Post-Soviet Management: Evidence from Kazakhstan*

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This paper is based on information collected by interviews during 2000 and 2001, using a mainly structured questionnaire, with the owners or top mangers in 95 manufacturing, extractive and construction businesses in Kazakhstan, and unstructured follow-up interviews in 11 of these companies. The findings are used to assess the extent to which a literature-based model of post-communist Russian management exists in Kazakhstan. Similarities are noted: the prevalence of an 'insider configuration' (firms run in the interests of managers and workers), and the importance of social capital ('connections'). In contrast, the evidence suggests that 'bureaucratic extortion' is easier to avoid, Russian-style mafia are less in evidence, and a 'nomenklatura effect' is weaker in Kazakhstan. It is argued that these differences create greater space in Kazakhstan: for 'outsiders' to develop businesses whose success depends essentially on satisfying the market, and for young managers to rise to the top swiftly on the basis of their ability to align the performances of their enterprises with market demands. It is suggested that these differences could well be part of the explanation of the relatively strong economic growth in Kazakhstan since 1998.

Introduction

This paper portrays management in present-day Kazakhstan in general broadbrush terms, highlighting distinctive features by using Russia as a benchmark. Our basic aim is descriptive, but we also draw two conclusions which should be of wider interest. First, when features of management under the old (communist) order have survived market reforms, this is usually because these features assist rather than despite obstructing managements' survival or growth efforts. This is just as likely to apply in Russia as in Kazakhstan. Second, we can show, because Kazakhstan offers plenty of examples, that it is possible to retain relatively 'civil' features of communist management (basing workplace and market relationships on social bonds with other bases, and a

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norm of loyalty between employers and employees) without tolerating endemic bribery, corruption and protection rackets.

Evidence

Our evidence is from interviews in 2000-01 with the owners, directors or other nominated senior managers in 95 Kazakhstan firms, all from the manufacturing, extractive and construction industries. Eighty-one of the firms were based in Almaty while the remainder were in four other cities. The firms were not a random or otherwise representative sample but a deliberately balanced selection. The aim was to obtain a balanced selection of enterprises so that the analysis would be able to explore differences associated with size, the histories of the firms, types of ownership and corporate governance. The firms ranged in size from the smallest with just three employees to the largest which had over 3000. Eight of the firms were still state owned while the rest were deliberately split more or less equally between privatised and newly created companies. Among the privately owned enterprises, we deliberately selected similar numbers where there was a single owner, a small group of owners, and dispersed ownership. The interviews focused upon the enterprises' human resource practices - their ways of recruiting, training, rewarding and otherwise motivating staff - but we also gathered information about the occupational profiles and breakdowns of the workforces in terms of age, gender and nationality, and about trends in each firm's volume of business and profitability from which a 'success index', which is used in the following analysis, was constructed. The information was collected by face-to-face interviews with the owners, directors or other senior managers, often supplemented by telephone conversations and mailed data. This fieldwork was all conducted by an Almaty-based research team: hence the concentration of the firms in that city. There were follow-up interviews, by cross-national pairs of fieldworkers, in 11 of the participating companies, during which issues raised by the general findings from the larger survey, and the situations reported in the re-visited companies, were explored in greater depth.

The senior managers who were interviewed were usually men, aged over 40. In former state enterprises they had either been the people who were running the plants under communism or had been in the government ministries which were responsible for the relevant industries. These cadres had usually become major shareholders during the privatisation of the businesses. There were people with similar career backgrounds who had created new private companies which had filled slots vacated when state-owned or recently privatised firms folded. However, there were also 'new' managers, younger people, all men, often with MBA's and/or with prior experience in Western-based or Western-linked companies, who had founded their own enterprises, or who had been promoted rapidly into very senior positions in large or medium-sized businesses. We shall say more about these new managers in what follows.

Russian management

Although the experts are still not agreed on the *kind of capitalism* that is taking shape in Russia – whether it is mafia capitalism (see below), merchant capitalism (Gerber and Hout, 1998; Ray, 1997), oligarchic capitalism (Hoffman, 2002), low trust capitalism (Hanson, 1997), or the old Soviet system developing into an exaggerated version of its former self (Burawoy and Krotov, 1992) - there has been broad agreement across the numerous studies conducted in the 1990s that *management* in post-communist Russia has certain distinguishing features (vis-à-vis Western management).

1. The insider configuration

This is said to arise variously from the frequency with which enterprises have been privatised into the ownership of managers and workers, the influence of trade unions in some enterprises, the interests of national and regional governments in maximising employment and minimising unemployment and the associated claims for benefit, and the prevalent feeling (a vestige from communism) that enterprises belong at least partly to their workers, and that managers have no right to separate workers from 'their' jobs. Thus enterprises are said to be run so as to protect insiders which, it is claimed, can lead to grotesque over-manning, low and often declining productivity, and frequent salary arrears. According to this diagnosis, the reforms have been blighted by too little rather than too much shock and much-needed radical restructuring has therefore been delayed (Aquisti and Lehmann, 1999; Aukutsionek and Kapeliushnikov, 1998; Clarke and Fairbrother, 1994; Filatotchov et al, 2000; Polonsky and Aivazian, 2000).

2. Inflated role of social capital

This is said to be partly a vestige of *blat* and the informal networks that lubricated the otherwise cumbersome centrally planned Soviet economy, partly a product of the lack of affordable high quality business services under the new market regimes, and partly a result of managers' inability to assess anyone's suitability (suppliers, customers or job applicants) other than on the basis of personal knowledge and recommendations. The outcome is said to be that 'who you know' rather than 'what you can do' counts most whether starting-up and staying in business, or getting a job at any level (Clarke, 2000; Clarke and Fairbrother, 1994; Kovaleva, 1997; Ledeneva, 1998; Lloyd-Reason et al, 1997; Muravyov, 1998; Yakubovich and Kozina, 2000).

3. The normalisation of bureaucratic extortion

Otherwise known as bribery and corruption. This is said to have arisen in a context of pathetically low public sector salaries, high tax rates, complicated state regulations, and the absence of a rule of law tradition. Businessmen may often initiate bribes, but only in the knowledge that their overtures will probably be accepted, indeed expected, by state officials. The outcome, according to Radaev (2002), is that *'successful economic activity without bribery seems unrealistic today to a majority of Russian businessmen'*.

4. Mafia capitalism

There is talk of mafia everywhere in the ex-Soviet union. Here we mean the Russian variant of the Sicilian original (Varese, 1994, 2001). These mafia are armed criminal groups. They may be based on nationalities, or state (usually security) services, or just crime itself (Kaliyev, 2002; Volkov, 1999). They compete viciously with one another and offer protection, a so-called roof, to client businesses, handling all difficult external relationships including (sometimes) with all state departments. With the wealth that this activity generates, mafia groups are then able to branch into other areas of legitimate and illegitimate business. When mafia are powerful, businesses need either to organise their own protection or to pay for protection in cash or kind. The attitudes of most Russian managers - generally in favour of private ownership but anti-market - suggest a willingness to be realistic and accommodate to rather than resist mafia capitalism (Eberwein and Tholen, 1997).

5. The nomenklatura effect

This refers to the frequency with which old political capital has been transformed into new economic capital as profitable or potentially profitable enterprises have been privatised into the ownership of senior managers, bureaucrats and politicians. This process has been noted not just in the former Soviet Union but also throughout East-Central Europe. Even where the top communist leaders have experienced socio-economic descent, those next in line have generally done rather well during the transition (Andrle, 2001; Bystrova, 1998; Clark, 2000; Domanski, 2000; Eyal et al, 1998).

Businesses in Kazakhstan

To what extent were the above features present in the Kazakhstan businesses that we studied?

1. The insider phenomenon

This was very much in evidence. There were many indications of this. First, from a Western perspective the firms were being incredibly loyal to their staff, and the employers took their employees' loyalty for granted. When filling posts, four-fifths of the firms expected the recruits to remain for the rest of their careers, and the employers believed that even more, around 90 percent, of their employees hoped to stay for life. Career-long employment was the norm and an all-round assumption.

Second, the more successful firms did not owe their fortune to having made themselves lean and mean. The Japanese 'machine' that is supposed to be changing the world (Womack et al, 1990) had not taken-over in Kazakhstan. Nor had Kazakhstan become part of Ulrich Beck's (2000) 'brave new world of work' in which *Brazilianisation* (casualised employment) is rampant. The more successful firms in our research were most likely to have expanded their permanent payrolls. Two-thirds had expanded their manual grades. More surprising, 26 percent of the firms that had contracted in terms of business had nevertheless enlarged their manual workforces. There had been redundancies in less than 5 percent of the companies. Compulsory redundancies had been extremely rare: this had happened to anyone in less than 2 percent of the businesses.

Why was there so much employer-employee loyalty? It was not due to the force of law or government. Nor was trade union power responsible. Trade unions had either disappeared from, or had never been present, in most of the companies. They had some say in pay determination in just 11 percent of the businesses. Nor was a generalised paternalism responsible. Businesses in Kazakhstan had ceased operating as mini-societies, catering for all their employees' needs. Only a third of the firms still provided any kind of health care. These were usually older, larger enterprises that had maintained on-site health centres. Less than 15 percent of the firms had pension provisions for any grades of staff.

The employers' loyalty to their staff arose partly from a feeling that it would be simply wrong, immoral, to cast workers adrift. Some salaried managers (usually those who had begun their careers in Soviet times) expressed pride in their own resilience and fortitude, and spoke similarly of employees, when they had stuck by the firms through thick and thin in difficult times, reporting for work daily even when their salaries were months in arrears and when there was actually no work to do. These employers reported suffering feelings of shame when workers had been unpaid, and moreso when staff had been laid-off temporarily. Dismissal was simply unthinkable. The employers would have lost the trust of their remaining employees plus, in all probability, their suppliers and customers.

A second reason for the employers staying loyal was the (factually correct) belief that it would be difficult to replace staff if and when, as everyone hoped, good times returned. Career-long employment, whenever and wherever it operates, tends to become a self-sealing system. If all firms hang on to their staff, everyone finds it difficult to recruit experienced workers. Most of the firms in our study said that recruitment was difficult, especially the recruitment of skilled specialists. These were among a firm's assets, its capital. Needless to say, all grades of staff had been thrown onto the labour market when enterprises closed (as had been common in the early and mid-1990s), but unemployment in Kazakhstan had remained low. Skilled workers had been gobbled up by surviving and expanding companies. Skill shortages had been exacerbated by the exodus of Russians who had acted on their new freedom to return to what they regarded as their real homeland, as had 600,000 Germans (mostly skilled technical workers and researchers) who had been detained in Kazakhstan since 1941. Despite this, youth recruitment and training had been cut back in virtually all the Kazakhstan businesses. Most of the old education-industry links had collapsed, and up to the end of the 1990s few businesses had attempted to replace these arrangements. The old skilled workforces were not being renewed. Hence the all-round recruitment problems when additional staff were needed. Certain differences between the Japanese (see Dore, 1973; Graham, 1995) and Soviet variants of lifetime employment are relevant here. The Soviet variant always lacked the functional flexibility of the Japanese version. So in independent Kazakhstan skilled specialists filled, and rarely moved out of, specific workforce niches. In other words, numerical inflexibility was not being compensated by functional flexibility in the workplace. Hence firms' need, as they saw it, to hold onto their skilled staff.

Needless to say, jobs in Kazakhstan were no longer 100 percent secure. As indicated above, workers lost their jobs if and when their enterprises closed. Also, a minority of employers, mostly, we believe (see below), young entrepreneurs and managers in new business sectors such as information technology, were hiring and firing according to workflows. Their counterparts were the well-educated young people, often with Western orientations, who were forging spiralist careers. However, these jobs and workers occupied just labour market niches which did not necessarily represent the future of the entire economy.

We do not believe that Kazakhstan differs from Russia in any of the above respects. We know from studies of beginning workers in Russia and other ex-Soviet republics that a great deal of employment is chronically insecure, and that multiple job holding has become common (see Roberts et al, 2000), but once again, this seems to apply mainly in new business sectors such as the retail trade, restaurants and bars, and even employers in these sectors (not unlike their Western counterparts) may believe that it serves their interests to hold onto a core of loyal and experienced staff. The difference vis-à-vis the West is that, in Russia and Kazakhstan, being loyal to staff is as much a moral imperative and a self-confirming necessity as an optional business tactic.

We must stress that, given the Russian and Kazakhstan contexts, loyal employers are not usually acting against their own immediate or even longerterm interests. Their behaviour is neither irrational nor even non-rational (see Schwartz, 2003). Quite the reverse, given the contexts. Despite its alleged malevolence, researchers have found that Russian firms where 'the insider configuration' is most pronounced are no less successful than others (Estrin et al, 1998; Kuznetsov and Kuznetsova, 1999). This applied among the firms in our study. Loyalty can reward employers. After all, loyal managers and workers will often have far greater commitment than investors to the long-term good of their firms. Capital is far more footloose than labour in today's global market economy.

2. Social capital

This was extremely important in the firms that we studied. There were several indications of this. To begin with, there was the frequency with which 'connections' were judged 'very important' (by 44 percent of our informants). Hardly anyone said that connections were 'not at all important'. What must be added here is that certain kinds of 'connections' – with customers and suppliers, for example – are important in all market economies, and the UK has its 'old boys network'. It is the other ways in which social capital is used that sets the ex-Soviet Union apart. What are these other ways?

First, in Kazakhstan there is the extent to which the company owners and directors in our survey were operating their businesses hands-on. They had a say in all recruitment in 88 percent, and in determining everyone's pay in 67 percent, of the companies in the study. They were not setting-up systems then leaving everything to middle-level and junior managers. Second, roughly one-in-three firms said that 'informal methods' were their preferred way of recruiting staff, and up to 55 percent (for managers and professionals) said that 'personal recommendation' was important in recruitment. This did not mean that jobs were being filled solely on the basis of 'who you know'. Technical skills, academic qualifications, and so on, were also rated as important. It was rather a matter of personal recommendation being regarded as the most reliable guide to a person's skills, and/or a way of sifting among applicants all of whom looked adequately qualified for a job. However, it was also the case that the heads of companies needed to be able to repay favours. A final indication of the importance of social capital – in this case the 'strength of weak ties' (Granovetter, 1973, 1974) – was the ethnic breakdown of the firms' workforces. Altogether 36 percent of the firms' employees were Kazakhs and 50 percent were Russians, which roughly matches the make-up of the general population in Almaty where most of the firms were based. However, the overall ethnic breakdown was not mirrored in the profiles of most firms' workforces. Some were basically Kazakh while others were basically Russian. In 15 percent of the firms over 80 percent of all employees were Kazakh, and Russians amounted to over 80 percent of the employees in another 11 percent. In other words, one or the other nationality was clearly dominant in a quarter of the businesses.

The point that we wish to stress here is that, according to our evidence, neither the insider configuration nor the extensive use of social capital (when it occurred) was impeding the firms' business prospects. Hands-on top-level management, and the use of informal recruitment channels and personal recommendations, were related to high, not low, scores on our success index.

3. Bureaucratic extortion

Here we encounter our first major Russia-Kazakhstan divergence, assuming that Radaev (2002) is correct about bureaucratic extortion having become difficult to avoid in Russia. It must be admitted that this is a difficult topic about which to gather reliable and representative information in any country. However, 38 percent of the top mangers or owners who were interviewed in our enquiry rated their own most important connections as being with state officials, and another 22 percent with politicians. Some were extremely open, and indeed boasted, about their good connections and how valuable these were. Some of the owners who we interviewed had previously been employed in state departments. Some had actually been involved in the privatisation of the businesses of which they had become sole or joint owners. Others had been recruited by the companies from posts in government economic ministries. They knew that their connections were among the assets that they had brought to the businesses.

However, other managers argued that connections, certainly with politicians and state officials, were not very important, or not at all important, in their own businesses, and that they had decided to stay '100 percent white'. In some cases they may have had little option because they simply did not possess the necessary connections, but in other instances this appeared to be their choice, their preferred business strategy. They were foregoing possible benefits, while avoiding the costs, or building-up connections. Writing official letters, providing all documents requested, complying with all regulations, and paying all taxes and other charges levied, was one way in which businesses could be run in Kazakhstan. According to our success index, using and foregoing connections were more or less equally successful business strategies, which meant that owners and managers had a real choice.

4. Mafia capitalism

There is a glaring Russia-Kazakhstan contrast here. We are not claiming that there are no criminal gangs, or no protection rackets, in Kazakhstan. However, in Kazakhstan when people speak of mafia they invariably mean the shadows of official state structures. The chains of command are most likely to end in the president's offices.

There is plenty of government in Russia (and in Kazakhstan), judged by the number of state officials. Post-communism has not thinned-out state bureaucracies (Radaev, 1998). But a large state is not always a strong state, and

Russia covers a lot of territory. Moscow and St Petersburg are best regarded as states within a state. Kazakhstan is different. As in other Central Asian republics, the government is more likely to be accused of being repressive than weak. Political power in Kazakhstan is concentrated in the hands of the president, so far the country's only president, and previously a leader of the republic's communist party. Rural areas may be different, but in Kazakhstan's main cities the state is in charge. The only reliable 'roofs' have official or shadow state guarantees. Is this good or bad for business? The basic fact here, in our view, is that Russia and Kazakhstan present different socio-political contexts to which businesses must adapt. If a state is too weak to provide protection, then the service will be marketised. Either way, businesses pay.

5. Nomenklatura effects

There is a nomenklatura effect in Kazakhstan. It explains how some of the proprietors in our investigation had acquired their firms, and how some senior managers had obtained their jobs. However, Kazakhstan differs from Russia in that there has been a major change (and a particular type of change) of personnel in the political elite. There has been an exodus of Russians and an influx of Kazakhs. This contrast between the old and the new was reflected in the ethnicities of the owners and top mangers in the firms in our survey. The privatised firms, which tended to be the largest, were mostly Russian-owned and managed. Those in charge had often not just benefited from, but owed their positions to their old political capital. However, the new start-ups were mostly Kazakh-owned and managed. Here those in charge were rarely old nomenklatura though they had sometimes benefited from their links with the country's new political elite.

Market- oriented management

There was obviously space in Kazakhstan (more space than in Russia, as we read the evidence) for businesses to succeed without submitting to bureaucratic extortion or paying for 'protection', and without possessing any special links with state apparatuses and officials. Some were thriving solely on the basis of their ability to satisfy the market. It was also possible (we know, because we interviewed some) for managers to rise to the top rapidly purely on the basis of their technical competence. There was a generous sprinkling of untypical (in Kazakhstan) management styles among the firms that we studied. Generalisations can be useful, but these, and ideal types thereby constructed, may conceal as much as they reveal. Over 40 percent of the owners and senior managers who we interviewed in Kazakhstan did not rate 'personal recommendation' as important when recruiting any grades of staff. A similar proportion did not regard connections with state officials or politicians as important. Some managers made it clear that they felt constrained, irritated, by the social and cultural obstacles to the reorganisation of their enterprises to conform with what they believed were best Western practices.

The following remarks were made by members of the new, entirely post-Soviet generation of younger managers who had risen rapidly to senior positions in their companies. One 30 year old manager who had already spent several years working in the West, and for Western-linked companies in Kazakhstan, told us that, *"It would be easy technically to install new machinery and to boost our productivity to French and Italian levels. But then I'd have to sack most of the workers. I would be a dead man the next day if I did that."* Another young manager was introducing change slowly. *"We are slowly sacking older people, those aged over 30, and replacing them with younger people. The old people have the Soviet mentality. They just obey orders. What we need is teamwork. The lay-offs have to be voluntary and we have to help them all to find new jobs. We'd like to hire MBAs but there are not many of them and they're expensive."* We agree with Michailova and Mills (1998) that individual managers can make a difference. The ways in which the owners and managers in our research were managing appeared to be as much products of their own biographies inside and outside their present companies as of the enterprises' market situations, technologies and histories (see also Schoenmaker, 1993). However, we would also argue that the extent to which individual managers can make a difference is likely to vary from country to country, and to be greater in Kazakhstan than in Russia (see below).

Discussion

We accept that the model of Russian management used as a benchmark in our analysis is a stereotype, even a caricature, but we still conclude that Kazakhstan is different and that there is neither a single transition pathway nor any uniform way of running businesses successfully throughout the entire ex-Soviet Union let alone the whole world. The Russian caricature matches Kazakhstan realities in some respects but not in others. Kazakhstan is different politically and in its ethnic mix. 'Russian' characteristics are likely to remain prominent only when they are conducive, or at least not hostile, to the commercial success of businesses in Kazakhstan. We believe that this also applies in Russia, but that the political and cultural contexts, and therefore the implications for effective management, are different. However, it seems likely that the non-Russian features of Kazakhstan's businesses will be at least part of the explanation for the Central Asian republic's relatively strong economic performance since 1998.

We do not anticipate any convergence with Russia unless Russia changes. Kazakhstan has less need to change. The economy contracted alarmingly in the first half of the 1990s (DIW, 1996, 1997), stuttered for several years, but has grown strongly since 1998. It now has a stronger growth rate than any other ex-

Soviet economy (Gleason, 2002). True, this is due mainly to the exploitation of mineral reserves and high oil prices, but Kazakhstan is not the only ex-Soviet republic with oil and other mineral resources. There may be a huge question mark against how widely the benefits of economic growth will spread in Kazakhstan, but we encountered a mood of optimism is the business community, and we believe that this confidence is justified. Everyone knew that Kazakhstan remained poor by Western standards, but they also knew that they were doing rather well compared with their usual comparator countries – China, Russia, Pakistan and other Central Asian states. Kazakhstan is now paying off its international debts. The country is not in hock to, required to accept advice from, the International Monetary Fund or the World Bank. Kazakhstan has become a country with a balance of trade surplus, whose government has a budgetary surplus, and an expanding economy, which enables Kazakhstan to plot its own future.

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