

## **CHAPTER 8**

### **TURNING THE NEXT GENERATION OF RUSSIAN WORKERS AWAY FROM WEAPONS WORK**

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Since the early 1990s, U.S.-Russian cooperative nonproliferation programs have been bent upon reducing the size of Russia's nuclear complex by finding alternative employment for tens of thousands of workers currently employed as weapons specialists. These programs are helping demilitarize Russia but will fail to achieve their stated goal so long as future generations of scientifically talented Russians are more attracted to working in the defense complex than in the private sector. The forces that push younger Russians towards state employment, after all, are the same forces that make it practically impossible for older generations—the focus of Nunn-Lugar programs—to transition out of weapon work.

Certainly, channeling Russian youth away from employment in these facilities is worth pursuing now.<sup>1</sup> Over a third of Russian university students recently surveyed would consider working at a nuclear industry enterprise in a closed city. More troubling still, over 60 percent of the best students would actually prefer to work at a state enterprise.<sup>2</sup>

In this chapter, I examine four principal obstacles to attracting these younger workers to the private sector. The first is the prevalence of corruption in Russia, which

increases the costs of starting and maintaining businesses, and discourages the foreign investment enterprises need. The second is that Russians still lack an entrepreneurial work ethic, which is caused in part by the third obstacle, an overbearing management style prevalent in Russia. Finally, Russia's current laws and institutions hinder attracting young workers to the private sector because, instead of fostering economic growth, they have up until recently been totally at war with private business.

Although serious, these problems can be overcome. In fact, multinational corporations with business concerns in Russia have developed several successful methods of training their Russian employees to work within Western business norms. These corporations discovered that their younger local hires, when exposed to a Western work culture, are less inclined to cheat or steal, eagerly seek out responsibility, and have developed a more sophisticated view of modern business. They found that Russians over 35 years of age, however, do not adapt as readily and require special management. These corporations' experience suggests a number of specific recommendations for how to reform future nonproliferation programs, including increased emphasis on business and academic exchanges with the United States and Europe, and legislative changes the Russian government can make to ease the burden on small and medium sized enterprises.

### **Corruption Cripples Russia's Private Sector.**

The prevalence of corruption is arguably the biggest obstacle to entrepreneurial development in Russia. Paying for Mafia protection and bribing corrupt officials greatly increase the costs of starting and maintaining even the smallest enterprise. On a larger scale, crime in Russian business contributes to negative stereotypes about Russian workers and discourages foreign investment needed to expand the private sector.

The propensity towards corruption has historically been high in Russian culture and is generally an accepted part of life. Its prevalence has been attributed to both the state's inability to enforce laws and the average Russian citizen's desperation for survival.<sup>3</sup> Corruption in Russia can be traced to the Czarist era when peasants were largely left to police themselves through a form of lynch law known as *samosud*, or self-judging. In *samosud*, actions that threatened the security or the social order in the community were punished very severely.<sup>4</sup> On the other hand, crimes against outsiders or the Crown, for example, tax dodging, were accepted, as they had no immediate negative impact on the community. The state disliked the idea of peasants policing themselves, but it lacked the legitimacy and resources to enforce laws across such a vast country.<sup>5</sup> Meanwhile, within the state's own organs, low-paid civil servants were actually expected to supplement their incomes by *kormlenie*, or feeding off of their jobs, whether by accepting bribes, running private businesses on the side, or appropriating state assets.<sup>6</sup> Thus developed a culture of acceptable criminality.

Instead of putting an end to this corruption, the Revolution of 1917 only broadened its scope. The Communist Party relied on criminal groups to bypass bottlenecks and shortages in the hopes of meeting production demands. Soviet citizens, too, were forced to turn to crime in order to survive, whether by selling goods on the black market or stealing goods from the state.<sup>7</sup>

Given Russia's past, it is not surprising that what is considered corrupt by Western standards is business as usual in that country. For example, there is a nearly universal practice in Russian businesses to maintain two sets of financial books: the first set contains accurate account records for in-house use only; the second set of numbers reflects a much lower profit margin for the benefit of tax reporting. The rationale is a throwback to *samosud*, where evading taxes, though illegal, was not "wrong." Among Russian businessmen, this practice is not only

acceptable, it is expected. Accountancy staff that process these records are usually aware of the illegality, but seldom question the morality of doctoring the books, much less the long-term negative impact.

Corruption's effect on business in Russia is very serious. Daily business practices lack the required transparency to attract investors. In the 21st century, a potential investor expects a company's financial records to present a fair and accurate picture of the enterprise's financial status and market competitiveness. Since the decision to invest in a company is largely based on these reports, opacity or lack of confidence in their legitimacy will adversely affect that decision.

PricewaterhouseCoopers estimates that Russia loses about \$10 billion in direct foreign investments a year due to its high opacity index.<sup>8</sup> Arthur Haigh, PricewaterhouseCooper's managing partner, said in an interview with *Kommersant Daily* that Russia's integration into the world economy and the attraction of much needed investment may accelerate, but only if the management of Russian companies begins to practice the principles of good corporate governance.<sup>9</sup>

Corruption is prevalent at all levels of business. A recent example at an international accountancy firm in Moscow illustrates this point. To be certified, an accountant must pass a series of rigorous exams. If an accountant fails, he or she will most likely be dismissed from the firm. During a recent exam, one of the examinees was found to be cheating and was confronted with the evidence by his superiors. Neither embarrassed nor disturbed by the accusation, he admitted to the cheating, and expressed surprise only when he learned that he was being fired as a result. The employee's reaction concerned the expatriate staff, which promptly arranged interviews with the other trainee accountants about the incident. The interviews showed that the locally hired staff viewed cheating on tests as acceptable behavior and felt that being fired for it was overly severe.<sup>10</sup>

Getting caught cheating was simply a matter of not cheating well enough.

Such stories are rampant among companies with business concerns in Russia, further strengthening the negative stereotype of Russians as untrustworthy employees and business partners. Although this anecdotal evidence seems to prove otherwise, the problem is not based on an inherent lack of honesty or integrity by Russians, but is simply a matter of differing cultural definitions of what is acceptable. History and necessity have created a quite different set of norms for Westerners as compared with Russians, but until Russian work culture adopts the business norms of the industrialized Western nations, this stereotype will continue to pose an obstacle to Russia's proper integration into the world economy.<sup>11</sup>

### **The Russian Work Ethic's Traditional Lack of Entrepreneurialism.**

The Russian work ethic evolved in a command economy, not a developed free market system, and the Russian worker has had little time to adapt to the end of communism.<sup>12</sup> The employee's place in the Russian work culture and the role of the employer, therefore, are viewed differently than in the West. A reasonable employment situation by Western standards, in terms of job security and benefits, would not meet the expectations of a Russian accustomed to the labor process of the Soviet planned economy.

For over 70 years, the Soviet citizen could count on a minimal, but secure, standard of living. Health care and education were provided free of charge by the state, and every citizen was guaranteed employment.<sup>13</sup> According to Soviet law, it was, in fact, a crime not to be employed.<sup>14</sup> Full employment in the Soviet system allowed the government to pass social welfare responsibilities to individual enterprises, which provided housing, food, daycare, and other benefits. The monetary portion of income was far less

important to the survival of the employees than these subsidies, since low wages were offset by price controls that made the necessities of life available to the majority of the population at prices they could afford.<sup>15</sup>

In this system, after completing a state-sponsored education, a citizen would be placed in a position chosen on the basis of current labor needs and his or her skills. Once employed, the citizen could count on having that job indefinitely. If a worker found himself or herself “unemployed,” his or her last employer (and not the state) would be responsible for paying any unemployment benefit. Changing enterprises was virtually a risk-free venture for the worker; he or she would be able to move on to a different company after completing the mandatory service term. Separate enterprises were, after all, only different faces of the same entity—the state.<sup>16</sup>

Although the socialist system collapsed in 1991, its effect on the Russian work culture persists. Russian workers still expect their employer to provide meals, transportation, housing, and daycare. Despite the enormous costs involved, many enterprises continue to do so. Under the Soviet system, the employer was not an equal and independent member in a negotiated labor contract, but an integral and permanent part of the worker’s life. Employment itself was more than just a right; it was one’s obligation and umbilical cord to the state.

All Russian citizens felt the impact of the Soviet system’s collapse. However, for the tens of thousands of weapon specialists in closed cities around Russia, the system has actually changed very little. Their employer is still the state, and the most important part of their remuneration is not the wage, but the social benefits, most notably housing. Underpaid and underemployed as a result of Soviet-like labor hoarding by the institutes, these individuals lead lives not radically different from those experienced during the Soviet years.

This minimal but secure standard of living must be oddly comforting to those who know no other economic system. Confined to the defense industrial complex, the weapon specialists are still guaranteed housing and a stable income. Furthermore, many believe that in time there will be future contracts that will reinvigorate the institutes. Moonlighting in an evening job or accepting grants from Western nonproliferation programs serves as an additional financial cushion that further discourages them from leaving the defense sector.<sup>17</sup> If a weapon specialist leaves the institutes, he loses not only his housing and financial security, but also his professional identity.

Under these circumstances, employment in the defense sector is considered more stable and secure than in the private sector. Unless Russian work attitudes and behaviors adjust to a market economy and there is a clear incentive, Russians, old and young alike, will not view employment in the private sector as a desirable alternative.

### **Top-Heavy Russian Management Style.**

The typical management structure in Russia is top-heavy, inflexible, and inefficient. Not only does this adversely affect the profitability of the enterprise, it creates an environment un conducive to the development of employees' entrepreneurial skills. Enterprises in Russia tend to be centered on a dominant individual instead of a board of directors or an abstract concept such as a mission statement. A general manager tends to be highly involved in every aspect of the enterprise's activity. Authority and responsibility are rarely delegated to the members of the management team, who have little opportunity to exercise or develop leadership or decisionmaking skills. Nor do they seek out extra responsibility. Because the general manager micromanages all daily operations, he has little time to strategize or develop other business opportunities.<sup>18</sup> According to Andrew Cranston, a partner at KPMG Moscow,<sup>19</sup>



The lack of responsibility and autonomous management structure creates a very inefficient situation; workers are afraid to take decisions and a general manager's time is wasted on details. It is the rule rather than the exception to see queues of workers, including mid-level and higher-level managers, waiting hours in front of the executive director's door to ask even the most trivial questions.

Management consultants report that the majority of their Russian clients suffer from gross inefficiency due to a weak mid-level management structure, and often advise their clients to adopt the Western model of organizational management.

The top-down directive style carefully spells out the employee's duties and leaves little room for individual initiative. Lack of a mission statement or clear concept of what the company is trying to achieve often leaves the worker without direction or incentive to make additional efforts. Even with this direction, the average Russian employee could not count on any additional rewards for his efforts. In such a system, there is little reason for workers to assume ownership of their job or any initiative at all.<sup>20</sup>

The belief that one can better one's situation through dedication and hard work, and that the reward received will be proportional to the amount of effort expended, is deeply ingrained in the Western work ethic. Workers in industrialized countries, in this sense, are basically entrepreneurs who sell their skills and services by contract to the highest bidder and constantly look to move up either within their current enterprise or with another employer. The concept that one can better one's position through hard work and dedication is stunted in Russian enterprises by the top-heavy management style along with a lack of basic entrepreneurial skills, initiative, self-motivation, and the ability to see the broader picture.



### **Russia's Past Laws at War with Private Business.**

Until recently with passage of new laws, Russia's outdated labor code discouraged enterprises in Russia from creating more jobs and preserved rigidity in the labor market by imposing on the employer Soviet-era obligations that dramatically increased labor costs.<sup>21</sup> For example, Russian workers were ensured a minimum of 4 weeks of annual paid leave in addition to the ten national holidays, plus unlimited paid sick leave at a rate of 60-100 percent of salary.<sup>22</sup> Heavy compensation for overtime was also stipulated by the code.<sup>23</sup> Maternity leave in Russia was very liberal compared to that in most Western countries, providing as long as 3 years per child. These statutory requirements often crippled small- and medium-sized businesses.

The dismissal process favored the employee to the detriment of the enterprise. Under the old labor code, terminating employment was a very difficult and complex process for the employer.<sup>24</sup> Most companies found it necessary to seek costly legal consultation before undertaking action due to the detailed requirements. Further contributing to the risk faced by employers in the hiring process, trial periods could not exceed 3 months and in some cases were forbidden completely.<sup>25</sup> An enterprise in Russia was therefore reluctant to create new jobs due to the possible costs and difficulties in dismissing non-performers.

The Russian tax rules were also complex and confusing, laying a heavy burden on small- and medium-sized enterprises. As a result, these enterprises either evaded paying taxes or delayed paying as long as possible.<sup>26</sup> Tax collection, already inadequate, was further degraded by opacity in the private sector, as discussed previously. This reduced revenue in turn adversely affected the Russian government's ability to develop adequate social safety nets, since the system was funded by the payroll tax.

Throughout 2001, President Vladimir Putin and the Duma addressed many of these problems through significant economic reforms, including changes to Russia's social security and tax regulations.<sup>27</sup> In addition, on December 31, 2001, Putin signed a new, improved labor code into law.

The extent to which these reforms will be implemented and enforced remains to be seen. Employers may take advantage of eased restrictions on dismissing staff, but will they be eager to report all their earnings to the tax collectors? More important, the Russian worker, as we have seen, is not used to a labor market in which an employee's value is based on performance. Will the workers accept the new conditions, or will they seek out organizations that still provide Soviet-era privileges—for instance, state-sponsored military and nuclear industries?

A final concern is Russia's continued lack of consistent and fair enforcement of the legal protections. This deficiency affects every aspect of Russian society and creates considerable problems for business. Many potential investors have an understandable lack of confidence in the Russian judiciary system's ability protect their interests. Also, the laws that would protect property rights are either nonexistent or very complex, and in any case unfavorable to foreign ownership.

### **Practical Experience Points to Elements of a Solution.**

When looking for ways to overcome the obstacles caused by Russian nonentrepreneurial work culture, one will find the experience of multinational corporations useful. These organizations have been doing business in Russia and employing Russians since well before the collapse of the Soviet Union. Competitive modern corporations cannot afford the inefficiency and inflexibility inherent in Russian enterprises, nor are they willing to tolerate corruption. At the same time, they rely heavily on locally hired staff. As a

result, they have devised several methods of addressing these concerns.

Multinational corporations have acknowledged that, in addition to the cultural differences, there are also generational differences among Russian workers, so that management style must be adapted to each generation accordingly. The first generation of Russian workers is composed of individuals over the age of 35, commonly referred to as the “Soviet generation,” i.e., those acculturated to Soviet labor process. The Soviet generation shows great difficulty in adapting to the new working environment. Accustomed to a top-heavy management style, they require strong leadership and close supervision. But with clear-cut direction and explanation of what is expected of them, they have proven to be very hard workers within the scope of their duty description. Initiative, too, never seems to develop to a significant degree in this age group. Multinational corporations have found that this generation never truly feels comfortable with decisionmaking and tends to defer all but the most trivial decisions to management.<sup>28</sup> Unlike most indigenous Russian enterprises, multinational corporations with prestigious names and high salaries can attract top candidates and usually pass over members of the Soviet generation in favor of younger Russians.<sup>29</sup>

Younger Russian workers are generally much more adaptable than their “Soviet” counterparts, although their cultural background still plays an important role in the way they work.<sup>30</sup> Multinational corporations maintain a high percentage of expatriate staff to act as mentors to the local staff. These Western mentors not only help their Russian colleagues to learn their trade, but also expose them to the standards of a different work ethic. Often-times, this exposure is all that is required for the local hire to adapt successfully. The local hires remain uniquely Russian in regards to work culture, but learn to adopt critical elements of the Western culture that increase their entrepreneurial skills.

A similar approach is to send the Russian employee on assignment to a branch of the company in a Western country for periods of up to a year. Besides immersion in the Western work culture, this tactic has the added benefit of increasing the employee's foreign language skills.

These simple approaches have been successful in producing employees who see the big picture and demonstrate initiative and decisionmaking skills. Multinational corporations found that once these cultural issues have been addressed, the positive aspects of the Russian work culture can be put to use to a greater extent. These aspects, coupled with their excellent tradition of education, can make Russians valuable employees.<sup>31</sup>

### **Where Do We Go from Here?**

Although the U.S. Government can immediately improve the effectiveness of its cooperative threat reduction programs by focusing on younger Russians, in the long run the best way to assure Russian demilitarization and nonproliferation is for the Russians themselves to get serious about creating a strong globally integrated market economy. To do this, the Russian government must finish creating a coherent legal framework in which business can prosper and ensure that future generations of Russians are adequately prepared to do business—Western style. Specifically,

- **U.S.-Russian nonproliferation programs must focus less on the existing cohort of weapons specialists and more on prospective weapons workers.** Towards this end, more research needs to be conducted to answer several questions. Who is most likely to consider work in the military and nuclear complexes more attractive than in the private sector? How large are future cohorts of weapons specialists likely to be? What factors do individuals consider when deciding which career field is more attractive? What alternatives exist that fulfill their

expectations? What kind of programs would encourage them to choose careers in the private sector?

- **Business and academic mentorship program opportunities involving training in Western countries need to be offered to Russian scientists and engineers under the age of 35.** In these programs, specific Russians should be matched to individuals from the West on the basis of academic or business compatibilities. The Westerners would act as mentors whose advice could be sought at any time, not just during a series of visits lasting 6 months to a year. The mentors themselves would need to be from the private sector. The program would have two phases—calibrated to the age and professional development of the Russian enrolled, as follows:

- Academic Phase.** Russian science and engineering university students should train for a year in the country of their mentor. It is important to the success of this project that the hosting university accepts only a small number of Russians involved in the program at any one time. These students would be encouraged to work part-time to begin exposure to the Western work ethic.

- Business Phase.** Russians under 35 and those who have already completed their studies should be matched up with professionals of similar background currently working with private Western companies. The program would start with either a 6-month or year-long paid working placement with the mentor's company. The placement would not only expose Russians to the Western work ethic, but also allow them to see firsthand how their own skills can be applied to the commercial market. Several short visits would be scheduled on a regular basis to maintain the contacts and maximize exposure.

- **The Russian government must create a business-friendly environment.** Current legislation must be simplified and reflect the requirements of a market economy. Property ownership laws must be clear and

defended equally under Russian law. The tax system must be simplified, and the burden on small and medium sized enterprises lightened. Finally, the new labor code must be enforced to ensure that rules of dismissal are made more lenient for the employer.

### **The Potential for Change.**

Taking these steps will not be easy for Russia, but there are historical precedents indicating that cultural exchanges with the West can have a tremendously beneficial impact. In the 17th century, Russia was isolated from Western Europe and struggling through a period of stagnation. Peter the Great realized that, for Russians to pull themselves into the modern world, they needed to orient towards the West. Military and business practices were drawn on from Sweden, Prussia, and the Netherlands. Russians were sent out to learn Western skills, which they did without abandoning their own traditions or customs. The process of Westernization not only pulled Russia out of obscurity, but also ushered in Russia's Golden Age.<sup>32</sup> Through reexamining current U.S.-Russian nonproliferation efforts and maximizing cross-cultural exchanges, over the next 2 decades there is good reason to hope that the following improvements can be achieved:

- A greater percentage of younger Russians, now armed with the skills to succeed, will chose to work in private business over the public sector.
- Of the existing cohort, 75 percent will have left Russia's military and nuclear complex though natural attrition, and their numbers will not be replaced.
- The anti-American sentiment in Russia will decrease, which will help avoid or resolve future conflicts.
- There will be an increased cause for foreign investment, which will strengthen the Russian economy

without the state becoming more of a threat to global security.

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1. In fact, individuals who have been acculturated to the Soviet labor process have a very difficult time transitioning to a market economy, and have little chance of becoming successful businessmen. Those who have the skills and motivation to do so, already have, regardless of any government program. In any case, within the next 2 decades over 75 percent of these weapons specialists will be past the age of retirement. Valentin A. Tikhonov, *Russia's Nuclear and Missile Complex*, Washington, DC: Carnegie Endowment For International Peace, 2001, p. 73.

2. *Ibid.*, p. 74.

3. Mark Galeotti, "Crime, Corruption and the Law," in *Russia after the Cold War*, eds., Mike Bowker and Cameron Ross, Harlow, England: Pearson Education Limited, 2000, p. 137.

4. Lesser offenses resulted in fines paid to the village elder, often in the form of vodka.

5. C. Feirson, "Crime and Punishment in the Russian Village," *Slavic Review*, Vol.46, No.1, 1987, pp. 55-69.

6. W. Clark, *Crime and Punishment in Soviet Officialdom*, London and New York: Armonk, 1993, pp. 31-35.

7. Leonid Brezhnev, while Soviet premier, was reported to have said, "No one lives on wages alone. I remember in my youth we earned money by unloading freight cars. So, what did we do? Three crates or bags unloaded and one for ourselves. That is how everybody lives . . ."

8. In PricewaterhouseCoopers' opacity index report released in April 2001, Russia was next to last of 35 countries reviewed. Only China has more negative factors for doing Western-style business.

9. Arthur Haigh, interview in *Kommersant-Daily*, January 26, 2001. See [http://www.pwcglobal.com/ru/eng/ins-sol/issues/01-02-26\\_ah.html](http://www.pwcglobal.com/ru/eng/ins-sol/issues/01-02-26_ah.html).

10. During subsequent interviews, the management made it clear what standards the employees needed to abide by. Since then, they have had no further incidence of cheating.



11. Haigh.

12. Alastair McAuley, "Social Policy and the Labor Market in Russia During Transition," in Joan M. Nelson, Charles Tilley, and Lee Walker, eds., Washington, DC: National Academy Press, 1998, p. 223. See <http://www.nap.edu/html/transform/contents.htm>.

13. *Ibid.*

14. This remained law in the Russian Federation until 1991. *Ekonomika i zhizn'*, No.22, 1991.

15. McAuley.

16. *Ibid.*

17. Matthew Partan, "Defense Conversion: How Far Can Russia Expand Small and Medium Enterprises?" Chapter 7; and Mark Kramer, "Demilitarizing Russian Weapons Scientists: The Challenge" Chapter 6; both in the present volume.

18. Andrew Cranston, Partner, KPMG Moscow, interview by author, March 2001.

19. KPMG Moscow provides accounting and management consultancy services to all sizes of Western and Russian-owned enterprises across Russia. This exposure gives it a unique perspective of the actual business climate in Russia.

20. Paddy Wright, Human Resources partner, KPMG Moscow, interview by author, March 2001.

21. Russia's previous labor code hadn't changed much since 1971 and was actually only a slightly modified version of the Soviet labor code.

22. Price Waterhouse, *Doing Business in the Russian Federation*, New York: Price Waterhouse World Firm Services BV, 1997.

23. *Ibid.* The workweek is set at 40 hours over a 5- or 6-day week, and the legislation is also specific about permitted working hours.

24. *Ibid.*

25. For employees under the age of 18 and for recent graduates of universities, institutes, and vocational training institutions.

26. James Leitzel, "Rule Evasion in Transitional Russia," in Joan M. Nelson, Charles Tilley, and Lee Walker, eds., Washington, DC: National Academy Press, 1998, p. 118.

27. Andrew Jack, "Moscow Ushers in Reform of Labour Law," *Financial Times*, London, January 5, 2002.

28. Cranston.

29. *Ibid.*

30. Wright.

31. *Ibid.*

32. Geoffrey Hosking, *Russia: People and Empire, 1552-1917*, London: HarperCollins, 1997, pp. 75-120.