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***Russian Communitarianism:
An Invisible Fist in the Transformation
Process of Russia***

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RUSSIAN COMMUNITARIANISM

AN INVISIBLE FIST IN THE TRANSFORMATION PROCESS OF RUSSIA

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given country, tend to influence the motivation, behavior, and performance of managers and workers' in enterprises. In fact, we may easily fall into a 'culture-bound' trap when we try to determine when a certain aspect of local managerial behavior is in fact constrained by cultural variables, and in what way. It is necessary to consider carefully what these variables and their underlying conditions may be, how they can be identified, and how they are interrelated with managerial performance in terms of their effects. In this manner, by understanding the internal logic of a certain behavior, one can eventually predict the actual impact that these variables might tend to have on management practices, behavior and performance.⁴

This paper is primarily intended for Western investors, managers and scholars who are involved in work in or with present day Russia. It will also be of interest to students of the relation between culture and management and of comparative management. While not aspiring to provide a complete overview of the sources of the rcvs, the paper aims to shed light on the roots of the system in Russian history, as well as on its influence on the present transformation process in Russia.

The central aims of this paper are:

- to show that the rcvs constitutes a focal factor in the features of Russian "mentality";
- to provide some insights which could serve to identify and to evaluate manifest behavior as well as to distinguish in it the 'universal' from the 'culture-bound' elements;
- to suggest a mindset for the Western investor to help cope with the rcvs effectively.

The reader is alerted to the fact that, for the sake of clarity, rcvs is presented in this paper in its ideal, absolute form and therefore some descriptions might seem exaggerated. In fact, depending on the particular circumstances prevailing in each case, the degree of application of rcvs might vary considerably. The reasons and factors at play actually motivating the behavior of stakeholders in each case are complex. While a certain kind of behavior may appear to correspond to rcvs, it is often used by managers and politicians as a cover concealing self-serving maneuvers. Also, some descriptions in this paper might seem to overstress the genuineness of grassroots participation in the making of decisions and in the management of Russian organizations. It is true that centralist

³ The rcvs can be regarded as a socio-cultural system, as defined by Weinsall, 1977, pp. 383-432).

⁴ Farmer and Richman, 1964, pp.55-68 also Denison, 1997, p.175. In the case of Western investments in present day Russia, the work of T. Weinsall is pertinent and has been drawn on.

Lithuanian and Polish rule, while virtually all of the area inhabited by the Great Russians remained for many centuries beyond the reach of foreign occupation and Western cultural influences.

Christianity came to Russia from Byzantium toward the end of the tenth century. The Russian embrace of Byzantine Orthodoxy helped to determine much of the subsequent historical and cultural development of the country.⁶ While this allegiance represented the richest and most rewarding spiritual, cultural and political choice that could be made at the time, it meant that Russia remained outside the Roman Catholic Church. Thus, Russian culture and ethnicity are identified with Russian Orthodoxy, the state religion of Russia for more than a thousand years.

The choice of Orthodoxy contributed in a major way to the relative cultural isolation of Russia from the rest of Western Europe and its Latin civilization. Among other factors, it helped, notably, to inspire and to preserve until the present day Russia's historic, tenacious suspicions of the West⁷. It⁸ has also been a major force in fostering the Russian sense of community and egalitarianism. *Sobor*, the Russian word for cathedral (as well as council), indicates a coming together of congregates who share common Christian values. *Sobornost*⁹ (communal spirit, togetherness) distinguishes Russians from Westerners for whom individualism and competitiveness are more common characteristics. "The Orthodox vision of *sobornost* is the main driving force behind all the social and political endeavors of the Russians...the expression of the desire to treat their rapidly expanding state as one big family ...".¹⁰

extensively throughout this section.

⁶ The Orthodox Church and Russian law emphasized the community: a common sense of brotherhood and togetherness. This has given Russian law a strong tradition of collective social consciousness which relies for its motivation less on reason than on common faith and common worship, and which finds expression less in legal formality and 'due process' than in more spontaneous and more impulsive responses. (Berman, 1963, p.191, p.222).

Belarussian President Alexander Lukashenko has praised Belarus as a bulwark against an onslaught of Western influence in the former Soviet Union. "Belarus has become a stumbling block against Western influence permeating the CIS. We will not permit the destruction of our institutions of power, no matter what pressure we come under". (Moscow Times, 23 November, 1995, p.4.)

⁸ "In every ethnic Russian there is an Orthodox heritage. It can emerge when least expected, even among convinced Communists." "The Communist Party replaced the Church, and Party ideology supplanted religious truth". (Richmond, 1992, pp. 25-26, 28)

⁹ *sobornost* (conciliarism) can be defined as a concept of free unity while working for higher values held in common. While *sobornost* is considered as fundamental to the Orthodox Church consciousness, it was applied to social philosophy as well. For the Slavophiles *sobornost* was embodied in the life of the Russian peasant *mir*, or commune. *Sobornost* forms the basis of modern Russian solidarism. (Masaryk, 1955, p. 155).

¹⁰ Richmond, 1992, p.25.

time and just at the right time to collect his yield from the field and then to be idle in the fall and winter. Thus the Great Russian became accustomed to an extreme, short-term exertion of his strength; he became accustomed to work quickly and feverishly, and then to rest during the time of forced idleness in the fall and winter. Not one people in Europe was capable of such exertion of labour for a short time as the Great Russian developed; but also, nowhere in Europe, apparently, do we find such lack of habit for regular, moderate measured and constant labour as in Great Russia."

Great Russia, with all of its forests, marshes, and bogs at every step, presented to settlers thousands of minor dangers, unforeseen difficulties and unpleasant things, with which it was constantly necessary to cope and struggle. This trained the Great Russians to follow nature vigilantly, to "look both ways", as their phrase had it, to walk, mindful of the surroundings. Resourcefulness was developed as well as a habit towards patient struggle with adversity and hardship"¹³ ... and "In conditions of severe and willful nature, the impossibility to calculate in advance, to think out beforehand a plan of action and directly advance to the projected goal, was noticeably reflected in the mindset of the Great Russian and in the manner of his thinking. Everyday difficulties and chance occurrences accustomed him more to discuss the path already trodden than to imagine the future, more to look behind him than to look forward. In the battle with unexpected blizzards and thaws, with unforeseen August frosts and January sleet, he began to be more circumspect than farsighted; he learned to think more of consequences than to make goals;"¹⁴ ... and "The willfulness of the climate and the soil deceive his expectations, and having become accustomed to these deceptions, the thrifty Great Russian at times loves, thoughtlessly, to choose the most hopeless and least careful decision, contrasting the caprice of nature with the caprice of his own courage. This inclination teases with chance, plays with good fortune, and this is the Great Russian "avos" (somehow)."¹⁵

"By his habit of hesitating and avoiding the unevenness and the chance occurrences of life, the great Russian often appears to be indirect and insincere. The Great Russian often thinks ambiguously, and this seems like duplicity. He always goes straight to his goal, even though it is often not carefully considered; he goes, looking about him, and for this reason, his gait seems evasive and hesitant. Nature and fate led the Great Russian so that he learned to go out onto the straight road by roundabout ways. The Great Russian thinks and acts as he walks. What thing more crooked and winding could one devise than a Great Russian country road? Such a road looks just like the slithering track of a snake. And just try to find a more direct path; you will end up wandering about and will come out onto the same winding path."¹⁶

This severe environment, which has prevailed since the beginning of Russian history, has created and constantly reinforced the condition of perennial shortage of means, which still constitutes a focal hazard in the daily life of the Russian people¹⁷. The hardships caused by scarcity have been greatly aggravated by isolation from the outside world from which either due to inaccessibility or through prohibition of travel abroad, Russians were sealed off. Biological, economic and social survival of the individual and of the whole community in the medieval forest depended upon extraordinary group cohesion and discipline. By necessity, the

¹³ Klyuchevskiy, 1987, p.312, quoted in "Cultural characteristics of the Soviet Union", Igor Faminsky and Alexander Naumov, published in Lawrence and Vlachoutsicos eds, 1990, pp. 16 and 17.

¹⁴ Ibid., p.316.

¹⁵ Ibid. p. 315.

¹⁶ Ibid. pp. 316-317.

¹⁷ The condition of perennial shortage of means in Russia of vast natural resources has constituted a major instrument of rulers to assert their power through the people's dependency on them for survival. Thus, alleviating shortage may rarely have been a genuine priority of Russian rulers. While shortage was one of the key factors, which determined the distinctive features of rcsvs, it is not the only one. The Asian and Byzantine values and the vastness and isolation of the geographical terrain of Russia also decisively

freedom of self-expression on the other evolved as a focal distinctive feature of Russian culture. It follows that the Code as well as the stubborn resilience of the *rcvs* are invariably confusing to Westerners.

Nevertheless, the deep structures of these seemingly contradictory centralist and grassroots elements remain to the present time at the root of behavior that comes “naturally” to Russians.

These are the roots of Russian communitarianism. The collective is an organizational form, which embodies *rcvs*. Collectives have always been a part of the struggle of survival and of getting things done in Russia. As mentioned, collectives are rooted in the cultural tradition of the Kievan state which arose in the ninth century. They are closely knit work groups bound together by shared values, mutual support and loyalty. They will sink or swim together.

2.3. Original model of the *rcvs*: the medieval Russian village commune (*mir*).

The complete cultural continuity between Kievan Russia and Muscovite Russia is impressive. The culture of Muscovite Russia has inherited autocratic and democratic elements, which existed in the Kievan office of the prince, the *duma* (council of boyars), the *veche* (town assembly) and most importantly, in the medieval Russian peasant commune, the *mir*. It is therefore necessary to look into the *mir* in some detail.

The *zadruga*, a clan or greater family commune, served as the nucleus of the tribal society. In time, it evolved into a larger unit, the *mir*. The *mir* is the basic unit in which Slavic organization originates²⁰. An extended family unit, the *mir* may have consisted of one dwelling or of an assembly of households. “It would be wrong to give the impression that there was no organization in Russian villages. The potential elements of a civil society were in place in the form of the village commune, the ‘*obshchina*’ or ‘*mir*’, in which most peasants lived”.²¹ “*Mir*” in fact has three meanings - village commune, world, and peace - and for its members it symbolized all three.²² From at least the 11th century, *mir* was the generic term for peasant village-type communities with a variety of

¹⁹ Lichutin, 1987, p. 145.

²⁰ “Together in the *mir* we will move even mountains” Russian proverb. As Lev Tikhomirov wrote in 1888: “The Great Russian cannot imagine a life outside his society, outside of the *mir*... The Great Russian says: “The *mir* is a fine fellow. I will not desert the *mir*. Even death is beautiful in common.” Richmond, 1992, p.13.

²¹ Steele, 1994, p.44.

²² The volume of writing on the Russian *mir* is enormous. In the last quarter of the nineteenth century alone,

advantages had to be sacrificed to the supreme philosophy, which gave priority to the group as a whole over the individual. It is a philosophy bred of circumstances in which everyone was indispensable for the survival of the group. Thus the *mir* had to strive to balance the interests of all its members, because all its members were needed for its survival. Therefore decisions strove to create a workable consensus.

In the *mir*, Russians felt safe and secure in the company of family and neighbors.²⁹ The culture was marked by extreme risk avoidance and a strong tendency to maintain stability³⁰. The phenomenon of individuals and families joining a community in order to assure protection from either natural elements or enemies is typical of most, if not all, primitive societies. What differentiates the Russian *mir* is that, while communities of primitive societies were intended both for protection and for expansion, and usually developed into stronger forms of association or larger entities, up to the formation of states, the Russian *mir* exists and survives in the frame of an already formed state, as a primeval cell without any political power that aims, not at expansion, but only at the survival and protection of its members. It is important to note that the *mir* never had any decision-making power in the administrative hierarchy of the state.

The same factors have been noted by scholars of Russian culture at very different periods in the country's history. In fact, over the centuries and until the collapse of the Soviet system, few essential new elements were introduced into the Russian vernacular political culture.³¹

2.4. Decision-making process of the *mir*

The *mir*'s governing body was a village assembly composed of the heads of households, including widowed women, and presided over by an elder elected for three years.³² A few clear divisions of responsibility and of institutional prerogatives were recognized, though the mode of decision-making was informal and conspiratorial. The conspiratorial aspect of the making of some important decisions was necessary as many of the issues that had to be decided upon concerned security and other matters which were dangerous to discuss in the

²⁹ Richmond, 1992, p.106.

³⁰ "The slower you go, the further you'll get". Russian proverb. Richmond, 1992, p.39.

³¹ Keenan, 1986, p.p. 29 and 34.

³² Steele, 1994, p. 45.

the face of extremely harsh external circumstances, it is essentially change averse³⁹.

2.5. The rcvs in Tsarist Russia

In Tsarist Russia, the land belongs neither to the community nor to its members individually: it belongs to a landlord. The Tsar is candidly regarded by the *mir* as the protector against the landlord. Under these circumstances, the rcvs was perceived by the members of the *mir* as indispensable in order to assure protection.

Some contend⁴⁰ that once feeling safe or strong, individuals were able to shed its values, to become *kulaks* by accumulating personal wealth, and finally *miroed*, i.e. "the killers of the *mir*". While there might be some truth in this, the fact remains that the basic fibre of rcvs continued to inspire and to strengthen peasants throughout the periods that preceded and followed the abolition of serfdom. They thus managed to assert their basic interests and, for the most part, to survive.

Revolutionaries such as Alexander Herzen (1812-70) extolled the virtues of the commune, which before the Bolshevik revolution the Socialist Revolutionary Party strove to strengthen.

Tsarist Russia encouraged the *mir* because it served as a form of state control over the peasants, facilitating tax collection and military conscription. The *mir* was merged with the *sel'skoe obshchestvo*, the village society, created for state peasants during the Kiselev reforms in 1838, and became the lowest unit of rural administration. Serfdom (personal bondage) was imposed on most Russian peasants as late as the late sixteenth century, and lasted for three hundred years until its eventual abolition in 1861. The land was distributed under the 1861 reform and was actually turned over to the *mir*, which held it in common and turned it over to individual members only when they could make redemption payments.

Thus, while this manner of implementing reform freed the serfs, it preserved the *mir*, and peasants once more found themselves tied to the land they worked, since most of them were financially unable to leave the commune. The reform thus continued the *mir*'s power over peasants and their submission to a higher authority, which regulated the social order.⁴¹ Pyotr Stolypin, the able and determined Prime Minister to Tsar Nicholas II, attempted to break the power of peasant communes

³⁹ "The slower you go, the further you'll get." Russian proverb quoted by Richmond, 1992, p.39.

⁴⁰ This perspective I owe to my old friend and colleague, Dr. Renato Roncaglia.

of the 524-member *duma* were allotted to workers.

As industrialization of imperial Russia progressed largely with Western capital⁴⁷ and management systems, communitarian traditions started to recede. Nevertheless, the “invisible fist” of the change averse rcvs impeded the implementation of reforms.⁴⁸

3. The rcvs during the Soviet period:

3.1. Integration of the rcvs into the Soviet political culture.

The Soviet state basically thought in egalitarian communitarian terms. Where capitalism had “selfish” individualism, socialism would have communitarianism and a staunch commitment to social justice⁴⁹. Although Soviet Communism with its own macro-logic⁵⁰ aimed to make a complete break with the past and to create a new society, its leaders could not escape from the traditional rcvs. In fact, the Soviet system’s leveling of society revived the communal ethic of the *mir* on a national scale.

Lenin very early realized that success in aligning the values and practices of Marxist dogma with the rcvs would be decisive in securing the support and the participation of the masses. Thus the Communist system took over age-old institutions and tried to adjust them to its purposes. Although in many important ways the Soviet system stifled the genuine aspects of the rcvs and, through the suppressive mechanisms of the Communist Party, eroded its practices of grass root participation into powerless and fake rituals, the Soviet political culture that emerged was marked by so many features of the traditional rcvs - in a new synthesis - that in some ways it may be seen as its continuation.⁵¹ Homo Sovieticus was in fact “Homo Russicus”.⁵² The Soviet institution of the workers’ collective with its values and its practices embodies the effort of the bolsheviks to capitalize on the strength of the rcvs through its application in enterprises. The paramount

⁴⁷ Vlachoutsicos. 1991. pp. 7.8 and 33.

⁴⁸ Vlachoutsicos. 1991. pp. 6-9.

⁴⁹ Kotkin. 1993. p. 1.

⁵⁰ Tsoukas. 1994. p. 21.

⁵¹ Keenan. 1986. p.34. Steele. 1994. p.58. My old friend and colleague Dr. Renato Roncaglia in his comment on this point emphasizes that “the original communitarian value went through a radical transformation, as a consequence of the failure of agrarian reforms. Since the peasants who remained in the *mir* were the poorest, the original communitarian spirit of self protection slowly turned into a communitarian spirit of revolt. The Soviet system distorted the solidarity that originally had been fostered by the *mir* into a new communitarian egalitarian ideology that is much more destructive and levelling down than constructive.”

⁵² Steele. 1994. p. 58.

Communist Party was able to use the Workers' Councils to take control of private businesses and factories.

A number of important aspects of Soviet Communist ideology and of the Soviet management system may indeed be traced to the medieval *mir*. The Soviets then, no matter how distorted through the suppressive practices of their omnipresent and omnipotent party machine, used the forms, traditions, and values of the rcvs, as well as the organizational and managerial elements of collectives, in building their system in the USSR. By distorting focal elements of the rcvs, however, the Soviet system to a large extent managed to erode and to degrade the image of Russian communitarianism in the conscience of the Russian people.

3.2. The Soviet management system - functions and processes

The essence of Soviet authority rests on two deep-rooted traditional management principles⁵⁶: one-man leadership (*edinonachalie*) and collective leadership (*kollegialnost*). Both have evolved from the inveterate values and priorities of the rcvs. Throughout Russian history, leaders have sought to reinforce the "doctrinal desire to maintain centralized control,"⁵⁷ by seeking the optimal balance of centralized and decentralized management methods in order to accommodate each phase of the country's socio-economic development⁵⁸.

The development of the Soviet principle of Democratic Centralism (dc), first articulated by Lenin in 1905 and adopted by the Russian Social Democratic Workers Party in 1906⁵⁹, illustrates the difficulties encountered in the efforts to achieve the optimum balance between centralized⁶⁰ and decentralized management and decision-making methods. Lenin understood the power of the rcvs, and conceptualized dc on the basis of its unwritten laws and practices.

⁵⁶ There was a closely similar linkage between Russian traditions and Soviet practice in the economy. The scholar Peter Wiles contends that only Russia could have invented Soviet style central planning. (Wiles. p. 41. 1962).

⁵⁷ Armstrong. 1965. p.646.

⁵⁸ Lenin was fully aware of the contradiction between the attempt to improve efficiency through discipline and the attempt to augment democracy in the workplace. The two principles can come into conflict in the election of factory and farm managers, posts requiring not only popularity and charisma but skills, a variety of expertise and experience. On his part, Gorbachev described the purpose of his economic reform in his Autumn 1987 speech commemorating the 70th anniversary of the revolution as "to assure ... a system ... based on an optimal combination of centralism and self-management."

⁵⁹ Waller. 1981. pp. 24-26.

⁶⁰ Whimsical, arbitrary, paternalistic and bureaucratic despotism has always been a distinctive feature of Russian centralism.

As articulated by Lenin, One-Man Leadership, a direct outcome of dc, “institutionalizes at one stroke top-man power and autonomy of parts”. Legalized by the Twelfth Party Congress in 1923, the concept was adopted in September 1929 by the Central Committee of the Communist Party of the USSR as the “basic management principle of the Soviet enterprise”.⁶⁷

“One-Man Leadership implied not only sole managerial command but strictly individual managerial responsibility for the wielding of power and the results of its use, in particular the fulfilment of plan targets.”⁶⁸ However, one man leadership was not conceived as a suppression of “democratic” control from below. It was claimed in 1929 and 1930 that One-Man Leadership at the same time granted enormous powers to management and also required “several fold multiplied controls” from below in order to “prevent unlimited managerial despotism [svoevlastie]”.⁶⁹ “An engineer from Sverdlovsk advocated the right of the collective to dismiss unethical or unprincipled managers. One-Man Leadership, he argued, “by no means excludes obligations before the collective and full responsibility for deeds and actions.”⁷⁰

Thus, the new regime that the political leadership sought to create in factories was characterized by a peculiar combination of sole managerial command and multiple controls over management and therefore was perhaps neither “despotic,” as Western scholars would have us believe, nor “democratic”, as Soviet scholars claimed. Conceptual ambiguities implicit in “control” constantly created tensions between “dictatorship” and “democracy” and between the needs for discipline on the one hand and for grass root mobilization on the other. “Whatever the rhetoric, the class-war policy and the emerging planned economy gave rise to a new regime that was expected⁷¹ to ensure maximum managerial efficiency and accountability and to facilitate the mobilization of workers’ for the industrialization drive.”⁷²

The management system of collective leadership (*collegialnost*) has its origins in

⁶⁷ Kuromiya, 1984, pp. 185,186.

⁶⁸ Kuromiya, 1988, p.54.

⁶⁹ Kuromiya, 1988, p.61, refers to *Izvestija*, (1929).

⁷⁰ Slider, 1985, p.179.

⁷¹ The role of back-stabbing, informing, etc. in the work collective was best analysed by Alexander Zinoviev in *Kommunism kak real'nost'*. He argues that this almost-anarchic war of all against all was at its worst in the 1930s. This period he calls a time of *narodovlastie* (the power of people). He goes on to contend that from the very late 1930s more control of it from above was instituted.

⁷² Kuromiya, 1988, p.51.

directly affected employees or other stakeholders. Therefore, experiencing this process in action could give the impression to an outsider that genuine One Man Leadership in fact functioned. The author's personal experience in doing business with Soviet enterprises provides a concrete example of this point. As long as the price was right, the Party was unconcerned as to which Western country secured the Russian canned fish allotted for export and which particular company⁷⁶ in each country was offered the dealership. Therefore, this issue was left to be decided by the Soviet Foreign Trade Enterprise through the genuine One-Man Leadership process. Nevertheless, this decision, while not important to the Party, could be a very important one indeed for the particular Western importers involved as it could make or break their deals.⁷⁷

However, the fact that Party and government officials did have the power to interfere rendered dc vulnerable. Whenever they interfered with managers by giving them direct orders or even by usurping their functions on specific issues, genuine dc froze, often with disastrous consequences. In fact, central authority obstructing grassroots participation in decision-making is as old as the "twofold nature" of the system.⁷⁸

Soviet leaders were aware of this process and increasingly concerned by the suppression of the application of the genuine values and decision-making practices of One Man Leadership. They often attempted to strengthen and reinvigorate the role of worker' collectives (WrCs) in decision-making within enterprises. This effort was never able to produce results because of its self-defeating political constraints.

3.3. The workers' role in the Soviet enterprise

Some of the early Bolshevik legislation seemingly supported the leading role of workers' in the Communist state and their establishment as society's hegemonic class⁷⁹. Lenin in his work "April theses" supported the creation of Plant Committees (pcs). He considered workers' control over production as one of the

⁷⁶ Except for Communist Party affiliated or associated Western firms, which were sometimes forced on foreign trade enterprises by the party, especially for big deals.

⁷⁷ Vlachoutsicos, 1986, p.p. 82-86.

⁷⁸ Thus, for example, in medieval Kievan Russia "some officers derived their authority solely from the prince, while others were supposed to represent the people even though actually appointed by the prince." Vernadsky, 1948, p.117.

⁷⁹ Kotkin, 1993, p.13.

and engineers and to include them in the management of nationalized enterprises.⁸³ In 1919, the Bolshevik leaders agreed that pcs had fulfilled their purpose and, though they were not officially abolished, they ceased to play any significant role in the plant's management.⁸⁴

The institution of the Enterprise Council on Production was established in the Decree adopted by the Council of Ministers of the USSR in 1958. Khrushchev encouraged participation of the workers' in the making of decisions, in his effort to challenge the prerogatives of state officials. This encouragement was quickly halted and reversed by Brezhnev⁸⁵ following Khrushchev's removal from power in 1964.⁸⁶

In 1970, a new Labor Code of the USSR was adopted in which the workers' collective (wrc) as an institution was mentioned for the first time⁸⁷. In 1971, many Soviet republics, including the Russian Federation, adopted republican labor Codes. According to the Labor Code of the Russian Federation, workers' had the authority to participate in enterprise management. This authority was exercised through the activities of the Trade Union, the general meetings of the wrc, and the Enterprise Council on Production of the enterprise.

A new version of the 1958 Decree was adopted in 1973. The Enterprise Council on Production was considered to be one of the major Soviet forms of workers' participation in enterprise management. According to this Decree, Enterprise Council on Productions were to be organized in all industrial enterprises which employed more than 300 workers and in all service enterprises which employed 100 or more workers. The members of the Enterprise Council on Production could be employees, representatives of the enterprise administration, the local Communist

⁸³ According to one survey, as of 1 October 1929, 84.9 percent of 1,542 directors of industrial enterprises and institutions were Communists. But 88.4 percent of these did not have even an elementary education, and only 34 (or 2.6 percent) of them had completed higher education. On the other hand, 62.1 percent of 2,459 deputy and assistant directors were non-Communists; 76.6 percent of these non-Communists had some form of education, 47.0 percent having completed higher education. *Inzhenerno-tehnicheskie kadry promyshlennosti*, 1930, pp.47, 52. (Kuromiya, 1988, p.52).

⁸⁴ In November 1928 Stalin, by launching the famous "Shahty affair", initiated the liquidation of all pre-revolution managers. (Kuromiya, 1988, p. 50).

⁸⁵ The contrasting approaches to political participation of Khrushchev and Brezhnev are discussed at length in Breslauer, chaps 4 and 10 and in Bialer, 1980, p. 166.

⁸⁶ Bova, Russell, 1982, p.76.

⁸⁷ While the expression "workers' collective" was in extensive use since 1930, the institution as such was not formally legalised until 1970. The WRCS had no functional relation to the trade unions, which had very little power. Trade unions had no right to undertake collective bargaining or to call strikes. Their functions

the degree of grassroots input fostered by the particular management style and culture of a company, workers in market economies also identify and feel intimately connected with their company. Nevertheless, the particular feelings of equivalence and entitlement shared by members of Russian wrcs are unknown to workers' in Western business organizations⁹². The main reason behind this might well be the fundamental difference of the perception of private ownership between workers in the two systems.

During the Soviet period, the wrc was intended to act as custodian of the property and of the interests of the state and, as such, to approve or reject internal decisions of enterprise management by assuming functions more like a general assembly of stockholders in the West. The general assembly⁹³ of the wrc was considered to be the principal form of the participation of employees in enterprise management. During these meetings, decisions could be made only if two thirds of the wrc were present. The jurisdiction of the general meeting of the wrc was very extensive and was stipulated in Paper 8 of the Constitution of the USSR adopted on October 7, 1977.⁹⁴ Although current Russian scholars discredit such stipulations as completely irrelevant, the fact that Soviet rulers were so concerned by and preoccupied with emphasizing the importance of grassroots participation indicates the importance of the "invisible fist" of the wrcs in obstructing or in enabling implementation of their centralist policies, decisions and orders.

After the stagnation during Brezhnev's rule, Yuri Andropov undertook a major effort to encourage the participation of workers in his effort to revitalize the Soviet economy. The wide jurisdiction of the wrcs is stipulated in more detail in his Law on the wrc adopted in 1983⁹⁵.

taking part in enterprise decisions to economic entitlement to own part of the enterprise.

⁹² As an example, consider the following Western definition of the term "management": "That group of employees which administers and controls an industry *in contradistinction* to the labor force in that industry or in industry in general." The Oxford English Dictionary, 1970, p. 812.

⁹³ According to standard practice, no regulations or guidelines have been explicitly formulated specifying the procedures for preparing and conducting general assemblies, which are the institutional embodiment of the WRC. Slider, 1985, p. 173.

⁹⁴ Slider, 1985, p. 176. The visible priority given to worker 'self-management' (*samoupravlenie*) as a solution to diverse labour problems in the USSR Institute of State and Law in the Academy of Sciences, was prompted by the ratification of the new Soviet Constitution in 1977. Among some minor changes from the previous 1936 Constitution, the 1977 Constitution included Paper 8, which established for the first time in Soviet history since the early 1920s constitutional rights and responsibilities of Soviet labour collectives as political-legal entities in society. (Nazimova, 'Sotsial'nyi potentsial sotsialisticheskogo trudovogo kollektiva' quoted in Moses, 1987, p.205. The full text of the Constitution is included in Matthews, 1989.

⁹⁵ For excellent discussion of this important law see Moses (1987) and Slider (1985).

fulfillment as well as the election of managers, and the application of the genuine "One-Man leadership" system in the administration of enterprises. According to Gorbachev: "The generations that are taking action today and that bear responsibility are generations that were born and raised under socialism. The expansion of socialist democracy may prompt some people to ask whether we will disorganize society, weaken management, and lower standards of discipline, order and responsibility... I'll put it bluntly. People who have doubts regarding the wisdom of further democratization are clearly suffering from one major shortcoming of great political significance and meaning: they do not trust our people."⁹⁹ This system, however, resulted in the election of many weak managers. "It is for this reason that by the fifth year of *perestroika* the balance shifted away from worker self-management towards a more professional managerial ethos."¹⁰⁰

Economic enterprises were made answerable to their own employees and all the workers' in a given enterprise were to elect by secret ballot a Workers' Council, responsible for supervising the overall management of the enterprise and for appointing a board of directors to effect its day-to-day running. No written regulations or guidelines were articulated to specify the procedures for preparing and conducting workers' meetings, which are the institutional embodiment of the wrc¹⁰¹. The Law on the Enterprise and Entrepreneurship adopted in 1990 by the Russian Federation¹⁰² amending some conditions of the 1987 Law did in fact, considerably diminish the authority of wrcs.

3.4. The hierarchical structure and the decision-making process of the Soviet enterprise.

A Harvard Business School study¹⁰³ of decision making in Soviet Enterprises revealed that the core of the traditional hierarchical structure of the Soviet enterprise is the Structural Task Unit (STU) (*podrazdelenye*) which functions as a primary wrc¹⁰⁴. The STU is a group of workers' and/or white-collar employees performing a

⁹⁹ *Pravda*, Feb. 26, 1987.

¹⁰⁰ Sakwa, 1991, p.159.

¹⁰¹ Slider, 1985, p. 176

¹⁰² A similar law of the USSR was adopted in the same year and is called "Law on Enterprises in the USSR" (ICC, 1991, pp. 23-42).

¹⁰³ Lawrence and Vlachoutsicos, 1990, pp. 69-80.

¹⁰⁴ "The concept of the "primary labor collective" refers to the immediate work group, such as a brigade or department of an enterprise" (Slider, 1985, p.175). The STU is mentioned in paragraph 6 of Article 5 and Par. 2 of Article 6 of the 30 June, 1987 Law on the Soviet State Enterprise. The STU is not to be confused

managers in each plant, the foremen in each workshop, and the brigade leaders under each foreman. If fulfillment of a task entails crossing STU boundaries, STU leaders of each of the STUs involved have to go up the hierarchy until they reach their common leader who alone can take the decisions necessary.

The top STU leader of the enterprise is its general director, whose influence is felt everywhere, from the executive suite to the production floor. He is a walk-around, face-to-face manager. The ideal Russian manager is an administrative perfectionist who demands discipline and implementation of assigned tasks and creates a sense of purpose and pride in his subordinates. To be perceived by subordinates as a good leader, a manager must inspire confidence in his or her effectiveness, as well as show concern for the well being of all his or her subordinates. The most crucial qualities of the ideal STU leader are, willingness to take responsibility and readiness to exercise authority by making final decisions and assigning clear tasks to subordinates.

The power of STU leaders in an enterprise can be compared to a nested set of the traditional Russian *matrioshka* dolls. The largest *matrioshka* doll contains all the smaller dolls, just as the power of the general manager contains the power of all the subordinate STU leaders. And just as each progressively smaller doll contains all the smaller ones, each progressively lower STU leader has authority over all his subordinated STUs. Even the lowest functionary, the worker (the tiny solid doll inside the stack)¹⁰⁶, can be viewed as an STU leader. Though he is without subordinates, his authority rests in his clearly specified realm of responsibility (*kompeticija*).

Thus, the general director's authority and responsibility virtually includes all the authority and responsibility of all subordinate managers whose authority and responsibility, in turn, include all that of their subordinates down the line. Therefore, the Russian management system is here referred to as the "*matrioshka* management system".

STUs mirror one for one the values of the medieval *mir* and operate on the basis of the *mir*'s unwritten rules, some of which are listed below:

1. All members are to be strictly accountable for their actions. The authority and

be- are not considered STU leaders.

communicate directly with any member of their STU and/or of all STUs their Unit includes.

Subordinates at all levels also have the right of direct access to STU leaders. It is common for managers to post office hours when they are available to meet with any member (or even family members) of their STU and of all those it includes, who wish to consult them directly on any matter whatsoever. These direct contacts can create strong bonds of personal loyalty up and down the hierarchy, and greatly enhance the leader's perception of what actually goes on in his/her organization.

6. Multiple controls aim to check despotism¹⁰⁸ and mistakes of leaders. The considerable controlling and veto jurisdiction that is granted to the wrc is one of these controls.
7. Formal and informal groups and councils play an important role in vertically integrating the hierarchy. STU leaders use such groups in the decision-making process within their STUs and ask for their deliberations before decisions are made. STU leaders can delegate to such councils the authority to serve as surrogate managers by conducting and coordinating the whole cycle of the decision process except the final decision, which must be taken by the leaders themselves.

While this unique combination of tradition and formal system tends to overload vertical communication channels and to reinforce the doctrinal desire of managers to maintain centralized control, it does have considerable advantages in the vertical integration of STUs and of the whole Russian enterprise. The great weakness of this system however lies in the virtual impossibility of lateral integration in the enterprise. To summarize, the strength of the *matrioshka* management system is that it enhances vertical integration by fostering personal loyalty, commitment and clarity of communication among superiors and subordinates at all levels. Its weakness is that it can generate conflicting instructions and, by fostering excessive compartmentalization, is extremely hard to integrate horizontally.

Enterprise. (The Current Digest of the Soviet Press. XXXIm No 30. 1987. p.11.)

¹⁰⁸ Frequent abuses of power over the years have associated one-man leadership with Stalinist autocracy, and the term has fallen into ill repute. The power of STU leaders has also been diluted by a number of external interventions and controls. These interferences have tended to blur lines of authority and to undermine the effectiveness of leaders by subordinating staff managers to outside functional agencies as well as to their

representative and the Trade Union representative would also attend meetings. Not being members of the hierarchy, however, they would be seated on chairs by the wall distant enough to clearly separate them from the team but close enough to indicate their presence.

The phases of the decision-making process revealed by our research¹¹¹ can be summarized as follows:

PHASE ONE: TOP DOWN - The leader clearly poses the issue and specifies the targets to be attained.

The leader commences the meeting with a brief statement declaring his view that the enterprise needs a security system and briefly mentioning the reasons. He/she then asks if anyone attending disagrees that a security system is needed and, if so, to state their reasons.

Everyone attending irrespective of rank is entitled to express their opinion freely, but only on the specific question posed by the leader and not on other matters (e.g. how security should be improved - see phases two and three). There is no established ritual for the sequence in which participants in the meeting express their opinions; a vice president could start making comments or a night watchman could speak first. The leader must attentively listen to all comments and will occasionally take notes. It is up to him/her to open to discussion the various views expressed.

Before ending the meeting, the leader asks everyone to think about how the problem of security can be faced most effectively and to discuss this with their immediate colleagues involved in security, in order that a complete collective proposal for the leader is developed. A date for the next meeting is then agreed, at which time the proposal of the subordinates on how best security can be improved (see phase number three) will be submitted to the leader. The meeting of phase one is usually brief.

PHASE TWO: GRASSROOTS DELIBERATION - Open, wide, informal interaction among everyone in the enterprise involved with security.

The author's long experience in dealing with Russian organizations indicates that phase two is the most crucial and most distinctive feature of the Russian decision-making process. This is so because it embodies genuine, wide, grassroots

is, however, expected of him that he articulates the decision in a manner to convince subordinates that their input has been acknowledged and valued.

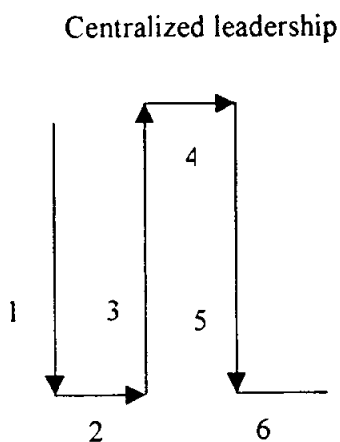
The leader is not expected to defend the rightfulness of the decision. Nevertheless, the decision which has the highest probability of being implemented by subordinates is the one in which subordinates recognize the input they have made through their proposal. Upon announcement of the decision by the leader, any participant can ask the leader the questions necessary for him/her to understand the what and the how of the leader's decision.

PHASE SIX: UNITY BETWEEN LEADER AND SUBORDINATES in the effective implementation of the decision.

The degree of unity of all relevant subordinates with the leader in implementing the decision effectively is proportional to the degree to which all phases of the process are being genuinely applied.

EXHIBIT TWO

Diagram of the Decision Process in Soviet Enterprises¹¹³



1. Goals - TOP DOWN- The leader clearly poses the issue and specifies the targets to be attained.
2. Deliberation-Wide and open participation of all levels of the STU, including workers'.
3. Proposal-BOTTOM UP-Submission of proposal to the leader.
4. Deliberation - Careful review of the proposal by the leader.
5. Decision -TOP DOWN- Clear instructions by the leader.
6. Committed and unified implementation.

Grassroots democracy

Within the STU, this decision system plays itself out between the STU leader and STU members. Its grassroots participative side offers the clear advantage of achieving a considered and committed decision. What may not be so clear, but is equally valuable, is that its centralized side offers the power of clear, strong-disciplined leadership with faithful execution.

3.5. Workers' collectives, collectivisation of agriculture and the wrcs

Before the genuine "natural" decision-making processes¹¹⁴ were suppressed by the Communist Party, the values and practices of wrcs were remarkably analogous to these of the medieval Russian village. The goal of the group was to achieve a balance of the interests of all its members. This concern could result in genuinely unanimous and therefore enforceable decisions. No explicitly articulated rules governed decision-making. However, informal rules provided decisions made by the leader with strong grassroots participation¹¹⁵. Few clear and institutional prerogatives were recognized. Furthermore, like other structures of Russian collectives, the wrc was practically impossible for outsiders to penetrate.

¹¹³ "Key Soviet Management concepts for the American reader". Vlachoutsicos in Lawrence and Vlachoutsicos. 1990, p.77.

¹¹⁴ See section 3.4.. Exhibit Two.

¹¹⁵ For concrete example. see section 3.4.

and effective action-propelling power has been recognized. Therefore the application of rcvs on issues where genuine grassroots participation was not perceived as threatening by the rulers, was not only tolerated but encouraged with invariably beneficial results. In my dealings with Soviet state enterprises, I have often experienced the tremendous vitality and effectiveness of rcvs when it was left without interference to cope with even the hardest of challenges.

4. Role of the rcvs in the current transformation process of Russia.

There is a paradox at the heart of the current transformation process in Russia, which is becoming increasingly impossible to ignore. While belief in Communism has been rapidly eroding, the core of the rcvs stubbornly persists. A detailed study of industrial enterprises conducted in St. Petersburg in 1992 by Kharkhordin and Gerber substantiates this allegation and provides a detailed presentation and analysis of the content of the business ethics of Russian enterprise managers and of the community¹¹⁸.

Another important source that corroborates this statement is the study by a group from the Russian Government Working Centre on Economic Reform, which conducted two rounds of interviews in 1991 (40 interviews in Moscow, Leningrad and Saratov, and 30 interviews in Tatarstan and Bashkortostan). They also used the results of a 1991 collaborative survey of 150 enterprise managers¹¹⁹ in Russia, the Ukraine and Kazakhstan, for which they developed the questionnaire and located the sample. Some of the interviews were conducted by Yuri Levada's Centre on the Study of Public Opinion. Additionally, in 1992 a survey of 65 directors was conducted who gathered for a constituent assembly of the Russian Union of Industrialists and Entrepreneurs, and a

¹¹⁷ Ulam, 1976, p. 124.

¹¹⁸ Kharkhordin and Gerber, 1994, pp. 1192-1101. also Kapeliushnikov and Aukutsionek, 1995, p. 12.

¹¹⁹ I advance the proposition that the general term "Russian managers" starts to be misleading. A whole new class of Russian managers with a direct stake in a market economy has been developing in recent years. While sharing the same traditions and being subjected to the same environment with older managers, an increasing gap in "mentality" and managerial practices being applied has been created. There is already a significant number of younger Russian managers who do not carry the baggage, do not identify with the managerial values and practices of the command economy and understand well the constraints the market economy places on companies. Notwithstanding, however the distinct differences between old and new managers, I have often experienced Russian managers and entrepreneurs to verbally praise individualism and to condemn communitarianism as an "obsolete anathema" while in their own companies they practice rcvs in its most traditional form. The key to resolve this apparent contradiction is to realize that whether old or new, Russian managers act in ways which, having been internalized for so long, "come natural" to them. While, for example, a new Russian entrepreneur very easily and coldly would fire people who belong to the collective of the particular state enterprise he has taken over, he (his wife, his friends, his neighbors and his community) experiences the same guilt and difficulty to fire a worker whom he, himself, has hired, that a manager of a state enterprise feels when he has to release a fellow member of his workers' collective. It seems that at a deep level, rcvs is an integral part of the distinctive Russian vernacular political culture and as

work, there is an effective worker veto, for example, on mass redundancies. Thus members of the wrc still feel entitled to participate in the decision-making process. This feeling of entitlement is especially strong when decisions concern rights and obligations. This entitlement is not only strongly felt by workers' themselves but also by their superiors, by governmental authorities and by society at large. In fact, this consciousness of entitlement seems to be more a collective feeling of the workers than a personal one.

The role which the rcvs plays in what presently happens in state and privatized enterprises in Russia is also evident in the sense of betrayal felt by many managers due to the perceived conflict between the interests of the members of their wrc and their enterprise's need for cost effectiveness, which almost invariably results in a need of substantial decrease of employment. "Being aware of what hardships may ensue from the loss of jobs, managers decide on the excess labour shedding with circumspection. They may maintain the employment 'overhang', first, in order to spare themselves public ostracism (especially in small towns), and second, in order not to provoke conflicts among the wrc."¹²⁸

The rcvs is not the only reason behind the present day's communitarian behavior of Russian enterprise managers.¹²⁹ Many general directors of state and post-state enterprises are actually amassing grass-root political power by caring for the wrc and by keeping redundant workers' on the payroll. They are using this power to exercise decisive influence on local, regional and federal authorities, in the hope that these authorities in turn will enable them, in some form or another, to become the controlling owners of their enterprises.¹³⁰

In addition, however, to whatever self-serving career agendas and aspirations they might nurture, preserving the jobs of the members of their enterprise's wrc still remains one of the main priorities of Russian managers. It is noteworthy that the Russian participants at the June 1994 IIASA workshop on "Employment and Unemployment in Russia from a Microeconomic Perspective", referred to this behavior as "paternalism". "So our main findings are as follows: ... the economic behavior of a significant portion of Russian industrial enterprises is influenced by the status motivation of their directors and by still existing paternalistic relations between management and the wrc".¹³¹

Thus, the rcvs still acts both as a serious constraint and as a support of the decision-

¹²⁸ Kapeliushnikov, Aukutsionek, 1994 p. 7 and 1995, p.12.

¹²⁹ Kharkhordin and Gerber, 1994, p. 1084, also Gurkov, 1997, pp. 14-19.

¹³⁰ Gurkov, 1997, pp. 10-22 also Debande and Friebel, 1997, p. 20.

¹³¹ Kapeliushnikov and Aukutsionek, 1994, p. 7, see also Kharkhordin and Gerber, 1994, p. 1076.

tolerance if not support¹³⁹ in turn gives top managers great political presence with central and regional governments. In spite of increasing IMF pressures to the contrary, this tolerance accounts for managers to still lobby successfully for the survival of their enterprises by securing "soft" governmental credits and for influencing reforms in favor of a "socially based market".¹⁴⁰

It did not take workers' from a number of enterprises long to learn that privatization was not mainly for their benefit but for that of the enterprise directorate.¹⁴¹ In fact, managers have through stock accumulation, worker proxies and other means, steadily increased their share of ownership in most of the 126,000 enterprises privatized which produce no less than about 70% of Russia's Gross National Product.¹⁴²

The conflict between the contradictory claims of labor and property is not an abstract conflict. It is a conflict that centers on the concrete rights and responsibilities of management and that is expressed in the first instance in small-scale conflicts within the enterprise, and in growing dissatisfaction with the workforce.¹⁴³ "Dissatisfaction appears more directly in the form of an increasing instrumentalism, a growing sense of 'them and us', and a sullen resistance to the exercise of managerial authority on the shop floor. The brunt of this resistance is borne by line managers, who find themselves squeezed between the demands of the enterprise administration and the reluctance of the workers' to meet those demands. While workers' are willing to see good managers well rewarded, they do not recognize the legitimacy of privileges and financial rewards based on ownership claims alone. In all the enterprises that we have studied levels of social tension were rising rapidly through 1993, and managers were constrained in their ability to enforce their ownership rights by their fear of provoking uncontrollable conflict."¹⁴⁴ Although management's power in decision-making seems to remain strong, managers' fear of harming the interests of workers' is, in fact, another strong indication of the resilience of *revs* in Russian society today. It seems that this has finally begun to be recognized in the West, and is one more reason that "there occurred no disaster accompanied by massive sacking and an avalanche of astronomical unemployment

¹³⁹ "While Russians would appear to have more reason than most to protest, the strike rate in Russia is only a tenth of the average for the 25 industrial countries of the Organisation for Economic Development" *Financial Times*, October 1995, p. 12.

¹⁴⁰ IIASA, 1993, p. 1.

¹⁴¹ "There are positive developments. Yet there is enough evidence to assert with regrettable confidence that on average living standards have plummeted, that the economic slump has been prolonged and is continuing and that the consequences for poverty and economic inequality have been very severe." (Standing, 1997, p.1 also Linz and Krueger, 1996, p. 29).

¹⁴² In 1997, 40% of shares formally belonged to employees, 18% formally belonged to top managers. Taking into account the employee proxies possession in the top managers, the real distribution is estimated to be as follows: 20% -employees, 40%-top managers. Sergey Zhiltsov, November 18, 1997, p.II. Also Joseph R. Blasi, Manya Kroumova, and Douglas Kruse, 1997, p.148.

¹⁴³ Clarke, 1994, p. 183 also Gurkov, 1997, pp. 26 and 28.

in the same or other enterprises¹⁵³ and who, therefore, even if not employed by the enterprise, can continue to avail themselves of the albeit withering¹⁵⁴ social services supplied by it.¹⁵⁵

One of the reasons for the persistence of this traditional practice is that, exactly as it was with the *mir*, the basic aim of the Russian wrc is the survival of all its members by all possible means. True to this value, the phenomenon of hoarding of excess labor of enterprises still prevails. The scale of such hoarding is characterized by the labor utilization rate, which has never, over the last two years, exceeded 80 percent. In other words, every fifth worker employed in the industry was idle during 1994-1995.¹⁵⁶

Another strategy enterprises use to avoid releasing workers' is short working time and production stoppages¹⁵⁷ which result in involuntary part-paid leaves. This partial unemployment is quite considerable. Partial unemployment is also a way for the wrc to ensure that its members are taken care of. Contrary to practices in market economies, when, during hard times, the Russian enterprise cannot feed all its members by itself, in exactly the same manner as the *mir* did in the distant past,¹⁵⁸ it lets those go who have the highest chance to survive in the "rough outside world". It so happens that these are apt to be the most productive members of its wrc. As state enterprises are faced with progressive cuts in state subsidies, they are increasingly forced to cut employment.¹⁵⁹ Usually, this is done indirectly i.e. by not replacing people that retire or quit on their own and by other means. At the same time however, considerable and increasing numbers of people are being employed unofficially in the informal economy. This activity has encouraged an increasing number of able and self-confident workers to enter the labor market. Among other reasons, this entry has contributed to the creation of the puzzling high labor turnover.¹⁶⁰

Economists continue to suggest that greater labor shakeouts could follow as "managerial paternalism"¹⁶¹ breaks down. However, fears and predictions repeatedly expressed during the last decade about drastic rises in unemployment in Russia have, until now,

¹⁵³ Kathimerini (1994) and "female full time workers' have had the largest net job losses". Commander, 1993. pp.7 and 8. Clarke, 1994. p.182.

¹⁵⁴ Standing, 1997. pp. 27 and 28.

¹⁵⁵ Standing, 1997. p. 29.

¹⁵⁶ Kapeliushnikov and Aukutsionek, 1995. p.12.

¹⁵⁷ Standing, 1997. pp. 16 and 17.

¹⁵⁸ See page 17 of this paper.

¹⁵⁹ Standing, 1997. pp. 22 and 23.

¹⁶⁰ Standing, 1997. p.23.

from central and local governments. The structure of Russia's excess wage tax, which operates as an employment retention subsidy, also encourages companies to keep on more workers' at low pay rather than employing fewer on high salaries.¹⁶⁸

An unforeseen consequence of this process of privatization has been that the threat outsider stockholders pose to old management and to the workers continued employment serves, in many cases, to reinforce the solidarity between old management and workers¹⁶⁹. Workers remain loyal to the old management by supporting it with the vote of their stock in exchange for being kept on the payroll, and thus continue to receive whatever fringe benefits, services and care enterprises still provide. Enterprises have traditionally offered these services to the members of their wrcs almost free of charge. Through this tacit understanding management can fence off outsiders, consolidate its position and preserve its clout as leader of an enterprise with a large wrc, which local, regional and federal governments cannot politically afford to ignore.¹⁷⁰

In one way or another, worker equity has resulted from the rcvs and remains a decisive element explaining enterprise behavior in Russia which, in many cases, still does not correspond to the market's invisible hand. While it needs to be mentioned that the distribution of stockholdings is such that, even in a country that had not inherited the rcvs one would expect managers to be wary of sacking workers', such a distribution would not have been made unless the rcvs was as prevalent as it is. A proof of this is the very different privatization process that other post-Communist countries have followed.

Nevertheless, even by this method of privatization, significant progress in the process of

¹⁶⁷ *Economic and Social Change: the monitoring of public opinion*. 1993. N.7. p.60.

¹⁶⁸ Roxburgh and Shapiro. 1994. p.1.

¹⁶⁹ Hanson. 1995. p.121. As Dr. Roncaglia commented to the author, fear of the future, and the new and unknown Russian and foreign owners of the enterprise, further reinforces the strength of this solidarity. In the 1995/1996 research project "Russian National Survey" designed to track down the fortunes of privatized enterprises and directed by two US advisers to The Russian government. Harvard professor and economist Shleifer and Joseph Blasi professor at Rutgers University's Institute of Management and Labour Relations, revealed that two-thirds of general managers interviewed said that they and their employees would oppose selling a majority of shares in the enterprise to an outside investor even if he would bring the entire amount of capital necessary to modernize and restructure the firm. Even the usually self-effacing authors could not stifle a comment here, observing: "This mentality is suicidal. It makes no business sense." (Blasi, Kroumova and Kruse. 1997. p.149)

¹⁷⁰ Clarke. 1994. pp. 178. 181. See also *The Financial Times*, 6 September 1996. p.10. It has been observed to the writer by Professor Phil Hanson, that it remains difficult for outside investors with a potential for strategic control to acquire a controlling stake. Small outside investors who allow insiders to retain control are, of course, no threat. Nevertheless, some strategic, outside investors -Oneximbank, Menatep, Inkombank, Kakha Bendukidze, etc. are gaining control of firms here and there. But continued low share prices relative to earnings or assets suggest that, for the most part, markets for corporate control remain hard to contest.

gravitate towards western style labor unions. As privatization proceeds and the interests of workers' increasingly differ from those of managers¹⁷⁴ and of stockholders¹⁷⁵, the values and the role of the wrc are gradually approaching these of Western labor unions. As the condition of perennial shortage gradually disappears, the power of the rcvs is tending also to weaken.

To the extent the reforms ignore the rcvs, a scenario might well unfold with largely unattractive and potentially explosive consequences.¹⁷⁶ Wrcs resist dismemberment by all kinds of means. More often than not, general directors of their enterprises, in unison with their wrc, use their considerable local, regional and national political power.¹⁷⁷ For example, "the speed and fervor of the first stage of privatization has been replaced by distrust and delay"¹⁷⁸ where the government of Russia has decided to ignore the traditional rights of the members of the wrc in the second stage of privatization by selling the shares through cash auctions to the highest bidders. Intense political lobbying by managers and intensely negative reactions of workers', and of the population as a whole¹⁷⁹, have succeeded in stalemating the government's efforts, up to the present time.

As, by and large, enterprise managers are knowledgeable, able and experienced operators¹⁸⁰, their effective interconnected network, which constitutes one of the most powerful forces in present day Russia, can indeed thwart change.

5. Implications for Western investors.

Through ignoring the code of the rcvs, Westerners often misunderstand Russian managerial practices and decision-making methods. Such misunderstandings can have grave consequences for specific investments.¹⁸¹ The traditional hierarchical structure and the distinctive decision-making process of the Soviet state enterprise presented in section 3.4. above, indicates a number of specific areas where such misunderstandings can occur. At the heart of the difficulty for Westerners in understanding the Russian system lie two

¹⁷⁴ The source of power of managers is also changing. Previously, it was the superior ministry. After privatization, it is the newly introduced institution of the board of directors of the enterprise, which is elected by the stockholders. The far-reaching implication of this fundamental change is only gradually dawning on managers, who now, in addition to their own interests and those of WRC members have to learn to accommodate to the interests of the stockholders.

¹⁷⁵ Clarke, 1994, p. 184.

¹⁷⁶ Vasiliev, 1993, pp. 73-76. Clarke, 1994, p. 185.

¹⁷⁷ Clarke, 1994, p. 176.

¹⁷⁸ *Financial Times*, 6 September 1995, p. 11.

¹⁷⁹ Disgruntled by changes that have enriched a tiny elite but impoverished many, voters have boosted the Communist Party during the June 1996 elections.

¹⁸⁰ Clarke, 1994, p. 182.

¹⁸¹ One of the reasons Russian criminal groups are so effective, might well be that, they operate according to the

It has to be stressed that the *sequence* in which each phase is applied in the decision process is equally important with its content. The usual pattern of Western managerial decision-making behavior is to solicit grassroots participation during the first phase of the decision-making process and to omit it during the second phase by appointing outside experts and/or consultants to work out the method on how exactly a decision should best be implemented. The typical Western manager, even when he has made up his mind on a particular target, in order to appear democratic, would solicit the opinion of his immediate subordinates¹⁸⁷ before expressing his own opinion. Managers in Russia who ask views of subordinates before they clearly pose the target on what is to be achieved to them, are usually not perceived as “democratic” but as weak and ignorant of prevailing conditions in their enterprise.

Another example is connected with the vertical integration of joint venture enterprises. Our research has revealed that one of the main differences between Western and Russian management systems is the systemic constraint of the Western manager to communicate functionally and directly only with his immediate subordinates and never with employees in lower echelons of his organization. The Russian system not only permits but fosters direct communication between the leader and everyone in the enterprise involved in the issue at hand, irrespective of rank. No managerial practice irritates, insults and angers Russian personnel involved in the implementation of a decision, more than the omission of their right to participate, in the decision-making process during phase two of the process. Inviting outside consultants prematurely¹⁸⁸ will without exception, not only stop everyone in the enterprise from helping consultants to understand the problem but is apt to generate behavior obstructing the work of consultants and certainly the implementation of their suggestions.

Western managers feel uneasy in communicating directly with others in the enterprise, apart from their immediate subordinates. While many do indeed clandestinely engage in “micro-management”, bypassing direct subordinates is generally rejected and perceived as violating the authority of their immediate superiors. In Western companies subordinates also feel uneasy, and not entitled to communicate with the superiors of their direct superiors. As explained in section 3.4., this is not at all the case in Russian enterprises, where managers feel free to communicate directly with everyone in the

¹⁸⁷ the only ones with whom he is entitled to communicate directly.

¹⁸⁸ According to Russian decision making practice the time to involve outside experts is during phase four. see section 3.4.

operating. To use these practices, Russian managers will need to learn to work effectively in relationships that cut across the traditional STU boundaries. This will not be easy. It will require patient coaching and repeated practice.

Our study of Western investments in Russia has indicated that Western managers are babes-in-the-woods when it comes to dealing with the volatile environment of the nascent Russian market. Therefore, and depending on the distinctive features of each investment, one effective way to achieve the managerial accommodation required is to appoint a Russian general manager and ensure that he takes complete responsibility for the implementation of pre-agreed policies and plans.

Strong measures that reinforce the Russian general manager's undertaking full responsibility for operational affairs have proved to be essential for achieving fast, creative responses to the rapidly changing scene in Russia. Trying to micro manage from a distance is at best going to delay responses and will often lead to bad decisions. Because of this need for radical delegation, knowledgeable Western partners will trust the Russian general manager to choose how to achieve jointly determined goals, and allow him/her scope to use a measure of traditional Russian management methods.

The following are some comments from a Russian general manager. "It is settled in our charter that all difficulties with customers, suppliers and authorities are the responsibility of the Russian side. It is our headache. Like in all joint ventures, the main question is the psychological micro climate: our Western partner trusts our explanation of why we decide on handling problems the way we do."¹⁹²

Having emphasized the need for radical delegation, we must balance the picture with the recommendation that Western investors insist on complete and candid periodic reports and audits. Even more important is the continuous training and frequent exposure of Russian managers to the Western partner's particular company culture.

It has to be emphasized that using Russian general managers is not a panacea. Depending on the particular features and requirements of each investment and of Russian candidates, Western investors will have to decide on whether the general manager needs to be Western.¹⁹³ In cases where Western managers are finally appointed, familiarizing them

¹⁹² Vlachoutsicos and Lawrence, 1992, p. 17.

¹⁹³ The decision of whether to appoint a Russian or Western general manager is invariably a hard one. There are many pros and cons to be considered. Some of the most important ones are: on the one hand the exorbitant cost of the Western manager, the great risk of his "incompatibility" with the rcvs and the volatility of the present Russian environment and on the other the risk of becoming "captive" by the Russian manager and his intricate internal and external network of friends, and enemies. A great deal depends on the specific characteristics of each investment, the Western company's managerial culture, and the background and

for being good corporate citizens. Thus, a successful medical joint venture is providing dental care to patients in some circumstances even free of charge, in spite of the fact that they have waiting lists of patients who are able to pay.

The joint venture Dialogue has probably gone the farthest of those we studied in observing this policy. They have been generous in their support of educational and religious organizations within the communities. They have provided university scholarships for computer science students. They have cultivated cordial relations with officials at all levels of government through courtesies and acts of friendship. They have supported suppliers in upgrading their technology, and in sometimes even making minority investments. They have provided intensive and complete services to their computer customers. As a result, they have enjoyed a positive reputation with all their external constituencies.

In summary, while the institution of the workers' collective is weakening through the process of privatization and "marketization" of the Russian economy, the rcvs persists. Its focal role in keeping unemployment in Russia surprisingly low contrary to consistent gloomy predictions by Western economists, and the particular alternative form of privatization adopted by the workers' collectives during the first phase of massive privatization of Russian state enterprises, constitute typical examples, indicating that the essential values and practices of the rcvs are still shared by managers, workers and society at large.

Understanding the resilient, distinctive features of the rcvs and their realization in Russian managerial practices requires time and effort. Western investors and managers who aspire to effective¹⁹⁴ operations in Russia, depending on the specific managerial requirements of each investment, will position themselves to work closely with their Russian colleagues, applying the optimum amalgam of Western and Russian management methods.

6. Conclusions

The usefulness of the contribution this paper intends to make does not solely depend on revealing and explaining the uniqueness of the Russian context and of the distinctive features of rcvs it has fostered. Even if Western management systems also provide grassroots involvement in decision making or tolerate to some extent "micro-management" of subordinates, their essential values, expectations and practices differ

¹⁹⁴ Denison and Michra, 1995, p. 220 also Collins and Porras, 1994, pp. 43-44.

Russia. This is evident in the sense of betrayal felt by many managers due to the perceived conflict between interests of the members of the workers' collective, and the pressing need of the enterprise to become cost effective and thus requiring drastic reductions of workers'. "Preserving the number of employees is one of the main targets of the Russian enterprise top managers".¹⁹⁶ This is a major factor in preventing unemployment in Russia to reach dangerous levels. Consequently, the wrc is not an artificial structure that can be ignored. As shown, it is a product of the rcvs, its priorities and its values. It therefore comes "naturally", to Russian managers and workers' alike, to identify with and to practice the rcvs and to react negatively whenever its values are challenged.

The realization of this fact might lead us to discover ways by which these values could work for instead of against change. This can only become possible if the effort exerted and the investment is made to integrate the old and the new into a better answer which is connected with the real needs of all stakeholders involved with the process of change in each particular enterprise. For example, structuring the management system in order to preserve phase two of the traditional decision making process, by giving every employee involved in the implementation of each decision an opportunity to genuinely express his or her opinion on *how* best it should be implemented, would be an example of such an integration.¹⁹⁷ We do not claim that integrating rcvs in the management system of Russian enterprises is the panacea for all problems. Neither do we advocate going back in history and ignoring the free market's signals and stakeholders' individual profit motives as the focal indicators of viability of enterprises.

Institutions do, however, form the incentive structure of a society and, in consequence, political and economic institutions are the underlying determinants of economic performance.¹⁹⁸ Although Russian managers are increasingly obliged to accept the hard terms of accommodation to the new realities of the market, the rcvs is apt to remain a potent determinant of crucial aspects of their behavior as long as for the largest part of the population the hope of a better life has yet to materialize and until a well functioning, effective economic system eliminates the condition of perennial shortage and thus renders

¹⁹⁶ Kapeliushnikov and Aukutsionet. 1994. p. 8.

¹⁹⁷ See section 3.4.

¹⁹⁸ For the past thirty years, orthodox economics has increasingly been subject to reformist pressures from the New Institutional Economics (NIE), which has been developing primarily in the fields of industrial organizations and economic history. The importance of the new approaches embodied in NIE has been dramatized by the awarding of Nobel Prizes to two of its major figures, Ronald Coase in 1991, and Douglass

properly recognized by economic reformers and managers alike. with its most important features integrated into management of each enterprise, the rcvs can act as an infinitely more potent and effective²⁰³ propeller for progress than many of the systems and structures Western governments, institutions and consultants insistently press Russia to adopt.

For future success in Russia, the legacy of the past must be given a fitting function in the process of change. It is therefore essential that the potency of the rcvs is understood and respected, as Western market-economy values and management practices will have to be reconciled with its very different values and methods in order to be successfully implemented in enterprises operating in Russia.

On the basis of the above, this paper concludes that, only if a transmutation of the values and of the decision-making processes of the rcvs takes place, i.e. only if essential parts of the "natural behavior" of Russian managers are integrated into the new managerial systems and practices required in order to succeed in a market economy, can these latter be effectively implemented in Russian as well as foreign owned companies. Efforts to introduce innovative management techniques will fail unless the traditional management system is understood,²⁰⁴ and present Russian realities as well as those of the Russian Communitarian Value System are incorporated into the Western management methods chosen.

Before committing funds to invest in a Russian enterprise, Western investors would therefore be well advised to ascertain that its management, its board of directors and its wrc are working in unison, and to seek alignment both on objectives and expectations of each side, as well as on the implementation plan of their investment and on the process through which decisions will be taken. Otherwise, they are likely to encounter significant problems in implementing decisions and controlling results effectively.

²⁰² For example, see phase two in exhibit two of section 3.4.

²⁰³ Kharkhordin and Gerber. 1994. pp.1075-1107.

²⁰⁴ It is significant that an increasing number of Russian Institutions of learning now offer "culturology", a course making young Russian students aware of the distinctive features of both Russian and Western cultures. (Der Spiegel. issue nr. 45 of 1997. p. 183.)

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