THE WILLIAM DAVIDSON INSTITUTE
AT THE UNIVERSITY OF MICHIGAN BUSINESS SCHOOL

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

by Charalambos Vlachoutsicos

Working Paper Number 192
July 1998

Comments Welcome

Presented in the Davidson Institute Research Workshop *Organizational Change in Transition Economies*
Ann Arbor, Michigan
September 26-28, 1997

Draft July 17, 1998

RUSSIAN COMMUNITARIANISM

AN INVISIBLE FIST IN THE TRANSFORMATION PROCESS OF RUSSIA

Charalambos Vlachoutsicos

Presented in the Davidson Institute Research Workshop:
ORGANIZATIONAL CHANGE IN TRANSITION ECONOMIES

Ann Arbor, Michigan
September 26-28, 1997

ABSTRACT

The Russian communitarian value system (rcvs) is a persistently enduring feature of Russian life. The roots of rcvs are found in the Kievan state which arose in the ninth century. The essential features of the rcvs are derived from deeply rooted institutions developed over a very long period of time in response to the particular constraints and opportunities of the adverse geographical, economic and political environment that prevailed since the very beginning of Russian history.

The same adverse conditions, which made communitarianism essential to the viability of the village, made centralism essential to the survival of the state. Thus an apparently contradictory and unique combination of suppression of the individual on the one hand and considerable freedom of self-expression on the other evolved as a focal distinctive feature of Russian culture. It follows that the codes as well as the stubborn resilience of rcvs are invariably confusing to Westerners.

The Soviet State basically thought in egalitarian communitarian terms. Although Soviet communism aimed to make a complete break with the past and to create a new society, it was not able to escape from the traditional rcvs. In fact, the Soviet system's leveling of society fostered a communitarian ethic on a national scale. However, in many important ways the Soviet system stifled the genuine aspects of rcvs and, through the suppressive mechanisms of the Communist Party, eroded its practices of grass root participation into powerless and fake rituals.

The transformation of the Russian economy presently under way increasingly requires fundamental change. The paradox is, that in order to ensure economic effectiveness and stability, change has to be grounded in enduring and constant factors. This paper defends the position that, the degree of transmutation of the rcvs to the new values and practices which Russia will be able to contain and to integrate, will be key to the strength and effectiveness of the ensuing system. Although the rcvs is only one of a number of factors that are focal to the complex process of transformation, if ignored, it can act as a potent barrier. Alternatively, whenever acknowledged, it can indeed act as a propeller for effective change.

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.

ACKNOWLEDGEMENTS

This paper would not have been written without the trust and encouragement of Professor Paul Lawrence, my mentor at the Harvard Business School during my transition from businessman to scholar, who had the vision to share and to support my counterintuitive insights and to enrich them with his own.

I am deeply indebted to those who helped with information, insights and useful suggestions. Professor Philip Hanson, Dr. Rostislav Kapeliushnikov, Dr. Liudmilla Nemova, Dr. Renato Roncaglia, Ambassador Anatoli Slioussar and Dr. Nina Vishnevskaya were particularly generous. Their insights and contributions have significantly elucidated this complex subject.

Special mention must be made of Lilian Tsertou, for her invaluable assistance to me in completing this paper in the midst of my other business and academic responsibilities.

1. Introduction

There is mounting evidence[1] that working in Russia and collaborating with Russians, Westerners often face serious difficulties in understanding and interacting effectively owing to essential differences in economic and political systems, infrastructures, national and business cultures, as well as managerial attitudes and habits. I am using the word "gap" as a portmanteau term to express these difficulties. While some attempts are being made to overcome the effects of this "gap" through briefing and training programs for Western managers, developing such programs is especially difficult since Western experts and Russian managers have a limited knowledge of each others' managerial experience and culture.

Thus, contrary to predominant Western expectations and predictions, the "invisible hand" of the market has not as yet been able to perform its *miracle* in transforming the Russian economy. It is the central thesis of this paper that one of the main reasons for this failure is the stubborn obstruction by the "invisible fist" of Russian socio-cultural system i.e. cultural values, norms of behavior and political patterns which I have called the Russian Communotarian Value System (rcvs).

Rcvs is an enduring feature of Russian society which predated communism and major aspects of which still persist as a major social force in the post-communist era.[2] rcvs includes Russian cultural values, norms of behavior and political as well as geopolitical patterns.

In the 40 years that the author has been active in dealing with Russia, he has been continually impressed by the impact the rcvs has on outcomes and processes and, at the same time, by the ignorance on the part of most Western economic experts and investors of its existence and importance. It follows that Western perceptions of Russian social, economic and political values, reality, aspirations and managerial behavior usually fail

---

1 "The efficiency of foreign consultants here is unacceptably low. It is my estimate that as many as 40% of Western assignments fail. This is especially unacceptable because Western consultants are so expensive." Michael Carter, Director of the Moscow office of the World Bank, addressing the participants of the workshop "Grasping the Logic to Bridge the Gap" conducted in Bor in December 1996 and chaired by this author.

"Frustrations abound, particularly in Washington, where Congress complains for the waste and ineffectiveness of US programs. It has taken particular aim at the $3 billion the US has spent on "technical assistance" schemes that were supposed to give the Russians a crash course in capitalism. They have come under fire for being ineffective or wasteful. One $2.6 million program, for example, flew 200 Russians to the US for a health-care-training program that lasted two weeks and didn't provide any follow-up back in Russia. It and other ill-fated schemes are derided in Moscow as educational tourism." Wall Street Journal, May 28, 1996, p. 12.

2 It is argued that rcvs is similar, if not influenced by the so called "Asian Values", i.e. the Japanese permanent employment, seniority wage system, productivity circles, diffusion of decision making,

to acknowledge rcvs.[3]

The dominant human attitudes, and certain key cultural factors, values and beliefs in a given country, tend to influence the motivation, behavior, and performance of managers and workers in enterprises. Local managerial behavior to a significant extent constrained by cultural variables. 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 inner 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 pure form and therefore some descriptions might seem exaggerated and antiquated. In fact, depending on the particular circumstances prevailing in each case, the degree of application of rcvs can vary considerably, as the reasons and factors at play actually motivating the behavior of stakeholders 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 to conceal self-serving maneuvers. Also, some descriptions in this paper might seem to

---

responsibility and so on. (Dore, 1985, p.112)

[3] The rcvs can be regarded as a socio-cultural system, as defined by Weinshall, 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. Weinshall is pertinent and has been drown on.

overstress the genuineness of grassroots participation in the making of decisions and in the management of Russian organizations. It is true that centralist and paternalistic leadership often eclipses the phases of grassroots participation in the making of decisions and in the management of Russian organizations. Nevertheless, grassroots participation is an essential aspect of rcvs and, even under the most ferocious and ruthless rulers, it has always played a much more important role in Russia than is generally realized and acknowledged.

A central thesis of this paper is that it is strategically crucial for Western investors in Russia to develop and adopt managerial values and practices which are compatible with the rcvs. All too often, they ignore or run roughshod over this value system. They do so at considerable cost, for it is essential to appreciate, firstly, that the values and rules of the rcvs remain deeply embedded in the ethic of post-Communist Russian managers and workers' and of society at large. Secondly, as a major force, which still shapes Russian social and managerial values, the rcvs, can operate so as to undermine and subvert changes, which appear to ignore or threaten its central tenets.

This paper aims to elucidate some focal aspects of the rcvs and to describe the conditions, which enable it to function effectively. Such knowledge on the part of Westerners dealing in Russia will contribute to their understanding of Russian managerial behavior, and thus will enable them to create constructive and effective relationships with their Russian counterparts and, partners, as well as with personnel customers and officials.

2. The Russian Communotarian Value System (rcvs)[5] before Soviet rule

2.1. Roots of the rcvs: Brief historical review

The origins of the rcvs are found in the Kievan state, which lasted from the ninth century until its destruction by the Mongols in the middle of the thirteenth century. The state is considered to have been closely connected with a people known as the *Rus* (later called Russians), and of special significance is the linguistic and ethnic differentiation of the Kiev *Rus* into three peoples: the Great Russians, usually referred to simply as Russians, the Ukrainians, and the Belorussians or White Russians.

The nucleus of the Russian state was not permanent in the first centuries of its existence due to foreign invasions and domestic developments. It moved from

[5] The work of Keenan,1986, Klyuchevskiy, 1987, Richmond, 1992 and Slider, 1985, has been drawn on

Novgorod to Kiev and later from Kiev to Vladimir and Suzdal. The Russian state as we know it today began as the grand-princedom of Muscovy in 1328. In south-western and western Russia, the Ukrainians and White Russians experienced 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 West[7]. It has also been a major force in fostering the Russian sense of community and egalitarianism[8]. *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

---

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).

7 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).

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]

Two momentous events - the Tatar (Mongol) invasion of the thirteenth century which cut Russia off from Europe for 250 years, and the fall of Constantinople (the centre of eastern Christianity) to the Turks in 1453 - caused Russia's cultural, commercial and technological isolation from the West, a technological handicap from which it has never fully recovered. Cut off from the West, Russia remained a vast, economically undeveloped, largely agricultural empire, regimented and ruled by an autocratic dynasty with a holy mission to defend its faith against the barbarians of the East and the heresies and pluralism of the West. The geographical isolation of Russia and the prohibition of travel and contact with the West have in fact fostered cultural isolation and constancy. Therefore the original rcvs has remained essentially unchanged over time.

In their isolation, the Russians developed and preserved their own distinctive practices and ways to cope with authoritarian rule effectively. The basic values and codes of behavior that ensued not only differ but, in many important aspects are contrary to corresponding Western values. Therefore their code and their resilience, are invariably confusing to Westerners, as they are hard to grasp. It should be understood that, even when differences from Western ways appear to be slight with regard to any single feature, they can be significant in combination[11].

2.2. Conditions which fostered the rcvs

The essential features of rcvs are derived from institutions developed in response to the focal need for survival under the adverse geographical, climatic and economic conditions that prevailed in Kievan Russia[12]. Kievan Russians inhabited northern land covered by great primeval forests, which concealed poor, acid soil and a swampy terrain. Long, dark and bitter cold winters were followed by destructive spring thaws, and short, unpredictable summers. The Russian historian Vasily Klyuchevskiy notes the alert cautiousness, the circumspection, the unpredictability and the capability of the Great Russian to do "storming" work as follows:

---

[10] Richmond, 1992, p.25.

[11] Keenan, p.3.

[12] "All civilizations are to some extent the product of geographical factors, but history provides no clearer example of the profound influence of geography upon a culture than in the historical development of the Russian people" (Vernadsky, 1948, p.88) and "The tyranny of nature - the harsh climate and the vast countryside - weighed them down" (Pipes, p.155).

"The Great Russian is sure of one thing --- that he must value the clear summer day; he must appreciate that nature allows him little suitable time for working the land and that the short Great Russian summer can turn out to be still shorter, by means of premature, unexpected winter weather. This forces the Great Russian peasant to hurry, to work hard in order to accomplish much in a short 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 people. The condition of perennial shortage of means in Russia of vast natural resources has always also constituted a major instrument of its 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. 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

---

[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.

were sealed off. Economic, social and biological survival in the primeval forest depended upon extraordinary group cohesion and discipline. By necessity, the group took priority over the individual and the culture was marked by extreme conservatism, risk avoidance and a strong tendency to maintain stability. Nevertheless, everyone was indispensable for the survival of the group. Therefore, the community had to strive to balance the interests of *all* its members. Russians had to band together to fell the forest, till the soil, harvest the crops, and protect themselves from invaders and marauders. It is important to realize that the same extremely adverse conditions, which made communitarianism essential to the viability of the village made centralism essential to the survival of the state.

"The most threatening living adversary was the Russian Bear (Ursus arctos), the world's largest terrestrial carnivore. Born with an incessantly antagonistic disposition and an innate ability to camouflage that fact, this bear uses his viciousness as a weapon. With stocky feet, small eyes, a broad head, and twenty highly curved claws that are impossible to retract, the Russian bear - *medved* - will strike without notice and eat his victim completely. He is far more preoccupied with wielding ultimate power over his domain than with developing strategy; amateurs who confront wild bear are warned not to pay attention to his facial expression".[17]

Tools and weapons were primitive and life was harsh, but these handicaps could be overcome and survival ensured -although often just barely - by the collective effort of living and working together. Thus, "sociability and the qualities of the noisy crowd (*vatazhnost*) are characteristic of Russians. "From the support of a neighbor's shoulder, was later born the Russian commonalty, that same community, among the flat forest fields, which was constantly being annoyed by thieves stealing timber, by the treacherous Tatar and by the evil highwayman. The very expanses, full of good and evil elements, with time fostered that self-defense, that communal world."[18]

The geographical isolation of these communities also played a crucial role in shaping the specific conception of the relationship between ruler and subject which is integral to the rcvs. While in some parts the uniform surface of the plains prevented isolation of the villages, in the endless woods. There were no roads through the forests. Hence, the prince could reach his subjects only if they agreed to come out of the forests to towns located at riverbanks accessible to his boats. As roads - which rendered villages accessible to the ruler's armies and therefore increased the control by the center - came late, and then quite slowly, the conditions of village life and the functions and practices of the village commune remained remarkably intact over the centuries, as did its organization and values. Central authority was quite literally, kept at a distance. This non-accessibility for centuries provided the villages a unique option to accept or to refuse the center's rule and to negotiate its conditions. It follows that considerable grassroots independence is an as deeply rooted aspect of rcvs, as is centralism.

---

[17] Copetas, 1991, p.9.
[18] Lichutin, 1987, p. 145.

In this non-accessibility to rulers originated the distinctive Russian feature of negotiating authority and implementation of the rule of law at all levels of the state bureaucracy. It is important to realize that the same adverse conditions which made communitarianism essential to the viability of the village made centralism essential to the survival of the state. Thus, an apparently contradictory and unique combination of suppression of the individual on the one hand and considerable 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 "natural" to Russians. The basic values and methods of rcvs not only differ but also, in many important aspects are contrary to the values of western market economies. Nevertheless, it has to be appreciated that for centuries the communotarian value system of the Ryssian mir was effective and admirably suited to that society's primary needs.

These are the roots of Russian communitarianism[19]. 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. Muscovite Russia has inherited autocratic, aristocratic and democratic elements, which existed in the Kievan office of the prince, the duma or council of boyars, the veche or town assembly and in the mir or medieval village commune. It is to the mir that we can trace the origins of rcvs, which has figured so prominently in Russian history for over a millennium and still acts as a potent factor shaping Russian social ethic and managerial behavior.

[19] While shortage was one of the key factors, which determined the distinctive features of rcvs, it is not the only one. The Asian and Byzantine values and the vastness and isolation of the geographical terrain of Russia also decisively influenced rcvs.

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 originates[20]. 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 structures and functions.

The members of each *mir* carried joint responsibility (*krugovaia poruka*) for taxes and dues. The *mir* is distinguished by two specific features; joint responsibility and compulsory equalization of jointly-held[23], but individually-cultivated land. Land utilization was the *mir*'s primary purpose and the basis for the survival of its members. Before the introduction of currency, *mir* members were economically equal, and equality of members was considered more important than freedom. A peasant would only keep and be able to pass on to younger family members the land round his house.[24] The *mir* determined how much of the common land each family would work, depending on its size and needs. The *mir* periodically proceeded with egalitarian redistribution of the use of some or all of the land (*peredel*). In this manner, contrary to Western values and practices, industrious, efficient village households capable of surviving and of improving their economic circumstances had strict limits set on the extent of their self-improvement while those threatened by disaster, illness or even character flaws and therefore unable to survive from the land originally allocated by the *mir*, were provided for with additional means taken from the most successful.[25] As a result, Russian peasants had great difficulty comprehending the notion of property, confusing it with usage or possession.[26] "In the *mir* the rule of law did **not** apply. Decisions were made by the village

---

[20] "Together in the *mir* we will move even mountains" Russian proverb. As Lev Tikho*mir*ov 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, more than 2,000 books and papers were published on the Russian commune!

[23] Blum, 1978, p.107.

[24] Pipes, 1988, p. 155.

[25] Keenan, 1986, p.7.

[26] Pipes, 1988, p. 155.

assembly based on what made sense at the time and appeared just and useful for the common good. Stealing wood from the state or a landowner, for example, was against the law but was not considered by peasants to be a crime. But stealing even the smallest object from a fellow villager or from the commune would bring the culprit a severe beating, at the very least, or even mutilation or death.[27]

These practices fostered over centuries a mentality known as *uravnilovka*[28] (leveling). In some ways leveling was dysfunctional for the group. For example, during hard times, when the collective itself could not feed all its members, it let those go who had the highest chance to survive by themselves in the outside world and help the village as well. Those were more likely to be the most able of its members, and therefore those, the collective would need most. However, such 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 stability[30]. 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

---

[27] Vakar, 1962, p.75.

[28] As explained in this paper, it is important to note that this seemingly incomprehensible value is still adhered to in Russia.

[29] Richmond, 1992, p.106.

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

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 conspirational 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 presence of all individuals or families affected.[33] Decisions were made in an often unruly assembly. All members could speak and there was a remarkable lack of hierarchy. Discussions were lively, but no vote was taken. The objective was to determine the collective will, by balancing the interests of all the group's members in order to create a workable consensus. After an issue had been thoroughly discussed and opposition had ceased, unanimity evolved which became binding on all households. While the *mir* meetings were marked by "...seemingly immense disorder and chaos, interruptions, and shouting; in fact it achieved business-like results."[34]

Thus a unique and apparently contradictory combination of suppression of the individual on the one hand and considerable freedom of self-expression on the other, evolved: while members of the village commune felt completely free to articulate their interests and opinions during meetings, once a decision had been reached, all were obliged, to abide by it. Those who refused to adhere to a group decision were ostracized. Since survival of an individual in the forest without the support of the group was impossible, in effect this expulsion resulted in extinction.

While in Western democracies too, people are expected to voice their opinions before decisions are made, the majority and not consensus decides. As a rule, Russians respect authority but are not intimidated by it. They regard themselves as coequal with others and are not shy about speaking up in public or asserting themselves in meetings. Nor are they hesitant about forcefully demanding things

---

31 Keenan , 1986, p.p. 29 and 34.
32 Steele, 1994, p. 45.
33 Keenan, 1986, p.27.
34 Steele, 1994, p.45.

that they believe are rightly theirs or that they would like to possess.[35] Far from Western notions of grassroots participation in decision-making[36], the village model had an internal symmetry. It was effective and admirably suited to society's need[37] to survive under the hardship caused by severe external circumstances and by the perennial shortage of means and services exacerbated by poverty.

While, in its various forms of expression, rcvs has since the very beginning of Russian history[38] provided striking examples of dynamism, tenacity and viability in the face of extremely harsh external circumstances, it is essentially change averse[39].

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 contend[40] 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.

---

35 "The most influential interest-group consists of those who depend on the social safety net". (Economist, 22 July 1995, p.28).

36 Knudsen, 1995, p.42 and Cotton, 1993, p.112.

37 Keenan, 1986, pp. 3 and 4.

38 "The chiliarch was appointed by the Prince. If the chiliarch neglected the people's opinion and interests, the citizens held him responsible for acting against their interests and on some occasions expressed their displeasure rather violently. During the Kievan uprising of 1113 the populace looted the house of the chiliarch. Incidentally, on his occasion the houses of the hundreds likewise were looted, which indicates that the rioters considered them the chiliarch's agents." (Vernadsky, 1948, p.189,)

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.

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 and to establish a class of strong, independent individual farmers by providing access to private ownership of land. Peasants would be awarded title to the land so as to give them a stake in property and encourage extra production. Just as with the proposed reforms of Alexander II, however, Stolypin's did not get far, because of violent political and social reactions[42] including the deeply embedded rcvs[43].

The commune on the one hand provided its members with economic security and on the other it helped the state by providing an administrative structure for tax collection and local policing. At the same time, the commune also helped peasants organize in self-defense against the state. Thus in the 1905-7 revolution, the Russian peasant commune dramatically emerged as a generator of egalitarian ideology and capable of turning into well-organized revolt overnight."

Another form of collective organization is the *artel*: a co-operative association of craftsmen or laborers or farmers or even soldiers who worked communally by agreement under the supervision of an elected leader[44]. Modelled on the *mir*, *artel* members hired themselves out for jobs as a group and shared the payments for their work. *Artels* often rented communal apartments where they would share the rent, buy the food, dine together, and even attend leisure events as a group. Hundreds of thousands of workers' lived in this way in the generation or so before the 1917

---

41 Steele, 1994, p.45.

42 In fact, Stolypin was assassinated on September 14, 1911 by a police agent. (Riasanovsky, 1984, p.45.)

43 Individualism is esteemed in America, but in Russian the word has a derogatory meaning. "Steeped in the heritage of the *mir*, many Russians still think of themselves as members of a community rather than as individuals." Richmond, 1992, p.17.

44 Paxton, 1993, p.215 and Ulam, 1976, p.94.

Bolshevik revolution. In the city, as in the village, security and survival were ensured by a collective effort. In a culture that values harmony of thought and the communal good, persons who differ from the established order are suspect. *Individualysti* (individualists) - which has a negative meaning in Russian - appear opposed to the sense of community as the basis for social good.[45] The claims of the community over the individual are stressed, exhibiting social values different from those espoused by Western democracies.

The voice of factory workers in the making of important decisions was institutionalized even before the Bolshevik revolution of 1917. Workers were recognised as one of the four groups of the electorate of the Russian State *duma*[46] (Parliament) founded by Tsar Nicholas II in 1906, and also by the fact that 20 seats of the 524-member *duma* were allotted to workers.

As industrialization of imperial Russia progressed largely with Western capital[47] 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 individualism, socialism would have collectivism as a staunch commitment to social justice[49]. Although Soviet communism with its own macro-logic[50] aimed to make a complete break with the past and to create a new society, it was unable to alleviate the condition of shortage and 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 succeeding to align the values and practices of Marxist dogma with rcvs would be decisive in securing the support and the participation of the masses.

Thus the Soviet system took over age-old Russian institutions and tried to align them to its purposes, however at its own terms. In many important ways it stifled

---

[45] Richmond, 1992, p.85.
[46] A Kievan political institution consisting of a council of boyars. (Paxton, 1993, 121).
[47] Vlachoutsicos, 1991, pp. 7,8 and 33.
[48] Vlachoutsicos, 1991, pp. 6-9.
[49] Kotkin, 1993, p. 1.

the genuine aspects of the rcvs and through the suppressive mechanisms of the communist party eroded the rcvs practices of genuine grass-root participation by rendering them 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 feature of the workers collective is that it includes *everyone* working in the enterprise, irrespective of rank, from blue-collar workers to top management. In their identities as members of the collective, all members perceived themselves, and still to a significant extent are perceived by Russian society at large, as integral and inextricable parts of the enterprise, entitled to participate in decision making and in the ownership of the enterprise. This particular feeling of entitlement is unknown to workers in Western business organizations and lies at the base of the stubborn distinctive mentality of Russian workers, so hard for Westerners to understand and to cope with. While organizations in market economies[53] increasingly do, in varying degrees, incorporate bottom involvement in their decision-making processes, the valence and intensity of this particular feeling of entitlement of Russian workers constitutes a distinctive feature of rcvs. This intense feeling of entitlement can be compared to the feeling a villager in the West feels about his use of the village well.

The condition of shortage resulting from perennial hardship continued to stamp life under Communism. In fact the condition of shortage in Soviet Russia was especially asphyxiating. To coin a term, I refer to this particular condition as "mono-shortage", as it resulted from a unique amalgam of overall perennial shortage[54] of goods and services on the one hand, and gigantic, powerful

---

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.

53 The relevant managerial values and practices of South West Airlines are an example. Freiberg and Freiberg, 1996, pp. 74 and 75. Also see Denison and Michra, 1995 and Denison, 1997, pp. 6-8, 84 and 127.

54 The damage of shortage was exacerbated as the technology gap between Soviet and Western production continuously widened.

monopolistic or oligopolistic suppliers on the other. There was one more element, which rendered this amalgam so unique and therefore so hard for Westerners to grasp. The system's inability to deliver to the masses what it had promised by alleviating shortage, led it to develop most intricate mechanisms intended to conceal mono-shortage from the outside world. Therefore, secrecy was one more potent ingredient of this unique amalgam. Mono-shortage might well be one of the main underlying reasons for the preservation of the traditional values, processes and management practices by the Soviet system.

Furthermore, as there was no other part of society except the industrial workers' (*proletariat*) which Lenin could rely on and draw from in order to enable the creation of a new but loyal ruling class with which he could establish Bolshevik rule and ensure control, the Bolsheviks emphasized Marxist ideology of the Workers' state and established the worker as its leading class[55]. Thus, while most of the leaders of the revolution originated from the *intelligentsia*, the workers' were typically used to enforce the Bolsheviks' decisions. The ideology which defined Communist Russia as a "workers' country", and which for decades depicted the proletariat as the leading class of society, resonated in the workers a sense of themselves as "people who matter". Thus, by recognizing the need for authority and discipline on the one hand and for grassroots participation on the other, the 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

[55] Kotkin, 1993, p.3.

principles[56]: 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 development[58].

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 1906[59], illustrates the difficulties encountered in the efforts to achieve the optimum balance between centralized[60] 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.

Lenin established dc as the focal theoretical Communist principle[61] of management and as the fundamental decision-making principle of the political and economic system of socialism. Lenin showed dc to be a "combination of centralized direction of the economy by the state toward the solution of the key task of development, so as to guarantee the public interest, together with the initiative of the people, allowing for local conditions and the development of democratic principles in management"[62]. At its inception, dc in order to make organizations effective[63] was intended to make an original contribution to the problem of reconciling the need for a system of central authority and discipline, but with genuine grass-root participation[64]. Dc was defined by the Communist Party as

---

[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.

[61] While dc does not appear to be significantly different from the practice of any party - Labour or Conservative in Britain, Republican or Democrat in the US the fundamental difference about CPSU was that it excluded competition, and therefore the grass-roots component of dc could not be genuinely applied.

[62] Aganbegyan, 1988, p.193, also Waller, 1981, p.29.

[63] There seems to be a lack of consesus among scholars as to whether at all and for how long genuine dc was ever applied by the Soviets. See Pipes, 1990, pp. 708 and 709.

[64] "there was an element of centralism because it was necessary, and an element of democracy, because people spoke and decisions were worked out in common." Sartre quoted in Richmond, 1992, p.12. In fact, within organizations, dc endorsed extreme verticality in relationships and the virtual absence of horizontal

follows[65]:

1. The application of the elective principle to all leading organs of the party, from the highest to the lowest.
2. Periodic accountability of party organs to their respective party organization.
3. Strict party discipline and the subordination of the minority to the majority.
4. The absolutely binding character of the decisions of the higher organs upon the lower organs and upon party members.

As, however, dc was used as an instrument to ensure the dominating role of the Communist Party, the dichotomy between practice and theory atrophied its democratic element. Decisions, in fact, were dictated by the top and dc very soon degenerated into a form of perverse centralism.

In 1918, Lenin established "One Man Leadership" (*edinonachalie*) as the key management system to embody the principles of dc in the Soviet enterprise[66]. One-man leadership in the management of organizations is rooted in centuries-old, centralist traditions. The concept was borrowed from the army and introduced into Russian public administration by Emperor Paul I at the end of the eighteenth century.

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

---

ties and integration.

[65] Waller, 1981, pp.12 and 22.

[66] Kuromiya, 1984, p.186.

[67] Kuromiya, 1984, pp. 185,186.

[68] Kuromiya, 1988, p.54.

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 expected[71] 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 the rcvs and is the system of management whereby leadership is placed in a group of people (*collegium*) that deliberates and decides all basic questions of management in an organization. Decisions can be made by majority. Usually, however, in the Russian tradition, debate continues until consensus is reached. Once a decision is made, all members of the group commit themselves to its implementation. Collective Leadership was applied in the Politburo of the Central Committee of the Communist Party of the USSR, the Council of Ministers of the USSR, the USSR Academy of Sciences, and a number of other important Soviet associations and institutions. A traditional problem with Collective Leadership has been that it blurs individual accountability, as it encourages the tendency of managers to cover their responsibilities by hiding behind collective decisions. Thus, administrative heads even of organizations governed by *collegialnost* had to manage on the basis of one man leadership.

---

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.

A Harvard Business School research study of decision-making in Soviet enterprises[73] revealed the hierarchical structure and its functions in the decision-making process of Soviet enterprises. It has thrown light on the ways in which the rcvs has been integrated into the decision-making practices of Soviet enterprises[74] (see point 3.4. below). During the Soviet era the grassroots participation in the decision making process described was progressively frozen into a series of fake rituals, its democratic aspects were petrified and only centralization was preserved. Nevertheless, direct experience of this managerial decision-making indicates that a unique combination of centralized leadership and grassroots participation in the making of decisions indeed functioned in Soviet enterprises, especially on issues not considered by the centre to be politically important.[75] Furthermore, the larger the degree of co-operation of enterprise workers' that was needed in order that a particular decision could be implemented, the more genuine grassroots participation in decision-making was tolerated.

An important point here is that, as the evaluation of the importance of each issue was made by the Communist Party on the basis of political criteria, what was considered as an unimportant issue by the Party might well be very important to 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 company[76] 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

---

[73] Lawrence and Vlachoutsicos, 1990.

[74] The author's current experience with Russian privatized state enterprises and even with newly established private companies indicates that while rcvs is usually orally discredited it is in fact often disguised under westernising management techniques. Therefore, managerial practices based on rcvs usually remain essentially unchanged, especially when crises have to be coped with.

[75] This insight I owe to the Russian scholar, Dr. Ludmilla Nemova.

[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.

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 class[79]. Lenin in his work "April theses" supported the creation of Plant Committees (pcs). He considered workers' control over production as one of the forms of transition from capitalism to socialism.

"Workers' control" of factories through pcs and Workers' Councils was decreed by the Bolsheviks as early as November 1917,[80] but the history of pcs was rather short. They were first organized immediately after the February Revolution 1917, their task being to implement "workers' control" over private enterprises. Pcs controlled not only production issues but financial and commercial issues as well. They were originally organized in Moscow, Petrograd, the Ural and Donbass regions.

After the October Revolution, the Bolsheviks tried to use pcs in their economic policy. "The Decree of 27 November 1917 on workers' control gave elected pcs the power of supervision (control) over industrial and commercial enterprises".[81] According to this Decree, workers' control was to be established in all enterprises

---

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.

80 Slider, 1985, p. 323, Pipes, 1990, pp. 708-709, Nove, 1969, p. 49.

which used hired labor. The workers received the right to control the production and commercial activities of the enterprise. Commercial secrets were abolished. Workers elected a pc or the Council of Elders, which carried out control functions.

The first Labor Code was adopted in 1918.[82] All enterprises, which used hired labor, came under the jurisdiction of this Code. The Labor Code of 1918 secured the right of workers' organizations to participate in decision-making concerning hiring, dismissal and wage issues. The main function of this Code was to secure some social guarantees: an eight hours working day paid vacations, etc. Extra guarantees covered working women and youngsters. The principle of compulsory labor was also fixed in this law.

According to the All-Russian Industrial Census (1918), in the summer of 1918 pcs functioned in 70.5 percent of all industrial enterprises, which employed more than 200 workers. As there was some reaction against workers' control, in 1918 as a contrary measure many industrial enterprises were nationalized and actually managed by pcs.

Very soon, however, the Bolsheviks realized that the management of enterprises by pcs was not efficient. Their government began to reinstate professional managers 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

---

[81] Hosking, 1993, p.58, Pipes, 1990, p. 709, Nove, 1969, p.51.

[82] The Code of 1918 remained in force until 1922, when a new Labour Code was adopted. According to this Code, the principal document in which the central authority and responsibility of enterprise management and of employees were established was the "collective bargaining agreement". The Code determined that only Trade Unions had the right to sign the collective bargaining agreement on behalf of employees. The collective bargaining agreement was not only binding on the Trade Union members but also on all the employees of the enterprise.

[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-communinsts had some form of education, 47.0 percent having completed higher education. *Inzhenerno-tekhnicheskie 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-

challenge the prerogatives of state officials. This encouragement was quickly halted and reversed by Brezhnev[85] 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 time[87]. 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 Party, Trade Unions and public organizations. The Enterprise Council on Production was elected for one year at the general meeting of the wrc, and its members elected a Presidium which consisted of 5-25 persons.

The role of Enterprise Council on Production members was to discuss and suggest alterations to the production plans of the enterprise, ensure the fulfillment of these plans, introduce measures to increase labor productivity, and ensure more effective work organization and the observance of workers' discipline. All decisions were adopted by majority voting. At least once a year, the Enterprise Council on Production membership presented an account of their activities before the general meeting of the wrc. The administration of the enterprise was obliged to assist in the realization of the suggestions introduced by the members of the Enterprise Council on Production and also regularly to inform the Enterprise Council on Production

---

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 were limited largely to job-safety issues and to the organization of social welfare activities.

about the implementation of these suggestions.[88]

The wrc was instituted by the Soviet system as the organizational backbone of the workplace and incorporates the central principles and practices of the rcvs. It comprises all employees of an enterprise, organization, or institution, and each state enterprise has its own. Wrcs in Russia are often confused by Westerners with labor unions in market economies. While labor unions in Western countries consist of and represent only labor's interests, the paramount distinctive feature of Russian wrcs is that they include everyone working in the enterprise, irrespective of their position, i.e. from unskilled industrial workers' and clerks to top management[89].

According to rcvs, in their identities as members of the wrc, all members perceive themselves, and are recognized by superiors, subordinates and by society at large, as equals[90] and as integral and inextricable parts of the enterprise, *entitled*[91] to participate in the decision-making process -especially when decisions concern some aspect of their work - as well as in the ownership of the enterprise. Depending on 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 organizations[92]. 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

---

88 "The history of workers' control institutions following the First Congress of Trade Unions is one of relentless decline: they shrank, wilted, and died, one by one. The abortive movement in the spring of 1918 to create a nationwide network of workers'' plenipotentiaries was the last gasp of the movement. By 1919, they were only a memory....in reality by then their main task was to serve as transmitters of government directives". (Pipes, 1990, p. 710.)

89 Slider, 1985, p. 173.

90 With the process of-bureaucratization of the Soviet system, this equality became increasingly perverse and therefore did not generate the pluralism, individuality and creativity it might have, had it been genuinely applied.

91 This particular feeling of entitlement is comparable to that of Western stockholders about the company in which they own large blocks of stock. As Dr. Renato Roncaglia has commented to the writer, during the current mass privatization taking place in Russia this feeling has converted from political entitlement to 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.

of enterprise management by assuming functions more like a general assembly of stockholders in the West. The general assembly[93] 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 rcvs 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 1983[95].

The most determined effort to resurrect the application of the values and processes of the rcvs was made by Gorbachev in the context of *perestroika*[96]. Gorbachev had grasped the crippling influence that perverse centralism had on the Soviet system as a whole, with the total lack of genuine plurality of views and of opinions that it produced. During the first years of his office, he therefore tried to reinvigorate the system by enabling dc to function as it was originally conceived. There were two main aspects to his attempt to democratize industry. The first was to make the concept of the wrc a living force in the life of the enterprise. This was to be achieved by the creation of enterprise, shop and brigade councils (*soviets*) of self-management, whose formation had already been suggested by the 1977 constitution and developed by the 1983 Law on Labor Collectives. The 'councils of labor collectives' are somewhat reminiscent of the factory committees of 1917-18, which

---

[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 potensial 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).

[96] Slider, 1985, p.173.

were later incorporated into the Trade Unions. The second strand in the democratization of work was the introduction of the 'electoral principle' in the workplace."[97]

An important concept incorporated into Gorbachev's legislative framework for the democratization of the managerial system was "socialist self-management". According to Article 6 of the 1987 Law[98], "the management of the enterprise is carried out on the basis of the principle of Democratic Centralism and the combination of centralized management and the socialist self-management of the labor collective." Papers 6 and 7 gave workers' the right to elect the managing director as well as the council of workers' collectives. Paper 7 also stipulates that the wrc equally with the Communist Party, *Komsomol* and other public organizations, participates in the preparation and discussion of the most important issues of social life.

A democratic system of workers' self-management was designed by Gorbachev in order to balance the introduction of economic accountability (*khozraschet*) envisaged by the 1987 Law. This "socialist self-management" in conditions of broad openness was attempted through the participation of the entire collective and its public organizations in working out important decisions and in monitoring their 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

---

[97] Sakwa, 1991, p.p. 155-159. Gorbachev completed the legislative framework for this democratization by the "Law on the State Enterprise" adopted on 30 June 1987 which came into force on 1 January 1988 and by his 1988 amendment of the Constitution of 1977. i.e. Paper 92. "Soviets of People's Deputies shall form people's control bodies combining state control with public control by the working people at enterprises, institutions, and organizations." (Matthews, 1989, p.352).

[98] For an English translation of the 1987 Law on the State Enterprise, see "The Current Digest of the Soviet Press", XXXI, No 30, 1987.

[99] *Pravda*, Feb. 26, 1987.

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 wrc[101]. The Law on the Enterprise and Entrepreneurship adopted in 1990 by the Russian Federation[102] amending some conditions of the 1987Law 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 study[103] 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 fun ctions as a primary wrc[104]. The STU is a group of workers and/or white-collar employees performing a specified task or function. In their identities as members of an STU, all its members feel themselves to be, and are perceived as such by their fellow members including their leader[105], as integral and inextricable parts of the enterprise. All members are entitled to participate in the decision-making process of their STU. They refer to themselves as "we" and demonstrate strong cohesion, solidarity, camaraderie, and loyalty to one another and to their leader.

STU members are bound to one another by strictest confidentiality as to the inner workings of their group. In fact, unless the leader gives explicit approval, divulging information to outsiders, even on trivial matters, is considered treasonable. In this manner, STUs function as collective entities that are practically impenetrable to outsiders. STUs, especially smaller ones, masterfully manage to mobilize the

---

[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 with the Western "strategic business unit" (SBU) which essentially is a cost and/or profit centre.

[105] Not all Russian managers are STU leaders. Deputies, for example -including deputy directors and staff to

loyalty of their members. These characteristics of STUs often lead to excessive compartmentalization of the affairs of organizations. In cases of weak leadership at the top, they diminish the unity of the enterprise and enhance the tendency of STUs to give priority to the interests of their own members over the interests of the whole enterprise. Therefore, managers are often unable to knit together the visions of their superiors with these of their subordinates.

STU leaders are granted a- great deal of discretion by superiors, their field of operation is respected by their peers, and they are obeyed by subordinates. Leaders of large STUs often delegate significant parts of their authority to deputies who, within the realm of explicitly delegated responsibilities and only during the limited period the leader has defined, have the authority to act as STU leaders. By voicing opinions openly, making suggestions, and offering criticisms, STU members provide input to the internal decision process of their Unit and indirectly to that of the enterprise.

Russian enterprises are themselves STUs. Each enterprise contains as many STUs as are necessary to perform its assigned tasks. Each STU has as many hierarchical levels as are necessary to perform its task. Each STU is a microcosm of all larger ones and a model for all smaller ones.

The largest STU of the enterprise is the enterprise itself. If an enterprise comprises more than one plant, it usually contains five hierarchical levels of STU leaders: the director general of the enterprise, the general manager of each plant, the workshop 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

---

be- are not considered STU leaders.

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 (*kompetencija*).

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 area of responsibility assigned to each and every manager are taken very seriously by peers, subordinates, superiors, and outsiders. They constitute assigned duty to the enterprise and, above all, to the immediate STU leader. Every employee's area of responsibility is his/her legitimate field of operation, not to be meddled with by peers and seldom interfered with by superiors. In this manner, everyone in the enterprise is individually responsible for performing their assigned tasks.

2. STU members are expected to express their opinions freely and actively contribute to the decision-making process (see phase two of diagram in Exhibit Two). Final decisions are taken by the leader (see phase five of diagram in Exhibit Two).

3. Subordinates are to be unconditionally obedient to superiors. Discipline is an

[106] Vlachoutsicos, 1986, p.85.

essential ingredient of the system[107]. Otherwise, as always in Russian history, it is feared that confusion and chaos will ensue. This does not, however, preclude camaraderie. The coexistence of camaraderie and discipline is rendered possible by the ritual which links the two. Although superiors and subordinates enjoy informal conversation, when it is time for a working meeting they sit in the leader's office in descending rank along the sides of a rectangular table, with their leader at its head, and conduct the meeting seriously. This ritual assures the transition. Serious business in not transacted in a nonchalant manner. Jokes during meetings are only the leader's prerogative, and he or she usually employs them to emphasize an important point or defuse tension.

4. STU leaders bear complete responsibility and have broad authority and complete administrative power for managing their STUs as a whole. An informal, implicit deal is made between STU members and their leader: members obey the leader's instructions, and the leader in return protects them and stands for their interests to everyone outside the STU, including the state.

5. STU leaders can have face to face contact with, give instructions to, receive reports from, interfere with, and - for any length of time they see fit, assume on any issue part or all of the authority of any subordinate on any level of their STU's hierarchy. Whenever leaders consider it necessary, the "*matrioshka* management system" allows them to bypass immediate subordinates and to 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 despotism[108] and mistakes of leaders. The

[107] For example consider explicit stipulations in Articles 2 and 14 of the 1987 Law on the Soviet State 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

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 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 because 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. 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 by fostering excessive compartmentalization, is extremely hard to integrate horizontally.

The Harvard Business School study showed how the apparently conflicting forms of centralized leadership and grassroots democracy can both function effectively within a coherent decision-making system. Russian managers are able to resolve the apparent paradox built into their management system by *alternating* the use of these two forms, utilizing centralized and decentralized phases (see Exhibit Two). As we have observed inside Soviet enterprises, these alternating centralizing and decentralizing phases of the decision process are separated in time, and the switches from one phase to the next are signaled by social rituals. The balanced application of the two forms is the crux of the coherent, integrated Russian traditional system of decision-making. Therefore, whenever, as very often happens, one of the two forms

---

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 STU leader. Advancing technology has also diffused authority from managers to specialists.

is ignored or exaggerated, the whole process degenerates and is rendered ineffective as it fails to achieve unified implementation. In order to elucidate this system an example of the process applied to a concrete decision is presented. [109]

Let it be supposed that a decision needs to be taken on the installation of a security system.

The chief executive officer (*rukavoditel*) of the enterprise[110], to be referred to as "the leader", having a clear notion that there is a problem of security in the enterprise and being determined to address this problem, initiates the decision-making process. The leader calls meetings in his office, which are attended by whoever in the enterprise, is directly connected with security irrespective of hierarchical level. In this particular case, meetings would be attended by the vice president in charge of operations, one or two of his subordinates whose duties might include security at various parts of the premises, their subordinates directly responsible for security, and watchmen.

In the office of the leader there is a long rectangular table, usually covered by a dark green felt cloth. One end of the table is usually attached to his desk. The general director presides meetings seated behind his desk. If the table is not connected to his desk, he sits at the head of the table. Everyone attending the meeting will be seated at the sides of the table in descending rank. As people come to sit at the table, the leader might joke or talk informally. However, as soon as everyone is seated, there is complete silence indicating that serious business is to be conducted.

During the times of the Soviet Union, the enterprise Communist Party 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 research[111] can be summarized as follows:

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

---

[109] See diagram of the decision process in Soviet enterprises in Exhibit Two.
[110] or the leader of any STU within the enterprise.

The General Director (*rukavoditel*) of the enterprise or the leader of any STU within the enterprise (see Exhibit One), to be referred to as "the leader", having a clear notion that there is a problem of security in the enterprise and being determined to address this problem, initiates the decision-making process. He calls a meeting in his office, which is attended by whoever in the enterprise, is directly connected with the implementation of security irrespective of hierarchical rank. In this particular case, for example the meeting would be attended by the vice president in charge of operations, his subordinates whose duties might include security at various parts of the premises, and their subordinates directly responsible for security, including watchmen.

The leader sits at the head of a rectangular table. Everyone attending the meeting is seated at the sides of the table in descending rank. As people come in, the leader might joke or talk informally. However, as soon as everyone is seated, there is complete silence indicating that serious business is to be conducted.

The leader commences the meeting with a brief statement establishing the target i.e. 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 is entitled to express their opinion freely. There is no established rule specifying the sequence in which participants in the meeting express their opinions; a vice president can start or a watchman can speak first. The rcvs has it that the leader must listen attentively to everyone. It is up to him/her to open the various views expressed to discussion.

Before ending the meeting, the leader asks everyone to reflect about how the problem of security can be solved most effectively and to discuss thoroughly with his or her colleagues involved in security, in order that a coherent proposal for the leader is developed. A date for the next meeting is then fixed, during which 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 short.

[111] Lawrence and Vlachoutsicos, 1990, pp. 69-80.

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

My long experience in dealing with Russian organizations indicates that whenever genuinely applied, this phase constitutes the most crucial and most distinctive feature of the Russian decision-making process. This is so because it strengthens and enriches the whole process with uninhibited, wide, grassroots participation.[112].

Be it as it may throughout phase two, everyone in the enterprise connected with the issue of security, each within his/her own STU and STU leaders amongst each other, exchange ideas informally and deliberate on how best the problem of security should be addressed.

PHASE THREE: BOTTOM UP - Submission of subordinates' proposal to the leader on how best security can be achieved

During a meeting in the office of the leader, subordinates submit their proposal to him. This proposal is usually oral. The meeting is devoted to the presentation and explanation of the proposal, to questions the leader asks on points he needs to have explained and to points with which he or she disagrees outright.

PHASE FOUR: Leader's DELIBERATION

The leader takes the time he or she needs in order to scrutinize the proposal of his subordinates. He or she can also call outside specialists, in order to obtain their feedback and expert advice.

The leader can confer on the proposal directly with any relevant subordinate irrespective of rank, he or she considers appropriate. When complicated technical or financial questions arise, the leader can appoint subordinates to form task forces in order to study concrete questions in depth. At this stage of the decision process, appointment of outside experts to also participate in such task forces is admissible.

PHASE FIVE: TOP DOWN. The leader announces his/her decision

When the leader makes up his or her mind on what is to be done on the issue of security in the enterprise, he/she calls a meeting in his/her office with the same

[112] A Russian colleague, professor Igor Gurkov, has offered the valuable insight that the Soviet system permitted and used grassroots participation as a method to identify and tap on hidden resources and reserves of raw materials and production capacities which the fear of "mono-shortage" of the inputs required, obliged each STU to withhold in order to be able to fulfill the performance plan imposed on it.

participants who attended the meetings conducted during phases one and three. In this meeting, the leader announces his/her decision. It is important to keep in mind that, according to the rcvs, the leader is not expected to accept the proposal submitted by his/her subordinates during phase number three. In fact, the leaders' decision can be completely different from what was proposed. However, the leader must articulate his/her decision in a manner to convince subordinates that their input has been seriously acknowledged.

The leader is not expected to defend the rightfulness of the decision. Nevertheless, decisions, which have the highest probability of being implemented by subordinates, are these which are articulated so that subordinates can *recognize* the input they have made through their proposal. Upon announcment of the decision by the leader, any participant can ask questions in order 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 a decision effectively is proportional to the degree to which all phases of the process have been applied genuinely.

This decision-making process plays itself out within each STU between its leader and its members. The grassroots participative phases of the system offer the clear advantage of achieving a considered and committed decision. What may not be so clear, but is equally valuable, is that its centralist phases offer the power of clear, strong-disciplined leadership with faithful execution.

EXHIBIT 1
The Matrioshka Hierarchical Structure of Soviet Organizations

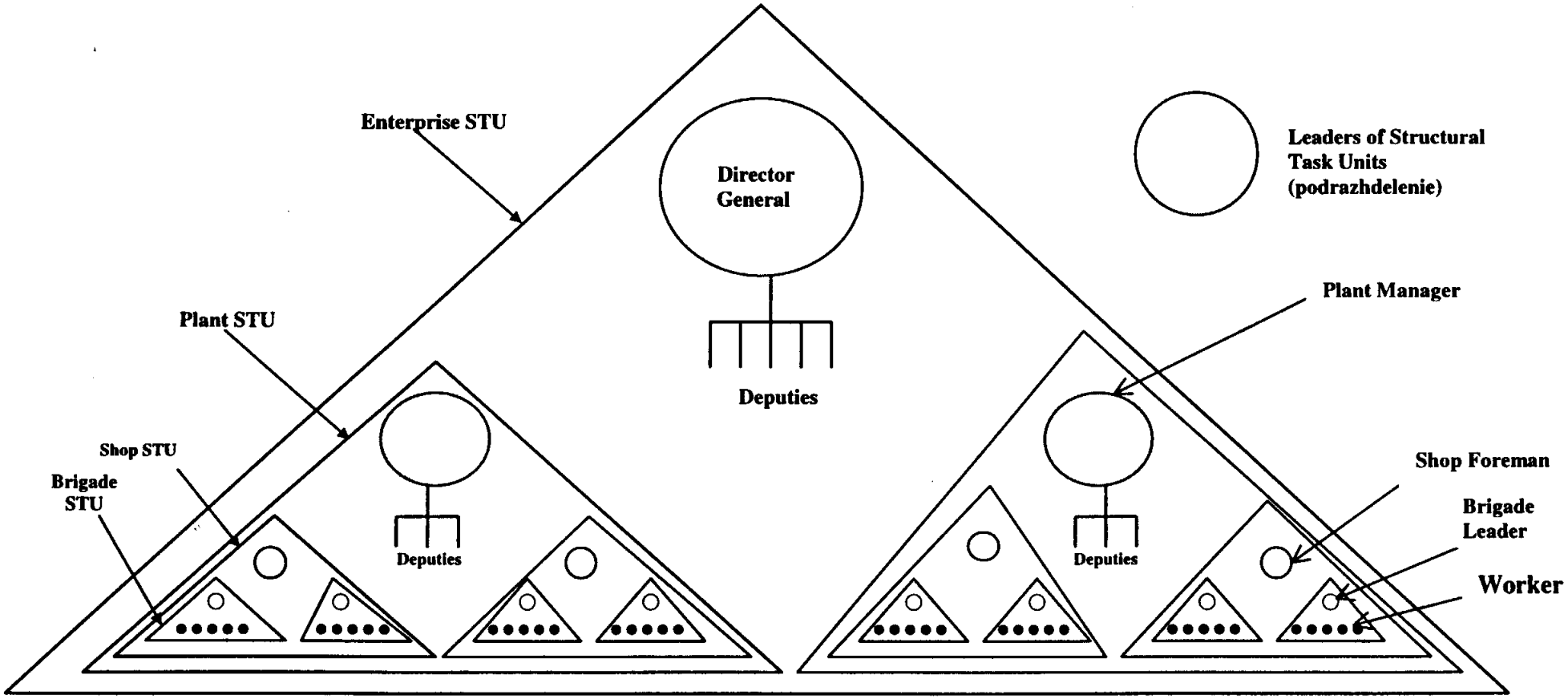
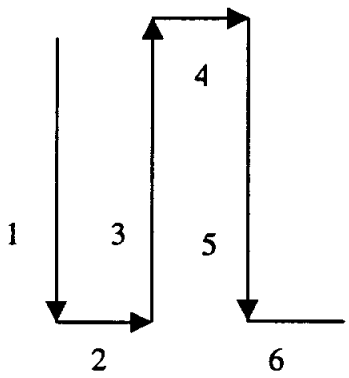


EXHIBIT TWO

Diagram of the Decision Process in Soviet Enterprises[113]

Centralized leadership



Grassroots democracy

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.

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 rcvs

Before the genuine "natural" decision-making processes[114] 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 participation[115]. Few clear and institutional prerogatives were recognized. Furthermore, like other structures of Russian collectives, the wrc was practically impossible for outsiders to penetrate.

Similar structures principles and practices were applied to the agricultural sector. As

[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.

soon as they assumed power, the Bolsheviks proposed that all property should be owned and administered by the state or by the commune.

Individual communes took it upon themselves to confiscate land from landlords. The commune later referred to a type of *kolkhoz*, in which members lived and worked communally and where private ownership, was virtually abolished. The *mir* was resurrected in official documents as the *zemel'noe obshchestvo*; it was granted a legal identity and continued to function in age-old fashion. The following is an example of this resurrection: "As in the rest of the USSR, in Magnitogorsk urban housing was called upon not merely to shelter people but to mold them. For this purpose each of the residential barracks - where about half the city's population lived - had what was called a "red corner" (*Krasnyi ugolok*), an answer to the peasant household's "icon corner", where the values and symbols of the new order were on display." "There were no red corners in mud huts; there was nothing either "red" or "cultured" about them. It was as if the old peasant hut (*izba*) had reasserted itself - in the socialist city". [116] The April 1929 directive for increasing the socialist sector of agriculture decreed that collective farms must be divided into three major types: the *toz*, where the peasants, retaining their individual holdings, banded together for the purpose of acquiring or renting the implements of cultivation or of jointly working some land, the *artel*, where the ownership and cultivation of all land (except for the individual peasant's small garden plot) were in common and the *commune*, where private property was almost completely abolished and the members worked and lived communally[117]. The *mir* was preserved in various forms until 1930, when with Stalin's collectivization it was swept out of existence and was replaced by yet another form of communal life, the Soviet collective farms (*kolhoz*) and the state farms (*sovhoz*).

The bureaucratization of the Soviet system and the monopolistic power of its functionaries, as well as the asphyxiating pressures created by the ever present perennial *mono-shortage*, did not allow these attempts to unfold and to function during the time of the Soviet Union.

In conclusion, it is important to mention that while, during the Soviet period, the freedom of manifestation of genuine rcvs was thwarted in many ways, its importance

[116] Kotkin, 1993, pp.2 and 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.

Russian companies face enormously demanding challenges that encompass the rapid collapse of traditional markets, legal and institutional uncertainties regarding ownership and governance, cash flow blockages (e.g. the non-payment for goods delivered to customers and the intense scarcity of bank and trade credit). The appearance of technologically and financially superior global competitors, their own lack of skills and experience for operating in a market economy and workers and managers who are frightened, suspicious, or even hostile with respect to any change, exacerbate these challenges and create intense frustrations. Nevertheless, the need for transforming managerial practices from those employed in a centralized, command economy to those appropriate for a competitive market-driven business environment is being increasingly recognized. However, little is being done to understand the special difficulties that attend this challenge.

Thus, 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 community[118].

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 managers[119] in Russia, the Ukraine and

---

[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

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 series of deep interviews with selected directors in Moscow was completed.[120]

Historically, peasants in Russia have numbered close to 90 percent of the population. By 1990, due to forced industrialization, the figure had dropped to 25 percent. While two-thirds of the population live in urban areas, most of today's city dwellers are only two or three generations removed from their ancestral villages. Their peasant past is still very much with them and, though often unaware of the history behind it, they still think in the egalitarian terms of the *mir*. The expectation is still prevalent that the community will guarantee essentials to every one of its members in a context of comradely indigence, even if just above the poverty line[121]. In fact, the basic management values and practices of "One-Man Leadership" (*edinonachalie*) remain deeply embedded in the Russian manager's thinking - often at subconscious levels[122] - and they continue to persist as important elements of current enterprise management in Russia.

While the effective power of the workers' to initiate decisions is limited, their power to block them still remains decisive. The movements of the "invisible hand" of the nascent market economy are still being thwarted by the stubborn "invisible fist" of the rcvs as manifested by attitudes, ethics and actions of workers, managers and the whole

---

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. Not withstanding, however the distinct differences between old and new managers, I have often experienced Russian managers and entrepreneurs to verbally praise individualism and to contemn 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 happens with other cultures, it takes a long, long time for these values to change altogether.

[120] Boeva and Shironin, 1992, p.4.

[121] Consider the phrase included in a recent speech delivered by the leader of Russia's communist party, Genadi Zhuganov at Davos in Switzerland as reported in Kathimerini on 12 July, 1998: "Every country has a national idea. For us Russians, this idea is collectivity, sobornost". For a definition on sobornost see footnote 9. Also see Hosking, 1993, p.58.

[122] In our research, we have found that though Russian managers by and large apply rcvs, they can rarely explicitly articulate its rules and practices.

community.[123] Thus, 'workers'' interests clearly have to manifest themselves in the goals pursued by Russian industrial enterprises'.[124] A major finding of our study[125] on transforming managerial practices in Central and Eastern Europe has been that securing workers'' consensus is a *sine qua non* of successful change. In fact, managers of state enterprises have neither the institutional authority nor the effective power to implement changes against the workers' will. Whether new policies or new ways of doing things will be successful or, indeed, be carried out at all, has been shown to hinge largely upon whether workers' can be made to co-operate. Quite apart from the rcvs, the fact that workers (as distinct from managers) typically hold substantial shares of equity in privatized enterprises[126] enables them to limit managers' control. Even if workers are seldom militant and often say that managers are "really" in control, both workers and managers know that especially on issues directly affecting workers,[127] and aspects of their 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

[123] Kharkhordin and Gerber, 1994, pp. 1076-1077 and 1083.
[124] Kapeliushnikov and Aukutsionek, 1995, p. 3., IIASA, 1993, pp. 13-15.
[125] Aguilar, Loveman, Vlachoutsicos, p.20.
[126] Gurkov, 1997, pp. 12-22.
[127] Aguilar, Loveman, Vlachoutsicos, 1994, p.21.
[128] Kapeliushnikov, Aukutsionek, 1994 p. 7 and 1995, p.12.
[129] Kharkhordin and Gerber, 1994, p. 1084, also Gurkov, 1997, pp. 14-19.

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-making powers of Russian managers[132] and policy makers. In a speech he delivered in Washington in September 1995, Gorbachev formulated the concern for rcvs as follows: "Russia is a country with its own distinctive features and its own culture, elements of which have to be kept in mind. Instead of implementing reforms on the basis of these distinctive features, there has been a regression to a form of wild capitalism."

In post-Communist Russia, where the Wrcs of state and privatized enterprises are kept intact, the vacuum created by the constant shift of power from the centre to the regions, from the regions to the community, from the community to each enterprise, and within each enterprise from the general director to managers of lower ranks and to stockholders[133] has in fact consolidated the role of the wrc.

One of the most politically effective power groups in Russia today is the network of general directors of state enterprises.[134] In the name of the interests of their enterprises' wrcs, this group often succeeds in thwarting reform by influencing parliament and government in the direction of sustaining state enterprises and continuing to subsidize them in a number of direct and indirect ways.[135]

Enterprise managers, in the face of persistent shortages of goods and services, have

---

[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.
[132] Kharkhordin and Gerber, 1994, p. 1082.
[133] Gurkov, 1997, pp. 14-16 and p. 26.
[134] The Prime Minister of Russia, Victor Chernomirdin, was general director of GASPROM, the biggest, richest and strongest Soviet state enterprise. Similarly, the president of Ukraine, Leonid Kutchma, was the general director of the most powerful defense industry of the republic. Also see Clarke, 1994, pp. 178-181.
[135] Kharkhordin and Gerber, 1994, p. 1083.

traditionally been expected to be concerned about the well-being of all the members of their wrcs in terms of the basics of life—housing, food, education, medical care, job security and benefits. These social expectations remain especially strong today in hundreds of medium-sized towns all over Russia where economic life depends totally on the survival of only one or two local big enterprises[136]. By shifting competencies and by being able to adjust innovatively under conditions of stifling shortage of financial means,[137] "Enterprise managers have proven themselves to be extraordinarily adept at finding new markets and new sources of supply, and at using existing equipment, labor and raw materials to develop new lines of production in response to fluctuating demand."[138]

By and large workers in state and privatized enterprises therefore continue to look to their top managers - not to their union leaders - as the protectors of their jobs. Workers' tolerance if not support[139] 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

---

[136] A certain measure to estimate the scale of social infrastructure in firms and by this way to assess the role of rcvs, suggests that the "nonproduction" investments in 1993-94 amounted to about 25-36% of total investments. Kapeliushnikov and Aukutsionek, 1994, p.7.

[137] Gurkov, 1997, pp. 11-12.

[138] Clarke, 1994, p. 182.

[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 procession 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.

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 rcvs 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 that have been forecast by economists and politicians in the course of the last three years".[145]

There is no better example of the power of the rcvs in present day Russia, however, than its role in sustaining the paradox of enterprises persistently retaining a high labor surplus[146] even as industrial output has plummeted.

The condition of being unemployed is new in Russia.[147] People perceive the loss of a job or a necessity to change profession as a serious misfortune.[148] The rcvs has played a decisive role in keeping unemployment low by influencing management not to release excess redundant labor. It is important to look carefully at what happened in the large enterprises. When the cutback in state orders began early in 1992, these enterprises did not, as expected, reduce their payrolls and reorganize around free market opportunities and realities. Instead, they ran up overwhelming debts to keep even redundant employees on their payroll.[149] The evidence on this is clear. While competent Western scholars conclude that in 1996 "suppressed unemployment in Russian industry was over a third of the workforce[150] employment has not decreased nearly as rapidly as the decrease in

---

[143] Clarke, 1994, p. 183 also Gurkov, 1997, pp. 26 and 28.
[144] Clarke, 1994, p. 185.
[145] Kapeliushnikov and Aukutsionek, 1994, p. 8 and *Financial Times*, 19 October, 1995, p.2.
[146] Standing, 1997, pp. 14-22.
[147] Estimated 1997 unemployment in Russia 9.5% (The Economist, December 13, 1997, p. 114) when compared to estimated 1997 EU average and steadily rising unemployment 10.7% (Kathimerini, November 6, 1997, p. 22 and December 3, 1997, p. 28) is very low especially if the steady dramatic decline of Russia's gross domestic product during the six years since the collapse of the Soviet Union is considered (Wall Street Journal, September 9, 1997, p. 6).
[148] Nemova, 1994, p.23
[149] Lawrence and Vlachoutsicos, 1993, p. 38(b).
[150] Standing, 1997, p.20.

production. According to government figures, production shrank by a half between 1990 and 1997. This decline is staggering, even if one allows for the fact that it does not take into account the growth of shadow markets.

As incomprehensible as it may be to Western economic analysts, who for years have predicted very high unemployment rates for Russia, it is important to note that enterprises, as long as they can manage to survive, stick to their collective traditions by not evicting members of their collectives[151]. If reductions of people are indispensable, they tend to keep the more vulnerable workers, rather than the more productive ones who can survive by themselves finding lucrative jobs in the vibrant private sector! Thus, 47 percent of releases of employees of state enterprises during 1993 were due to "voluntary quits"[152]. These departures are mainly workers' that can survive even if they leave the wrc, i.e. younger, more readily employable people, or women whose husbands hold jobs in the same or other enterprises[153] and who, therefore, even if not employed by the enterprise, can continue to avail themselves of the albeit withering[154] 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 stoppages[157] 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

---

[151] Kharkordin and Gerber, 1994, p. 1082.
[152] "The Unemployed", Federal Russian Statistical Bulletin 1 January 1994, p.35-38
[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.

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, proved unfounded[162]. Nevertheless, while the International Monetary Fund insists on deflation, the G7 and the EU acknowledge at last that "reform programs must take into account the social hardships of the transformation process" and have committed the West to "work with Russia to improve the social safety net".[163]

The process of privatization of Russian state enterprises (SEs) provides another cogent example of how present economic reforms in Russia try to reconcile the rcvs with the transformation of the Russian economy into a successful market economy.

The main aim of the "first stage" of the privatization program, which was issued on 9 July 1992[164], was very quickly to move a large number of state enterprises along the road to financial independence and self responsibility for survival and profit, but in a manner as consonant with the rcvs as possible. The state elaborated three alternative schemes for the privatization of SEs. The wrc of each state enterprise was given the right to pick the scheme its enterprise would follow. In this manner, the wrcs of 75 percent of Russian SEs privatized, opted for alternative Number 2[165] which provided for 51 percent of the stock to go to the members of the wrc of each SE, partly free and partly at a price[166]. The government granting this decisive power to the wrc is clear evidence of the continuing strength of the rcvs in Russia. Nevertheless, this may have been the last focal decision the

[159] Standing, 1997, pp. 22 and 23.
[160] Standing, 1997, p23.
[161] A term often used by economists to refer to the rcvs.
[162] *Financial Times*, 27 October 1995, p. 2.
[163] *Finance East Europe*, Volume 4, Number 5, p. 15 also *London Times*, 23 February, 1996, p.4.
[164] Clarke, 1994, p. 178.
[165] Andreef, 1994, p.4, Commander, 1993, p.10 and Blasi, Krumova and Kruse, 1997, p.89.

wrcs have taken. As privatization proceeds, power is gradually but surely shifting from the wrc[167] to management and from management to stockholders and to the board of directors which is appointed by the stockholders. As, however, managers and workers' combined own the majority of stock in most enterprises where management remains united, this shift of power has not as yet become widespread.

Genuine application of the rcvs is not the only reason for the communitarian behavior of Russian enterprise managers. Another is that, in many cases, managers saw a chance to get control - if only of opportunities to cream off a private fortune from "their" enterprise. Because the rcvs remains important socially, they supported variant 2 as the easiest way they could achieve this. Another important reason is that, now that the power of the vote is decisive in Russia, the largest block consists of those who depend on the social safety net. Thus, many large enterprises still keep workers' on their books, even if only on a part-time basis, in order to strengthen their case as large employers for more soft credits 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 workers'[169]. 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,

---

[166] Andreef, 1994, p.4, Clarke, 1994, p. 177.

[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 privatised 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).

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 transformation has been made.[171] In the 19th century when the Tsar decided to demolish feoudarchs, the land was given to the *mir* (the counterpart of the wrc) to manage, and not to the peasants individually, while how shares of state enterprises were distributed directly and individually to each member of the wrc. It can be argued that this far-reaching change, in fact, signaled the beginning of the end of the institution of the wrc.

While the institution of the wrc is not mentioned in the 1993 constitution of the Russian Federation, a new law on the wrc has been drafted since 1994[172]. The draft of this Law makes two major breaks with past dogma and practice as presented in sections 3.2. and 3.4. above. On the one hand, by explicitly stipulating that the "employer of the enterprise is not a member of the wrc, it signals the beginning of the end of the institution of the wrc and paves the way for its fusion with the institution of the Labor Union and on the other it implicitly grants the right to employers to release workers who breach conditions of the collective bargaining agreement. The distinction between the wrc and a labor (trade) union remains unclear in this draft, which has been already discussed by some of the committees of the Duma. Its main shortcomings are considered to be that it exaggerates the jurisdiction of the wrc. The parliament is said to suggest the deletion in Article 3 of: "suspension of the dismissal of the employees" and, in Article 4, of: "dismissal of the

---

[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.

[171] By September 1995, 14,000 state owned companies had been privatized at the conditions of the first stage of privatization. *Financial Times*, 6 September 1995, p. 11.

[172] Information on this draft was kindly supplied to me by the Russian Scholar Dr. Nina Vishnevskaya of the Institute of World Economy and International Relations, Moscow. As of November 1997, this law had not been as yet submitted to the Duma for adoption.

managers due to the threat of the bankruptcy of the enterprise", plus other conditions. Though it is not certain whether and when a new law on the institution of the wrc will finally be enacted, the mere fact that such a law is still being considered indicates that the rcvs is still potent in Russia.

The process of state enterprise privatization has begun to make inroads into the influence of the traditional wrc in another way too. In fact, the wrc is gradually being informally divided into two groups: on the one hand, the core group of managers and workers' who own stock in the enterprise and, in many cases, keep accumulating more; and, on the other, the peripheral group of employees who do not own stock[173] (i.e., recently employed personnel, and old wrc members who have sold their shares). In this manner, it could be said that the original wrc is being gradually split and transformed into two separate groups with distinctly different interests: on the one hand, company management with the workers' who are also stockholders and, on the other, non-stockowning workers' who gravitate towards western style labor unions. As privatization proceeds and the interests of workers' increasingly differ from those of managers[174] and of stockholders[175], 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

---

[173] Clarke, 1994, p. 180.

[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.

whole[179], have succeeded in stalemating the government's efforts, up to the present time.

As, by and large, enterprise managers are knowledgeable, able and experienced operators[180], 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.**

Ignoring the code of the rcvs, Westerners often misunderstand Russian managerial practices and decision-making methods. Such misunderstandings can have grave consequences on specific investments. The hierarchical structure and the distinctive decision-making process of the traditional Russian management system which I have called Matrioshka hierarchy, indicate a number of specific areas where such misunderstandings can occur. At the heart of the difficulty for Westerners in understanding Russian management practices lie two features, which our Harvard Business School study conducted in 1989 inside Soviet Enterprises, has revealed. The first is the Structural Task Unit (STU), (podrazhdelenie) which is the core of the traditional hierarchical structure of the Soviet enterprise. (See Exhibit One).

The second feature very hard for Westerners to understand is the surprising degree of grassroots participation in the making of decisions. Our study of 33 joint ventures[181] has indicated that one of the main reasons such misunderstandings occur arises from the difficulty Western managers usually experience in grasping and reconciling this coexistence of strong centralist and wide grassroots participative elements in Russian managerial practices.

As we have observed inside Russian enterprises,[182] these alternating centralizing and decentralizing phases of the decision process are separated in time. It needs to be understood that these phases are inseparable parts of an integrated whole: if one of its phases is ignored or exaggerated, the effectiveness of the system is weakened and decision implementation is less likely. Serious problems are often caused when Western managers in Russia try to apply the sequence of phases in the making of decision, which Western companies usually follow and which is entirely different, if not opposite to the sequence applied according to the rcvs. Thus, in the first phase of the process, Western

[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] Lawrence and Vlachoutsicos, 1993.
[182] Lawrence and Vlachoutsicos, 1990, p.76.

managers usually tend to be democratic in establishing targets by inviting their direct subordinates' views on *what* is to be decided, while in this phase Russian subordinates expect a good leader to be "centralist" by establishing targets himself. In the second phase of the process, by making decisions without consulting subordinates affected on *how* a target is to be achieved, Western managers tend to be perceived by Russian subordinates as violating their alienable right to voice their opinion. In this manner, Russian subordinates in accordance with the rcvs, expect leaders before reaching a decision to receive their input because they feel entitled to submit their own proposal on *how* target set by the leader can best be achieved and how the leaders' decisions can be implemented most effectively.

While efforts to resolve the managing "paradox" by combining the top-down definition of goals with the bottom-up definition of means are increasingly common both in Western organizations as well as in avant guarde Western organizational theory[183], are increasingly being made, this particular feeling of entitlement of Russian employees is unknown or rarely understood by Western managers in their dealings with colleagues or subordinates, in the operation of their companies' investments in Russia. Therefore, phase two is often being omitted in the making of decisions.

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 subordinates[184] 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

[183] Collins and Porras, 1994, pp. 43-44.

[184] the only ones with whom he is entitled to communicate directly.

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 prematurely[185] 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.

Another feature of the Matrioshka management system Westerners usually find hard to line up with is connected with the vertical integration of enterprises. Western managers feel very uneasy in communicating directly with subordinates of others in the enterprise, apart from their immediate subordinates. They consider bypassing their direct subordinates as a grave violation of sound managerial practice. Furthermore, in Western companies subordinates do not feel entitled and therefore very uneasy to communicate directly with superiors of their direct superiors. This is not at all the case in Russian enterprises, where managers feel free to communicate directly with everyone in the enterprise involved with a particular issue. As our research has clearly indicated,[186] subordinates from all lower levels are entitled to direct access with the top on any issue. One particular custom we observed was the posting of office hours when any employee or even any member of an employee's family could talk with the manager and seek his advice or decision on any business or personal matter. Also on plant tours of managers, it is customary for employees to initiate a conversation with a senior. Everyone working in the enterprise feels entitled to this direct access to the leader. It follows that Western managers who do not acknowledge this right are viewed as distant, unfriendly and snobbish leaders, and therefore do not command respect and loyalty.

One of the most significant insights of our study is that the main strengths of the Russian and Western management systems are complementary. Russian enterprise management practice strengthens the vertical aspects of decision-making, and Western networking strengthens the horizontal aspects. Fitting these two different if not opposite managerial

[185] According to Russian decision making practice the time to involve outside experts is during phase four, see section 3.4.

[186] Lawrence and Vlachoutsicos, 1990, pp.273-276.

practices into a harmonious single system will be a challenge, but I see no major obstacle to a company operating in Russia utilizing both systems.[187] On the contrary, I see a potential for added value in their careful combination. The Russian system offers clear, strong leadership and its decision-making method can generate considered decisions and grassroots commitment to implement them. This can serve to integrate decision-making and action up and down the hierarchy.[188] While Western management systems offer networking or lateral decision-making which facilitate effective work directly between functional departments, within cross-functional project teams, and also directly with suppliers and customers, such direct lateral interaction without prior clearance with superiors is strictly forbidden and penalized by the traditional Russian management system.

Thus, Western managers need to understand how Russian managers accomplish vertical integration by using hierarchies and make decisions with grassroots commitment; and Russian managers have a great deal to gain from learning and practicing essential aspects of the Western system of lateral networking. Both need to reach some accommodation, which can take different forms in individual companies. Some will choose to adopt primarily Russian practices and others mainly Western, but agreement on the issue is essential. Social rituals will help in signaling when switches are made between systems. For example, the comparable Western practice, which we have experienced as radically differing from Russian management, practices, and which Russian managers need to understand in depth and come to some accommodation with, is lateral integration. Lateral integration is not only foreign to Russian managers but violates their customary way of 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. The decision of whether to appoint a Russian or a Western manager is invariably a hard one. There are a number of pros and

[187] Collins and Porras, 1994, pp.43-44.
[188] Lawrence and Vlachoutsicos, 1990, p.79.

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 imprisoned 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, as well as the background and personality of the particular Russian and Western candidates.

Strong measures that reinforce the Russian general manager's undertaking full responsibility for operational affairs have proved to be essential for achieving fast and 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. The main question is the psychological micro climate; our Western colleagues trust our explanation of why we decide on handling problems the way we do." [189]

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 methods, managerial practices and company culture.

It has to be mentioned 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.[190] In cases where Western managers are finally appointed, familiarizing them thoroughly with the rcvs, its inner logic as well as the managerial practices it fosters, is a *sine qua non* to their being able to cope successfully with their duties.

An example of the accommodation needed is the way in which the Russian traditional

[189] Vlachoutsicos and Lawrence, 1992, p. 17.

decision-making process may be effectively reconciled, presented in section 3.4 above. This focuses on vertical integration as opposed to current Western management practices, which focus on lateral integration within and outside the enterprise, as necessitated by the market economy. As indicated in section 3.4., phase two and the first part of phase five to which Russian employees feel strong entitlement must be genuinely applied in some form or another, in order for decisions to be implemented with their commitment. A concrete way to go about this process would be, for example, to place a round table in the office of the managing director in addition to the traditional rectangular one. At the rectangular table, phase one and the first part of phase five would be conducted in traditional fashion, while the round table would be used for phases three, four, and the second part of phase five. Thus, all phases, which served to integrate the enterprise vertically, would continue to be conducted at the rectangular table, and all phases which could be used as a starting point to foster horizontal integration would be conducted at the round table. Eventually, when lateral integration has been fused with the vertical integration of the old system, the rectangular table could be removed. Round tables designated to foster lateral integration would replace rectangular tables.

Task forces comprised of peers from different departments of the enterprise would be established, to work in these conference rooms on issues requiring co-ordination and synchronization of decisions and activities among the different departments of the enterprise but also between departments of the enterprise and corresponding departments of other enterprises (for example, the procurement department of one enterprise with the sales department of its supplier). Especially during phase two of the decision process, task forces including outside experts on the specific issue being considered could be initiated and fostered.

Another example is connected with the traditional expectation of Russian workers' and other stakeholders that each enterprise, in addition to supplying jobs and to producing goods or services, should also play an important social role by providing, almost free of charge, a wide range of services to the members of its wrc as well as to the community at large. Our studies have shown that successful Western investments in Russia develop external relationships and build a reputation in business circles and the wider community 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 present day Russia low contrary to consistent gloomy predictions by Western economists, and the distinctive form of privatization elaborated by the Russian government and opted for by the workers collectives during the first phase of massive privatization of Russian state enterprises whereby 51% of the stock of their enterprise was granted to their members (workers and managers) at nominal prices, indicate that the values and practices of the rcvs are still influencing decisively the Russian process of transition.

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 effective[191] 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 the 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 essentially from the corresponding Russian ones.

My long experience in conducting business with Soviet state enterprises, with privatized enterprises and with newly established Russian companies as well as with

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

Russian managers, indicates that, the essence of this difference lies in the strong feeling of *entitlement* of Russian workers to submit their proposals on *how* goals set by management, can be best achieved and to communicate *directly* with the leader of their enterprise on any important professional or personal issue.

The rcvs is usually ignored by Western investors and managers engaged in the establishment and operation of investments in Russia. While Russian communitarian values are hard for Westerners to grasp, whenever understood they do provide essential insights into the inner logic, attitudes and practices of workers, managers and enterprises in present day Russia. Although a whole class of new Russian managers with a stake in a market economy and unburdened by the baggage of the Soviet past is developing, the essential aspects of the rcvs as a set of social values, still determine substantial tangible and intangible rewards and penalties and play a vital part in the Russian manager's thinking. Therefore the rcvs still persists as an important element of Russian enterprise management. Finally, inertia of old habits and attitudes also play an important role. In this manner, the rcvs still remains at the root of the spontaneous behavior of Russian managers and workers.

Thus, there is a paradox at the heart of the current transformation process in Russia, which is becoming increasingly impossible to ignore. While most reputable Russian and Western economists vehemently denounce the rcvs as old fashioned, obsolete, and obstructive to the transformation process of the Russian economy, as weakened and as degenerated rcvs is made to appear, it remains a recalcitrant element of Russian society. Although it is impossible to assess with accuracy the extent to which rcvs influences the complex process of systemic transformation presently under way in Russia, it still manifests itself in multiple forms. Especially in the provinces, most enterprises continue to function according to the denounced "old ways".

To a significant extent, the rcvs still influences social behavior and public opinion in Russia. This is evident in the sense of guilt felt by managers when faced by the conflict between the interests of the members of their workers collective, and the desperate need of their enterprise to become cost effective through drastic reductions of jobs and of benefits.

It follows that "preserving the number of employees is one of the focal priorities of the

Russian enterprise top managers".[192] This constitutes a major factor preventing unemployment in Russia from reaching dangerous levels. As shown, Russian managers and workers alike, identify with and practice the rcvs and react negatively whenever its values are challenged.

The realization of the role of rcvs might lead us to discover ways by which its values could work for instead of against change. This can only become possible if genuine efforts are exerted to integrate the old and the new into a better answer which is directly relevant to the real needs of all stakeholders involved in the process of change in each particular enterprise. Structuring the management system of a particular enterprise in a manner 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 views on *how* best it should be implemented, would be an example of such integration.[193]

We do not claim that integrating rcvs in the management system of enterprises in Russia today is the panacea for all problems. Nor do we advocate going back in history and ignoring the signals of the free market and stakeholders' profit motives as the focal indicators of viability of enterprises.

It is relevant and significant that for the past thirty years, orthodox economics has increasingly been subject to reformist pressures from the New Institutional Economics (NIE), of the Nobel Prize winners. Ronald Coase and Douglass North, which has been developing primarily in the fields of industrial organizations and economic history. [194]

According to NIE institutions do form the incentive structure of a society and, in consequence, political and economic institutions are the underlying determinants of economic performance. Thus although Russian managers are increasingly obliged to accept the hard terms of accommodation to the new reality of an increasingly competitive market, the rcvs is apt to remain a potent determinant of crucial aspects of their behavior until a well-functioning, effective economic system with the appropriate institutional framework in place renders many of the old values redundant by eliminating the condition of perennial shortage of means. Until then, managers' choices will remain constrained by

[192] Kapeliushnikov and Aukutsionet, 1994, p. 8.
[193] See section 3.4.
[194] S. Levine, AAASS Newsnet, 1995, pp. 13, 145.

the social institutions the condition of "mono-shortage" has fostered over the centuries and consequently the rcvs, as an "invisible fist" will continue to obstruct the "invisible hand" of the free market to perform.

As the transformation of the economy and of the legal framework is gradually being implemented, more and more workers are forsaking the shield that their enterprise wrc still provides and dare to risk becoming individual players in the open labor market.[195] As this process unfolds, the values and practices of the rcvs and the institution of the wrc, no longer being indispensable for members' survival, tend to weaken[196] and to be increasingly substituted by the values of the market i.e. individualism and competitiveness. Until this happens, however, traditional managerial values, practices and perceptions of authority and of responsibility will persist in enterprise managers, their subordinates as well as their peers. Thus, while the marketization of Russia proceeds and the institution of the wrc is indeed weakening, the rcvs continues to a significant extent to be shared by managers, workers and society at large.

While "At the dawn of the new millenium the forces of global integration are a great tide, inexorably wearing away the established order of things"[197], it is my conviction that the degree of effectiveness and stability of whatever form of market society to which the Soviet economic and political system is presently transforming, will greatly hinge upon the degree of integration that can be accomplished between the traditional Russian communotarian value system and the particular management techniques which the new Russian market economy requires.

For future success in Russia, the legacy of the past must be given a fitting function in the process of change. Therefore, Western investors need to exert considerable effort to learn the basic tenets of the rcvs, and thus, be able to grasp the inner logic of the perplexing apparently "ignorant" and "unreasonable" managerial behavior and/or regulations they so often encounter when dealing in Russia. They need to realize that,

---

[195] This is supported by a pertinent survey conducted in 1996 by the Centre for the Study of Public Policy headed by Professor Richard Rose at the University of Strathclyde, comparing workers' in Russian privatized state enterprises and new enterprises. The study has revealed that people working in new private firms are significantly different as to their attitudes towards work, towards the economic transformation of Russia as well as to basic demographic characteristics from those in privatized state enterprises. (Rose, 1996, pp. 2-7). The German magazine Der Spiegel (issue no 45 of 1997, p. 180) reports that 737 state universities and 448 private universities, institutes and seminars in Russia now offer management courses.

[196] A concrete indication of the weakening of the process is the draft of a new law on the workers' collective referred to in section 4 above, where for the first time market economy terms like "employee" and "owner" are used and which excludes managers from being members of the wrc.

[197] From a speech made by US president Clinton to the UN on September 22, 1997 (New York Times, September 23, 1997, p. A3.)

whenever encouraged to function "naturally", the rcvs can perform *mir*acles of productivity and effectiveness. Conversely, whenever the rcvs is ignored or opposed,[198] implementation of change is apt to be thwarted. It is therefore essential that, in order to be successfully implemented in enterprises operating in Russia, Western market-economy values and management practices are reconciled with the very different values and methods of rcvs. [199] Thus when its most important features are integrated into the management of each enterprise, the rcvs can act as an infinitely more potent and effective[200] propeller for progress than many of the systems and structures Western governments, institutions and consultants insistently press Russia to adopt.

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 *spontaneous* 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, and present Russian realities as well as those of the Russian Communotarian Value System are incorporated into the Western management methods chosen.

There is no doubt that rcvs is only one of a number of factors that are focal to the distinctive features of the complex process of transformation of Russia, which Western investors and scholars need to understand when dealing with the new Russia. Nevertheless, knowing how to unravel the inner logic of perplexing behavior can lead them to effective ways to bridge the gaps of understanding and of effective cooperation. Therefore, instead of succumbing to the natural propensity to feel frustrated and/or irritated and/or contemptuous when encountering such behavior, Westerners are well advised to perceive it as an *alerting* signal indicating that they do not understand its particular inner logic.

The quest to grasp the "inner logic" in each instance should start by seeking answers to the following questions:

---

[198] For example, see phase two in exhibit two of section 3.4.

[199] 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.)

[200] Kharkhordin and Gerber, 1994, pp.1075-1107.

- Which particular product and/or services are in shortage?
- Which mechanisms are being used in order to conceal this shortage?
- Which aspect of the situation and/or behavior and/or articulation could be perceived by the individual concerned as shameful or inhibiting to him/her?
- How could the situation be perceived by the individual concerned as threatening his/her status, power or influence?

Thus, before committing funds to invest in a Russian enterprise, Western investors should seek alignment with its management and its board of directors on the objectives, expectations and fears of each side, as well as on the process through which decisions will be taken. Otherwise, they are likely to encounter significant problems in implementing and controlling their investments successfully.

7. BIBLIOGRAPHY

Aganbegyan Abel, *The Economic Challenge of Perestroika,* Bloomington: Indiana University Press 1988, p.193, also see Gvishiani, D., Organization and Management, Moscow, 1972.

Aguilar Francis, Gary Loveman, Charalambos Vlachoutsicos, *The Managerial Challenge in Central and Eastern Europe - As Viewed from Within,* HBS Working Paper No. 95-041, 1994.

Andreef Vladimir, *Les privatizations en Rusie et le Controle des Enterprises,* unpublished 1994 paper, University of Paris,.

Armstrong John A., *Sources of Administrative Behavior: Some Soviet and Western European Comparisons,"* The American Political Science Review 59 (September 1965).

Berdyaev Nikolai, *The Origin of Russian Communism,* (Ann Arbor: The University of Michigan Press, 1960.)

Berman Harold, J. *„Justice in the U.S.S.R.,* Cambridge: Harvard University Press, 1963.

Bialer Seweryn, *Stalin's Successors,* Cambridge and New York, Cambridge University Press, 1980.

Blasi Joseph, Many Krumova and Douglas Kruse, *Kremlin Capitalism: the Privatization of the Russian Economy,* ILR Press/Cornell University Press, 1997.

Blum Jerome, *The end of the old order in rural Europe,* Princeton University Press, 1978.

Boeva Irina Tat'yana Dolgopyatova & Vyacheslav Shironin, Gosudarstvennye predpriyatiya v 1991-1192 gg: ekonomicheskie problemy i povedenie (Moscow Institute of Economic Policy, 1992).

Bova Russell, *On Perestroika: The Role of Workplace Participation.*

Breslauer, George W. *Khrushchev and Brezhnev as Leaders: Building Authority in Soviet Politics,* London, Allen and Unwin, 1982, Chaps. 4 and 10.

Clarke Simon, *Privatization: The Politics of Capital and Labour,* 1994 from White, Stephen et al (eds), *Developments in Russian and Post-Soviet Politics,* Durham, NC, Duke University Press, 1994.

Collins James and Jerry Porras, *Built to Last,* Harper Business, 1994.

Commander Simon, John McHale and Ruslan Yentsov, *Russia,* Paper prepared for the World Bank conference on "Unemployment, Restructuring and the Labour Market in East Europe and Russia", Washington D.C., October 7 and 8, 1993.

Copetas Craig A., *Bear Hunting with the Politburo,* Simon and Schuster, New York, 1991.

Cotton John, *Employee involvement,* Sage Publications, 1993.

Debande Olivier and Guido Frieber, *Privatization and Managerial Efficiency,* The Davidson

Institute Working Paper Series, Number 39, 1997.

Denison Daniel and Aneil Michra, *Toward a Theory of Organizational Culture and Effectiveness,* Organization Science, Vol. 6 No 2, March-April, 1995.

Denison Daniel, *Corporate Culture and Organizational Effectiveness,* Aviat, 1997.

Der Spiegel, Issue Nr. 45, 1997.

Dore Ronald P., *British Factory, Japanese Factory,* first edition, London: Allen &Unwin, 1975; second edition, University of California Press, 1985.

Economic and Social Change: the monitoring of public opinion, 1993, N.7.

Economic Newsletter, Russian Research Centre, harvard University, *Industrial output has been more than halved and stands at 49,6% of what it was in 1989,* Volume XIX, Nr. 9, May 16, 1994.

Farmer Richard and Barry Richman, *A Model for Research in Comparative Management,* California Management Review, Winter 1964.

Federal Russian Statistical Bulletin 01.01.94, *The Unemployed.*

Gasparini Emilio, *A balance sheet (July 1991 to September 1994),* NATO Economics Directorate, Central and East European Section, 1994.

Freiberg Kevin and Jackie Freiberg, *Nuts,* Bard Press, 1996.

Glowacki Janusz, *Of Mother Russia - and a Hat,* New York Times, March 27, 1990, p.12.

Gurkov Igor, *Strategic Adaptation in Russian Industrial Companies: The Dialectics of Organizational and Strategic Change,* paper presented at Workshop on Organizational Change in Transition Economies, Ann Arbor, Michigan, September 26-28,1997.

Hanson Philip, *The Real World of the Russian Economy,* European Brief, March/April 1995.

Holden and Cooper, *Russian Managers as Learners,* Management Learning, Vol.25 No. 4, 1994.

Hosking Geoffrey, "The First Socialist Society, A History of the Soviet Union from Within", Harvard University Press,Cambridge, Massachusetts 1993.

IIASA, *Enterprise Behaviour and privatization of the large enterprises in the Russian Federation,* Working paper 93-70, November 1993.

International Chamber of Commerce, *Foreign Investment in the USSR-Key 1990 legislation,* ICC Publishing S.A., Paris 1991.

Izvestia Severo-Kavkazskogo kraevogo komiteta VKP(b), 1930, no.2, and Partrabotnik, 1929, no.21(45).

Kapeliushnikov R., and Sp. Aukutsionet, *The Russian Enterprises' Behaviour in the Labour Market,* R.I. unpublished paper presented at the IIASA conference, Laxenburg, Austria, June 1994.

Kapeliushnikov R., and Sp. Aukutsionet, *Labour Market 1994,* Russian Economic Barometer, Vol. IV, N4, 1995.

Kathimerini 17/Nov/94, 17/Feb/96 and 12/Mar/96.

Keenan L. Edward, Muscovite Political Folkways, Cambridge: Russian research Centre, Harvard University, 1986. Originally published in 1976 under the title Russian Political Culture.

Kharkhordin Oleg & Theodore P. Gerber, "Russian Directors' Business Ethic: A Study of Industrial Enterprises in St. Petersburg, 1993", Europe-Asia Studies, Vol. 46, Nov. 7, 1994.

Klyuchevskiy Vasily O., *Works in 9 volumes,* vol. I (Moscow: Mysl, 1987).

Knudsen Herman, *Employee participation in Europe,* Sage Publications, 1995.

Kotkin Stephen, *Birthpangs of Socialist Culture,* Slavic Research Centre Occasional Papers No. 46, Slavic Research Centre, Hokkaido University 1993.

Kuromiya Hiroaki,"Edinonanchalie and the Soviet Industrial Manager, 1918-1937," Soviet Studies, Vol XXXVI, no. 2, April 1984, p. 185,186.

Kuromiya Hiroaki, *Stalin's Industrial revolution, Politics and Workers,1928-1932,* Cambridge University Press, 1988.

Kvint Vladimir, *Don't give up on Russia,* Harvard BusinessReview, March-April 1994.

Lavigne Marie, *The Economics of Transition, from Socialist economy to Market economy,* MacMillan Press, London, 1995.

Lawrence Paul and Charalambos Vlachoutsicos, (eds), *Behind the Factory Walls, Decision-making in Soviet and American Enterprises,* Harvard Business School Press, 1990. The book has also been published in Russia in 1990 under the title *Mojhno le oupravleat predpreatiem vkmeste? (Can we manage enterprises together?),* Moscow: Vneshtorgizdat. Harvard Business School Press has also produced a videotape, Number: 224x, VHS, 1990.

Lawrence Paul and Charalambos Vlachoutsicos, *Joint ventures in Russia-Learning from experience,* Working Paper 93-031, Division of Research, Harvard Business School, 1992.

Lawrence Paul and Charalambos Vlachoutsicos, *Joint Ventures in Russia: Put the Locals in Charge,* Harvard Business Review, 1993. (a)

Lawrence Paul and Charalambos Vlachoutsicos, *A Plan for the Russian economy,* The Boston Globe, 24 August 1993. (b)

Lawrence Paul and Jay Lorsch, *New management job: the integrator,* Harvard Business

Review, Volume 45, No 6, 1967.

Levin Herbert, S., AAASS Newsnet, January 1995.

Lichutin V., *On ill-starred grief,* Oktiabr, no. 10, 1987.

Linz Suzan and Gary Krueger, *Pilferers or Poladins? Russian Managers in Transition,* The Davidson Institute Working Paper Series, Nr. 17, 1996.

Masaryk Tomas G., The Spirit of Russia: Studies in History, Literature and Philosophy, 2 vols., 1919; (rev.ed.)1955.

Matthews Mervyn (ed.), *The 1977 Constitution in Party, State, and Citizen in the Soviet Union: A Collection of Documents,* Armonk, New York: M.E. Sharpe, Inc., 1989.

Moses Joel, C., *Worekr Self-Management and the Reformist Alternative in Soviet Labour Policy, 1979-85,* Soviet Studies, vol. XXXIX, no. 2, April 1987, pp.205-228.

Nemova Liudmilla, Doug Lippoldt, *Implementation of Labour Market Policy by the Russian Employment Service: A Case Study,* Vienna, Institute for Advanced Studies, 3-5 November 1994.

New York Times, September 23, 1997, p.A3.

Nove Alec, *An Economic History of the USSR,* London: Penguin, 1969.

Paxton John, *Encyclopedia of Russian History, From Christianization of Kiev to the Break-Up of the USSR,* ABC-CLIO, Santa Barbara, Claifornia, Denver, Colorado, Oxford, England, 1993.

Pipes Richard, *The Russian Revolution,* Vintage Books, New York, 1990, pp 708 and 709.

Pravda, 1/22/1987,

Riasanovsky Nickolas, *A History of Russia,* Oxford University Press, 1984.

Richmond Yale, *From Nyet to Da-Understanding the Russians,* Intercultural Press, Inc., 1992.

Rose Richarad, *Comparing Workers in Russian Enterprises,* Studies in Policy Number 258, Centre for the Study of Public Policy, University of Strathclyde, Glasgow, 1996.

Roxburgh Ian and Judith Shapiro, *Alternatives to Full-Time Employment - Incentives, Advantages and Disadvantages,* IIASA Workshop, June 23-25, 1994.

Sakwa Richard, "Gorbachev and his reforms, 1985 - 1990, Englewood Cliffs, N.J.:Prentice Hall, Inc., 1991.

Shanin Teodor, *Russia as a "Developing Society".*

Slider Darell, *Reforming the Workplace: The 1983 Soviet Law on Labour Collectives,* Soviet Studies, Vol. XXXVII, no.2, April 1985.

Standing Guy, *Reviving Dead Souls: Russian Unemployment and Enterprise Restructuring,* International Labour Organisation, Geneva, January 1997.

Steele Jonathan, *Eternal Russia: Yeltsin, Gorbachev and the Mirage of Democracy,*

Cambridge, Harvard University Press, 1994.

The Economist, December 10 1994, p.32.

The Economist, January 7, 1995, p.63.

The Economist, July 22/95, p.28.

The Economist, October 26 1996, p. 101.

The Law on the State Enterprise, The Current Digest of the Soviet Press, vol.XXXIX, NO. 30, 1987, article 6.

The International Christian Science Monitor, September 24, 1986.

The Oxford English Dictionary, Volume VI, Oxford, Cladendon Press, 1970.

Tsoukas Haridimos, *Socio-economic Systems and Organizational Management: An Institutional Perspective on the Socialist Firm",* Organization Studies, 1994, 15/1.

Ulam Adam B. A History of Soviet Russia New York: Praeger Publishers Inc. 1976.

Vakar Nicholas P., *The Taproot of Soviet Society,* New York: Harper and Brothers, 1962.

Vasiliev Sergey, A., *Economic Reform in Russia: Social, Political annd Institutional Aspects, in changing the Economic System in Russia,* edited by A. Aslund and R. Layord, St Martin's Press, N.Y., 1993.

Vernadsky George, *Kievan Russia,* Yale University Press, New Haven, 1948.

Vlachoutsicos Charalambos, "Where the Ruble Stops in Soviet Trade", Harvard Business Review, No.86512, Sep/Oct 1986.

Vlachoutsicos Charalambos, *Introduction to some key concepts of Soviet Enterprise Management,* Harvard Business School, Division of Research Working Paper, No.90-043, February 1990. (a)

Vlachoutsicos Charalambos and Paul Lawrence, *What We Don't Know about Soviet Management*, Harvard Business Review, Nov/Dec 1990 (b).

Vlachoutsicos Charalambos, *Foreign Investments in Prerevolutionary Russia and in the USSR until Perestroika: a Historical Review",* Harvard Business School Division of Research Working Paper, No.92-046, October 1991 (a).

Vlachoutsicos Charalambos and Paul Lawrence, "Managerial Decision-making", in *Rubles and Dollars, Strategies for Doing Business in the Soviet Union*, edited by James L. Hecht, Harper Business, 1991 (b).

Vlachoutsicos Charalambos and Paul Lawrence, *Joint Ventures in Russia - Learning from Experience*, Harvard Business School Division of Research Working Paper, No. 93-031, November 1992.

Vlachoutsicos Charalambos and Paul Lawrence, *How Managerial Learning Can Assist*

Economic Transformation in Russia, Organisation Studies, Volume 17, 1996.

Vladiirsky-Budaov, 1986, Ozor, pp. 75-80; Presniakov, Lektsii po russkoi istorii, I, 1988.

Waller Michael, *Democratic Centralism: An Historical Commentary*, New York: St. Martin's Press, 1981.

Wall Street Journal, September 9, 1997.

Weinshall Theodore, *Multinational Corporation-A Total System Approach to Their Role and Measurement: Some Reflections on Their Supernational, Intercultural and Multistructural Aspects,* Culture and Management, Penguin Modern Management Readings, 1977.

Wieczynski, ed., *Modern Encyclopedia of Russian and Soviet History,* Gulf Breeze, Florida: Academic International Press, 1994.

Wiles Peter, *The Political and Social Pre-requisites of a Command Economy,* Economica, 1962.

Zhiltsov Sergey, *The change of ownership hasn't caused yet the economic growth,* Finansovye Izvestia No. 87 (438), November 18, 1997. P.II.

Zinoviev Alexander, *Kommunizm kak real'nots',* Lausanne: L' Age d' Homme, 1981, translated as Alexander Zinoviev, *The Reality of Communism,* transl. by C. Janson, London: Gollanez, 1984.