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Russian Enterprises After the August Shock

The financial crisis of August 17, 1998, has created a unique situation in domestic industry. The operating conditions of virtually all business entities have been radically altered. The new "rules of the game" are being formed "as they go along," since the macro level is not providing the requisite signals regarding the directions and methods of pursuing any new industrial policy, and there are no points of reference. The enterprises that experienced the August shock are independently setting up rules for interaction befitting the situation that has taken shape. What goals are they setting for themselves? What opportunities do they have? How have they perceived the changes, and what further changes are they expecting? These are the main questions that researchers of enterprise behavior must answer today.

We have unique empirical information obtained in the course of polling 742 managers of enterprises in October–November 1998. The poll encompassed 78 regions of Russia. Enterprises in all the principal spheres of the national economy and of all forms of ownership took part in it. Those polled included 132 managers of state enterprises, 351 managers of privatized enterprises, and 161 managers of the "new private"

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Table 1

Assessments of the Economic Situation at Enterprises of Various Forms of Ownership by Their Managers (as percent)

	Enterprises		
Economic situation	state	privatized	"new private"
Close to bankruptcy	11.5	17.8	6.2
Poor	33.6	37.1	21.7
Satisfactory	48.1	43.8	56.5
Good	6.9	3.7	14.9
Excellent	0.0	0.6	0.6

enterprises—that is, firms that have appeared since 1992. Aside from enterprise managers, we polled 1,402 trainees at the Federal Program for Retraining Management Personnel during the same period. The most promising mid-level managers from 78 regions of Russia are selected to participate in it. This article focuses mainly on analyzing the replies of enterprise managers—the individuals with the most complete information regarding the situation at their firms, the goals of management, and the strategies being pursued.

First and foremost, the results of the poll made it possible once again to confirm the fact that the August economic shock affected enterprises of all forms of ownership (see Table 1).

The situation of the "new private" enterprises, in the estimation of their managers, seems to be somewhat better than state and privatized ones, but that superiority is rapidly being "diluted" (see Table 2).

Whereas in 1998 the situation had worsened at more than 50 percent of state and privatized enterprises, this value exceeded 60 percent for "new private" enterprises. Only 19 percent of private enterprises were able to improve their situation, compared to 25–27 percent of enterprises of other forms of ownership.

There are several reasons for this. First of all, in contrast to privatized enterprises, the "new private" firms have something to lose. In reality, if the situation of an enterprise is characterized as being "close to bankruptcy," it can hardly get much worse. Second, the managers of the "new private" firms have demonstrated insufficient ability in becoming oriented to the external environment (see Table 3).

Table 2

Assessments of the Dynamic of Economic Situation of Enterprises of Various Forms of Ownership by Their Managers (as percent)

Dynamic of economic situation	Enterprises: state	privatized	"new private"
Significantly worse	19.2	16.0	26.6
Slightly worse	33.8	35.5	35.7
Unchanged	21.5	20.9	18.8
Slightly improved	23.1	24.9	15.8
Significantly improved	2.3	2.6	3.2

Table 3

Assessment by Managers of Their Capabilities to Track Changes in the External Environment (on a five–point scale)

Factors	Enterprises: state	privatized	"new private"
Competitive situation in the market	3.43	3.71	3.83
Behavior of lending banks	2.63	2.89	2.88
Behavior of suppliers	3.28	3.52	3.58
Economic policies of the government	2.50	2.44	2.57
Behavior of consumers	3.53	3.56	3.74
Behavior of local authorities	3.51	3.41	3.09

In September–November 1998, to managers of all enterprises, the economic policies of the government were not only unpredictable but also "unfathomable." About 40 percent of the managers polled acknowledged that they were unable to get to the bottom of state economic policy. The financial crisis also made predicting the behavior of lending banks more difficult. As a result, enterprises of all forms of ownership were placed on roughly equal terms. However, the "new private" enterprises demonstrated a lack of readiness for changes in the behavior of the local administrations. Furthermore, the "new private" enter-

Table 4

Principal Goals of State and Private Enterprises (share of managers indicating a given goal, as percent)

	Enterprises		
Goal	state	privatized	"new private"
Retention of workforce	72	64	54
Maintenance of enterprise reputation	72	65	71
Consolidation of position in domestic market	47	70	70
Output of product conforming to world standards	37	62	37
Provision of high earnings to employees	43	26	36
Assimilation of foreign markets	24	26	24
Increasing the value of firm assets	5	14	31

prises lacked any "reserves of buoyancy," in the form of accumulated material inventories and realizable production capacity or production accommodations.

Taking into account the similar nature of the influence of the August shock on enterprises of all forms of ownership as a whole, we expected to see an analogous "picture" of management goal-setting, but this was only partly confirmed. At the very height of the crisis, in September–November 1998, the managers formulated the following principal goals for the activity of their enterprises (see Table 4):

It may be seen from the data in Table 4 that three types of goals were the most frequently mentioned (true, to varying degrees) for enterprises of all forms of ownership: consolidation of their position in the domestic market; maintenance of the reputation of the enterprise; and retention of the workforce. The two principal goals for state enterprises were retention of the workforce and the maintenance of reputation (they were noted by more than 70 percent of those polled), while consolidation of their position in the domestic market was significant for fewer than half of the managers. The managers of the "new private" enterprises single out consolidation of their position in the domestic market and maintenance of the reputation of the enterprise (70 percent of those polled), with the preservation of jobs important for only half the managers. Finally, the privatized enterprises are a kind of "hybrid" of private ownership and the legacy of the planned economy. All three of the aforementioned goals were important for their managers to virtually an identical extent.

More appreciable differences were observed among enterprise managers with regard to a number of the other goals. Privatized enterprises set their hopes on putting out products that conform to world quality standards (62 percent of managers), while that goal is very difficult to achieve for both the state and the "new private" enterprises, and, accordingly, not very important. At the same time, providing high earnings to employees is put forward as a significant goal by approximately one-fourth of the managers of privatized enterprises. However, the differences were more palpable among the managers of state, privatized, and private enterprises with regard to raising the value of firm assets. The managers of state enterprises in effect completely ignored this goal (it was noted by only 5 percent of those polled), while it was quite important for the "new private" enterprises (31 percent of those polled).

All three groups of managers were united in relation to access to world markets. Approximately one-fourth of the managers in each group strove to assimilate foreign markets, and the differences among them were determined not by the form of ownership, but rather by the sphere of activity. In reality, the managers of enterprises of just four sectors were concerned in earnest with the prospects for operating in foreign markets. These were the extraction of minerals (54 percent of managers), machine building and metalworking (43 percent), and the timber (42 percent) and electronics (40 percent) industries. The foreign market means very little to the remaining enterprises.

In the next stage of the analysis, we ascertained precisely how the stated goals of the enterprises were embodied in the production strategies (see Table 5) taking into account external economic conditions and the interests of the individual "interested parties" in making management decisions.

The data in Table 5 testify to the absence of fundamental differences in the strategies employed among enterprises of various forms of ownership. The principal efforts of domestic enterprises were directed at improving product quality and reducing their production costs. In this regard, state and privatized enterprises more easily reduce (relatively) the prices for their products in comparison with "new private" enterprises.

The search for new forms of collaboration with suppliers and the assimilation of new product sales channels remain exceedingly popular

Table 5

Measures to Increase the Efficiency of Enterprise Work (share of managers utilizing a specific strategy, as percent)

	Enterprises		
Measures	state	privatized	"new private"
Improved quality of products (services)	80.3	90.0	75.2
Reduced cost of products (services)	72.3	86.2	75.7
Reduced prices for products (services)	65.0	58.8	46.6
Production of modified products (services) assimilated	53.3	67.0	52.4
Production of fundamentally new products (services) assimilated	58.3	65.7	58.9
Research of sales market (marketing) strengthened	75.5	80.9	75.5
New geographical markets being assimilated	64.8	69.0	65.4
New product sales channels in traditional markets assimilated	58.0	72.9	65.9
New forms of collaboration with suppliers assimilated	68.4	73.0	69.7
New forms of collaboration with producers of analogous products assimilated	43.3	40.6	39.4
Increased spending on advertising	46.1	57.3	51.9
Forms of advertising altered	42.7	48.6	46.5
Management consultants brought in	26.8	35.8	24.6

among enterprises of all types of ownership. We also note that almost half of all enterprises increased their spending on advertising during a crisis period.

The declared strategy of improving product quality while simultaneously decreasing production can be successfully implemented only in rare instances when a number of conditions coincide:

• significant growth in domestic demand and/or access to foreign markets, which makes it possible to reduce the proportionate costs per unit of product and take advantage of "economies of scale";

• intensive technological and marketing "infusions" to enterprises on the part of their strategic partners who are leaders in the corresponding sectors; and

Table 6

The Attitude of Managers and Middle Management to Possible Measures for the Organized Development of Their Enterprises

	Enterprises					
	state		privatized		"new private"	
Measures	directors	managers	directors	managers	directors	managers
Changes in management structure	0.13	0.54	0.08	0.70	–0.17	0.26
Replacement of existing management team	–0.45	0.12	–0.64	0.09	–0.99	–0.48
Replacement of enterprise owner	0.69	–0.40	–0.77	–0.40	–1.30	–0.97

Note: On the scale, –2 = a significant negative influence, 0 = no influence, and +2 = a significant positive influence.

• vigorous state policies aimed at supporting the competitiveness of national producers.

These conditions gave rise to the "economic miracle" in Germany in the 1950s and in the 1960s in Japan, and, in the 1980s, facilitated the rapid development of South Korea and the nations of Southeast Asia. Not one of these conditions exists in the post-August Russian economic reality. It remains to presume that some organizational measures could support the declared goals of enterprise managers and accelerate the receipt of a positive impact from production and marketing strategies. We have assembled a list of possible measures for the organizational development of enterprises, and we have suggested that the managers of enterprises and trainees of the Federal Program for Retraining Management Personnel evaluate how those measures affect the achievement of the stated goals of management (see Table 6).

Table 6 shows that substantial contradictions have arisen between managers and the middle-management level. The one thing on which they agree is the unacceptability of changing the prevailing ownership structures. It is interesting that the form of ownership has no particular significance here. The managers at the "new private" firms are just as apprehensive as those at state enterprises about the arrival of a new owner. At the same time, the middle-level managers are much more inclined than the managers to be "revolutionary," especially at state and privatized enterprises. For example, the managers complain about changing the structure of enterprise management, while the directors prefer "not to notice" this issue. The most dangerous symptoms are observed with regard to measures such as "replacing the management team." The managers are naturally against such a decision—no one wants to leave his "cushy" job. The managers of "new private" enterprises actively support this. But the middle-level management cadres at state, and especially at privatized, enterprises displayed total indifference in this regard: "Hassling with the ones who are here today or with new ones who arrive makes no difference to us." This testifies to a cumulative kind of "organizational apathy," where mid-level managers lose hope entirely that any fundamental positive changes can occur at the level of the enterprise itself.

* * *

As a whole, the study showed that the enterprises have been left one on one with their suppliers and customers in the post-August economic situation. Under such conditions, preserving the reputation of firms of any type of ownership has vital significance in whatever form that reputation may be maintained (for state enterprises, it is the preservation of the workforce, for privatized ones, the output of competitive products, and for the "new private" ones, it is the maintenance of profitability and the value of firm assets). But given the extreme instability of the economic environment, the enterprise managers are not resolving to make a strategic choice or even to define their priorities in marketing and production policy. Instead, limited resources are sluggishly "diluted" among various, often directly contradictory, areas of activity (both improving product quality and reducing its cost). One more typical feature is that a majority of enterprises, especially the privatized and "new private" ones, prefer to fight alone, and centripetal tendencies (collaboration with the producers of analogous products) are very weak.

This situation is further aggravated by the organizational crisis more characteristic of state and privatized enterprises. The prevailing organizational structures are not suited to market conditions of economic operation, as both the managers of the enterprises themselves and the mid-level managers acknowledge. But a strong impetus toward changing the organizational structures could come only from new owners, which the overwhelming majority of managers vigorously oppose.

Is there a way out of this impasse? Two scenarios are possible. The first is to devise a fitting conceptual framework for state economic policy that gives medium-term benchmarks for the strategies of enterprises of all forms of ownership and contains the sources of resources (state support measures, credit resources, measures of external economic regulation) necessary to implement such strategies. In the current political situation, the chances of such a scenario being realized are minimal. The second scenario is a corporate "revolution from below." The middle-level managers should initiate the appearance of new and more efficient owners, and with their coming, take worthy positions in the formal and informal management hierarchy; this is possible provided there is a drastic rise in the "liquidity" of human capital for such managers. The likelihood that this scenario will be realized is also not great. At the same time, within the framework of the Federal Program for Retraining Management Personnel, 3,000–4,000 middle-level managers of the new type are actually undergoing training, have gained Western management knowledge and skills "firsthand," and possess high social ambitions. Given the proper utilization of their potential, they can become the catalysts for change not only at their own enterprises but also on the scale of entire sectors. However, we cannot fail to see a real danger that the current managers of enterprises will not be able to prepare themselves for the injection of "new blood."