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# **The Transitional Model of the Behavior of Russian Industrial Enterprises (on the basis of regular surveys during 1991-1995)**

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# Working Paper

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surveys during 1991–1995)**

*Tatiana Dolgopiatova*

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## Foreword

The Economic Transition and Integration (ETI) Project at the International Institute for Applied Systems Analysis (IIASA) started a research activity on the behavior of Russian enterprises under liberalization, privatization and restructuring in 1995–1996. This activity originated upon the initiative of the Ministry of Economy of the Russian Federation. The major reason for focusing on this subject was the fact that the current state and further transformation of Russian medium and large sized enterprises became a challenge for the continuation and success of transition related reforms. Despite certain positive tendencies, numerous enterprises still adjust themselves to ongoing changes without considerable market adaptation and modernization. The emerging ownership structure and financial markets demonstrate limited positive influence on stockholders' incentives, decision-making process and strategies of restructuring.

In the course of these enterprise studies, a workshop on “Russian Enterprises on the Path of Market Adaptation and Restructuring” was organized at IIASA on 1–3 February 1996. Russian and Western experts, extensively working in the area of enterprise performance under transition, focused the discussions on recent empirical findings and analyses concerning the following issues: typical models of enterprise behavior; development of the financial situation at the enterprises and its determinants; impact of emerging markets and competition on enterprises; the consequences of privatization and patterns of restructuring; and enterprise social assets divestiture and conversion. The workshop arrived at both analytical conclusions and recommendations for policy measures stimulating “constructive” enterprise behavior. Possibilities for a joint research project on the motivations and behavior of enterprises in transition economies were also discussed.

The circulation of selected workshop papers as IIASA Working Papers is undertaken in order to provoke broad discussions of presented analytical results. This paper by Dr. Tatiana Dolgopiatova is dedicated to major characteristics of the transitional model of behavior of Russian industrial enterprises with the distinction between so-called survival and restructuring strategies.



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# The Transitional Model of the Behavior of Russian Industrial Enterprises (on the basis of regular surveys during 1991–1995)

*Tatiana Dolgopiatova\**

## 1 Introduction: Methods and Results

This paper generalizes the results of empirical studies on industrial enterprises' problems and behavior based on periodical surveys and in-depth interviews with top enterprise managers. The respondents were general directors (first deputy directors or deputy directors on economic matters) of state-run and privatized industrial enterprises. The studies began in 1991 and the first results of these studies have been published in [1,2].

During four years, seven sets of in-depth interviews and several surveys in various regions of Russia were undertaken. The first set of interviews was carried out in the summer of 1991, the last — including in-depth interviews with 25 enterprise directors in seven Russian cities — in the summer of 1995. The first pilot survey conducted in the summer and autumn of 1991 included about 60 state-run companies in Moscow, St. Petersburg, Saratov, Tatarstan and Bashkortostan. The survey analyzing the 1991 situation was done in November–December of 1991; the representative sample of 150 enterprises from five branches of industry was designed by “Obchestvennoe Mnenie (Public Opinion)” Fund. In January 1992, a quick (“blitz”) survey was conducted at the First Congress of Russian Union of Industrialists and Entrepreneurs (65 completed questionnaires were obtained). In the autumn of 1993 a survey was carried out of 151 managers in seven selected Russian regions: Moscow, St. Petersburg, Novosibirsk, Krasnojarsk, Voronezh, Stavropol and Soligalich. In each region, the sample was constructed using the regional data base on industrial enterprises. The last survey was undertaken at the end of 1995 in the framework of the Ministry of Economy's project “Monitoring of Enterprises' State and Behavior” based on existing samples of the Russian Economic Barometer Group and the Business Surveys Laboratory of the Institute for the Economy in Transition (IET). Readers can find a more detailed description of the surveys' goals, samples and results, as well as research concepts and approach in [3].

Since 1992, Russia entered into a period of deep transformation which seriously affected Russian industry. One of the results of the economic transition was the change in the

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behavior of industrial enterprises which was accompanied by the shifting of control rights over enterprise performance from state institutions to the management of enterprises. For the last few years, a relatively stable model of enterprise behavior, conforming to the conditions of economic transition, has been formed. Our studies reflect the evidence of this [3,4]. Some other research demonstrated similar results, for example, see [5,6].

The empirical data shows a trend of gradual erosion of the enterprises' totality between two opposite poles. The traditional behavior is preserved, a new one appears as well. The enterprise behavior in industry as a whole, as well as regarding particular companies, can be characterized as contradictory. Changes in the main areas of enterprise performance proceed at various speeds and sometimes in different ways. Sales policy demonstrated the quickest and most significant changes, and employment policy appeared to be the most conservative.

It is now possible to outline the enterprise orientation for survival as the dominant behavioral model. The first signs of survival behavior appeared in 1991 [1,7] and our further studies confirmed this tendency [8,9]. One could find similar behavioral features of Russian enterprises outlined in the works of other scholars, first of all in [10]. Enterprise behavior is aimed at keeping within the framework of traditional economic relations and — at the same time — at finding ways to be incorporated into new ones. Therefore, the main features of the enterprise operation are: preservation of an enterprise as an integral entity, including the preservation of its workforce; keeping control of management over the company; maintaining basic links with contractors; sticking to traditional sources for development and types of activity. Following such a background, the ways of behavior often become the strategies for survival.

Striving to preserve a basic working collective occupies a special place in the orientation for survival. Despite the fact that a lot of managers understand the necessity to cut employment, they do it within restricted limits. Together with their unwillingness to cause social conflicts, this policy is stimulated by the existing system of salary taxation, by different types of the administration's documented obligations to working collectives taken in the course of carrying out privatization, and by corresponding agreements with local authorities which in return provide different kinds of subsidies.

The latest empirical data for 1995 demonstrated how the dominant model of survival began to evolve step-by-step. A majority of industrial enterprises turn from passive survival to strategies, based on short-time restructuring (changes in economic links, output mix, etc.). Some enterprise activities show priority of long-term decisions over current adaptation.

The processes of privatization, which ran under the strong influence of enterprise directors, strengthened their control over companies. At the same time, the mass establishment of joint-stock companies and privatization created a starting base for further cardinal changes, whether it be the subsequent redistribution of property rights or the rearrangement of management. But these changes can only take place under certain social

and economic relations, under appropriate macroeconomic policy including stable rules and hard budget constraints for enterprise performance.

## **2 Main Strategies of the Enterprise Behavior (Survival)**

With respect to the degree of prevalence, strategies may be divided into either unique or typical. The unique can only be attributed to particular enterprises and are determined by their position in the market, specifics of production or “lucky chance”. The typical are accessible to the overwhelming majority of enterprises. The most typical strategies are briefly revealed below.

### **2.1 Enterprise strategies in the changing institutional environment**

In the field of institutional reforms the most typical strategy for survival is organizing privatization with an emphasis on strengthening management control and preventing intervention from potential outside owners. A relatively new, emerging strategy is attracting outside owners in the development of production (as a rule — without losing supervision). The strategy, based on interlacing old and new relations, may be defined as “the parasitism” on state ownership including the usage of buildings, premises, equipment, stocks of raw materials, contacts with managerial bodies and banks in order to improve the position of enterprise managers. Different kinds of state enterprise’s transformation into companies of an “alternative economy” where, in fact, a good portion of ownership goes can also be referred to here. According to the author’s estimates, from one fourth to one third of the enterprises use different forms of ownership disintegration.

The management’s intentions and practice to concentrate ownership as much as possible are confirmed by the data on sources of shares redemption at the enterprises which were surveyed when the mass privatization process was in full swing, see Table 1.

During the course of voucher privatization and secondary ownership redistribution, the transfer of the major share of equity to insiders became the main tendency. Also the redistribution of shares within a collective benefits the director and his “team”. At the same time, outsiders (private Russian businesses, foreign firms, etc.) managed to obtain property rights at some enterprises, but for the present, they rarely succeed in receiving control over equity. These tendencies can be confirmed by survey data referring to the distribution of shares at the end of 1995, see Table 2. More detailed recent results concerning enterprise ownership and governance are presented in [11].

For organizational reforms, the most typical is the strategy to join “vertical structures” (corporative groups), either reorganized from branch ministries and/or their units, or established as new ones. At the same time, the striving of many enterprises to follow the

opposite strategy — to be independent — grows as well. The data in Table 3 to a certain extent characterizes the correlation of these types of behavior. The less spread strategy — forming horizontal associations — is within the framework of new relations. Now, branch vertical structures as a rule have been reorganized into joint-stock companies, holdings and interact with enterprises on the basis of “crossing ownership”. The creation of various industrial groupings “from the bottom” is described in [12].

The typical enterprise strategy of the interaction with local or federal authorities is lobbying, imposing pressure to obtain financial support, indirect subsidies and non-financial assistance for favorable business conditions, for attracting investors, etc.

## **2.2 Enterprises in the commodity markets**

During the market adaptation of enterprises contradictory strategies of market behavior were formed, such as maintaining traditional economic ties especially regarding suppliers of resources and, at the same time, promoting an active sales policy including the search for new markets, restructuring output mix and attracting new consumers. Intermediaries are used within restricted limits for these purposes. Some enterprises try to organize their own system of sales, including “firm shops” and marketing centers. Refraining from price increases in strengthening competitive conditions has steadily become one of the important parts of the sales policy.

While restructuring production mix, enterprises try to envision the output in advance on the concrete consumer. Another way is to find afterwards solvent consumers, capable of prepayment or payment in cash. At the same time, some enterprises work out a sales strategy paying attention not only to the partner’s current solvency, but also to perspectives in the market. Under the conditions of the domestic market’s contraction, the enterprises actively try to organize sales to the former USSR states and other foreign countries.

The last survey’s data provided evidence that enterprises have increased their attention to supply issues and actively began to change economic links with suppliers, as well as to invest in various types of vertical integration. The role of intermediaries has started to increase in supply and especially in sales.

Data about information channels and organizational forms of establishing economic ties during the first two reform years are given in Table 4. The measures for the improvement in supply are characterized by information in Table 5. The indices of Tables 6 and 7 illustrate some changes in market policy.

## **2.3 Enterprises in the labor market**

For the first reform years, an overwhelming majority of managers in all the surveys indicated that the orientation to preserve a working collective was their main goal. That strategy determined labor policy which is displayed in known peculiar tactics: preservation of the employees’ backbone, search for additional work in order to provide extra

earnings, laying off useless workers through voluntary departure, etc. Similar observations are also obtained by other scholars [13]. This strategy of avoiding forced massive dismissals leads partly to the employees' wage cut: different measures are undertaken at the enterprises in order to reduce working hours, etc. Thus, there is a rise in considerable latent unemployment. At a number of enterprises some workers who, in fact, do not work there, regularly get a minimum salary which is some kind of unemployment fee.

Subjective statistics of the firing processes at enterprises during the first two reform years are illustrated by the results of the 1993 poll in Table 8. As of the second part of 1994 the reduction in the enterprises' labor force is moving more quickly. But, as a rule, it is a consequence of employees voluntarily leaving and not lay-off results.

## **2.4 Enterprises' adjustment to financial constraints**

Enterprises have already felt the toughening of financial constraints and are trying to survive implementing both strategies of market adaptation and different ways to soften these constraints.

In general, the attitude towards financial resources has changed. Money is needed now, enterprise managers try to obtain or earn it. Without any mutual agreement, directors of surveyed companies sounded similarly: "If you have money you will buy anything you need".

Enterprises tend to influence the proportion of expenses and incomes, trying first of all to increase the latter. Here different forms of rent-seeking behavior can be seen: getting subsidies, privileges and benefits, lobbying for erecting protectionist barriers and local markets' regulation, etc. Here also belongs increasing arrears as the strategy for overcoming demand restrictions in the hope that they can be shifted off, at least partly, to state administration bodies. Delays in the payments for federal and local authorities' orders, which "morally justified" enterprise management's deliveries on debt, made a sufficient direct and indirect contribution to the overall growth of arrears. The enterprise "adaptation" on the credit resources' market (participation in establishing banks, maintaining "good" relations with banks), which allows a selective softening of the banks' and other financial institutions' conditions for borrowing money, should also be mentioned.

At the same time, enterprises implement strategies which lead to the stabilization of incomes and reduction of expenses. The inverse link "finance-production" begins to work. This link is becoming the determinant for decision-making, which was out of the question in the old system of managing state enterprises, and was not typical to their traditional behavior. While establishing production and sales policy, managers take into consideration the requirements of maintaining the normal financial state of companies. Changing the output mix for products which are salable, more profitable and can provide quick returns is going on. But the opposite side of such processes are the decline in the products' technological level (complexity) and other regressive changes in the output structure.

As for production costs, at first their actual level was just included in the price. Then, gradually, some enterprises began to save costs by trying to find new suppliers or organize, on their own, the production of completing units and reduce transport costs. For the time being, most attention is paid to the external cost factors (originating in relations with suppliers first of all) and only very few companies deal with the internal factors — improving technology and making real steps to reduce energy consumption.

The handing-over of social assets to local authorities has become more active. In 1995, enterprises demonstrated a high degree of interest in social objects divestiture or in their commercialization.

Another specific strategy of the enterprises is the escape from controlled (official) financial turnover. Operating with cash money becomes more and more widespread. It does not only allow tax problems to be “solved” but also guarantees payments. This is why cash turnover with the new or once-only consumers is used more often, first of all with commercial structures and private businessmen. Different kinds of barter forms are still widely used. It should be stressed that bartering which originated in the lack (shortages) of goods has exhausted itself; it was replaced by bartering caused by the lack of financial resources, barriers in payments with the former USSR states and other foreign countries, etc. If earlier bartering showed evidence of the dictatorship of a supplier, who usually solved his own supply problems this way, now a consumer takes over the initiative. A producer who does not have or does not actively look for a variety of consumers is forced to agree to the burden of realizing someone else’s products through barter. 62% of the enterprises surveyed used bartering to solve supply problems in 1995 (see Table 5).

During the period of relatively strengthening monetary and budget policy, such forms like bartering which are not kept within *a priori* theoretical schemes are very widely spread. The increasing role of bartering in the Russian transition economy was also demonstrated by the Russian Economic Barometer Group’s business surveys [see 14].

## **2.5 Development strategies: enterprises’ investment activity**

Management has gradually begun to understand the dependence of the financial state on demand restrictions and the necessity of accommodating them through enterprise restructuring and active investment policy. Enterprises, in the main, exhausted adaptation reserves without sufficient investments. For their survival enterprises have to elaborate strategic business plans and accordingly search for sources for their realization.

Enterprise management pays increasing attention to investment issues. Companies carry out work for developing investment projects (business-plans), for looking after potential investors and for establishing contacts with them, for interacting with federal and local authorities and branch associations. Firms, rendering information and consulting services, as well as banks are sometimes used as outside consultants. Table 7 provides data showing the enterprises’ actual investment in main areas in 1995. It is obvious that only

a little over half of the enterprises managed to undertake investment activities. One-third of these enterprises continue to invest in non-production assets.

The main hindrance for carrying out investment programs is the lack of funds. Industry nowadays is an unattractive sphere for outside investment, and enterprises do not possess sufficient funds for large-scale investments. Survey data makes it possible to estimate the accessibility of various sources of investment for enterprises in 1995 and in the first half of 1996 (Table 10). There is evidence of an unfavorable investment climate: over 40% of the companies had no internal investment sources while the access to outside sources was rather limited. Only 2.5–5% of the enterprises managed to attract funding at the micro level. As to the participation of bank capital in the industry's restructuring, this is a very rare case.

The fulfillment of investment programs is also limited by other factors. Many enterprises' inability to work "for the market", low quality of investment projects, striving for wide and unjustified diversification, etc., are evident. Aiming at the "closeness" of ownership, striving for the use of outside financial inflows without waiving control over an enterprise are typical for most managers. But some directors also demonstrated forming a purposeful strategy for enterprise performance involving readiness to waive their overwhelming control for the sake of large-scale investments. However, such enterprises in industry are a minority for the time being.

### **3 The Main Features of Transitional Behavior and Their Determinants**

Typical strategies for enterprise survival are based partly on traditional economic relations, revived in new forms, and on emerging new market relations. This behavior has a transitional character and is caused by a number of reasons.

Economic theory suggests a well-known paradigm "market structure–conduct" for analyzing the determinants of enterprise behavior. The model deals with state policy (in fact, mainly antitrust legislation) and features of the market, where enterprises are operating [15,16]. Such framework for analysis is not acceptable for the transition economy as a market mechanism does not, in fact, exist; this framework may be also viewed as limited since attention focuses on external conditions.

Obviously, standard economic models are not completely appropriate for revealing enterprise behavior in all European post-communist economies which demonstrate the existence of particular transitional features [17–20]. It should be mentioned that some characteristics of the firms' behavior and inter-firm relations in developed countries also demand wider approaches for its explanation [21,22]. The approach suggested by institutional economics, which is advocating ideas of the strong role of political, legal and cultural environment in determining economic agents' behavior, should be taken into consideration [23,24].

Undoubtedly, enterprise behavior is under the influence of market characteristics and other conditions, part of which is “inherited” from the past: level of technology, depreciation of equipment, dependence on partners from the CIS or foreign countries, etc. The character of manufactured products is also important: to be used in the investment sector, or as intermediate products, consumer goods, means for military purposes. These parameters are the subject of concrete analysis which allows branch and individual differences to be outlined.

At the same time, deeper determinants exist of economic behavior caused by the previous system of social and economic relations and the process of its gradual transformation. There are two groups of factors in the Russian transition economy which caused the emergence of a typical model of behavior. Their role turned out to be more important than the direct influence of macroeconomic policy measures which some liberal economists counted upon.

External conditions — mainly the absence of a market environment, competition mechanisms and market infrastructure (its institutional and informational components). The existing economic system has stopped being a command-administrative one, but it is premature to call it a market one as well. The excessive regulation of a number of economic sectors by federal and local authorities is still preserved.

Along with “the systemic” reasons, a number of other external factors also produce a certain impact. One of them is the policy of the government which gave precedents of inconsistency, “weakness” in the relations with the directorate and working collectives of the enterprises. As this took place, financial injections in the economy were mainly effected in an unsystematic manner and were a mere response to pressure but not a well targeted industrial policy. Recently, the place of direct subsidies was occupied by their indirect forms. These are related mainly to creating protectionist barriers guarding domestic manufacturers from foreign competition. At the same time, many privileges moved down to the regional level where they are granted, as far as possible, by the local administrations, and the latter, in their turn, are actively and successfully receiving “aid to the regions” from the federal authorities.

The second group of factors forming the model of economic behavior of the enterprises reflects internal determinants caused by institutional transformations. Here the most important role was played by the factual “non-state” character of state property, vagueness of property rights. The traditions of the pre-reform Soviet economy, with its mighty bureaucracy, weak rule of law and high role of the system of informal relations, should be also noted.

The role of corporate structures continues to be great. These structures have been reorganized from the former branch ministries and their departments. Many enterprises are still included in such conglomerates. This allows them to receive assistance in supply and marketing, foreign economic activities and — what is especially important — to gain the financial support of corporate financial institutions as well as to benefit from the lobbying of corporate interests in the top echelons of power. In return for this the

enterprises are supposed to follow certain rules often contradicting market goals. In corporate structures the informal links and sources of business information are preserved.

“The directors’ ethics” affecting the economic behavior of enterprises has become an informal part and the basis for the preservation of corporate structures in the industry. Such ethics presupposes certain standards in the relationship among the directors of “a certain circle”. This circle should not necessarily be a component of any formal structure. The orientation for keeping the working collective can be considered as an element of that “directors’ ethics”, though such orientation has a separate value as well.

Despite financial problems, it has been normal for many directors to sell products to traditional customers on a preferential basis (price discounts, sales on debt, without prepayment (“predoplata”), etc.). At the same time their attitude to new commercial structures was watchful enough. However, financial constraints have loosened these rules gradually limiting the traditional “circle” by those partners which actively help the enterprise. Cooperation of state-run enterprises with new private businesses in marketing policy and investment activities has become quite common and widespread.

“Directors’ ethics” in the first years of radical reform was strongly connected with the political attitudes of the industrial managers as was shown by the authors of [25].

As mentioned above within the orientation to survive, a special place is occupied by the target to preserve the basic working collective. This situation can be interpreted as establishing an informal agreement between administration (director, narrow group of superior officers) and employees. The latter keep jobs and administration reinforces its control over the enterprise in the process of privatization. This situation creates prerequisites for joint pressure of the directors’–employees’ alliance on the state in order to obtain financial support. The alliance described has a rich tradition in labor relations, which is supported by “bargaining” among counterparts. Under the administrative system managers and employees had common interests in trying to implement economic independence of enterprises through a monopoly position in the markets [6]. Joint interests of a working collective and a company’s management created a unity in the administrative system’s destruction.

Another stable element of enterprise behavior is the orientation on state paternalism. In the transition economy it is mainly reflected in the aspiration to obtain property rights without economic responsibility, to receive access to the subsidies in order to preserve jobs and the enterprise as such. In the recent past the traditions of paternalism penetrated the whole society. They are still strong, though under erosion. They are descending from the federal level “down” to the regional level, to large industrial conglomerates and, probably, to financial–industrial groups. To some extent, they are preserved in the framework of an enterprise performance within the inter-relationship between administration and employees. The forms of paternalistic support are being modified and direct privileges are supplemented by various indirect measures, in particular, relating to market regulation and protection from competition, including those applying to competition in the labor market.

When reforms began there was a lot of debate concerning monopolization in Russian industry. Many economists interpreted the behavior of the enterprises as a monopolistic one based on the evidence — reduction of output accompanied by an increase in prices. In our opinion the rationale for enterprise behavior should be explained by other factors. It could not be described by a microeconomic monopoly model where profits are maximized under the condition of the enterprises dominating the market. The “monopolistic phenomena” of Russian enterprise behavior is connected more with pre-reform development traditions and survival orientation than with market structure. So, this orientation created a behavioral stereotype when changes in demand led to a decrease in output (or production partly continued in the form of “work for warehouses” or deliveries to insolvent customers). The costs due to the inappropriate use of equipment and working time of employees (standing idle) were included into product prices. As a result, the reduction in output led to price growth, but traditional customers agreed to this hoping to enjoy preferences from old suppliers and to obtain state financial support. Of course, the monopoly position of some manufacturers helped them to preserve sales.

An important role in forming the enterprise behavioral model was played by the informational and organizational crisis caused by the collapse of the previous system of management. Economic theory considers information as an important determinant of the economic agents’ behavior [26,27]. Economic behavior is based not only on concrete data on suppliers, consumers, prices but also on the generalized signals allowing the quality of goods, reputation of the partner firm, authority of the trade mark, etc., to be judged. In fact, historically the enterprises possessed the information concentrated only in the system of traditional economic links. That fact has predetermined the significance of the latter in the transition economy. Although measures on reforming these links (including the organization of marketing and advertising) are being taken, the information at the micro level is still insufficient for the active policy of enterprise restructuring and reconstruction of economic links.

Information shortage is also one of the reasons for over-estimating the degree of monopolization in the Russian economy. The lack of data about potential suppliers and customers creates an illusion of preserving a monopoly position for those in existence.

Informal relations and interactions brought about the softening of the lack of information. But their role is wider — they insure against the lack of legislation and the mechanisms of legal regulation. At the same time, they are the traditional component of the Russian economy which fastened the mechanism of the command system during the pre-reform period as was shown in [28,29]. Informal interactions ran through management systems, supporting mechanisms of hierarchical haggling, and part of them served the shadow economy.

Informal relations continue to exist in the transition economy, but they are slightly modified and function by substituting or assisting market interactions. These relations exist in branch corporate groups, in the activities for obtaining financial support. They develop and become stronger in the regions where they are mediated by the interaction

of regional elites. On the personal level this interaction, formed in the past (directors' corps of state and privatized enterprises has been preserved at large, and former Communist party and Soviet officials continue to work in local authority bodies), gradually involved new business circles as well. The regionalization of economic life and the regions' "closure" in the course of ownership redistribution have become stronger. A change in motivations but preserving the main forms of activity is typical for a shadow economy: hidden production, corruption, pressure on the state bodies in order to obtain privileges. Now there is no need to reduce production capacities and find access to the deficit as it was in the past, but there are stimuli to reduce costs and to increase real incomes. The shadow activities are stimulated by striving to avoid taxation including social payments. So the shadow economy becomes more of "a market type" and similar to the conditions in other countries [30].

Despite the fact that the described model of enterprise behavior prevails, there are sufficient differences in the performance of concrete companies. This is in our view due to a subjective factor. The personality of the enterprise director — his qualifications, former experience, stereotypes of behavior and motivations — to a large extent determined the character of deviations from the typical model. Similar conclusions were also made by other researchers of the economic behavior of Russian state-run and privatized enterprises in transition [31,32]. In theory, when the goals of the firm are identified with the managers' goals its behavior is considered to be discretionary. The reasons for such behavior are connected with insufficient competition on the commodity markets and on "the market of higher managers", with a weakness of corporate control through financial markets, with an ineffective system of stimuli and managers' responsibility [33]. All these circumstances are typical for the Russian economy nowadays. The economy faces the destruction of former mechanisms for administration control, and the lack of those regulations even for enterprises which remained state-owned. Only the mechanisms of informal relations have remained in force, which influence managers' motivations and ways of realizing these motivations in the activities of the enterprises.

## **4 The Transitional Model's Evolution: From Survival to Restructuring?**

The comparative analysis of the strategies of enterprise behavior in dynamics allows some conclusions to be drawn of the general character as regards the transitional model of behavior and its evolution.

One can see that the prevailing, typical model of survival is under modification. The conservation of economic links is now not first and foremost. These links are mostly maintained where the costs accompanying breaks in the links are higher than the conservation's costs. Managers no longer consider the working collective's preservation to be their leading goal, though the sphere of working relations has not become the object of

any active actions. The role of self-adaptation to financial restrictions has grown in the survival behavior, while aiming at obtaining financial support from the state has weakened because the latter has become hardly probable. But the orientation of the enterprise management on strengthening its control over the enterprises is still a dominating one. Integration tendencies to preserve an enterprise as an integrity and as a consequence — often inefficient diversification aspirations — are quite notable.

The restructuring tendency has accordingly become more visible in the activities of many enterprises. This tendency is a result of both passive adaptation and active deliberate management policy. It should be pointed out that the newest and the most important restructuring components are: active policy for restructuring economic links in supply; resolute actions and/or intentions for eliminating social assets; a more consistent sales policy on which changes in production directly orientate; and the process of excessive personnel removal is getting more intensive.

At the present moment, short-term restructuring prevails: efforts of the enterprises are bending more towards outside activities, than to in-house organizational and technological processes. But the overwhelming majority of the enterprises understood the necessity for an active investment policy as a crucial element of survival; many enterprises make concrete steps to look after investors, and concentrate their own resources on investments; many companies are elaborating investment projects, though often not well grounded and potentially inefficient. In this connection, examples appear of the redistribution of property rights in favor of outside investors. Aiming at a capital's "closeness" is diffusing, although the enterprise management on average still controls processes of the capital's redistribution and intends to do so in the future. These processes have and are going to have mostly non-market character, closing down to the regional level.

The data suggests evidence of a strengthening of the "regionalization" of economic relations. Actions for restructuring the economic links as well as the formed type of investment activity take into serious consideration the interests of local authorities as well as the interests of "well-acquainted" local entrepreneurs. Along with the regional frontiers of the labor market there is an aggravation of the territory segmentation of the commodity and resource markets favored by the growth of transportation costs. "Market of capitals" is also evidently acquiring a regional character and falls partly under the control of local authorities. Their policy exerts influence in many respects on outside capital including foreign. It should be noted, for the sake of justice, that in many regions, especially in the small towns, local authorities are open for contacts with potential investors, and are ready to help and offer support because they bother about the problems of local budgets and the preservation of jobs. But it is also quite possible that local authorities interfere in the investment projects' implementation proceeding from their own understanding of the goals; they have plenty of levers to do this. So it is easy to forecast the conflicts due to "regionalization" based on the strengthening of local administrations.

Continuing from the aforesaid, it seems necessary to draw attention to the following aspects of the state economic policy.

It is crucial to do more for restructuring the social sphere in small towns. There should be a combination of organizational measures (including information about decisions) and financial measures of especially targeted support for local budgets.

The federal and regional authorities should be ready for the beginning of the restructuring process of production assets. Special measures are needed to promote this — relevant tax policy, acceleration of the privatization of land, increase in rent together with measures which would not allow the loss of production potential through shifting it to other sectors of the economy (coordination with the programs for entrepreneurship and small business' development).

The important aspect is the support and the development of an informational infrastructure, including that belonging to the state. It is necessary to provide access to information of a general type (legislation, other normative acts and decisions) and even to thrust it to the customers. Information about markets, suppliers and consumers is also extraordinarily important. Logistical and financial support for any kind of information centers is a real help in restructuring economic links and, therefore, may be regarded as a factor for strengthening competition.

Concerning support to investments, the most preferable are projects oriented to changing technology and forming an alternative raw materials base. These projects involve costs reduction, quality upgrading, strengthening competition and not only increase of sales, perspectives of which are difficult to estimate today. Financial support to the projects through branch structures is not always an efficient way. It is more rational to invest in forming horizontal associations of concrete enterprises (including private firms) which themselves provide a rather sufficient part of the investments. It sounds more reasonable to make available budget investments not in the form of credits but as equity participation in order to have influence on the management and, later on, to sell shares to the project's participants.

In order to develop a favorable investment climate it is also important to pursue state support for the training and retraining of managers. Business education, principles of rational management, without which it is still possible to survive in Russia, are already needed in order to elaborate a well grounded development strategy and are of vital importance for finding "a common language" with outside, especially foreign, investors.

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## **APPENDIX: Tables**



Table 1: Sources of Privatization, 1993 Enterprise Survey Data (% of the number of enterprises polled)\*

	All Enterprises	Joint Stock Companies	State-run and Leased Companies
Employees' vouchers	64	66	61
Enterprises' funds	58	67	44
Funds of other enterprises	11	12	9
Funds of private companies, commercial institutions	4	6	2
Population funds	9	8	9
Population vouchers	9	10	8
Funds of foreign institutions	0	0	0
Bank loans	11	12	11
Working collective funds	7	11	3

\* About 8% of the respondents could not select an answer as they did not yet know whether their companies would be privatized.

Table 2: Distribution of Shares Among the Main Groups of Shareholders (% of the number of answers)\*

Shareholders	No	<10%	>10% <25	>25% <50	>50% <75	>75% <100	Average Portion of Shares
Federal and local authorities	64.9	7.7	15.4	7.7	4.0	0.3	9.5
Employees including management	0.0	5.4	11.4	34.8	21.7	26.8	52.3
Former employees	19.7	50.5	22.4	4.7	1.3	1.3	11.0
Russian private companies	56.2	18.4	10.0	12.0	3.0	0.3	10.1
Industrial enterprises	76.6	9.0	7.7	4.7	1.3	0.7	5.4
Private persons	58.5	32.4	5.4	2.0	0.7	1.0	5.0
Branch associations	84.9	5.0	6.4	3.0	0.7	0.0	3.1
Foreign firms	93.0	2.3	2.0	1.3	1.0	0.3	2.0
Banks	88.6	6.4	4.0	0.7	0.3	0.0	1.6

\* Results were calculated on data received from the Business Surveys Laboratory of the Institute for the Economy in Transition (IET) sample (299 joint stock companies and partnerships surveyed in November 1995).

Table 3: Enterprises' Membership in Associations, Actual and Desirable (% of the number of enterprises polled)

	Currently a Member	Want to be a Member
Do not take part in any association	4.8/34.4	10.9/43.0
Report to Ministry, department, "glavk"	6.2/13.2	4.6/ 6.0
Regional associations	3.1/ 4.6	6.2/ 2.6
Industrial organizations established from a former Ministry, "glavk", etc.	57.8/34.4	34.4/ 8.6
Voluntary associations of enterprises — manufacturers of certain products	25.0/12.6	48.4/25.8
Voluntary associations of enterprises — customers of certain products	3.1/ 2.6	15.6/ 9.3

Numerator — data of the survey in January 1992; Denominator — data of the survey in the autumn of 1993.

Table 4: Channels of Establishing Links with Suppliers and Customers (% of the number of enterprises polled)

	With Suppliers	With Customers
Mainly through links, established earlier	36/83	66/70
Through the Ministry, department	9/ 5	5/ 3
By the assistance of concerns, associations, etc.	14/ 9	9/ 2
Through commodity exchanges, broker firms, other intermediary institutions	22/ 5	9/ 4
Through commercial centers or other institutions formed from former "Gossnab system"	9/ 9	12/ 4
New links we find ourselves using our contacts	84/64	50/55
Our partners find us	14/17	34/43
With the help of advertising information	6/ 7	6/11
Now the commercial firm makes our sales	—	5/ 6

Numerator — Data of the survey in January 1992; Denominator — data of the survey in the autumn of 1993.

Table 5: Measures for Maintaining Stable Supplies in 1995, Undertaken by the Enterprises (% of the number of enterprises polled)\*

The Main Measures	All Enterprises	Including the Sectors of:		
		Consumer Goods	Investment Goods	Intermediate Goods
Search for new suppliers	57	65	53	58
Using barter	62	45	76	73
Diminishing of output mix	7	8	11	6
Decrease of output volume	12	15	9	10
Using services of intermediaries	25	23	22	33
Investment in suppliers' development	2	2	0	2
Organization of necessary supplies production at the enterprise	7	6	7	8

\* Results are based on the Russian Economic Barometer sample (187 enterprises were polled in November 1995).

Table 6: Changes in the Structure of Customers and Their Determinants, 1993 Enterprise Survey Data (% of the number of enterprises polled)

	All Companies	Military	High Tech	Raw Processing	Consumer Goods	Others
No changes	35.1	38.2	30.4	32.3	30.0	61.5
Traditional customers are insolvent	34.4	32.4	34.8	32.3	38.0	30.8
Customers have refused to buy our products	8.6	5.9	8.7	16.1	4.0	15.4
Due to obstacles for sales to the CIS republics	23.8	38.2	17.4	35.5	16.0	0.0
Due to obstacles for sales to other regions of Russia	6.6	11.8	0.0	9.7	6.0	0.0
We have reoriented to more promising state-run companies	4.0	2.9	4.3	0.0	8.0	0.0
We have decided to reorient sales to private companies	11.3	8.8	17.4	3.2	16.0	7.7

Table 7: Measures for the Improvement of Sales Undertaken by the Enterprises in 1995 (% of the number of enterprises polled)\*

Measures	All Enterprises	Including the Sectors of:		
		Consumer Goods	Investment Goods	Intermediate Goods
Changes in profile	6	3	13	4
Changes in output mix	45	52	49	40
Refrain from the increase of our prices	65	70	56	71
Active advertising	24	18	31	27
Active work with intermediaries, dealers	29	26	38	29
Entering the foreign markets	5	5	7	4
Attempts to acquire state orders	5	2	7	6
Nothing done, anything is useless now	4	8	4	2
There are no sales problems	5	3	0	8

\* Results are based on the Russian Economic Barometer sample (187 enterprises were polled in November 1995).

Table 8: Personnel Dismissals in 1992–93, 1993 Enterprise Survey Data (% of the number of enterprises polled)

	All Companies	Military	High Tech	Raw Processing	Consumer Goods	Others
No dismissals	29.1	21.7	26.5	35.5	28.0	38.5
Yes, but insignificant	55.6	34.8	55.9	58.0	62.0	61.5
Yes, substantial	14.6	39.1	17.6	6.5	10.0	0.0
No answer	0.7	4.4	0.0	0.0	0.0	0.0

Table 9: Enterprise Investment Policy in 1995 (% of the number of enterprises polled)\*

Investment Areas	All Enterprises	Including the Sectors of:		
		Consumer Goods	Investment Goods	Intermediate Goods
There is no investment	47.0	41.0	49.0	52.0
Equipment purchases	32.0	35.0	20.0	38.0
Restructuring of production	25.0	21.0	20.0	35.0
Construction of housing and social objects	16.0	12.0	13.0	23.0
Purchases (construction) of other objects: land, shops, etc.	6.0	12.0	2.0	4.0
Purchases of shares, securities	4.0	5.0	4.0	2.0

\* Results are based on the Russian Economic Barometer sample (187 enterprises were polled in November 1995).

Table 10: Enterprises' Access to Investment Sources (% of the number of enterprises polled)\*

Investment Sources (Investors)	All Enterprises	Including the Sectors of:		
		Consumer Goods	Investment Goods	Intermediate Goods
Federal or local budget	12.3	16.3	9.4	11.2
Enterprises' own funds	43.0	40.0	45.0	43.3
Long-term bank credit	10.5	13.3	12.1	6.7
Bank's capital	1.2	1.5	1.3	0.8
Industrial enterprises	4.9	6.0	2.0	6.0
Russian private companies	2.6	2.2	3.4	1.5
Foreign investors	3.5	4.4	2.0	4.5
Industrial organizations, holdings	3.0	3.0	4.0	2.2
Do not attract funds	41.2	40.0	41.0	41.8

\* Results are based on the IET Business Surveys Laboratory sample (430 enterprises were polled in November 1995).