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The Russian Firm's Organisational Links and Behaviour

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Abstract

Although the interdependence forms and the interaction elements between external and internal relations developed by Russian enterprises are gradually changing - as the organisational strategies by which they are governed are being transformed - certain relatively stable characteristics can be observed during the first period of the economic transformation). These characteristics are the tendency to bolster economic networks, the high percentage of interenterprise (and to a smaller extent intra-enterprise) transactions represented by barter exchange and the relative maintenance of the worker collective's size. These features result from the incessant renegotiation process, between the various participants, of the internal and external organisational equilibrium's terms. They constitute a major pattern of the organisational behaviour of the Russian manufacturing firm during the 1991-1998 period.

KEYWORDS: Russia, firm, transition, managerial strategies, manufacturing

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Introduction

Research on privatisation, restructuring and corporate governance in post-soviet Russia has usually been based on the hypothesis of isolated maximising agents, the principal-agent model assuming inadequacy of incentives or, to a lesser extent, transaction costs theory. However, the interesting insights of such approaches do not seem always appropriate to bring forth the major internal and external features of the Russian manufacturing firm during the first period of the post-socialist transformation (1991-1998).

In the present paper we attempt to analyse these features and to interpret the links between inter-organizational and intra-organizational relations. We wish to point out that the propositions presented in this paper refer only to the period before the 1998 crisis: important changes have occurred after 1998, but it is too early to theorise about them yet. We are evidently aware of the variety of situations, structures, behaviours and performances. There is no one unique model of the Russian firm. Moreover, interdependence and interaction forms between external and internal participants are unstatic. However, we think that the post-soviet manufacturing enterprises, producing not exclusively but essentially intermediary goods and playing a relatively important economic role on a local level, may be described by some relatively stable features (networking, barter and labour hoarding), resulting from the negotiation process between the various organizational participants.

The present paper is composed in three sections. In the first section we briefly present the institutional context in which post-Soviet firms' strategies are pursued. In the second section we provide a stylised description of the interorganisational and intra-organisational links of Russian firms in 1991-1998. In the last section, we pinpoint the importance of a self-reproductory organisational triad (networks, barter and labour hoarding) for the adaptation of the Russian firm to a highly uncertain context.

Organisational strategies as a response to institutional and economic uncertainty

It is a lure to think that markets, capitalist firms and competition could have emerged in post-socialist Russia automatically by the demise of the structures and constituent elements of the planned economy, the abolition of the bureaucratic allocation of resources and the massive privatisation process. On the contrary, this change requires rather, among other factors, the setting up of institutions, rules and relations that should give incentives for a reorientation of the economic agents' behaviour, as well as allow a relative relaxation of uncertainty and thus the stabilisation of the environment. The lack of any reference to such a necessity during the initial stages of the transition process in Russia was evidently not due to a utopian approach on the part of reformers and their western consultants. Indeed, the depiction of an imaginary market that has never and nowhere materialised - under the cover of some "scientific" approaches supposed to have made their proofs¹ - served the implementation of policies aimed at securing the irreversibility of the structural changes. This, in anticipation of eventual social reactions, with the underlying argument that the spontaneous emergence of agents defending their property rights could shape an efficient path to the use of assets.

Following this initial unfounded hypothesis about the possibility of an immaculate birth of capitalism with no capitalists and the supposed necessity of a radical shrinking of the role of the state², the creation of a new institutional framework that would boost the emergence of behavioural patterns, collective action mechanisms, and common references promoting the implanting, legitimisation and acceptance of principles and rules pertaining to a developed capitalist market economy has been one of the core priorities of post-socialist transformation ("LLSV" model³). An appropriate legal framework was supposed to reinforce both the individuals' trust in the information they receive and the convergence of their views, beliefs and actions towards a "market oriented" behaviour.

However, even the setting up of a new formal institutional framework does not seem to have constituted a sufficient condition for a radical switch of individual and organisational behaviours. The legal approach has also failed, for systemic transformation does not constitute a passive adaptation to changing conditions and to formal rules introduced from above. The switch to market economy behaviours, is a complex learning process, that is more likely to be favoured by

¹ See Stiglitz, 2000, about the impact of "the Washington consensus".

² Despite the disillusions of this first period, certain researchers insisted during several years to hold that Russia was characterized by a competitive capitalist market economy - notwithstanding the highly inadequate degree of capital accumulation and the very slow rate of formation of functional capital markets - that would facilitate the completion of attempted changes in ownership relations. See for example, Aslund 1995; Blasi et al. 1997. For a critical survey of these views and their theoretical underpinning, see Chavance and Magnin (1996), Sapir (1995 and 1998).

³ The initials of the four authors that have systematically developed this vision: LaPorta, Lopez de Silvanes, Shleifer and Vishny.

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a multiplicity of interdependent strategic decisions and actions that lead to a great extent, to the definition of new regulatory norms and mechanisms, and create implementation problems (Rizopoulos 1997, 1999a and 1999b).

In the case of Russia, the institutional signals that should gradually form the foundations of the economic agents' trust and reliance on the capitalist economy (privatisation, diminishing of the state's direct interventionary role, institutionalisation of the rules of parliamentary democracy, etc.) had a result altogether different than the "bright future" promised by the reform patrons. That is to say; privatisation without marketisation, the weakening of the state to the extent that it could clearly no longer perform its most elementary functions, the flight from the country of capital and specialised personnel, corruption, the occult intertwining of economic and political interest groups, an extreme fall in production, and the impoverishment of the majority of the population. Moreover, interest groups benefiting from the privatisation process turned out, later on, to be rather opposed to legal development (Mesnard, 2002).

More specifically, on the enterprise level, the systemic rupture brought about the neutralisation of the previous regime's regulatory mechanisms and an abrupt change in the game's rules. This caused a radical transformation of the former productive and transaction constraints as well as the rupture of interenterprise bonds. The accelerating deterioration of their economic and financial condition, forced Russian enterprises to adopt strategies characterised on the one hand by defensive adaptation to emerging markets, and on the other by the maintenance of certain patterns of action as well as the re-creation of certain stable relations in order to reduce the very high degree of uncertainty.

According to the mainstream economists, this is mainly due to the mentality and myopic behaviour of the post-Soviet economic agents and especially to the managerial staff. On the one hand, they resisted change and on the other, because of their former experience as agents in a centrally administered economy, they lacked the training, skills and attitude that would allow them to implement such organisational changes as needed for their enterprise's restructuring. This kind of reasoning does not correspond to empirical facts.

The enterprises' participants' reactions come about in conjunction with "preexisting mental constructs" (North 1990), based on the facts and/or problems as they had perceived, recognised and understood them through their experience and the selective perception mechanism that accompanies human action (Simon 1976). The organisational strategies adopted in order to deal with structural and institutional instability did not aim consciously at the undermining and eventually at the overthrowing of the reforms' objectives. They represented, rather, an instinctive defence, at the core of every organisation, namely, for its own survival (Mintzberg 1983).

It is also true that in most cases the enterprises' managerial staff avoided the assumption of entrepreneurial risks and the realisation of long-term productive investments. However, in their attempt to adapt to the new external constraints brought about by the reforms of their institutional environment, Russian enterprises have adopted new strategies for the achievement of an organisational reproductive equilibrium, which, while not always affected by profit seeking objectives, may nevertheless allow the continuation of their economic activities (Boeva and Dolgopiatora 1994; Dolgopiatova 1996, Hendley 1998). This objective was achieved mainly through the consolidation of internal and external alliances, the widespread application of mutually accepted rules and the reproduction of normative behaviours that would not radically threaten - at least initially - the inter- and intra-enterprise post-Soviet relations (Maroudas 2000 and 2001).

Networks, barter and labour hoarding: a self-reproductory organisational triad

As regards external relations, the systemic and institutional changes altered the balance of power of the various influence groups (owners, suppliers, customers, competitors and state/regional authorities). Parallel to the widespread adoption of opportunist behaviours - as a significant number of agents attempted to take advantage of the rupture of traditional relations, setting the earning of "easy profits" as an immediate objective - the primary need to survive tended to reformulate relatively stable relations based on mutual trust. Regeneration of direct relations governed by common values, consensus, regulatory behavioural patterns, personal commitments and solidarity, allow on the one hand the stabilisation of the operative environment and on the other the creation of a social capital stock necessary for the effective access to emerging markets and scarce resources⁴. Therefore, the relative density of inter-organisational relations - quantified, among other things, by the percentage of economic transactions carried out within the framework of durable and stable relations - rises very steeply in the context of the Russian transformation process

⁴ In the raw material sectors, highly oriented to export markets, vertical integration and multiple loose outside affiliations was apparently the dominant strategies put forth to manage uncertainty (Lemburch, 1999). Concerning the intermediary goods industrial enterprises, vertical integration strategies initiated by actors having sufficient economic and political power - in most cases, down-stream partners - became more frequent after the 1998 crisis.

(Rizopoulos 1999b). In the beginning, this meant the mobilisation of relational networks that had been formed during the soviet period in the context of the centrally administered economy, it later involved the "private" networks having emerged during the period of the Perestroika, originating in Komsomol, and the new emerging entrepreneurial circles characterised by more individualistic ethics (Kharkhordin 1994, Wieviorka 1994).

The spontaneous establishment of both vertical and horizontal sector or intersector networks (Boeva and Dolgopiatova 1994; Gurkov *et al.* 1997) is characterised by a continual effort to re-allocate resources - at transfer prices, that do not necessarily coincide with those that would derive from the hypothetical unobstructed interaction of supply and demand - and by the multilateral products exchange between the network's partners. The operation of formal and informal economic networks in the production sphere⁵ was mainly aimed, initially at least, at ensuring transactions and securing supply flows without having recourse to the market. It was regarded as an emergency solution (Starodoubrovskaya 1995).

The establishment of collective structures of inter-organisational action for the management of mutual interdependence allowed a relative stabilisation and flexibility of transaction processes. It also contributed to the implementation of joint investments, the striking of co-production and specialisation agreements, the preservation of dominant positions in certain specific markets, the creation of a significant number of own (coherently controlled) financial organisations. These organisations cover borrowing needs, the co-ordination of pricing policies, the setting up of entry barriers for potential new competitors and the exerting of collective pressure in order to secure subsidies or loans on favourable terms.

Networking is accompanied by recourse to a widespread use of non-monetary transactions, either through the substitution of regular settlements by a systematic delay of payment of inter-enterprise debts and the concurrent drawing of inter-enterprise loans, acting in practice as an informal creation of liquidity that helps enterprises overcome limited money supply, or - especially since 1994 - through the increase of barter trade, even in the face of falling inflation. The percentage of industrial enterprise's sales represented by barter trade soared and by 1997 had climbed to somewhere between 40% and 70% (for various industrial sectors), when only 6% in 1992 and 20% in 1994 (EBRD, Poser 1998). According to Russian Economic Barometer data, the

⁵ In the spectrum from formal rules to informal norms, networks can be said to take a middle position, enforcing aspects of both (Hendley et al. 2000; Moers 2000).

share of barter in sales in industry was equal to 50% in mid-1998, among large enterprises it was even higher, reaching about 75% in 1996-1997 (Yakovlev 2000).

The inter-organisational strategies of the post-Soviet industrial enterprises aimed at the stabilisation of their environment and the increase of their exchanges' flexibility. Furthermore, they constituted the necessary condition for the development of direct non-monetary transactions in the form of either barter trade or mutual debt accumulation (Aukutsionek 1998, Linz and Krueger 1998): exchange flows not being simultaneous, settlements require the existence of personal guarantees and mutual trust. At the same time, the widespread use of money substitutes⁶ allowed a relative preservation of employment.

The gradual disintegration of the party-state - major pole of influence, since it was the sole owner of property rights - de facto increased the independence and power of internal participant groups, whose perceived interests resulted in the strengthening of political games and bargaining procedures within the enterprise. In fact, the higher negotiation autonomy at a lateral/horizontal level enjoyed by enterprise managing directors - following the demise of central planning and the consolidation of inter-enterprise networks, the attempt to maintain managerial power and the need to create the conditions necessary for a higher degree of organisational adaptability - resulted in the emergence of cohesive managerial strategies. These were aimed at securing and strengthening the control already exerted by managers over their enterprises. They were based on the formation of a peculiar paternalistic type of coalition between managerial staff and workers. This coalition on the one hand contributed to the materialisation of a consensus process at the workplace while on the other, prevented the transfer of control outside the enterprise by securing the workers' support in negotiations with local and regional authorities (Blasi et al. 1997, Boycko et al. 1995, Mesnard 1999).

The fall in production, the tendency of the productive process to be overcome by the commercial process, the increased power of administrative staff especially those in charge of sales and supplies departments -, and, last but not least, the widespread feeling of insecurity provoked by the threat of unemployment, weakened the position of the core production workers and accelerated the emergence of a new form of social regulation within the

⁶ In Russian business practice, there have been three main types of money substitutes: commodity barter, offset arrangements and promissory notes or bills of exchange ("vekselya"), whose analysis does not lie within the scope of the present paper (see Yakovlev 2000).

enterprise, crystallising the managers' bargaining power. Nevertheless, despite the restructuring of internal coalitions, directors tend to maintain the size of the workers' collective high and to cover their consumption needs as much as possible (Maroudas 1999).

These objectives would not be feasible under conditions of economic crisis and liquidity shortages had the administration not adopted delays in wage payments and other "flexible" human resource management policies, such as compulsory part-time employment, significant wage differentials⁷ and so on (Gimpelson 2001; Lehmann and Wadsworth 1997). On the one hand, these tend to force workers with poor outside options⁸ to remain within the enterprise and work – with no strong motivation, of course – in the expectation of getting paid, on the other hand, they help minimise the mobility costs (hiring, training, laying off compensations) and the short-term cut in expenses: wage arrears representing in practice interest-free loans granted from employees to their enterprise.

During the privatisation process, labour hoarding serves the maintenance of control that in turn becomes a prerequisite for the appropriation of a significant ownership share and enhances the enterprise's external bargaining power. Given that the enterprise's development is often dependent on the support they are able to secure from authorities (especially in the case of enterprises that account for a large percentage of employment in the local labour market) - expressed as direct subsidies, tax exemptions, preservation of their monopoly powers, allocation of government-controlled orders and credit distribution - the maintenance of employment levels serves as a means to exert pressure during negotiation and eventually to create the conditions for investment in new physical assets. In this game, weakened workers have a strong incentive to preserve their alliance with managerial staff, so as to exert, together, maximum pressure in order to obtain the largest attainable portion of allocated resources.

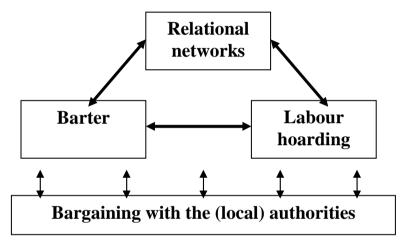
In this case, the incessant renegotiation process, between the various participants, of internal and external organisational equilibrium's terms resulted in the emergence of certain relatively stable features (figure 1). We can enumerate the tendency to bolster inter-organisational networks, the high percentage of inter-enterprise (and to a smaller extent intra-enterprise) transactions represented by barter exchange and the relative maintenance of the

⁷ Differential pay policy also includes payments in kind, barter exchange representing not only a high percentage of inter-enterprise transactions but also of the enterprises' payments to their employees. See, for example, Volkov and Rogozhnikov 1998; Earle and Sabirianova 1999.

⁸ We are referring to workers that face a high incidence of wage arrears in the local labour markets, and whose specializations mainly correspond to the specific production processes of their own enterprises. See Koumakhov 1998; Earle and Sabirianova 1999.

worker collective's size. This self-reproductory organisational triad is more frequent in large manufacturing enterprises, located in distant regions (especially in one-company towns), which, having reorganised their relational networks, tend to preserve on the one hand the level of their production activities through recourse to barter, and on the other their worker collective's size, so as to avoid the deepening of social disruption.

Figure 1: Links between external and internal relations of the Russian manufacturing firm



"Old fashion"... but real adaptive organisational strategies

The mainstream view that only the rapid implementation of transparent prices and a fully competitive market - not intermediated by stable personal relations and durable interdependencies between economic agents - may act as an essential guarantee of an effective systemic transformation caused an explicit or implicit discrimination towards Russian manufacturing enterprise's strategies. These were presented as insurmountable obstacles standing in the way of the effective restructuring (emergence of action patterns often avoiding recourse to the markets, attempts for non competitive market positions, over-employment, etc.), and thus of the more general improvement of the economic conditions. Such an assessment is based on the oversimplified hypothesis that any relation outside the context of anonymous transactions between individualised, autonomous and perfectly rational economic agents is to be assimilated to

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imperfection, corruption and inefficiency.

On the basis of this kind of theorising lies the "discovery" of a clear contradiction between "physical capital" and "relational capital", according to which the production of "soft (informal) goods", the development of informal activities, barter trade and the absence of restructuring are due to the tendency of Russian managers to invest more on "relational capital" and less on "physical capital". Given that managers seek to avoid the risk involved in the pursuit of formal profits (linked to "physical capital" investments), this can only originate in the production of "soft goods" (Gaddy and Ickes 1998).

This approach offers no significant analytical tools - apart from the formalisation of such theoretical reasoning and certain interesting insights mainly the distinction between enterprise performance and the degree of their adjustment to the market - for the assessment of the particular characteristics of the internal and external organisational coalitions and compromises, and especially their understanding as a special resource form allowing the adaptation of economic agents and a more satisfactory use of physical capital.

We have to keep in mind that economic and political reforms introduced in Russia did not result in the full abolition of external bureaucratisation, but rather in the emergence of some kind of bureaucratic decentralisation. A number of powers of the former industrial ministries have been transferred to or appropriated formally or informally by regional or local administrative poles or the newly founded state agencies overseeing the economic transformation process. Thus, the concurrent operation of the remaining elements of the state resource allocation system and the emerging (unstructured) market mechanisms affected the organisational processes and tended to create hybrid organisational forms and property relations (Grabher and Stark, 1987).

Furthermore, the distinction between production of hard and soft goods, solely based on whether the products are been sold for cash or money substitutes, is quite arbitrary, as different quantities of the same product may be disposed of in different ways, e.g. exported (therefore paid for in convertible currencies), sold for cash in the domestic market, used to pay taxes and/or wages in kind. The possibility of differentially disposing of a product is not in the unconstrained discretion of the enterprise's general manager, according to a targeted balance between formal and informal profits. It depends also on demand fluctuations, the degree of competition operating in the specific sector and the product's "barterability". Widespread recourse to barter and payments arrears is not mainly motivated by the managers' effort to reduce the costs involved in the generation of formal profits - high taxation, potential takeover target - or to use available financial resources in speculative activities. The main reasons leading managers to barter are both the express attempt to resolve the problems related to the shortage of working capital and the maintenance of production, under the hard conditions of restrictive monetary policy and high uncertainty (Aukutsionek 1998).

In regarding the managerial team's goal, the choice to restructure or not the production process of the enterprise, is not a one-way tool. It also significantly depends on its favourable (or unfavourable) position in the state redistributive hierarchy (Suhomlinova 1999), the particularities of its regional market, the sector it belongs to - for instance, enterprises with direct access to the retail customer such as enterprises in the food industry have less reasons to trade in barter - and on the nature of the internal interest coalition created during the privatisation process.

Inevitably, relational internal and external strategies do not necessarily have positive effects and often provoke locked-in situations. However, pursuing such strategies does not signify a systematically conservative attitude or a resistance to any change or restructuring. According to a recent field research, "networks seem to be largely of a *nomenklatura* nature" (Moers 2000). This is not necessarily due to a conservative mentality, nor is it a paradox, for if this type of strategies represent for organizations the only possibility to "be part of the game" then they have little incentive to introduce alternative patterns of behaviour. From an organisational point of view, this is a normal attitude, in order to avoid a threat to survival, power structure and organisational equilibrium. If accumulation of relational capital is by no means contradictory to the accumulation of physical capital, it is, though, a crucial factor of adaptation to the new conditions induced by the systemic change⁹.

In the same manner, if relations based on reciprocal concessions and evolving trust contribute to the separation of performance and financial profitability of firms - given that reliable business relations tend to rest on personal affinity rather than profit, and internal management becomes, more and more, highly political (in the sense of a predominance of bargaining procedures) - by no means do they necessarily imply economic inefficiency. Internal control and paternalism, combined to increase the directors' bargaining power at the

⁹ More specifically, the relational networks occupy a prominent position as far as economic organizations' strategies are concerned not only in more "advanced" transition economies (see inter alia Grabher and Stark, 1997, Borzeda and Rizopoulos 2001, Rizopoulos and Grégoire-Borzeda, 2001), but also in developed capitalist countries (see inter alia Nohria and Eccles 1992).

internal and external level, constitute a rational (albeit limited) behaviour that allowed them to secure control over their own enterprises as *de facto* owners.

Conclusion

During the first period of the post-socialist transformation (1991-1998), under conditions of radical economic and institutional uncertainty (created by the *tabula rasa* way of reforming the Soviet economy), the Russian manufacturing enterprises adopted survival strategies. While not always affected by profit seeking objectives, these nevertheless allowed the continuation of their economic activities, the assumption of restructuring initiatives and a relative preservation of employment. In such a context, certain intangible assets - namely, relational networks and bargaining capabilities, which were already crucial performance factors under the Soviet regime - proved to be valuable resources that helped valorise certain existing tangible assets. Used by all organisational actors (directors, employees, customers, suppliers, local authorities...), they lie at the origin of a variety of asymmetric relations.

It is true to say that the internal and external relations of the Russian manufacturing firm, in the period here studied, undergo a continual transformation: the continuing changes in the environment and the appearance of new problems requiring the adjustments of organisational strategies and the redefinition of mutually accepted rules. However, it seems possible to affirm that networking, barter and labour hoarding have been three features of stability, linked and mutually reinforced during the period under examination. They account for the survival and sometimes the development of the manufacturing firms producing intermediary goods. Barter are a necessary condition for continuing production in the absence of liquidity but also for the stability of internal compromises (development of internal distributive systems of bartered goods, as an incentive and disciplinary mechanism), external networks consolidate the directors' position, while labour hoarding is a factor of stability for transactions with other enterprises and interactions with local authorities.

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