadays available only at unaffordable prices in private establishments, the temptation has increased to use illegitimate means to get resources. Moreover, workers have felt justified in pilfering when noticing the blatant escalation of money squandering and misappropriation displayed by senior management of the enterprise in the early 1990s. At that time, while the enterprise was obtaining high-interest credits, the director and his deputy did not deny themselves the construction of villas worth tens of thousands of U.S. dollars, and management took business trips, thereby depleting valuable hard currency. Evidence suggests that privatisation itself could neither prevent the misappropriation of collective property, nor turn it into the efficient allocation of resources.

*The Factory and the Bottle: Alcoholism and Discipline.*

The abuse of alcohol consumption has long been a distinctive characteristic of Russian society. In an encompassing study of the anti-alcohol campaign launched by soviet authorities in the second half of the 1980s, it is reported that, already 'in the 1970s, alcohol was not simply "Commodity number 1" but also "Calamity number 1"...' (White, 1996, p. 41) in the Slavic parts of the Soviet Union. Soviet economists in the 1980s were alarmed about how 'violations of labour discipline... were nearly always associated with alcohol' (White, 1996, p. 49). This was the one issue on which the CPSU and the Soviet state fought and lost its last battle for social control and cultural hegemony. More specifically, it tried to fight the issue in the workplace with the prohibitionist policies initiated under Gorbachev in 1985 (White, 1996).

The company town -- with its exiguous social life, its empty shops, and a factory that combined hard work and low pay -- offered a climate conducive to high rates of alcoholism. This is probably the reason why the anti-alcohol campaign was implemented here in its most vehement form:

First of all that year [in 1985], and this cannot be overlooked as it is our history, we all tried to struggle for a sober way of life. The town was declared an area of absolute sobriety by the city council. [After its demise the campaign attracted such comments:] What a pity it is, said the retired worker Elena G., as we, women, had all to gain from this campaign. At home things were easier, without that poison, men (*muzhiki*) began to come back home sober and, on the job, to work (Schelkov and Antonov, 1998, p. 41)

The failure of the 1980s national campaign gave way to an increasingly gloomy picture (Schelkov and Antonov, 1998, p. 41). In 1997, during my first stay in the town, I observed how drinking of spirits was common among the workforce and that it reached into factory walls. Security guards were at times too 'happy' to operate gates, or a brigade leader on a repair job could handle a bottle and the direction of the works at the 'same time. Vodka would flow during convivial occasions, trade talks, and even during electoral ballot counting. In 2000-2002, the situation appears to have turned even worse as suggested by my experience. To quote from my fieldnotes:

Returning to the research site after several years, I looked forward to seeing those I had dealt with on my first visit, among them a security guard. Enquiring to a friend about his whereabouts, I was informed that he had died, stabbed by his wife at a time they were both drunk. The fate of the

surviving partner was no less surprising. She escaped punishment by bribing the judges, I heard in bewilderment, and was now back at work in her shop. Still shaken, I enquired as to why no one had reported such a shocking event to me. The reply was that “something like that happens every day.”

Less dramatic cases leading to divorces, domestic violence, infidelity, and so on are more common and are responsible for contaminating interpersonal relations *and* broader social networks. Drinking has not simply continued to be a main ingredient in an increasing number of domestic tragedies, it has become also a major problem in the factory. Shop floor leaders presented the shop chief with a constant flow of reports about cases of on-the-job alcoholism. The chief’s desk was never short of fresh hand-written slips reading: “I have to inform You [the Chief] that [this worker] has been found in a state of intoxication and has been expelled from work.”

The perception and the level of tolerance by senior management had also changed by the second visit in 2000-02. If they could pretend that in the early 1990s troublemakers were a minority that could be easily dealt with, now top managers could not refrain themselves from bitterly remarking that their workers were “a bunch of untrustworthy alcoholics”. Punishments include demotion and relocation, and increasingly firing workers, especially when, as it is often the case, drunkenness is the cause of discipline violations. In this, as in other instances, line managers demonstrate a reluctance to intervene, fearing unpopularity, but also out of awareness that better workers are not available. Part of the explanation for the lack of action in this area is provided by the failure of the Soviet-time anti-alcohol campaign, and rests on the commonsensical understanding that the pervasiveness of the phenomenon would not be solved by half-hearted interventions.

As a result one could have the perception that the problem is not dealt with seriously but at the level of conversation. In fact, during the fieldwork period it was clear that drinking in itself was not a problem even when taking place on the factory premises, except when it became excessive and harmed someone's status as a reliable and respectable cadre. Secondly, I observed that while drinking appeared to be a pervasive practice, its impact on factory life followed the economic and social dislocation of the enterprise. This 'anti-social behaviour' seemed in many cases to combine defiance and despair among workers in the face of an unbearable material and psychological situation. Managers, therefore, can do little to reverse such trends and do not want to risk open confrontation with the workforce by addressing alcoholism and its consequences openly. Whatever the economic costs related to alcohol abuse, it is easier to let it serve as a coping strategy for the harshness and sheer lowliness of everyday life.

### ***From soviet populism to managerial authoritarianism?***

In this section I will analyse the policies introduced by the administration to deal with discipline violations. The first part of this section will review the Soviet-time attitude as it was retained by the enterprise management during the early transition. This will be followed by a review of the measures introduced after privatisation. Finally, in the third part the more recent decisive actions brought forward by the new owners will be considered.

### ***Disciplinary Problems and Solutions in the Soviet Context***

During the last decade of Soviet rule, discipline in the workplace became a major target of Party policy in an attempt to revive a stagnating economy. Several campaigns were launched to raise awareness of the damage produced by violations

and to mobilise labour collectives 'in the struggle for strong discipline.' The case enterprise has records of participating in these initiatives as well as of experiencing their long-term failure.

In mid 1980s, strengthening of labour discipline became an acute problem at the combine. During a single year more than seven hundred cases of unjustified absenteeism (*progul*) were reported. That's no good at all! How many moral and economic losses have such violations of labour discipline brought about! Could textile workers further accommodate these losses? No! Therefore, in 1996...brigades...began to work under the motto 'Labour discipline – pledge of the collective'. The moral factor was placed highest as a resource of the labour collective in the struggle for strong discipline. Brigades wrote it down in their work instructions and from that moment began to operate the lever of material incentives (Schelkov and Antonov, 1998, p. 40).

This campaign was combined with the equally extensive and no more successful anti-alcohol campaign (Schelkov, 1998, p.41).

Ten years afterward the situation was further aggravated by the consequences of transition. We already reported, in the previous chapter, the alarm raised by senior production managers on theft and demoralisation, years later the Chief Engineer, reporting publicly on the state of affairs at the enterprise, still remarked the seriousness of the issue.

As in the past, the level of labour discipline is low. As a whole, in the past year, four hundred sixty eight people were involved in discipline violations, which is one hundred seventy eight more than in 1999. Among them four hundred fifty six were cases of absenteeism, of which one hundred nineteen

were related to alcoholism. One hundred fifty three people have been fired for absenteeism. The number of thefts amounted to two hundred twenty eight, or twenty-one cases less relative to 1999, but this negative tendency has not been eliminated and the combine continues to suffer serious losses because of theft. (Smirnov E., 2001b, p. 1)

These reports speak for themselves as for the seriousness and continuity of the phenomenon. They also suggest that, if only figures could be comparable, the absolute decline of cases, seen in perspective with the fall in staffing levels, which affected the less productive and certainly the persistent offenders, corresponded to a relative increase. The managers' opinion was confirmed by even the most superficial observation that these phenomena had become generalised among the workforce. It now involved more than the usual suspects (the working class underdogs, the alcoholics et cetera), following the deterioration of living standards and the growing cynicism surrounding the state of the enterprise and the managers' ability to handle it. The persistence and the scale of the disruptions mean that these phenomena could not be simply treated as individual cases and referred to the correct administration of the disciplinary procedures but called for a wider policy aimed at the strengthening of managerial control and workers' consent. Soviet and enterprise leaders were, despite all, well aware of that and the above-referred campaigns embraced these objectives.

The two strategies behind most of these initiatives were, first, an attempt to raise managerial status and organisational capabilities and, second, to appeal to workers, specifically the cadre elite, to address these problems themselves through a combination of material rewards and political pressures. The approach senior management of the combine tended to embrace was the bonus-driven populist appeal

to workers. This approach involved persuading without open confrontation in accordance with the way social relations in the shops were traditionally constructed. Well into the 1990s, enterprise administrators continued to rely on this strategy, maintaining that the “principal means to ensure the respect of discipline is the personal interest (*zainteresovannost'*) of the worker in the results of work” (Enterprise Code of Conduct, 1998, p. 13). ‘The check over workers’ discipline, including the right to initiate hiring and firing procedures and impose reprimands and fines’ was formally attributed to shop chiefs, with personnel offices relegated to the traditional rubber-stamp role (Interview with the shop chief of the weaving shop, 2000).

The official position of senior management on the issue is offered by a formal interview with the Director, reported in a commemorative publication. The interviewee praises the leading role of cadre workers in labour organisation and suggests the kind of behaviour expected in the management of critical situations.

In his shop he [the assistant foreman, C. M.] revealed his talent as organiser and educator. He works with people individually, always aware of their problems, personal as well as professional. He helps as he can. In his shift are employed six youngsters – two of them are “difficult”. Still he can find a common language with all of them.” (Schelkov and Antonov, 1998, p. 62)

This meant that the management of punishments and rewards was left in the hands of line and production managers, and was handled in the customary Soviet manner.

### *Managerial tactics on the shop floor*

Lower managers and workers’ leaders are therefore those who normally deal with disciplinary problems. In the context produced by privatisation and crisis at the

factory, line management found itself confronted with the need to tighten discipline if it wanted to achieve higher productivity in the face of decaying technology and a reduced, and less skilled, workforce. Workers, though, were less committed to their factory work due to decreasing pay, declining social services, and the physical and moral deterioration of the social environment in which they worked and lived. In the face of the central office's tightening bureaucratic and physical control, line managers seemed caught between Soviet-style compliance and a new and more authoritarian approach.

Managerial response during transition can be understood within the framework of the Soviet-type relationship on the shop floor. In Soviet times, managers exercised authority over workers by entering into individual bargaining and by using their powers in a discretionary manner. In this context, managers were expected to consider workers' needs on an individual basis, taking into account the different status of categories and even of individual workers. Therefore, entering the transition, managerial attitude toward discipline violations was neither consistent (with new tougher policies), nor based on (increasingly pressing) workers' needs. It tended, instead, to favour previously privileged categories, penalising instead the most vulnerable and less combative among workers, such as the unskilled, the young trainees and women, especially single mothers.

Furthermore, their tactic - again in line with the Soviet informal rules concerning the exercise of authority - was one of avoidance of conflicts and responsibility. Managers would routinely allow exit or leave permits if foremen had done so and reject them if no other authority supported the requests. They would not start a disciplinary procedure unless forced to do so, such as if the case had been made known to senior management. They took care in making their intervention appear as

resulting from the specific circumstances of the individual case, rather than stemming from the imposition of an impersonal law. In this way, line managers were able to turn workers' solidarity in their favour and encourage workers to isolate wrongdoers singled out by managers.

The likelihood that the discipline problems could be reduced in this manner was dim. As for the rewards, they were too limited and were unequally distributed. Already thriving cadres were more likely to be rewarded than low-earning and underachieving workers. As for the punishments, there were limits to their use. This was the case especially concerning dismissal. As my key respondent, the head of the weaving department, remarked, in the late Soviet period the policy was to educate rather than to expel offenders. The labour collective was a community that had to take care of all of its members. The Soviet disciplinary system worked as a complement to the incentive system to marginalise wrongdoers, not dismiss them.

### *Tackling discipline? Crisis of Authority in the Newly Privatised Enterprise*

From the mid 1990s, discipline violations became one of the major issues in the enterprise and a key ingredient in the polemics between the administration and employees. Now the enterprise could no longer afford the amount of waste this entailed. Therefore, while still pledging allegiance to the voluntaristic and paternalistic approach of Soviet times, senior management began to introduce measures aimed at strengthening control over workers. One of the first signs of this was the installation at the factory's main gates of barriers with magnetic cards in 1999, shortly before TMS took over the enterprise. Security staff was also instructed to strengthen their vigilance over movements of people and goods. Soon after, CCTV cameras appeared on factory premises, and tools were locked up in warehouses and safes. It seemed that years after privatisation, management was finally displaying the

will to transform the 'old socialist enterprise' into a modern private firm, and to assert its control in an impersonal and orderly fashion. Yet, the eventual failure of these measures showed the limits and contradictions of these actions.

In the first place, security personnel were limited in number and notoriously unreliable. Retaining the arrangements of the Soviet time, the factory continued to employ recruits of the local police (*militia*), who colluded with the workforce and tended to ignore infractions. Moreover, workers, seemingly so deferential and apparently incapable of asserting even their most basic rights, reacted angrily at any attempt to be physically controlled. Guards complained that they were subjected to physical and verbal abuse by workers while carrying out their search duties.

More importantly, even the new ability to electronically monitor the movement of employees through the gates did not alleviate the problem of truancies. Because production managers, down to the level of shop chief, retained the right to admit people into the factory whenever they wanted, it was up to them to keep late-comers out. However, they frequently failed to do so. As one manager commented during an informal conversation with me, 'the data are there but no one from the shops cares to use them.' Instructions were also issued to put an end to absenteeism. In any case, truancy, as other forms of discipline violations, continued to proliferate.

***The second phase in privatisation and the new owner's struggle for control:***

***Restoring (what) order?***

When in the year 2000 TMS prepared to take over the enterprise, its incoming management strongly criticised the inaction and the ambivalence of the former management toward discipline violations. It made it abundantly clear that it was going to take decisive action to restore order in the factory.

In a long interview with the factory paper, the leader of TMS, Anatolii Zaryanovich, after accusing the old management of continuing to “work under socialism,” presented the action plan of the new administration by arguing that,

it is also essential that we, all together and each of us on his own, will join in the struggle against theft. In the end, is it not true that they [the workers] are stealing from themselves and those closest to them? For this reason, in the case of theft-related charges we will punish harshly whomever, from the worker to the manager. We will not allow anyone to work ‘staying aside, working for himself’; similar attitudes will translate into instant dismissal and full repayment of the material damages incurred. Having said that, we will also offer everyone the opportunity to earn on the basis of real work performance, high quality of output, efficient use of resources, and strong discipline (Smirnov E., 2000).

Between mid 2000 and the end of 2001 the new owners made discipline one of the key goals, in order to achieve greater productivity at lower costs. Managers were now targeted no less than workers as part of the wider bid for control over the enterprise, and were subject to constant pressure and deprived of some prerogatives.

Security issues were to be dealt with centrally by a restructured security department, whose chief was now a man installed by TMS and made accountable only to it. Security personnel, both at the gates and elsewhere, were selected by him. These personnel were given greater powers to check the movements of people and goods, and they received the right to inspect any freight or employee by means of personal searches. Managers were also given greater responsibilities. The enterprise territory was divided into sectors, and heads of production were made responsible for any accident occurring in their area. Controls extended into the shop with TMS

dispatchers who assessed the progress in production, and who frequently appeared in offices of the shop chiefs to verify that they were carrying out their duties.

Administrative controls consisted of requiring managers to record their own activities. For any spare parts, wage money, or other activities involving extra expenses or use of materials, a request had to be filed and submitted to senior management. To make this control system more effective, the security department was entrusted with inspection powers to verify the observance of these internal procedures. This caused some problems. In the shop I studied, the shop chief maintained that requests were usually agreed to by upper management. This was in the autumn of 2000. A year later, after the new rules were implemented, the situation had changed. When another shop chief was carrying out repair work after an accidental explosion, he encountered resistance by the financial department for a consignment of fabrics. As noted in my fieldnotes,

A bureaucratic nightmare. Nikita Aleksandrovich has signed an order to obtain fabrics. A lot of confirmations are required, but the whole procedure is stopped by the accountants. They are afraid to attract the attention of security because to the latter asking for fabrics automatically means theft.

An effective, though quite crude, way to achieve savings in the use of resources (such as spare parts) consists in limiting the flow of material into the shops; in fact, shortages were already acute since the onset of privatisation due to mismanagement of supplies and lack of funds. Currently, however, with the new owner stocking the warehouses, shortages are the result of a conscious decision, as confirmed by one of the assistant foremen, '...there is a severe shortage of spare parts. Foremen seem to care little and the procurement service is uncooperative. Those in the warehouses refuse to hand out spare-parts because they have been ordered to economise'

(Interview with Assistant foreman, combing-carding shop. May 2001). As a result, the shop chiefs now have to arrange for worn-out pieces of equipment to be repaired, and mechanics and workers alike have to seek “easy fixes” to keep machinery going.

Restrictive measures were accompanied, as promised, by interventions in the area of incentives, with the reform of the wage system. In this way, the newcomer’s strategy seemed to revamp, ideally, the traditional soviet campaigns, which matched appeals and initiatives in favour of stronger discipline with a renewed set of incentives. The administration of bonuses is now guided by the new philosophy of making the “rouble” the new “criterion of work assessment.” This takes the form of fines for failures, rather than of bonuses for improvements (as said in the previous chapter). To tackle truancy disguised as sick leave, a fine amounting to 10% of the incentive pay has been introduced for any such case, causing outrage among employees. Already in May, a few month after its introduction, the management staged a retreat, agreeing minor corrections presented by the trade unions in the resolution approved at their annual conference:

The Administration should also...amend the Regulations on work remuneration in the following points:

- if sick leave extends from one month into another, then the loss of bonus will apply to the first month only.
- Working mothers, with children up to three years of age, will have their bonus paid in full, in case of child’s sickness. (*Privolzhskii Rabochii*, 25/05/2001, p. 3)

Even like this, there were plenty of workers losing their bonuses, as exemplified by countless grievances against the new wage system. Workers feel that they are being

cheated and managers tend to agree that workers could not be expected to do better in the present precarious conditions.

By May 2001, discipline violations did not show any signs of decline despite the many dismissals (Smirnov, 2001b). An important test lay ahead during the forthcoming summer. As I previously noted, the summer is a time of large seasonal outflow of workers and managers into private enterprise and agricultural work, against which now stood the determination of the new administration to keep production going – business as usual even during the summer<sup>83</sup>.

At the end of August 2001, in answer to the workers' claims for higher wages, Anatolii Zaryanovich presented a very gloomy picture of the performance of the enterprise in the previous summer months - discipline violations were again singled out as the main reason.

Since April, labour productivity has sharply declined, the amount of defects [in products] has increased and labour discipline has fallen... Inexplicably, the number of truancies went up. For instance, in one shift the staffing records count 126 employees, and out of this figure 40 are off on medical grounds. Who is going to benefit from this? We planned an output of 650 tons of yarn and we got 550. Late arrivals and early exits at work are proliferating. Assistant foremen hand over a shift without seeing each other, not reporting what went on during the shift and what problems are left to be

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<sup>83</sup> The interest of TMS management to put an end to this practice requires explanation. While in the early years of the transition the market cycle had affected businesses in this season/summer with low prices and a scarcity of raw materials, eventually local manufacturers had managed to stabilise both sales and supplies. This good news came from an interview with the director of the local textile industrialists' association, chaired at that time by the ubiquitous Anatolii Zaryanovich. He was convinced that his own factories could now make the most of the market innovation he himself had fostered.

sorted out. All this impacts seriously on the quality of work (*Privolzhskii Rabochii*, 2001d)

A further tightening of the grip on labour organisation was eventually introduced in January 2002, after disappointment had already emerged from the results of the first wave of interventions. This time, production managers were instructed to file cards reporting any movement of workers within the factory, but outside their usual workplace, explaining the purpose of these 'business trips'. Quite commonsensically, this initiative in particular, but in general any bureaucratically informed measure, was taken by most production managers, at best, as a *boutade* or worst as a nonsensical act of coercion. In order to understand why we can report an excerpt from a workers' letter that exemplifies how difficult it is for managers no less than for workers to plan time and conditions of work and how workers' autonomous decision-making is the rule in overcoming his/her daily amount of uproars:

At the beginning of their workday (*razvod*), brigade leaders receive their daily tasks for their brigade. Yet, quite often these tasks have to be put aside and we are all sent to the loading/unloading job. Here they come, trolleys, ropes, panels, crowbars. What bright minds have not invented; but then again these bare hands remain the most reliable "mechanism" in Russia. After heavy work, as a rule there'll be some smoking where everyone joins in, including the non-smokers. We just light up when the foreman rushes in "with fire on his tail" (*nastegannyi*): here we got another disaster (*avral*). Cigarettes fly into the dustbin and once again to work. Obviously, it is not like that every day, but it does happen... Still, time passes and the daily plan must be fulfilled, especially since shift workers press us. Here, there is no need for managerial control. Everyone can understand that the faster machinery is repaired the less problems we have, the less stoppages. True,

our equipment is astonishingly die-hard. Our belts and conveyors, pulleys and reducers, which become "a century old every year", keep working fine, till they eventually disintegrate. How this super-new computerised machinery could ever compete with them! Here will come welding tools, milling machines, or sometimes just a bit of a worker's wit. (L. S., 2002).

This account shows that the production process has maintained its traditional - that is, Soviet - disorganised elements and that, consequently, cadre workers continue to be relied upon for their skills and flexibility "to keep things going somehow." Their autonomy remains unchallenged and their daily movements difficult to restrain in practice. A closer look into the production process will unveil much of the rationale for managerial compliance with discipline violations.

#### *Workers autonomy and the production process*

In this section I will analyse a case of technological discipline violation to show how the production process relates to manager-worker relationships that result in continuing breaches of discipline. In this case, the problem of improving product quality among female machine operators is considered. It is acknowledged that quality standards of textile goods in the Ivanovo region are low (Okhotnikova, 2001), and that they have continued to deteriorate since privatisation. There are several external factors involved in this decline that range from the disruption of the supply chain to low cotton quality. However, factors internal to the factory are also important. With managerial consent, workers tamper with goods and machinery in order to achieve more output, and they do so mainly because of the piece-rate payment system. The new owners have made upgrading of quality a strategic aim and have reformed the wage system accordingly, making bonus payable on quality and discipline performances.

With the co-operation of the shop chief<sup>84</sup>, I recorded an account of the production process for the carding-combing shop, detailing workers' infringements of technological discipline, which lowers product quality. The following summarises the manager's argument and technical observations.

In order to make the plan, workers have developed a series of practices which violate technological discipline. Some of them are detrimental to the quality of output. A detailed description of the production process and of some characteristics of cotton processing reveals the causes of these practices. Unlike synthetics, natural fibres, such as cotton, present the disadvantage that their physical characteristics cannot be easily predetermined. Maintaining quality requires strict adherence to certain procedures and constant control over standards. The lack of sophisticated testing and control equipment installed on machinery and in laboratories at the factory makes workers' skills and dedication essential to maintaining high quality standards. One of the important properties to determine the quality of cotton in carding and combing processes is the weight of threads, which should be kept constant at 4 kilotex. Obviously, if we measure this value over time, figures tend to oscillate around this standard. The quality indicator considered in the field is the coefficient of variation of this measure, CV. After the preparation process, consisting of cleaning and opening of cotton bales, carding and combing are the first phases of the production process. A conveyor leads the raw cotton to the carding

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<sup>84</sup> The following notes were collected when the struggle for quality was first implemented on the shop floor. The shop chief agreed to explain how it came about that workers were disrupting the production process. Interviews with the chief engineer, the chief of the quality department, and with quality controllers confirmed that similar practices were common elsewhere in the enterprise, and in fact also in other factories of the region.

machine, where it is transformed into threads (the card slivers) which are wound up into drums placed below each carding head. The machine lies longitudinally to the conveyor, and has ten carding heads which are fed in succession. The cotton tends to be deposited according to its weight, so we will find that the weight of the threads has descending values, moving from the first drum onward. The second phase of the process consists in the combing of slivers. The same drums are now laid out in two layers of six on each side of the combing machine, which feed the slivers into two main heads. After combing, the threads end up in two larger drums. This phase is important because it allows the mixing of the cotton threads to achieve the 4-kilotex standard, while sharply reducing the CV. The crucial task in this process is the dislocation of drums between the two machines. The drums, which carry slivers with different kilotex values, have to be placed in a certain order so as to achieve a proper mix in the combing process. Care has to be taken in the preparation of the two extra drums required by the combing machines, but which were not filled automatically by the carding machine. Workers, however, are mainly concerned with having a constant supply of slivers to feed into the combing machines because this output represents their plan. For several reasons -- including problems with carding, competition between shifts, and delays in shipments -- it regularly happens that workers are short of slivers. The solution is simply to run the combing with fewer drums or to fill the empty drums with slivers picked up from the others. Sometimes -- due to lack of time, inaccuracy, sloppiness, or irresponsibility -- workers simply ignore the rules about the deployment of drums. In other cases, workers run the very same slivers more than once through the combing machine. Since there is a counting device installed on this machine from which metres produced are counted and the piece-rate quota fulfilment calculated, this is an easy way to meet the production plan

in case of shortages of cotton threads. In all these cases quality is compromised. To make matters worse, because of the complexity of testing, it is difficult to determine the causes. The low quality of the raw cotton and the machines are also responsible for the poor quality and the chaotic state of production. Therefore, to determine responsibility is always discretionary. Managers, admittedly, know about these practices but feel unable to put an end to them. Foremen and workers are determined to meet their plan at any cost. Managers themselves are convinced that until the administration provides better working conditions and greater powers to managers, there is no reason to modify their behaviour.

This case suggests that what seems to be discipline violation represents in fact the form in which the production process itself takes place. The technical shortcomings, as well as the lack of effective organisation, which appear to cause these disruptions and are usually blamed for the failures of managers and workers, are themselves the product of the labour process. In other countries the relative simplicity of the technical processes involved in textile production resulted in strict supervision and managerial planning a long time ago. In the present case, management still seems far from achieving these goals. There seem to be two key problems. First, there is the continued reliance on the commitment of individual workers in determining the actual form of his/her activity in production. This dilutes control mechanisms to nothing more than an *ex-post* assessment of the worker's performance. Second, there is the corresponding disengagement of line managers from intervening in the production process.

*What went wrong? Managerial discipline and workers' control*

In order to strengthen discipline, senior management wanted to impose accountability while trying to promote initiative. In practice, though, the measures adopted introduced greater individual responsibility, which foster parochialism and narrow-mindedness in low-ranking managerial decision-making. In the Soviet system shortcomings were overcome by informal, and often wasteful, initiatives which bridged the gaps between complementary services. The new measures, however, while addressing gross mismanagement and inefficient use of resources, endanger co-operation. Senior management has been increasingly conscious of this issue and has, in fact, taken counter-measures. Usually this consists of tying specific monetary incentives to collective targets in order to prevent individual self-interest from undermining these targets. For instance, collective payments - the brigade system - were introduced in weaving in 1998 by the previous administration. More recently, repairers in the spinning department have been promised a bonus payable in case the women in their shifts operate a greater number of looms (*Privolzhskii Rabochii*, 2001c). The returns, though, are disappointing because the relationship between managers and workers has remained dominated by the traditional motivations of individual achievements and accountability.

The other major obstacle to stronger discipline is the weak position of the enterprise as an employer in the job market. It is not enough to have regained the full right to hire and fire, if due to the low ability of the enterprise to pay decent wages, the best workers are leaving and the unskilled are the most likely to be hired. Disciplinary measures, including firing, do not work as a deterrent because, as many workers pointed out, 'the "truant" (*gulyaka*) or the "idler" (*bezdel'nik*) "does not fear

dismissal because he knows that the shortage of personnel will drive him back to the factory' (Interview with the shift n.1 of the combing-carding shop, 2001).

To sum up, organisational and job market conditions tend to reproduce a peculiar relationship between managers and workers that permits the latter to violate discipline and encourages the former to tolerate it. This form of relationship on the shop floor prevents the establishment of discipline from above.

### *Discipline violations as a form of sabotage?*

A vast literature suggests that the violation of discipline in the workplace, whatever the immediate form it assumes or the reasons adduced, contains an element of intentionality. It is, in other words, a way to manifest dissatisfaction with the condition of alienated and dominated work in an exploitative and hierarchical system (see Sprouse, 1992). Here we briefly consider how this argument applies to the Soviet economy and what implications it might have for explaining discipline violations at the enterprise after transition.

In the Soviet Union the large-scale occurrence of discipline violations has been explained, among others, as a form of individualised resistance of the atomised workers. In fact since the 1930s, the banning of strikes and the transformation of the trade unions into a satellite of the party-state, channelling and enforcing its targets from above, left workers with no means to further their grievances and engage in collective action. Therefore, 'denied any means of collective organisation and opposition, soviet workers, at least until recently, have adopted essentially defensive and generally individualised, responses towards both management and the regime (Filtzer, 1992, p. 41).

The disappearance of the party-state and the transition to liberalism, both in the political and economic spheres, has not meant an automatic resurgence of the workers' movement. Despite the fact that perestroika ignited mass protests and strikes, which replicated in the mid-1990s, neither new independent organisations nor the old trade unions emerged to foster the democratisation of industrial relations (see Filtzer, 1994; Clarke, 1993, 1996, 2002).

If collective action or trade union activism should be taken as an indicator of change on these grounds, the enterprise shows a high level of continuity with the past. Workers staged only one strike during the entire decade, in 1998, when non-payment of wages had thrown the majority of employees into misery. For the rest of the time both the old and the new administration successfully adopted a paternalistic approach, leaving to line managers the handling of day-to-day individual bargaining. As for trade unions, they survived by perpetuating their role of welfare administrators and management aides as indicated by the following passage in the factory paper:

In all Productions and Departments of the combine, the primary Trade Union cells play, indeed, a noticeable role in the life of labour collectives... Today, I would like to remind the administration, and in the first place the foremen, that primary cells are their first assistant in their job. By making the proper arrangements with these organisations...you can overcome mountains. Their influence on the climate in the labour collective, on productivity, quality of production and labour discipline should be reappraised. One of the main tasks of the cells consists in co-operating with the administration to constitute the adequate conditions for the achievement of plan targets, to conduct educational work with workers and so forth. ...Where the tandem "foreman – T. U. cell" works in harmony, as a single

bundle, things proceed significantly better. The primary cells in conjunction with other Trade Union activists, especially with insurance delegates, provide, let us say, sick workers with visits at home. This has not only a great moral and psychological effect but also reinforces discipline...The trade union is now a school of life and survival and we should remember that. (Sloveva E., 2001)

This does not mean that unions are respected and influential as their leaders pretend it to be. In private, managers, clerks and workers alike would all play down their effective ability to operate. In the opinion of managers, these organisations are powerless and inefficient, for workers they are nothing more than corrupted individuals manoeuvred by the administration. Still, in the eyes of the administration, they serve as a formal counterpart in industrial relations and for workers, as providers of what is left of the enterprise welfare. More importantly, such an organisation is something of a hindrance to the emergence of any alternative to individual action.

Managerial power on the shop floor is in any case a more immediate and certain obstacle to any attempt by workers to challenge the administration in direct fashion on fundamental issues. Workers themselves depicted in this way the situation of industrial relations and the actual causes of their apparent resilience:

They [the workers] fear managerial authority. If a worker receives a reprimand the others would rather line behind the management throwing the blame at him/her. If I acted as a trade union leader they would find a way to kick me out. The trade unions are totally on the side of management; the enterprise pays each and every of them. (Interview with spinner, 2001)

Others signalled that their condition, in terms of bargaining power and status vis-à-vis their superiors, had deteriorated significantly after the end of perestroika. Enterprise employees, therefore, had only as much scope, if not less, to make their voice heard and achieve improvements than they did in the socialist past. The moral and material aggravation that transition had brought in terms of material deterioration of living conditions and growing divide of status and consumption levels with the few at the top provides the fuel for cynicism and social hatred. Under these circumstances, workers' demands and expectations rather tend to surface in the form of individual destructive actions<sup>85</sup>. Managers, especially those on the frontline in the

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<sup>85</sup> Short of collective action and outright defiance, everyday forms of resistance may take the form of 'foot-dragging', 'dissimulation', 'false compliance', pilfering' et cetera (see Scott J., 1985, p. 29-34). They are 'covert', 'anonymous', 'concerned largely with immediate de facto gains' (ibid., p. 33) so as to avoid exposing the perpetrator to the risk of retaliation. 'Resistance is influenced by the existing forms of labour control and probability and severity of retaliation...' (Ibid., p. 34). Where piece-rate prevails, resistance is likely to find expression in..."the shortweighting of finished cloth, defective workmanship and the purloining of materials" (Wright M., 1978 in Ibid.) rather than in slow-down. Many cases already described in the chapter fit well in this categorisation and the ensuing analytical argument. An extreme case was, for example, reported in the Factory n. 2. Here a worker was electrocuted for having accidentally touched an unprotected wire. The investigation concluded that a section of it had been chopped with the intention to steal (Interview with the Chief of labour protection and safety standards, 2001). Less dramatic cases, such as stealing vital tools, processing materials or spare-parts or concealing their whereabouts may have serious consequences for plan fulfilment, the state of technology et cetera. This is, bearing in mind the distinction drawn between female and male jobs, very much the product of male, especially mechanics', activity. Most of the time, 'minimal or reluctant compliance' is sufficient to wreck managerial plans. Loom operators could simply fail to report machinery faults, resulting in defective output or protracted idleness. Again, these actions, while lacking the intentionality of sabotage, certainly imply the consciousness of producing disruptions. When workers have no immediate interest in it, they justify such behaviour by saying that working more or better is not worth the pay and the treatment they receive. Finally, it is also important to consider that '...forms of resistance are also intended to... deny claims made by

shops, can merely accept it as a safety valve, as they have to face a very tense situation augmented by the personalised nature of intra-employee relationships. As they often put it, they could not ask more from workers, also because, very much like the latter, line managers feel themselves cheated upon by the directorate.

### *Summary and conclusions*

Delays, idleness, misappropriation of employer's property, and outright sabotage occur in the world of production wherever domination and alienation exist as structural features of the production process. The experience of the Soviet economy<sup>86</sup> is nevertheless unusual, for discipline violations proved to be exceptionally widespread and pernicious, enjoying silent support or at least tolerance by production managers. This is because Soviet management and their present-time successors - contrary to the widespread assumption of a converging path of the major

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superordinate classes' (Scott J., *ibid.*, p. 32). There is an argument between a fitter and a shop chief that well exemplifies it. Nikita A. reproaches a repairer for not having completed his work on time, the mechanic replies that it is not his fault if spare parts do not fit and have to be replaced or rectified. Listening to him, Nikita clarifies that those parts were of the needed specification and turns it into a matter of principle. He asks: 'if you dismantle a machine and replace all of its parts with new ones, will it not be the same again?' The workers rejecting the point disclose his thoughts: 'this is what you read in books but it is not the same in practice!' As to remind us that resistance is also a symbolic struggle concerning thoughts and ideas that define roles regulating everyday activities.

<sup>86</sup> The history of western management is interwoven with the struggle to achieve full control over the production process. Though this goal could hardly be fully achieved and is constantly put into question by workers' individual and collective action, the historical changes usually associated with the names of Taylor and Ford have marked a turning point in this direction. The separation between design and execution, hence the standardisation of social practices, at work and beyond, and the diffusion of ever more sophisticated mechanism of supervision to achieve their implementation, have all meant that discipline violations are aimed against this pervasive control and limited to the grey area outside it.

industrialising countries - have transferred the responsibility of everyday production management to workers, and to their cadres and supervisors.

The cases of discipline violations presented in this study highlight how far post-Soviet managers are from achieving control over the place, the time, and the methods in which production takes place. This failure not only allows considerable room for infractions to go undetected, but more importantly, contributes to a type of management-worker relationship in which the former has no interest in preventing discipline violations, and in some cases instigate them. Discipline violations, in fact, are not only a safety valve -- the only form workers have been left with which to express their mistrust and dissatisfaction - but also are a means to solve personal and production problems.

Still, infractions do not pass without consequences. Even if they are not prevented and harshly sanctioned, they are still punished by the social stigma and loss of status that allows management to reinforce its upper hand over the workforce. Therefore, discipline violations represent an organic part of the mechanism of social control and work organisation at the enterprise. This explains the caution with which line managers have handled the latest disciplinary campaigns by the new owners and brings to light the contradictions of the newcomer's policies.

We can now return to the debate about manager-worker relations, and the nature of workers' control and resistance in Soviet and post-Soviet Russia. Our findings suggest that (1) the persistence of discipline violations indicates a continuity with the Soviet past in manager-worker relations; (2) yet, discipline violations do not represent organised protests against the steady deterioration of working and living conditions and/or the acceleration of production. Therefore, they do not qualify as conscious resistance. Instead, discipline violations by workers are a last resort used

by them, since the means of collective bargaining and open conflict are denied to them (cf., Scott, 1985). This supports Clarke's thesis that considers workers' autonomy as a consequence of managerial strategy. To put it in terms of di Leo's (1973) idea of the Soviet social order as a political accommodation, with privatisation the existing compromise between upper enterprise administration and workers has been breached unilaterally from above, without workers being able to renegotiate this process. Once again, this confirms the intrinsic weakness of the workers' position. Discipline violations, and the underlying model of work organisation, are another obstacle to the introduction of best-practice Western factory systems. Yet, present management does not seem ready to reject the past Soviet order in the factory; instead, it is adjusting incrementally to the new constraints imposed by the commercialisation of the economy.

## 8. Conclusion

### *The case study enterprise and the fate of enterprise restructuring in Russia.*

A central argument of this study is that the dismantling of the institutional framework of the soviet economy would have delivered neither free market nor enterprise restructuring. Liberalisation, rather than freeing enterprises and imposing the more rational control of hard budget constraints has seen the reaffirmation of stifling political tutelage and economic control by outside agents such as banks, trading companies and industrial groups. The newest industrial-financial groups have proved no more capable of fostering change than early formations based on soviet ties and certainly better equipped to turn autarchy into solid monopoly. If hard budget constraints and greater trade volatility have continued to lower enterprise revenues and decision-making, exacerbating the problems enterprises suffered under planning, the contradictions of the system at this level had more chances to worsen than to be overcome.

The fundamental task of management, I contended, was to regain control over the production process so as to regularise production and increase productivity as the only way to generate profits. I maintained that managers in soviet times had to rely on workers' co-operation, therefore tolerating low productivity and high indiscipline. This system of social relations allowed management in turn to atomise workers and defuse conflict, allowing for labour force flexibility against a picture of scarce resources and uneven supplies. The current lack of resources, the decline in technology and the unfavourable job markets have all played in favour of

strengthening the need for workers' co-operation as other options seem barred by lack of serious investments.

Why, more specifically, could not marketisation, hard budget constraints and even outside ownership achieve this goal and what does it mean for the enterprise to reproduce these practices in an entirely new economic and institutional context? The findings of the case study, within its own limits, show what is the intrinsic rationale of retaining the soviet form of management.

In the third chapter I observed that management was both conscious and willing to carry out reforms. However, the external environment in which they operated left them with neither resources nor opportunities to turn a production unit into a market-oriented firm. Given the evident dysfunctions of soviet management in planning, accounting and marketing goods, one would have expected greater determination by outsiders to achieve these goals once their involvement in enterprise management had increased. They tried to make managers more responsible and production management more efficient by strengthening control, streamlining decision-making without granting autonomy or conceding anything to requests for investments. Over the two following years of outside ownership I experienced the growing frustration of the new owners' attempts to get results because of managerial resistance, amidst claims from management that they were unable to bring order in the shops. I set out to better understand the substance of these arguments by looking into the situation of production units.

In the fourth chapter I consider to this purpose the functioning of the wage and incentive system. Managers had been used to manipulating the existing soviet system so as to achieve workers' loyalty and overcome production bottlenecks. They maintained that the piece-rate and a large array of bonuses were an essential tool to

elicit workers' efforts. The deterioration of material and economic conditions during the 1990s has deprived the system of much of its potential. The reforms introduced by the new owners, though, have not met with either workers' or managers' favour. The findings of my investigation show that in fact reform, rather than altering the system, has more simply reduced the scope of managerial discretion and lowered the resources available for the wage fund. Since low wages and poor technical conditions have not changed the conditions in which production takes place, managers are still forced to enter into informal bargaining with workers. Evidently the new owners were content with the system, being rather oriented to intensification than rationalisation.

One of the prices that management had to pay for renouncing control over the production process, apart from low productivity and higher costs, was the high level of workers' indiscipline. Violations of labour discipline have been growing in the 1990s at the enterprise and have not shown signs of decline following the apparently tougher stance assumed by new owners towards them. In the last chapter of the case study I try to understand these phenomena that puzzled me, no less than worrying senior and line managers. Findings suggest that workers find indiscipline to be the only way to express their discontent at the deterioration of living and working conditions, given the impossibility of overt and organised conflict. Managers' tolerance, though, was the result of a peculiar situation, which saw them allowing those practices in so far as they helped achieve production targets. They exploited workers' failures to diminish their social standing vis-à-vis their fellows, while also appreciating the relief of tension they produced.

What I found at the factory was therefore not simply the chaotic state of production and the stubborn reliance on old soviet practices denounced by reformers, but a

system that, despite its inefficiencies, manages production within the constraints of scarcity and lack of technological and economic means for controlling workers. Soviet informal practices still prove a formidable tool for social control. Despite the abysmally low level of wages and steady deterioration of working conditions, the new owners have managed to intensify work, contributing to generate the evident redistribution of resources in their favour without entering into open conflict with employees.

Managers know that a different strategy is possible and so do the outsiders, but they are also aware of the costs. So far, despite much waiting for financial-industrial groups to enter into direct control of enterprises, in our case they have shown neither a different approach to organisational change nor a commitment to restructuring.

What are the conclusions regarding the nature, progress and determinants of transition at the level of the enterprise, which emerge from these cases? In trying to answer this question we confine ourselves to the results of our case studies. At the same time, while recognising the importance of restricting our conclusions, it is equally essential to point out that the cases presented here are not isolated. Indeed evidence suggests that enterprises across regions and branches of the economy display similar features.<sup>87</sup> The significance of the pervasiveness of similarity compels

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<sup>87</sup> There appears to be a considerable degree of commonality between a vast number of Russian industrial enterprises in the area of wages and management, as confirmed by the results of collaborative research projects between the Centre for Comparative Labour Studies, University of Warwick and the Institute for Comparative Labour Relations Research, Moscow, which have involved longitudinal and survey-based studies in Moscow, Kemerovo, Samara, Syktyvkar, Perm',

us to make some basic claims about the nature of the social organisation of production in present-day Russia.

The conditions in which managers operate in the realm of production have not significantly changed, while the contradictions of the Soviet production process, which justified many managerial practices in the past, have become more acute.

In such conditions, any alteration of informal soviet practices, such as individual bargaining over wages, tolerance towards indiscipline and so on will immediately translate into open conflict with the workforce. Low wages, wage arrears and non-payments mean that managers are constantly required to defuse conflict over these issues, which is chiefly achieved by dividing and fragmenting workers.

Enterprise management can hope to challenge the limitations imposed by the current form of organisation of production by thorough restructuring on the basis of large-scale investment. However, economic instability hampers such a radical transformation of production management, generating low morale and poor productivity which constitute the major obstacle to attracting the badly needed private investment.

### *Restructuring at a second textile factory: a different model?*

Every enterprise is a unique combination of general, country- and sector-specific features and the individual factors provided by the interaction between managerial strategies and environmental conditions. In the Russian case, as pointed out throughout this work, both the constraints of soviet legacy and the limiting circumstances of transition left very limited scope for strategising. Then again, the

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Yekaterinburg, St. Petersburg, Ul'yanovsk and Minsk. Fieldwork reports and statistical sources can be obtained from the project website, <http://www.warwick.ac.uk/russia/>.

situation and path of development of each enterprise is not identical, depending on a plurality of factors such as its ability to export, its role in the local economy, its ties with local authorities and soviet-time networks (Clarke, 1994, pp. 12-14). From this prospective, the position of our case-study enterprise was defined by its status of company town, or city-making enterprise (*gradoobrazuyuschoe predpriyatie*) as the Russian term literally translates. This condition imposed a specific set of constraints and opportunities. The enterprise capitalised on strong political ties and preferential treatment in resource allocation due to the fact of being the sole employer in the locality. It also bore the weight of its social responsibilities. Its isolation also influenced local labour market conditions, making it difficult to recruit specialists but easier to retain the bulk of the city workforce. The combination of these elements weighed heavily on management strategies, in the sense of preventing restructuring, even when the outsiders took over. Even though company towns abounded in the USSR and were the model-type for planners, it was felt that conclusions drawn from this case should rather be tested on a second unit that primarily for its urban location might show a different set of strategies and outcome. A second enterprise<sup>88</sup> was

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<sup>88</sup> The enterprise was a cotton spinning and weaving textile manufacturer. Like our main case study it was a quite large enterprise by output, capacity and staffing levels, which amounted to above 5000 just before privatisation, and size of the social sphere. This enterprise too was an historical establishment, founded in the late 19<sup>th</sup> century, with most of its infrastructure dating back to the immediately pre- and post-revolution years. Privatisation was carried out along the same lines, though with quite different outcomes.

Visits at the enterprise were paid regularly during May 2002. Interviews were carried out with all key managers in the main offices and in production. Gatekeepers again were fundamental in the task of identifying and then securing contacts and access as well as providing vital background information. These were namely: the Chief Mechanic, previously working at the Combine, and the former Combine legal assistant. As a private consultant the latter had assisted the management of the second factory pilot the bankruptcy of the

therefore identified in the neighbouring province capital city, which presented very different characteristics indeed and proved an interesting case for comparison.

I would like to highlight that what attracted me when I was first presented with this opportunity was the fact that a summary description of the enterprise affairs seemed to respond to the ideals of restructuring as advocated by western consultants. In fact, the enterprise was already solidly under outside ownership and had severed all ties with its soviet past. The labour collective had been disbanded, with old and new staff alike recruited according to market conditions. Wage differentials were much higher in favour of management, as the more dynamic urban market would have suggested. More importantly, staffing levels had dwindled to a mere 500 so that most of the cumbersome managerial and auxiliary apparatus of its soviet predecessor had been dismissed. It was equally the case with the social sphere, which had been turned over for a profit to building developers. But production and marketing also looked promising. Capacity was retained only in profitable export areas and was planned according to market demand, finishing and maintenance were outsourced. If analysis had stayed at this level, this enterprise would represent, as said before, a restructuring ideal-type and would certainly occupy the opposite side, relative to the Combine, in an ideal spectrum measuring managerial attitudes to restructuring. Then again, both the history of privatisation, managerial practices and the state of production make this success story a bit more complicated.

The enterprises presented very similar initial conditions in terms of economic and organisational structure, but the way managers dealt with transition made all the

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enterprise. The process concluded with its purchase by outsiders, making it a profitable deal for both parties, apart from the workforce, dismissed en masse without compensation and deprived of its ownership rights.

difference. This second enterprise had suffered since the late soviet period from poor leadership and was subject to high top management turnover. This proved detrimental to the establishment of a network of connections, which proved vital to the initial survival of the Combine. To make things worse, from the start, alleged cases of embezzlement of funds by the Director jeopardised key procurement deals and seriously undermined his authority among lower managers and workers. Since the early 1990s the enterprise had struggled to keep production going and already key shops destined to export production were rented out to outside businessmen. The 1998 crisis brought the final blow and the enterprise came to a standstill, with all its workforce sent on administrative leave indefinitely. The enterprise stayed idle for two years, during which top management designed the most profitable way out of the crisis. The enterprise was split into two legal entities, in the words of the layer who actually designed it, 'we left the liabilities in the old company, including the labour collective, and we transferred all assets, estates, machinery and equipment to a new one'. Stocks were purchased from workers for pennies as they put up little resistance after two years of unpaid leave, one of them regretfully admitted.

But it was the way in which personnel was managed that betrayed greater similarities with our original case than might have been expected. The managerial structure had been highly simplified, in particular by cutting the shop chief layer, whose tasks had been transferred to the head of production on the one side and the foremen on the other.<sup>89</sup> It was apparently aimed at streamlining decision-making and, we suspect, at eliminating a main point of resistance (and bargaining). Then again it did not seem that the head of production, foremen or brigade leaders were in any way satisfied

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<sup>89</sup> Interestingly, such an innovation was introduced a year later at a Combine restructured under TMS control and experimented with at our Combine.

with it. They reported very much the same complaints that shop chiefs had filed at the Combine, such as shortages of personnel and materials, unrealistic production plans, conflicts with other departments and main offices and so on. They also engaged in informal adjustments with workers. Here the difference was, while the wage system had been left unaltered, wages were very low and differentiation minimal. The result was that managers had to tolerate high levels of indiscipline and turnover, because as they said, 'with such wages it was impossible to recruit better workers' (Interview with the head of weaving production). The same problems arose with outside maintenance contractors, as the Chief Mechanic pointed out. As a result working conditions were if possible even worse than those at the Combine, and this despite the fact that operating premises were only one tenth of those at the latter. Incidents, including fatal ones, were one of the tragic consequences of this situation (Interview with the Head of Safety department). As for relations along the managerial hierarchy, greater interaction between the director, the chief engineer and the marketing director, on the one side, and top production managers, on the other, had brought neither greater inter-personal understanding nor better planning. On the contrary, the objective proximity of a much smaller enterprise meant that pressure was exerted for results on a daily basis and failures and successes were personally reviewed, and rewarded accordingly, by the Director. In one word, smaller size and more favourable market conditions did not mean that production managers had greater control over production nor that top managers were very concerned with this, continuing to act toward production as an outside entity.

Other than just similarities in specific areas, therefore, I felt that the policies toward production, as well as the way in which relationships with subordinates were managed, remained very much the same as in the previous case. This case also

conveyed the solid conviction that whatever changes had occurred, this was in the sense of making old soviet practices more acute and their effect more pernicious descending along the hierarchical line.

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