

Labour Motivation and the Labour Market in a Soviet-type System: Historical Legacies and Contemporary Challenges

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Abstract: This paper reports the key findings of a collaborative research programme into the restructuring of the management of Russian industrial enterprises. The paper argues that the collapse of the soviet system and the subordination of soviet enterprises to the market did not immediately lead to the transformation of the forms of management appropriate to the soviet system. Rather, the primary means of enterprise survival has been the reproduction of traditional soviet methods of management. This has, however, been a feature of crisis management and cannot be seen as a stable synthesis of the old and the new to create a sustainable 'Russian' variety of capitalism.

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1. Our research programme

We started researching Russian industrial enterprises, in collaboration with our Russian colleagues, in 1991 and continued the research in one form or another over the following fifteen years. Our research was undertaken in collaboration with teams of locally based researchers in Russia's regions, whom we originally trained in qualitative methods of sociological research and then worked with continuously for almost twenty years. Our initial core teams were in Moscow, Kemerovo, Samara and the Komi Republic. Later we added core teams in St Petersburg, Perm and Ulyanovsk and for particular projects have involved teams from Ivanovo, Yekaterinburg, Minsk, Tbilisi and Moldova.

Most of our research was based on comparative case studies, particularly of industrial enterprises. These were intensive case studies over an extended period of time using ethnographic methods of interviewing and observation, together with the collection of documentary and statistical materials. The principle was to understand the enterprise in detail as a living organism built of differentiated and interconnected parts, each pursuing its own objectives. Our case studies were therefore quite different from the 'case studies' reported by economists, which are often based on no more than a telephone interview with a senior manager. In our experience, senior managers often have very little idea of what is actually going on in their own enterprises, which presented us with some ethical dilemmas when asked to report our findings to senior management.

Within each project, each research team would be responsible for conducting a certain number of case

studies according to an agreed schedule. We would have an initial seminar, involving all of the researchers, at which we would decide precisely who would be interviewed, for example the key senior managers, shop chiefs, foremen and a certain number of ordinary workers from one main and one auxiliary shop, and what forms of observation should be undertaken, for example sitting in the office of a shop chief or trade union president or shadowing a foreman. In general we had at least two researchers working in each enterprise, one working with management and the other concentrating on the shop floor. We would draw up more or less formalised interview schedules for each of the informants and prepare a template for the report to be written up for each enterprise. In this way we could ensure, as best we could, that all of the case studies were conducted on a comparable basis. Each case study report, with its associated interview transcripts and field notes, was circulated to all the research teams and discussed by them in their team meetings. Every three months we would have a meeting with the team leaders to review progress and every year we had a research seminar with all of the participants to formulate and evaluate hypotheses against the case study reports and background knowledge that they had acquired. For the final seminar of each project everybody was expected to present an analytical paper drawing on all the case study reports and these became the basis of project publications in Russian and English¹.

With colleagues I have also undertaken a limited amount of research on industrial enterprises in other soviet republics, in China and in Vietnam. While we have found strong echoes of our Russian research findings in other post-socialist countries, I will focus in this paper on Russia and leave others to develop the possible comparisons².

2. The diversity of production relations

The Soviet Union was not capitalist but the collapse of the soviet system raises the question of how radically does the social organisation of production need to change to accommodate to a transition to a capitalist system.

There has been a strong tendency within the social sciences to regard the social organisation of production as largely determined by technology. This has been true of economics, with its theory of the production function; of sociology, with its theories of industrial society; and of orthodox Marxism-Leninism, with its technologicistic conception of the forces and relations of production, exemplified by Lenin's dictum that "communism is Soviet power plus the electrification of the whole country"³.

Just as for Lenin it was the imposition of Soviet power that made industrialisation communist, with minimal regard to the social form of production, so for theorists of 'industrial society' the transition from state socialism to capitalism would not involve any major change in the social organisation of production. The fundamental change would be in the form of power. No longer would industrial enterprises be subject to the rule of the Party, their efficiency subverted by the imposition of extraneous goals, but they would become subject to the rule of the market which would stimulate the realisation of the essence of

industrialism. Managers would come under competitive pressure to reduce costs and increase efficiency. As enterprises laid off the mass of supernumerary workers, whose jobs had been protected by the trade unions as enforcers of the social policy of the Party, and as uncompetitive enterprises were liquidated, the growing reserve army of labour would subject the mass of workers to the pressure of the labour market. Managers would be able to impose discipline within the labour process so that work would be subject to the dictates of the machine.

With the introduction of elements of the market in the 1980s and the complete collapse of the soviet system at the beginning of the 1990s there was indeed a massive shedding of labour and a collapse of real wages for the mass of the population. The removal of almost all the rights that labour had, at least nominally, enjoyed in the Soviet Union further weakened the labour market position of workers. Although there is no doubt that managerial authority was immeasurably strengthened as managers were free to dismiss those who displeased them, there was no radical restructuring of production relations in state and former state enterprises. Managers responded to the pressure of competition not by increasing productivity but by cutting and even withholding wages and sending workers on unpaid leave. It turned out that the 'modernisation' of soviet production was not quite as straightforward as the neoliberal economists and the sociologists of 'industrial society' had imagined.

3. Varieties of capitalism

During the perestroika years there was an intensive debate in the Soviet Union regarding the type of capitalism the Soviet Union would like to adopt. Some, inspired by Hayek, aspired to an Anglo-Saxon model of competitive individualistic capitalism. The majority, wanting to retain the traditional soviet social guarantees, looked to a European or Scandinavian model of social market or welfare capitalism. In the search for models for perestroika in the second half of the 1980s many soviet commentators looked to Japan for a model for the reorganisation of production. There were certainly superficial similarities, which marked both the Soviet Union and Japan out from both Anglo-Saxon and European capitalism. Workers had jobs for life in paternalistic enterprises. Workers were represented by company unions, which saw the prosperity of the company as the key to the prosperity of the workers. There was an emphasis on semi-autonomous self-managing work teams. But there was a fundamental difference: Japanese enterprises operated within a competitive capitalist economy, while soviet enterprises operated within the framework of the state socialist 'planned' economy.

In one of our early case studies, in a chemical factory in Western Siberia, management appealed to the Japanese example to justify the high differentials in pay that had opened up between managerial and technical workers, on the one hand, and shop-floor workers on the other. The workers rejected the justification, on the grounds that their managers took Japanese levels of pay without providing Japanese levels of technology. To quote from two of the workers:

In the shop we had a meeting. The deputy general director for economics came to it. We put the

question to him: ‘Why is there such a difference in pay between ITR and workers?’, and he answered that in Japan it was even more, ten to fifteen times ... Why has he only brought us the difference in pay from Japan? What about the equipment, the technology? Have you seen how our loaders work? They carry up to one ton of raw material on a three-wheeled barrow. And they trundle this barrow over a ribbed metal floor. The rubber wheels of the barrow become square as a result of this. That is what passes for technology here! But the differences in pay are completely Japanese.

People are dissatisfied. There are such differences throughout the factory – how much do ITR and ordinary workers receive? We are not Japanese, certainly, we do not have such high labour productivity that we only have to pull knobs, to work as operators or controllers. More than half our work is very physical. And they receive many times what we get ... The ITR, it seems to me, still do little to earn such pay.⁴

The soviet leadership might have aspired to a smooth transition to Japanese forms of industrial production and Japanese levels of productivity, but to a casual (British) observer Russian industry looked more like Britain than like Japan. Just as in Russia, the typical British industrial enterprise, after the initial flourishing of the industrial revolution, struggled to get by with outdated and unreliable technology, exploiting captive colonial markets, management relying on the skill and ingenuity of workers to keep the machinery going, with the shop floor power inherited from the nineteenth century gang system, when work teams were subcontracted, carrying through late into the twentieth century and competitiveness being maintained by low wages and long working hours rather than by investment in research and development and new technology⁵.

Over the past twenty years the idea that there are different ‘varieties of capitalism’⁶, rather than one variant on which all presently existing systems will converge, has become more widespread, even if the belief of the architects of perestroika that one could choose between the variants has proven to be somewhat naïve. There has been a certain amount of desperate clutching at straws behind such ideas, which have emerged precisely at a time in which Japanese capitalism has been mired in a long-drawn-out crisis and the European social model has been rapidly eroded by neoliberalism. Moreover, much of the ‘varieties of capitalism’ literature is built on the basis of a model of variant national capitalisms at precisely the time at which capitalism has become an authentically global phenomenon. Nevertheless, it certainly is the case that the social organisation of production bears the marks of its history, that it differs from one society to another and that these differences are very resilient, embedded not just in cultural assumptions, social structures and social practices, but also, and perhaps most fundamentally, in associated forms and structures of power.

The question raised by the ‘varieties of capitalism’ literature was whether Russian capitalism can be assimilated to one of the existing ‘varieties of capitalism’, whether it constitutes the basis for a sui generis post-soviet ‘variety of capitalism’ or whether it is irremediably and uniquely Russian.

4. The soviet system of production

The soviet system had many features in common with the capitalist system of production. It was based on advanced technology and a high degree of socialisation of production, which was the social and material basis of the separation of the direct producers from the ownership and control of the means of production. As in the capitalist system, labour was employed by enterprises and organisations in the form of wage labour and the production of goods and services for individual and social need was subordinated to the production and appropriation of a surplus. However, the two systems differed fundamentally in the form of the surplus and correspondingly in the social organisation of the production and appropriation of that surplus⁷.

The soviet system was not based on the maximisation of profit, nor was it based on planned provision for social need. It was a system of surplus appropriation and redistribution subordinated to the material needs of the state and, above all in its years of maturity, of its military apparatus. This subordination of the entire socio-economic system to the demands of the military for men, materials and machines dictated that it was essentially a non-monetary system. The development of the system was not subordinated to the expansion of the gross or net product in the abstract, an abstraction which can only be expressed in a monetary form, but to expanding the production of specific materials and equipment and to supporting the huge military machine. The strategic isolation of the Soviet Union meant that no amount of money could buy these military commodities, so the soviet state had to ensure that they were produced in appropriate numbers and appropriate proportions, and correspondingly that all the means of production required to produce them were available at the right time and in the right place.

Soviet social relations of production were supposed to overcome the contradictions inherent in the capitalist mode of production in being based on the centralised control of the planned distribution and redistribution of productive resources. However, the soviet system was marked by its own system of surplus appropriation and associated contradictions. Enterprises and organisations negotiated the allocation of means of production and subsistence with the centre in exchange for the delivery of defined production targets, the surplus taking the form of the net product appropriated by the military-Party-state to secure its own expanded reproduction.

The fundamental contradiction of the soviet system lay in the separation of production and distribution which led to a contradiction between the production and appropriation of the surplus. The development of the forces of production was constrained by the exploitative social relations of production, and it was this specific contradiction that underpinned the collapse of the 'administrative-command' system. The central planning agencies sought to maximise the surplus in their negotiations with ministries and departments, enterprises and organisations over the allocation of resources and determination of production plans. However, the enterprises and organisations which were the units of production had an interest in minimising the surplus by inflating the resources allocated to them and reducing their planned output targets. The softer the plan that they could negotiate, the easier it was for the enterprise directors

and their line managers to induce or compel the labour force to meet the plan targets. Since neither the worker, nor the enterprise, nor even the ministry, had any rights to the surplus produced, they could only reliably expand the resources at their disposal by inflating their demand for productive resources, and could only protect themselves from the exactions of the ruling stratum by concealing their productive potential. Resistance to the demands of the military-Party-state apparatus for an expanding surplus product rested ultimately on the active and passive resistance of workers to their intensified exploitation, but it ran through the system from bottom to top and was impervious to all attempts at bureaucratic reform. The resulting rigidities of the system determined its extensive form of development, the expansion of the surplus depending on the mobilisation of additional resources. When the reserves, particularly of labour, had been exhausted the rate of growth of production and of surplus appropriation slowed down.

The fundamental contradiction of the soviet system was between the system of production and the system of surplus appropriation. The centralised control and allocation of the surplus product in the hands of an unproductive ruling stratum meant that the producers had an interest not in maximising but in minimising the surplus that they produced. The contradiction between the forces and relations of production was also expressed in chronic shortages. Enterprises were oriented purely to meeting their formal plan targets, not to meeting the needs of their customers. Thus, while the centre could allocate rights to supplies, it could not ensure that those supplies were delivered to the place, at the time, in the quantity and of the quality desired. The endemic problems of shortages and of poor quality of supplies were an inherent feature not of a system of economic planning, but of a system based on the centralised allocation of supplies as the means of securing the centralised appropriation of a surplus.

Like capitalism, but in a quite different way, state socialism was a system within which the practice of individual rationality led to socially irrational outcomes. These irrational outcomes were not defects that could be remedied by introducing reforms into the system, for they were inherent in the system itself.

5. The labour market in the soviet system of production

From the economists' point of view Russia did not have a labour market before 1991 since wages were strictly controlled from the centre and differentials suppressed. Orthodox soviet economists adhered to the same view because they insisted that labour power was not a commodity in the soviet system. But according to any rational appreciation, the market for labour was the only market that existed in the Soviet Union in a form that would be recognisable in a capitalist economy⁸. Despite the aspiration of the authorities to plan the allocation of labour, and the insistence of almost all soviet scholars that labour power was not a commodity, in practice workers were more or less free to change jobs and employers were more or less free to hire whom they chose. Although wages were strictly controlled in an attempt to suppress competition in the labour market, employers in the priority sectors of the economy were able to offer higher wages, access to housing and a wide and increasing range of

social and welfare benefits to attract desirable employees. The least privileged branches could not compete by offering better wages and social benefits, but they could offer a less intensive pace of work, less strict labour discipline and more opportunities to earn additionally on the side by combining jobs during normal working hours or simply by stealing public property, while the wages of individual workers could be increased by upgrading and by offering relaxed norms. .

The principal difference between the soviet and a capitalist labour market was that the soviet labour market was marked by the fundamental feature of the soviet system, chronic shortage. Throughout the soviet period the soviet economy suffered from chronic shortages of labour, particularly of skilled labour. This shortage underpinned and reinforced the soviet policy of denying management the right to dismiss workers, which is regarded as a fundamental right of management in a capitalist economy.

The soviet ideal was that everybody would be assigned to their first job in accordance with their qualifications and the needs of the economy, and would subsequently develop their career within the enterprise or organisation to which they had been assigned. The reason for this apparently perverse desire to ossify the employment structure was not so much the attempt of the planning authorities to control the allocation of labour, since they could achieve this in practice through the use of market mechanisms, as the centrality of the workplace in securing the order and stability of soviet society.

The workplace was the principal locus of social integration within the soviet system and Party policy was directed towards encouraging people to remain in the workplaces within which their lives were monitored, regulated and controlled, with enterprise-based social policy and considerable privileges for those with long service being the principal means by which this ideal was enforced. A regular place of work was not only the source of subsistence, but also a mark of one's social status. Not to have a job was not only to suffer material deprivation but also to risk the prison term prescribed for those guilty of 'parasitism'. Dismissal, even for the most undisciplined workers, was frowned on by the authorities as a means of controlling the labour force since those dismissed only had to be placed in another job, and the rate of disciplinary dismissals was very low, although those guilty of disciplinary offences might be persuaded by management to leave voluntarily.

6. Labour motivation in the soviet system of production

The soviet policy of tying workers to the workplace was reflected in the subjective orientation of workers, which was based on the ideal of a job for life, of the workplace as the 'second home'. The ideal work history for a soviet worker was to find a suitable place of work and then to stay there for the rest of his or her working life. In practice the administrative allocation of labour was ineffective, as young workers looked around for a job with better pay and working conditions and better prospects for obtaining housing or kindergarten places, so rates of labour mobility for young workers were relatively high, but once settled they would generally remain in the same workplace for the rest of their working life. The attachment to the workplace was not just sentimental or ideological, it was also strongly

reinforced materially, with tenure being an important consideration in the allocation of housing and a wide range of social and welfare benefits as well as transfer to easier work when the worker got too old to keep up with the demands of heavier work.

With the collapse of the soviet system, the ties that bound workers to the workplace were rapidly eroded. The housing, social and welfare apparatus of the enterprise was rapidly dismantled and privatised. Access to goods and services was now acquired through the market, not through the workplace, so that money, rather than a work record, became the key to acquiring such goods and services. The evidence strongly suggests that the majority of the labour force today is motivated primarily by considerations of pay and that such motives are the predominant reason for changing jobs.⁹ There is little evidence of the limpet-like attachment to the workplace that was supposed to be characteristic of soviet and post-soviet workers. The dramatic increase in labour turnover, which more than doubled in the early 1990s, when the material incentives to stay in the same job were eroded, indicates that job stability in the soviet system had just as instrumental a motive as has labour mobility in the Russian capitalist economy. It is pretty clear that for all the decades of intensive education, propaganda and attempted indoctrination, soviet workers were no differently motivated from their western or Japanese colleagues. For the vast majority, wage labour was not a means to human fulfilment and self-realisation, but primarily the way of making a living.

Given the strong evidence that the motivation of soviet workers was predominantly instrumental, we have to ask how they were induced to work. Low wages, poor working conditions, the uneven pace of production, with periods of idleness interspersed with storming at the end of the month, and the inability of management to dismiss workers did not provide workers with much of an incentive to work nor threaten them with serious consequences if they did not work satisfactorily. Dire penalties for absenteeism and even lateness in the Stalin period, somewhat relaxed in the post-Stalin years, could compel workers to attend the workplace, but such measures could not be effective in ensuring that workers carried out their tasks diligently once they were there. The problem of labour motivation takes us directly to the question of the management of labour on the shop-floor.

The resistance of lower levels of the system to the appropriation of a surplus from above, which was an expression of the fundamental contradiction of the soviet system, was the basis of the 'production pact' between soviet workers and managers¹⁰, an expression of the fact that, while individual workers and line managers had opposing interests in the everyday struggle to meet the plan, they had a common interest in maximising supplies, minimising plan targets and keeping plan overfulfilment within limits, which would permit the earning of bonuses without risking an excessive ratcheting of the plan. Within the soviet system this commonality of interest in thwarting the system ran all the way from the bottom to the top.

This ideological representation of the soviet enterprise was as a labour collective. It was in the name of the labour collective that the administration ruled the enterprise and pressed its interests against higher authorities, and it was in the name of the labour collective that individual workers were subjected to

managerial authority. It was the labour collective which was made responsible not only for production activity but also for the everyday behaviour and moral character of its members. This was not simply an ideological mystification. The members of a brigade, a shop or an enterprise, workers and managers alike, really did have a common interest in the struggle over the appropriation and redistribution of the surplus. The director really did represent the interests of the labour collective in the battle for the plan, the shop chief in negotiating the targets for the shop, the foreman in seeking to achieve slack norms for their workers. Once the plans, targets and norms were set, these defined the determinate limits of the exploitation of the labour collective, within which limits it could subordinate the process and the results of production to its own needs; the resources which remained at the disposal of the enterprise could be devoted to meeting the needs of the collective: to building new housing, sports and cultural facilities and so on, while the workers could rest once the plan tasks were completed. The shop chief or enterprise director really could pose as the paternalistic guardian of 'his' labour collective, a pose expressed in a variety of powerful symbolic representations; the director was expected periodically to 'go to the people', touring his shops and greeting veteran workers by name. He (rarely she) was expected to be accessible, holding regular 'surgeries' to which employees could, at least in principle, bring any problem, even personal ones, to the attention of the director. He was expected to live modestly, in the same conditions as the mass of his workers. The good director was not soft, since the success of the enterprise depended on the discipline of the labour collective, but he was expected to be 'firm but fair'.

The concept of the labour collective is central to an understanding of the system of 'authoritarian paternalism' which defined the distinctive forms of soviet management. Paternalism within the soviet enterprise was much more than a management practice, but was embedded in a wider paternalistic structure under the domination of the state, just as the labour collective of the enterprise was only a part of the working class in whose name the state ruled. Thus the content of paternalism consisted not only in the additional benefits selectively provided by the enterprise to its employees, but also in the fundamental guarantees of employment and a minimum subsistence provided by the Party-state to all its citizens, guarantees which were fulfilled through the enterprise. It was this guarantee that appeared to be the basis of the social stability of the soviet system and, as such, was monitored and administered by state bodies which had a degree of independence from enterprise management, in particular the trade union and Party committees¹¹. With the collapse of the wider soviet political system and the disappearance of the guarantees that it rhetorically endorsed, the security of the labour collective assumed an even greater importance for many of its members, as an island of stability in a world of chaos and disorder.

The collectivism of soviet workers was a very parochial collectivism. Their primary commitment was to their immediate group of co-workers, then to their section, shop or department, up to their enterprise as the all-embracing collective. Their line manager was responsible to senior management for delivering the plan, but was also responsible to his or her workers to negotiate an acceptable plan, to secure the resources required to fulfil the plan and to ensure that the workers were adequately rewarded for their

efforts, in money and in kind.

Shop floor workers enjoyed a high degree of autonomy throughout the soviet period as the uneven delivery and variable quality of supplies, the unreliability of equipment and persistent shortages of suitably qualified labour meant that the continuity of production depended to a considerable degree on their initiative and ingenuity. The main tasks of shop chiefs and even foremen were accordingly to chase supplies, recruit and retain labour, resolve conflicts between shops, sections and brigades, fix breakdowns and monitor performance in relation to targets, so that the direct production workers were largely left to get on with production as best they could, with very little managerial intervention, and were generally expected to overcome problems themselves. Soviet workers had retained a high level of control over production, much of which capitalist workers had lost in bitter struggles¹², not because they had won a battle to retain or to seize control from the management, but because they had been given a high degree of responsibility for ensuring that they achieved the tasks assigned to them.

Day-to-day responsibility for the supervision of production was in the hands of the foreman or the elected brigade leader, but in practice production management was based on understandings and informal negotiation, typically on a personal and individual basis, between line managers, brigadiers and workers¹³. Formally, the payment system ensured that workers had an interest in completing their assigned production tasks, but fulfilling the plan often required workers to do much more than simply to fulfil their own tasks. Labour shortages meant that line managers had few negative sanctions to press recalcitrant workers into line, so they had to use the limited positive levers at their disposal to induce workers to co-operate. These included the ability to allocate workers to more or less well-paying work, the ability to pay small bonuses from the foreman's or shop chief's fund, the ability to authorise paid or unpaid leave, turning a blind eye to poor time-keeping and other disciplinary violations and discretionary scheduling of holidays and allocation of social and welfare benefits.

The fact that soviet workers had a high degree of control over the way in which they produced does not mean that they had power: the limits of their autonomy were set by the norms and targets imposed on them and embodied in the incentives and penalties built into the payment system. Workers were willing to accept the authority of the foreman and shop chief, within the limits imposed on him or her from above. A good chief defended the shop in bargaining for plan targets and resource allocation, secured supplies, did not seek to drive the workers above the demands of the plan in order to advance him or herself, and was fair in the distribution of penalties and rewards. Workers would then identify with their chief in competition with other shops and in struggles with the administration. If things were not going so well, if supplies were short, norms unfulfilled, bonuses lost, the workers would blame their shop chief. Workers attributed their relative good or bad fortune to the personality of the chief, and restricted any collective expressions of their grievances to complaints against this or that individual. There was therefore a high degree of collusion by the workers in their own exploitation, and class conflict was displaced and diffused into individual and sectional conflicts within the hierarchical structure.

Workers had to show a great deal of initiative to overcome the regular dislocation of production

through breakdowns, defective parts and materials or the absence of supplies, and often had to work all hours in the regular 'storming' at the end of the month. This made it impossible for management to impose its will on the workers by purely repressive means. Although labour shortages and the demands of the plan apparently put a great deal of power in the hands of the production workers, they did not, in general, exercise this power to resist the demands made on them by their line managers, although in extremis they might show their strength by deliberately failing to meet the plan¹⁴, but their expectations of steadily improving living standards as compensation for their effort and commitment were filtered up through the system through the representations of managers to successively higher authorities for improved resource allocations.

Not all workers were ready to show the dedication and commitment of those in the front line in the struggle for the plan. To achieve its plan targets, the soviet enterprise relied very heavily on a core of production workers and line managers who were reliable, skilled, enterprising and flexible (the elite of whom would be recruited into the Party), whose efforts kept the whole system going. These people often worked extremely hard and enjoyed high status, relatively good pay and extensive privileges. The strategic significance of this grouping was not determined simply by its technical role in production, but rather by the fact that production was organised socially around this crucial stratum.

7. The Russian enterprise in the transition to a market economy

The collapse of the soviet system transformed the environment in which Russian enterprises functioned, but it had no immediate impact on the social relations within the enterprise or organisation. Management structures and management systems appropriate to the soviet system of production remained in place.

The reforms of the period of perestroika had given enterprises progressively more independence, so that enterprises were controlled by their directors in the name of the labour collective, but the resulting breakdown of co-ordination meant that they found themselves having to rely on their own resources in an increasingly chaotic environment. The immediate priority of directors was to continue trading with traditional partners and to find new markets and new sources of supply, the latter often requiring the intervention of new commercial intermediaries who could use their control of markets to exert a stranglehold on the enterprise. The preference for maintaining relationships with traditional partners and the growth of barter meant that tight networks predominated in inter-enterprise relations as the basis of a conservative survival strategy that strongly inhibited competition. In this context, the restructuring of the internal relations of the enterprise had a low priority, the primary task being the establishment of marketing departments to secure outlets for the products.

The priority of enterprise directors in the transition to a market economy was not the maximisation of profits, which only attracted the interest of the tax authorities and criminal structures, but 'survival', the reproduction of the enterprise as a social organisation, the 'preservation of the labour collective', which

was the basis of the power and status of the director. This priority was reinforced by the expectations of the labour force carried over from the soviet period, for whom the legitimacy of the director's position did not derive from any property rights, but from the director's ability to preserve the jobs and wages of the labour force. This priority was further reinforced by privatisation to the labour collective and by pressure from local authorities, which depended on a functioning enterprise to provide jobs for the local population, to provide tax revenues for the local authority and, in many cases, to contribute to the maintenance of the local housing, transport, social and welfare infrastructure.

Enterprises made little effort to reduce costs by reducing their labour force, despite falling production, primarily because they always lived in the hope of recovery, in which case they would need their skilled and experienced workers once more, while wages, even when they were paid, made up only a small proportion of costs. On the other hand, as wages were eroded in the face of inflation, and increasingly were not paid at all, more and more employees left declining enterprises in the hope of finding better opportunities elsewhere. Some of those who left were pensioners, but most were younger and middle-aged employees, particularly those with marketable skills, who had the best prospects of finding work elsewhere, or even setting up in business on their own. The result was that employment did tend to fall in line with the fall of production, though with some lag¹⁵, and those who left were those skilled younger employees the enterprise could least afford to lose. As the best workers left for jobs elsewhere, particularly in new small businesses, those who remained were required to fill the gaps, leading to an intensification of labour and increased flexibility in the use of labour, often in defiance of labour legislation.

The collapse of the soviet system transformed the environment within which the enterprise operated and sought to reproduce itself, but it did not have any immediate impact on the internal structures, practices and resources at the disposal of management, although it did introduce tensions within the management apparatus and some change in the balance of power between different branches of management. The transition to a market economy raised the significance of those parts of the management apparatus which were responsible for managing the external relationships of the enterprise, removing or downgrading those branches of management which had been central to the administrative control of the enterprise, and expanding the commercial and financial branches of management which play the leading role in the adjustment to changing market conditions. Typically this restructuring was associated with a dualistic management structure. The day-to-day management of productive activity remained under the control of the production director, chief engineer and shop chiefs, who were oriented to the preservation and reinforcement of traditional authoritarian management structures. Meanwhile the management of the shareholding company was dominated by the economic and financial branches of management, oriented to commercial and financial activity, which were the branches of management most heavily involved in parallel structures, through which some tended to follow what economists politely call a 'rent-seeking' strategy. Alongside this restructuring of the management hierarchy there was a substantial widening of pay differentials in favour of management as a whole, and within

management in favour of the strategic senior managers, despite the fact that this violated the deeply held 'egalitarian' values of the workers who supposedly still owned the majority of enterprises¹⁶.

8. Russian capitalism after the default

Russian capitalism in the 1990s was dominated by financial and mercantile capitalists who made their money from financial manipulation and commercial intermediation, based on control of sources of supply by legal or illegal means. Following the 1998 default and devaluation economic growth at last resumed, sustained by booming raw material exports, and the emphasis shifted from finance to production. Growing markets and a more competitive exchange rate allowed favoured domestic producers to increase their capacity working and even to invest in new facilities. Big Russian capital moved into production on a large scale as holding companies purchased industrial enterprises. Moreover, by contrast to the period before the default, the holding companies began to invest and to intervene directly in the management of many of their subsidiary enterprises¹⁷. At the same time, Russia saw a substantial increase in the inflow of foreign direct investment, particularly in autos and food-processing, in both brownfield and greenfield sites.

From 2002 to 2006 we conducted a research project looking at management restructuring, based on intensive case studies of 52 relatively prosperous enterprises in various branches of production across seven Russian regions¹⁸. In this project we found that there had still been very little change in the structure and practice of management of traditional enterprises that remained under insider control. Although they were just as profit and market-oriented as other enterprises and marketing had assumed an important role, marketing was still seen very much as the handmaid of production, with the task of selling what the production-oriented management had decided to produce.

Insider controlled enterprises are increasingly the exception in Russia. During the 1990s many enterprises fell into the hands of banks and trading companies which were seeking to get control of sources of supply (and occasionally markets) for their lucrative trading activities. The outside owners would control the price at which they purchased the enterprise's products and the enterprise management was responsible for producing those products within the financial constraints imposed by the owners. Many such enterprises were squeezed dry by their outside owners during the 1990s until they were liquidated, but after 1998 many of the outside investors in more successful enterprises, especially in metallurgy, chemicals and fuels, consolidated their holdings into integrated industrial groups controlled by giant holding companies.

Financial and commercial functions are concentrated in the holding company. This reduces the subsidiary to a production platform, returning it to its traditional soviet function as a production-oriented labour collective. The planning process and the control systems put in place by the holding company are also strongly reminiscent of their soviet equivalents, with the relation between the holding company and the subsidiary being similar to the traditional relation between the enterprise and the ministry. As one

General Director explained, *'by and large any holding structure today is a return to the usual ministerial interrelations. Just as in its time the ministry was the management company, so the holding company is now. The principal questions about the development of the enterprise are taken there'*¹⁹. This leaves the General Director to manage the enterprise in familiar ways, without the headaches of marketing and finance.

Russian enterprises have been under pressure to reduce costs ever since their incorporation into a capitalist market economy and this is particularly the case of those subordinate to a holding company. However, labour costs are in general only a small proportion of production costs in industrial enterprises, so the first priority is usually to reduce energy and material costs, for which wasteful soviet production systems have left considerable scope. In some cases costs can be reduced by investing in new plant and equipment, but such investment projects may carry high risks and stretch the capacity of management to carry them out, so large scale investment projects have mostly been typical of foreign-owned companies, particularly on greenfield sites. In the majority of cases, even with foreign ownership, cost reduction has been sought primarily by putting pressure to cut costs on middle and line management through the traditional management structures. In the last resort financial stringency might force management to seek to hold down or even to reduce wages, but all such cost-cutting measures run up against the barriers of labour morale and labour turnover, which brings us back to labour motivation and personnel management.

9. Personnel management in post-soviet enterprises

By the end of the 1990s many traditional enterprises were left with an ageing, low-skilled, low-productivity labour force, often with low discipline and low morale²⁰. With the lopsided recovery after 1998, enterprises were faced with major personnel management issues. However, in most enterprises line managers were left to address these issues on their own initiative. Only in a small minority of enterprises was there any development of systematic personnel management policies and practices.

In the soviet enterprise the personnel department performed predominantly registration functions, maintaining personnel records. Personnel management was primarily in the hands of middle (line) managers, conducted pragmatically on the basis of informal relationships, as part of the task of production management, so that the function of personnel management was decentralised and fragmented.

For the majority of enterprises not only the methods but also the aims of personnel policy remain very traditional: to recruit and retain the labour force required ('the retention of experienced, skilled and loyal staff' as one of our informants put it) and to ensure the effective use of that labour force by maintaining high levels of motivation. These aims are generally achieved not through a coherent personnel policy formulated and implemented by an authoritative personnel department, but by a combination of

employment, wage, social and disciplinary policies formulated and propagated by the senior management or the holding company and a fragmented and decentralised system of personnel management, with the personnel department, economic services, line managers and the trade union all playing a role. Much of the policy and practice of personnel management in the vast majority of enterprises is left to the discretion of line management, who make the decisions about hiring and firing, about disciplinary sanctions, about the disposition of the labour force, about work schedules and working hours, and who often play a role in determining the size of wages and in the allocation of non-wage social and welfare benefits. These aspects of personnel management are all regarded as an integral part of the line manager's responsibility for ensuring the smooth achievement of its tasks by the relevant subdivision.

A central thrust of personnel policy in all enterprises is the attempt to strengthen the motivation and commitment of employees. Of course, the most effective way of achieving this is to pay high wages, but most traditional enterprises in the less prosperous engineering, light and food-processing industries producing for the competitive domestic market are not able to pay high wages, so they rely on the reproduction of the traditional soviet work ethic to reinforce the loyalty, motivation and commitment of the labour force. Because of the low pay and severely limited resources, there is very little scope for introducing any innovations in personnel policy in these enterprises, nor is there any possibility of strengthening labour discipline or following a selective hiring policy. These enterprises seek to maintain labour motivation by appealing to traditional soviet labour values, which are reinforced by the reproduction of traditional soviet practices through which the management displays its respect for the workers and fulfils its paternalistic caring role.

A number of researchers have commented on the preservation of the traditional soviet models and forms, with some modernisation through the addition of alternative elements²¹, or at least a change of names. Vladimir Yadov concludes from his research that in practice enterprises continue to use 'old forms in new roles'²². The revival of traditional practices extends far beyond the resurrection of elements of the traditional paternalistic social and welfare policies. Many enterprises have revived the practices of socialist competition (under new names), of encouraging rationalisation and innovation, of awarding honours, of holding corporate festivals and cultural and sporting events.

10. Labour Motivation and the Payment System

The principles of scientific management that underpinned the soviet system focused on the payment system as the means of encouraging labour motivation and channelling it in desirable directions. In the soviet system payment was conceived much more as an instrument of labour motivation than as a labour market instrument. Proposals to reform the payment system were constantly proclaimed as the means of overcoming the deficiencies of the soviet economic system. The weaknesses of the traditional soviet payment system were considered to lie in its 'levelling' tendencies, which led to an egalitarian wage

distribution, and the associated failure effectively to link individual payment to individual effort. However, periodic attempts to reform the payment system to overcome these tendencies were crowned with failure as they disrupted the organisation of production and provoked conflict in the workplace by violating the widely held collectivist values and expectations²³.

This view of the payment system as being essentially an instrument of labour motivation persists to a very considerable extent in post-soviet Russian enterprises but attempts to use the payment system to this end have tended to come up against the constraints of the labour market and have weakened the control of labour by undermining the powers of line managers. Reform of payment systems has continued to be dominated by the traditional soviet belief that the payment system can be used as a means of providing incentives for employees to overcome the limitations of technology and the disorganisation of production management, whereas in reality employees have very little control over the results of their labour. In practice, payment systems designed to encourage labour motivation are subverted by the more urgent need to recruit and retain labour of the appropriate skill and quality, so that other means of encouraging labour motivation have to be found. Hence the persistence of traditional soviet methods.

Enterprises have to be competitive in the local labour market if they want to avoid the heavy costs imposed by shortages of labour and high labour turnover. This severely limits their ability to use wages as a motivational or a disciplinary factor. In general, the main determinant of pay levels for all but senior managers and specialists is the local labour market. Any successful enterprise tries to keep its wages above the average in the local labour market in order to recruit and retain the employees it needs.

This means that payment systems have to be constantly manipulated, subverted and amended to make sure that workers do not lose out if there is a shortfall of production or sales. The most honest and rational response is to abandon the pretence that an incentive payment system can overcome all the shortcomings of production management and to pay workers a regular time-wage, and this is the approach adopted in the more far-sighted, and especially in foreign-owned, companies.

11. Conclusion

What we find at the present stage of development of Russian capitalism is the attempt to subordinate the production of things to the production of profit largely by means of traditional soviet methods of personnel and production management. However, this does not lead us to conclude that a distinctive 'post-soviet' variety of capitalism is emerging. The retention of traditional soviet methods of management is an indication of the limited resources available to management to deal with the post-soviet crisis and the patchy recovery. It is most characteristic of those traditional enterprises which struggle to survive with antiquated equipment, limited financial resources and an ageing labour force, but many of these enterprises are dying on their feet, their only longer term prospect being acquisition and absorption into a holding company.

In more dynamic enterprises, in the new private sector or parts of holding companies, management systems are going through a process of change. Although many of these enterprises retain substantial parts of the traditional soviet structures, practices and cultures and have made very little inroad into the traditional payment systems or forms of personnel and production management, there is no sense in which it can be said that they have established a stable synthesis of the old and the new. There is no doubt that the process of innovation is under way and little doubt about the direction in which it is moving, towards a decentralisation of managerial responsibility alongside a strict centralisation of financial control which has fundamental implications for all aspects of enterprise management. The process of change in management structures and practices proceeds from the outside inwards and from the top down. The initiators of change are the sales and marketing departments, which put pressure on production departments to deliver commodities of a quality and at a price which can be sold, and the outside owners and the Board of Directors, which demand, as a minimum, that the enterprise should achieve the financial targets set or approved by the Board. The process of change is by no means a smooth process of functional adaptation of soviet structures and practices to the new demands of a capitalist economy, it is necessarily a conflictual process, because it seeks to overturn established hierarchies of status and power, to invert traditional values and constantly to demand more while offering less.

The most significant indicator of the extent of the real subordination of labour to capital is the extent to which the top management of the enterprise has managed to construct a cohesive management team, integrating all the managers from the general director to the foreman into a common structure oriented to a single aim. Very few enterprises in our research had got anywhere near to this situation and in most there were still more or less obvious fundamental divisions within the management team. In almost every case line managers identified themselves more often as workers than as managers and attempts to integrate line managers into the management hierarchy had met with limited success. But in many enterprises the divisions were still to be found within senior management, or even between the senior management of the enterprise and the owners.

The conflict between production and marketing is inherent in capitalism, an expression of the constitutive contradiction between the production of things and the production of profits, but in Russia this conflict often takes the form of a conflict between the old and the new, between soviet and capitalist managerial approaches and mentalities. We found such a division running through the senior management team in many enterprises, typically between new young senior managers appointed by a holding company and the other senior managers, veterans of the enterprise, who had been kept on because of their knowledge of production and of the specific features of the enterprise.

New owners often find that the only way to achieve a cohesive management team is to replace all of the senior managers, although often this will be by promoting ambitious young people who have some roots in the enterprise rather than drafting people in from outside. But after a cohesive team of senior managers who are committed to subordinating production to the dictates of capital has been established,

the problem still remains of harnessing line management to the objectives of the senior management team. The problem is that it is line management which confronts the real technical and human barriers to the realisation of the ambitions of senior management and the capitalist owners. Thus tension, if not overt conflict, between line managers and senior management is ubiquitous.

Although there is often a high degree of tension on the shop floor, overt conflict between workers and their capitalist employers is still relatively rare. One major reason for this is that workers' resistance is usually expressed by their line managers, who make representations to senior management when the workers' resistance presents an obstacle to the achievement of their production tasks. Workers generally look to their line managers to represent their interests, and in many cases of overt conflict the line managers explicitly support their workers.

The development of capitalism in Russia is still at a relatively early stage. The soviet system was destroyed as the expansion of market relations undermined the control of supplies through which the authorities had secured, however inadequately, the conditions for the reproduction of the productive apparatus. The 1990s were witness to the 'formal' subsumption of labour under capital as capitalist intermediaries diverted state revenues and appropriated the enormous profits to be obtained from selling Russian natural resources on world markets. The 1998 default redirected Russian capital from financial towards productive investment, oriented primarily to renewing the production facilities for the extraction and processing of natural resources, but also extending to production for the domestic market, which initiated the 'real' subsumption of labour under capital as management structures were established to ensure that money invested in production would be returned with profit. However, this process is still only in its early stages and has barely penetrated beyond the senior management levels so that it has barely even begun to transform personnel and production management.

There are certainly substantial residues of soviet institutions, soviet culture and soviet practices to be found in even the most capitalist of contemporary Russian enterprises, not least indicated by the gulf of (mis)understanding that often arises between Russian and expatriate managers in foreign-owned companies operating in Russia. There are even plenty of examples of the resurrection of traditional soviet institutions and practices, usually renamed but otherwise completely familiar, by unambiguously capitalist managers. But it is much too early to say to what extent these values, institutions and practices will survive, and to what extent they will survive as one of the cultural variants of adaptation to global capitalism or will be integrated into a distinctively Russian model of capitalism which articulates the distinctive legacy of Russia's soviet (and pre-soviet) past.

Notes

¹ Research materials are available from the project website, www.warwick.ac.uk/russia, which will be updated in the near future.

² This paper draws heavily on Simon Clarke, *The Development of Capitalism in Russia*, London:

Routledge, 2007

- ³ V. I. Lenin, “Our foreign and domestic position and party tasks”, Speech Delivered To The Moscow Gubernia Conference Of The R.C.P.(B.), November 21, 1920, *Collected Works*, 4th English Edition, Progress Publishers, Moscow, 1965, Volume 31, pages 408-426.
- ⁴ Cited in Simon Clarke (ed) *The Russian Enterprise in Transition*, Cheltenham, Edward Elgar, 1996, pp. 78-9.
- ⁵ The director of one of our case study enterprises came to Britain in the mid-1990s and we arranged a visit to an equivalent British plant. He had thought that his equipment was antiquated until he saw the British factory, where he insisted on having his photograph taken alongside a machine dating back to 1906.
- ⁶ Peter A. Hall and David Soskice (eds), *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, Oxford: Oxford University Press, 2001.
- ⁷ This section draws heavily on the analysis I developed in Simon Clarke, Peter Fairbrother, Michael Burawoy and Pavel Krotov, *What about the Workers? Workers and the Transition to Capitalism in Russia*, London: Verso, 1993; Simon Clarke, *The Russian Enterprise in Transition: Case Studies*, Cheltenham: Edward Elgar, 1996.
- ⁸ Садаешви Оцу, *Советский Рынок Труда: анализ японского специалиста*, Москва: МЫСЛЬ, 1992 (abridged translation of 大津定美『現代ソ連の労働市場』日本評論社, 1988年); Oxenstierna, S. *From Labour Shortage to Unemployment: Soviet Labour Market in the 1980's*, Stockholm: Swedish Institute for Social Research, 1990; Simon Clarke, *The Formation of a Labour Market in Russia*, Cheltenham: Edward Elgar, 1999.
- ⁹ *The Formation of a Labour Market*, op. cit., Chapter Four.
- ¹⁰ Simon Clarke and Peter Fairbrother, “Trade unions and the working class”, in Simon Clarke et al., *What About the Workers?*, p. 99.
- ¹¹ On enterprise paternalism see Petr Bizyukov, “The mechanism of paternalistic management of the enterprise: the limits of paternalism” and Samara Research Group, “Paternalism: our understanding”, both in Simon Clarke (ed.), *Management and Industry in Russia: Formal and Informal Relations in the Russian Industrial Enterprise*, Cheltenham: Edward Elgar, 1995; and Vladimir Ilyin, “Social contradictions and conflicts in Russian state enterprises in the transition period”, in Simon Clarke (ed.), *Conflict and Change in the Russian Industrial Enterprise*, Cheltenham: Edward Elgar, 1996.
- ¹² William Lazonick, *Organisation and Technology in Capitalist Development*, Cheltenham and Brookfield, VT: Edward Elgar, 1992; David Noble, *America by Design: Science, Technology, and the Rise of Corporate Capitalism*, Oxford: Oxford University Press, 1979; Katherine Stone, “The origins of job structures in the steel industry”, *Review of Radical Political Economics* 6(2), Summer 1974: 113-73.
- ¹³ Sergei Alasheev, “Informal relations in the process of production”, Simon Clarke, “Informal relations in the soviet system of production”, and Pavel Romanov, “Middle management in industrial

production in the transition to the market’, all in Simon Clarke (ed.), *Management and Industry in Russia*.

¹⁴ Marina Kiblitckaya, “We didn’t make the plan”, in Simon Clarke (ed.) *Management and Industry in Russia*.

¹⁵ Simon Clarke, *The Formation of a Labour Market in Russia*, Cheltenham: Edward Elgar, 1999, p. 298.

¹⁶ Simon Clarke and Veronika Kabalina, “Privatisation and the struggle for control of the enterprise in Russia”, in David Lane (ed.) *Russia in Transition*, London: Longman, 1995.

¹⁷ Guriev and Rachinsky found that by 2002 firms controlled by oligarchs were outperforming other domestically owned firms and were not lagging far behind foreign-owned firms (Sergei Guriev and Andrei Rachinsky, *Ownership Concentration in Russian Industry*, Moscow: Centre for Economic and Financial Research, Working Paper 45, 2004).

¹⁸ The findings are reported at length in *The Development of Capitalism in Russia*, op. cit.

¹⁹ *The Development of Capitalism...*, op. cit., p. 95.

²⁰ Капелюшников Р. И., *Российский рынок труда. Адаптация без реструктуризации*, Москва: ГУ ВШЭ, 2001, p. 232.

²¹ Кирдина С. Г., «Трудовые отношения в редистрибутивных экономиках: случай России», Политика социального партнерства (российский и зарубежный опыт) (Отв. ред. М. В. Каргалова, К. Д. Крылов), Москва: ТК «Велби», Изд-во «Проспект», 2003, pp. 37–55.

²² Ядов В. (ред.) *Становление трудовых отношений в постсоветской России*, Москва: Академический проект, 2004, p. 3.

²³ Bob Arnot, *Controlling Soviet Labour*, Basingstoke: Macmillan, 1988.