Promoting the "Human Development Enterprise": Enterprise restructuring and corporate governance in Russian industry

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Foreword

This paper was produced for consideration in the ILO’s Technical Meeting on Enterprise Restructuring and Labour Markets, organized by the Labour Market Policies Branch in the ILO Turin Centre, with the participation of most of the technical departments of the ILO and senior members of the ILO’s regional Teams, as well as distinguished specialists from around the world.

The paper has a wider purpose - to encourage the ILO and its Governing Body to take a potentially important initiative. Much more preparatory work would be required to translate the idea and the resultant proposal into an international instrument and campaign for extending the ILO’s values and objectives. However, as the 21st century rushes towards us, now is surely the time to be bold and constructive with new approaches. It is an era of experimentation.

As someone quipped, the Devil is in the details. All we plead at this stage is that those in positions of authority should approach the idea addressed in the paper in a constructive way and not be sidetracked by bureaucratic issues or by ideological battles of an earlier era. Now is the time for open minds, for reaching across ideological divides, for moving beyond artificial boundaries, for rethinking history, not pretending we have reached the ‘end of history’.

The proposal contained in this paper is perhaps modest, although it is one that could have exciting potential for the ILO and its supporters and constituents. As emphasized in the paper, nobody should use as an excuse for opposing it that they do not like a specific indicator or specific element. That could be decided by tripartite or other negotiation, taking due account of a particular country’s development and political structure. We need to think strategically, and we need to consider how this or related ideas can be refined and operationalised.

Many people have read the paper, or contributed to its evolution, and have given useful comments. I would particularly like to thank Tatyana Chetvernina, Mario Nuti, Stephen Smith and Laszlo Zsoldos, as well as others in the Turin meeting who contributed useful comments.

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1. Introduction

"A just system must generate its own support."¹

One of the founding fathers of modern economics, Alfred Marshall, in discussing how to improve the functioning of the economy and society, urged his followers, "Go into the factory". A century later, the focus of thinking about social progress and economic performance has become the industrial enterprise and the community, or local labour market, in which enterprises emerge, operate, die or are regenerated.

The International Labour Organization should surely set out to play a positive role in helping to improve the enterprise culture in its member countries, promoting exemplary practices that combine the pursuit of dynamic efficiency and sustained profitability with the extension of human capabilities and the improvement of distributive justice. This is the context of the following paper. The underlying claim is that the ILO should try to identify and promote labour and employment practices that are desirable, feasible and sustainable.

With all the emphasis on ideas embodied in such catchphrases as "Human Development" and "Sustainable Human Development" (used extensively by the UNDP) and "Adjustment with a Human Face" (UNICEF) and other variants of the basic idea that development and structural adjustment must be guided by a normative perspective, it is remarkable that in the extensive international debate on structural adjustment and economic restructuring little attention has been devoted to the unit in which most people spend most of their lives, the working establishment.

This neglect has been mirrored in the dominant economic strategy supported around the world since the 1970s, namely supply-side economics. This has given institutional concerns minimal attention, and has been marked by an hostility towards collective entities of any sort. The supply-side economists’ agenda has been oriented to the liberalization of all markets and the privatization of economic and social policy, backed by a residual welfare state epitomized by the latest neo-liberal slogan, "Save money and focus on the needy". At the level of the firm, the Chicago variant of neo-classical economics has been clear — business exists for one purpose only. As one of the fathers of the dominant approach of the past twenty years, the Nobel Prize winner, Milton Friedman, put it, "The social responsibility of business is to make a profit."²

In this line of reasoning, it is commonly believed that enterprise performance and adjustment to market forces would be assisted by the removal of regulations, most notably protective labour regulations, including minimum wages, employment protection rules, labour codes and even trade unions. This adheres to

what is called the Chicago school of law and economics, in which the guiding ethical principle is "Pareto optimality", leading to the view that regulations can only by justified if they promote economic growth and if some people gain while nobody loses. This restrictive view leads to support for wholesale "de-regulation", which as argued elsewhere is a misleading term.  

In contrast to the Chicago school, which has dominated so much of the economic policy in countries undergoing major economic restructuring, the following starts from a basic ethical principle closer to what is known as the Rawlsian "difference principle". This states that, assuming an institutional framework providing for equality of opportunity and equal liberty, distributive justice improves if and only if a change in a practice or regulation improves the position of the "worst off" — or most vulnerable — groups. A second ethical principle guiding the following analysis and proposals is: The powerful need protecting from themselves.

In less abstract terms, the main alternative to the orthodox perspective is one that looks to regulations, institutions and incentive-structures to encourage and strengthen human development, while recognizing that flexible markets are essential for economic growth. One can put this in several ways. Yet the fundamental starting point for constructive rethinking of social and economic strategy is the need to create conditions for thriving competition that is "regulated" to ensure that it is based on competition between strong partners who are simultaneously rivals and cooperative. Paradoxically, the competition must promote both social equity and dynamic efficiency, and as such it is important to recognize that it is a fallacy to depict a simple trade-off between "equity" and "efficiency". Dynamic efficiency is derived from having rivals that are strong, and this is the ultimate justification for promoting cooperation and social consensus as the guiding principles for corporate governance.

This perspective is the basis of this paper, which focuses on the normative issue of identifying the type of working environment that should be promoted to promote human development.

As we move towards the end of the 20th century, the main question should be: What is a Good Enterprise for the 21st Century? The notion of "good" conjures up images of socially decent, and this may prompt a sceptical reaction from those who adhere to a neo-liberal perspective. Accordingly, one must state at the outset that the notion of good enterprise cannot and should not be divorced from the pursuit of dynamic efficiency, and profitability, for without efficiency an enterprise will cease to be economically viable. Thus, in discussing what constitutes

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4 Rawls, 1973, op.cit., p.75. It also relates to the less discussed ethical principle of fraternity.

5 It has been stated aptly that power is the facility not to have to learn. In effect, restricting an individual's power induces pressure on that person to learn, and to keep learning, which is the ultimate source of dynamic efficiency.
a good firm from a labour and employment point of view it must be understood that it must be compatible with efficiency. In many countries, most people spend most of their adult lives working for enterprises and this experience shapes “human development”, both in terms of competences and status, as well as mental and physical health. A sweatshop does not contribute to the human development of those required to work in it, and an economy of sweatshops is unlikely to do well on human development generally. Nor does working in polluting, dangerous, noisy, hierarchically-controlled factories. On this most analysts would agree. Yet what is wanted is harder to determine — or agree — than what is not wanted.

In the following, an attempt is made to conceptualize and operationalise what is called a Human Development Enterprise, that is, a type of firm that in the mid-1990s could be regarded as having exemplary labour and employment practices and mechanisms to ensure development in terms of skill, social equity, economic equity and democracy. Although none are easy to define, those four sets of objectives are equally vital.

Human development involves all those dimensions. Thus, as individuals we need to develop and refine work skills, which we can achieve only in and through work. We need equitable treatment, in which discrimination based on non-changeable human characteristics is a denial of human rights and development. We need a fair distribution of the income generated by the efforts of workers, managers, employers and those working on their own account in some way. And we need to have Voice in the work process, recognizing that an absence of democracy in the most crucial of places for human development is a denial of meaningful democracy in general.

All these issues are relevant everywhere, and nowhere more so than in Russia, where enterprise restructuring is fundamental to the socio-economic reform process. To give some substance to the ideas, provisional HDE indexes will be constructed for Russian industry drawing on the fourth round of the Russian Labour Flexibility Survey (RLFS4). For this purpose, the RLFS4 was conducted at an inauspicious time. Nevertheless, the data were opportune, in that enterprise restructuring was at an early stage of what had to be massive upheaval, and in that

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6 The notion of “efficiency” is more complex than most who use the term in a rhetorical sense seem to believe. In this analysis, we use the term to imply dynamic efficiency, whereby there are mechanisms to induce flexibility and cooperation that contribute to future efficiency as well as a high (long-term profit maximising) level of utilisation of existing resources.

7 One is inclined to add a fifth set of desirable attributes: work security, or occupational health and safety. This is a prerequisite for the others, and is certainly a means to those objectives. Although not considered further in this paper, it could be incorporated fairly easily, and at the time of writing, plans were being made to extend the ELFS instrument on which the following empirical work is based to cover this aspect. Note that we reject the term “human resources”, which conjures up images of treating workers as objects to be utilised.

8 We refer to a good enterprise, yet what most people would have in mind is what in statistics is an establishment or firm. In this era of multinational corporations and conglomerates consisting of dozens or hundreds of firms, it would be more correct to refer to the good establishment, to “establishment restructuring”, etc.
there was a considerable range of options for the way in which the reform of corporate governance could go over the next few years.

In central and eastern Europe, the dominant mode of thinking about enterprises has been that under the Soviet system they operated with a “soft budget constraint”, in which profitability was not their main concern and in which there was an inherent excess demand for labour, because large workforces gave managements enhanced status and negotiating power with Ministries and local clientele. Stemming from this view, which surely contains an essentially correct characterization, the orthodox view has been that only with “privatization” would a “hard budget constraint” become operative, which in turn would lead to enterprise restructuring, including mass redundancies, bankruptcies and other reactions in response to the need to increase profitability.

For Russian industrial enterprises, the late 1990s represents a moment of crisis, bearing in mind the original Greek idea of crisis as both a threat and an opportunity. In 1995, most factories were under threat of bankruptcy and in danger of becoming nastier places in which to work or through which to obtain the sort of social services that they traditionally set out to provide. Industrial enterprises could be thoroughly rejected by young and old, associated with a grimy, degraded past, with low wages, poor working conditions, Tayloristic working practices and heavy-handed bureaucratic controls. The old trade unions were losing members and had had their sense of legitimacy eroded, with little prospect of revival. The “social enterprise”, providing its broad array of benefits and services, had frayed more than just at the edges, contributing to the socio-economic fragmentation of society. The old training system, for all its faults, was withering, leaving a growing vacuum in skill formation. There has been massive “downsizing” of factories, without the size restructuring needed to overcome the monopolisation of the economy. The result was very high concealed unemployment and a steady flow into open unemployment. Certainly, there were ample grounds for casandras to feel comfortable.

Yet in the second half of the 1990s, in the Russian Federation there is also an almost unique opportunity to alter the dynamics of enterprise culture and to create a new basis for dynamic efficiency. There has been a hardening of budgetary constraints, seen by the extensive employment cuts in response to adverse economic performance and by the extensive fears of bankruptcy. There has been some technological awakening. Not only has there been a massive process of property form restructuring, which could evolve in several distinctive directions. Now that the umbilical chord between line Ministries and management appointments has been broken, management accountability must grow. There is also the unresolved issue of relations between managers, workers, trade unions, shareholders and local authorities. This is the essence of what is usually described as “corporate governance”.

The old system has collapsed, yet the era of experimentation has yet to produce an ideal type likely to become the dominant model. One is inclined to predict that “privatization” is a misnomer for what has been happening and what is likely to happen.
2. Constructing HDE Indexes

To identify the type of enterprise that could be described as oriented to human development, we need to identify proxy indicators that capture the essence of the practices, principles and outcomes that deserve to be promoted. In most cases, these would have to be measured by an indirect or proxy variable. Inevitably, this means there will be a degree of subjectivity and a degree of pragmatism, in part due to the absence of data or the difficulty of obtaining measurable information on some issues.

A few methodological points should be borne in mind. We make a distinction between an index and an indicator. In developing what we may call an “index” of an HDE with numerical values, we construct it from sets of “indicators” of underlying phenomena. In putting indicators together as a composite index for any particular area of concern — such as the firm’s orientation to skill formation and training — there are difficulties of “weighting” the different variables, or indicators. There are various statistical techniques for dealing with these issues, including factor analysis and discriminant analysis. However, in this sort of exercise there is a great virtue in transparency. The more complex the way an index is constructed, the greater the suspicion that the data and reasoning have been “massaged”. It is better to be able to interpret an index than to have to unravel it to try to make sense of it, even if we have to sacrifice a little in terms of ‘scientific’ accuracy. This is the main justification for the chosen technique in this analysis, of using an ordinal scale for the indexes that are constructed. In subsequent refinements, that could be modified.

In that context, a crucial point to make at the outset is that inclusion or exclusion of any particular indicator in an HDE index is a matter of preference, and does not affect the essence of the approach. Thus, if the authorities chose to promote the HDE idea and did not believe that, say, economic democracy should be regarded as a desirable attribute, then the relevant indicators could be excluded. In contrast, if environmental concerns were deemed desirable, indicators capturing those concerns could be included.

In constructing HDE indexes, we need sets of indicators that should reflect four general considerations, as follows:

(1) There should be indicators of explicit preference, or ethical principles, reflecting the firm’s commitment to certain desirable practices and outcomes;

9 Earlier variants of the approach developed in this paper were developed for comparing industrial enterprises in South-East Asian economies. See, for example, Guy Standing, “Towards a Human Resource-oriented Enterprise: A South-East Asian Example”, International Labour Review, Vol.131, No.3, 1992/3, pp.281-96.

10 In constructing any complex index, conceptual and measurement difficulties abound. For the proposed HDE index, the most important concern scaling (the justification of any particular weighting of indicators), aggregation (the summarising of multi-dimensional information in any single index) and patterning (determining that additivity is more or less appropriate than, say, a multiplicative approach).
(2) There should be indicators of \textit{institutional mechanisms}, or \textit{processes}, by which desirable outcomes could be translated into actual outcomes;\textsuperscript{11}

(3) There should be indicators of \textit{outcomes}, which should reflect whether or not preferences and mechanisms are working;

(4) The indicators selected must be \textit{sustainable}, since they must not be idealistic to the point where they would seriously jeopardize the enterprise's long-term viability, profitability and dynamism.

In this exploratory exercise, a major objective is to construct a \textit{hierarchy} of HDE indexes, each of which is built by adding a new set of indicators of one of the basic spheres of labour and employment practice — skill orientation, social equity, economic equity and democracy, in that order, although that does not imply any order of significance. We proceed to construct four HDE indexes, illustrated in Figure A, starting with skill orientation, then moving to integrate non-discriminatory practices, then economic equity and finally economic democracy.

3. HDE1: Enterprise Training

A Good Enterprise should provide opportunities for skill acquisition. In Russian industry, as we saw, most training has been arranged by the large enterprises that have dominated the industrial landscape. What we can consider as the basic indicators of an orientation to skill formation are the three layers of training, namely entry-level training for newly recruited workers, retraining to improve job performance or to transfer workers to other jobs with similar skills, and retraining for upgrading workers or promotion.\textsuperscript{12}

In addition, we need to take account of the type of training provided. If a firm only gave informal, on-the-job training, that would deserve less weight than if it involved “class room” and structured training, including apprenticeship. Accordingly, for each of the three levels of training, a distinction is made between “informal” and “formal” training, with the latter being presumed to have greater value, which is not always the case. Given the economic and institutional realities in Russian enterprises, the differences between formal and informal may be exaggerated. Yet concentrated training that involves a quantifiable cost should be

\textsuperscript{11} In what follows, little explicit attention is paid to an important set of concerns linked to mechanisms. A good enterprise should have mechanisms that minimise internal \textit{transaction costs}, that is, costs required to ensure internal cooperation. It should also have mechanisms that reduce tendencies towards \textit{bureaucracy}, that is, a hierarchical control system that exists because of high degrees of performance ambiguity and goal incongruency (or even goal indifference). On these issues, see, for instance, William Ouchi, “Markets, bureaucracies and clans”, \textit{Administrative Science Quarterly}, Vol.25, 1980, pp.129-41.

\textsuperscript{12} Possibly, the second and third forms of training deserve greater weight than the first, yet it is usually only the first that is considered. The weighting of levels of training is a tricky issue. In an interesting commentary on this paper, Professor Stephen Smith, of George Washington University, suggested, with respect to training in particular, “Under the diminishing marginal utility principle, a social welfare function might weight HDE characteristics for those at the “bottom” of the firm more than for those at the top.” S. Smith, “The firm, human development and market failure”, paper prepared for an ILO Meeting on Enterprise Restructuring and Labour Markets, Turin, May 31-June 2, 1995, p.10.
preferable to "on-the-job-pick-it-up-as-you-go" training. It will be recalled that although most firms reported that they provided training, few did so in a structured manner and many had given up doing so.

Finally, to construct the first index, HDE1, we included a factor measuring whether or not the establishment was paying for training directly, either by funding a training institute or by paying the training fees to an institute where it was sending its workers for training or by giving stipends to workers who go on training courses. A substantial minority did at least one of those three, although it was a worrying trend that many others had abandoned doing so and some others were planning to follow that course.
Scheme 1: Hierarchy of Human Development Enterprise Indexes
What this implies is that we give each level of training an equal importance, and give formal training twice as much significance as informal. Thus, for Russian factories the basic HDE1 index, based on an ordinal scale, had values ranging from 0 to 7, with a zero value implying that the firm gave no training of any sort. In fact, for the whole sample of firms, the modal value was 3, the mean 3.0, with only 2 percent having a value of 7 and with 4.6 percent having a value of zero.

Thus, the first index is constructed by a simple addition of the factors as follows:

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\text{HDE1} = (\text{TR} + \text{TRF}) + (\text{RETR} + \text{RETRF}) + (\text{UPTR} + \text{UPTRF}) + \text{TR.INST}
\]

where the components are defined as follows:

- TR = 1 if training was usually provided to newly recruited workers, 0 otherwise;
- TRF = 1 if TR was apprenticeship or off-the-job in classroom or institute, 0 otherwise;
- RETR = 1 if there was training provided for established workers to improve job performance or transfer between jobs of similar skill, 0 otherwise;
- RETRF = 1 if that retraining was formal, in class or institute, 0 otherwise;
- UPTR = 1 if training was provided to upgrade workers, 0 otherwise;
- UPTRF = 1 if that retraining for upgrading was in class or institute, 0 otherwise;
- TR.INST = 1 if the firm paid for trainees at institutes, directly or indirectly, 0 otherwise.

4. HDE2: Incorporating Social Equity

A second set of considerations is harder to conceptualize. For efficiency as well as the normally recognized equity reasons, a set of non-discriminatory practices is essential. That is, an enterprise should be fair so as to reduce or avoid labour market segregation based on personal characteristics such as gender, physical disability, age or ethnic origin. Although this has started to happen in Russian industry, and has already become a serious concern for disabled workers, the situation could worsen for women, in particular.

Measuring discrimination is notoriously difficult, yet the indicators in our survey instrument are probably reasonable first approximations, or sets of proxies. One could refine them, and in a different context from the countries of the former Soviet Union one would need to do so, to take account of ethnic factors in particular.

We measure socially equitable enterprises by reference to revealed preference, as stated by managements, and revealed outcomes. Neither stated preferences nor outcomes alone would be adequate; one might have preferences yet
not put them into effect, or one might have no realization of preferences yet discriminate on characteristics that had the perhaps-inadvertent effect of excluding certain groups from various jobs.

Given the context and available data, the indicators of non-discrimination were mainly related to gender. In terms of hiring workers, if the management reported that there was no preference for either men or women, this was regarded as a positive factor.

Note that in this regard it would be an inequity for men if we gave a positive value if the management said they preferred women, as was the case in some factories. However, this reasoning could be stretched too far, because we are primarily concerned with redressing the typical case of discrimination against women.

The second indicator of non-discrimination that we select is a commitment to provide training opportunities equally to men and women. Preferences here are also likely to be revealed, especially as there is no law against discrimination in such matters. Thus, as shown elsewhere, there was some readiness on the part of managements to admit to a discriminatory preference for men, and in some cases for women.

Stated preferences are weak proxies, sometimes being rationalizations of what has happened, more often being norm-induced. To ignore revealed preferences altogether would be unjustifiable, yet in this respect it is particularly important to complement the preference factor with actual outcomes. Accordingly, we incorporate an outcome variable of sex discrimination, one that may not be ideal but which is a reasonable proxy for what we need. This second training factor is the percentage of higher-level “employee” jobs taken by women. If that was greater than 40 percent then the firm was given a positive score in the index. In utilizing this measure, one must admit to a degree of arbitrariness, because the outcome could be due to differences in the relative supply of men and women. However, it does focus on the better type of jobs and is designed to identify relatively good performance in a key area of discrimination.

One could modify the selected share level to be sectorally specific, giving a positive score in the index if a firm had a relatively high percentage of women in training relative to the average for all firms in the sector. This could be justified because the ratios varied considerably by sector. But this is not as easily justifiable as it seems at first. It seems to allow for gender-based industrial segregation of employment. 13

Besides the gender variables for employment equity, another indicator of discrimination is whether or not the firm was employing workers with registered disabilities. It will be recalled that, whatever the quota procedures, the disabled’s share of employment had declined sharply, and we know from other sources that the

13 For instance, it would be inappropriate to give a positive score to a firm in the energy sector in which merely 12 percent of its higher-level “employees” were women just because the industry’s average was 10 percent.
share of the adult population with disabilities is high. So, it is appropriate to use an indicator of whether or not the firm was employing any workers with disabilities.

Coupled with the gender variables, this results in a proxy index of non-discrimination, as follows:

\[ ND = R_s + T_s + FWC + D. \]

where ND is the index of non-discrimination, and

- \( R_s = 1 \) if the management has no preference for either men or women in recruiting production workers, 0 otherwise;
- \( T_s = 1 \) if management stated that they had no preference for either men or women providing training for production workers;
- \( FWC = 1 \) if the female share of employees (managerial, specialist or general service workers) was greater than 40 percent, 0 otherwise;
- \( D = 1 \) if the firm employed workers with disabilities, 0 otherwise.

Adding ND to HDE1 gives us what might be called a Socially Equitable Enterprise, which has a value of between 0 and 11. We now turn to the complex and more contentious issue of economic equity.

5. Economic Equity in Enterprises

Internationally, the literature on the notion of economic equity is vast, yet there is little on the issue of economic equity in terms of the micro-economics of the firm. What is an economically equitable firm? It is surely one in which the differences in earnings and benefits between members of it are minimized to the point where economic efficiency is not jeopardized. This might be called the Principle of Fair Inequality or Efficient Inequality. It is rather utilitarian, and one should add a Rawlsian caveat — with priority given to improvement of the “worst off” workers in the firm.\(^{14}\)

There are also dynamic efficiency reasons to favour economic equity, whatever the bargaining position of various groups in an enterprise. It is widely recognized that labour productivity depends in part on cooperation as well as on individual effort and performance. If there were wide differences between groups in the enterprise, the more disadvantaged, or those who felt they were inequitably treated, would tend to withhold “tacit knowledge” and not commit themselves to the voluntary exchange of knowledge that could contribute to dynamic efficiency.\(^{15}\)

\(^{14}\) Rawls, 1973, op.cit. This point relates to what Rawls called the Difference Principle.

There would also be a tendency towards implicit or explicit sabotage in factories. Equity induces loyalty, which induces productivity improvement.

To create a proxy Economic Equity Index we consider three factors, giving greatest weight to the first, appropriately since this relates to treatment of the “worst off” in the firm.

First, one of the worst phenomena to emerge in Russian industry in the mid-1990s is the growth of groups of workers in a firm paid much lower wages than anybody else, and typically there are some who receive very low wages indeed. An economically equitable firm should have few if any workers paid a small fraction of the average in the firm. So, we can take the minimum wage received by the lowest paid full-time workers as the initial yardstick. If more than 5 percent of the workers received this wage then the firm is given a low score on economic equity. But as that does not capture any distributional factor, we can complement that by giving a positive score to any firm in which the minimum payment was equal to or greater than 50 percent of the average wage. These two indicators are only proxies for what we would like to measure, yet with the type of data one can collect in large-scale establishment surveys they are reasonable proxies.

A second consideration is whether the average wage itself is equitable relative to that paid in other firms. Here, we do take as a proxy a sectorally relative measure, to reflect technological and market factors. The proxy used is whether the average wage in the firm is greater than the industry’s average. If it is greater, then a positive score is provided.

Finally, equity is improved if the enterprise provides benefits and entitlements that represent security against various personal contingencies and that improve the stakeholders’ standard of living. Since wages and incomes are only part of the remuneration system, we take as a proxy whether or not the firm provided ordinary workers with more than ten types of fringe, or non-wage, benefits. Thus, the Economic Equity Index is defined as follows:

$$ EE = \text{Min/Emp} + M + \frac{AW}{AWM} + FB. $$

where EE is economic equity index, and where

$$ \text{Min./Emp} = \begin{cases} 1 & \text{if the percent of the total workforce of the firm paid the minimum payment is below 5 percent, 0 otherwise;} \\ 0 & \text{otherwise} \end{cases} $$

$$ M = \begin{cases} 1 & \text{if the minimum wage paid was greater than 50 percent of the average paid in the firm, 0 otherwise;} \\ 0 & \text{otherwise} \end{cases} $$

$$ \frac{AW}{AWM} = \begin{cases} 1 & \text{if the average wage in the establishment was above the average wage for the industrial sector, 0 otherwise;} \\ 0 & \text{otherwise} \end{cases} $$

$$ FB = \begin{cases} 1 & \text{if the firm paid more than ten types of identified fringe benefits, 0 otherwise.} \\ 0 & \text{otherwise} \end{cases} $$

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16 In a different environment this threshold might be lower. Yet in Russia, and in other countries of central and eastern Europe, where it was the norm to provide an extraordinary array of benefits coupled with a low money wage, the wage measure of income is misleading.
If we add EE to HDE2 we have what we can call the *Socio-Economically Equitable HDE*. This can take a value of between 0 and 15. Then we move into the politically most sensitive sphere of corporate governance.

6. The Economically Democratic HDE

"To be governed by appetite alone is slavery, while obedience to a law one prescribes to oneself is freedom."\(^{17}\)

There is something missing from Rousseau's famous aphorism. To be ruled by laws and regulations alone is not freedom either. What is crucial is that there should be Voice regulation. In the workplace, as anywhere else, the direct stakeholders who bear the greatest risk and uncertainty should be able to regulate decisions affecting labour and employment practices. Put differently, what is Human Development without empowerment? This is perhaps the greatest quandary of corporate governance for the 21st century. Can the functions of management and productive decision-making be made more democratic and accountable while promoting dynamic efficiency for the benefit of all representative stakeholders, which may include shareholders not working for the enterprise?\(^{18}\)

Democracy must be more than casting a vote every few years. Democracy is also about institutional safeguards, and the most effective of those is the capacity of the vulnerable to exercise restraint and direction on those in decision-making positions, giving substance to the Rawlsian "maximin" principle, mentioned earlier. Democracy is also about attempts to ensure cooperation in the interest of all representative groups. As some analysts have put it, successful cooperation requires "the shadow of the future", that is, mechanisms to ensure that competitive interest groups will know that they will have to deal with each other and cooperate with each other in the future.

In the nature of an industrial enterprise, one side (management) has the scope for various forms of opportunism through control of information, a limited circle of people and a capacity to take unilateral decisions (by fiat).\(^{19}\) To limit opportunism by authorities, there must be a process of reciprocal monitoring and a capacity to impose sanctions when abuses are detected.\(^{20}\)


\(^{18}\) The popular aphorism that we have reached "the end of history" with the collapse of "state socialism" is silly. Now, the challenge is to consider how to reverse atavistic thinking. Instead of the socialisation of property and essentially private management, is there an acceptable sphere in which one could envisage the privatisation of ownership, through genuinely democratic, widespread and accountable share ownership, etc, coupled with socially accountable management?


This is important in the area of enterprise restructuring in Russian industry, for unless there were mechanisms for voice regulation of the restructuring, the capacity of the vulnerable to influence the outcomes would be minimized. It is also unlikely that the process would succeed in achieving an atmosphere of dynamic efficiency if the workers are sullen and become “excluded insiders” in factories.  

So, to complete our idea of a Human Development Enterprise we need to construct an Economic Democracy Index. This we can define in terms of five indicators:

First, we take it as axiomatic that, potentially at least, workers’ Voice (in the memorable term coined by Albert Hirschman) is strengthened by a high degree of unionization of the workforce. Quite simply, having a mechanism to represent workers and employees creates the basis for dynamic efficiency and the proverbial “sword of justice”. Without a trade union, there could not be the shadow of the future to concentrate the minds of managers and workers on developing and maintaining decent, viable and efficient employment and labour practices. This does not mean that we presume that unions will always behave appropriately. However, a strong representative mechanism is a necessary condition for Voice regulation. In the Russian case, this is defined pragmatically as being the case if more than 50 percent of the workers in a firm belonged to a trade union, because of the traditionally very high (artificially) level of unionization. Ideally, it would be appropriate to identify the breadth of the union, since in principle an industrial union should be representative of a broader group of workers than a craft union, and a union that had members who were potential workers as well as those actually in employment would be more likely to ensure that the concerns of those in the labour market were also taken into account. The character of trade unions would have to change before such refinements would make much sense in the Russian labour market. But we recognize that elsewhere our indicator would need refinement.

Second, the democratic potential is greater if the main union is an independent one, which in the Russian context means, above all, that the administration or management should not be members of it. Traditionally, in ‘Soviet’ enterprises management belonged to the union and both managers and trade union representatives were subject to the commands of the Communist Party. Thus, symbolically and as an indicator of growing independence in bargaining, the non-membership by management is an important indicator of independent Voice in a

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21 One rarely appreciated reason for encouraging the establishment of effective Voice mechanisms in enterprises is to limit the growth of a “survivor syndrome”. In factories subject to steady employment cuts, the remaining workers are likely to suffer from a sense of anger and insecurity that could reduce labour productivity. If workers are involved in the bargaining process, the “shadow of the past” can be controlled, to some extent at least.

22 In South-east Asia, the relevant difference is whether the union is an industrial union or a company union. It turns out that this makes a substantial difference to such outcomes as wage levels, wage differentials and training. G. Standing, “Do unions impede or accelerate structural adjustment? Industrial versus company unions in an industrialising labour market”, Cambridge Journal of Economics, Vol.16, 1992, pp.327-54.
country such as Russian industry. Elsewhere, an alternative indicator of union independence would be more appropriate.

Third, to be meaningful there should be of an operational mechanism for bargaining. For this, a collective agreement between the union and employer is taken as a positive sign, even though it is recognized that in the mid-1990s, a collective agreement would in most cases have been more formal than substantive.

Fourth, although one should ideally give greater weight to voting shares, there is deemed to be a greater degree of democracy if workers own a large percentage of the shares of the company, which has been a feature of property form restructuring of Russian industry. In constructing an indicator, the critical level for a positive value is taken to be 30 percent, implying a threshold for meaningful voice. Although this aspect of enterprise democracy has long been controversial, many empirical studies have suggested that minority employee ownership is conducive to efficiency, economic restructuring and equity.23

In Russian industry, given the lack of imbued work discipline and the legacy of the Soviet era in which workers' effort bargain was low and erratic, and in which monitoring of it was ineffectual, if not wholly distorted, worker ownership and governance should have considerable potential benefits as a best-option means of overcoming the intrinsic incompleteness of labour contracts.24

Ownership of a flow of income should be distinguished from ownership of property rights. In terms of corporate governance, minority worker share ownership could be interpreted as turning workers into outsider principals — monitoring the performance of the agent (manager), and indirectly providing a mechanism for selecting, dismissing and replacing managers. The objection to sole existence of insider principals is that a coalition between managers and workers as insiders could result in short-term concerns predominating over long-term strategy. However, if share ownership is the mechanism, workers and managers effectively become outsider agents as well, having a direct interest in the long-term flow of income from their shares as well as their earnings from work.25

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24 The theoretical point was brought out in a famous article some years ago. A. Alchian and H. Demetz, “Production, information costs and economic organisation”, American Economic Review, Vol.62, No.5, December 1972, pp.777-95. It is notable that worker ownership in the USA is greatest in such 'service' spheres as legal practices, where monitoring of work is extremely difficult. It is ironic, however, that in what is often regarded as the bastion of capitalism, the states have required all law firms to be worker owned. This is not normally highlighted by those who regard worker ownership as incompatible with a capitalist economy.

25 One recognises that the argument could not stop there. In central and eastern Europe, there have been efforts to promote institutional blockholders — large-scale financial intermediaries holding large blocks of shares — that could control insider managements. See, for instance, E.S.Phelps, R.Frydman, A.Rapazynski and A.Sleifer, Needed mechanisms of corporate governance and finance in eastern Europe (European bank for Reconstruction.
Fifth, at least in the Russian context in 1994, it is regarded as a positive element in enterprise democracy if the top management were elected by the workers, rather than be appointed by a Ministry or by an enterprise board. This is likely to be the most controversial factor, for well-known reasons, although to some extent it is institutionalized in Germany in the system of codetermination. But we introduce this specifically for the special circumstances of Russian enterprises in 1994, when other appointment mechanisms were more dubious and less accountable. The essence of our pragmatic decision is that it recognizes the positive value of direct accountability to actual stakeholders in the enterprise, limiting managerial opportunism and thus encouraging behaviour in favour of sustainable long-term profit maximization, dynamic efficiency and human development practices.

In the 1990s, there has been a diversification in the means by which Russian managements have been appointed and reappointed. Achieving a balance in accountability of managements to workers and to the firm is difficult, since commercial decisions might be jettisoned in favour of decisions that enjoyed the short-term support of the workforce. Appointment by the workers could result in general managerial conservatism and a reluctance to restructure. This is an endemic problem in democracy. Yet in the emerging Russian firms, workers have become broader stakeholders, which makes behavioural “short-termism” less likely, although this is also a justification for appointments lasting for sufficiently long to encourage managements to take decisions that combine concern for today’s workers and for the future of the firm.

Sixth, economic democracy is taken to be greater if there is a profit-sharing pay system in operation, implying a sharing of risks and rewards. This too is a sensitive issue, since many trade unionists oppose profit-sharing pay on the grounds that it increases income insecurity for workers who are not involved in managerial decision-making and who rely almost entirely on their wages to maintain their standard of living. However, if one is giving a positive value to the broadening of democratic decision-making, it is appropriate to balance that by valuing mechanisms that ensure some sharing of risks and benefits. Moreover, a firm with high income dispersion (“delevelling” in the jargon favoured by Russian economists) due to incentive systems (not profitsharing) should be regarded differently from one in which high inequality reflected power relations and managerial fiat.

and Development, Working Paper No.1, London, March 1993). An important consideration is that whatever blockholder is created, it should be active in corporate governance, and in this respect workers having a block of shares as a group (through the union?) could be beneficial. The danger to be avoided is workers being in substantial control, for then the management function would be distorted. One should be wary about one claim, which is that worker share ownership would lead to short-term investments and profit maximisation, on the grounds that they would be solely interested in the income flow during their work tenure. This cannot be valid. If the workforce own shares, younger cohorts of workers would always be looking to a long-term future. By contrast, it is managements that are more likely to take a short-term perspective, since their tenure is likely to be short and on average they will be likely to be closer to retirement age than the average worker. The conventional argument against workers becoming principals and for managers to turn from agents to principals could be reversed.

26 In established democratic societies, anybody over the age of 30 knows of past elections when incumbent politicians have indulged in tax cutting and the avoidance of budget cuts in the period beforehand.
In sum, taking account of the various considerations, we can define an Economic Democracy Index (ED), which can take a value of between 0 and 6, as follows:

\[
ED = TU + IND + COLL + SH + MA + P.
\]

where

- **TU** = 1 if more than 50 percent of the workforce is unionized, 0 otherwise;
- **IND** = 1 if the management is not in the trade union, 0 otherwise;
- **COLL** = 1 if there is a collective agreement, 0 otherwise;
- **SH** = 1 if more than 30 percent of the firm’s shares are owned by workers and employees, 0 otherwise;
- **MA** = 1 if the top management is appointed by the workers, 0 otherwise;
- **P** = 1 if there is a profit-sharing element in the wage determination system, 0 otherwise.

By adding the ED index to the HDE3, as shown earlier in Figure A, we obtain the full Human Development Enterprise Index, which we designate as HDE4. This has a maximum possible value of 21, and if the index is supposed to identify exemplary standards, there should be a tapering in the distribution of firms, with relatively fewer as the scores rise above the median value, and no excessive bunching of values. We turn now to an assessment of the HDE indexes in Russian industry, although before doing so it is important to distinguish the main forms of corporate governance that are emerging among Russian industrial enterprises.

7. Modes of Corporate Governance

One of the most controversial and unresolved issues of “enterprise” — permeating much of the discussion of structural and social adjustment, the economics of “transition” and the future directions in systems of production and distribution — is the messy issue of corporate governance. A vast international literature is taking shape, led by economists, business theorists and political scientists. Some of the elements of governance are incorporated in the proposed HDE indexes. However, an exploratory attempt is also made in this paper to define the emerging types of corporate governance in Russian industrial enterprises (and elsewhere) to see whether the form of governance influences the level of performance in terms of HDE. The issue has more widespread relevance, and should not be regarded as specific to Russian industry, or even just to firms in countries of eastern and central Europe.

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27 It would also be appropriate to add some index of safety and health, or work security. Although no data were collected on this issue, it could easily be incorporated in future refinements of the approach.

28 This section can be skipped by those not interested in the specifics of corporate governance restructuring in countries of the former Soviet Union. The directly relevant issue is the definition of the four forms of corporate governance used in the subsequent analysis of HDE, and those definitions are given at the end of the section.
The starting point is the belief that as critical as property form restructuring for enterprise performance is management restructuring, or what might be called "corporate governance restructuring", and the two developments may not and need not correspond. Governance involves issues of ownership of property rights and possession of control rights, and as such firms or establishments should be analysed in terms of governance structures rather than simply in terms of production functions.\textsuperscript{29} Essentially, governance concerns accountability, which means the range of responsibilities and controls exercised by management, by workers, their intermediary institutions and the internal pressures influencing decision making within the firm.

For the longer-term revival of Russian industry, perhaps the most important changes in industrial relations in the mid-1990s are the changes taking place in the position of senior managers. Some have described the major change as the "privatization of management".\textsuperscript{30} This does not seem the correct term. It would be better to describe the changes as the "destatisation of management". Whatever the term used, the transformation of management and the "management labour market" have been distinctive aspects of enterprise restructuring, and may have been as important as the transformation of the property rights of ownership. For dynamic efficiency, management governance requires incentives to risk taking and profit orientation combined with substantial monitoring of their behaviour. Adequate incentives for managerial agents without monitoring could lead to recklessness, short-termism and opportunism, to the detriment of the interest of their principals, whether the latter be the workers, qua shareholders, or others. Rigid monitoring without adequate incentives is likely to promote shirking or sloth, illicit appropriation of assets and an unwillingness to take risks. Epitomized by the giant agencies and enterprises of the Soviet system, bureaucratic organizations are chronically prone to 'hard' (rigid) monitoring coupled with 'soft' budget constraints that produce both opportunism and shirking.

Issues of corporate governance relate to many aspects of labour market restructuring, so it may be useful to make some conceptual distinctions. One can distinguish between external governance and internal governance. The former refers to the structure of managerial, employee and external stakeholder rights of ownership or property and to rights of control over the distribution of assets and investment. The latter refers to relations of production and distribution within the work process, and the incentive and monitoring structures within it. Most of the literature on privatisation and the "economic transition" in central and eastern Europe has dealt with aspects of external governance.


In the Soviet era, external enterprise governance involved a primary role for the Communist Party, in which managers of industrial enterprises were induced to behave opportunistically in a hierarchical series of transactions, with line Ministries, with party functionaries, with local authorities, with worker brigades, with union leaders and with consumers. Industrial managers were motivated by the desire for revenue maximisation subject to a broadly predetermined profit constraint. It was the total revenue or sales that determined their bonuses, and it was the level of the establishment’s output and size of the firm’s workforce that determined not just their earnings but their local power and status. This ideal type manager was answerable to a line Ministry and was linked into some regional network of reciprocal relationships.

Decentralisation and moves to “self-management” in the late 1980s increased the scope for opportunistic behaviour by managements, since the relaxation of central control reduced the directive strength of regulations and external bureaucracies. It strengthened the scope for local coalitions between managers, local authority representatives, party functionaries and union leaders. The nature of the changes must have influenced the balance of control between those agents, weakening the position of union leaders, since they were fatally compromised in serving a managerial function. In that regard, the reforms of the late 1980s probably strengthened the position of managers. But there was little to suggest that the resultant decentralisation fundamentally altered the structure of incentives so as to encourage greater orientation to profit generation and dynamic efficiency.

In 1992, with price liberalisation and the pressure for commercialisation, it was widely expected that there would be changes in management behaviour but that only with privatisation would the primary motivation be “profit maximisation”. That at least was the expectation, on the grounds that only when management was answerable to external shareholders would they cease to be concerned primarily with matters other than profit.

The evolving process of property form restructuring had implications for both external and internal corporate governance. One can make a heuristic distinction between what have been called outsider models of privatisation and insider models. Outsider models have figured strongly in the reforms in central Europe in the 1990s, reflecting the dominance of advice from national and international financial agencies based in the USA and western Europe. This follows US and UK practice, for example, in which share ownership is expected to be dispersed and in which incumbent managements are pressurised to maximise profits by the existence of large-scale external stakeholders. Acceptance of the outsider model has often meant a search for large, single stockholders in the form of a mutual fund or other financial institution. The insider model is closer to the system that has developed in Germany and Japan, in which commercial banks hold equity and are involved in management of the firms.

The relevance to corporate governance restructuring is that the outsider model relies on the emergence of financially strong intermediary institutions, and puts a high premium on uncertainty. If managements are uncertain about the identity or stability of intermediary groups of stakeholders, they will be inclined to act opportunistically and focus on short-term benefits for themselves. This was a feature of the difficult transition in corporate governance in the early 1990s. In Russian industry, there was a hybrid form of privatisation in that the dominant model adopted after 1991 involved a process by which insiders were allowed and encouraged to acquire up to 51 percent of the firm at 1.7 times book value, unadjusted for inflation, while investment funds were limited to 10 percent of the shares. This brought insider acquiescence and gave insiders incentives to restructure, while the authorities promoted it because they anticipated the emergence of a substantial secondary market for shares.

The danger of any hybrid model is that it could create more uncertainty than a clearly-defined alternative, and thus induce greater short-term opportunism by both managers and workers. Thus, in Russian industry the slow process of corporate governance restructuring and the lack of enterprise restructuring, in terms of breaking up the huge entities that dominated the Soviet system, meant that the "debt overhang" that emerged in the early 1990s gave unclear signals to creditors about management, which undermined the effectiveness of the hybrid form of property form restructuring. If the objective were to guide foreign and domestic investment to potentially profitable firms through financial stakeholders, that was impeded by the unclear character of enterprise indebtedness. Was it due to inefficient management or to efficient management having to respond to distorted incentives and information or to a lack of viability that exonerated management from direct responsibility?  

Management behaviour could be expected to depend on whether property form restructuring gave a high or low degree of ownership to workers, to managers or to outside stakeholders. The most crucial element may be the degree of uncertainty. Thus, if managers were faced by indebtedness and imminent accountability for inadequate profits, they might respond by accelerating the firm's decapitalisation, if they perceived the debt as a threat to their personal survival as managers. In that way, they could increase their short-term income and provide surplus for distribution to stakeholders to bolster their chances of reappointment.

Similarly, if managers do not know what property rights are going to be, they cannot decide rationally between short-term and long-term investment and behavioural strategies. This is probably more important than the more common distinction, between employee-owned and outsider-owned firms. If outsider stakeholders are in control, the firm's management is likely to be oriented to particular objectives, and be more concerned with short-term profits to be paid out as dividends. If insider stakeholders, notably workers, are the main shareowners,

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32 This was one reason why restructuring should have preceded "privatisation", because the new agents could not respond to appropriate informational signals. S. van Wijnbergen, "Enterprise reform in eastern Europe", *The Economics of Transition*, Vol.1, No.1, Jan.1993, p.22.
There will be desired trade-offs between wage levels and employment stability. There is no reason to suppose that outsider control would reduce opportunism by managers, since worker shareholders are more likely to have information to identify opportunism and threaten management with retribution. Both workers and managers require reciprocal monitoring and a balanced capacity to impose sanctions.

Thus, the type of short-term and long-term objectives would vary according to mode of managerial governance, rather than be oriented to or away from short-termism. By contrast, uncertainty of ownership or management rights could be expected unambiguously to orient managers' behaviour to short-termism and opportunism.

Various aspects of corporate governance restructuring are highlighted in the RLFS. Possibly the most important changes are the mechanisms by which senior management were appointed and reappointed. Although change in management roles was a feature of perestroika in the late 1980s, when work collectives were given the right to elect heads of enterprise administration, at that time production decisions and financing decisions were still concentrated in Ministries and other state agencies.

So-called "self-management" was mainly restricted to questions of distribution and social functions. This began to change after 1991. By the mid-1990s, decentralisation of managerial decision-making had gone much further, often as a precursor of property form restructuring and as a part of that process.

Information on management appointment was not sought in the first two rounds of the RLFS, in 1991-92 and 1992. In 1993, at the time of the third round, most managers had been appointed by line Ministries, but by 1994 merely 5.7 percent of senior managers had been appointed by Ministries and 2.4 percent by local authorities, compared with 32.6 percent who had been formally appointed by the work collective (corresponding to the predominance of closed and open joint stock enterprises as the main property forms), 31.8 percent who had been appointed by enterprise boards, which would have consisted mainly of appointees from outside the establishment, and 11.5 percent by shareholders' meetings, which would have consisted largely of workers.

33 It is incorrect to presume that employee ownership leads to strong pressure to maintain employment. In conditions of high labour turnover and where management bonuses and earnings are a positive function of employment size, a shift to strong worker shareownership could lead to managed downsizing, in which departing workers are simply not replaced. Frydman and Rapaczynski presumed the opposite, and claimed that the Russian reforms in corporate governance were inadequate on the grounds that they had not led to "any significant unemployment". R.Frydman and A.Rapaczynski, "Insiders and the state: Overview of responses to agency problems in East European privatisation", The Economics of Transition, Vol.1, No.1, Jan.1993, p.56. Note that the employment effect of worker share ownership in response to a drop in demand would depend on whether they believed they could extract more as employees (in which case, if they could maximise income, employment might grow) or as shareholders (in which case profit maximisation could lead to lower employment).


This process of diversified forms of appointment means that it would be too simple to state that by the mid-1990s managements were in control within enterprises.\textsuperscript{36} Another reason for doubting that characterization is that the duration of appointment was variable, and had become generally much shorter than had been the case in the Soviet era, which was surely having an effect on the climate of decision making. Over a third of general managers (36.3 percent) had been appointed for two years or less, 14.3 percent for three or four years, 27.1 percent for five years and 22.4 percent for no fixed term, without a formal contract. Managers in open joint stock firms were more likely to have been appointed for two years or less (57.3 percent), whereas state enterprise managers typically had longer-term contracts. Managers appointed by enterprise boards or by shareholder meetings were more likely to have been appointed for two years or less than those appointed by a Ministry or by local authorities.

In the restructuring of corporate governance, by mid-1994 worker share-ownership had become extensive. On average, including those state firms and social organizations where there were no shares, workers and employees of the firms owned 46.4 percent of the shares, with their possessing 93 percent of the shares in closed joint stock companies and 56 percent of open joint stock companies. This substantial worker “stakeholding” was creating the basis for a possibly unique evolution of corporate governance, a reversal of the old socialist vision — privatization of ownership coupled with socialization of management.

Much has been said in Russia about managements taking advantage of property restructuring to acquire financial control through the acquisition of shares. It was reported by the accounts departments of factories visited in mid-1994 that 11.6 percent of the shares of those firms that had issued them were possessed by managements. In closed joint stock firms, they had nearly 26 percent, which meant that their capacity to control decision making was considerable, since apart from the state agency they were the largest shareholder.

One interesting aspect of the restructuring of corporate governance is the additional rights associated with worker shareholdings. In 1994, in most firms (82 percent), there were none, according to the managers. A few said that worker shareholders could obtain low interest loans, and a few said that such workers would receive privileged employment protection in the event of mass releases. Worker-shareholders were more likely to have privileges in closed joint stock firms, in which 31.2 percent had additional privileges, than in open joint stock companies, where 14.3 percent had extra privileges.

With all these changes taking place, we could divide corporate governance structures into three main types:

— *state* (in which managers had been appointed by Ministries or local authorities, which accounted for 8.1 percent of the total),

— *internal* (in which they were appointed by the ‘work collective’ or at shareholder meetings in those firms in which workers and employees owned more than 50 percent of the shares, which would have accounted for up to 44.1 percent of the total), and

— *external* (in which appointment was by an enterprise board or by a mixed process, usually involving the State and external bodies having an influence, which would have accounted for up to 47.8 percent of the total, possibly plus some of those appointed by shareholder meetings).

This approach leaves some haziness in classification. An alternative way of classifying corporate governance structures — and one used for our purposes — is by taking account of property form, the character of share-owning and the form of management appointment. Accordingly, we classify governance into four main types:

— *State governance* is where the establishment is still state-owned and where the senior manager is appointed by a line Ministry or local authority, or state-owned and where nominally the work collective and the Ministry or local authority are responsible for managerial appointment.

— *Private governance* is where there is private ownership or a joint-stock arrangement in which employees do not own more than 50 percent of the shares and where the manager is appointed by an enterprise board or at a shareholders meeting, as long as employees do not possess more than 50 percent of the shares.

— *Employee governance* is where the property form is joint-stock, where the workers and management together own more than 50 percent of the shares, *without the workers owning 50 percent or more*, and where the top manager is appointed by an enterprise board, a shareholder meeting or some other non-state mechanism.\(^{37}\)

— *Worker governance* is where the property form is joint-stock, where the workers own 50 percent or more of the shares and where management is appointed by the workers or a shareholders’ meeting.

As of mid-1994, the distribution of governance types in the Russian industrial establishments covered by RLFS4 showed that 20.5 percent were state governance structures, 17.1 percent were private governance, 23.5 percent were employee governance and 38.9 percent were worker governance structures.

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\(^{37}\) Also included were the few cases where the management was appointed by a line Ministry or a local authority but where currently the establishment was a joint stock company with majority employee ownership. Such cases arose from the timing of appointment and timing of property form change, and it is assumed that behaviourally managers would become accountable to the current governance form.
8. Identifying the Human Development Enterprise in Russian Industry

The attraction of the HDE index is that we could look at a firm to assess its performance in absolute terms or to assess its performance relative to others in the country or even within a sector, region or size category. Thus, in discussing the values of the indexes and patterns, the following refers exclusively to Russian industry, and is primarily concerned with identification of those enterprises performing relatively well as an HDE in the context of Russian industry.

The first point to note is that in terms of HDE4, there were 6.8 percent of establishments with scores above 14, and those should be designated as the leading group in the Russian context, even though there were none with values above 17. At the other end, 35.6 percent had values of below 11, and those should be regarded as unsatisfactory.

There are four further points to bear in mind. First, the way the HDE4 index is constructed, a relatively heavy weight is given to skill formation (the base of Human Development in many models). Second, there was a low correlation between the four component indexes, for non-discrimination, social equity, economic equity and economic democracy, implying that they were measuring distinctive and different phenomena (Table 1). Third, the few social organizations are excluded from the analysis, since they have been unique special enterprises. Fourth, in considering the inter-enterprise patterns, it is worth noting that the averages for the various components may not translate into substantial differences overall, since in many cases firms that did well on some indicators did relatively poorly on others.

Table 1: Correlation Matrix of Human Development Enterprise Indexes, mid-1994, All Regions

<table>
<thead>
<tr>
<th></th>
<th>Econ. Dem. Index</th>
<th>Econ. Equity Index</th>
<th>Non-Discr. Index</th>
<th>HDE1</th>
<th>HDE2</th>
<th>HDE3</th>
<th>HDE4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic Democracy Index</td>
<td>1.00</td>
<td>-0.02</td>
<td>0.15</td>
<td>0.31</td>
<td>0.34</td>
<td>0.30</td>
<td>0.70</td>
</tr>
<tr>
<td>Economic Equity Index</td>
<td>-0.02</td>
<td>1.00</td>
<td>-0.01</td>
<td>0.07</td>
<td>0.05</td>
<td>0.40</td>
<td>0.29</td>
</tr>
<tr>
<td>Non-Discriminatory Index</td>
<td>0.15</td>
<td>-0.01</td>
<td>1.00</td>
<td>0.02</td>
<td>0.59</td>
<td>0.54</td>
<td>0.47</td>
</tr>
<tr>
<td>HDE1</td>
<td>0.31</td>
<td>0.07</td>
<td>0.02</td>
<td>1.00</td>
<td>0.82</td>
<td>0.78</td>
<td>0.73</td>
</tr>
<tr>
<td>HDE2</td>
<td>0.34</td>
<td>0.05</td>
<td>0.59</td>
<td>0.82</td>
<td>1.00</td>
<td>0.93</td>
<td>0.86</td>
</tr>
<tr>
<td>HDE3</td>
<td>0.30</td>
<td>0.40</td>
<td>0.54</td>
<td>0.78</td>
<td>0.93</td>
<td>1.00</td>
<td>0.89</td>
</tr>
<tr>
<td>HDE4</td>
<td>0.70</td>
<td>0.29</td>
<td>0.47</td>
<td>0.73</td>
<td>0.86</td>
<td>0.89</td>
<td>1.00</td>
</tr>
</tbody>
</table>

Source: RLFS4, n = 384

Turning to distributional patterns across the 384 firms in 1994, we start with HDE1. In terms of mean values, the average was highest in the construction materials and chemicals sectors, and lowest in textiles and garments (Figure 1). It was lower in private establishments than in other property forms, reflecting the low
degree of training given in the private sector thus far (Figure 2). And it was highest in large-scale firms (Figure 3). In terms of corporate governance, it was highest in establishments designated as "worker controlled", followed by "employee controlled" (Figure 4). The patterns could be interpreted as suggesting that policymakers should concentrate most on improving training in small-scale firms, in textiles and garments and in private firms. The message is that there is a need to couple property form and size restructuring and corporate governance reform with a policy of promoting enterprise training and retraining.

Adding the non-discrimination index, in HDE2, made little difference to the structural pattern (Figures 5-8). However, adding the economic equity index strengthens the relative performance of closed joint stock firms, as would be expected, and it is notable that worker-controlled governance was associated with a statistically significant higher value of economic equity, translated into a high value of HDE3. For HDE3, in terms of mean values, open joint stock firms appeared to perform better on average than other property forms, whereas state firms did relatively badly (Figures 9-11).

Figure 1: Human Development Enterprise Index 1 (HDE1), by Industry, mid-1994, All Regions

Source: RLFS4, n = 384
Figure 2: Human Development Enterprise Index 1 (HDE1), by Property Form, mid-1994, All Regions

Source: RLFS4, n = 384

Figure 3: Human Development Enterprise Index 1 (HDE1), by Employment Size, mid-1994, All Regions

Source: RLFS4, n = 384
Figure 4: Human Development Enterprise Index 1 (HDE1), by Corporate Governance, 1994, All Regions

Source: RLFS4, n = 375

Figure 5: Human Development Enterprise Index 2 (HDE2), by Industry, mid-1994, All Regions

Source: RLFS4, n = 384
Figure 6: Human Development Enterprise Index 2 (HDE2), by Property Form, mid-1994, All Regions

Source: RLFS4, n = 384

Figure 7: Human Development Enterprise Index 2 (HDE2), by Employment Size, mid-1994, All Regions

Source: RLFS4, n = 384
Figure 8: Human Development Enterprise Index 2 (HDE2), by Corporate Governance, 1994, All Regions

Source: RLFS4, n = 375

Figure 9: Human Development Enterprise Index 3 (HDE3), by Industry, mid-1994, All Regions

Source: RLFS4, n = 384
Figure 10: Human Development Enterprise Index 3 (HDE3), by Property Form, mid-1994, All Regions

Source: RLFS4, n = 384

Figure 11: Human Development Enterprise Index 3 (HDE3), by Corporate Governance, 1994, All Regions

Source: RLFS4, n = 375

Finally, adding the economic democracy index gives the full index of an ideal type “good enterprise” for the Russian context, HDE4. In terms of economic democracy itself, larger firms tended to score higher than smaller-scale firms, and open joint and closed joint stock enterprises tended to score much better than other property forms (Figure 12). In terms of HDE4, the average values were higher in closed and open joint stock establishments than in other property forms and appeared slightly higher in large-scale than small firms (Figures 13-15). Worker and employee governance types performed best, as expected given the positive value to economic democracy (Figure 16).
To attempt to assess the structural determinants of the values of HDE1, HDE2, HDE3 and HDE4, a basic ordinary least squares multiple regression function was estimated, as follows:

\[
(1) \quad \text{HDE} = a + b\Sigma\text{IND} + b\text{EMPSIZE} + b\Sigma\text{PROP} \text{ (or CORP)} + b\text{EMPCH} + b\Sigma\text{ELECT} + b\text{chSALES} + b\text{UNION} + e.
\]

where

\[
\Sigma\text{IND} = \text{binaries (1,0) for industrial sector, the omitted category being food processing};
\]
\[
\text{EMPSIZE} = \text{employment size of establishment};
\]
\[
\Sigma\text{PROP} = \text{binaries for property form of establishment, the omitted category being state establishments};
\]
\[
\Sigma\text{CORP} = \text{binaries for corporate governance form of establishment, the omitted category being state governance};
\]
\[
\text{EMPCH} = \text{percent employment change over the past year};
\]
\[
\Sigma\text{ELECT} = \text{binaries for method of appointment of senior management, the omitted category being appointment by a Ministry};
\]
\[
\text{chSALES} = \text{binary, 1 if sales rose in real terms over the past year, 0 otherwise};
\]
\[
\text{UNION} = \text{percent of workforce in a trade union};
\]
\[
e = \text{error term}.
\]

The equation was estimated with and without the union variable, since it was included in the definition of HDE4, and with and without the variable measuring the means of appointment of top management, for the same reason. Whether included or not, the results in Table 2 suggest that, controlling for the influence of other factors, open joint stock companies were more likely to score higher than other property forms, larger firms tended to have higher values of HDE4 and economic performance in terms of sales change was inversely related to the value of the HDE index.

Of course, there is the possibility that the correlations between some of the explanatory variables and the HDE indexes mix cause and effect. The regression is little more than a check on the tabulations underlying the figures. In some respects, the property form defines the scope for the score on the HDE indexes, but in all cases there was considerable intra-group variation, and as the correlation matrix showed earlier, a firm scoring high on one component index or indicator did not necessarily score high on another. This is important, for if high scores were simply a reflection of size or one property form, the policy prescription would be restricted to a straightforward industrial strategy, leading to a simple recommendation to promote a particular enterprise size and property form. That is not the case. There were large firms with low HDE scores and small firms with high scores, and private firms with high and low scores. This implies that if one wished to promote the characteristics of an HDE (or variants of them), specific incentives to move in those directions would be advantageous.
Figure 12: Economic Democracy Index, by Property Form, mid-1994, All Regions

Source: RLFS4, n = 384

Figure 13: Human Development Enterprise Index 4 (HDE4), by Industry, mid-1994, All Regions

Source: RLFS4, n = 384
Figure 14: Human Development Enterprise Index 4 (HDE4), by Property Form, mid-1994, All Regions

Source: RLFS4, n = 384

Figure 15: Human Development Enterprise Index 4 (HDE4), by Employment Size, mid-1994, All Regions

Source: RLFS4, n = 384
Much more research is needed into the determinants of relatively good or bad enterprise performance in terms of 'human development', and this should be assisted by the data from the fifth round of the RLFS in progress at the time this paper was being finalized. The purpose here is merely to identify a way of approaching enterprise restructuring. It would surely be regrettable to talk about restructuring without having a reasonable set of criteria to guide that restructuring.
Table 2: Determinants of Human Development Enterprise, Russian Industry, 1994 (OLS Regression Results)

<table>
<thead>
<tr>
<th>Variable</th>
<th>HDE1</th>
<th>HDE2</th>
<th>HDE3</th>
<th>HDE4</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>2.2716</td>
<td>5.2796</td>
<td>6.7062</td>
<td>9.9106</td>
</tr>
<tr>
<td>Industry</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Metals</td>
<td>0.3590</td>
<td>-0.3414</td>
<td>-0.2994</td>
<td>0.9882</td>
</tr>
<tr>
<td>Engineering</td>
<td>0.1728</td>
<td>-0.6937**</td>
<td>-0.813 **</td>
<td>-0.6895 *</td>
</tr>
<tr>
<td>Food processing</td>
<td>0.4103</td>
<td>-0.1128</td>
<td>-0.0379</td>
<td>0.8554 *</td>
</tr>
<tr>
<td>Construction Materials</td>
<td>1.2574***</td>
<td>0.2105</td>
<td>-0.0097</td>
<td>0.0694</td>
</tr>
<tr>
<td>Chemicals</td>
<td>0.5994 *</td>
<td>0.5237</td>
<td>0.3890</td>
<td>0.4384</td>
</tr>
<tr>
<td>Wood &amp; paper</td>
<td>0.0831</td>
<td>-0.3894</td>
<td>-0.5879</td>
<td>-0.1468</td>
</tr>
<tr>
<td>Corporate Governance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purely Private</td>
<td>0.0338</td>
<td>0.0466</td>
<td>0.1027</td>
<td>0.5295</td>
</tr>
<tr>
<td>Workers Controlled</td>
<td>-0.1284</td>
<td>-0.3906</td>
<td>-0.4457</td>
<td>0.8363 *</td>
</tr>
<tr>
<td>Employees Controlled</td>
<td>0.2205</td>
<td>0.2269</td>
<td>0.2755</td>
<td>1.6975 ***</td>
</tr>
<tr>
<td>Region</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Moscow Region</td>
<td>-0.3106</td>
<td>-0.4168</td>
<td>-0.3647</td>
<td>-0.1431</td>
</tr>
<tr>
<td>St. Petersburg</td>
<td>-0.2646</td>
<td>0.2136</td>
<td>-0.0233</td>
<td>-0.4614</td>
</tr>
<tr>
<td>Nizhni Novgorod</td>
<td>0.1730</td>
<td>0.2361</td>
<td>0.1372</td>
<td>0.4060</td>
</tr>
<tr>
<td>Ivanovo</td>
<td>-0.4577</td>
<td>-0.6921 *</td>
<td>-1.1814 **</td>
<td>-1.9137 ***</td>
</tr>
<tr>
<td>Employment Size</td>
<td>0.0002 ***</td>
<td>0.0001 **</td>
<td>0.0002 ***</td>
<td>0.0003 ***</td>
</tr>
<tr>
<td>% Employment Change</td>
<td>0.0008</td>
<td>0.0010</td>
<td>0.0015</td>
<td>0.0028</td>
</tr>
<tr>
<td>% Sales Change</td>
<td>0.0000</td>
<td>0.0000</td>
<td>0.0000</td>
<td>0.0000</td>
</tr>
<tr>
<td>Unionisation Rate</td>
<td>0.0049 **</td>
<td>0.0110 ***</td>
<td>0.0106 ***</td>
<td></td>
</tr>
</tbody>
</table>

R^2 = 0.1524 0.1480 0.1578 0.2107
F = 3.6814 3.5565 3.8364 5.8215

Source: RLFS4, n = 348

9. Economic Performance and the HDE

Having identified a measurable set of indexes of the good HDE, three potential criticisms should be addressed. All three are likely to come from the orthodox, neo-classical economist. First, and more importantly, a critic is likely to claim that by being a good enterprise the firm would undermine its commercial viability. If it were shown that scoring high on HDE was associated with low dynamic efficiency and poor responsiveness to market forces, the long-term viability of the enterprise would be jeopardized, and thus the rationale for promoting an HDE would be weakened.

In other words, an orthodox neo-classical — or anti-institutional — economist might claim that the pursuit of the characteristics of an HDE would result in escalating costs, stronger internal rigidities, plunging economic performance and
inadequate responsiveness to market forces, leading to higher costs, labour hoarding, and so on. This is a legitimate concern.

What is the evidence? First, while correlations do not demonstrate causation, it appears that labour costs as a share of total production costs were lower in firms with high values of HDE and were lower in firms that scored high on the Economic Democracy Index, which would probably be the most contentious set of indicators in the construction of the HDE (Figures 17-20). These are encouraging results. What they suggest is that if a firm does well on its HDE index, and practices economic democracy, it has higher levels of labour productivity.\(^{38}\) At the very least, this is *prima facie* evidence against the potential sceptics.

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**Figure 17:** Labor Cost Share of Production Costs, by Human Development Enterprise Index 1 (HDE1), mid-1994, All Regions

![Diagram](image-url)

*Source:* RLFS4, n = 384

\(^{38}\) For a review of theoretical arguments and evidence from other countries to suggest that economic democracy per se has positive effects on labour productivity, see H. Hansmann, "When does worker ownership work? ESOPs, Law Firms, Codetermination and Economic Democracy", *The Yale Law Journal*, Vol.99, No.8, June 1990, pp.1751-1816.
Figure 18: Labor Cost Share of Production Costs, by Human Development Enterprise Index 2 (HDE2), mid-1994, All Regions

Source: RLFS4, n = 384

Figure 19: Labor Cost Share of Production Costs, by Human Development Enterprise Index 4 (HDE4), mid-1994, All Regions

Source: RLFS4, n = 384
Second, since in Russia and other parts of the former Soviet Union, it has been claimed that enterprises have not been responsive to market pressures, it might be claimed that high values of HDE would be indicative of resistance to change and a strong protection of “insiders”. High levels of “labour hoarding” have been attributed to the persistence of the “soft budget constraint” and a lack of concern over labour costs. In fact, all forms of enterprise had cut employment by large amounts, and it is notable that firms with low values of any of the four indexes of HDE had cut employment by more than those with higher values (Figure 21-24). One might interpret these results as implying that firms with higher HDE values performed better in terms of employment. However, this is neither necessary to support our concept, nor necessarily correct. It merely means that there is a *prima facie* case for believing that firms with an orientation to being a “good enterprise” in human development terms were compatible with a favourable employment performance. So, in terms of both labour costs and employment, high HDE is favourably correlated, which should weaken one potential objection to the concept.
Figure 21: Percent Employment Change, by Human Development Enterprise Index 1 (HDE1), mid-1994, All Regions

Source: RLFS4, n = 384

Figure 22: Percent Employment Change, by Human Development Enterprise Index 2 (HDE2), mid-1994, All Regions

Source: RLFS4, n = 384
Figure 23: Percent Employment Change, by Human Development Enterprise Index 3 (HDE3), mid-1994, All Regions

Source: RLFS4, n = 384

Figure 24: Percent Employment Change, by Human Development Enterprise Index 4 (HDE4), mid-1994, All Regions

Source: RLFS4, n = 384

A second criticism might be that strengthening what has been called voice regulation would jeopardize attainment of those basic aspects of the HDE that managements and owners would value, so that a composite approach would be undermined by internal contradictions. In this respect, one basic question to pose relates to the effect of trade union presence. For instance, are unions associated with higher values of HDE1 (skill formation practices) and HDE2 (skill formation and non-discriminatory labour practices)? If not, then one would have to raise questions about the effectiveness of unions in two crucial spheres.
The evidence suggests a positive association, albeit a fairly weak one (Figures 25-26). Firms with higher scores of HDE1 had a higher average unionization level, and this was also the case with HDE2.

**Figure 25:** Unionisation Rate, by Human Development Enterprise Index 1 (HDE1), mid-1994, All Regions

![Bar Chart](image)

**Source:** RLFS4, n = 384

**Figure 26:** Unionisation Rate, by Human Development Enterprise Index 2 (HDE2), mid-1994, All Regions

![Bar Chart](image)

**Source:** RLFS4, n = 384

Another question relating to Voice regulation that is sure to arise concerns the association of HDE indexes with the wage level in the firm. If the value of HDE was inversely correlated with wages, then the appeal for workers and their representatives would be weakened. In Russian factories, the average wage was positively correlated with the Economic Equity index, as expected, but was not correlated with either HDE4 or the Economic Democracy index.
This leaves the third potential criticism that a neo-classical economist might raise. This is the standard argument against market intervention. If an HDE, however it were measured, were so desirable and if it were associated positively with economic performance, why intervene? Let the market work itself out, and if firms with high HDE perform well then they will drive those that do not out of the market or force them to become better in terms of human development policies.

There are two ripostes to that line of reasoning. To be compatible with good performance (or not to be a cause of poor performance) does not necessarily mean that one causes the other, or that good commercial performance would lead to a socially desirable outcome of a particular type. And the criticism makes implicit assumptions, mainly about “externalities”, market failures and the dynamics of enterprise restructuring and the reversibility of change. In a period of major economic upheaval, firms taking a low-wage, anti-union, trainee-poaching approach, discriminating against women or those workers with disabilities, may easily undercut the firm that pays decent wages, legitimates a genuine trade union, provides training and so on. This is more than a matter of externalities, although the poor firm can be a “free rider”. It is the nature of a fundamental disequilibrium. And once a highly fragmented labour market has been created, vital pressures to generate a virtuous path are removed. Once a mechanism has been eroded it is harder to resurrect it or create something better that would be derived from it than it would be to create it in the first place. Once unionization in Russian industry has declined it is most unlikely that it will rise again, which does not mean that unions per se do not or could not play a positive role for workers or for firms.

10. Conclusions

Promoting Good Enterprises is a key to the promotion of a Good Society for the 21st Century. This is particularly so in Russia where the industrial enterprise has been, for better or for worse, a crucible for almost every aspect of civil society. Yet it is true in every society, and accords with those who have argued in favour of “mutual gains” enterprise. It is also apparent that enterprise restructuring is a key to effective structural or social adjustment. The idea of a Human Development Enterprise, defined in terms of democratic, equitable labour practices, is suited to an era in which there is, and should be, an increasing emphasis on incentives to good practice rather than sanctions against bad practice. If “labour standards” are presented as something obligatory and rigid, then even those who support them would be inclined to do so with reservation. Some would pay only scant attention to the sins of others in case their own sins, real or imaginary, be exposed to scrutiny and condemnation. Rewarding good practices and shining the light on exemplary cases would be in keeping with mature social cultures.

It also corresponds to advanced management thinking, epitomized by top companies in the USA and elsewhere.\textsuperscript{40} Enterprises that put the interest of their workers first appear to perform better than others.\textsuperscript{41} There are also important externalities. Thus, economically democratic firms — and this is the issue that is most ideologically controversial — are likely to promote democratic behaviour outside them.\textsuperscript{42} One does not have to turn this into an ideological battleground. Rather one has to seek ways of refining the approach to secure a broadly-based consensus, and to foster communities of Human Development, bearing in mind the "network externalities" that come from large numbers of enterprises adopting systems of practices oriented to human development.

In sum, the HDE is a useful heuristic device. Undoubtedly, it could be refined, its components can be challenged and modified to take account of different points of view, and it can be adjusted to meet the specific conditions of different countries. It is an organizing concept, which can be used to grade enterprises by explicit criteria — principles, mechanisms and outcomes — that can be justified as desirable or otherwise. That is its potential appeal.

As one famous political economist quipped, the point is not to interpret the world, it is to change it. The objective of identifying HDEs is to change enterprises into something closer to the ideal. Regrettably, there is a long way to go in Russian industry. Now is the time to start.

\textsuperscript{40} See, for instance, R. Waterman, \textit{The Frontiers of Excellence: Learning from Companies that Put People First} (London, Nicholas Brealey Publishing, 1994). In the USA, this was published under the title \textit{What America Does Right} (New York, Norton, 1994). Waterman, with Tom Peters, was the management guru who first promoted the concept of self-managed teams, and recognised a basic principle of good management: "Today's leaders understand that you have to give up control to get results." For an academic view, see T.A.Kochan and P.Osterman, \textit{The Mutual Gains Enterprise: Forging a Winning Partnership among Labour, Management and Government} (Boston, Mass., Harvard Business School Press, 1994).

\textsuperscript{41} J. Pfeffer, \textit{Competitive Advantage Through People} (Cambridge, Mass., Harvard Business School Press, 1994). The danger of corporate paternalism is not really recognised in the analyses of Pfeffer or Waterman. This is where our model is potentially more robust, through emphasising voice regulation.

\textsuperscript{42} There is empirical evidence that skills learned in participation inside firms improve participation in the wider community. S.Smith, "Political behaviour as an economic externality: Econometric evidence on the spillover of participation in US firms to participation in community affairs", \textit{Advances in the Economic Analysis of Participatory and Labour-managed Firms}, No.1, 1985, pp.123-36.
A Postscript: ILO-HDE Awards — A Proposal

To reiterate the last point, the main objective of identifying HDEs is to encourage enterprises to evolve into something closer to an ideal. As such, the ILO could achieve a great deal through boldness — not its principal characteristic, according to some critics — by promoting HDEs in member countries. How?

It is proposed that a few member countries be selected, and a detailed Enterprise Survey of the type conducted in Russia be carried out to identify HDE performance criteria. Ideally, the survey should be an industrial census. However, it need not be more than a representative sample survey, initially. The underlying objective should be to have a demonstration effect. In other words, once the process were legitimized, it could lead to interest and support from leading companies, trade unions, and government officials.

In each case, once the data from the enterprises had been analyzed, a conference of managements, government officials and trade unionists should be convened, and ILO HDE Awards should be presented to the top 5 percent of firms (or 10 percent if merited on the basis of absolute values emerging from the survey). The personnel departments of the top ten companies might be presented with financial awards, if suitable national or other funding agency were prepared to sponsor the process, while exemplary enterprises would be awarded with an ILO HDE Certificate and Plaque of approval. The conference at which the awards were presented could be televised, and the public relations given to the firms in question would surely be welcomed by those companies and have a beneficial demonstration effect on other firms in the country.

There are many other such award systems, but none for performance in labour and employment practices. Once the process had been launched, other companies could apply for the Award or the survey could be extended to a new sample each year. Questions of renewal of the Award could then be addressed, much as other such schemes, such as Export Performance Awards, have developed continuity. At the same time, the concept of an HDE could be used for framework legislation, and collective bargaining in enterprises could be oriented to pushing the firm closer to the desirable model.

Once you focus on this proposed initiative, you begin to wonder why the ILO has never done something like this. It is consistent with its orientation to standards, and in the 1990s it is consistent with the desirability of focusing on incentives to Good Practice. Most people relate to the enterprise in which they work for most of their adult lives. Their character and practices shape our achievements, our development, our humanity. Yet there is scarcely a mention of what makes a Good Enterprise in any of the UN system’s various international reports. Most notably, the United Nations Development Programme publishes an annual Human Development Report, which contains a Human Development Index to rank countries on performance, which conspicuously omits the sort of issues covered in the HDE proposed in this paper. Now is the time to rectify that glaring omission. It would be risky; it would be a bold initiative. However, if there were a will to do something, we could turn this into a useful instrument to give the ILO a promotional edge in a vital sphere of human development.
Appendix: Comparative Results from the Russian Labour Flexibility Survey, Fourth Round, 1994

Identical questions were used in the fourth round of the Russian survey (RLFS4) as in the Ukrainian survey (ULFS1), and thus we can draw some comparisons, as well as see whether the approach works similarly in two quite separate surveys. The RLFS4 was carried out in mid-1994 and covered 384 industrial enterprises in five oblasts.43

If we take the respective distribution of values of HDE1 - HDE4, we find that in Russia the average values were slightly lower, although approximately the same (Figures 17-20). The modal and mean values of HDE1 were 3 and 3.3 in Ukraine, compared to 3 and 3 in Russia. The modal values for HDE2 were the same in both countries, namely 7; the mean for Ukraine was 6.4, for Russia 5.9. The modal values for HDE3 were 8 for Ukraine and 7 in Russia; means were 7.7 for Ukraine, 6.9 for Russia. The modal values for HDE4 were 12 in both Ukraine and Russia, although the mean for Ukraine was 11.2, for Russia 10.5.

In the RLFS4, the mean value of HDE1 was relatively high in building materials and chemicals, and lowest in textiles and garments. As in Ukraine, the average was higher in larger establishments. And it was relatively low in private establishments, again as in Ukraine.

In Russian industry, the non-discrimination index was marginally lower, if anything, in state and leaseholding establishments than in other property forms. This was not the same as observed in Ukraine, where it was private firms that seemed to be practicing more discrimination. However, the differences in this regard were very small in both countries. In terms of HDE2, in both countries open and closed joint stock enterprises had relatively high average values.

In general, Ukrainian firms seemed to perform better in terms of the Economic Equity Index, and in Russia it was the state establishments that did relatively badly. Added to the HDE index to make it into HDE3 showed that closed and open joint stock did marginally better on average than other property forms in both countries, although the few “social organizations” included in the Russian sample did best on average.

Finally, turning to HDE4, in Russia closed and open joint stock firms easily outperformed others in the Economic Democracy Index, as in Ukraine. Consequently, the pattern of average values of HDE4 across property forms was similar in Russia and in Ukraine. There was also a weak tendency for the average value of HDE4 to rise with size category of establishment.

Turning to the correlations, there was a positive correlation between unionization and the value of HDE1 and HDE2 (Figures 21-22). This suggests that unions have an effect on the provision of training, although it probably reflects more the ethos within an enterprise in favour of unionization and training.

Encouragingly, as in Ukraine, firms with high values of the HDE index had lower labour costs on average.

In Russia, as in Ukraine, the employment decline was greatest in firms with low values of HDE1, on average. In Russia, there was not much relationship between employment decline and HDE2; this was also the case in Ukraine. The same applied to HDE3 and HDE4. There did not appear to be any evidence that high values of HDE were preventing employment restructuring.

In sum, as should be the case, given the two countries recently severed integration, the levels and patterns of HDE are similar. There is nothing in these survey data to suggest that the concept could not be applied in both Russia and Ukraine as a means of guiding enterprise restructuring, one of the biggest challenges of the reform process for those two great countries in the next decade.