Post-Communist Economies, Vol. 16, No. 4, December 2004

Carfax Publishing
Taylor & Francis Group

A Very Soviet Form of Capitalism? The Management of Holding Companies in Russia

SIMON CLARKE

Abstract

The transition to a market economy in Russia did not initially lead to significant changes in the social organisation of production, leading some to doubt that Russia was in transition to capitalism at all. Since the 1998 devaluation, Russian capitalist holding companies have invested in industrial enterprises. This article reviews the impact of such investment on the management structure of Russian companies on the basis of a series of intensive case studies. The case studies show a very consistent pattern of strictly centralised hierarchical management, which reproduces many features of the traditional Soviet system of administrative control, using financial rather than physical indicators, with production subordinate to projected sales, but very limited change in the traditional forms of personnel and production management. In conclusion, the question is raised whether this represents a distinctively Russian form of capitalism or is merely a transitional stage of capitalist development.

Contrary to the expectations of the neo-liberal theorists of 'shock therapy', the collapse of the Soviet system did not lead to the rapid and spontaneous development of the institutions and practices typical of a capitalist market economy. This led some critics to doubt whether Russia was in transition to capitalism at all. Burawoy, (1996, 2001), for example, has characterised the development trajectory of the Russian economy as one of 'involution', akin to Weber's 'booty capitalism', in which profits are extracted by banks and trading monopolies while nothing is reinvested in production, which continues to be conducted in traditional Soviet ways. Ericson Q1 (2000) has even characterised the emerging system as 'industrial feudalism'. However, since the 1998 crisis there has been a marked penetration of capital into Russian industry, as an increasing number of industrial enterprises have been taken over by large Russian holding companies which purport to be the standard-bearers of capitalist management structures and practices in Russia. In this article I will look at the structures and practices that these holding companies put in place in their subsidiaries, but first I will outline a theoretical framework for the analysis, which is based on Marx's analysis of the development of capitalism in Europe.

Professor Simon Clarke, Centre for Comparative Labour Studies, Department of Sociology, University of Warwick, Coventry CV4 7AL, UK, and Institute for Comparative Labour Relations Research (ISITO), Moscow. Email: Simon.Clarke@warwick.ac.uk.

ISSN 1463-1377 print/ISSN 1465-3958 online/04/040000-00 © 2004 Centre for Research into Post-Communist Economies
DOI: 10.1080/1463137042000309539

The Formal and Real Subsumption of Labour under Capital

Marx characterised the capitalist mode of production by the subordination of the production of things to the production and appropriation of value and surplus value. This subordination was not a once and for all fact but a long drawn-out historical process underlain by a permanent contradiction between the two aspects of the capitalist mode of production. In the first stages of this historical process the 'subsumption of labour under capital' was purely formal, as capitalists took control of production which continued to be carried out according to the existing, predominantly handicraft, methods. However, competition forced capitalists to find ways of reducing costs which, over time, led them to intervene increasingly directly in the production process, leading to the 'real subsumption of labour under capital'.

Marx applied this conceptual framework to the analysis of the development of the 'capitalist labour process', from its origins in simple co-operation between handicraft producers, through the development of the division of labour in the workshop characteristic of the phase of manufacture, to the mature phase of 'machinery and modern industry'. However, perhaps seduced by Andrew Ure's advertising materials, Marx tended to identify the real subsumption of labour under capital with the real subordination of labour to capital in the labour process, with the authority of capital being embodied in the machine. Critics of Marx have addressed the technological determinism implicit in this identification, noting that even the simplest of machines have to be developed by human engineers and even the most sophisticated of machinery requires human operators, so the subordination of labour to capital cannot be achieved by technology on its own (Thompson, 1989; Knights & Willmott, 1990).

Subsequent theorists of the capitalist labour process have drawn attention to the social dimensions of the contradiction between the production of things and the production of value as the basis of a permanent social division within the enterprise which cannot be overcome by technology but which presents a permanent challenge to capitalist management. The development of capitalist management can then be fruitfully analysed within the framework proposed by Marx for the analysis of the development of capitalist methods of production. The capitalist has to rely on the skills and initiative of engineers and workers to secure the production of things, while ensuring that their skills and initiative are employed with a view to maximising the production and appropriation of surplus value. The development of capitalist forms of management can be interpreted in this light, including such crucial aspects as the struggle to break the control of skilled workers over the production process (Braverman, 1974; Stone, 1973), the struggle to reduce the autonomy of foremen and integrate line managers into the management hierarchy (Edwards, 1979; Lazonick, 1990, pp. 377–379), and the shifting balance of power between different branches of senior management (production, finance, marketing) (Armstrong, 1984; Knights & Willmott, 1986).

The strength of this framework is that it can be deployed for a comparative and historical analysis of the development of the capitalist mode of production which can recognise the distinctiveness of capitalism at different times and places, without losing sight of the underlying structural features of the capitalist mode of production. In particular, it provides the most fruitful approach to the development of capitalism in Russia.

The Soviet Mode of Production

The Soviet Union notoriously took its production technology over from capitalism.

Indeed, according to the theory of Marxism–Leninism, capitalist production technology could only be employed to its full potential once it was freed from the fetters imposed by the private ownership of the means of production. Some critics of the Soviet Union have argued that, in adopting capitalist production technology, the Soviet Union was inevitably reproducing capitalist production relations (Linhart, 1976), but this is merely to invert the technological determinism of Marxism–Leninism. Capitalist technology was not employed in the Soviet Union in order to maximise the production and appropriation of surplus value, because the Soviet economic system was not based on the production of commodities. The party–state apparatus certainly made every effort to maximise the production and appropriation of a surplus, but this did not take the form of surplus value but of the forced deliveries of goods and services by enterprises and organisations. The Soviet labour process was subordinated not to the production of surplus value but to the achievement of targets for gross output. Labour, material and energy inputs were determined by technical norms which should not be exceeded, but beyond this there was little incentive for enterprise management to intensify labour, lengthen the working day, increase productivity or economise on the use of resources. So we find a distinctively Soviet mode of production in which the enterprise is a relatively cohesive unit oriented to the achievement of its plan tasks and to the negotiation of loose norms and plan targets rather than increasing productivity (Clarke, 1993). The benefits of increases in productivity achieved within the framework of the plan were not appropriated by the centre or used for productive investment but tended to be used for the labour collective by redeploying resources to, for example, the construction of welfare, cultural or sporting facilities.

The management style of the Soviet enterprise can be characterised as 'authoritarian paternalist', with the enterprise director having absolute authority in the enterprise, which was represented as a 'labour collective' (Samara Research Group, 1995). Management had a rigidly hierarchical formal structure but in practice was conducted on the basis of informal relations which by-passed the formal structures and responsibilities and in which assigned tasks were constantly negotiated and renegotiated. Production management was unambiguously dominant over other services, with the line of authority passing from the director through the deputy director for production and chief engineer to the shop chiefs. Auxiliary production shops were subordinate to the core production shops, with lower rates of pay and inferior status. Finance, personnel and supply were peripheral services which had little more than accounting and reporting functions to perform. Responsibility for the achievement of production tasks was delegated down the line to shop chiefs, section chiefs, foremen and even ordinary workers, with a system of punishments and rewards that was supposed to ensure that they achieved their targets, including Taylorist piece-rate payment systems, although the uncertainties of production and supply meant that in practice the system had to be administered flexibly and punishments and rewards were discretionary. Shops had a high degree of autonomy and shop chiefs a correspondingly high degree of authority, while workers and their immediate line managers had a high degree of control of the work process, which relied heavily on the skills and commitment of core *kadrovye* workers. Internal conflict tended to be highly personalised and was resolved informally or by transfer, or occasionally dismissal, while systemic conflict tended to be externalised and directed against the higher authorities. Within the enterprise, for example, the shop chief represented the interests of the shop in negotiation with the general director, while the general director represented the interests of the enterprise as a whole in negotiation with ministerial bodies (Granick, 1954; Clarke, 1995).

The Transition to Capitalism in Russia

The collapse of the Soviet system did not at first affect the internal structure and dynamics of the enterprise, which continued to produce according to its own logic and with its own priorities. However, the enterprise suddenly found itself having to secure its own supplies, to find outlets for its products and to buy and sell within the constraints of its financial resources. The priority of enterprise directors was to secure the reproduction of their enterprise as a production unit, on which their own status and income depended, and which was expressed in a commitment to the 'preservation of the labour collective'. Initially supply chains were maintained as enterprises continued to receive from and deliver to their traditional customers, although the break-up of the Soviet Union imposed severe disruption on those who depended on links with other Soviet Republics. The erosion of working capital by inflation meant that enterprises had minimal cash balances, so transactions were financed by an accumulation of debt. In the face of macroeconomic decline, it was not long before enterprises down the chain found themselves accumulating unsold stocks and had to cut back production and orders. The prospect of decline meant that sales, supply and finance had an increased significance. At first they continued to be subordinate to production, their task being to secure supplies, outlets for the products and financial resources that would enable the enterprise to continue to produce, but they inevitably assumed an increasing importance as the means of transmitting market constraints to the enterprise. Financial constraints could be evaded by accumulating debts and arranging barter deals, but sales figures increasingly replaced plan targets as the determinants of production levels (Clarke, 1996). Enterprises sought assistance wherever it could be found, in support from local and regional authorities and, above all, in the services of the proto-capitalist financial and commercial intermediaries that had grown up in the interstices of the Soviet system, had flourished under *perestroika* and now burst into the open. Of course, such transactions provided ample scope for managerial corruption but, however corrupt the senior management might be, it still depended for its position on securing the reproduction of the enterprise as a unit of production.

This is the phase that Burawoy characterises as that of merchant capitalism, in which the 'primitive accumulation of capital' had led to the formation of predatory trading capitalists who sought to make profits from their control of supplies, buying cheap and selling dear and, rather than imposing a capitalist logic on enterprises, forcing them into an 'involution' marked by an accentuation of their Soviet characteristics and a demonetisation of their transactions. However, this could only ever be a temporary phase. By the mid-1990s the majority of transactions were non-monetary and the majority of Russian enterprises were loss-making and burdened with enormous debts, only staying in business because the bankruptcy law in effect at that time made it almost impossible to force an enterprise into bankruptcy and because federal and regional governments discouraged the initiation of bankruptcy proceedings owing to their negative social and economic consequences.[1] The end of this phase was marked by the 1998 crisis, with its default and devaluation. The 1998 crisis revived the prospects for domestic production and initiated a period of stabilisation and uneven economic growth, facilitating the remonetisation of the economy. More importantly, it hit the banks very hard and led to a sharp reduction in the possibilities of profiting from financial operations so that the dominant bank-centred financial–industrial groups had to turn their attention to other, more secure ways of making money (Novitskiy, 2002). At the same time, the introduction of a new bankruptcy law in 1998 made it very easy for creditors to use the bankruptcy law to acquire even solvent enterprises at very favourable prices (Sprenger, 2002).[2] As a result, since the 1998 crisis, Russian capital has moved into production on a large scale as holding companies have purchased industrial enterprises, often at knock-down prices, through share purchases, debt–equity swaps or the bankruptcy procedure.[3] In the first systematic study of the ownership of Russian enterprises, the World Bank estimated that in 2003 the 23 largest financial–industrial groups controlled at least 35% of sales and 16% of employment in the 32 sectors of industry surveyed (World Bank, 2004, p. 99).

Russian Capitalism—the Rise of the Holding Company

Acquisition by a holding company does not immediately transform the Soviet into a capitalist enterprise. This is the next challenge facing capitalism in Russia. So what happens when a former Soviet enterprise is absorbed into a modern capitalist company? In this article I will begin to answer this question by summarising the findings of a small number of intensive case studies of Russian industrial enterprises which are controlled by holding companies. These case studies have been undertaken as part of an ongoing project on management restructuring in advanced Russian enterprises, which will eventually cover between 50 and 60 enterprises in different sectors and branches of the Russian economy.[4] So far we have completed 31 case studies, 12 of which, in five regions, are of enterprises which are subsidiaries of large holding companies.[5] These enterprises produce pipelines, aero engines, detergents, fertiliser, coal, metal-cutting industrial tools, petrochemicals (two), cement, knitwear, electrical transformers and mobile telephone services.

We would expect the character of restructuring to depend on the objectives of the holding company in acquiring the industrial enterprise and so we need to distinguish between different types of holding company. We can very roughly distinguish holding companies according to whether they are vertically integrated, acquiring enterprises which form part of a production chain, horizontally integrated, seeking to establish a monopoly position in regional or federal markets, or diversified, acquiring a portfolio of enterprises in order to generate profits and shareholder value for the holding company.

Vertically integrated holding companies have developed particularly in the oil and gas and metallurgical sectors, where financial–industrial groups centred on oil and metallurgical companies have acquired supplier and processing enterprises to establish an integrated production chain, but they are also expanding in other sectors as the holding company seeks to strengthen the position of its existing subsidiaries in an economically and politically uncertain environment by securing control of its supplies and markets. The concern of the holding company in this case is to secure the reliable delivery of high quality inputs and outputs at an economical price. This often requires substantial investment to modernise production facilities and ensure that products of the appropriate specifications can be produced.

Horizontally integrated holding companies have developed particularly in sectors dominated by a relatively small number of large producers of a standardised product. The holding company's main concern is to establish dominance in regional or national markets and to cut costs by rationalising the operations of its subsidiaries.

These objectives are achieved by concentrating production in the lowest cost producers and by centralising management functions in the holding company, so that the subsidiaries are reduced to production platforms. Some horizontally integrated holding companies are export-oriented producers, and their priority objective is to secure control of supplies and ensure that quality meets world market standards.

Diversified holding companies tend to take the form of industrial groups, which may comprise a number of relatively independent vertically and horizontally integrated holding companies. Diversified companies are concerned above all to maximise the profits of their subsidiaries and to improve their long-term prospects in order to increase their shareholder value. This may involve heavy investment in modernising production facilities or developing new product lines, or it may simply involve squeezing out the maximum short-run profits by reducing costs.

There are also holding companies which are state-sponsored, whose objective is to support the policies of regional or federal government, for example to maintain employment or protect the production of strategic goods. We will exclude such companies from consideration here, because these holding companies have a different role, primarily one of providing support services to the enterprise (research and development, sales and marketing, access to credit), and intervene to a much lesser extent in the management of the enterprise.

Finally, we might expect enterprises which have been acquired by foreign owners to impose a more radical restructuring. Foreign investors have various motives for buying Russian enterprises to produce for the domestic market, rather than making greenfield investments,[6] but probably the most important are to buy the connections of an existing enterprise, to buy familiar Russian brand names to gain access to the consumer market and to acquire a skilled labour force and, in some cases, advanced Russian technology. But whatever their motives, the foreign owners face the same challenge as domestic holding companies of reducing costs, increasing quality and establishing an effective sales and marketing network.

In all of these cases, apart from state-sponsored holding companies, the holding company is an unequivocally capitalist organisation that is oriented to maximising its profits. The enterprises in our sample include those owned by vertically integrated, horizontally integrated and diversified holding companies, while two are foreign-controlled and two have influential foreign minority owners.

In the rest of the article we will outline the common features of restructuring of enterprises which have been bought by holding companies, as they have emerged from our case studies, indicating differences corresponding to the character and objectives of the holding company where these are significant. Although our findings are based on only 12 case studies, the remarkable consistency across very different regions and branches gives us some confidence that these findings have more general significance.

System of Management and Control of Subsidiaries

In all our case study enterprises strategic decision making is concentrated in the holding company and control of the subsidiary is achieved primarily through the annual budget. The subsidiary either has its own board of directors, the majority of whom are representatives of the holding company, or it is immediately subordinate to the board of directors of the holding company. In general, the holding company does not interfere in the everyday management of the company, which is the responsibility of the general director, beyond monitoring its performance. In two cases the holding company has its own representative in a supernumerary management position (in one case he is called the 'executive director' in another he is the 'deputy general director for general questions') to work alongside the general director, with the authority to approve decisions on behalf of the holding company. In a minority of cases the general director is a member of the board of directors of the subsidiary or even of the holding company, but in no case is the general director a significant shareholder. There is a clear demarcation of the functions of ownership and control.

The acquisition of an enterprise by a vertically or horizontally integrated holding company almost always leads to the centralisation of the functions of finance, sales and marketing and, in vertically integrated holding companies, supply in the holding company, with the corresponding services in the subsidiary largely reduced to their traditional roles of documentation, record keeping and reporting. In some cases personnel management functions are also subordinated to the personnel management department of the holding company. In most cases the subsidiary retains some capacity for independent decision making in these areas, although all expenditure decisions require the approval of the holding company. In the case of acquisition by a diversified holding company, the enterprise is more likely to retain responsibility for its sales, supply, marketing, personnel management and even finance functions.

The concentration of financial and commercial functions in the holding company 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, although the plan indicators in a capitalist framework are, of course, different from the quantitative physical indicators of the Soviet planning system.

Even though the subsidiary is wholly owned by the holding company, several of our respondents clearly thought of their enterprise as an independent subject, delivering its targets to the holding company in exchange for financial resources provided by the holding company, and distinguished between the resources of the holding company and the enterprise's 'own' resources, just as they would have done in Soviet times. In some cases the enterprise was permitted to sell 'above plan' output on its own initiative and to use the revenues, with the approval of the holding company, for its own purposes. However, there is in general very little leeway for such activity because the holding company keeps tight control of the allocation of resources and the expenditure of the subsidiary.

The subsidiary prepares a business plan for the following year, with an associated and very detailed budget, which has to be defended in the holding company and, after appropriate amendment, is submitted to the board of directors for approval. The business plan will comprise the production plans and associated spending for labour, raw materials, maintenance and repair and auxiliary services for the following year, and will be accompanied by proposals for investment in new equipment, buildings and production facilities.

The planning process typically takes several months and involves all of the departments and services of the subsidiary. Planning is always driven by target sales figures for the following year. In vertically integrated holding companies these sales figures will be handed down by the holding company, since they correspond to the deliveries required by other enterprises in the production chain. In horizontally integrated holding companies there will be more interaction between the holding company and the subsidiary, since the holding company has its overall sales projections which it has to distribute across all of its production facilities, taking into account production costs.[7] Otherwise, the sales projections will be prepared by the marketing department, usually as a target increase in sales on the current year. In integrated holding companies projected product prices and, in vertically integrated companies, the key input prices will also be dictated by the holding company. In other companies product prices are determined by the sales department in the light of prevailing market prices and unit costs.

The target sales figures determine the production plan, which will be passed to the shops and production departments which assess the plans against their production capacity, making allowances for downtime for maintenance or replacement of equipment,[8] and work out the corresponding requirements for labour and material inputs, maintenance and repair.

Investment planning is conducted along traditional Soviet lines. Investment plans are based on proposals for re-equipment from the shops and from the technical specialists, dominated by demands for the piecemeal replacement of decrepit equipment and reconstruction of semi-derelict buildings, and are reviewed and consolidated by the technical council before being defended in the holding company. Investment projects have to be substantiated economically, and in general only those which promise a very short payback period are approved. More comprehensive reconstruction and larger investment projects are usually proposed by the holding company in accordance with its production needs.

The consolidated plan and its associated budget are put together by the planning–economic department. If unit costs indicate that production is not profitable, the expenditure plans might be referred back to the shops to find some economies. The plan and budget are defended in detail with the holding company before they are submitted to the board of directors. The approved plan and budget then become the control document for the enterprise for the following year, with any modification requiring the approval of the holding company. The plan and budget will be adjusted regularly in the course of the year, on the initiative or with the approval of the holding company, in accordance with orders and sales achieved.

Expenditure in relation to the budget is very closely monitored, both within the subsidiary and by the holding company. Any overspending leads to an investigation and, usually, the punishment of those responsible, with the demand that the overspend he recovered by subsequent savings. Any exceptional expenditure, for example in relation to unexpected breakdowns, must be approved by the holding company.

Management Structure and Functions in the Subsidiary

In most cases the general director, and often the other top managers, are appointed by the holding company from their own trusted staff, although in some cases the existing general director and senior managers remain in place or are appointed internally because of their detailed knowledge of the specific features of production and the characteristics of the enterprise. A repeated theme is the demand for high levels of professionalism and loyalty of the senior managers, the majority of whom have both technical and economic higher education. New managers are generally young and have often been abroad for management training. The appointment of people from outside to senior positions sometimes breeds resentment on the part of the existing managers, because it blocks their career paths and violates the tradition of appointing senior managers and specialists from within, 'our people', who have a detailed knowledge of and commitment to the enterprise and its traditions. This resentment is not expressed in any antagonism so long as the new managers are recognised to be highly professional people and are willing to accommodate to the traditions of the enterprise.

In most cases there has been some management restructuring, sometimes initiated by the holding company, but in other cases on the initiative of a new general director. A common change at the level of top management is a move away from strictly hierarchical management to a greater devolution of responsibility and authority to functional managers and an emphasis on the collegiality of the senior management team, with horizontal flows of information between department heads, although the general director always has the ultimate authority, reinforced by his role as representative of the holding company in the enterprise, so collegiality may be more rhetorical than real.

While production management was dominant in the Soviet enterprise, it now takes second place to sales and finance. Where the enterprise retains responsibility for sales and marketing, the sales and marketing department tends to be the dominant branch in the senior management team, in accordance with the driving role of sales, which dictate production plans to the shops and production departments. Where sales and marketing are controlled by the holding company the dominance of sales is expressed in the dominance of the holding company and the sales department of the subsidiary has a relatively lower status. The finance director is a pivotal figure, often appointed by the holding company, because he (rarely she) is responsible for overseeing expenditure, while the planning–economic department is responsible for preparing and implementing the plan. Most enterprises have introduced or are introducing computerised management information systems to provide real-time information to track expenditure and plan fulfilment.

In a few cases there has been a rationalisation of the structure of the enterprise, with combination of departments and centralisation of services to reduce the size of the management apparatus and in a few, particularly foreign-owned enterprises, divisional structures have been introduced, primarily to provide more transparent attribution of costs to different product lines. In only one, foreign-owned, enterprise has the management structure been flattened and this is probably because of an enormous cut in the number employed in the enterprise since the Soviet period.

In several enterprises its remaining 'unproductive' social and welfare facilities have been handed over to the municipality or spun-off into separate enterprises. However, in almost every case the traditional social and welfare benefits and social guarantees, much reduced during the 1990s, have been retained and in some cases even enhanced. The new managers are typically not hard-nosed accountants—many of them are committed to the traditions of enterprise paternalism, now glossed with the fashionable 'corporate social responsibility'. In one case the new general director was forced by pressure from existing management and the labour force to reverse his policy of reducing social and welfare benefits. In all of the enterprises the trade union continues to perform its traditional social and welfare functions, with the trade union president continuing to work closely with the general director.

In several enterprises auxiliary services, such as transport, cleaning, maintenance and repair, have been spun-off into separate companies and contracted out to those companies on a competitive basis.

It is very rare for management restructuring to extend below the senior management level, so production management in almost every enterprise continues in the traditional ways, with the traditional dependence on skilled workers reinforced by the increased emphasis on quality, the degradation of equipment and shortages of skilled labour.[9] In none of the cases has there been any significant change in the structure or functions of production management, although the much tighter control of spending means that the discretion of shop chiefs and foremen has been significantly reduced, which can present them with problems in the everyday management of production. In some enterprises plans are given to the shops in the traditional physical units for output, employment and materials use, in others they are provided in monetary units or in both physical and monetary units.

None of the enterprises has introduced a systematic personnel management strategy, let alone introduced methods of human resource management, and personnel management continues predominantly along traditional lines. Even where the holding company has a personnel management strategy, little has been done to implement this. Staffing levels continue to be determined primarily by traditional technical norms and controlled through the staff list and/or the wage fund, although managers can make special requests to hire personnel in case of proven need. The hiring of senior managers and technical specialists is usually through competitive hiring on the basis of professional qualifications and 'personal qualities' (potential loyalty and commitment), with private employment agencies and professional contacts as the primary channels of hiring. Shop-floor workers are usually hired in the traditional way, by the line managers, with personal connections being the primary channel of hiring. In many enterprises all new appointments have to be approved personally by the general director and senior appointments have to be approved by the holding company.

All of the case study enterprises had seen a substantial fall in production during the 1990s and had lost a significant number of skilled employees, so that the recovery of production faces the problem of shortages of skilled labour. The lack of recruitment during the 1990s and the fact that careers in industry are unattractive to young people also means that the core of the labour collective is ageing. For these reasons there is a renewed interest in training, often initiated by the holding company, and some companies have resurrected the Soviet practice of forming a 'personnel reserve' of employees who are qualified to replace those who leave or retire. Many companies have also renewed the traditional links with local technical schools and colleges as a means of ensuring the training and recruitment of the required skilled workers and of forming an external 'personnel reserve'.

Political Connections

We have been surprised to find, given the emphasis in much of the literature on the interpenetration of Russian capital with state structures, that all of the enterprises that have been bought by holding companies emphasised their distance from the local and regional authorities, insisting that they neither asked for nor received any assistance from the authorities and that their obligation was only to pay their taxes, in exchange for which they asked only that the authorities should not interfere in their affairs.[10] In general, as important employers and major contributors to local budgets, they do not need to exploit political connections to ensure that they get their way. Although in most cases the enterprises provided some support for the local community, this was a charitable or a commercial decision, not one made in the expectation of receiving political favours in return. However, in most cases the holding company was actively engaged in lobbying the federal government and some enterprises expected that the holding company would use its weight to lobby on their behalf if need be. There seems to be some tendency for the large holding companies and financial–industrial groups to try to reduce their dependence on unreliable political connections at the federal level, looking instead for international connections, which they hope will provide them with a more secure guarantee if they fall from political favour. Such connections can be provided by foreign partners or minority shareholders and by borrowing through foreign banks.[11]

Investment and Cost Reduction

In all of the case-study enterprises the holding company has made substantial investments. The most typical investments have been in computerisation of management information systems, repair and renovation of buildings, energy-saving measures, the replacement of worn-out equipment and, much more expensive, the acquisition of modern production facilities. Most investment plans for renovation, repair and replacement are initiated by the enterprise, while the acquisition of modern production facilities tends to be initiated by the holding company. The initial phases of investment are financed by the holding company, either directly or on the basis of loan guarantees,[12] but once the subsidiary is back on its feet an increasing proportion of investment is financed out of its own retained profits or borrowings in its own name.

A surprising feature of Russian capitalism is an emphasis on self-sufficiency. In the Soviet system the unreliability of supplies and the political bargaining associated with securing them put a premium on self-sufficiency. This emphasis on self-sufficiency applied both at the level of the enterprise and at the level of ministerial structures. Western critics identified enterprise autarchy as a key element in the irrationality of the Soviet system, since it reduced the gains to be made from specialisation and economies of scale (Granick, 1960, pp. 135–136). The transition to a market economy was supposed to eliminate the need for self-sufficiency as enterprises should be able to buy inputs more cheaply on the market than they could produce them themselves. However, the continuing instability of the market in Russia means that supplies are always uncertain and unreliable, while the market economy in Russia is dominated by local, regional and national oligopolistic structures, so that self-sufficiency is, if anything, even more important than it was in Soviet times.

Independent enterprises establish their own sales networks and retail outlets to secure their independence from commercial intermediaries, rely on their own finances for investment and innovation to avoid dependence on outside financial structures and construct independent production facilities for their own inputs. Self-sufficiency (rather than the expensive modernisation of equipment) is an important priority in the investment and innovation projects of independent enterprises.

Holding companies seek to establish control over vertically integrated commercial, financial and production complexes that mean they are independent of outside suppliers, other organisations and state authorities, as well as seeking horizontal integration to strengthen their monopoly position at the local, regional and federal levels (political influence can be important in establishing such monopoly powers). Holding companies provide substantial investment funds (often through their own associated financial structures rather than through external borrowing, unless they have access to Western financial markets) which may be directed to the modernisation of existing production facilities, but increasing self-sufficiency is also a major priority. Thus a substantial number of the enterprises we have studied have constructed a boiler house and steam-generating plant, often as their first investment project, and a few enterprises have even installed their own electricity generating facilities. These measures not only promise to reduce costs (although in most cases there had not been a systematic assessment of the cost-effectiveness of the innovation) but also reduce the dependence of the enterprise on potentially powerful outside suppliers (the local authority or a neighbouring large enterprise in the case of the boiler house and UES in the case of electricity generation).[13]

The tendency to divestment and outsourcing of ancillary services, noted above, might seem to run counter to the tendency to self-sufficiency, but these are services which are provided primarily by small businesses in competitive markets so their outsourcing does not threaten the independence of the enterprise.

A primary focus in all of the case-study enterprises is on reducing costs and improving quality. Cost reduction is typically achieved in a number of ways. First, through the rationalisation of management functions across the group, with the centralisation of research and development, finance and sales and marketing in the holding company and/or one of the subsidiaries which services a group of companies making similar products. Second, a common priority is to reduce energy costs, which is supposedly achieved by installing its own steam and electricity generating facilities, but which is also achieved through investment in energy-saving technology as well as Soviet-style energy-saving campaigns. Third, as noted above, most enterprises which have been integrated into holding companies have divested themselves of non-income earning assets, such as their remaining housing stock and sporting, cultural and welfare facilities, and contracted out some of their ancillary services, such as transport, cleaning and maintenance.

Because the character of production relations on the shop-floor remains predominantly traditional, and very few enterprises have made the very large-scale investments that would be required to transform production relations radically, attempts to reduce production costs have been made within the traditional framework. Thus all our case-study enterprises have sought to intensify labour, tighten labour discipline and encourage multi-tasking and increased flexibility. These attempts are conditional on labour market conditions and so, in general, are associated with paying relatively high wages to recruit and retain committed and reliable workers. The crucial role played by line managers in controlling production costs means that in practically all of the case-study enterprises which are part of a holding company senior management has sought to increase the status of line managers and embed them in the managerial hierarchy. At the same time, as noted above, the strict centralised control of expenditure has deprived them of many of their traditional levers of shop-floor management.

All investment projects have to be substantiated economically and generally only those with a very short repayment period will be adopted. Major investment projects in the modernisation of production facilities are, as would be expected, designed to reduce costs, improve quality and/or to diversify production.

Shop Floor Management, Payment Systems and Discipline

Systems of production and shop floor management have not changed significantly in any of the case-study enterprises. Shop chiefs still have a high degree of autonomy in managing their shops, although they are required to adhere strictly to the control indicators embodied in their budget and production plan and they have less scope than they had in the past to negotiate deviations from the plan with senior management. This also means that they have fewer levers of shop floor management since they have less discretion to reward workers.

The main changes on the shop floor noted by managers and workers in all the case-study enterprises have been an intensification of labour and a tightening of labour discipline, which is reinforced by the relatively high wages paid by these enterprises that increase workers' fears of losing their jobs. Most enterprises had got rid of their persistent discipline violators during the 1990s, so that the bulk of the labour force is made up of loyal and experienced workers who are grateful to have a job and can be relied on to carry out their production tasks. Many enterprises have taken steps to encourage pensioners, who cannot keep up with the intensified demands of production, to retire.

The intensification of labour is expressed in an increased pace of labour, pressure to work overtime and weekends, often without payment, to complete a job, and in multi-tasking, so that workers are expected to fill in for others in the event of absence or an emergency. In some cases workers who have mastered more than one profession are paid a bonus, but in others it has simply become an expectation that workers strive to meet for fear of losing their jobs.

There has been little change in systems of payment and reward, with most enterprises continuing to pay production workers on a piece rate plus bonus system and other staff on time rate plus bonus, many enterprises continuing to use the old Soviet salary scales as a guide. Bonuses are the traditional plan fulfilment bonuses, usually paid from the wage fund but sometimes supplemented by bonuses assigned by the holding company, and continue to make up a substantial proportion of pay. In some cases new pay scales have been introduced in which each grade point has quite a wide range, within which the line manager can increase the pay of an employee in recognition of professionalism, experience, loyalty and commitment, subject to the approval of the general director. This represents a move towards an individual payment system, with the line manager having a great deal of discretion, but line managers have to exercise this discretion with regard to traditional notions of social justice.

Strictly centralised control of expenditure means that the line manager has much less discretion in rewarding workers for carrying out particular tasks than had become traditional in the Soviet system. Several enterprises had abandoned the traditional use of the coefficient of labour participation (KTU) to adjust the wages of individual workers, despite the complaints of line managers who reported that the advantage of the KTU was that it provided a means of redistributing wages, so that the money saved by penalising some workers could be used to reward others. The centralisation of bonus systems, linked to the performance of the enterprise or the shop as a whole, means that the only levers of line management are punitive, depriving a worker of the whole or a part of the bonus. This is an extreme step that often arouses considerable antagonism and is only taken very reluctantly by line managers.

Many enterprises have reintroduced socialist competition, stripped of its political rhetoric and now called 'production competition', and the traditional system for encouraging rationalisers and innovators.

There is a much greater emphasis on quality than in the past, particularly in vertically integrated holding companies where quality control guarantees the quality of inputs to the next stage of the production chain. Despite this, and the fact that many enterprises have achieved or are seeking ISO certification, there has generally been little change in the systems of quality control. Responsibility for maintaining quality is typically that of the individual worker and immediate supervisor. In some cases the supervisor has to sign off on a job, but even here this will often be entrusted to the worker. Quality control is the responsibility of the Technical Control Service, which will conduct appropriate tests on samples of the finished components or products. All operations are documented so that if a fault is identified the person responsible can be pinpointed and the error investigated. If the person responsible is judged to be at fault then he or she is punished, usually with loss of bonus, but for a major error or persistent failure the punishment may be dismissal.

Quality control was a major problem in the Soviet Union, because inspectors were under strong pressure to pass defective products in order to enable the shop to fulfil its production plan. It is impossible to say whether this remains a problem in the case-study enterprises, although several of our informants noted that quality was not a problem because the workers were highly skilled, experienced and conscientious. Nevertheless, quality failures do not arise only from workers' errors, but often from defective or ageing equipment or low-grade components and raw materials and these failures can only be overcome by substantial investment in re-equipment.

Only two of the case-study enterprises had introduced a 'no-blame' culture, one foreign-owned and the other a new mobile telephone company. All of the other enterprises retained the traditional Soviet disciplinary regime, based on identifying culprits, issuing successively more severe warnings, imposing deprivation of bonuses and, ultimately, dismissal. However, the high level of discipline in all of the enterprises studied meant that dismissal was very rarely used as a sanction, and many line managers reported that they were very reluctant to deprive people of their bonuses because their incomes were so low.

Corporate Culture and the Social Structure of the Enterprise

Some of the holding companies have sought to impose a new corporate culture on their subsidiaries, but enterprise management has generally only tried to do this very half-heartedly. In two of our case-study enterprises senior managers, when asked about the new corporate culture, could not remember the slogans that expressed the mission statement of the enterprise and had to look them up on their computers. In general the culture of the enterprises we have studied remains a very traditional production-oriented culture with a strong factory patriotism. This is reinforced by the continuation and, in some cases, revival of the traditional celebrations of the culture of the enterprise: professional holidays, sporting competitions and cultural events, which are widely welcomed by employees and management alike. The main function of measures to establish a corporate culture in the current period has been to secure the stabilisation and consolidation of the labour collective in order to secure social cohesion in the wake of the economic crisis of 1998 as a central element of post-crisis management. But at the same time, enterprises which are part of the most advanced holding companies have sought to structure and differentiate their labour force in order to increase its manageability, and here the formation of a corporate culture is seen as a necessary condition for maintaining the integrity of the labour collective and avoiding the emergence of social tension and conflict.[14]

There is a widespread recognition within the enterprise, born of the hard experience of the 1990s, that it has to make a profit, but for most people the prime objective of the enterprise is to increase production, provide stable employment and pay good wages, and making a profit is simply the means of achieving these objectives. The attachment of the labour force to the new values and aims of the enterprise to make a profit is achieved not only by an appeal to the experience of the 1990s but also by setting them the task of winning in the increasingly tough competitive struggle. This new task is presented to the labour force as a common task facing the whole collective, both for managers and for ordinary workers, by exploiting traditional enterprise patriotism.

In general the holding company is not seen as an agent of capitalist exploitation but as a benefactor which provides the working capital and investment funds the enterprise needs to justify its existence and secure its future, and profits are seen as the legitimate reward to the holding company for providing such support. Nevertheless, the orientation of most employees and indigenous managers is still to the reproduction of the enterprise as a production unit and as a labour collective and the legitimacy of the authority of the holding company is conditional on its commitment to maintaining and expanding production and employment.

The social structure of most of the case-study enterprises is also very traditional. Many enterprises retain the Soviet differentiation between main production shops and 'unproductive' auxiliary shops and departments, which is expressed not only in the much higher status but also the significantly higher pay of the former. Veterans of the factory and labour dynasties still enjoy high status, despite the increased emphasis on professionalism and qualifications. The sharp dividing line between the production shops and the administration, suits and overalls, remains in place.

Conclusion

In most cases there is a high degree of continuity with, or even a reversion to, Soviet traditions, particularly on the shop floor, and this has been facilitated by the centralisation of the functions of sales, marketing and finance in the holding company, which reinforces the traditionally production-centred character of the subsidiary, to the great relief of many of our respondents. The transformation of a Soviet into a capitalist enterprise is a slow process and the dividing line between the new market-oriented individualism and the traditional production-oriented collectivism only gradually moves down the enterprise. In many cases this dividing line still lies between the holding company and its senior management appointees, seeking to make a profit, and the other managers and workers of the subsidiary, focused on production.

The question remains open whether we are seeing the formation of a distinctively Russian form of capitalism, based on traditionally Soviet production organisation and values, or whether Russia is still in a transitional stage towards a more familiar form of capitalism. The fact that many of the distinctive features of Soviet production, such as the relative autonomy of line managers and the control of workers over the labour process, were also characteristic of earlier stages of capitalist development in the advanced capitalist countries would suggest that Russian capitalism is in transition and that Russian management will have to introduce new methods of personnel and production management if it is to be competitive in global markets.

The dilemma faced by the holding company in this respect is how to transform its subsidiaries into fully capitalist companies without undermining production, which still depends on traditional values and relationships. This is reflected in the fact that there have been few attempts to develop a new capitalist corporate culture and those attempts that we have found have been half-hearted and of limited success.

Much more successful has been the resurrection of traditional Soviet cultural and sporting activities and the preservation, and sometimes restoration, of social and welfare facilities, that reinforce loyalty to the enterprise as a productive social unity.

The reproduction of traditional Soviet values and practices has not occurred because the new capitalist owners have found these values and practices to be the most profitable way of running their business, but because of their relatively tentative penetration of Russian industry.[15] Although a large segment of Russian industry has been acquired by unequivocally capitalist companies, and the level of industrial investment has increased from the very low levels of the 1990s, most of this investment is in piecemeal re-equipment and reconstruction of existing facilities to maintain or expand existing production capacity in a favourable market environment, rather than in the construction of new plants which will be able to produce to world cost and quality standards and actively expand the market.[16] This suggests that the driving force of capitalist development in Russia has not yet become endogenous, but is still provided by the boost to the domestic market and government revenue given by high oil and gas export prices and the protection of the domestic market afforded by what is still a relatively favourable exchange rate (and enormous transport costs).

Notes

1. Gaddy & Ickes (1998) have characterised this phase as that of the 'virtual economy', but their model attributes too much coherence and too much stability to a situation that was unsustainable.
2. The bankruptcy law was revised again in 2002 to make it much more difficult for outsiders to gain control, but by this time the holding companies had been able to use the 1998 law to take their pick of acquisitions (Woodruff, 2002).
3. Russian financial–industrial groups had been building their shareholdings in industrial enterprises outside their base in energy and metallurgy before the 1998 crisis, primarily as a means of guaranteeing sources of supply and outlets for products or to gain leverage over local authorities, but in general it was only after the 1998 crisis that they began to invest and to intervene directly in the management of such enterprises. Even in the profitable oil and gas and metallurgical sectors there was little management restructuring and investment remained at extremely low levels before 1999.
4. The project is funded by the British Economic and Social Research Council (Grant R000 23 9631) and is being undertaken in collaboration with the regional affiliates of the Institute for Comparative Labour Relations Research (ISITO) in Moscow and St Petersburg, Kemerovo, Sverdlovsk, Perm', Samara and Ul'yanovsk *oblasti* and the Komi Republic.
5. Most of the other enterprises have substantial outside shareholders, but the latter are not large holding companies or do not have uncontested control. Access to the enterprises was secured on condition of strict confidentiality, so only the most minimal details about specific enterprises can be provided.
6. There have been very few greenfield investments in Russia, perhaps reflecting the cautious approach of foreign investors. They are largely confined to the oil and gas industries (pipelines and new extraction facilities) and beverages (Coca-Cola, Pepsi-Cola and brewers expanding from initial brownfield investments). In the motor industry, Ford has a small greenfield assembly plant near St Petersburg but other foreign motor companies have done no more than flirt with established Russian producers.
7. The case study enterprises which are part of horizontally integrated complexes are all relatively low-cost producers so they are under pressure to produce to maximum capacity (or above).
8. Pressure from the holding company to increase production in expanding markets leads

to pressure to minimise downtime, reproducing the traditional Soviet neglect of maintenance and repair (Berliner, 1976).

9. The transformation of the traditional Soviet organisation of production only becomes possible on the basis of very large investment in the installation of modern production technologies involving more advanced control systems and less scope for worker initiative. Although some of our case study enterprises have made very substantial investments, these have not been sufficiently comprehensive to challenge the traditional organisation of production. Instead they involve the piecemeal or occasionally comprehensive re-equipment of existing production facilities, while new facilities are installed by adding shops or sections to the existing production organisation. We have not so far been able to secure access to any greenfield sites.
10. Connections with local and regional authorities are much more significant for independent enterprises, which do not have access to the resources of a holding company. This is consistent with the World Bank's findings, on a rather limited set of data, that regionally owned enterprises are significantly more likely to engage in 'state capture' than are federally owned enterprises (World Bank, 2004, p. 114).
11. Although the Yukos affair has perhaps shown that flirting with foreigners is a way of falling from political favour.
12. The largest investment projects are usually financed by loans secured by the holding company through foreign banks.
13. The coal mine that we have studied is part of a vertically integrated metallurgical holding company, but the mine produces power-generating coal which is not used by the metallurgical enterprises in the group but supplies a local power station. The motive of the holding company in acquiring coal mines producing generating coal is reportedly to provide it with leverage in its negotiations with its electricity supplier.
14. I am grateful to Veronika Kabalina for this point.
15. The World Bank (2004, pp. 108–109) study of the impact of ownership on enterprise performance found that enterprises owned by financial–industrial groups performed significantly worse than those owned by other private, and especially foreign, owners. However, the authors recognise that their ownership data relate to 2003 while their performance data relate to 2001 and many enterprises may have been acquired by financial–industrial groups relatively recently. Moreover, it takes time for a new owner to turn an enterprise round, so this finding can hardly be regarded as conclusive. Finally, as the authors acknowledge elsewhere in the report, transfer pricing means that profits can be diverted from the subsidiary to another part of the holding company, so the reported results of the former will be depressed.
16. Allen (2003), p. 201) identifies the Soviet emphasis on reconstruction investment, rather than building new facilities, as one of the principal sources of the productivity slowdown from the 1970s.

References

Allen, R.C., *Farm to Factory: A Reinterpretation of the Soviet Industrial Revolution* (Princeton and Oxford, Princeton University Press, 2003).

Armstrong, P., 'Competition Between the Organisational Professions and the Evolution of Management Control Strategies', in K. Thompson (ed.), *Work, Employment & Unemployment* (Milton Keynes, Open University Press, 1984).

Berliner, J., *The Innovation Decision in Soviet Industry* (Cambridge, Massachusetts Institute of Technology Press, 1976).

Braverman, H., *Labour and Monopoly Capital: the Degradation of Work in the Twentieth Century* (New York and London, Monthly Review Press, 1974).

Burawoy, M., 'The State and Economic Involution: Russia through a Chinese Lens', *World Development*, 24, 1996, pp. 1105–1117.

Burawoy, M., 'Transition Without Transformation: Russia's Involutionary Road to Capitalism', *East European Politics and Societies*, 15, 2, 2001, pp. 269–290.

Clarke, S., 'The Contradictions of "State Socialism"', in S. Clarke, P. Fairbrother, M. Burawoy & P. Krotov (eds), *What About the Workers?* (London, Verso, 1993).

Clarke, S. (ed.), *Management and Industry in Russia: Formal and Informal Relations in the Period of Transition* (Cheltenham, Edward Elgar, 1995).

Clarke, S., 'The Enterprise in the Era of Transition', in S. Clarke, *The Russian Enterprise in Transition* (Cheltenham, Edward Elgar, 1996), pp. 1–61.

Edwards, R., *Contested Terrain: The Transformation of the Workplace in the Twentieth Century* (London, Heinemann, 1979).

Erikson, R. E., *The Post-Soviet Russian Economic System: An Industrial Feudalism? BOFIT Online*, Helsinki, Bank of Finland Institute for Economies in Transition, 8, 24, 2000, http://www.bof.fi/bofit/fin/7 online/abs/pdf/bon0800.pdf.

Friedman, A., *Industry and Labour: Class Struggle at Work and Monopoly Capitalism* Q2 (Basingstoke, Macmillan, 1977).

Gaddy, C. & Ickes, B., 'Russia's Virtual Economy', *Foreign Affairs*, 77, 5, 1998, pp. 53–67.

Granick, D., *Management of the Industrial Firm in the USSR* (New York, Columbia University Press, 1954).

Granick, D., *The Red Executive: A Study of the Organization Man in Russian Industry* (Basingstoke, Macmillan, 1960).

Knights, D. & Willmott, H. (eds), *Managing the Labour Process* (Aldershot, Gower, 1986).

Knights, D. & Willmott, H., *Labour Process Theory* (Basingstoke, Macmillan, 1990).

Lazonick, W., *Competitive Advantage on the Shop Floor* (London and Cambridge, Harvard University Press, 1990).

Linhart, R., *Lenine, Les Paysans, Taylor* (Paris, Editions du Seuil, 1976).

Novitskiy, E., 'Corporate Business: Core of Russian Economy', 25 June 2002, http://www.rencap.com/eng/research/morningmonitors/PDF/01abe3f2-24a7-4af3-9749-7e2cbef42ec3.pdf.

Samara Research Group, 'Paternalism in Russian Enterprises: Our Understanding', in S. Clarke (ed.), *Management and Industry in Russia: Formal and Informal Relations in the Period of Transition* (Cheltenham, Edward Elgar, 1995).

Sprenger, C., 'Ownership and Corporate Governance in Russian Industry: a Survey', EBRD Working Paper 70, 30, 2002, http://www.ebrd.com/pubs/econ/workingp/70.pdf.

Stone, K., 'The Origins of Job Structures in the Steel Industry', *Radical America*, 7, 6, 1973.

Thompson, P., *The Nature of Work*, 2nd edn (Basingstoke, Macmillan, 1989).

Woodruff, D. M., 'The End of "Primitive Capitalist Accumulation"? The New Bankruptcy Law and the Political Assertiveness of Russian Big Business', PONARS Policy Memo No. 274, 4, 2002, http://www.csis.org/ruseura/ponars/policymemos/pm_0274.pdf.

World Bank, *From Transition to Development: A Country Economic Memorandum for the Russian Federation* (Draft), Washington, DC, World Bank, 2004, http://www.worldbank.org.ru/ECA/Russia.nsf/bef4f7b517099c0a85256bfb006e 03e0/fe49ab3 fb21ae 703c3256e6f00410397/$FILE/Country%20Economic%20 Memorandum%20 (English).pdf.

Author Query Sheet

Journal acronym	PCE	Author name	Clarke
Vol/No.	16:4	Mss no. (if applicable)	P2

COPY-EDITOR: Please mark the location of the query on the manuscript with AQ1, AQ2 etc. Please make queries clear, as this sheet will be emailed to the author.

QUERY NO.	QUERY DETAILS
AQ1	Ericson (2000) here but Erikson in ref list. Please check which is correct spelling
AQ2	Friedman (1977) could not be found in text. Please check
	Many thanks