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REPORT ON THE COOPERATIVE "MAIAK": A CASE STUDY*

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* The views expressed in this document are those of the author and do not necessarily reflect the views of the Secretariat of UNIDO. This document has not been formally edited.

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Introduction

In addition to looking in detail at the START cooperative, the same consultant also reviewed the Maiak cooperative in Dmitrov, a small industrial city some 75 kilometres north of Moscow. This is a very new cooperative; it was not reviewed in quite the same detail, but it is interesting to describe its operations to give a somewhat different perspective.

The "Maiak" cooperative was formed on the basis of a section of the Dmitrov Milling Machine Factory of the Ministry of the Tooling and Machine-tool Industry, a state enterprise. That section formerly had the responsibility for producing the consumer goods assignment of the factory. Nearly every Soviet enterprise has an assignment to produce consumer goods, and this is a part of the "state order," that is, it forms part of its obligatory plan, and the enterprise receives authorizations for purchasing materials to fulfil the assignment.

The head of the Planning Department in the Ministry wanted to have this plant as a whole become a cooperative on the basis of leasing state property, and to function as an experiment and a leader in the larger movement to try this form of property arrangement. The director of the plant was less enthusiastic, and after long discussion among the workers and administration it was decided that they would begin by converting this part of the plant to a cooperative. The president of the co-op was formerly head of the Production Department of the plant as a whole. He felt strongly enough about the desirability of trying new forms that he was willing to take on this responsibility. It was not at all easy to do -- it had taken four months of negotiations with the local authorities to get the registration document authorizing the co-op to operate.

The cooperative is organized in the usual way, with a general membership meeting and a board which elects a president. When it was part of the factory, it was a unit small enough that it did not have much autonomous management structure. Most administrative services (planning, bookkeeping, technical services such as drafting and design) were provided by the factory administration as a whole. So the co-op had to create its own administrative apparatus. It still depends on the factory for some services. It buys its electricity (metered) and other utilities from the factory; it gets social services (health, administration of vacations, etc.) from the corresponding division of the factory, in effect paying for the services on contract.

The co-op has been in existence only from the beginning of March 1989, so its record is still sketchy and perhaps not suitable as a basis for drawing generalizations. It has not been in existence long enough to have a completed operating statement. In any case they were not able to show a completed quarterly income tax return, or a balance sheet.

Labor and Earnings

Total employment in the co-op is about 60 persons. When the change was made, four workers were asked to leave, and others have been disciplined by receiving poor earnings under the new regime. Maiak can add workers on labor contract (i.e., without taking them in as members of the co-op), but if they turn out well they may be invited to become members. The president says there are some people working in the unit now whom he would never think of asking to join the co-op. Maiak has a waiting list of workers wishing to join. This is due, as might be expected, to the higher earnings potential. The average monthly earnings so far have been 415 roubles, compared to the industry-wide average of 222 roubles/month in 1988. Workers are paid biweekly, in cash. Foremen and other supervisors receive monthly incomes figured as multiples of the average earnings of all they supervise. The coefficient for foremen is 1.3.

The shop works two shifts, except for a few kinds of specialized workers. There is a differential for work after 10 pm; but since work only continues until 12.15 am, the differential does not significantly affect wages.

The Lease Agreement

The lease agreement with the factory is a 12-year contract. The president of the co-op would have liked to have had a longer lease (17 years, covering the remainder of the Twelfth Five-Year Plan and the two succeeding Five-Year Plans) on the ground that it might take that long to really develop the potential of the new form. The factory director wanted the shorter term. The contract specifies a lease payment, based on the principle that the factory should not be left worse off financially than before the separation. For example, the state plan for the profits tax to be paid by the factory was not adjusted downward following the divestiture, so the co-op must pay to the factory each year an amount to compensate it for that continuing obligation. There are some other such items as well, including some interest on loans the factory had taken from the bank. One interesting point is that the co-op does not pay the new "override for labor resources" (a kind of head tax per worker paid to the State to compensate for the investment the State has made in educating workers). For this factory that amount is 300 roubles/worker/year, but its obligation for that tax is reduced by the workers it lost to the cooperative.

The contract makes the co-op responsible for fulfilling the quota laid on the plant for consumer goods, and the factory undertakes to provide the necessary materials from its authorizations for purchase of rationed materials. So the supply situation is different from that of a private cooperative like START. The factory has a planned quota of 1.57 million roubles worth of consumer goods for 1989, and the co-op believes it can fulfill and exceed that amount. It has set its own target at 2 million roubles worth of output for 1989, and seems to be producing in the first several months of its existence at a rate that will make that possible. For 1990, it wants to produce 3 million roubles worth of output, and in the Thirteenth FYP (1991-1995) it wants to produce 6 million roubles worth of output per year.

Product Line

The product line consists of two main categories -- a kind of cart used in cafeterias, restaurants, and public dining, and some cooking utensils -- mostly strainers of various sizes and kinds. The technology is based mostly on stamping and forming from sheet metal and mesh screen. For the carts it also does some plastic forming, and other kind of metalworking. It seems a good operation -- the product appears to be produced with some care -- carefully assembled, neatly finished.

The president wants to introduce a number of new products -- there is a list of them on the bulletin board in the building. They include a greater variety of cooking utensils, and a number of others. The item with which they have proceeded furthest is an antenna for reception of Leningrad television in the decimeter band, relayed into their area. Those signals are not receivable on the standard meter-band antenna installed in most apartment houses in the area. They have produced some, after experimenting with design, to optimize performance for the conditions of the area. He thinks there will be a significant market and that it will be profitable, since they manufacture from scrap material.

The director tries to have good relationships with the factory, and says that his relations with the factory director generally run smoothly. He pays into the factory social-cultural fund at a per-person rate double that for the rest of the factory. He is also financing the summer sports tournament for the factory, which had been permitted to lapse because the factory said it lacked the money. The co-op president is the former Sports Director of the factory and so has a personal interest, but he also sees this as a good public relations move. The factory leadership understands that the co-op can make them look good by increasing the output of consumer goods above the plan, and is willing to help. An important input is stainless steel mesh for the strainers. A recent regulation of the State Supply Agency said that this product was to be distributed without authorization. But the supplier balked on supplying mesh to Maiak, and said it would deliver it only if the factory would sell it (probably outside the plan) four of the milling machines it makes. The enterprise did so. This co-op, like others, is audited by the local financial department, but the president says that there is a new regulation that envisages auditing by the factory as well.

The co-op is proud of the fact that it expects to prove itself with no special advantages. It sells its output through the state wholesale trade network at state-fixed prices, and it pays taxes on its output just as if it were a state enterprise, despite the fact that it also pays taxes as a cooperative. But apparently it does have one advantage vis-a-vis private cooperatives; a co-op in its position does not have to pay the discriminatory high price on inputs. They do have a little freedom in pricing -- the new antenna does not have exact analogues and therefore neither does it have a state price. But to maintain good relations he is careful to justify and clear a price for it with the price setting authorities. His strategy is to price it a bit below the closest analogue (15 roubles vs. 21 roubles), over which it is an improvement. Again the secret of its being able to compete on this basis is in getting maximum effort out of the work force. All workers are on piece rates with the exception of a few workers performing specialized functions and their operational principle is to require disciplined, productive work from the people on the payroll.

The co-op's accounting is not at all sophisticated. It uses simple key machines. The bookkeeper computes labor earnings using these machines. The president is himself a data systems specialist (having set up such a system both for the city government and for the plant) but he is not hopeful they will get any personal computers soon. The biggest task is making up the norms and budgeting pay for the workforce. The co-op receives some help from an individual in the factory planning department (who formerly held this responsibility) who works on a part time basis in addition to her main employment in the factory.

The Future

As indicated above, the co-op hopes to double, and then quadruple its output. To expand, it will have to have more space and more equipment. The plant will permit them to expand on the site of the present building where there is room for an addition, and is willing to let them have another plot of land on which they can build a 2,000 square metre building. To accomplish this, they will have to borrow money from the bank as well as use savings from their own income. The president does not yet have a clear idea of how to accumulate the money and then the equipment required for expansion. For construction of a building, he says that their best bet is probably to utilize the services of a construction cooperative. But in such a case, Maiak itself will have to provide the materials.

All these plans depend significantly on what happens to taxes. The president thinks that the co-op may have a hard time surviving under the new tax rate of 30% on labor income. That will make it impossible to do much saving for investment. It is especially burdensome when they already pay so much tax on profit to the factory. The factory pays 39.22% of its net profit to the state budget, and the co-op will do the same in the form of part of its lease payment, as well as paying the 30% tax on labor income. His view is that this tax might kill it. But he was hoping for some concessions from the Dmitrov Financial Department, perhaps in the form of a special lower tax rate. This is a possibility provided for in the tax law. However, the consultant believes that local financial departments are not likely to give up a source of tax that easily, especially in the new conditions of local self sufficiency, in which local government units will not get much in the way of transfers from higher level budgets.

Some General Impressions

A few interesting sidelights on organization emerged. This co-op has a labour union (presumably for its hired employees, though the expert could not ascertain whether co-op members are excluded). It is not autonomous from the factory trade union, being organized as a unit within the factory trade union organization. Similarly for the Party, the party members working in the co-op constitute a party "group" within the larger primary party organization of the factory. The president is a party member.

The consultant was impressed with the attitude and spirit of the president and his chief engineer, the only other person involved in the discussions. The president picked his team carefully; they are all supportive of the cooperative concept. They see the co-op both as a way to make more money, and as a way to show what can be done by Soviet working people when they escape the deadening system of conventional state enterprise administration.

In the description of the goals and methods of operation, it did not seem that the essential fact about this unit was that it was a cooperative. This seems a management-run, not a workplace-run organization. It seems that the management does have the confidence of the workers. The president said that at the beginning, the workers were somewhat resentful of the decision to set up a more elaborate management structure (which had not existed when it was a department of the plant, and which they saw as existing thanks to their earnings) but they came to see the need for such technical specialists (such as the six-person production design unit of the co-op) if they were going to make a go of it.