Newly Privatized Russian Enterprises

Leila M. Webster
with Juergen Franz, Igor Artimiev, and Harold Wackman
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The World Bank
Washington, D.C.
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ISSN: 0253-7494

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Library of Congress Cataloging-in-Publication Data

Webster, Leila M., 1950-
Newly-privatized Russian enterprises / Leila M. Webster.
p. cm. — (World Bank technical papers ; 241)
ISBN 0-8213-2992-8
1. Privatization—Russia (Federation) 2. Business enterprises—Russia (Federation) 3. Economic surveys—Russia (Federation) 4. Russia (Federation)—Economic conditions—1991— I. Title. II. Series.
HD4215.15.W43 1994
338.947—dc20 94-29403
CIP
## CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>FOREWORD</td>
<td>v</td>
</tr>
<tr>
<td>ABSTRACT</td>
<td>vii</td>
</tr>
<tr>
<td>PREFACE</td>
<td>ix</td>
</tr>
<tr>
<td>EXECUTIVE SUMMARY</td>
<td>1</td>
</tr>
<tr>
<td>INTRODUCTION</td>
<td>5</td>
</tr>
<tr>
<td>I. SURVEY OBJECTIVES AND METHODOLOGY</td>
<td>6</td>
</tr>
<tr>
<td>A. Objectives</td>
<td>6</td>
</tr>
<tr>
<td>B. Methodology</td>
<td>6</td>
</tr>
<tr>
<td>II. THE MANAGERS</td>
<td>11</td>
</tr>
<tr>
<td>III. THE FIRMS</td>
<td>13</td>
</tr>
<tr>
<td>A. General Characteristics</td>
<td>13</td>
</tr>
<tr>
<td>B. Capital</td>
<td>15</td>
</tr>
<tr>
<td>C. Labor</td>
<td>19</td>
</tr>
<tr>
<td>IV. PRODUCTION AND SALES</td>
<td>23</td>
</tr>
<tr>
<td>V. POST-PRIVATIZATION ADJUSTMENT AND STRATEGIES</td>
<td>27</td>
</tr>
<tr>
<td>A. Firm-Level Change</td>
<td>27</td>
</tr>
<tr>
<td>B. Corporate Governance</td>
<td>28</td>
</tr>
<tr>
<td>C. Strategies for the Future</td>
<td>29</td>
</tr>
<tr>
<td>CONCLUSIONS</td>
<td>33</td>
</tr>
<tr>
<td>ANNEX</td>
<td></td>
</tr>
<tr>
<td>Survey Questionnaire</td>
<td>37</td>
</tr>
</tbody>
</table>
When the Communist government fell in Russia and the new government embraced capitalism, it was immediately clear that the key to renewed growth would be the transfer of capital from the state to private agents and the transfer of economic planning from bureaucracies to individuals. Questions arose quickly about the speed and the means by which private sectors could be built. Privatization of state enterprises was judged to be a complex and lengthy affair. How quickly could individuals who had grown up in socialist economies adopt the values and behaviors of capitalism and amass the capital needed to invest in private businesses? Many asserted that it would take a generation.

Over the course of the last year, the Russian privatization program has privatized thousands of state enterprises. Common wisdom is that little has changed with these privatized firms beyond formal ownership. This research refutes that belief with a great deal of substantive evidence that confirms that, indeed, much change is underway within privatized firms and much of it is in the right direction. It found that many managers of newly-privatized firms are well-qualified to meet the challenges of private enterprise, particularly in terms of their general educational levels and their technical, production knowhow. And experience is quickly teaching them the basics of business management. Products are being re-designed to meet market demand; labor is being shed; and new investments are being planned (but postponed until the economy is more stable). In sum, the enterprise-level picture is mainly a positive one.

Magdi Iskander
Director
Private Sector Development Department
Finance and Private Sector Department
The World Bank
ABSTRACT

The central objective of the research summarized in this report was to document the characteristics and problems of newly privatized firms in Russia roughly one year after privatization. The survey was also carried out in the context of preparation work for the Private Enterprise Support Project to be co-financed by the World Bank and the EBRD. Specifically, this project had three objectives: (i) to develop a profile of entrepreneurs and their firms; (ii) to evaluate firms' prospects, assessing the impact of privatization on their operations and identifying constraints to growth; and (iii) to assess their demand for credit and technical assistance services.

The heart of the research was a firm-level survey of 92 newly-privatized enterprises carried out in Moscow and Vladimir Oblasts in November 1993. Firms were randomly drawn from the population of privatized firms (leaseholds and former state enterprises that have come through the mass privatization program) available from the oblast-level Property Funds. They included firms in manufacturing, services, trade, construction and transportation. Excluded were new start-ups, the large self-employed sector, and joint ventures. Interviews lasting 3-4 hours were held with each entrepreneur.

Chapter I lays out project objectives and the research methodology. Chapter II focuses on the managers of sample firms. Chapter III summarizes the basic characteristics of firms, and Chapter V looks at production and sales data. Chapter V looks at issues related to post-privatization adjustment and strategies, including managers' demands for credit and technical assistance. Chapter VI sums up the main findings of the research.
PREFACE

The survey was carried out in October 1993 in the context of preparation work for the Private Enterprise Support Project to be jointly financed by IBRD and EBRD. Juergen Franz (EC3AI) led the mission, and Leila Webster and Igor Artemiev (PSD) coordinated the survey. Interviewers included the two coordinators, Lalit Raina, Philippe Roos and Harold Wackman (IBRD), and Tom Adshead and Stanislav Savin (EBRD). Local project managers for logistics were Valentina Artimiev and Nadezhda Radchenko. The Government of Russia and the Property Funds of Moscow Oblast and Vladimir Oblast provided invaluable support as did the enterprise managers who devoted generous time to the interviews.
EXECUTIVE SUMMARY

Survey Objectives and Methodology. This report contains the findings of a survey of newly privatized, medium and large Russian enterprises carried out in October 1993. The primary objective was to document the characteristics, problems and needs of medium and large enterprises about a year after privatization. The survey was carried out as part of the preparation of the Private Enterprise Support Project to be co-financed by IBRD and EBRD.

The sample was randomly selected, and it contained 92 privatized enterprises -- half coming through the mass privatization program and half leaseholds that had bought out their companies. All were majority privately-owned. Anticipating the restructuring project, the sample was stratified for sector and size to ensure inclusion of a good number of manufacturers and large firms. The majority of firms in the final sample therefore were manufacturers, with a small number of transport, construction and other service firms. Half of the enterprises had between 500 and 2,000 workers, and they were classified as medium-sized firms. About a quarter were large with more than 2,000 workers, and about a quarter were small with fewer than 500 workers. Half were located in Moscow Oblast, and half were in Vladimir Oblast.

Interview teams spent about three hours with each manager, completing a questionnaire that combined quantitative and qualitative questions. Seven interview teams participated, five led by World Bank staff and two by staff from EBRD. The survey was completed over the course of two weeks.

Managers. For the most part, managers were mature, highly educated, and fully experienced in managing their enterprises. Based on subjective measures, interviewers judged that about 40 percent of managers were competent in operating their enterprises and receptive to new ways of doing business. About 40 percent were judged average on both counts, and about 20 percent were evaluated as less than competent and open-minded. In sum, this survey identified a relatively large group of enterprise managers with whom the Bank and other donors could profitably work.

Firm-Level Viability. The picture was mixed regarding enterprises’ performance. Some firms were doing well; others were failing quickly; and most were surviving. Some indications of enterprises’ standing include the following:

- In terms of cash flow, 65 percent of enterprises were covering their costs; and 35 percent were not. In the minds of managers, delayed payments from customers were the main source of cash flow problems.
- In terms of production, 22 percent of managers reported that volume had increased; 34 percent said that it had remained stable; and 43 percent said that it had declined. Most enterprises relied heavily on state enterprises as customers, and orders from the state sector had decreased in most cases.
Thirty-five percent had six months or more of work lined up; 15 percent had less than one month; and 58 percent reported less than 3 months.

Enterprises that appeared to be doing well were producing mainly consumer goods for sale to private firms.

Enterprises in trouble tended to be producers of intermediate goods for sale to state enterprises and firms in construction-related industries.

**Degree of Privatization.** A question of importance asks how far privatization had proceeded in these enterprises. The answer is surprisingly far. As regards ownership, an average of 90 percent of enterprises shares were privately-owned. The small percent of shares not held by managers and workers belonged to property funds and the State. On average, managers owned 17 percent of shares (13 percent in MPP firms and 21 percent in leaseholds). Workers owned an average of 61 percent of enterprise shares (50 percent in MPP firms and 75 percent in leaseholds). As regards physical assets, 95 percent of enterprises owned all of their equipment and buildings. Enterprises did not own the land beneath their buildings, but almost all had secure, long-term leases.

**Governance.** A number of questions were asked in the area of governance. Most enterprises had fulfilled the formal requirements that came with privatization: (i) 80 percent had held shareholders meetings; (ii) 92 percent had shareholders registers; (iii) 36 percent had issued share certificates; and (iv) many indicated that they would issue dividends in the near future. Despite the fact that formal governance structures were largely in place, enterprises appeared to be mainly run by informal, implicit agreements. Workers participated in major decisions concerning social assets at their yearly meetings, and they reportedly expected to receive dividends. In exchange, all operating decisions were delegated to managers with the implicit understanding that workers' jobs would be maintained.

**Labor.** Sixty percent of managers had laid off workers in the previous 12 months—an average of 150 persons or 10 percent of their labor force. Three-quarters of enterprises engaged in construction, chemical products and textiles had laid off workers, reflecting the severe demand problems faced by firms in these sectors. Substantial additional lay-offs can be expected, particularly among large firms where a third of managers said that they needed far fewer workers than they had to meet current production levels. In the sample as a whole, just over 40 percent of managers acknowledged that they had more workers than they needed.

**Finance.** The biggest problem reported by managers in financing their enterprises was maintaining adequate working capital. Prices of raw materials continued to rise and, in many

---

1 There was consensus that enterprises do not face serious legal or financial difficulties in laying off or firing employees, even those who are shareholders. Advance notice and payment of two months' salary appeared standard, except in cases where workers violated company rules.
sectors, enterprises were unable to pass costs through to buyers without orders falling. Also, many reported severe problems collecting payments for goods delivered.

Managers responded to problems with insufficient working capital in a number of ways. First, 77 percent of enterprises had taken short-term loans from banks in the previous 12 months—many four or five such loans at interest rates of about 220 percent p.a. Second, managers were tightening up on non-paying and slow-paying customers, demanding full and partial advance payments before production and delivery. Third, some enterprises were branching out to find new, solvent customers, often among new, private firms. Efforts to cut costs were rarely observed; little was said about reducing waste and improving efficiency and productivity. Rather, the focus was almost entirely on recouping payments.

The level of competition faced by most sample firms was notably low. A quarter of managers said that they had no competitors in their main markets; 40 percent had fewer than 10. The slow development of competitive markets was a bit surprising given that most firms were producing basic consumer and intermediate goods where competition typically is greatest. Among firms that did have competitors, their main source of competition was other large, private firms—again confirming the degree to which the economy had been privatized. The fact that only 11 percent of managers cited state enterprises as their main competitors dispels notions that the existing state sector is crowding out private firms or at least the newly-privatized sector.

Social Assets. Managers reported that the level of social services provided to their workers had changed very little, but the financial burden of financing social services had increased substantially. Ownership of some facilities had switched to municipal governments with privatization. In some cases, managers had agreements to continue provision of services for the municipality and in others, they continued provision because the local government could not or would not take on this responsibility. The biggest financial burden among social assets clearly was housing, with other services appearing small by comparison. Eighty-seven percent of enterprises were providing housing to their workers. Even where ownership of housing had shifted to municipalities or to occupants, enterprises continued to pay maintenance costs. Some managers were proud of their ability to continue providing housing for their workers, and others saw it as an untenable financial burden to be gotten rid of as soon as possible. Almost all saw it as a serious moral and financial dilemma with no solution in sight.

Changes Since Privatization. A common view is that privatization has been carried out quickly in Russia, but little has changed at the firm level. Survey findings confirm that restructuring had not begun in earnest in most firms. Markets were too chaotic for enterprise managers to make serious investment or divestiture decisions, and long-term capital for new investment was not available. Even so, firm-level adjustment were substantial. The most important included the following:

- 55 of the 92 firms surveyed had laid off employees (on average, 10 percent of their current labor force), and 14 had hired new employees (on average, 8 percent of their labor force);
• 47 percent had changed their mix of products in the past 12 months, typically starting up production of new products and introducing trade and service activities;

• 57 percent of managers had changed their methods of motivating and rewarding workers—typically linking performance with payment and differentiating more between skilled and unskilled workers;

• 45 percent of firms had made investments in other firms; almost 20 percent had invested in 3 or more other firms.

Demand for Credit and Technical Assistance. Short-term loans reportedly were readily available. Although most enterprises had taken short-term loans, their use appeared to be declining as managers were less willing to pay going interest rates that they considered excessive.

Long-term loans reportedly were unavailable. Nor would most managers have taken them at current rates. In general, managers appeared to be conservative individuals with a high level of risk aversion. From their point of view, the future was too uncertain to take on long-term debt. The exception to this aversion was an interest in foreign currency loans with terms of 1-3 years. There was much discussion about the implications of assuming foreign exchange risk, and a good number of managers appeared ready to consider this option.

Managers were asked to identify the kinds of technical assistance that might be helpful to them. Most had little idea of the universe of options in this area, but many were interested. Primary areas of interest (and need) included marketing, production knowhow, and financial management. As regards format, managers were equally split in their preferences for short courses, foreign study tours and foreign consultants. But even strong interest among the more progressive managers was tempered by an undercurrent of suspicion that what might be offered would be of poor quality, irrelevant to their needs, or a scam of some sort. Effective delivery to TA to these managers might depend on substantial investment in marketing and on taking care to begin by matching the content of the TA with perceived needs of managers.
INTRODUCTION

This report contains the findings of a survey of newly-privatized, medium and large Russian firms carried out in October, 1993. The context for this work was three-fold. First, in light of the critical importance of the newly-privatized enterprise sector to the success of the Russian reform program generally and of the privatization program specifically, the survey was undertaken to obtain a quick but thorough reading on enterprises' characteristics and behavior a year into privatization. Second, the survey was needed to provide key information about firms' constraints, particularly in the area of finance, for utilization in preparation of the Private Enterprise Support Project by the IBRD and the EBRD. Third, it was designed to create a baseline of information about the status and prospects of newly-privatized Russian firms against which future developments can be measured.

The nature of this type of research should be kept in mind. Survey findings are based on in-depth, two- to three-hour interviews with a carefully selected group of managers of newly-privatized enterprises in October 1993. The results are, in effect, a series of detailed quantitative and qualitative photographs of enterprises operating in the prevailing economic and social setting. To the extent that conditions are ongoing, findings of this report will remain relevant. To the extent that circumstances change, this report becomes part of an historical record documenting the status of medium and large Russian manufacturers one year into privatization.

This report is organized as follows. Chapter I lays out survey objectives and methodology. Chapter II describes enterprise managers' basic characteristics, the ongoing presence of an "insider" network, and the new challenges posed by the current business environment. Chapter III looks at enterprises' basic characteristics, focusing on use of capital and labor. Chapter IV provides basic data on production and sales with an emphasis on input and output markets and on competition. Chapter V summarizes firm-level changes; the status of corporate governance of enterprises; managers' strategies for the future; and their needs for external finance and technical assistance.
I. SURVEY OBJECTIVES AND METHODOLOGY

A. Objectives

The primary objective of this survey was to document the characteristics, problems and needs of medium and large privatized enterprises in Russia. The survey was carried out during preparation/pre-appraisal of the Private Enterprise Support Project co-financed by IBRD and EBRD. Specific areas of interest included:

- the characteristics of medium and large privatized firms as regards their ownership, governance, labor and capital management, finance, post-privatization behavior and future strategies;
- firms' main problems in areas such as demand, inputs, finance and labor;
- firms' potential demand for credit in terms of use (working capital/investment), nature (debt/equity), term (short/medium/long), currencies (rubles/foreign); and their relationships with major actors in the financial system (banks, domestic and foreign investors);
- technical assistance requirements and potential design of this assistance;
- firms' general capacity to stay afloat in the near term, undertake necessary restructuring in the mid-term and evolve into viable companies in the future.

B. Methodology

1. The Approach

Two oblasts close to the capital were selected for sampling: Moscow oblast (which excludes the city of Moscow) and Vladimir oblast (located about 200 kilometers from Moscow). The total area of the two oblasts is 75,000 square kilometers\(^1\) (twice the area of the Netherlands) and their population is 8.4 million inhabitants\(^2\) (6% of the Russian population).

The survey was carried out from October 18-28, 1993 by a team of Western and Russian interviewers. Two-person survey teams spent two to three hours with each enterprise manager,

\(^1\) Moscow oblast: 46,000 sq.km, Vladimir oblast: 29,000 sq.km.

\(^2\) Moscow oblast: 6.7 million, Vladimir oblast: 1.7 million.
completing a questionnaire made up of quantitative and qualitative questions and visiting their factories when possible.³

2. The Population

The population from which the sample was drawn is based on lists of all privatized firms provided by the Oblast Property Funds in Vladimir and Moscow. In each oblast, two lists were obtained: one for enterprises privatized through the Mass Privatization Program (MPP), and one for the Privatized Leasehold Companies (PLC)⁴. These lists contain full information as to the names of firms, their managers and their addresses, and partial information as to firms' sectors and number of employees. The total number of firms in the population is shown on Table 1.1.⁵

<table>
<thead>
<tr>
<th>MPP</th>
<th>PLC</th>
<th>Total</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moscow oblast</td>
<td>105</td>
<td>351</td>
<td>456</td>
</tr>
<tr>
<td>Vladimir oblast</td>
<td>194</td>
<td>96</td>
<td>290</td>
</tr>
<tr>
<td>Total</td>
<td>299</td>
<td>447</td>
<td>746</td>
</tr>
<tr>
<td>(%)</td>
<td>(40%)</td>
<td>(60%)</td>
<td>(100%)</td>
</tr>
</tbody>
</table>

The number of employees was recorded for 60 percent of firms on the list. The size distribution of these firms is shown in Table 1.2.

<table>
<thead>
<tr>
<th># of firms w/info</th>
<th>Mosc. obl.</th>
<th>Vlad. obl.</th>
<th>MPP</th>
<th>PLC</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 250 employ.</td>
<td>212</td>
<td>225</td>
<td>250</td>
<td>187</td>
<td>437</td>
</tr>
<tr>
<td>87 (41%)</td>
<td>116 (52%)</td>
<td>108 (43%)</td>
<td>95 (51%)</td>
<td>203 (51%)</td>
<td></td>
</tr>
<tr>
<td>Less than 1,100 employ.</td>
<td>176 (83%)</td>
<td>183 (81%)</td>
<td>193 (77%)</td>
<td>166 (89%)</td>
<td>359 (89%)</td>
</tr>
<tr>
<td>More than 1,100 employ.</td>
<td>36 (17%)</td>
<td>42 (19%)</td>
<td>57 (23%)</td>
<td>21 (11%)</td>
<td>78 (11%)</td>
</tr>
<tr>
<td>Mean</td>
<td>700</td>
<td>1,055</td>
<td>1,145</td>
<td>530</td>
<td>880</td>
</tr>
<tr>
<td>Median</td>
<td>310</td>
<td>240</td>
<td>315</td>
<td>250</td>
<td>280</td>
</tr>
</tbody>
</table>

³ A copy of the questionnaire is attached as Annex 1.

⁴ An analysis of these lists showed that privatized leasehold companies represent a substantial portion of the pool of privatized companies in these oblasts, and the decision was taken to include them in equal numbers in the survey sample.

⁵ All firms on the lists were fully private or were in the process of privatization; virtually all had already achieved majority private ownership.
Sectoral information was available for most firms, and a rough distribution by sector is seen in Table 1.3.

<table>
<thead>
<tr>
<th>Table 1.3</th>
<th>The Sectoral Distribution of the Population by Oblast and Origin</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mosc. obl.</td>
</tr>
<tr>
<td># of firms w/info</td>
<td>372</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>171 (46%)</td>
</tr>
<tr>
<td>Construction</td>
<td>75 (20%)</td>
</tr>
<tr>
<td>Transport</td>
<td>71 (19%)</td>
</tr>
<tr>
<td>Services</td>
<td>55 (15%)</td>
</tr>
</tbody>
</table>

3. Sample Selection

Once the parameters of the population were known, the sample was selected randomly using the following criteria for stratification. Firms were to be evenly distributed between the two oblasts. Half were to be privatized leaseholds companies (PLCs), and half should come through the Mass Privatization Program (MPPs). In addition, half were to be larger than the average privatized Russian firm (1,100 workers) and the other half smaller. Small firms with fewer than 250 workers were to be excluded to the extent possible. The sectoral distribution was to focus mainly on manufacturing, with 70 percent of sample firms drawn from manufacturers, and 10 percent each from construction, services and transport. The following table contains the characteristics of the actual sample selected.

As shown, the final sample was fairly representative of the population of privatized firms in the two oblasts with two exceptions. Stratification for firm size to ensure that the survey included numerous large firms resulted in an average sample firm size that is almost twice as large as the average size of firms in the population. Stratification by sector resulted in a disproportionate number of manufacturers in the final sample.

Within manufacturing, the assumption was that random sampling would yield a representative set of activities. The spottiness of sub-sectoral data in the firm lists used as populations means that sample representativeness can not be ascertained with accuracy. However, it is possible to compare sample firms with the population of MPP firms in the Moscow oblast, for which sectoral information was available. Using these data as a basis, sample firms do appear to be fairly representative of the manufacturing sector with a few exceptions, i.e., over-representation of textile and under-representation of food industries

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6 The disproportional emphasis placed on manufacturing enterprises is based on the assumption that manufacturers will be primary users of the Enterprise Restructuring Project.
### Table 1.4

**Characteristics of the Sample**

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Population</th>
<th>Objective</th>
<th>Actual Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of firms</td>
<td>746</td>
<td>100</td>
<td>92</td>
</tr>
<tr>
<td>Moscow/Vladimir</td>
<td>61%/39%</td>
<td>50%/50%</td>
<td>52%/48%</td>
</tr>
<tr>
<td>MPP/PLC</td>
<td>40%/60%</td>
<td>50%/50%</td>
<td>48%/52%</td>
</tr>
<tr>
<td>Size (employees):</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&lt; 250</td>
<td>51%</td>
<td>few %</td>
<td>12%</td>
</tr>
<tr>
<td>&lt; 1,100</td>
<td>89%</td>
<td>50%</td>
<td>58%</td>
</tr>
<tr>
<td>&gt; 1,100</td>
<td>11%</td>
<td>50%</td>
<td>42%</td>
</tr>
<tr>
<td>Mean</td>
<td>880</td>
<td>-</td>
<td>1,518</td>
</tr>
<tr>
<td>Median</td>
<td>280</td>
<td>1,100</td>
<td>752</td>
</tr>
<tr>
<td>Sector:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>48%</td>
<td>70%</td>
<td>76%</td>
</tr>
<tr>
<td>Construction</td>
<td>18%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Transport</td>
<td>13%</td>
<td>10%</td>
<td>8%</td>
</tr>
<tr>
<td>Services</td>
<td>20%</td>
<td>10%</td>
<td>7%</td>
</tr>
</tbody>
</table>

### Table 1.5

**Sectoral Representativeness of the Sample**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Moscow MPP</th>
<th>Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Textile and clothes</td>
<td>31%</td>
<td>37%</td>
</tr>
<tr>
<td>Engin., metals, elec. prod.</td>
<td>32%</td>
<td>23%</td>
</tr>
<tr>
<td>Plastics, rubber, etc.</td>
<td>6%</td>
<td>9%</td>
</tr>
<tr>
<td>Wood and furniture</td>
<td>8%</td>
<td>13%</td>
</tr>
<tr>
<td>Food and beverage</td>
<td>9%</td>
<td>3%</td>
</tr>
<tr>
<td>Minerals, glass, etc.</td>
<td>13%</td>
<td>15%</td>
</tr>
</tbody>
</table>

### 4. Data Processing

Quantitative answers were processed with a statistical software to obtain means, medians and ranges for continuous variables (sales, salaries, and work force) and frequencies for discrete variables (yes/no and multiple choice questions). Qualitative answers, including detailed answers from managers and assessments by interviewers, were processed and sorted using a word-processing system.
In addition, responses to questions on the questionnaire were re-sorted using five variables considered particularly indicative of firms’ performance. The results of this analysis have been brought into the text as relevant. The five variables are:

- **sector**: six main manufacturing categories plus construction, transport and services;
- **firm size**: 'small' is <500 employees (28% of the sample); 'medium' is 500-2,000 (46%); and 'large' is >2,000 (26%);
- **origin of the firm**: (MPP or PLC);
- **'openness' of the manager**: defined as those who got a (+) rating from the interviewer, and who had made changes in their product mix in the previous 12 months (24% of managers); 'closed' managers were those who got a (-) rating from interviewers and who had not changed their product mix (11% of managers). (65% of managers were classified as 'neutral'.)
- **firm performance**: 'strong' firms were defined as those that got a (+) rating, and whose production volume had not decreased in the past 3-4 months, and whose cash flow was covering costs (28% of sample firms); 'weak' firms were those that got a (-) rating, and whose production had decreased in the recent months, and whose cash flow did not cover costs (8% of sample firms). (64% of firms were classified as 'neutral').

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7 After each visit, the interviewers scored the managers (with a +, = or -) based on a subjective assessment of their receptivity to change, new ideas and external assistance.

8 After each visit, the interviewers scored the firm (+, = or -), based on a subjective assessment of the strength of the firm's market, trends in sales and production, responses to changes in the economy, status of cash flow and debt/equity, and general viability in the future.
II. THE MANAGERS

Most managers were middle-aged, well-educated men with long histories as managers. The youngest were in their early 30s and the oldest in their early 60s, with an average age of 49. Only 16 percent of managers were under 40. Fully 85 percent had university degrees and an additional 9 percent had post-university education. The continuity of management from pre- to post-privatization periods was clear from the fact that half of the managers interviewed had been general managers and 30 percent had been managers of technical departments in sample firms prior to privatization.

Interviewers encountered large numbers of highly effective enterprise managers. Estimates were that about 40 of the 92 firms surveyed were led by fully competent managers who appeared able to bring their firms through the transition successfully—assuming the business environment does not entirely sabotage their efforts. Nineteen managers were judged to be poorly-prepared to make the transition, and the remainder were rated as average with a mix of strengths and weaknesses.

The survey confirmed that many managers had maintained their powerful positions with privatization, but interviews made it equally clear that the combination of economic crisis in Russia and the speed of privatization had radically altered the content of managers’ jobs. Acquisition of scarce raw materials had been replaced by the difficulty of paying for inputs in the context of high inflation and falling revenues. Production quotas were gone, but in their place had come pressures to find markets where production could be sold and to formulate strategies by which to collect payments—both in the context of a devastating recession. Keeping enterprises afloat had come to depend far less on lobbying ministry officials for subsidies than on making profits in the marketplace—after paying numerous high taxes. Provision of basic social services for workers had become problematic for many managers, most of whom were caught in the dilemma of feeling responsible for these services but recognizing that they could no longer afford them.

The data suggests the existence of a strong network among managers of privatized firms. First, over half of managers belonged to at least one industry association. In a number of cases, the association was, in fact, a descendent of the sectoral ministry that formerly coordinated production among state enterprises. Typically organized as joint stock companies, these organizations offer their shareholder/members bulk purchasing of raw materials, some assistance with distribution, technical information and a voice in Moscow politics. Second, 45 percent of enterprises had invested in other companies, often a bank or a descendent of their former sectoral ministry. Almost 20 percent had invested in three or more companies, conveying the

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9 Interviewers also met a distinctive minority of managers who were making great efforts to maintain the status quo, i.e., trying to hold on to their entire work force and physical assets, continue manufacturing the same products, and maintain their network of established customers.
impression of a fairly dense network of investment. Third, many managers continued to rely heavily on their former suppliers and customers.
III. THE FIRMS

A. General Characteristics

All sample firms originated in the state sector, half moving into the private sector in bits and pieces under the auspices of leaseholds and half coming through the mass privatization program (MPP). In both cases, the entire state enterprise typically was brought into the private company with little evidence that managers had sorted through assets, chosen the best and discarded unwanted parts. This finding was particularly surprising for privatized leaseholds where common wisdom is that these managers have been active in asset stripping, i.e., targeting the best departments of enterprises for purchase.

Firms' origins were good predictors of their legal forms. Almost all former leaseholds were either closed joint stock or limited liability companies and, without exception, MPP enterprises were open joint stock companies (as required by the privatization legislation). Among MPP firms, a quarter had chosen Option 1 wherein workers could claim 25 percent of shares free of charge with the option of purchasing an additional 10 percent at a price established by GKI using a pre-set co-efficient. Managers could purchase 5 percent of shares, and the remaining 60 percent were to be sold to the public through voucher auctions and investment tenders. Almost three quarters chose Option 2 wherein workers and managers could collectively purchase 51 percent of shares; 10 percent of shares were held back by the Property Funds for subsequent sale to workers and managers; and the remaining 39 percent of shares were sold to the public through voucher auctions and investment tenders.

A breakdown of firms' ownership structures reveals that while the average private share of ownership was 90 percent across the sample, the distribution of ownership differed between leaseholds—which were owned almost exclusively by managers and workers—and MPP firms—where about a quarter of shares remained with the Property Fund potentially for auction.

Across the total sample, managers owned an average of 17 percent of their firms, 21 percent in leaseholds and 13 percent in MPP firms. On average, employees owned 61 percent of shares, 75 percent among leaseholds and 50 percent among MPP firms. Among leaseholds, the small portion of the parent enterprise not yet purchased belonged to the Russian state. Among MPP firms, owners other than managers and workers consisted of: (i) oblast property funds: shareholders in two-thirds of MPPs with an average share of 20 percent; (ii) institutional investors: shareholders in two-thirds of MPP firms with an average share of 19 percent; and (iii) individuals: shareholders in two-thirds of MPP firms with an average share of 10 percent.

The average age of sample firms as private firms was 13 months although many had been operating as state enterprises for decades. Over 60 percent had been private for more than one year, and only 5 percent had been privatized in the previous six months. In sum, most sample firms had been operating privately for about a year.
The size of firms is reflected by numbers of employees and by monthly sales. The average labor force was 1,518 but the median was 752, reflecting a cluster of firms at the small end and relatively few firms with more than 2,500 workers. Average monthly sales for the month of September were US$1.04 million but the median sales figure of US$266,000 was considerably less, again due to a cluster of firms at the very small end of the scale. At an average of US$400,000, former leaseholds were a third the size of MPP firms where average monthly sales were US$1.1 million. Sectors with the highest sales included fabricated metal products and paper products; the lowest sales were found among services and construction companies.

Manufacturing firms operated in all major sectors. A breakdown shows that 60 percent were producing basic consumer goods: 30 percent inputs such as yarn, fabrics, auto equipment and bottles, and 30 percent finished consumer goods such as clothing, furniture and beer. Non-basic consumer goods such as porcelain and art products were the main products for 10 percent of firms. Twenty percent manufactured non-consumer goods such as electric cables, water pumps and locomotives, and 10 percent manufactured construction materials.

Most firms were only beginning to diversify. Specifically, 45 firms derived all of their revenues from a single, principal activity. Among those who had diversified into other activities, 32 had begun manufacturing a second product; 10 had started up trading activities; 16 were involved with services, usually repair services; and 4 had taken on minor leasing activities. In general, enterprises diversified into short run products/services to make up for shortfalls in revenues. For example, a number of specialized construction companies had broadened their scope to all forms of construction. Manufacturers of auto-parts opened repair services.

Some cross-investment was apparent. Among the two-thirds of firms that had invested in at least one other business, most had purchased a small number of shares in a bank. Other investments included shares in trading companies, raw material suppliers and other manufacturing companies. An analysis across groups of firms shows notable differences in the level of cross-investment. One in five PLCs had made other investments compared with one in ten MPP firms, and 45 percent of large firms owned shares in 3 or more additional companies compared with 7 percent and 8 percent of medium and small companies, respectively.

When asked to name the three largest problems affecting their businesses, the most frequent responses were delayed payments from customers, followed by high taxes; insufficient working capital; weak demand/falling orders; inadequate funds for investment; and inflation. It was obvious that these problems were inter-related. Working capital was eroded by high taxes, falling orders and inflation. Delayed payments, particularly in a high inflation

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10 Managers reported that they were paying profits taxes of 80%-90%. In addition, they paid a plethora of other taxes including excess wage and export taxes. Some complained about the lack of available tax breaks associated with new investment. Apparently, enterprises can deduct interest payments on loans of more than 12 months, but not on loans with shorter terms.
environment, exacerbated the problem. Managers were hamstrung in their efforts to move into new, more profitable products by lack of residual funds for investment. Of note in the area of constraints is the fact that few managers complained of problems associated with government regulations, with the exception of tax regulations. Tax rates appeared to be very high. In addition to high rates, managers expressed their frustration with the number of different national, regional and local taxes levied and the frequency with which tax regulations change.

<table>
<thead>
<tr>
<th>Delayed Payments</th>
<th>High Taxes</th>
<th>Insufficient Working Capital</th>
<th>Weak Demand</th>
<th>No Funds for Investment</th>
<th>Inflation</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>13%</td>
<td>12%</td>
<td>12%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>33%</td>
</tr>
</tbody>
</table>

Managers were asked to name their three largest problems in order of importance.

B. Capital

1. Fixed Assets

The vast majority of firms (95%) owned all of their buildings and equipment—a powerful indicator of the degree of privatization that had taken place and a positive finding as regards firms' potential to offer security for loans. Former leaseholds had purchased their assets in stages over the previous 3-4 years; MPP firms had bought them as part of the privatization package. Ownership of land was less clear, due mainly to legal uncertainties. Half of managers said that they had a long-term lease for their land from the state; 27 percent were simply using the land with no legal agreements; and 20 percent claimed that they owned the land and had formal title to it. Legal uncertainty as regards ownership of land did not appear to impede firm-level operations. The informal law seemed to be that enterprises were entitled to use the land occupied by their factory buildings without interference in exchange for paying taxes on the land. The impression was that little if any actual rent on land passed hands.

Forty percent of enterprises had sold machinery or buildings in the previous 12 months, mostly old equipment to new private firms. A sectoral breakdown shows that the majority of transport (86%) and metal fabricating (57%) enterprises had sold redundant equipment, not surprising given the ease with which vehicles and machine tools can be traded. In contrast, few textiles and ceramics firms had sold equipment, again not surprising given the specialized nature of their machinery.

Despite the relatively high percentage of sample firms that had sold equipment, most manufacturers were very hesitant to sell off unused equipment even though many admitted that much was idle. Some wanted to hold on to their equipment because, in their view, its value was rising daily. Some hoped to resume their former levels of production in which case they would need what they had, and they had no confidence that they would be able to locate and pay for
similar equipment in the future. Finally, some managers appeared indignant when asked if they had sold assets, conveying the impression that selling off equipment would have the unwelcome feel of a bankruptcy sale.

2. Finance

Working capital. Ascribed to a variety of sources, inadequate working capital was the most frequent answer when managers were asked to identify their biggest problem with financing. Most commonly, managers attributed working capital problems to delayed payments from customers and to prohibitively high interest rates at the banks, i.e., they could not get paid by their customers and they could not borrow to cover gaps at a price they considered reasonable. Despite negative real interest rates, complaints about rates may not have been entirely irrational. Enterprises paid nominal rates of about 190 percent p.a. which were equivalent to about 400 percent p.a. when compounded. Repayment was certain as banks typically held borrowers' current accounts and could easily deduct payments. But revenues were far less predictable as they depended on operating margins which were critically influenced by demand uncertainties and input and payment problems. Also frequently mentioned in connection with inadequate working capital were high taxes that reportedly absorbed a large share of revenues, and inflation which pressed hardest in the rising costs of raw materials.

More specifically, cash flow reportedly did not cover operating costs (inputs, salaries, overhead, interest and taxes) in 35 percent of enterprises. Comparisons across firm groupings yield a profile of firms with the most severe problems covering their operating costs. In general they tended to be:

- producers of intermediate goods such as plastics, glass, fabricated metal parts and some textiles (68% of all sample firms producing intermediate products) more so than producers of finished goods (13% of all firms producing finished goods);

- encountered frequently among construction firms (5 out of a sample total of 6) and manufacturers producing construction materials (4 out of 9)

- more frequently found among MPP firms than among leaseholds (47% of MPPs, 21% of PLCs);

- fairly equally distributed by size, with about a third each of small, medium and large firms failing to cover their costs. Among large firms, 1 in 5 far more than covered costs compared with only 1 in 24 small firms and 1 in 14 medium firms.

In sum, privatized firms that produced intermediate inputs, typically industrial inputs for enterprises still owned by the state, appeared hardest hit by liquidity problems. Orders had dropped and extracting payments from state customers was difficult. The fact that MPPs had larger problems maintaining adequate cash flow might be explained in part by the high cost of social services provided by most MPPs but less frequently by leaseholds. The relatively better
position of some large firms typically reflected their monopoly power. In general, firms that had shifted or were in the process of shifting to consumer goods appeared to be in better shape financially.

Payments. Detailed questions about the status and trends in firms’ receivables yielded a mixed picture. Receivables were up to date or late by 30 days or less in about half of firms, but late by 90 days or more in about a quarter of firms. When asked about recent trends, managers were equally divided among those who said that there was no change, those who said that their customers had begun to pay more promptly, and those who said that delays were increasing. An analysis across groups of firms highlights the declining position of many construction firms, almost two-thirds of which reported increasing delays in receivables.

Half of receivables from private firms were up to date as compared with a quarter of receivables from state enterprises. Transport and construction companies that relied mainly on state customers reported that almost all their receivables were late. Clearly, the worst offenders—whether deliberately or because of clearance problems in the banks—were in other CIS countries. Several producers complained loudly about customers in the Baltic countries, saying that political hostilities had worsened the problem.

Managers had little formal recourse against those who delayed payments, and most relied on informal means of collection. Personal harassment, including persistent telephoning and threats to cut off further shipments, was the most common approach. Cancellation of deliveries to customers with poor repayment records—especially in other CIS countries—also was a common response. A number of managers reported that they had accepted deliveries of consumer goods for re-sale in lieu of monetary payment. Only 15 percent of firms had filed claims in courts, a procedure that reportedly absorbed 6-8 months during which time no interest on the debt was paid. Several managers described the difficulty of trying to extract payments from large, powerful customers upon whom they relied for future contracts.

Requiring pre-payment from customers was a widespread practice among managers who were seeking to limit their exposure to late payments. This practice did appear to lower arrears, but it may also have dampened demand in the industrial sector with managers delaying production until they could obtain pre-payments from customers which they needed for pre-payments to suppliers. Others described the opposite problem wherein customers paid in advance at current prices while producers, who could not afford to stock raw materials, ended

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11 Russian regulations apparently state that invoices are to be paid within 7 days after which accounts are considered tardy. Closer scrutiny of complaints about late payments often revealed that payments actually were only about 3 weeks past the 7-day limit. Managers’ perception that late payments were among their most serious problems might reflect their insecurity now that payments are not guaranteed as they were before as well as their very thin supply of working capital.

12 Many managers resisted distinguishing state from private customers and suppliers, saying that they were unaware of the legal status of most firms with which they dealt.
up paying higher input prices due to delays in procuring their raw materials. Textile and clothing producers who had to pre-pay for supplies of cotton from Uzbekistan were particularly disadvantaged by this payment system.

The ability to locate solvent customers and extract payment from them was an important key to success. Over three-quarters of firms considered among the most promising in the sample reported that their receivables were less than 30 days late. In contrast, two-thirds of the weakest firms in the sample reported that their receivables were late by 90 days or more.

Use of institutional credit. Obtaining a short-term loan from a bank reportedly was easy, and 77 percent of sample firms had obtained one or more loans with terms of fewer than 12 months in the previous year. Many had obtained 4 or 5 such loans to cover financing gaps, typically with terms of three months or less. Loans were secured with equipment and inventories. Managers of smaller sample firms demonstrated a greater reluctance to take loans: 62 percent had taken loans as compared with 83 percent of medium and large firms.

There was a high level of uniformity in the sources, terms and uses associated with credits received. A few banks dominated in each oblast: Unicom Bank in Moscow oblast and Moscow Industrial Bank and Rosselkhozbank in Vladimir oblast. On average, enterprises paid interest rates of about 190 percent, with a range of 150-250 percent. Short-term loans were used mainly to pay for inputs (69% of firms) and to pay employees' salaries (23%). Among the relatively few managers who had had difficulty obtaining short-term loans, the main problems reportedly were that their banks didn’t have enough money to lend or that their banks preferred favored clients with large accounts.

Only 12 percent of enterprises had received long-term loans (terms of > 12 months) in the previous year. Three-quarters had not even applied for term credits, citing banks' refusal to extend term loans in the current economy and their own unwillingness to pay current interest rates. Most who had gotten term loans had managed to get soft loans from the government, some through their association with agricultural concerns and others in the name of reconstruction or imminent bankruptcy. It should be noted that observed use of soft, government credit was limited to this 12 percent of firms. Almost all term loans had been obtained more than six months previously, and managers gave the impression that they had little expectation of receiving additional soft loans.

Relationships with banks. Forty percent of managers had no complaints about their banks. Among those who did have problems, the most common complaint was delay in transactions between different banks and different cities and across the network of former republics. Many managers claimed that banks delayed financial transfers intentionally to maximize their earnings. Other widespread complaints included: lack of confidentiality, a focus

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13 Only 3 firms had applied for short-term financing and been turned down. 12 firms had gotten short-term loans from non-banks sources.
on short-term profits and high fees for routine services such as cash withdrawals, opening of new accounts, and exchange of foreign currency.

Notwithstanding their complaints, some managers described improvements in banking practices that had taken place over the previous year. Firms reportedly were no longer required to conduct all transactions through the banks, but could conduct transactions in cash (up to several hundred thousand rubles per transaction). Account holders were free to withdraw an unlimited amount of cash from their accounts if they were able to provide good explanations for its use, their bank had sufficient funds on hand, and they are willing to wait a few days for delivery. Withdrawals of cash reportedly incurred service fees of 2-5 percent. Intermediating transactions across the borders of former republics was a prominent area where financial services had continued to worsen. Managers reported waiting many months for payments, unable to ascertain whether the delay was the fault of the customer or of the respective bank.

Two-thirds of firms owned shares in banks, usually one percent or less in the local branch with some exceptions where enterprises owned 10 percent or more. Not surprising, the larger the firm, the more likely it was to be a shareholder in a bank (87% of large firms, 44% of small ones). Ownership appeared to confer several advantages, including: (i) relatively easy access to short-term credit facilities; (ii) marginally lower interest rates; and (iii) ongoing relationships between managers and bankers. A notable advantage that did not accompany ownership was access to term credit.

C. Labor

Substantial changes were observed in the area of labor. The average and median numbers of workers per firm in October 1993 were 1,518 and 752, respectively, down from an average of 1,591 (-5%) and a median of 800 (-6%) 12 months previously (Table 3.1). Most managers reported that their employees were working full-time, although about 15 percent said that their work force often was forced to cut back to part-time work due to falling orders and insufficient cash flow for payrolls.

<table>
<thead>
<tr>
<th>Table 3.2 Changes in the Labor Force</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Currently Needed</td>
</tr>
<tr>
<td>Oct. 92</td>
</tr>
<tr>
<td>Oct. 93</td>
</tr>
<tr>
<td>Average # of employees</td>
</tr>
<tr>
<td>% change</td>
</tr>
</tbody>
</table>
Sixty percent of managers had laid off workers in the previous 12 months—an average of 150 persons or 10 percent of their labor force. Three-quarters of enterprises engaged in construction, chemical products and textiles had laid off workers, reflecting the severe demand problems faced by firms in these sectors. A quarter of firms had not made significant changes in the size of their labor force, and 15 percent of firms had hired additional workers—on average, 136 persons or 8 percent of their labor force.

Substantial additional lay-offs can be expected, particularly among large firms where a third of managers said that they needed far fewer workers than they had to meet current production levels. In the sample as a whole, just over 40 percent of managers acknowledged that they had more workers than they needed. When asked specifically how many workers were actually needed at current production levels, managers cited figures that were, on average, 16-17 percent below current levels (Table 3.2). Fewer large firms had laid off workers than their small and medium counterparts, and large firms were more likely to report excess labor than other firms—particularly in the non-metallic minerals and the fabricated metals sectors.

Notwithstanding the need to reduce their labor forces, over half of managers said that they were experiencing difficulties keeping their skilled workers. Managers typically attributed the loss of some of their best workers to their inability to pay competitive wages. In some cases, the most talented employees had left to work independently as private entrepreneurs in their own companies. Others had left to work as employees in other private companies where salaries were higher. The exception to this pattern was found among companies in small towns where they were the primary employers in the area. Managers in these firms had not lost workers because their employees reportedly had few other options.

Most managers were taking active measures to hold on to their most desirable employees. Maintaining competitive salaries clearly was a priority among managers, as was continued provision of social benefits. Some had initiated binding, long-term contracts with selected employees. Such personalized contracts spelled out the term for which the employee was committed to work for the company, the criteria by which an employee's performance would be measured and the range of perquisites provided during the life of the contract if the performance criteria were met. Apparently, both employer and employee take such contracts seriously. One firm had selected a small number of its employees for contracts, offering them access to low-priced cars at the end of two years if their performance was good. In another company, 20 out of 1,300 employees had been given contracts.

14 There was consensus that enterprises do not face serious legal or financial difficulties in laying off or firing employees, even those who are shareholders. Advance notice and payment of two months' salary appeared standard, except in cases where workers violated company rules.

15 Forty percent of managers felt that their labor forces were appropriate to their needs, and 18 percent considered themselves understaffed—mostly smaller sample firms that were expanding.
In addition, many managers had taken steps to raise labor productivity by linking employees' salaries and performances more closely. A number of managers commented on their new freedom to set wages without control from above (with the exception of the excess wage tax). Some had moved from provision of bonuses when workers exceeded production plans to payment based on piecework. Others used merit bonuses based on a consideration of individual output and general company bonuses. Others awarded merit raises based on foremen's appraisals of individual efficiency. One transport company had devised a lease/purchase scheme for its taxi drivers to motivate drivers to maintain their vehicles.

The average monthly salary for a skilled worker was 110,442 rubles (US$90) in September 1993, up from 26,374 rubles in January 1993\(^\text{16}\) for an increase of 420 percent for the 9-month period. Monthly salaries for unskilled workers grew from an average of 12,208 rubles in January, 1993 to 42,529 rubles in September, 1993 for an increase of 350 percent. Thus, the ratio of average salaries of skilled and unskilled workers changed from 1:2.2 to 1:2.6 in the first nine months of 1993, a finding that is consistent with interviewers' observations that skilled workers were increasingly able to bid up their wages.

Almost all enterprises (89%) offered social services to their employees, typically a mix of housing and associated utilities, health and child care facilities, vacation locations, transportation and farming plots. With privatization, ownership of some facilities associated with social services, i.e., buildings and utilities, had shifted to municipal governments although, in many cases, provision of the services themselves remained the responsibility of the enterprise. For example, 58 percent of enterprises provided health and child care services to their workers, but only two-thirds of these enterprises owned the actual facilities with the remaining third owned by the municipal government. Forty-two and 33 sample enterprises provided vacation facilities and transportation services, respectively, and enterprise ownership rates of 76 percent and 85 percent, respectively, remained high.

Provision of housing represented by far the most critical and knotty problem in the area of social services. Eighty-seven percent of sample firms provided housing for their employees—typically for the majority of their workers and for small numbers of other local residents. Among enterprises providing housing, 57 percent had maintained ownership of the actual facilities with 28 percent having been transferred to municipal governments and 14 percent transferred to employees. But regardless of ownership—even where employees had purchased their flats—the financial burden of maintaining housing facilities and providing utilities remained with the enterprises\(^\text{17}\).

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16 Based on the prevailing exchange rate of US$1 = 1,200 rubles.

17 Where housing stock had been privatized, employees apparently purchased their flats at a set rate per meter of floor space and the enterprise continued to pay for all maintenance and replacement costs for the buildings and utilities. Several managers reported that efforts to get employees to pay a higher share of housing costs had failed with employees considering access to subsidized or free housing a basic social right.
In discussions about social services, managers presented a range of views. Some were proud of the fact that they had been able to continue providing their workers with all services, in effect having been able to shelter their employees from negative change. These managers felt that provision of housing was a clearcut responsibility of their enterprise, and half said that they could afford to continue financing housing as before. Others were anxious to transfer ownership and financial responsibility for most services to municipal governments and workers, but expressed doubts that either party could or would afford maintenance costs, especially since much of the housing stock reportedly is old and in poor condition. Forty percent of managers said that they were unable to afford continued provision of housing, but few seemed able to find a viable alternative. The larger the enterprise, the more comprehensive the social services and the larger the problem of continuing provision.
IV. PRODUCTION AND SALES

To re-cap, average monthly sales in September were US$1.04 million with a median of US$266,000. Forty-seven percent of firms had monthly sales below US$417,000 (annual sales of US$5 million). On average, the highest sales were found among enterprises involved with heavy industry, i.e., fabricated metal products (US$2.4 million per month) and paper and paper products (US$1.2 million), and the smallest among services firms, i.e., business and household services (US$150,000) and transportation (US$108,000). Sales in two-thirds of firms were constrained by lack of demand/orders for their products, and in one third by an inability to fill more orders than they currently had. Forty percent reported mounting inventories.

Almost a third of managers (31%) reported that at least one of their primary products was subject to price controls or profit margins. Some controls were associated with sector, i.e., those involved with petroleum products, agriculture and wholesale trade. A few firms were subject to price controls because they were registered as monopolies. Most price controls, however, originated with committees and associations that have descended from the former sectoral ministries. For example, the Moscow Transport Committee issues a price list for transport companies, and managers in these firms claimed that they are obliged to honor these prices because most of their customers are state enterprises that demand that they adhere to these prices. Higher prices apparently require formal justification. Similarly, the Bureau of Construction fixes chargeable rates for construction jobs, indexing rates on a monthly basis.

When asked about trends in their volume of production in the previous several months, just under 60 percent of managers said that production had been stable or had increased—a remarkable performance given the severe downturn in Russian industrial output over 1993. Sectoral differences were prominent: 60 percent of firms producing textiles and clothing and 50 percent of construction firms reported declining production whereas 78 percent of furniture manufacturers and 73 percent of transportation firms reported increasing volume. Over half of MPP firms reported declines in production compared with a third of PLC firms.

Just under 60 percent of firms had confirmed orders for only the following three months, but a third had orders that would keep them busy for the next six months. Large industrial firms producing metal and plastic products more frequently had long-term orders whereas small firms making consumers goods were more likely to have short-term work plans. Again, MPP firms were less likely to have confirmed orders for the future than were PLC firms. The most traditional managers defined problems with weak demand in terms of an unmet need for credit, thinking that the real problem was lack of production.

Most enterprises were able to access needed intermediate inputs without difficulty. The larger problem was maintaining sufficient working capital to pay for them. Access to inputs was made easier in most cases by the continued presence of the former network of suppliers (many now privatized), although some managers complained that markets had become chaotic with former suppliers changing product lines and charging monopoly prices. One producer described
a situation where a monopoly scrap metal supplier cut off all deliveries for a month in order to increase prices. Others extolled the advantages of vertical integration as regards security of input supplies.

Of the 20 percent of managers who had problems obtaining needed inputs, three quarters relied mainly on suppliers in other CIS countries. These firms typically had tied up large amounts of scarce working capital for long periods of time as they waited for slow and erratic deliveries of supplies. They described chronic difficulties in dealing with bureaucratic and unpredictable cross-republic quotas, customs regulations, payment systems and transport arrangements.

The growing extent to which the economy had been privatized was evident in the finding that just under two-thirds of managers cited other private firms as their main customers—many other former state firms that had privatized. As managers selected their customers, they were faced with tradeoffs. State enterprises and newly-privatized state companies offered large contracts and the built-in advantages of an existing personal network, but they were much slower on average to pay for goods and services delivered. Private firms paid their bills faster, but their orders typically were too small to sustain sample producers. For example, a large plastics producer that relied mainly on large contracts with the Volsky Automobile Company was forced by slow payments to supplement revenues by short customized production runs for private companies who paid on time.

Analysis across firm groups shows notable differences. Enterprises most likely to sell mainly to other private firms tended to be smaller, produce consumer goods (clothing, furniture), and to be former leaseholds. Those who relied on state enterprises as their main customers were most often large, MPP firms that manufactured industrial inputs. It is interesting to see that, with few exceptions, firms judged most promising and managers most open-minded sold mainly to other private companies. The choice of customer may, in fact, have been key to these firms' success.

Firms' primary markets were in Russia, and few described problems with distribution. Specifically, half sold most of their output on national markets; just under 40 percent sold locally and in nearly towns; and about 10 percent sold elsewhere in Central Europe. Only 2 percent of managers reported that they faced any regulations concerning distribution of their products. When asked to describe problems associated with distribution, 86 percent said that they had none with the remainder expressing dissatisfaction mainly with the loss of the former trade network and the difficulties of obtaining export licenses.

The level of competition faced by most sample firms was notably low. A quarter of managers said that they had no competitors in their main markets; 40 percent had fewer than 10. The slow development of competitive markets was a bit surprising given that most firms were producing basic consumer and intermediate goods where competition typically is greatest. The highest levels of competition were reported by managers in transport and furniture companies.
Among firms that did have competitors, their main source of competition was other large, private firms—again confirming the degree to which the economy had been privatized. The fact that only 11 percent of managers cited state enterprises as their main competitors dispels notions that the existing state sector is crowding out private firms or at least the newly-privatized sector. The almost non-existent level of foreign penetration was evident in that only 2 percent of managers said that their main competitors were imports, and none named joint ventures or foreign firms as competitors.

Just under half of firms were exporting some portion of their production, on average 20 percent of their output. Two-thirds of those who exported sold directly to their buyers; the remaining third sold to intermediaries who then exported the goods. Most exports were sold in Ukraine and Belarus, with only a few firms selling in foreign markets outside of CIS countries.

Managers were vocal when asked to describe the main barriers they faced in entering export markets. Their foremost obstacle was lack of information about potential trading partners, the structure of demand in foreign markets and required product quality and packaging. Many felt that locating a foreign partner who could inject capital and link the firm with appropriate markets was a prerequisite for successful exporting. Managers also described formidable logistical problems, including: payments problems, high export taxes, export licenses and excessive paperwork and fees. Without capital to upgrade their production equipment and thereby improve product quality, most felt unable to compete in foreign markets. Others complained about the share of profits taken by trading companies that could market their products abroad. One manager said that the overvalued ruble meant that he could get better prices on the domestic market, and another cited quotas and tariffs in foreign markets.

Almost all managers equated the state of their technology with the state of their production equipment. Virtually none showed an awareness of technology issues such as information systems and the organization of production. Rather, they focussed on the need for better equipment that would produce higher quality output. Interviewers observed a mix so far as the adequacy of production equipment: some appeared fully adequate but much appeared outdated and worn out. Furniture makers needed higher precision machines and better quality finishing equipment. Textile producers who wanted to produce fabrics of the wider, international widths needed new knitting and weaving machines. Plastics manufacturers were aware that their production equipment was inadequate to produce higher-tech plastics.

Most managers seemed fully aware of environmental concerns associated with their factories, but actions to ameliorate problems were seldom seen. Many reported that they were subject to environmental inspections by government officials. The most frequently observed problem concerned toxic fumes that affected production workers. Some managers said that they had improved ventilation systems in their factories, but most admitted that measures had been insufficient. A number of managers said that officials routinely measure the level of pollutants
in nearby water sources and fine them if levels are too high\textsuperscript{18}, but most said that they could not afford to build reclamation or water purification plants to solve the problem. The impression was that environmental assessments probably would reveal fairly serious problems with pollution and worker safety in large number of firms.

\textsuperscript{18} They only knew that they had been fined when their banks informed them that fines had been deducted from their accounts.
V. POST-PRIVATIZATION ADJUSTMENT AND STRATEGIES

A. Firm-level Change

Entrepreneurs were asked to identify changes that had taken place in their firms since privatization. Many managers spontaneously revised this question by saying that recent changes in their firms had resulted more from the economic crisis in Russia--most notably the recession that is underway--than from the shift in ownership.

Regardless of their genesis, aggregate changes that had taken place within firms in the previous 12 months were substantial. To re-cap some key facts from the above text, the most important changes included the following:

- An average of 90 percent of the ownership of these firms had been transferred to private hands through privatization programs (either MPP or legal buyouts by leaseholds);
- 95 percent of firms owned all of their buildings and equipment, and almost 40 percent had sold off some redundant equipment;
- 55 of the 92 firms surveyed had laid off employees (on average, 10% of their current labor force), and 14 had hired new employees (on average, 8% of their labor force);
- 47 percent had changed their mix of products in the past 12 months, typically starting up production of new products, upgrading product quality and introducing trade and service activities;
- 77 percent had taken (and presumably re-paid) short-term loans in the previous 12 months, almost all from commercial banks at going interest rates of 180-220 percent p.a. ;
- 57 percent of managers stated that they had changed the ways they motivate and reward workers--typically linking performance with payment and differentiating more between skilled and unskilled workers;
- 45 percent of firms had made investments in other firms; almost 20 percent had invested in 3 or more other firms;
- 58 percent of firms relied on other private firms (some privatized former customers and some new) as their primary customers rather than on the state sector.
Despite the magnitude of aggregate changes undertaken over the previous 12 months, individual firms' responses were highly heterogeneous. A loose categorization places firms in three groups: those who had resisted making changes; those who had made marginal changes; and those who had embraced the new environment and were re-shaping their enterprises as quickly as possible.

The first group (25-30% of firms) essentially were clinging to the status quo, producing the same products for the same customers and struggling to hold on to their labor force in the face of falling orders and increasingly inadequate working capital. With the exception of those with monopoly power, these firms were among the weakest firms in the sample. The second group (50-60% of firms) typically had made small changes in their product mix in the direction of consumer demand, laid off small numbers of workers, ventured into new markets on a limited basis, and begun to think about diversification. The third group (15-25% of sample firms) were headed by the most competent managers in the sample, and they typically had started up new product lines, downsized and introduced flexible production.

B. Corporate Governance

Without question, corporate governance of enterprises was in the hands of managers. When queried about how the new ownership structure was affecting the decision-making process, most managers exhibited no qualms about stating that they were fully in charge. Indeed, an implicit bargain seemed to have been struck wherein workers' rights to participate in a selected, narrow range of decisions and to receive dividends had been acknowledged in exchange for managers' having taken the responsibility for keeping as many people employed as possible. Maintenance of the labor force and delivery of social services at a level widely-believed appropriate clearly was felt as an ethical and weighty responsibility by most managers. When managers were asked about their largest problems in laying off workers, the two most frequent answers were that workers had no other place to go and that they could not afford compensation payments. None cited the fact that workers are major shareholders as an impediment.

At a more concrete level, most managers had fulfilled the formal requirements regarding governance that came with privatization. Almost 90 percent had held shareholders meetings (usually scheduled annually), and over 90 percent had shareholder registers. Many managers reported that shareholders had made important decisions at the shareholders' meetings, most focussing on the disposition of social assets. Only about a third had issued share certificates and had paid dividends, although most reported that they would soon do both.

Few shares had been traded. In a third of firms--almost all leaseholds that had converted to closed joint stock companies--workers were not allowed to sell shares except to other workers and then only with permission of the collective. In another 46 percent of firms, shareholders

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19 Examples of these firms include an auto parts producer who had shifted resources into auto repair and a brick and tile producer who had shifted his production in favor of residential rather than industrial construction materials.
were free to sell shares but none had done so. Shareholders had sold shares in only 20 percent of firms, and most reportedly had sold very few.

Boards of directors had been established in most firms, but their membership was dominated by managers. Formal membership typically was still the one prescribed in the corporization legislation, i.e., one representative each from managers, workers, the property fund and the municipal government. New corporate charters, to which enterprises were entitled following privatization, had not been drawn up. Boards met once or twice a year to consider questions concerning issuance of dividends and management of social assets, but they appeared to have little or no involvement in decisions affecting firms’ operations.

C. Strategies for the Future

1. Managers’ Priorities

Managers were asked to describe their strategies and priorities for the near term. A common answer was "to survive". When pressed to be more substantive, a third of managers said that investment in new equipment was their first priority and a quarter said that finding new markets was their first priority. In general, more forward-looking managers in the sample also tended to include improving financial management and marketing skills and entering export markets among their priorities.

Managers’ emphasis on procurement of new equipment was difficult to evaluate. On the one hand, most managers showed little awareness that they could bring about substantial improvements in their production through avenues other than new equipment. Indeed, strategies for increasing production efficiency using current capital stock were seldom raised. Strategies such as improving the lay-out of production, inventory management, product design and upgrading workers’ skills clearly took a back seat to acquisition of new equipment.

On the other hand, some enterprises clearly were at a competitive disadvantage using outdated equipment, and their ability to compete may depend critically on acquiring new equipment. For example, local furniture companies with outdated woodworking machines were unable to finish their production on par with imports. Many small firms, that wanted to move into new product lines and needed new equipment to do so, identified a need for new equipment more frequently than did medium and large firms. Transport companies also were vocal in their need for replacements to upgrade their ageing fleets.

Managers’ emphasis on developing new products and finding new markets reflected falling orders from established customers and an implicit acknowledgement that they would have to reduce their reliance on the old network and locate/create new customers. Finding new markets was the first priority for large firms as they struggled to maintain their working capital.

20 Interviewers were not in good positions to judge the adequacy of equipment in use, but in some firms, notably some textile firms, equipment may have been adequate.
and their labor forces in the face of falling orders from their old customers. But as seen elsewhere in Eastern and Central European enterprises, managers often were stymied in the face of the need to enter new markets, without the necessary market information or marketing skills.

2. Needs for external financing and technical assistance

When asked how they planned to finance future investment, 43 percent of managers said that they would use business profits; 25 percent said they would take long-term loans from banks when they became available; and 21 percent said that they would rely on equity from foreign investors. The fact that most managers assumed that they would be able to finance investment costs from business profits reflected their doubts about accessing external finance and an observable optimism about the future of the Russian economy and of their enterprises. Most managers felt that their businesses would perform better once the economy stabilized. Many spoke readily about the desirability of locating a foreign partner and their preference for equity financing, but few had made tangible steps in this direction mainly for lack of knowledge about how to proceed.

Demand for external finance was difficult to assess with accuracy. Managers clearly had had access to and had made use of short-term, ruble credits from commercial banks. When queried about potential demand for long-term loans, most managers indicated that they would have numerous uses for investment credits but, with few exceptions, they were unwilling to take on the risks associated with term loans in rubles at current domestic interest rates (even had they been available). The general impression was that most managers were extremely risk averse as regards taking on debt—even though debt/equity ratios were low and ownership of buildings and equipment provided enterprises with collateral.

The single credit package in which managers did express an interest was mid-term (2-3 years) hard currency loans. Many inquired about potential interest rates of hard currency loans and how the foreign exchange risk might be handled. Interviewers explained the basics of assuming foreign exchange risk, and most managers seemed to understand what was involved. At the end of these discussions, a good number of managers said that they would have an interest in such loans, but would have to understand the terms thoroughly before making a commitment.

The extent to which the lack of external finance was a serious issue for firms was difficult to assess. Near-term issues—day-to-day survival, sorting out profitable from unprofitable product lines, and beginning to formulate strategies for future directions—were higher priorities for most firms, especially since working capital was easily available from the banks. But if short-term survival depends on finding solvent customers to purchase current production, long-term survival presumably will rest with firms’ abilities to deliver competitive products that respond to market demand. Building competitiveness likely will require massive levels of investment, a large portion of which will need to be financed through either debt or equity.
Interviewers inquired about needs for external technical assistance. Some managers responded quickly by saying that they had no need for technical assistance and they could learn what is needed on their own\textsuperscript{21}. But most were unclear about what kinds of options may be available until interviewers outlined some possibilities. The first priority among those who acknowledged needs for TA was assistance with marketing, followed by technology and financial management. Consistent with the priority of moving into new products and markets, many managers knew that they needed better marketing skills, particularly in the area of market research. Many explained that they had never before needed to market their products and that the services used in effective marketing, e.g., advertising, telecommunications and marketing firms were totally lacking in Russia.

Interviewers were of the view that managers needed technical assistance in almost all areas of business management, many unrecognized by managers. Marketing stood out as a priority for most firms. Even without examining company books, financial management also seemed to be a priority. Survival of many enterprises depended on their ability to diversify, and many could have used assistance in strategic planning before investments in new product areas were made. Engineering expertise to assess the viability of existing production equipment in light of international competitiveness also would be of great value to many firms.

Managers were divided in their views as to the best format for technical assistance programs. A third each thought that TA programs should be packaged as short-term consultancies, study tours abroad, and short courses. Almost all who wanted consultants wanted foreign consultants, with few requests for Russian experts. Views were mixed on the subject of study tours. Some managers were clear that they would benefit greatly from actually seeing foreign firms in similar industries at work, and others dismissed this approach by saying that conditions in Russia were sufficiently different to render visits abroad irrelevant\textsuperscript{22}.

There was little disagreement about the level at which technical assistance should be delivered or about the kinds of people managers felt were best-suited to deliver assistance programs. Without exception, managers stressed that most useful TA avoids conceptual realms and focuses on conveying practical, how-to information in a variety of key areas of business management. Along these lines, managers recommended that those who deliver TA programs should be drawn from the ranks of private, international consultants, preferably people with personal backgrounds in firms with like activities. Many thought that international assistance organizations and the Russian government should take responsibility for the organization of such programs--but not the actual delivery.

\textsuperscript{21} Several managers said that they had received a flurry of advertisements for technical assistance courses, and they expressed their view that those offering such courses are charlatans intent on making money and offering little in return.

\textsuperscript{22} When reminded that conditions in Russia could not and perhaps should not be duplicated elsewhere and that many business skills are generic, these managers laughed and acknowledged the point.
When asked whether they would be willing to pay part of the costs of technical assistance for their firms, most managers responded affirmatively. However, most qualified their willingness to pay by saying that they would only do so if they felt that the price was reasonable and the assistance in question was of the highest quality. This qualification reflected a general wariness among many managers about the true value of consultancies and training programs. Most had been managing their firms for many years already, and they were dubious of others’ abilities to help them in substantial ways.
VI. CONCLUSIONS

This concluding chapter sums up survey results by returning to the most important points raised above. Key findings are summarized and, where possible, implications are drawn.

Performance Prospects for enterprises included in this survey were mixed. About half of the enterprises were "surviving", struggling to find solvent customers and to cover their operating costs. Staying afloat will depend critically on a series of factors, including: (i) firms' ability to maintain adequate working capital; (ii) managers' skills in making strategically correct choices about products and markets; (iii) the degree of freedom managers can exercise in downsizing in areas such as labor and social assets; (iv) the speed with which external competition strikes; and (v) in the longer term, the availability of capital for restructuring. Underpinning all of these factors is the rate at which the economy stabilizes. Each step deeper into recession and each percentage point of inflation diminishes these firms' chances of survival.

About a quarter of firms appeared to have great promise, and they were easy to spot. All were covering their costs and many were operating at a profit. Their managers were making strategic shifts in their operations, cutting back on loss-making activities and expanding into private sector, profitable markets where they were less dogged by payments problems. These firms mainly produced goods and services for consumers, and their managers were focusing on improving product quality. These better firms were found most frequently among leasehold companies that had had a few years headstart as partially private businesses. Lack of investment capital and chronic difficulties reading an unstable market were these firms' primary constraints.

About a quarter of firms appeared likely to fail, barring substantial restructuring and large infusions of capital. They were operating at a loss--unable to find solvent customers, cut costs, downsize, and re-orient their product lines toward profitable markets. Found most frequently among medium and large firms that had come through the mass privatization program, most were associated with heavy industry and almost all were highly dependent on the declining state sector for their sales. Notable exceptions to this characterization were found among some large firms that were able to exploit monopoly positions and inelasticities of demand for their products.

By implication, the most fruitful strategy might be to focus assistance efforts on the large numbers of firms that are "surviving", under the assumption that the strongest enterprises will achieve success without assistance and in spite of external difficulties and the weakest firms are unlikely to survive even with assistance.

Restructuring. Serious restructuring had yet to begin in most firms, despite the relatively high percentages of enterprises that had laid off workers and changed their mix of products. Changes that had been undertaken in most firms were marginal in nature, and probably insufficient for the mid- to long-term. Obvious needs for restructuring to reduce expenditures included: drastic downsizing of operations, adoption of cost-cutting measures, and
elimination of non-viable activities in favor of promising ones. Restructuring for competitiveness will call for strategic re-orientation in the direction of consumer demand, development of marketing capabilities, and attention to environmental pollution problems. When foreign competition enters the marketplace, most enterprises will be faced with the additional necessity of modernizing their plants, including upgrading technologies.

Some enterprises can and will restructure on their own as the market settles and capital becomes available. A second group will need incentives and financial and technical support. A third group should be allowed to fail without attempts to resuscitate them. The challenge for those involved in delivering restructuring services will be to distinguish clearly between the three types of enterprises. As noted, this survey identified substantial numbers of managers who appeared well-qualified for their jobs and receptive to new approaches, a finding that bodes well for implementation of assistance programs.

**Labor.** A significant new increase in unemployment is coming, not only from business failure and attrition but also from financially-induced workforce reductions. Forty percent of firms saw themselves as overstaffed, on average by 17 percent; 35 percent of managers reported that they were unable to cover their operating costs, a large share of which goes for salaries. Pressures to restructure and establish firm-level viability will engender tremendous conflict for the many managers who have a strong sense of responsibility for their employees. Creating job opportunities for those who are laid off may be central to successful restructuring efforts, given the strong obligation managers feel to their employees.

A fledgling labor market was observed in the growing discrimination between skilled and unskilled workers, and in reported movement of the most skilled workers to private firms of their own. Linked with these developments, greater social tension can be expected as less-skilled workers lose their jobs and their salaries increasingly lag those of skilled workers. Social safety nets and measures to facilitate labor mobility are crucial, and some firms may need assistance in labor restructuring.

**Investment.** Managers were anxious to obtain financing for new investment, but few were willing to take the risk under current conditions. Most had taken short-term loans to cover working capital shortfalls, but few had taken or would take long-term loans (which were not available in any case). Despite negative interest rates, managers felt that nominal rates were exorbitant and that commitment to long-term debt payment was untenable given the uncertain future. The exception might be medium-term loans (2-3 years) denominated in foreign currency. Managers were interested in loans of this sort because interest rates would be fixed (even though they would assume the foreign exchange risk), and because the term is long enough to finance some capital investments but not so long as to incur unacceptable risk.

**Governance.** Private corporate behavior is beginning, but true shareholder control is still nascent. Shareholder meetings had been initiated and boards of directors constituted, but it was clear that managers exercised control over almost all aspects of enterprises. The few areas where managers may not have dominated included the disposition of social assets and payment
of dividends--both left to workers to decide in many firms. It will take time for shareholders to begin to exercise their power, and see the connection between corporate performance and dividend payment. Over time, markets in enterprise shares will develop; corporate takeovers and strategic investments will ensue; board management will change; and managerial behavior will respond to shareholder pressure.

**Social Assets.** Social services, including housing and associated utilities, medical and educational services, and vacation facilities were provided by most firms to significant numbers of workers. Continued provision of social services, mainly housing and utilities, had become a large financial burden for many managers, but few alternatives were apparent. In some cases, ownership of some social assets had reverted to municipal governments at the time of privatization, but enterprises generally continued to pay large sums for utilities and maintenance costs, particularly for housing.

A small number of enterprises had found solutions to some problems associated with social assets, e.g., privatizing some housing, worker-owned kindergartens. Most will need assistance sorting through the knotty social and financial problems associated with divestiture of social assets. Improvements in housing and labor markets could have positive effects in this area.

**Technical Assistance.** Most managers both needed and wanted technical assistance. At the same time, almost all expressed doubts as to its usefulness. Areas where assistance was requested included: marketing, general management, financial management and technology. The preference, voiced by virtually all who requested technical assistance, was for experienced Westerners with product-specific knowledge and a practical, "how-to" approach. Most were willing to pay part of the costs so long as the assistance offered was of high quality and useful for their purposes.
ANNEX

SURVEY QUESTIONNAIRE
October 19, 1993
The World Bank
PSD/EC3AI

Interviewer: _____________________________
Date of Interview: _______________________

INTERVIEWING GUIDE FOR PRIVATIZED ENTERPRISES IN RUSSIA

BASIC INFORMATION

1. Name of Person Interviewed

2. Position of Person Interviewed:
   0. Owner
   1. Manager
   8. Other (Specify) _____________________________

3. Name of the firm: _____________________________

4. Address or location: (Be specific: mailing & physical) _________

   Telephone: __________________ Fax: __________________

5. What is the current legal form of this enterprise?
   0. Limited liability company
   1. Joint stock company (open)
   2. Joint stock company (closed)
   8. Other: WHAT? (e.g. jt. venture) _____________________________

6. If your enterprise is an open joint stock company, are your shares
   publically traded?
   0. No  1. Yes  8. Other  9. N/A

7. In what month and year did this enterprise take its current legal form?
   _____________________________

8. What is the origin of this private enterprise:
   0. Privatized leasehold company
   1. Mass Privatization Program/Voucher Auction
   8. Other: _____________________________

39
9. Who owns this company?

<table>
<thead>
<tr>
<th>Insiders:</th>
<th>Outsiders:</th>
</tr>
</thead>
<tbody>
<tr>
<td>0. Managers</td>
<td>2. Russian government/</td>
</tr>
<tr>
<td></td>
<td>Ministry/State holding</td>
</tr>
<tr>
<td>1. Employee</td>
<td>3. The Federal Property Fund</td>
</tr>
<tr>
<td></td>
<td>4. The Oblast Property Fund</td>
</tr>
<tr>
<td></td>
<td>5. Russian individual shareholders</td>
</tr>
<tr>
<td></td>
<td>Russian institutional shareholders</td>
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<tr>
<td></td>
<td>/blockholders</td>
</tr>
<tr>
<td></td>
<td>Who? (state or private enterprises,</td>
</tr>
<tr>
<td></td>
<td>state or private banks, voucher</td>
</tr>
<tr>
<td></td>
<td>Funds, others)</td>
</tr>
<tr>
<td>7. Foreign shareholders</td>
<td>8. Other Who?</td>
</tr>
</tbody>
</table>

Total 100 percent

10. What percent of this enterprise is privately owned? _________%

11. On what date did this firm become majority privately-owned? (this date now becomes the date of privatization for this firm)

/12. Could you briefly tell us the origin of this enterprise? What is its story? When set up, with what products, how many branches, how changed over time? What is the story of the privatization? How and why privatized and led by whom? What is the manager's assessment of the privatization process--what went well and what didn't? (Turn the questionnaire over and use the back if you need more room.)

/13. Principal activity: ________________________________
14. ISIC Code (leave blank): ____________________________

15. What percentage of your revenue comes from this activity? ____ %

16. Is your primary product:

0. An intermediate input
1. A finished good
8. Other: _______________________
9. N/A

17. Apart from these primary products, what are your other sources of revenue?

0. Other products ______ percent
1. Trade (selling products you don't produce) ______ percent
2. Services (incl. repair, installation,...) ______ percent
3. Leasing equipment and/or real estate ______ percent
8. Other (what: ______________________) ______ percent
9. N/A, i.e., no other sources ______ percent

18. Have you changed your mix of products since privatization?

0. No
1. Yes
8. Other: ____________________________
9. N/A

New products (Describe them, why did you choose this product? Source of design?)

__________________________________________________________________________

Former products? ____________________________

What are the three biggest problems affecting your business today? (Write down managers' responses and code later)

19. [ ] #1

__________________________________________________________________________

20. [ ] #2

__________________________________________________________________________
21. [ ] #3

22. What is the biggest problem for most Russian enterprises today?

23. Do you have any serious problem with government regulations? If yes, which one and what problems?
   0. No serious problem for me
   1. High taxes Which ones?
   2. Constantly changing tax regulations Which ones?
   3. Getting all permits and licenses required
   4. Labor/Health and safety
   5. Environment
   6. Import/export
   7. Real estate
   8. Other: ______________________
   9. N/A

II. THE MANAGERS (Choose the highest-level one present)

24. Age: ______

25. What is the highest level of school you have completed?
   0. Secondary (12 years)
   1. Unfinished higher education/university (2-3 yrs)
   2. Higher education/university (5 yrs)
   3. Candidate (2-3 years after university)
   4. Doctorate
   8. Other (Specify) ______________________
   9. N/A

26. What was your occupation and position in your last job?
   0. General manager in this enterprise (bureaucrat)
   1. Technical manager in this enterprise
   2. A manager in another enterprise
   3. Technical specialist
   4. Foreman
   5. Skilled employee
   8. Other (Specify) ______________________
   9. N/A
27. Do you belong to an industry association?

0. No  1. Yes  8. Other  9. N/A

28. If yes, what role does this association play with regard to your business?

__________________________________________________________________________

III. THE ENTERPRISE

A. LABOR

29. How many full-time employees are there in this enterprise now? _____

30. How many full-time employees were there in this enterprise 12 months ago (or when privatized if < 12 months ago)? —

31. On average, how much did a skilled employee in this enterprise take home in September 1993 (include salaries and any other cash payments)? _________________ rubles

32. On average, how much did a skilled employee in this enterprise take home in January 1993 (include salaries and any other cash payments)? _________________ rubles

33. On average, how much did a unskilled employee in this enterprise take home in September 1993 (include salaries and any other cash payment)? _________________ rubles

34. On average, how much did a unskilled employee in this enterprise take home in January 1993 (include salaries and any other cash payments)? _________________ rubles

35. Have you hired any new full-time employees in the past 12 months (or since privatization if < 12 months)?

0. No  1. Yes If yes, how many and what kinds? _________________

8. Other: _________________

9. N/A

36. Do you have problems getting/keeping skilled employees?

0. No  1. Yes What problems? _________________

8. Other _________________

9. N/A
37. Do most of your full-time employees usually work a full week?

0. No, they really only work part-time most of the time because there aren't enough orders for them to work more. How part-time? ______

1. No, they really only work part-time because we don't have enough money to pay them full-time. How part-time? ______

2. Yes, they work part-time on our orders and then part-time in this factory on contract work ordered by other entrepreneurs.

3. Yes, they work full-time for us at this firm

8. Other What? ____________________________

9. N/A

38. Does this enterprise employ full-time contract employees? (employees who work full-time on a contractual basis for whom wages, taxes and social security are not paid or are partially paid, i.e., not permanent employees).

0. No 1. Yes 8. Other: ________ 9. N/A

39. If yes, how many do you employ in an average month? ______

39a. On average, how many days does each contract employee work per month?

40. Does this enterprise employ part-time employees?

0. No 1. Yes 8. Other: ________ 9. N/A

41. If yes, how many do you employ in an average month? ______

42. On average, how many hours does each part-time employee work per month?

43. Where else are most of these part-time employees employed?

0. They work for other private firms part-time

1. They are full/partial owners of other private firms and work there

2. They work in state firms

3. They don't work anywhere else

8. Other: ____________________________

9. N/A
44. How has the skill mix of labor needed by this enterprise changed since privatization?

0. It has not changed
1. We need more technically skilled employees (engineer-types)
2. We need more sales and marketing people
3. We need more product development people
4. We need more unskilled employees
8. Other: ____________________________________________
9. N/A

45. Have you changed the way you stimulate/reward your employees?

0. No
1. Yes Describe:
   ____________________________________________________
   ____________________________________________________

46. Have you laid off any full-time employees in the past 12 months (or since privatization if < 12 months):

0. No
1. Yes If yes, how many and what compensation paid?
   ____________________________________________________
   ____________________________________________________
8. Other: ____________________________________________
9. N/A

47. Do managers of privatized enterprises run into big problems now if they want to lay off employees?

0. No
1. Yes
8. Other: ____________________________________________
9. N/A

48. If yes, what problems? What are the regulations about employee layoffs?
   ____________________________________________________
   ____________________________________________________

49. In your view, how many employees are really needed in this enterprise at this time? ________ employees, which is:

0. The same number as work here now
1. A small number fewer than work here now
2. A lot fewer than work here now
3. A few more than work here now
4. A lot more than work here now
8. Other: ____________________________________________
9. N/A
B. **CAPITAL**

50. What is the status of the factory buildings used by this enterprise?

0. The enterprise owns all of them
1. The enterprise owns some and leases some *(from whom?)*
2. The enterprise leases all of the buildings *(from whom?)*
3. The status is unclear and changing often
8. Other:
9. N/A

51. If you lease all or part of these factory buildings, are you in the process of buying some or all of these buildings?

0. No 1. Yes 8. Other 9. N/A

52. If yes, what problems are associated with this purchase?

53. What is the status of the land occupied by this enterprise?

0. The enterprise owns all of it and has formal title to it
1. The enterprise owns all of it but has no formal title to it
2. The enterprise owns some of it and leases some of it
3. The enterprise has a short-term lease for it (< 24 mos.)
4. The enterprise has a long-term lease for it (> 24 mos.)
5. The enterprise is using the land with no lease arrangements
6. The status is unclear
8. Other:
9. N/A

54. If you lease part or all of this land, are you in the process of purchasing this land?

0. No 1. Yes 8. Other: ____________ 9. N/A

55. If yes, what problems are associated with this purchase?


56. What is the status of the production equipment in this factory?

0. The enterprise owns all of it
1. The enterprise owns some and leases some
2. The enterprise leases all of it from the government
3. The status is unclear and changing often
8. Other:

9. N/A

57. If some or all of the equipment in your enterprise is leased, are you in the process of purchasing this equipment?

0. No
1. Yes
8. Other:
9. N/A

58. Have you sold any equipment or buildings since privatization?

0. No
1. Yes What, how & to whom?
8. Other:
9. N/A

59. If you haven't sold any equipment, why not?

0. I don't want to sell any
1. It is illegal to do so. Explain:
2. It is legal but too costly for me b/c of the number of regulations.
3. Nobody wants to buy this equipment
4. People want to buy it but they don't have money to do so.
8. Other:

60. If you haven't sold any buildings, why not?

0. I don't want to sell any
1. It is illegal to do so. Explain:
2. It is legal but too costly for me b/c of the number of regulations.
3. Nobody wants to buy these buildings
4. People want to buy them but they don't have money to do so.
8. Other:

61. If you have sold some, what problems were associated with this transaction?
62. (l) What kinds of social assets are currently provided by this enterprise? (circle all that apply)

0. None
1. Health facilities
2. Educational facilities
3. Housing
4. Vacation facilities
5. Utilities (which ones?)
6. Transportation
7. Farming plots
8. Other:
9. N/A

Comments:

64. Which services did you used to provide but no longer do? (circle all that apply)

0. None
1. Health facilities
2. Educational facilities
3. Housing
4. Vacation facilities
5. Utilities (which ones?)
6. Transportation
7. Farming plots
8. Other:
9. N/A

65. What are your plans for the assets that you currently own?

0. We are going to keep them
1. We have leased some and are going to keep the remainder. details:
2. We have already leased some of them and we are now in the process of selling/leasing more or the remainder. details:
3. We have already leased/sold some. We'd like to sell/lease more but we can't find buyers/lessors. details:
4. We have not sold/leased any. We'd like to but we can't find buyers/lessors.
5. We have not sold/leased any. We'd like to sell/lease some but government regulations make it almost impossible to get rid of some assets. details:
6. We have not sold/leased any. We'd like to but it would be unacceptable to our workers. details:
66. What are the financial implications of this situation for this enterprise:

0. We pay the same as before and it is not a problem
1. We pay the same as before but now we can't afford it
2. We pay more than we used to and it is not a problem
3. We pay more than we used to and we can't afford it
4. We pay less than we used to and it's not a problem
5. We pay less than we used to but we can't afford it
6. Other: ____________________________
7. N/A

Comments? ____________________________________________

67. What is the status of social assets owned now by the municipality?

0. They operate them the same as we did when we owned them
1. They operate them but have cut back services
2. They operate them and provide more services
3. We still operate them by agreement with the municipality
4. We still operate them because the municipality refuses to/can't
5. The municipality has contracted someone else to operate them
6. The municipality is transferring them to employees
7. Other: ____________________________
8. N/A

68. From the point of view of enterprise employees, how has the level of social services provided by this enterprise changed in the past 12 months?

0. It has not changed at all
1. Employees get fewer services now (explain:____________________)  
So where do they now get these services?____________________
2. Employees get more services now (explain:____________________)
8. Other: ____________________________
9. N/A (i.e. they get no services)

69. What are the financial implications of this situation for employees/users?

0. They pay the same amount on average as they did before
1. They pay more on average
2. They pay less on average
3. They pay nothing for any of these services
8. Other: ____________________________
9. N/A

Comment ____________________________________________
C. **FINANCE**

/70. What are your biggest problems in financing your enterprise now?

I do not want to talk about exact numbers here, but I would like to get some idea of the financial condition of this enterprise in general terms.

71. In this case, debt is the amount of money that you owe to banks and other financial institutions. Equity is the total value of your firm (ask them how to best value it: value of shares X # of shares if known, total value of enterprise if sold; blue book; capital reserves). The question is: what is the approximate ratio of debt to equity.

0. 1
1. 2 to 1
2. 3 to 1
3. 4 to 1
4. 5 to 1
5. 1 to 2
6. 1 to 3
7. 1 to 4
8. Other: ____________________________________________________
9. N/A

Let's talk about the short-term picture:

72. How up-to-date are most of your receivables with private customers? (receivables is the money that customers owe you)

0. Fairly up-to-date
1. Most are 30 days late
2. Most are 60 days late
3. Most are 90 days late
4. Most are >90 days late

73. How up-to-date are most of your receivables with state customers?

0. Fairly up-to-date
1. Most are 30 days late
2. Most are 60 days late
3. Most are 90 days late
4. Most are >90 days late
74. If people are late in paying you, what action do you take?

0. None
1. Harass them
2. Charge them interest
3. File a claim in the court
4. Stop delivering my products
5. Demand advances from them in the future
8. Other: ____________________________
9. N/A

75. What are the trends in your receivables in the past 3-6 months?

0. No change
1. People are paying more and more slowly
2. People are paying more quickly than before
8. Other: ____________________________
9. N/A

76. How up-to-date are your payables?
(payables are the money that you owe your suppliers)

0. Fairly up-to-date
1. Most are 30 days late
2. Most are 60 days late
3. Most are 90 days late
4. Most are >90 days late
8. Other: ____________________________
9. N/A

77. In the past 12 months, have you tried to get a short-term loan from a bank (<12 months)?

0. No Why not?

1. Yes, but not successful. What kind of loan? __________
   Why not successful? _________________________

2. Yes, short term loan received

   Terms of loan:
   What month and year did you receive this loan? _____
   monthly interest rate for the first month __________ %
   term (length of time for repayment) ________________
   how was it secured? ______________________________
   name of bank __________________________________
   ownership of bank (state, private) ________________
   do you own shares in this bank? _________________
8. Other (Specify) ________________________________

9. N/A

78. How difficult is it currently to get a short-term loan from a bank on commercial terms? i.e., at real interest rates

0. Very easy
1. Fairly easy
2. Fairly difficult
3. Very difficult
4. Impossible, completely unavailable

8. Other (Specify) ________________________________

9. N/A

79. If it is difficult, what is the main problem?

0. The regulations and paperwork are too much to handle
1. Banks don't have enough money to lend
2. Size of loans available is not large enough
3. Bribes are too high
4. Lenders prefer favored clients, those who have large deposits or are long-term clients
5. Lenders do not like my kind of business
6. Lenders require more collateral than I have

How much collateral is required and what kind is acceptable:

7. Bankers unwilling to lend because inflation is so high

8. Other (Specify): ________________________________

9. N/A

80. In the last 12 months, have you tried to get a short-term loan from another non-bank institution (ex: other enterprise)?

0. No Why not?

1. Yes, but not successful. What kind of loan? ________

Why not successful? ________________________________

2. Yes, short term loan received (12 months or less)

What month and year did you receive this loan? ________

monthly interest rate for the first month ______

term ______

how was it secured? ________________________________

name of institution ________________________________

ownership (state, private) __________________________

do you own shares in this institution? _______________
81. If you have received a short-term loan since privatization, how many times have you renewed it and for what periods of time?

0. I have not renewed it
1. I renewed it once for ___ days
2. I renewed it twice for ___ days each time
3. I renewed it 3-5 times for ___ days each time
4. I renewed it over 5 times for ___ days each time
8. Other: __________________________________________
9. N/A

82. If you received a short-term loan, for what did you use it?

0. To pay employees
1. To pay for inputs
2. To pay overhead
3. To buy machinery
4. To buy real estate
5. To pay off other debts
6. To pay taxes
7. To buy consumer goods for workers
8. Other: __________________________________________
9. N/A

83. Since privatization, have you tried to get a long-term loan from a bank?

0. No Why not?

1. Yes, but not successful. What kind of loan? ________
   Why not successful? __________________________________________

2. Yes, short term loan received (12 months or less)
   What month and year did you receive this loan? ________
   monthly interest rate for the first month ___%
   term ______
   how was it secured? ________________________________
   name of bank ________________________________
   ownership (state, private) ________________________________
   do you own shares in this bank ________________________________

8. Other (Specify) __________________________________________

9. N/A
84. Since privatization, have you tried to get a long-term loan from a non-bank institution?

0. No    Why not? ___________________________

1. Yes, but not successful. What kind of loan? ______
   Why not successful? __________________________

2. Yes, short term loan received (12 months or less)
   What month and year did you receive this loan? ______
   monthly interest rate for the first month ______
   term ______
   how was it secured? __________________________
   name of institution __________________________
   ownership (state, private) ______________________
   do you own shares in this institution?___________

8. Other (Specify) _____________________________

9. N/A

85. How difficult is it currently to get a long-term loan from a bank on commercial terms, i.e., real interest rates?

0. Very easy
1. Fairly easy
2. Fairly difficult
3. Very difficult
4. Impossible, completely unavailable
8. Other (Specify) _____________________________

9. N/A

86. The main difficulty in getting a long-term loan is:

0. Paperwork
1. The banks don't have enough money to loan
2. Size of loans available is not large enough
3. Bankers prefer to make larger loans
4. Lenders prefer favored clients, those who have large deposits or are long-term clients
5. Lenders do not like my kind of business
6. Lenders require more collateral than I have
   What kind of collateral do they require and how much:

7. Bankers are unwilling to lend because inflation is so high
8. Other (Specify): ___________________________

9. N/A
87. If you received a long-term loan, for what did you use it?

0. To buy machinery
1. To buy real estate
2. To pay off other debts
3. To pay taxes
4. To invest in other enterprises
5. To stockpile raw materials
8. Other: ________________________________
9. N/A

88. Do you use hard currency in your business?

0. No  1. Yes  8. Other: _________  9. N/A

89. What banking services have you used since privatization? (Check as applicable)

0. _______ Saving account
1. _______ Payments instruction
2. _______ Letters of credit
3. _______ Working capital
4. _______ Investment credit
5. _______ Equipment lease finance
6. _______ Insurance (Type?)
8. _______ Other
9. _______ None

90. What is the biggest problem you have had with your bank?

0. Transaction speed
1. High fees for service
2. Won't give me a loan
3. My bankers violate confidentiality
8. Other (Specify)

91. Does this enterprise own shares in a bank?

0. No
1. Yes  Share of ownership? _____  Name of bank? ____________
8. Other: ________________________________
9. N/A
92. Is your cash flow adequate to cover the costs of your operations? (total money coming in and money paid out)

0. No, not nearly 1. No, but almost
2. Yes, it covers 3. It far more than covers
8. Other: __________________________________________
9. N/A

Comments: __________________________________________

IV. PRODUCTION AND SALES

93. Given your current labor force, equipment and number of shifts, what is your current capacity utilization? ______ percent

94. In the past 3-4 months, how has your production volume changed? For what single most important reason? (circle only one)

0. No significant change
1. Increased, because foreign exchange (inputs) more available
2. Increased, because local raw materials are more available
3. Increased, because demand has increased
4. Increased, because of entering new markets
5. Increased, because imported goods now are more expensive
6. Increased, because production in state-owned enterprises has declined
7. Increased, other reason (specify): __________________________
8. Decreased, because demand is weak
9. Decreased, because of competition from imports
10. Decreased, because of increased domestic competition
11. Decreased, because of high costs of imported inputs (lack of working capital)
12. Decreased, because of high costs of local inputs (lack of working capital)
13. Decreased, because can't get local inputs
14. Decreased, other reason (specify):

99. N/A

95. At present, is the firm selling everything that it produces?

0. No, inventories are piling up (demand-constrained)
1. Yes, and you could sell more if you had more orders (demand-constrained)
2. Yes, but couldn't sell much more even if demand increased (supply-constrained)
8. Other (Specify):

9. N/A
96. How many months of work do you have lined up now?

0. Less than 1
1. 1-3 months
3. 3-5 months
4. 6 months
5. > 6 months
8. Other: _____________________________
9. N/A

97. Are there price controls or fixed profit margins on your major products?

0. No
1. Yes Details: ____________________________________________________________________
8. Other: _______________________________________________________________________
9. N/A

98. What is your biggest problem in getting the inputs you need?

0. They have become too expensive
1. There's a general shortage of basic inputs in my area
2. I need very specialized inputs that generally are not available here
3. I need inputs from former USSR republics and I can't get them now because of payments problems
4. The quality of available inputs is too low
5. I need imported inputs and they are too expensive
6. The delivery schedule of inputs is very unreliable
7. The quality of inputs is very unreliable
8. Others: _______________________________________________________________________

99. How many other businesses (private or privatized) does this enterprise own in full or in part?

0. None
1. One
2. Two
3. Three
4. More than three
8. Other (Specify) ______________________
9. N/A
100. What role do these other enterprises play in this enterprise?

0. None, they are entirely unrelated
1. A large share of our inputs come through this enterprise
2. A large share of our products are sold through this enterprise
3. They are financiers for this enterprise
4. They are distributors for this enterprise
8. Other: ____________________________
9. N/A

101. Who are your main customers? (Circle only one answer)

0. State-owned enterprises (inputs)
1. Domestic private firms including leaseholds and coops (inputs)
2. Private shops, retailers (finished goods)
3. State enterprises or government (finished goods)
4. State trading companies (finished goods or inputs?)
5. Private traders (finished goods or inputs?)
6. Foreign buyers (finished goods or inputs?)
8. Other (Specify) ____________________________
9. N/A

102. Where are most of your products sold? (one answer only)

0. Locally
1. In surrounding towns
2. Nationally
3. Other countries in Central Europe
4. Western Europe
5. Other countries overseas
8. Other (Specify): ____________________________
9. N/A

103. Are there regulations regarding distribution channels you must use for your products?

0. No
1. Yes
If yes, what are they?
8. Other (Specify) ____________________________
9. N/A
104. What kinds of problems do you have with distributing your products?

0. None
1. Transportation is not available, too expensive or unreliable
2. Not enough distributors for my product
3. Not enough retail units for my product
4. Lack of information systems makes it difficult
5. Lack of warehousing makes it difficult
8. Other: ____________________________

105. Who are your firm's main competitors? (circle one)

0. None
1. Small private firms
2. Large private firms
3. State enterprises
4. Cooperatives
5. Foreign-owned firms
6. Foreign-local joint ventures
7. Imports
8. Other (Specify) ____________________________
9. N/A

106. How many other firms sell in your main markets?

0. None
1. Fewer than 10
2. 10-50
3. 50-100
4. More than 100
8. Other: ____________________________
9. N/A

107. Do you export your product?

0. No
1. Yes, export directly
2. Yes, export through others
8. Other (specify): ____________________________
9. N/A

108. If yes, about what proportion of your production is exported (in value terms)? _________ percent
109. If you are exporting, what are the main obstacles that you face? (For example: taxes, paperwork, knowledge, costs)


110. In your view, is the current level of technology, machinery and labor adequate for the near future? ____________________________


111. Are there important environmental concerns associated with this enterprise and how do you plan to address them?


60
V. POST-PRIVATIZATION

/112. What significant changes have taken place in this enterprise since it was privatized or became majority private?

/113. Looking at your ownership structure, I see that there are 5 (4) main groups that could have some say in the management of this enterprise: you, the managers; the employees; the shareholders including the employees who own shares; the board of directors; and the property fund. What part does each group play in the decision-making of this enterprise? Who really has the power to make the major decisions and how do these groups work together?

/114. Has there been a shareholders' meeting?

0. No 1. Yes 8. Other: 9. N/A

/115. Who is on this board and how were they selected?

/116. Has the Property Fund participated in decisions of this enterprise?

0. No, never 1. Only rarely 2. Yes, sometimes 4. Yes, frequently 8. Other: 9. N/A

/117. Have you issued share certificates to your shareholders?

0. No 1. Yes 8. Other: 9. N/A

/118. Is there a shareholder register?

0. No 1. Yes 8. Other: 9. N/A
119. Are shareholders free to sell their shares and have some done so?

0. No, they are not free to sell shares
1. Yes, they are free to sell shares but none have done so
2. Yes, they are free to sell shares and a few have done so
3. Yes, they are free to sell shares and many have done so
8. Other: ____________________________
9. N/A

120. Has this enterprise distributed dividends to its shareholders?

0. No 1. Yes
8. Other: ____________________________ 9. N/A

121. How would you evaluate the performance of this firm since privatization? Is it doing better or worse and how?

0. It's doing worse. In what ways?

1. It's doing better. In what ways?

8. Other:

____________________________

____________________________

____________________________

62
VI. STRATEGIC PLANNING: THE FUTURE

122. What are the priorities in your enterprise strategy for the next 6 months? circle all that pertain)

0. Investment in new equipment
1. Investment in new buildings
2. Reorganize the production process
3. Improve financial management
4. Improve marketing skills
5. Downsizing by laying off employees/selling off equipment
6. Dropping/adding products and entering new markets in Russia
7. Entering export markets
8. Other: ____________________________________________
9. N/A

123. Which one of these is the first priority? _______________________

124. Which one of these is the second priority? _______________________

125. What are the priorities in your enterprise strategy for the next 2-3 years? circle all that pertain)

0. Investment in new equipment
1. Investment in new buildings
2. Reorganize the production process
3. Improve financial management
4. Improve our ability to market
5. Downsizing by laying off employees/selling off equipment
6. Dropping/adding products and entering new markets in Russia
7. Entering export markets
8. Other: ____________________________________________
9. N/A
126. If you are planning to make capital investments, what will be your primary source of financing?

0. A short-term bank loan
1. A long-term bank loan
2. A loan from elsewhere **Where?**
3. Business profits
4. Equity from a local investor
5. Equity from a foreign investor
6. Sales of assets
7. Other: ____________________________________________
8. N/A

127. What will be your strategy when energy prices are freed? How are you anticipating this? ____________________________________________

128. If you intend to cut costs through greater efficiency, how do you plan to do so?

________________________________________

129. If you intend to increase sales in this enterprise, how do you plan to do so?

________________________________________

130. If you intend to downsize by laying off employees, what kinds of problems so you anticipate with this?

0. I expect to have big problems with labor councils
1. It will cost a lot in compensation payments for those laid off
2. I will be unable to do it because these employees have no place to go
3. Many of these employees are shareholders and I can't lay them off
8. Other: ____________________________________________
9. N/A

131. If you intend to upgrade employees through training, how will you do it?

0. Send employees to local training institutions
1. Bring in trainers to give short courses
2. Rely on suppliers of new equipment to give training
3. Send employees abroad for training
8. Other: ____________________________________________
9. N/A
132. In which of area do you feel that you need external assistance?

0. Marketing
1. Finance
2. Management What kind?
3. Production organization
4. Labor training
5. Technology
6. Entering export markets
7. Product quality/packaging
8. Other: ____________________________
9. N/A

133. In these areas, which form of assistance would be most helpful to your enterprise?

0. A short course
1. A study tour
2. A foreign consultant (short-term)
3. A foreign consultant (long-term)
4. A Russian consultant (short-term)
5. A Russian consultant (long-term)
6. Just learning by doing
7. Printed material
8. Other What? ____________________________
9. N/A

134. In your opinion, who should offer this training course?

0. The government
1. A foreign assistance organization
2. A private trade association
3. Private Russian consultants
4. Private international consultants
5. Local colleges/universities
8. Other (Specify) ____________________________
9. N/A

135. To what extent would you be willing to pay for courses, study tours or consultants? (use examples to get answer)

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

136. If you had to predict the future of this enterprise, where do you think this firm will be five years from now?

________________________________________________________________________
________________________________________________________________________
Interviewers: After leaving the enterprise, start by ranking the firm with a plus sign (+), a minus sign (-) or an equal sign (=) on the first page of this questionnaire (q.#2). A (+) means that you think this enterprise has an excellent chance of long-term viability; a (-) means that you think that this firm has no chance of long-term viability short of a miracle or sustained bail-outs; an (=) means that it really isn't clear to you what will happen to this firm. It has a mix of strengths and weaknesses and it could go either way depending on events in the larger economy, the speed at which imports come in, and on the quality of decisions taken by managers.

Next, answer the following questions. Include the things that are important about this firm that you want to make sure come out in the final report. Also look for ways in which this firm illustrates common patterns among privatized firms, i.e., this firm is a good example of large worker shares of ownership but no active participation in the firm for the following reasons. Or point out the anomalies that you saw in this firm. Whatever you consider to be important.

/137. What is your impression about the managers?

________________________________________

________________________________________

/138. What is your impression about the factory workforce, organization, products...)

________________________________________

________________________________________

/139. Is this firm acting differently since privatization?

________________________________________

________________________________________

/140. What are the most serious restructuring issues. Are they addressing them? How?

________________________________________

________________________________________
/141. Is financing a serious issue?

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

Will they borrow from commercial bank:

/142. Short term?

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

/143. Long term?

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

/144. Will commercial banks be willing to lend them money?

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

/145. What kind of TA do you think they really need: which areas, which forms?

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

/146. Other?

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________
Coding List for Questions on Problems

Demand
1. People don't have enough money (generally)
2. People aren't buying because it is the off season
3. Too many other firms in the same business
4. Too many imports
9. Other demand problems (specify)

Raw Materials and Inputs
11. Can't get enough local raw materials and inputs
12. Quality of raw materials and inputs is poor
13. Price of local raw materials and inputs is too high
14. Can't get enough imported raw materials and inputs
15. Price of imported raw materials and inputs is too high
16. Tariffs on imported raw materials are too high
19. Other; (specify)

Technology, Equipment
21. Equipment is old and needs replacing or updating
22. Replacement costs are too high
23. Can't get spare parts
24. Local equipment is inferior, can't afford imports
25. Repairs are difficult to do or get done
29. Other; (specify)

Finance
31. Have to give too much credit to customers
32. Can't get credit for raw materials or working capital
33. Can't get credit for equipment
34. Banks are too difficult to deal with (guarantees are too high, too much collateral, other)
35. Interest rates are too high
36. Cash flow problems due to delayed clearing of payments to threat the bank
37. State enterprises are not paying on time
39. Other; (specify)
Labor, Management

40. Lack of skilled employees; employees don't have the right skills
41. Lack of unskilled employees
42. High wages and benefits for skilled employees
43. High wages and benefits for unskilled employees
44. Not allowed to lay employees off
45. Inadequate management skills. In which area? ________
46. Not permitted to increase wages sufficiently to attract appropriate labor
47. Employees unmotivated or lazy
49. Other; (specify) ________________________________

Infrastructure

50. Lack of or frequently interrupted electricity
51. Inadequate telecommunications, specifically _________
52. Inadequate roads for transport
53. Transportation costs are too high
54. Shipping by land, sea and air is very difficult to arrange
55. Shipping by land, sea and air is very expensive
56. Factory space is inadequate and getting a larger space is too expensive
57. Factory space is inadequate and a larger space is not available
58. Warehouse space is not available
59. Other; (specify) ________________________________

Business Environment

60. Taxes
61. Regulations, licensing, permits
62. Obtaining foreign exchange
63. Rules and policies change too often
64. Standards and quality requirements are unreasonable (e.g., for gov't. procurement)
65. Government rules and regulations are too costly to comply with
69. Other; business environment (specify) _______________
Marketing and Distribution

70. Too few distributors
71. Distributors won't handle the firm's product
72. Distributors will pay too little for the firm's products
73. Difficult to gain access to retail market directly
79. Other; (specify) __________________________
80. Other problems; (specify) __________________________

99. N/A = not asked, not applicable, no answer.
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