How to manage successfully in central Asia*

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Abstract

This paper presents evidence collected through interviews with the owners or senior managers in 95 companies from Kazakhstan's extractive, manufacturing and construction sectors. It is argued that although, using Western yardsticks, Kazakhstan's enterprises may appear to remain riddled with inefficient practices, these practices are in fact usually efficient and effective in a Central Asian context. This context is a product of the historically-laid culture of the region, the legacy of communism, and experiences during the post-communist transformation. The outcomes are that connections can be a crucial business asset, operating at least partly 'in the shade' has been normalised, recruitment is normally via personal recommendation, and employees cannot usually be dismissed. The evidence presented shows that introducing some new Western management practices can increase efficiency and success-chances, but in Central Asia such practices need to be introduced cautiously and selectively.

First impressions

What's wrong with Kazakhstan's businesses? To an initial visitor from the West, especially one well-versed in management theory, the answers are glaringly obvious (and some corroborating evidence is presented below). There is grotesque over-manning, hardly any workforce flexibility, and low productivity reflected in pathetically low salaries which many firms have been unable to pay promptly. The businesses appear to need a thorough shake-up and shake-out.

Now it can be argued (with hindsight) that the reforms in Kazakhstan (and many other ex-communist states) were mis-managed. A currently fashionable view is that privatisation itself is insufficient to kick-start therapeutic market processes. In Kazakhstan, as in much of the former Soviet Union and East-Central Europe, privatisation was partly by vouchers issued to the public, and partly into the hands of managers and workers. It can be argued that voucher privatisation does

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not work because the owners are too dispersed, and none have sufficiently large stakes in any enterprise to actually take charge of the businesses which, therefore, remain management-controlled. Likewise it can be argued that when the managers and workers own an enterprise they will always prioritise the defence of their own jobs. Hence, this argument runs, external owners, a genuine capitalist class, is needed: people who are prepared to inflict real pain on employees in the hope of making spectacular gains for themselves (Muravyov, 1998). However, the hard evidence on whether 'insider' ownership and control really are bad for business is not clear-cut (see Estrin et al 1998; Kuznetsov and Kuznetsova, 1999).

New evidence

Here we engage in this debate with evidence from a 2000-2001 study of 95 firms in Kazakhstan where interviews were conducted with the directors, deputies, personnel or other senior managers. All the initial interviews were conducted by local fieldworkers, but 8 of the companies were revisited with follow-up questions by a cross-national pair of investigators. The interviews ranged over recent and current trends in the businesses, but focused on levels and patterns of employment, hiring and other labour management practices. Six of the firms were still in public ownership while the remainder were spilt more-or-less equally between privatised and newly-created companies. Ownership types were mixed. Three groups were more-or-less equally represented: firms where there was a single owner, a small group of owners, and dispersed ownership. The businesses in our study ranged in size from the smallest with just 3 employees to the largest with over 3000. The firms were a selection - a deliberately balanced selection - rather than a sample, and they were all drawn from the manufacturing, extractive and construction sectors which, most informed commentators will agree, are the base of the Kazakhstan economy on which all hopes and plans for recovery depend.

Findings

Evidence from the kind of study that we conducted inevitably presents an unrealistically favourable picture of business life because we could not conduct interviews in enterprises that had folded. The firms that we studied were all relatively successful in so far as they had survived into the twenty-first century. Two-thirds of these firms reported that their volume of business had increased over the last 5 years and was still increasing at the time of our interviews. A half of the firms were reported to be profitable and another 34 percent were said to be breaking-even. Across the entire Kazakhstan economy (according to official figures), output declined steeply in the early-1990s (Sziraczki, 1995), and (again, acccording to government statistics) at the end of the twentieth century the economy was still not on a definite upward course (DIW, 1997; European Commission, 1999). Our firms, therefore, assuming this evidence to be correct, are not a microcosm of the entire Kazahstan economy. They were among the country's stronger enterprises in 2000-2001.

Despite the overall decline in output, registered unemployment has remained low in post-communist Kazakhstan. How has this been possible? There was considerable over-manning (by international yardsticks) in the businesses that we studied. Most had expanded their workforces in recent years and were envisaging further increases in the future. None of the businesses could be described as lean and mean. There had been no shake-outs. Less that 5 percent of the firms had ever made anyone redundant, and only 2 percent had made people redundant compulsorily. Average monthly salaries were reported to be USA $150 for managers and professional staff, $100 for other non-manuals, and $80 for manual employees. These modest salaries were not always being paid. A half of the firms reported that there were salary arrears at the time of our study.

The enterprises had not been restructured in terms of employment patterns. Their occupational profiles looked like relics from a bye-gone smokestack era. They were extremely bottom-heavy. Altogether 74 percent of employment in the businesses was in the manual grades. This bottom-heaviness was actually being accentuated because most of the ongoing expansion in employment was at the lower and middle levels. Physical labour was not being replaced by high-tech production.

There was hardly any part-time employment, and nearly every worker in every firm had a permanent contract. When hiring, the firms were usually trying (and finding it difficult) to obtain ready-skilled workers who could slot-in immediately and do particular jobs. Little training was being conducted. The normal expectation on the parts of employers and employees alike was that jobs would last for life. In other words, there was little flexibility - either numerical or functional - in the firms' workforces. This evidence offers further ammunition for the argument that labour management in Kazakhstan still needs a radical shake-up.

Our counter-argument is that the inefficient (by Western standards) ways in which businesses in Kazakhstan are run are in fact usually the most efficient and effective ways, given a context which is a product of the country's Central Asian culture, its communist past, and, equally important, the limited survival strategies that were available to firms in the early stages of the transformation, and which have subsequently been institutionalised.

Communism did not end in Kazakhstan (or the other Central Asian republics) as a result of popular pressure for change. Indeed, Kazakhstan did not welcome the break-up of the USSR. There was no vision of an alternative and preferable economic, social or political order. The main practical effect of communism ending in 1991 was that the system of central economic planning, in which Kazakhstan's enterprises had been integrated, simply disappeared. When this happened, plant managers, if they were to stay in business and keep their jobs, had to rely on their own resourcefulness and any social capital (contacts) that they had inherited from the old system. They had to procure their own supplies and make their own sales using cash, credit or barter - whatever was acceptable to both sides.

Most of the senior managers who we interviewed regarded 'connections' as very important, especially connections with other business people and state officials. The relatively successful firms (which were profitable, and where business was increasing) regarded connections as even more important than other companies. 'Gift giving' had been customary in Central Asia prior to communism (see Akiner 1997). These informal ties continued under communism: informal deals were a crucial 'oil' that prevented the cumbersome, centrally-planned system seizing-up. And these ties have been even more important to businesses under post-communism in countries such as Kazakhstan, and in Russia also (see Ledeneva, 1998).

In Kazakhstan it is not absolutely essential for enterprises to keep part of their business in the shade and collude with governmental officials. Kazakhstan is like Russia in this respect. Businesses in Russia do not all pay bribes (Radaev, 1998). In Russia bribery, when it occurs, is usually initiated by business people, not state officials. The situation is not identical to the regions of Ukraine where there are unofficial tarrifs - scales of payments required to obtain a satisfactory outcome from a visit to register a business, or to settle a tax issue (see Kovaleva, 1997). In Kazakhstan employers have the option of being 100 percent legal, but our respondents who were acting in this way felt that this was to their at least short-term disadvantage, and our evidence suggests that this belief was correct.

Business services in all the new market economies have been either poor quality (typical of local businesses) or expensive (when operated by foreign companies) (see Lloyd-Reason et al, 1997). This has applied to private recruitment agencies and to the state labour offices. So employers have preferred to rely on informal labour market channels (see also Clarke, 2000; Yakubovich and Kozina, 2000). The relatively successful firms in our study were just as likely to prioritise 'personal recommendations' when hiring staff as the less successful businesses. This was in fact the normal recruitment method.

We asked some of the persons who were interviewed (all senior managers) how they had got their own jobs. Connections had invariably played a part, usually a big part. Some of the respondents had moved seamlessly from government ministries where they had been experts in food processing, carpet-making or whatever, to key posts in privatised companies. *'I was working at the ministry helping to develop new products. Then in 1992 I was involved in privatisation. This factory became a private enterprise then and I became president and joint-*

owner.' Other respondents had been invited into going concerns. *'The company became aware of my work at the ministry. They started to invite me to meetings. Then I was invited to join the business...I was not looking for another job. I was recommended by an acquaintance and I was then invited to join this company. It's a better job in terms of level and salary.'* No-one had simply replied to an advert!

Another general characteristic of the local management style, one which was associated with business success, was hands-on management by the company director and/or deputy. They would involve themselves personally in all aspects of the business, especially personnel matters - all recruitment and everyone's pay.

Improving efficiency and effectiveness

At this point we must make it clear that some successful businesses were incorporating new, non-customary practices, albeit ones which were compatible the Kazakhstan/Central Asia basics, the 'ground rules' for doing business in the new market conditions, and were thereby increasing their effectiveness. These practices were:

- Requiring job applicants to apply in writing, and conducting formal selection interviews (without prejudicing respect for informal recommendations).
- Seeking recruits with good academic qualifications, who were likely to prove adaptable and capable of working in a team, rather than individuals with the specific skills required to do particular jobs. Achieving functional flexibility in a workforce appeared to be all the more important given the difficulty in becoming flexible numerically (certainly downwards).
- Providing on-site training and testing trainees, and encouraging them to draw-up personal career plans.
- Individualising the pay of managers, professional and clerical (but not manual) employees.
- Retaining or re-introducing some fringe benefits such as recreation (including holiday) facilities.

We then have to report that other innovations in labour management, however sound they might prove in Western contexts, were not assisting the relevant enterprises to operate successfully in Kazakhstan. In all cases this was because they threatened to undermine the 'ground rules'. The 'no goes' were:

- Setting formal targets for individual employees.
- Introducing systematic job evaluation.
- Conducting regular staff appraisals.

- Encouraging employees to study for further qualifications.
- Promoting internally into the management grades (thereby threatening incumbents).

Among the firms in our study, dispersed rather than 'insider' ownership was associated with success. However, there was no overall difference between the performances of the privatised and the newly-created companies. Kazakhstan appears to be like Russia and Ukraine, and unlike the Central European countries in this respect (see Acquisti and Lehmann, 1999; Bilsen and Konings, 1996; Konings et al, 1995; Konings and Walsh, 1999).

Only 14 firms which were wholly or partly foreign-owned. This is too small a number to justify any firm conclusions, but the wholly or partly foreign-owned companies were faring neither better nor worse overall than the rest of the enterprises. The evidence presented above should derail any expectation of Western know-how always being an asset in present-day Kazakhstan. The European and North American market economies developed under historically specific conditions. The same applies in present-day Central Asia. These conditions, and the compatible management practices, need to be respected. Importing Western practices wholesale is not a recipe for success. What appears to be wrong with businesses in Kazakhstan is usually right, given the context, which is likely to prove as unyielding as the types of market economies that have been normalised, and may now be regarded as 'the' market system, in what we call the West.

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