

Social Learning through Process Improvement in Russia

Tatyana A. Medvedeva¹
Department of Economics
Siberian State University of Transport
Novosibirsk, 630049, Russia
email: med@stu.ru

Stuart A. Umpleby
Department of Management Science
The George Washington University
Washington, DC 20052, USA
email: umpleby@gwu.edu

Abstract

The Russian people are struggling to learn how to create a democracy and a market economy. This paper reviews the results of reform efforts to date and what the Russian people are learning as indicated by changes in answers to public opinion surveys. As a way to continue the social learning process in Russia we suggest the widespread use of process improvement methods in organizations. This paper describes some Russian experiences in using process improvement methods and proposes a strategy for spreading the use of these methods through universities and then through businesses and government agencies. As people use process improvement methods, they gain confidence in their ability to improve the functioning of organizations and society.

1 Unintended Consequences of the Reforms

What have been the results of the social, political, and economic reforms in Russia after 1991? Production fell more than 50%. Stratification of society increased. Most of the population became impoverished. A high level of stress and illness has increased mortality and reduced the birth rate. The unemployment rate increased sharply. In 2000 the unemployment rate in Russia was 11.7% [*Komsomolskaya Pravda*, 2001]. There is growing tension between employees and employers. Dissatisfaction with jobs and working conditions is increasing.

The main reasons for the difficulties in Russia are non-economic in nature. They derive from the fact that the Russian business and political elite takes a harsh view of morality and culture and tends to neglect the human factor, at least during the last ten years [Umpleby and Medvedeva, 2001]. But the success of any social and economic experiment depends on the human

factor. Do people trust the direction of the reforms? Do people feel the changes are desirable? Do people feel included in the decision-making process?

Trust in government, an essential element of a social change process, was seriously damaged. In August 1991 during the struggle against the Government Committee on the Extraordinary Situation, the Russian people confirmed their desire to change Russian society in the direction of democracy and a market economy. They defended their choice. Blood was shed. They demonstrated trust that the political elite would implement reforms. But in 1992 people lost their savings when the currency was devalued. This was money that people had saved for many years for their retirement. The government under Gaidar offered no explanation, even though alternative means exist to decrease the quantity of money in circulation. This "shock" transformed people who believed in the possibility of democratic changes in Russia into people who are now highly skeptical of government promises to realize social and economic changes. This change in mood was confirmed by the parliamentary elections of 1993 and 1995, when many opposition candidates were elected.

The "implantation" of democracy and a market economy in Russia occurred as described above. Political leaders apparently believed that it would be possible to ignore public opinion in Russia, that the Russian people would endure any actions by the government. These actions have included "privatization" when bureaucrats divide state ownership among themselves; an economic regime that allowed differences between world and internal prices so that some people became dollar millionaires; using government money free of charge in order to make more money for "selected" personalities while millions of people did not receive wages and starved; a political regime that permitted financial crimes without punishment; increased use of drugs; theft in enterprises and military factories, etc. But perhaps most disheartening is that all these sufferings did not bring the desired result of a smoothly functioning economy. In 1998 30% of the Russian economy used money. 70% was based on barter [Kulikov, 1998].

¹ The preparation and presentation of this paper was supported by the International Federation for Systems Research.

Another serious problem of the current Russian economy is the continuing flight of Russian financial capital. Various estimates indicate that about 300-400 billion dollars left Russia in the 1990s. That is twice what Russia owes in debt to the world. Although in deep crisis Russia has been sending its financial resources abroad, financing development in the rest of the world rather than at home. The reason capital has left the country is uncertainty about the political and economic conditions within Russia. People must gain confidence in the stability of the new system before they are willing to commit resources to it. Furthermore, foreign investors, who originally saw opportunities in Russia after the fall of communism, have been pulling out. In some cases they say they simply got tired of being threatened.

Intellectual capital in the form of skilled workers has also moved abroad. In other countries their talents are rewarded more generously than in Russia. Frustrations and obstacles to professional and personal success are fewer abroad. People have little confidence in their future and the future for their children in Russia.

It is possible to continue the list of current problems of Russian society and economy, but our goal is to identify what the Russian people have been learning about democracy and free markets. The Russian people are becoming less willing to suffer abuse at the hands of the government. Probably after a few leaders have lost reelection, political leaders will become more sensitive to public opinion. In the West, where distrust of government and separation of powers is the foundation of government, citizens make government work effectively by throwing out leaders at the next election who violate their promises or the public trust. This "process of elimination" requires having at least two parties with reasonable policies and competent people. It also requires good oversight by the press, the opposition party, etc.

2 Changing Beliefs and Values in Russia

The beliefs and values of the Russian people are changing. Russia destroyed in a few moments the Soviet social order. When the government lost legitimacy, the society stepped back to a more "primitive" state, characterized by the laws of survival: the rule of force; rule by humiliation; etc. It is understandable that any group of people is moved to a more primitive state when social and cultural institutions are weakened. Immoral ways of becoming rich became possible in Russia. The Russian people came to believe that a criminal state had come to exist, and they felt it was impossible to believe in this state. The old criminal state killed, imprisoned, and punished millions in the name of an ideology. The new state stole assets and impoverished millions in the name of democracy and markets. How can people protect their rights and limit the abuses of government? The rule of law has been the answer in the West. But what if laws do

not work, because there is a discrepancy between the outdated social and economic laws and what is currently occurring in Russian society and economy?

There is evidence that the Russian people are able to accept the values of a market economy. The percentage of Russians sharing such traditionally western values as the rule of law, for example, has increased. In 1990 65.3% of people and in 1994 74.8% of Russian people said that they would like greater legality in Russian society. These figures continue to increase. Work as a life value means more and more in the lives of Russian people. In 1990 50%, but in 1994 56.1% of people said that work is an important value in their lives [SOTSIS, 1996]. And such values of traditional society as self-sacrifice mean less and less in the lives of Russians.

One of the most important values in a market economy is the idea of personal freedom. It is generally accepted that Russians prefer equality to freedom. And some research confirms this fact. However, in 1993 52% of Russian people living in cities answered positively the question, "Do you agree that freedom is the highest value for which it is possible to accept economic inequality?" Significantly, the value assigned to personal freedom has been increasing. Values such as independence and initiative also increased during this time. [SOTSIS, 1996] When asked the question, "Is it possible to permit a big difference in wages, if they depend only on personal contribution to the business?", 75.8 % said, "yes." [SOTSIS, 1996] At the same time the level of tolerance has increased. Almost 60% of people asked tend to accept ideas, norms of behavior, and actions which they do not share. A certain amount of intolerance remains. About 15% of people do not accept ideas they do not share.

It is important to note that more and more Russian people think that it is possible to overcome the current social and economic problems only in a way unique to Russia; that Russians have to create a specifically Russian system of social and economic relations in order to overcome the crisis of the Russian economy. The new system of relationships should be different from the liberal, market form and different from the socialist form. It should take into account Russian spiritual values. The percentage of people agreeing with these statements is the following: 1992 (February) - 18%, 1992 (July) - 27%, 1993 - 30%, 1994 - 35.5%, 1995 (January) - 53.0%, 1995 (April) - 51.5% [SOTSIS, 1997]. More information is given by the answers to the question, "What do you think about the kind of economic reforms being carried out by the leadership of the country?" The percentage of people who evaluated the course of reform negatively was large and increasing in the mid 1990s. For example, at the beginning of 1995 - 50.7% and at the end of 1995 - 54.2%. Those who evaluated the course of action positively was 11.1% in January of 1995 and 8.6% in November 1995 [SOTSIS, 1997]. More recently, the government of Vladimir

Putin seems to have stopped and perhaps reversed the downward trend of confidence in government.

Young people think that a market economy is the only way to develop the Russian economy. 70% say so. But on the other hand, only 9% of people asked are ready to reject the paternalistic relationships with the state in the society and economy. 42.1% prefer a paternalistic system of relationships, when a state manages the majority of the economy and defends the population [SOTSIS, 1997]. However, it is necessary to understand that the difficulties of the transition have influenced these answers.

The changes in the ethical bases of society have ironically, increase workers' dependence on the relationships inside an organization and with the employer. This is due to the tradition of social dependence. Often workers in Russia receive food, housing, transportation, and vacation benefits from their employers in addition to a salary. In the West employees must pay for food, housing, transportation, and vacations out of their salaries. It is not surprising to observe a return to the older, more familiar practices in a stressful situation. Sharp impoverishment forced people to rely on collective mutual support and informal relationships, rather than on economic transactions and business relationships [Gordienko and others, 1999].

A new Russian owner is likely to be more concerned with strengthening his position than with creative business activity. One way to describe the situation is to say that market relationships are filled with non-market content. Market transactions in Russia are more about the relationships between people and less about the specific goods and services exchanged and their quality or price. Probably this can be explained by the fact that Russia does not have experience in a competitive market economy. Hence, such values as rationalism, initiative, etc. were unfamiliar to the Russian people, because they were inconsistent with the command, planned economy. Also, in a time of great uncertainty, security in social relationships is more important than specific goods and services.

So, what have the Russian people learned from the past ten years of reforms? It seems they have learned that the political process does provide some recourse; that officials who abuse the public can be defeated at the next election; that suitable policies do not come easily; that people have to make the democratic system work by organizing, by arguing for their ideas, by raising campaign funds, etc. It seems that the Russian people have learned that strengthening democracy means strengthening the multi-party system, improving the courts, and creating respect for law. It does no good just to change the law, if people do not follow the law. What is needed is for people to obey the law. When people disagree with a law, they should not just ignore it. Instead, they should speak out against it and seek to change it through the political process, by persuading a majority of people to agree that the law should be changed.

3 Learning Democracy through Process Improvement

Social learning results from individual participation in social processes. By participating in social processes, an individual comes to think of himself or herself as a social actor. The results of social learning can take the form of traditions, skills, norms of social behavior, norms of social communication, etc. The capability to learn is inherent in human beings. This capability is enriched by formal education.

Many outstanding scholars have stressed the importance of the process of learning in social life. For example, the key idea of Rousseau's social theory is "learning" by an individual in a social process. Rousseau wrote that the ideal social system is a system that creates conditions for the development of responsible individual social and political action through a system of participation. Participating in the social process, an individual becomes aware that the word "each" refers to him or her personally; that he or she must adopt a wider view, taking into consideration not only one's own interests when cooperating with others, but also the ties between public and private interests.

There is a close connection between "participation" and "freedom". Rousseau notes that an individual, participating in the process of making decisions, learns how to be free and to control his life and the world around him [Pateman, 1991].

For G.D.H. Cole and for J.S. Mill, like for Rousseau, the educational function of participation is crucial in understanding social relationships. For example, Cole writes that the democratic principle should apply not only to some spheres of social life, but to all forms of social activities, especially in labor relations [Cole, 1920]. Like Mill, Cole argued that it was only by participating at the local level and in local associations that the individual could "learn democracy". "Over the vast mechanism of modern politics the individual has no control, not because the state is big, but because he is given no chance of learning the rudiments of self-government within a smaller unit" [Cole, 1919]. Modern man spends the biggest part of his life time working. So, a job is a place where modern man can learn how to participate in labor relations first and then in social relations.

The methods of total quality management offer this possibility: to learn democracy and to adapt to market conditions step by step, first in the work place and then in social relations. The methods of total quality management are a very effective method of social learning. In the US and elsewhere the methods of total quality management or continuous process improvement are a way not only of improving the quality of goods and services but also of increasing

worker skills and worker autonomy. These methods require that workers be aware of the whole process in which they are involved, that they measure the performance of the process, and that they continually modify or redesign the process in order to improve performance.

Quality improvement methods can be used to improve the performance of universities, corporations, government agencies, and non-profit organizations. These methods include a number of ideas, all of which tend to promote transparency, democracy, innovation, and experimentation. Data-driven decision-making reduces politics and favoritism in allocation of resources. An emphasis on customer and employee satisfaction improves morale, the quality of goods and services, and competitiveness. Working with suppliers spreads the methods to other organizations. Benchmarking (imitating the best) is a way dramatically to improve performance in a short period of time.

4 Progress in Quality Improvement in Russia

A World Congress on Total Quality Management was held in Saint Petersburg, June 20-22, 2001. This was the sixth in a series of annual meetings. The first five were held in England. Hence, this conference marked the beginning of an effort to hold quality improvement conferences in locations around the world. The methods of quality management have been widely accepted by private and public sector managers in the West. Probably no management methods have had a greater impact in recent years on the competitiveness of national economies than have quality improvement methods. They were key to the rise of Japan as an economic power between 1950 and 1980. The rediscovery of these methods in the U.S. in 1980 made possible the return to competitiveness of American manufacturing firms in the 1980s [Walton, 1986].

In Russia certification by the ISO 9000 standard began after the political changes in 1991. Large industrial enterprises, such as Chaika, Kristall, and UralAZ have won certification. The main reasons to seek certification have been the need to increase the competitiveness of exports and the need to simplify the certification procedure for manufactured products.

The Saint Petersburg Congress demonstrated that currently in Russia there is widespread use of the ISO 9000 standard, which is a minimum standard, rather than a designation of the very best. The Congress also showed that there are many knowledgeable and interested people in Russia. There are several reasons why one can be optimistic about the future of Total Quality Management (TQM) in Russia.

First, there is a center for managing the spread of TQM knowledge in Russia. The Stockholm School of Economics in Saint Petersburg was an organizer of the

6th World TQM Congress. This is the usual way of managing knowledge in Russia -- concentrating resources in one place, thereby bringing all expertise together, and then bringing this experience to other places [Medvedeva, 2001]. The Stockholm School of Economics established a branch in Saint Petersburg in 1997. Since that time eight international research projects on Quality Management were organized and successfully realized by the Quality Center of the Stockholm School of Economics in Saint Petersburg. Among them are such projects as A Satisfaction Index of Russian Consumers (the project was conducted in Saint Petersburg and Pskov), The Process of Quality Management, Quality of Bank Service for Corporate Clients, etc. [www.sseru.org]. Also, Prof. Irina Selivanova at the Stockholm School of Economics in Saint Petersburg is working to organize an Association for Business Excellence [www.rtqm.org]. The goal is to unite the specialists striving to spread a philosophy of Business Excellence. Business Excellence is an instrument for organizational self-assessment, which provides a base for continuous process improvement.

Second, the ideology of quality is supported by the government. The 6th World Congress on TQM was supported by the St. Petersburg government and the Leningrad Region government. One of the keynote speakers at the Congress was Yury Gusakov, Vice-President of Gosstandart of Russia. He presented a paper, "The Concept of Russia's National Quality Policy." One of the main goals of the Russian quality policy is to achieve competitiveness for products and services in domestic and world markets in order to speed integration into the world economy. The National Quality Policy involves 24 ministries, 4 regional authorities and a number of public organizations. It is directed at disseminating and stimulating improvement of quality; establishing an effective quality system and use of up-to-date quality management techniques; provision of enterprises with an organizational and engineering environment to raise the quality of products and services; and protection of the consumer market against substandard or forged products [Kanji, *et al.*, v. 1, p. 18-24].

In 1996 the Russian Federation Quality Award was launched. A year later the Quality Awards of Saint Petersburg and Leningrad Oblast were launched. The results have been impressive. For example, in 2000 the volume of industrial production in St. Petersburg grew 26.4 % in comparison with 1999, while in Russia the growth was 10.8. Exports have also grown rapidly. In 1999 exports increased 44% in comparison with 1998, and in 2000, they increased 28.4%. Investments significantly increased [Kanji, *et al.*, v. 2, p. 184]. An indication of the efficacy of regional awards is the fact that winners of Saint Petersburg Quality Awards, such as Krupskaya Confectionery factory, Municipal Grammar School #92, Sevkabel, Admiralteyskiye, Bolshevichka, etc. became winners of the Russian

Federation Quality Award [Kanji, *et al.*, v. 2, p. 179-186].

Third, the 6th TQM Congress confirmed the deep interest of Russian regions in process improvement methods and Business Excellence. Several of the conference papers stated that Russian companies have been facing problems that can not be solved in the classical way. Russian top-managers are looking for new approaches and one such approach might be Total Quality Management. [Kanji, *et al.*, v. 1, p. 18]. The reason for using TQM is to empower people across the country. TQM shows people how to act to improve their lives and their organizations. It increases their confidence that improvements can be made. It teaches them to rely on themselves, rather than on distant leaders. It shows them that skills, that they can learn, can make a difference. It shows them that there are ways to persuade others that changes are needed and what changes are most needed. It teaches people to test ideas on a small scale before implementing them on a large scale. It teaches people how to work together and how to resolve conflicts by measuring results and improving processes.

There are already some quality improvement success stories in Russia. First, the enterprise Tomsk Instrument recreated a credit line, reduced the cost of production, and increased product prices after creating a system of quality management. As a result, it improved its place in both Russian and world markets. Second, production of synthetic rubber by a Krasnoyarsk factory is in high demand after certification of the enterprise. Third, Tomsk Polytechnic University is the first university in the Asian part of Russia to win certification of its management practices. It has since opened branches in Prague, Cyprus, Vietnam, and China.

5 Obstacles to Quality Improvement in Russia

On the other hand, there are some difficulties in using TQM in Russia. The first problem is that Russian industry is in a time of transition, but ISO 9000 (1,2,3) standards and particularly the 1994 version are conservative by nature. Therefore, there is some contradiction among goals. In particular, there is the need to solve problems of property ownership in Russia. The Russian people need clear rules of economic behavior [Kanji, *et al.*, v. 2, p. 52].

The second difficulty concerns management and the culture of management. One aspect of the problem is that Russia management has a repressive culture. The cultural basis of management systems in Russia is repressive and militarist and seeks to identify those at fault. There needs to be a basic shift in management methods from an emphasis on force or strength to an emphasis on processes and procedures [Kanji, *et al.*, v. 2, p. 55]. Use of TQM by Russian enterprises gives hope of solving this serious cultural obstacle. ISO standards show how to work for the interests of all stakeholders. "Working for collective goals" can be interpreted as "working for the interests of

all stakeholders". Such an interpretation of ISO standards removes the apparent conflict between individualist and collectivist values.

A third difficulty can be called the problem of the vulgarization of the content of TQM. In 1999 there were 540 ISO 9000 certified enterprises in Russia; in 2000 there were 600. But only about 10% of companies really improved quality! [Kanji, *et al.*, v. 2, p. 40] Why? The answer is that Russia has come through an era of mass production while developed countries have passed through a mass production era, an era of quality, and currently are in an era of satisfying the consumer. Often it is very easy for Russian producers to sell their products simply because there is a very large unsatisfied demand for them. It is evident that Russian society needs years to gradually develop a TQM culture, and this is a reason why TQM ideas are vulgarized. Russian enterprises need reconstruction of their culture and management. In our view, TQM methods can be a very good basis for such reconstruction.

A fourth difficulty deals with a lack of information, a lack of a large quality literature, and an underdeveloped market for software products. There is also a lack of professors familiar with the methods of quality improvement. Some Russian universities have a course in quality, but usually quality improvement methods are not taught in Russian management schools. There are a few universities interested in TQM, such as the Stockholm School of Economics in Saint Petersburg, Tomsk Polytechnic University, Kazan State University, and Krasnoyarsk Technical University. There is also a shortage of consultants. The journal *Standarty i Kachestvo* estimates that Russia needs 100,000 managers familiar with quality methods and 500,000 auditors! [Kanji, *et al.* v.2, p. 40]

6 A Proposal for Action

This symposium on management in the post-communist countries has been meeting in the EMCSR conferences since 1990. Previously we have discussed theories to guide the reform of socialist societies [Umpleby, 1991], various reforms, and their results, but we have had no strategy whereby the participants in the symposium could become involved in making reforms and improvements. Academic theorizing in fine, but actually trying to make improvements in our home institutions brings a reality to the discussions that we previously have not had. Engagement in organizational change has been advocated by several respected systems theorists, including Ackoff, Beer, Checkland, and Warfield. The proceedings of the St. Petersburg conference are an important collection of ideas, methods, and case studies drawn from NIS organizations. The intent is not to exclude other topics of discussion, but to add a line of discussion based on actual experiences of symposium participants.

We are proposing an action research strategy for the transformation of the former Soviet Union, led by a network of Russian professors who use, write about, and teach process improvement methods. The idea is to use these methods in reforming NIS universities, then to incorporate the methods into courses and training programs, and consequently to improve the management of businesses, government agencies, and the institutions of open society. As people learn and use process improvement methods, they become more confident of their ability to improve their organizations and society and hence become less dependent on government for solving problems.

The St. Petersburg conference was an important milestone in implementing this long term strategy, because it revealed that many people and organizations in the NIS are already working in this direction. It is not necessary to start something new. One need only join forces with those working in a similar direction. Papers can be written on how to initiate and sustain a quality improvement effort in a university, obstacles to the use of these methods in NIS organizations, strategies to overcome the obstacles (including adapting the methods to the NIS context), successes of organizations that adopt the methods, etc.

There is increasing interest in the quality improvement philosophy in Russia. It is understandable that Russian society and economy need time in order to develop an indigenous quality philosophy and to spread it widely in the Russian regions. But many events indicate that this process will be successful. There is government interest in TQM including Russia's National Quality Policy, the Russian Federation Quality Award, the Quality Awards of Saint Petersburg and Leningrad Oblast; the positive experience of using TQM (for example, Saint Petersburg enterprises competing for awards have significantly affected the economy of the city); successful foreign experiences (Stockholm School of Economics in Saint Petersburg); and increasingly active interest by many regions in TQM (there were presentations by many Russian regions and New Independent States at the Saint Petersburg conference). Finally, Russia is coming through a very difficult time of transition, but Bismark among others noted that Russians study very well.

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