



**CSAC Monographs 14**

**Power and Institutional Change**

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**Post-Communist Eastern Europe**

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**Centre for Social Anthropology and Computing  
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## 9. Privatisation in Russia: A Case Study.<sup>1</sup>

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Plastmass is a closed joint-stock company which was formed on the basis of a former state research and production association, in the region of Kemerovo, Western Siberia, producing a range of chemicals, plastics and plastic products and now employing just over 3,000 people. We will refer to the enterprise throughout as Plastmass.

Plastmass was a pioneer of *perestroika* under the leadership of Vyacheslav Ivanovich Komarov. Komarov is a traditional Soviet authoritarian in temperament, style and appearance, but he displayed an early commitment to radical reform of his enterprise. His motives were not clear, but subsequent events would tend to confirm the supposition that his commitment was not to reform as such, but to the traditional managerial ambition of making his mark by raising the public profile of his enterprise. However, he aligned himself firmly with the forces of democratic reform from the very beginning of *perestroika*, and became a leader of the democratic block in the *oblast soviet* in the late 1980s, standing unsuccessfully for the chair of the soviet, and later a member of the executive 'small soviet'. In the December 1993 election Komarov was one of the leading organisers of Russia's Choice. He explained that he had long been committed to the transfer to 'economic methods of management', being a firm believer in 'the idea of developing material incentives on the basis of the ownership of the labourer in the products of his own labour'.

The driving force of the reform was Vladimir Yu. Martov, who was brought to the enterprise by Komarov in 1986 as chief economist, at that stage a relatively low status position, heading twelve staff in two departments. The appointment was unusual in that Martov was both very young (only 32 at the time of his appointment) and an academic, a graduate of Aganbegyan's Institute in Novosibirsk. Martov's early work was focused on the theme of parallel managerial structures, which he believed led to overstaffing, duplication of effort and confusion of responsibilities, and this theme remained at the centrepiece of his reform strategy. That strategy was designed to create a streamlined managerial team based on principles of collegiality and devolution of responsibility.

a radical break from the traditional principles of one-man management embodied in the person of the General Director Komarov.

Once Martov was in post he began to work patiently to create the conditions for a radical reform of the enterprise, oriented from 1988 to the transition to a market economy. Martov gradually built his power base, eventually becoming Deputy General Director for Economics with a status equal to that of the Chief Engineer, heading five departments employing about 250 people, with a core of half a dozen highly qualified specialists around him, all of whom knew at least one foreign language, and all of whom had the opportunity of study abroad.

Having established his core team, Martov's strategy, actively supported by Komarov, was to forestall conservative resistance by introducing a wide range of reforms piece by piece and at short notice, without revealing his strategic designs. The pace and frequency of innovation forestalled any attempt at concerted opposition to what we call his 'administrative innovatory onslaught' on the part of Martov's opponents. During the period of radical reform in the enterprise, between 1990 and 1992, Komarov spent much of his time away on business trips in Russia and abroad. In his absence the Chief Engineer was formally in control of the execution of policy within the enterprise, but in practice many decisions were made by Martov.

The initial basis of the strategic alliance between Komarov and Martov seems to have been their common desire to free the enterprise from ministerial control, albeit for different reasons. The 1987 Law on State Enterprise (Association) included provision for an enterprise to lease its assets, and many enterprises took advantage of this provision to subcontract part of their work to co-operatives. However, a more radical possibility was the leasing of the entire enterprise from the state, a move backed by Gorbachev at the Party Conference in June 1988, but only given a legal formalisation in the Soviet Law on Arenda (Leasehold) of November 1989, which included the subsequent right of the labour collective to buy the enterprise outright. Martov's study group immediately saw the possibilities of leasing as a route to privatisation, and began to make their plans.

### **The process of privatisation**

As soon as the Law on Arenda was published, Martov and his team began the process of transfer to a leasehold enterprise and even to plan the subsequent privatisation of the enterprise. In Martov's words:

The law included the possibility of buying the enterprise, but nobody ever imagined that anybody would actually do it. But we decided that if we had such a right to buy, why shouldn't we exercise it?

The problem with exercising their right was that the law provided no mechanism for actually doing it. Martov went to Moscow to talk to specialists in the Ministry, where there was no opposition to their plans since Plastmass had been a permanent thorn in their flesh, failing to fulfil the plan year after year. However, they got no positive guidance, so in the end they had to find their own way forward through a web of bureaucratic obstruction.

The enterprise was formally transferred to leasehold on 23 November 1990 with a right to buy, a right which the management immediately tried to exercise. The members of the labour collective were given individual named shares in the leasehold company, and the ultimate decision-making body became the Leaseholders' Council, answerable to the annual Leaseholders' Meeting (which in practice was more or less the Labour Collective Council (STK) renamed). The buy-out was initially financed by taking credit from a credit bank (Plastmass did not have its own pocket bank), which the management considered a risky course of action in conditions of such uncertainty, but in the event the profits from the first year as a leasehold enterprise were more than enough to buy out the enterprise lock, stock and barrel.

The decision to privatise the enterprise was formally taken at the annual leaseholders' meeting on 6 December 1991, following a period of intensive propaganda within the enterprise through the plant radio and newspaper and shop meetings at which management explained its plans to the workers, a process which had similarly preceded the transfer to leasehold. Although Plastmass is a closed joint-stock company, under its Articles shares can be sold outside the company with the permission of the Board, at a price set by the Board.

The issue of the principles of distribution of shares was a matter of some controversy. There was a strong lobby within Plastmass for an equal distribution, or a distribution in accordance with length of service, and these views tended to predominate in the shop meetings prior to the transfer to arenda. However, at the meeting of the labour collective the proposal of the senior management group to distribute shares in accordance with pay was adopted, which implied a very unequal distribution since differentials in favour of ITR and managers had already been significantly increased, and since the latter in general had considerably

shorter service than the ordinary workers. It also implied a very small allocation to the pensioners of the enterprise, which was the source of considerable discontent.

Martov's long-term goal was to ensure that 'by fair means or foul the controlling packet of shares, by which we mean 51 per cent, should be held by specialists such as the directorate, shop chiefs and heads of departments', with around 25-35 per cent of the shares in the hands of the senior management team:

The company will be viable under one condition, if ... let us say, 2-3 per cent of the shareholders own 25-35 per cent of the shares ... because these 2-3 per cent will take the real decisions, while the owners of the 75 per cent can control them, so that these 2-3 per cent do not live at the expense of the rest.

Workers could not understand the advantage of share ownership, which was explained to them in terms of nebulous rights to control the enterprise, with little if any mention of dividends, and they approached the whole affair with deep suspicion. In the first distribution of shares around 30 per cent of the employees chose to take cash in lieu of shares, many of those who did buy shares only doing so on the grounds that 'the shop chiefs bought them, and they know what they are doing, so we bought them too'. Those shares undistributed or returned were then held by the Board and were available for sale at the nominal price, which by the end of 1992 was between one thirtieth and one sixtieth of the claimed asset backing. Not surprisingly the bulk of the available shares were bought up by the senior management group.

Workers had little understanding of privatisation. According to the trade union president in June 1992:

All this was so new, beyond our experience. The workers asked questions like: Who needs this? Why is this necessary? And they could not work it out. But after they had been given explanations they stopped asking questions, although people did not really know where they were going, they took it on trust and they followed.

As workers sold their shares back, and management bought them at the very low nominal price, there was soon a considerable concentration of share ownership. At the end of 1992 Komarov took out a bank loan of seven million roubles, with which he purchased a large packet of shares at their nominal price. By this stage the best estimate is that he held 10 per cent of the shares, about 60 of his close associates held a further 45 per cent, and around 400 other ITR held about 10 per cent, so that 35 per

cent of the shares were in the hands of management, as Martov had planned. The remaining shares were held by about 2600 of the company's 3650 employees, most workers holding between one and four shares. According to the head of the economic planning department, one of those who had worked out the privatisation plan, when asked in December 1992 if there was a process of stratification among the shareholders:

From the point of view of the number of shares held, there is a process of stratification, but people are not strongly aware of it yet. However, there has already been one shareholders' meeting, at which voting was on the basis of the number of shares held, and the differences were striking - some had one, some 10, some 20 votes. But people will feel it much more acutely at the end of the financial year when we begin to pay dividends. That is when people will sense really keenly that there is differentiation.

Indeed, the employees did soon come to sense that there was differentiation. The comment of an electrical fitter from shop 1 was typical:

This is not privatisation but *prikhvatizatsia* ['grabbing']. The ITR have privatised it all for themselves. And the workers feel that they have been deceived. And then, when they transferred from *arenda* they began to give out shares to the labour collective. They did not explain anything to the workers. The workers all ran around and asked one another: 'Will you buy them?' 'And you?' 'But what are they?' As a result some bought a few, some bought absolutely none. And then the price of the shares doubled and the dividends on them also.

But by then it was too late - the shares had already come to be concentrated in the hands of a restricted circle of people.

The supreme body of Plastmass is formally the Board of 30 people, which was originally elected in December 1991. However, the Board is controlled by the core group of managers around the General Director, who is simultaneously Chairman of the Board. Only three Board members are workers, although all three with a past reputation for independent activism, and two are foremen. However, the Board itself plays a purely passive role, merely ratifying proposals presented to it. Thus, for example, Board members only receive the papers when they arrive at the meeting or, in the best of circumstances, a few hours in advance. Thus, in practice the enterprise continues to be run by the senior management team.

### First fruits of privatisation

At first sight plastmass is a shining example of the benefits of privatisation. Its 1991 profits enabled it to pay off its debt, the profits for 1992 amounted to 2.8 billion roubles, which was barely dented by the payment of a 100 per cent dividend to the shareholders, even allowing for inflation this was a considerable return, and was more than double the previous year's rate of profit over costs at 115 per cent, in the payments crisis in the summer of 1992, although plastmass shared in the general shortage of cash and was overdrawn in the bank, it was one of the very few enterprises in the region not to be entered on the card index of technically insolvent enterprises. This put plastmass in a very strong market position because it was able to pay for its raw materials, a position reinforced by the privileges enjoyed by private enterprises in the government's mutual debt settlement programme.

Workers, who were at least nominally the owners of Plastmass, shared in its initial prosperity. The average wage of the employees of Plastmass in 1991, the year of leasehold, was almost twice the average wage in chemical enterprises in the *oblast*. In October 1992 the average wage had reached 2.3 times the industry average. In the social sphere Plastmass appeared equally flourishing, with the enterprise expanding its housing construction programme.

The main reason for the initial results, as in most of the other enterprises which were pioneers of privatisation, was the advantage that Plastmass initially enjoyed of being able to escape from the straightjacket of state prices, which was what allowed the high profits of 1991. This good fortune was compounded by the fact that Plastmass enjoyed an effective monopoly in the supply of its main product lines (its only two competitors are situated in European Russia), which became in very short supply with the disintegration of the Soviet Union at the end of 1991. The management decided to take ruthless advantage of the opportunity presented to it, increasing the price of its principal product, press powder, from 400 to 120,000 roubles a ton over 1992. The head of the planning-economic department, commenting on the results for 1992, gave rather a grandiose gloss on this good fortune:

If one assesses the results of our economic activity as a whole, they have really turned out rather well. We have worked profitably. We have managed to pay a 100 per cent dividend and to begin 1993 with a healthy residue to carry over – 800 million roubles of profits. Some

people think that we were able to do this because we hiked up our prices, but we think that it was for another reason, because at the beginning of 1992 we set off in the right direction, taking account of the market situation, taking account of those laws which will govern the development of the economic life of society as a whole, of the whole national economy and using those, so to speak, opportunities which opened up for us and the legislation, and the concrete situation, which developed in the country. By these means we established an adequate safety factor ...

However, Plastmass management was not just sitting back and enjoying the fruits of prosperity. Martov and his team carried through a series of radical reform measures, particularly in the spheres of management structures, employment and pay.

### Reorganisation and reform

The reorganisation of management structures was carried out in accordance with Martov's ideas about the elimination of parallelism and about collegial forms of management. Administrative departments were merged and reorganised (the planning, wages and norming departments were merged and the chief engineer took over responsibility for science and technology as well), with new departments (trade, marketing) created and some existing departments strengthened (legal, scientific-technical information and management information). Production shops were amalgamated, eliminating duplication of functions, increasing flexibility, facilitating lay-offs, and reducing conflict between shops over such issues as the distribution of scarce raw materials and maintenance and repair work. In effect each of the new enlarged shops was a separate factory, dedicated to a particular product line.

Management was in the hands of a group of nine highly educated specialists, who normally met weekly. The second tier of management comprised the senior specialists and shop chiefs, who also met on a regular basis, and senior specialists frequently visited the shops to consult with shop specialists, and on all accounts day-to-day management was indeed on a collegial and consultative basis, with a well-integrated team of close colleagues, all of whom had been selected by Martov.

In the area of employment, the strategy of management from the start was to reduce overstaffing, and this strategy appeared to be spectacularly successful according to the official figures, with employment being reduced from 4,751 at the end of 1990 to 3,959 at the end of 1991

and 3,539 at the end of 1992, a cut of 25 per cent in two years, the 1992 rate of lay-offs being maintained through 1993 (falling to 3,073 in November, a total cut of 35 per cent). Such a scale of cuts was completely unprecedented in the city, where the majority of enterprises continued to do all they could to hold onto their workers. According to the official figures these cuts were across the board, affecting all categories of employees more or less equally.

The reduction in the labour force was, according to the senior management, part of a package designed to increase productivity. The policy was explained by the new deputy director for economics in December 1992:

The growth of the productivity of labour presupposes not only the introduction of more productive equipment and technology, but also a reduction in the number of superfluous people. But superfluous people are all the same our people. Thus this is a painful process, but a necessary one. It has already been going on for one or two years and we must make more reductions, each time selecting the best of the best, to leave only the very best. Because there is no other way.

However, even the radical management of Plastmass did not identify increasing productivity with cutting costs, the prime beneficiaries of the cuts being the workers who remained, the savings remaining within the shop under the principles of financial devolution. This minimised any collective opposition to redundancies, although it gave rise to other grievances as it led to substantial differences in pay between shops. In shop 12, for example, there had already been substantial cuts on the initiative of the shop chief before privatisation, leaving no scope for further cuts, so that wages in shop 12 were the lowest in Plastmass.

The procedure for identifying workers for redundancy hardly conformed to the supposed principles of retaining only the best workers. The economic-planning department defined the number of workers required in each subdivision in accordance with the planned level of production. The shop chief was then responsible for drawing up a list of those to be laid-off on the basis of consultation with section heads, foremen, trade union officials and labour collectives. These decisions were based not only on work qualities (qualifications, productivity, disciplinary record), but also, as was repeatedly stressed in interviews, the social situation of the worker (family circumstances, family income, housing situation) and, not least, loyalty to the administration.

Overall the process of employment reduction was achieved without mass conflict. The main reductions were made in a period in which other enterprises were not yet reducing staff, so there were plenty of jobs available elsewhere in the city. The fact that the administration provided training and redeployment, and did not simply throw people onto the street, also helped to avert sharp conflicts, although a few people took the company to court since they had been transferred to lower-paid work. Representatives of higher management were constantly visiting the shops to keep the situation under control, 'stopping with the workers from 7 in the morning to 8 at night'. Nevertheless, conflict situations around redundancy did arise in the shops on three occasions at the time of the transfer to *arenda* although, according to the chief of the production technical department, the instigators of these conflicts were not the workers but the shop chiefs, who had their own interests to pursue. The trade union president, far from representing the workers in these disputes, claimed credit for extinguishing the conflicts which had arisen. There were also several reports of sabotage of equipment.

The Plastmass management retained the traditional rhetorical identification of the enterprise with the interests of its employees, and made high wages the touchstone of its reform policies. The substantial increases in wages made possible by privatisation certainly eased the path of management in carrying through its reform programme. However, the high wage policy was also connected with Martov's determination to dismantle the traditional paternalistic apparatus of the enterprise, to reduce or eliminate the wide range of benefits in kind provided to the workers, and to pay them the wages to enable them to buy whatever they choose. The workers saw the reduction in benefits in an entirely negative light, not regarding higher wages as providing any compensation for what they saw as an expression of a lack of management concern for their basic welfare. Thus the attempt to eliminate the provision of benefits provoked widespread unrest among the workers in the conditions of continued shortages in 1992, exacerbated by the cash crisis, and many facilities were retained.

While many workers resented the dismantling of the paternalistic apparatus as a violation of their traditional rights, higher wages defused opposition. However, the increase in their pay was not sufficient to ameliorate the workers' discontent with what they regarded as a much more serious affront to their status, which was management's policy to open up considerable pay differentials between workers and ITR, which

changed from the traditional approximate parity to a ratio of 2.3 to one between 1990 and 1992. This policy was explicitly presented as recognition of the greater value of mental as opposed to manual labour, justified by the need to attract the best specialists to Plastmass. Far from reducing over time, as management had hoped, the workers' grievance at the disparity increased, particularly because with every pay increase the absolute size of the differentials grew. According to local TV, Komarov received 350,000 roubles in December 1992, about ten times the average wage in the factory, with department chiefs earning about four times the average.

The principle of 'payment for brains' provoked sharply contrasting reactions from different groups of employees. One of the deputy directors said at the end of 1992:

We face the same conflict as under any socialism: Mister Working Class cannot come to terms with the idea that the ITR should be paid more. Although we consider that the system of payment in the past, under which a foreman received 150 roubles and an operative 300, meant that we lost lots of specialists. We have quite a lot of people with higher education working in workers' jobs.

A chief of one of the shops justified the differentials in terms that we heard more than once:

Yes, there was a sharp increase and a gap remains. But our decision was as follows: the more the workers receive, the more will the ITR receive, that is we depend directly on the pay of the workers. We have an interest in their pay being higher.

The view of the workers was rather different. At the end of 1992 shop 1 sent a petition, signed by 70 per cent of the shop, protesting at the size of differentials. Komarov and Martov came to a meeting in the shop, and defended the differentials on the grounds that the low level of technology in the factory meant that the ITR were indispensable, to maintain production and to introduce new methods. Martov told the workers that they had been working with spades, when they should be working with computers. The workers replied angrily that they were still working with spades:

In the shop we had a meeting. The deputy general director for economics came to it. We put the question to him: 'Why is there such a difference in pay between ITR and workers?', and he answered that in Japan it was even more, ten to fifteen times.... Why has he only brought us the difference in pay from Japan? What about the equip-

ment, the technology? Have you seen how our loaders work? They carry up to one ton of raw material on a three-wheeled barrow. And they trundle this barrow over a ribbed metal floor. The rubber wheels of the barrow become square as a result of this. That is what passes for technology here! But the differences in pay are completely Japanese.

Workers' irritation was also increased because they were stuck on piece rates, while the ITR were protected in earning a salary, losing only the bonus part of their earnings when production is interrupted. The workers explain their grievances as being not so much at the high levels of pay of the ITR as the fact that they do not earn their money. This is particularly the case when production is at a standstill, for which the workers blame the ITR and managers. A machine operator from shop 9 complained:

The supply of materials is bad: at one time one thing is missing, at another time something else, so we stand idle as a result. I myself went on a business trip in 1991 to Angarsk for stirof – there was no stirof. I think that if they are paid for this, it means that they should also work, so that people are supplied with all that they need.

The last plank in the management platform was a major programme of investment and re-equipment. Allocation to the consumption fund was slashed (from 20 per cent of profits in 1990 to 9 per cent in 1991 and just over 1 per cent in 1992), partially compensated by an increased allocation to the social development fund (12 per cent in 1990 and 9 per cent in 1991, raised to 19 per cent in 1992), with almost half of the post-tax profits being allocated to the fund for the development of production. However, the instability of production, the inability to attract external private or state funding, and growing financial difficulties meant that the ambitious investment plans never got off the ground. Workers on the shop floor continued to struggle with antiquated and unreliable equipment, while diversification was largely confined to the adaptation of existing equipment to the manufacture of new products.

### From Prosperity to Crisis

The spectacular success of Plastmass was not to last. Despite the apparently very substantial cuts in employment, production fell more rapidly, by 16 per cent in 1991, by 30 per cent in 1992, and by a further 45 per cent in 1993. The result was that labour productivity, which fell marginally in 1991, dropped by over 20 per cent in 1992 and by 42 per cent in 1993.



There was a variety of reasons for the fall in production. There had already been some fall in 1990, which was a result of supply difficulties created by a serious fire at the principal supplier of the main raw material of Plastmass. Supply difficulties increased through 1991 and the first half of 1992, exacerbated by the reduction in military orders and the collapse of the Soviet Union, and then by the debt crisis in the first half of 1992, but the strong financial position of Plastmass enabled it to buy the necessary supplies in the market and to limit the fall in production, assisted by the diversification of production. Supply problems became more acute from the middle of 1992, but the real problem was not supply but sales.

Payments problems, particularly with Ukraine which had formerly been an important market, and the general decline of production in Russia were important factors, but by far the most important was the simple fact that Plastmass had priced itself out of the market.

The problem of sales went from bad to worse through 1993 as raw material prices, which comprise 50–70 per cent of costs, escalated. Plastmass to all intents and purposes lost the European market, while the Asian market was too small to absorb Plastmass's basic production.

In the absence of significant investment or reorganisation of production the only way to reduce costs was to cut wages. Although average pay in Plastmass remained well above that in other chemical enterprises in the city throughout 1992, the latter were steadily catching up as Plastmass management sought to hold off pay increases. By April 1993 the relative monetary advantage of Plastmass workers had disappeared, and by November 1993 Plastmass workers were receiving substantially less than those elsewhere, the average wage being 10 per cent below that of comparable enterprises in the city, which provided significantly more non-monetary benefits as well. Profits, meanwhile, also came under pressure, the rate of profit over prime costs falling from 115 per cent in 1992 to 19 per cent in 1993. From November 1993 Plastmass found itself in the position of many other enterprises, of not having the money to pay wages, and delays in the payment of wages of one to two months became frequent thereafter, with workers receiving vouchers which could be exchanged in the company's shops in place of cash.

1993 was, in the estimation of the Director, 'not the most successful for Plastmass'. His deputy for economics was rather more categorical:

1993 was a most difficult year for the firm. In 1993 we experienced for ourselves the consequences of inflation, the full weight of non-payment on the part of customers. We began to get to know what market competition and the struggle for customers is all about. Over the past year, we have confronted the problem of the loss of the firm's traditional markets. Finally, we have learned for our own experience what are monopolies, particularly natural ones, and what it is to be dictated to by them.

Along with falling wages and cuts in staff came an intensification of labour, driven by the fear of losing one's job. The comment of a shop chief is typical of many:

You know, we are all forced to rush around all the time. We have virtually no free time at work, no time to stop for a chat, we are all hard at work. We work. No account is taken of the time. We have practically no dinner. Well, if there is dinner we have it. But we do not simply allow ourselves to get weaker, because the work is always intense.

This fear of the loss of a job meant that the workers became much better disciplined, particularly while wages were high in 1991–2. Thus the number of disciplinary violations officially reported fell from 402 in 1991 to 211 in 1992. Line managers are virtually unanimous that drunkenness at work and absenteeism have become extremely rare, cases of lateness and leaving work early have been significantly reduced, as has the number of thefts from the workplace.

This situation did not last long – by 1993 the reductions in numbers had reached their limit, and falling wages meant that labour turnover was increasing, with skilled workers in particular leaving for better paid jobs. The situation deteriorated further during 1994, with advertisements for an increasing number of vacancies appearing regularly in the local press, the loss of the skilled workers who were the core of the labour collective disrupting production, with a reduction in quality and increase in the length of the production cycle.

One consequence of falling wages was growing conflict within the enterprise, with a succession of small strikes. However, although these conflicts harnessed the dissatisfaction and declining morale of the workers, the instigators seem in almost every case to have been not workers but line managers, seeking to increase the pay of their workers in order to reduce conflict within the shop and to strengthen the position of the shop or department within the enterprise as a whole. The only effective

independent worker activist, who had led a threatened strike in his shop in 1992, was co-opted by being elected to the Board of Plastmass, the result being that his fellow workers soon lost confidence in him.

The response of management to these conflicts was to make piecemeal concessions to the workers, awarding bonus payments or pay increases which were rapidly eroded by inflation. These concessions were sufficient to defuse active protest, although they did little to raise morale or to eliminate the growing sense of 'them and us' which was beginning to prevail on the shop floor. However, workers themselves were increasingly reluctant to risk dismissal by speaking out, and so continued in the traditional way to look to their line managers to represent their interests.

Finally, the long history of Plastmass's battles for independence against the local and regional administration has also left it politically exposed, particularly as the local 'liberal' and 'conservative' political forces had sunk their formerly irreconcilable differences to establish a unified ruling bloc, so the Director could not look there for political or financial support.

The most dramatic impact of the deterioration in the economic position of Plastmass, however, was not on the growing tension between workers and managers, but in opening up conflict within the senior management team, leading to a long drawn-out confrontation between Komarov and Martov which resulted in the reversal of the reform process.

### **Tensions and Changes in the Social Structure of the Enterprise**

Martov's management reforms entailed a fundamental change in status relations within the enterprise. In the traditional Soviet enterprise the core management team comprised the line managers (shop chiefs, section chiefs, foremen) under the chief engineer, while the staff specialists (particularly economists, accountants, planners and personnel management but also technologists, norm-setters and so on) performed routine accounting and record-keeping functions. With Martov's reforms the latter specialisms came to the fore and played a leading role in the formation of management policy, their enhanced status being reflected in the expanded size and functions of their departments and in the level of their pay. The line managers were by no means excluded from management,

the chiefs of all the production shops having seats on the Board, but they undoubtedly saw a relative decline in their status.

The ideology and practice of the senior management team departed in significant ways from the traditional paternalism of the Soviet era, weakening the feedback which they received, so that they had little idea of the reaction of workers, or even of line managers, to their innovations. In interviews senior managers and specialists showed little interest in the views of workers, being concerned only with their own vision of the reconstruction of production and the optimal organisation of labour and its pay. The chief engineer confessed:

I mix much less with workers and, on the whole, I cannot speak very confidently about the workers' mood. My sphere of contacts is the ITR, but nevertheless I do things like this: when I make new plans, make some kind of new installation, it is interesting to pose the question, to ask myself: will it be better for the workers, or not? I think that the workers undoubtedly accept this, because everything that we do leads to the reduction of manual labour, the improvement of working conditions, automation, mechanisation of the process, which makes it possible for us to remove the spade and allows us to push buttons. So how could it be perceived otherwise than as positive for this system?

The new deputy general director for economics took a similar position:

Recently I have rarely associated with them. I hardly mix with workers, only when they come about pay. It is much more difficult for the chiefs of shops to work in this relationship. You see they deal with many questions. An employee is on a completely different level. And then there is a mass of people who do not understand anything.

Asked who is included in the phrase 'We - the firm', a catchphrase of management, she answered:

Six months ago I would have said that 'we' is some kind of small management team in the factory management. But now this includes the shop chiefs and shop ITR.

Workers were conspicuously absent from the formula, and none of the managers ever mentions the participation of workers in management decisions.

The divisions between line managers and staff specialists were largely hidden during the 'innovatory offensive' of 1990-2, when the atmosphere of constant and rapid change left the majority of the workers with the impression that management was intervening in all aspects of

the running of the enterprise, and the scale and pace of change left workers feeling that it was impossible to oppose any of the changes. The increase in managerial authority, reinforced by the combination of layoffs and high wages, reconciled the line managers to the changes taking place within the management body.

The weakening of the economic and financial position of the enterprise from the middle of 1992 and the falling wages and growing shortages of labour through 1993 and 1994 to some extent reversed this trend, with some erosion of managerial authority and the opening of divisions within the management team.

Despite high wages, levels of worker dissatisfaction were high from an early stage in the changes. However, there was little overt protest since workers had an overwhelming sense of their own powerlessness in the face of the fear of loss of pay, job transfer and redundancy and in the absence of any effective trade union or workers' organisation to protect them.

These factors gradually weakened through 1993 and 1994. From the end of 1992 the focus of the innovatory offensive shifted from the production shops to the scientific-research department so the sense of administrative pressure was eased on the majority of workers. Increasingly through 1993 the fear of workers was transformed from a fear of losing a well-paid job to the fear of losing a job as such, a fear reinforced by the memory of recent reductions. However, even this fear was moderated as redundancies came to an end and Plastmass faced a growing shortage of labour.

The general mood in Plastmass became increasingly pessimistic through 1993 and 1994 as management appeared less and less willing or able to do anything about the deteriorating economic and financial position of the enterprise. From late 1993 Komarov appeared to be more interested in furthering his political career (becoming acting President of one of the Russian social organisations, seeking nomination to the Federal Duma and establishing a regional organisation for Russia's Choice, whose election candidates were nominated on the basis of the collection of signatures through the Personnel Department of Plastmass) than in the prospects of his own enterprise.

### Position of the Trade Union

The trade union in Plastmass does not exist as an effective force, remaining one of the unreformed institutions within Plastmass and having been reduced to a 'pocket' trade union at an early stage in the reforms. During 1991-2 the union abandoned a whole range of its activities and its primary groups withered away. The reforming management had no interest in giving the trade union any effective role within the reform process, but for the trade union officers themselves, as one of the workers put it, 'it is always more comfortable for them to sit in management's pocket, particularly if that is where they are used to sitting'.

Nevertheless, the enterprise trade union committee is still quite active in relation to the functions which remain to it, although figuratively speaking 'the brain still lives, but the extremities are already cold'. The remaining trade union functions are largely formal: participation in the redundancy procedures, involvement in disciplinary procedures (which have become increasingly rare), provision of financial help for those in need, allocation of workers' children to kindergartens. Until 1993 the trade union was also responsible for the allocation of new housing, but this has now been taken over by the enterprise's social development department. The status of the trade union is reflected in the fact that the resources at its disposal are those of the enterprise, while its role is a secondary one of resolving minor problems and distributing an insignificant proportion of social goods.

Ordinary workers express regret that the profkom of the enterprise has stopped distributing commodities. The majority of them cannot define concretely what the trade union does do. This question turns out to be the most difficult for everyone to answer. Before muttering something indistinctly, many kept silent, sighed deeply and thought hard, trying to remember something. At the level of the primary group, trade union work has stopped completely. To the question of what she does as the shift trade union organiser one activist said frankly:

Nothing. You understand, when everything collapsed here – the Party and all the rest, the calm here became terrible, nobody did anything, even the shop committee did not work.

At the same time she noted the very important help rendered by the representative of the shop committee in conflict situations, although the main advice given by the latter to the workers was to bypass the union.

Generally they defend us, the lads. They even teach us. Maybe for that reason we don't fuss them: they suggest things to us illegally. The administration relates to them as a devil may care. Therefore the trade union organisers said to us, it is better for you, workers, to go yourselves.

The covert support of the shop trade union activists for the workers against the administration, as much as the participation of the shop administration in negotiations with the factory administration, is an important feature of the interrelations between various levels and subdivisions of the organisation. But still most workers say things like: 'We ignore the trade union committee.' 'We do not have anything to do with them.' 'If it vanished tomorrow – we really would not notice.'

The workers were not able to oppose the administration in the period of radical reform because there was no organisation able to express their interests, although there were workers who understood quite well the changes that were taking place, who understood that a few scattered shares which workers buy are not enough for their real participation in management, who realised the need to get the workers together and create some kind of workers' organisation. The number of such workers was small. Many of them, well-known people in Plastmass, had worked at the enterprise for 20–30 years, and may in the past have been Komsomol, trade union and Party grassroots activists. More recently they had tested their strength as leaders of local (shop) conflicts. They were the ones who were usually elected from the shop to represent the workers in negotiations with the administration. Such workers in interviews expressed a unanimously negative view of the activity of the trade union and argued that it was necessary to create a new independent workers' organisation.

The most active and most respected leader had worked at Plastmass for thirty years, and had been a Party and trade union activist who in the old days was often taken to Moscow as a workers' representative in negotiations over resources. He became active in the democratic movement, and in 1989 joined the City Workers' Committee as an activist in the workers' movement which emerged in the wake of the miners' strike. At this period he collaborated politically with Komarov, sponsoring Komarov as a candidate in the elections to the *oblast soviet* in 1990. However, following privatisation he concentrated his activism within Plastmass. He remained neutral in the conflict between Komarov and

Martov, opposing both. He had briefly tried to work through the trade union committee, but had soon become disillusioned:

Once I also believed that one could change something in the trade union committee, correct something, support something. But the trade union committee ... has never opposed the administration. As a whole I have no hope for the trade union committee because a single trade union cannot defend both the director and the workers. I am all the more inclined to the view that the trade union must be more independent, more independent of the administration.

A small group of these activists tried to create such an independent trade union, but their attempts were unsuccessful, the workers did not come to their meeting, they did not seem ready for such a decisive step. The majority of workers were sceptical of these workers' position:

People already live according to the principle: a boss comes, he pushes us about.... They cannot understand that their own interests are in their hands. And the improvement of their lives, all depends on them.

Finally these initiatives were successfully neutralised by the administration, which arranged the election of the three principal leaders to the Board. Once on the Board these leaders lost authority since, as a small minority, they could have no influence on the Board's decisions, but were nevertheless identified with those decisions in the eyes of the workers. As one of the leaders said, 'you cannot explain to everybody how you voted at Board meetings'. He remained on the Board, but now spends his spare time fishing.

The workers have no regard for the trade union, but equally the majority have little conception of the need for a trade union, continuing to look to management to resolve their problems. The deterioration in the position of Plastmass since 1992 has led to a growing mood of pessimism among its employees, and a sense of their inability to exert any control over the course of events. This growing pessimism has led to a marked increase in levels of conflict within the enterprise, but these conflicts were expressed first and most dramatically not in a confrontation between workers and management, but within the management body itself.

### **The Battle for Power: Komarov versus Martov**

During the period of radical reform, Komarov had largely delegated the day-to-day management of Plastmass to Martov and his associates,

while he was away on extended business trips at home and abroad. While he had never opposed Martov's schemes, he had never shown any great commitment to them either, being happy to give Martov his head while his reforms showed positive results. However, once Plastmass began to run into difficulties relations rapidly soured, and the two became locked in a bitter struggle for control of the enterprise.

The origins of the conflict between the two men are difficult to disentangle, since a clash of ambitions was inextricably bound up with an apparent clash of principle. According to Martov the problems really began in July 1992, during the preparations for the first shareholders' meeting. Martov and his group planned to propose Komarov to be President of the Board, on the grounds that Komarov should not combine that post with his responsibilities as General Director of the factory. In the event Martov did not allow his candidacy to go forward, because he judged that he lacked sufficient support, and Komarov was elected unopposed. On 1 November 1992 Martov resigned his post at Plastmass, while remaining a member of the Board and continuing to discuss a common programme with Komarov.

The fundamental issue of principle was that of the clash between Martov's collegial system of management, and Komarov's commitment to the perpetuation of the authoritarian system of one-man management. According to Martov, there was a secret agreement within the group of senior managers that they would take bank credit through the enterprise to buy 20 million roubles worth of shares at their nominal value (amounting to 20 per cent of the issued shares). Since they planned to recommend to the annual meeting in February that they should pay a 100 per cent dividend, the loan would be repaid almost immediately. Martov applied to the Board to buy shares to the value of 1.3 million roubles, his allocation under the agreement. However, Komarov returned from a business trip in November, and unilaterally took a bank loan of 7 million roubles with which he bought corresponding shares for his personal benefit, without submitting this purchase to the Board for approval. When Martov heard of this on 20 November he took it as a declaration of war, and launched a struggle for control of Plastmass. Martov complained to the Board, and confronted Komarov in person, only to be told 'I am the owner of this enterprise and I will do what I want'. Martov then proposed to the Board that Komarov should be removed, but got no support. Instead his application to buy shares was refused on the grounds that he was no longer an employee of Plastmass.

With these rebuffs the struggle moved to the annual shareholders' meeting on 13 February 1993.

In preparation for the shareholders' meeting both Martov and Komarov waged intensive campaigns. Martov, having left Plastmass, now worked through his own company, Trast, which claimed at the time to be the largest securities trading company and financial consultancy in Kuzbass. At his own expense he hired loudspeaker vans and distributed leaflets at the factory gates accusing Komarov of attempting to seize power for his own benefit and by illegal means. He also denounced Komarov from the pages of the local newspaper, charging him with autocracy, of making idiotic decisions, of worsening the financial and economic position of the enterprise, of persecuting highly qualified specialists for disagreeing with him, and of acting illegally. Komarov in turn issued rebuttals through the factory newspaper and over the factory radio, and denounced Martov for abusing his position.

Having been isolated from his own supporters in management, Martov formed a strategic alliance with his former opponents, those 'populist levellers' who had favoured an equal distribution of shares and control of the enterprise by the labour collective, establishing a Committee for the Democratic Reform of Plastmass at the end of January 1993, whose programme was published in the local press. However, although the leader of this group, a former chief engineer of Plastmass, was popular among the workers, the combined forces were not able to get the 10 per cent of votes needed to include their proposal to remove Komarov from the Board onto the agenda of the shareholders' meeting.

The shareholders' meeting was to be held in the hall in which meetings of the labour collective had been traditionally held, which had seating for a maximum of 500 people, so that meetings could only be held on a delegate basis. Komarov used the traditional method of selecting delegates to persuade worker-shareholders to give their proxies to ITR and senior shop management, many of whom in turn transferred the proxies to Komarov, with the result that, as emerged in the later court proceedings, Komarov held 2,000 proxy votes in addition to those of his associates and his personal holding, whose legality Martov was contesting. The first hour and a half of the meeting was taken up with a series of challenges from Martov: challenging Komarov's right to chair the meeting; accusing him of illegal purchase of shares financed by credit and demanding the annulment of the purchase; charging that Komarov's associates in the meeting had not allowed those shareholders into the

hall who had demanded the return of their proxies once they discovered that the proxies would be assigned to Komarov. After a series of heated exchanges Martov and about half those present walked out of the meeting, announcing that they would hold an alternative shareholders' meeting later in the month. In his absence Martov was denounced by Komarov and dismissed from the Board, on the grounds that he no longer worked at Plastmass. A series of other proposals of the General Director were overwhelmingly endorsed by those remaining, who held proxies for 78 per cent of the voting shares, and the meeting closed following questions from the floor, most of which were complaints from workers regarding their pay.

The situation in the enterprise following the meeting remained very tense. In an attempt to restore his prestige among the workforce Komarov visited all the main shops, talking to the assembled workers for up to two hours, criticising Martov's 'mini-monetarism' and making extravagant promises to settle the workers' principal grievances by increasing wages, distributing shares to pensioners and guaranteeing an apartment to everyone on the waiting list within two years. Komarov also gave a long interview to explain his position on prime-time local TV, rebutting claims that he was overpaid, denying that there had been major redundancies at Plastmass, stressing the high wages of the workers, and particularly the extensive housing programme and the policy of housing sales which benefited not only Plastmass employees but residents of the city as a whole. At the same time, opponents of Komarov were transferred or sent on long business trips, threatened with dismissal and loss of privileges. In May 1993 Martov's two leading allies in the administration were sacked. The first was the deputy chief engineer, who had a reputation for independence and whom Martov had invited to head the conflict with Komarov. The second was the senior specialist of the engineering centre, a man who had worked at Plastmass for 30 years, including twelve years (1978-90) as chief engineer, who knew the plant like the back of his hand, and who had a very high reputation among the workers. With these two removed, Martov had no open supporters left within the administration.

Martov's alternative shareholders' meeting was a flop. A shareholders' petition circulated among the workforce before the meeting got only a 3 per cent response because it was necessary for people to identify themselves, and the administration threatened to sack anybody who got involved. The 250 people who gathered at the alternative meeting held

fewer than 5 per cent of the shares, many of those being held by former employees who now worked for Martov's firm and by pensioners. Following this failure, Martov's alliance with the 'populists' collapsed, the latter now allying with Komarov's political opponents and seeking to have the privatisation of Plastmass declared illegal on the basis of the improper formulation of its founding documents.

As a result of this failure Martov changed tacks. First, he launched unsuccessful proceedings through the courts to declare Komarov's share purchase and the refusal of the Board to sell shares to Martov illegal and to annul the decisions of the shareholders' conference on the grounds that the proxies had not been notarised and Komarov's opponents had been excluded. The court first met on 2 April, but the hearing was postponed since Komarov did not turn up. The same thing happened three more times, until the case was finally resolved in Komarov's favour on 7 May, a decision confirmed on appeal on 13 July. Second, the *oblast soviet* established a commission to investigate the legality of privatisation in the *oblast*, and selected Plastmass as its first case. This was hardly surprising since Komarov was a leader of the opposition democratic block in the soviet, and had stood against the regional political boss, Aman Tuleev, for the position of chairman of the soviet. Martov was invited to join the commission, but this was a little awkward since he had drawn up all the privatisation documents in the first place, so his levelling ally took his place. However, Komarov simply refused to recognise the authority of the commission, which had no clear juridical powers. When the Commission visited Komarov he refused to produce any documents and told them 'fuck off the lot of you'. The chair of the commission produced his accreditation as a people's deputy, so Komarov produced his in return and threw the commission off the premises. However, the case was hardly likely to have succeeded since the documents had all been interrogated minutely throughout the process of privatisation.

Having failed to make progress through democratic and legal channels, Martov began to try to get control by buying up Plastmass shares. Throughout the summer of 1993 there was a war of advertisements in the local press, as Martov's firm Trast and the Plastmass Board offered to buy up shares at steadily increasing prices, with the Board revaluing the shares to a price of 40,000, and Trast offering 65,000, with the Board repeatedly issuing statements that all share purchases through intermediaries, including Trast, were invalid. Meanwhile Komarov escalated his

propaganda campaign against Martov and Trast, and took measures against known Martov supporters at the level of line management, not having any way of knowing how many shares Martov now controlled, or what he intended doing with them. However, Martov withdrew from the battle in the autumn of 1993, declaring that Plastmass no longer interested him, and that he was now concentrating on building up his own firm, which was prospering and diversifying, establishing new subsidiaries, with Martov himself becoming head of the regional branch of a large Russian industrial-investment fund. Trast no longer actively bought up shares, but was willing to buy them if workers came into the office.

Komarov's political opponents continued to take advantage of the conflict in Plastmass. At the end of October 1993 a new conflict erupted with the *oblast* administration. On privatisation Plastmass's housing had been transferred to a commercial enterprise which went bankrupt in the summer, apparently as a result of massive fraud, and so was unable to maintain the housing stock. Kislyuk, the chief of the *oblast* administration, pressed Komarov to support the firm financially to avert a housing crisis. Komarov insisted that this was not his problem, and it should be resolved through the courts. Kislyuk replied that the administration had levers to press the enterprise, and indeed the *oblast* administration sent in waves of experienced investigators to check on violations of tax, accounting, pollution, energy and every other kind of regulation. In the end the dispute was resolved administratively, with the transfer of both the housing and Plastmass's city centre swimming pool to the municipal authorities.

At the end of 1993 Komarov became heavily involved in political activity. In October he was elected acting president of a body representing directors of privatised enterprises, replacing Gaidar, as the basis of a further attempt to make a political career, his previous attempts to advance up both the ministerial and political hierarchies having been thwarted. According to his own associates, Komarov felt that he had long since outgrown the framework of his own firm, which he saw only as a stepping stone to higher things. In the run-up to the December election Komarov tried unsuccessfully to get on to the election list of the Movement for Democratic Reforms. He then transferred his allegiance to the 'government party' Russia's Choice, mobilising the majority of managers to collect signatures on behalf of its candidates, with the result that Gaidar, on his one-day visit to Kemerovo during the election campaign, held his meeting with Russia's Choice candidates at Plastmass.

Many observers expected the standoff between Martov and Komarov to come to an end with the annual shareholders' meeting on 16 April 1994. However, Martov and most of his supporters stayed away from the meeting, having decided it was pointless to continue the struggle since, in the words of one of his supporters, 'the weakest goes to the wall'. There were also reports that Martov had been offered a deal on the eve of the meeting, that if he did not attend he would be given help in dealing with some of his debtors. Nevertheless, Komarov showed in his behaviour at the meeting that he still regarded Martov as his main enemy and principal problem. During April and May a series of muckraking articles on Trast appeared in the factory newspaper.

Meanwhile Komarov reversed most of the managerial reforms which had been introduced by Martov. Although diversification continued, and the research institute was integrated into the main enterprise, Komarov reverted to the traditional style of management, ending the regular consultative meetings, forcing out independently minded managers and bringing in placemen, with loyalty to Komarov being the only criterion of preferment. Martov's replacement as chief economist was another academic brought in from a very radical joint-stock company which repaired shoes, and Komarov himself has taken over direct responsibility for financial and economic matters, with sometimes disastrous consequences.

The result was a very considerable weakening of the Plastmass management, both in removing competent managers and in undermining the authority of senior management in the eyes of both line managers and workers. The conflict between Martov and Komarov further increased the already substantial distrust of management on the part of the workers. Where workers would say 'they cheat us', they now say 'they cheat us always in every way'. The outcome is not so much an increase in overt conflict, as an increase in the degree of passive resistance to any actions and initiatives of management. Similarly the conflict dispelled any illusions among the workers that their share ownership gave them any effective right to participate in decision-making, and brought home to them their real status as hired labourers.

In an attempt to restore his authority among the workers Komarov reverted to the traditional rhetoric and practices of paternalistic management. Komarov's change of policy was reflected in a sharp reversal of priorities in the use of profits for 1993. While the plan had been to allocate two-thirds of profits directly to the development of production, in

fact only one-third of the sharply reduced profits were used for this purpose, with a number of construction projects being frozen. Meanwhile, the allocation to consumption and social development was increased from a planned 17 per cent to an actual 30 per cent, with the plan for 1994 increasing the allocation further to a total of 71 per cent, including a massive increase in housing construction. The result of this reassertion of paternalism was to undermine any tendency for workers to develop their own independent organisations to represent and defend their interests, although they have a strong sense of 'them and us' and insist that the difficulties of the enterprise are not their concern, nor a reason not to pay adequate wages, since it is management's job to manage.

In the wake of the conflict between Komarov and Martov the role of the Board was reduced to virtually zero, not meeting at all for the first three months of 1994. Martov and five of his followers on the Board were dismissed from Plastmass during 1993 which meant, following an illegal decision of the 1993 shareholders' meeting that only employees could be Board members, that they had to leave the Board and were not replaced. With the removal of Martov and the downgrading of the Board the traditional Soviet principles of one-man management and a rigidly hierarchical management structure were restored.

### The Struggle for Reform

What are the implications of this story for the reform process?

Martov had been the driving force behind the development of Plastmass, given his head by Komarov and building what looked like a strong and cohesive management team. While Martov drove full tilt for reform, Komarov provided a steadying influence. Yet when Komarov withdrew his support, Martov's entire strategy collapsed and he found himself isolated.

Why did Komarov withdraw his support? In part it was undoubtedly because of Martov's impending bid for power, so that Komarov needed to consolidate his own position. However, behind this lay the growing dissatisfaction within Plastmass at Martov's strategy as wages fell behind prices and those of neighbouring enterprises, as sales collapsed, as insecurity of both workers and ITR increased with the threat of redundancy. The rejection of enterprise paternalism and the transition to market methods was all very well when it could guarantee high wages, but as the economic benefits were eroded there was growing pressure to

return to the old system of authoritarian paternalism. Thus, when the confrontation came to a head even Martov's close managerial associates, and all but one of the shop chiefs, unequivocally supported Komarov. Meanwhile, neither Komarov nor Martov enjoyed much support among the ordinary workers.

The conflict both expressed and intensified divisions within the enterprise which had been opened up by Martov's rationalisation programme. A survey which we conducted in the enterprise just before the February 1993 shareholders' meeting showed that over half the workers supported Martov's proposal to submit the Director to re-election, with only ten per cent opposed (the exact reverse of the response of managers), and only one in eight workers would vote for the General Director's re-election, as against three quarters of managers and 40 per cent of ITR who would vote for him. None of the managers questioned admitted to planning to vote for Martov, but almost as many of the workers said that they would vote for him as would vote for the General Director, and the same number again would vote for Martov's temporary 'levelling' ally. However, the general mood of the workers on the shop floor was one of distrust and dissatisfaction with management as a whole, with an increasingly explicit mood of 'them and us' separating workers from both managers and from ITR. This appeared in our survey, in which almost three quarters of workers were dissatisfied or completely dissatisfied with the work of the management, with only one in eight satisfied (40 per cent of ITR and almost a quarter of managers were also dissatisfied), and almost half of the workers did not support any of the potential candidates for the post of General Director. 'It makes no difference to me who is going to cheat me, the Director or the Chief Economist' was a typical comment.

The sharp division between workers and managers was not simply the result of an inadequate management strategy, of a failure to attend to the concerns of the ordinary employees or to develop an adequate institutional framework for handling industrial relations. The underlying problem was the failure of the enterprise to establish the conditions for long-term survival in a market environment. This was not for want of managerial initiative and determination, nor a result of the undoubted failure to transform production relations, since production relations could not be transformed without a fundamental upgrading of production technology which would make possible a more rational organisation of labour. In the last analysis the failure of reform at Plastmass has to



come down to the failure to put in place the missing link of the reform process, the massive investment programme for which the firm was never able to find the resources. But finally we have to ask whether this was not always a pipe-dream? What prospect could there ever be for profitable investment in a chemical enterprise in the middle of Siberia, with archaic technology, outdated skills, no local sources of raw materials and limited local markets for its products?

### The Legacy of Reform

Martov's departure and the re-establishment of the system of one-man management made it clear that his reforms had been as superficial as Plastmass's prosperity had been short lived. Although there had been some managerial rationalisation, the further down the enterprise one went the less change there had been. At shop level there had been no significant changes in the forms of management or the organisation of production, and the ordinary workers were treated with even more contempt by the reformers than they had been by the traditional management. The brief success of Plastmass was purely and simply the result of its ability to exploit the privileges of a non-state enterprise in 1991 and its monopoly position in 1992.

The once much-trumpeted cuts in the labour force turned out on closer inspection to be less dramatic, although they hit some categories, such as pensioners and women workers disproportionately hard. The first round of cuts was largely accounted for by the fact that Plastmass only took over a part of its predecessor's activity, an affiliate in Novosibirsk and part of the social and welfare apparatus being separated from Plastmass. The second round of cuts was primarily a paper cut in the staff list, removing 'dead souls'. The third round of cuts involved primarily voluntary severance as skilled workers moved to better-paid jobs elsewhere and as employees of the research institute formed nominally independent small enterprises on the territory of the plant.

The financial results were not as good as they looked at first sight either, and those of 1993 disastrous, because they were not based on inflation accounting. Although there were large provisions out of profits for the development of production, amortisation provision was minimal. Amortisation for 1992, for example, was only 77 million on sales of 6.7 billion roubles.

The reforms to the pay system, with sharply increasing differentials, produced no observable positive results in the commitment or work practices of ITR, while generating considerable resentment on the side of the workers. Similarly, the threat of redundancy bred divisions within the workforce, acrimony and suspicion, and a decline in morale, while the pay increases provided as compensation were rapidly eroded by inflation.

Through 1993 Komarov tried to consolidate his position by moving back to more traditional bureaucratic managerial methods, at least to the extent of reviving authoritarian-paternalism and raising the status of shop chiefs in relation to specialists (although Martov's replacement was another academic).

At one level the change of direction at Plastmass appears to be the result of a conflict of temperament and ambition. But underlying this conflict are more fundamental issues of management style and priorities. For Martov the rationalisation of the management structure was a means to the creation of a modern capitalist enterprise, the culmination of a long-term plan which he had worked on with his associates over almost a decade. For Komarov, however, it was only the means to the traditional end of building up the prestige of his enterprise and of his position as Director. The two ambitions came into conflict with one another as tension mounted within the enterprise and as its economic position deteriorated. The competition to secure support at shop level then led both contending parties to undermine the possibilities of a radical restructuring by appealing to the traditional values of paternalism and egalitarianism.

This conflict equally indicates the limitations of Martov's plans. Martov was forced out just at the point at which economic pressures brought forward the need to undertake a more fundamental rationalisation of management, which would reach down to the shop floor level and perhaps enable Plastmass to compete in a market environment. However, for Martov the limit of such reforms was to integrate the research centre as the basis for the development of new products. This market-led managerialism did not address the more fundamental issue of the transformation of the social relations on which production was based.

Martov's managerial reorganisation was concerned strictly with the rationalisation of administrative structures, the structure and functions of management in relation to production remaining unchanged, so that

Martov did not challenge the underlying social relations of production on the shop floor. However, his managerialist reforms created growing social tension by challenging workers' egalitarian expectations, and opened a gap between shop chiefs and senior management which eroded the loyalty of the former to the latter. The attempt to dismantle the authoritarian-paternalist structures of control removed the traditional means of handling such tension, and threatened to lead to increasingly overt social conflict. It was in this context that the confrontation between Martov and Komarov acquired a more fundamental strategic significance.

The net result of the reforms in Plastmass turned out to be surprisingly small and had very little to do with increasing productivity or orienting to a market economy. The main result was that managers enriched themselves by widening pay differentials and concentrating share-ownership, while attempting to keep the lid on workers' unrest with the carrot of piecemeal pay rises and the increasingly large stick of the threat of redundancy. We went in to Plastmass because we wanted to study a pioneer of capitalism in Russia. But what has actually emerged is strikingly similar to what is happening in state enterprises of every kind all over Russia.

### Conclusion

The history of reform in Plastmass anticipates in microcosm the fate of the reform initiative in Russia as a whole. But it cannot be seen simply as a struggle between conservatives and reformers, any more than can the political drama in Moscow. Komarov is a leading member of the democratic block on the *oblast soviet*, and a vociferous opponent of its leader Aman Tuleev, who has built huge support in the *oblast* as a populist opponent of reform. He identifies himself unequivocally with the rhetoric of reform, of the transition to a capitalist system, and has done very well out of it himself. He insists that the enterprise should not be controlled by the labour collective, but that its director should be elected by the owners, with the trade union (which at Plastmass, as elsewhere, is a pocket union) representing the interests of the workers.

If Komarov was as committed as Martov to reform, why did the reform initiative fail? It was not for a lack of knowledge of capitalist systems of management, finance and accounting, because Plastmass had some of the best educated specialists in the *oblast*, and even in Russia,

who really knew and understood their job. They followed, as best they could, the prescriptions of Western advisors. They restructured the management system, putting economists and financiers in power over engineers and technical specialists, with economics, finance and marketing dominating the management structure and strategic planning of the enterprise. They largely separated the welfare apparatus from the enterprise, massively cut the system of paternalistic distribution, and ended the system of free allocation of housing, in favour of higher wages which would leave the workers free to choose how to spend their money. They increased differentials in favour of managers and technical staff to provide an appropriate system of incentives. They slimmed down the labour force by a nominal 35 per cent. They retained the vast bulk of profits for the development of production. They contracted the range of products to specialise on their core activities. It is difficult to see what more they could have done to satisfy a Western consultant, within the limits of their objective circumstances.

Was it those objective circumstances that explained Plastmass's failure? Certainly economic and financial instability, the general collapse of production, the cutting of traditional economic links, inflation and the debt crisis explain the collapse of production. But at the same time the reform strategy itself exacerbated the problems faced by Plastmass in a number of ways. The most important external failure was that in abandoning its traditional economic and political commitments to municipal, regional and branch authorities, and to supplier and customer enterprises, in favour of a purely market orientation, it left itself without a lifeline when the market collapsed. More conservative enterprises which maintain their traditional links find it much easier to call in obligations when difficulty strikes, to elicit subsidies and state contracts, to maintain supplies on credit, and to dispose of the product, whereas Plastmass was not only on its own, but had left a widespread legacy of antagonism.

Perhaps the more fundamental failure of the reform strategy was the antagonism that it provoked on the shop floor, which left a sullen and discontented, if silent, workforce which had lost any commitment it might have had to making a success of the enterprise, and whose traditional identification with the enterprise had been broken. This is not just a matter of bad personnel management, because a Soviet enterprise depends crucially for its success on the commitment and motivation of at least a core of workers who can keep production going, and this is particularly the case in an enterprise such as Plastmass with antiquated

equipment and complex and diverse production processes. This workers' opposition did not find any direct expression, but it lay behind the growing disillusionment of middle management with the reform strategy, and so laid the grounds for the return to an authoritarian-paternalist populism on the part of Komarov.

There remains the question of whether a more radical restructuring of Plastmass might have proved more successful. After all, capitalism is meant to be about investing for the future, not maintaining the past. Perhaps, if Plastmass had the financial resources, it could have invested in modern equipment to re-establish its competitive position in the European and even in export markets. But this then raises the question of how, faced with escalating transport costs, any enterprise in Western Siberia in any branch of production can be competitive in outside markets. Does Siberia have any place in a market economy at all? Martov seems to know the answer. While Plastmass slides inexorably towards bankruptcy, his securities firm is thriving.

## Notes

1. This paper is a product of a collaborative research programme studying the restructuring of management and labour relations in Russia which we have been conducting continuously since 1991. The research is based on ethnographic and case study research in a dozen industrial enterprises in four contrasting regions. This research has been funded by the British Economic and Social Research Council, and more recently by INTAS. All research is carried out by research teams, and the results are elaborated collectively.

The fieldwork and research reports on which this paper is based have been the responsibility of the first two authors. The final version of the paper has been written by Simon Clarke. The name of the enterprise and of all individuals have been changed.

The results of the research programme are being published as a series of books by Edward Elgar. A longer version of the present paper appears in a volume of case study reports, *The Russian Enterprise in Transition*, published by Edward Elgar in 1996.