

## The Reorganization of Management in the Soviet Union

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The reorganization of management must begin with a radical change in the complex principles which adversely affect the system to allow for greater flexibility and the setting of goals.

The development of a management concept is a spasmodic and uneven process, closely aligned with changes in social and economic progress.

Modern management must simultaneously combine the most up-to-date management theories and techniques with a transition-type style.

### I. Requirements for the Management of the Soviet Economy

The shift to a form of economic management which best meets the present and future needs of the nation is a key feature in the restructuring of the Soviet Union.

The specific feature of the present management development phase is the concept that new requirements do not replace older ones, but rather have supplemented them or radically altered them.

It should be noted that one obstacle to the restructuring of management to allow implementation of required systems to meet new tasks is the adherence to previously established methods. Proper management is required to ensure that the national economy is maintained in balance as a whole and that constant growth in the volume of output and effective production activities are maintained in accordance with established guidelines. As analysis of the Soviet economy for the period 1970 to the 1980's shows, these management requirements have not been met. Moreover, the urge to strictly follow these management practices without taking into account the changes undergone by the economy, as well as adhering to out-dated methods, has resulted in additional problems.

Even when scientific, technological and production innovations are taking place, the need for a well-balanced economy has not been reduced. However, this concept is being radically changed.

Previously, balance in the economy has been achieved by maintaining established national

economic ratios which have prevented over-production and shortages in specific industries. Scientifically based plans do provide the means for such balance with some degree of accuracy. However, at the same time an impeding of the production process and economic growth inevitably appears. The employment of the traditional management approach to maintain balance in the Soviet economy appears to be a central factor in the stagnant nature of the economy during the last few decades.

At this time the concepts embodied in the traditional approach to a balanced economy are undergoing essential changes. These changes will not be achieved by maintaining balanced relationships within the framework of the established natural and material production structure and existing economic ratios, but by continuous renovation in output and by a shift in the economic ratios. It is this fact which makes the nature of the management requirements completely new. Therefore, it is necessary to change not only the methods which management has relied on to maintain balance in the economy, but also the concept itself.

The need to raise the volume of outputs still exists today, but even here changes can be seen since methods used to estimate the volume of outputs has changed. In the 1930 to 1950 period, and even into the 1960's, volume of output was equivalent to quantity, in terms of pieces, tons, kilometers, etc. of the articles manufactured. This system has allowed management to maintain high rates of economic growth.

At this time, however, the situation is fundamentally different, since a great deal of this production is not being consumed. It is no longer possible, at this time, to identify which manufactured goods are being consumed. In terms of the growth of output volumes, it is necessary to keep in mind that this statement does not refer to the quantity of all manufactured articles, but to those goods which seek to meet the requirements of consumers. Therefore, at the present time what is needed is not quantitative growth in output, but rather an increase in the qualitative factors of

output, as well as the production of new goods and the simultaneous reduction in the production of obsolete goods.

A permanent raising of labor productivity, based on scientific and technological progress, along with a continuous renewal of output resulting from increasing the technological level of production are the principal means by which such growth can be achieved. Therefore, reaching specific quantitative and qualitative levels, as well as initiating a constant transformation process is of vital importance to management. To the extent that economics is able to change in accordance with existing demand is the principal criterion in determining its vitality and its generalized development characteristics. While it is important to achieve specific targets, the advance toward these targets must be made without slackening the pace.

Management in the Soviet manufacturing sector has always been required to provide the means for efficient operation. However, a proper understanding of the concepts of production efficiency and forecasting has differed during various economic development stages. For example, during some periods of national emergency the need to maximize results without concern for cost, profitability, or economic efficiency, etc. was accorded the highest priority. At the present time, however, the requirement is to meet the demand for specific goods with a specific level of quality. This shift in priorities has been an important feature of economic planning because the problems which have faced the Soviet Union have changed radically over the past decades.

The Soviet Union is now facing several paramount tasks. These tasks are closely interconnected and are interdependent in terms of probable solutions. As a result of the presence of these multiple tasks several efficiency estimating criteria have emerged.

Social and economic criteria of the efficiency of production corresponding to individual tasks are often incompatible. We therefore feel that the only possible way to meet the requirements of these diverse criteria is to isolate them and to set up action limits for them within individual sectors of the economy, depending on which sector is more likely to achieve success in meeting its goals. Management subsystems must be restructured accordingly to provide for the efficient functioning of these sectors.

## II. The Need for Transitional Management

Processes and events in Soviet society today, coupled with urgent social and economic development of the country, have had a drastic effect on the present management system and have caused new alternative systems to be developed. At this time, management must provide for the accelerated renewal of production funds and output. It must guide the manufacturing sector to meet consumer demands and must also intensify all productive resources. These necessary requirements correspond to the previously described requirements, which, in turn, arose due to the common characteristics of the demands themselves.

What form, then, should the change in management system take? Management should be changed so that it corresponds to the level of the tasks required by a modern socialist society in order to further scientific and technological progress, and to provide an economic basis for the transition from the present situation to a qualitatively new state which complies with the needs for successful development of Soviet society. Therefore, the management system must include both new elements and the necessary transitional elements. In other words the modern management system must combine new-style management and transitional period management.

A sensible approach at the present stage of economic development would be to introduce a form of transitional management and at the appropriate time switch over to the new-type management form. If this is not done, the situation may arise where the new-style management system will not be able to rid itself of vestiges of the existing management system. This would result in a new form of management, but one which operated in the same manner as the old one.

At this time, we feel that two specific features of the process can be distinguished in accordance with the logic of management development.

Firstly, this development must take two directions; establishing the transitional economic mechanism within the management system as the Soviet Union transforms the system itself, and reconstructing the system in compliance with the requirements consistent with the task of social and economic development.

Secondly, the development of a management system at this time suggests the need for a

transition to several mechanisms, functioning autonomously, for the management of the national economy. We believe that development of the management system must be exercised through a transition to a block-structured form of management.

Scientific and technological progress, major tools for the achievement of management goals, can continue at a high rate only when the economic mechanism itself is completely readjusted, i. e., when the situation arises where a manufacturer can no longer function successfully without applying the latest scientific and technological innovations.

The Soviet Union, however, cannot afford to wait until individual managers realise the need to produce advanced products and end-users understand the need for them.

An increase in economic independence for enterprises, and their transition to a profitable and self-supporting basis has become the primary line of direction in the public production management system. This direction, then, is the only viable one available. Consecutive implementation will therefore provide the means so that all cells of the production system function in an efficient economic manner. However, the specific problem of developing scientific and technological progress call for the concentration of resources, i. e., the development of facilities for the construction of machinery, rather than the placing of first priority on the machine tool industry. This could be achieved in a very short period of time, given the impact of this change in funding on the national economy on the macroeconomic level.

Situations have often occurred in the past in which the concentration of resources, coupled with a rigid centralized management system have allowed the Soviet Union to solve strategic tasks, which would have taken much longer in the absence of this concentration of resources.

In the past, the solving of urgent tasks has often had an adverse effect on other, less urgent macro-tasks, such as during the so-called war communism period, the industrialization period, and the Second World War. Now, despite the importance of making scientific and technological progress, there are also several problems of no less importance from both a strategic and tactical point of view that must be addressed. It is not possible to simply put these other problems aside. In light of this fact a restructuring of the management system has become an urgent necessity.

### III. Block-structured Management Mechanism

If in the past, the mechanism of production management and the function of solving macro-task problems was rather uniform in nature within the national economy as a whole, at this time, such uniformity is no longer desirable. In other words, the need to make scientific and technological progress based on a rigidly centralized management system does not imply that innovations are required which must permeate throughout the entire economy. We believe it desirable to establish an economic management system comprised of several different management mechanisms, i. e. a block-structure management style. It would be further useful to develop each block in such a manner that the individual block would be responsible for a specific macrotask, and would include under its control those industries which are best suited to assisting in the solution of the task assigned.

The principle of management formation described in this paper is necessitated by the specific state of Soviet economic development at the present time. In the future, after real scientific and technological progress has been embodied on a nation-wide scale, the individual blocks could be merged into a single management mechanism in order to accomplish tasks in accordance with socialist economic theory.

At the present time there are three macro-tasks which require the radical restructuring of the public management system. The first task is the development of production to fully satisfy the increasing material and cultural needs of society. The second task implies the growth of economic efficiency of public production, including in particular, an intensification in the use of all productive resources. The third task is the essential acceleration of scientific and technological progress. Naturally, there is a certain relationship between all these tasks. We therefore feel that the latter two tasks may lose independent significance and become subordinate to the first task, or be simply a means to ensure that the first task is achieved. Accordingly, it will be necessary to develop an independent block within the management system so that each of these three tasks can be solved concurrently.

The first block should cover enterprises and organizations in the service industry, such as commodities production, textiles, leather goods, household goods, specific foodstuffs, etc. In

addition to being self-sufficient in terms of financing and raw materials, these industries should have complete autonomy in terms of operation and decision-making in determining the types of goods to be produced. The only centralized control exercised on the group should be in the form of taxation levied by the national government, the establishment of price limits for products (this latter measure will be required when a specific production target is not met), and State control over legislation and regulations dealing with the production activities of these corporations.

It is possible that workers in these enterprises may face difficulties, such as procuring needed raw and other materials, equipment, developing marketing channels, etc. However, all these difficulties can be overcome by employing more effective, rational and efficient use of the available resources. In this way these enterprises may reach a level of efficiency at an early stage which will compensate for shortages, etc., and will be able to overcome problems such as a lack of high-efficiency technologies with greater labor efforts. In order to succeed these industries must be run on a cooperative basis.

The second block should embrace extractive and processing industries, transportation, building construction, and firms which produce manufactured commodities which can only be produced in large, complex facilities. We speak here of the production of automobiles, radio and television equipment, large home appliances, textiles, etc. Central control should be exercised until such time as these industries develop the needed operating skills and are run on a profitable and self-supporting basis. At that time some deregulation in control is possible.

The third block should contain those industries that have direct bearing on the development of scientific and technological innovation. Included in this group would be industries which produce machinery for capital goods, machine-tool and technical instrument firms, as well as R & D firms. The major specific feature of this group of firms would be the primary stress placed on scientific and technological development, as stipulated in the centralized planning process.

Scientific and technological progress may not occur without the expenditure of necessary funding. However, concrete progress would be required in time, given the amount of funding

involved, especially in the machinery production industries.

Therefore, it appears that the only way to better redistribute income to all branches of the nation's economy is to insure that scientific and technological progress takes place. It is vitally important that organizations in this block receive the needed financing and raw materials required. Any over-expenditures (without which there will probably be little progress made in improving scientific and technological progress) will be compensated for by the income returned to the nation's economy as progress is made.

A question that naturally arises is how will these changes affect worker incentives if the role of profits is essentially minimized or even reduced to zero? In addition, where will the funds required for material incentives in particular be found? We feel that in the management of mechanism the third block, working incentives would be provided for in two ways.

The first method would be to fix wages at notably higher rates in all sectors and industries of the economy, coupled with a simultaneous increase in job requirements. Because of higher wages, more workers will seek employment in these industries. That is also why it appears necessary to establish a competitive system for filling the jobs in this sector. In addition, periodic qualification tests could be introduced. Employees who passed the tests successfully would therefore receive additional payments on a regular basis.

The second method to increase incentives would be the use of a bonus-style system which would be used to reward workers when targets are met, large-scale projects completed, or when new and innovative products are developed.

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