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## **Russian Corporations during the World War I: relationship with the Government, modified business models and social policy**

The World War I changed drastically the relationship between the Russian Government and stock companies, between employer and employees, as well as it corrected overall corporate social policy.

### **Wartime state policy and corporations**

The wartime affected deeply the Government attitude towards foreign entrepreneurs especially those from the hostile countries. In 1914–1916, the Government adopted a series of laws that significantly restricted the right in conducting business by entrepreneurs and stock companies from the countries in state, of war with Russia. That situation caused the emergency legislation. There were adopted in all, 29 laws that had nation-wide meaning, and some subsidiary acts, which specified sense of the accepted new standards.

Due to the acceptance of emergency laws in 1914–1916 business activities of the subjects from the hostile countries were put under the severe state control, especially in the sphere of finance. Moreover, the foreigners were deprived of the right of free tenure and an opportunity of land purchase, which significantly weakened their influence on the Russian economy. As for the other kinds of movable and immovable property the Austrian, Hungarian, German and Turkish subjects retained their power but the right of disposition was limited, and the usage of monetary capitals and securities that belonged to them to the fullest extent was indefinitely postponed. Simultaneously the sphere of entrepreneurial activities by the hostile foreigners was sharply narrowed due to exclusion of their commercial operations. In the industrial sector they lost a number of important privileges (for example, a priority right of using technological innovations), while the taxation of their enterprises was increased twice. In its turn, the new governmental measures undermined economic position of the oldest firms that operated steadily on the Russian market for a long time. In final analysis, entrepreneurial opportunities for many foreigners had lost the former attractiveness.

The emergency legislation of the Russian Empire differed significantly in matter and eventual results from British and French wartime laws. As the well-known Russian lawyer Vladimir Rosenberg underlined, the allies followed the course of denying of the legal transactions competency closed with adversary by declaring them void. In France, the property of foreign citizens was subjected to sequestration, while in the United Kingdom public guardianship on German, Austrian and other enterprises was established. In both cases, the result was identical: cessation of companies' activities, if they were owned by persons from the hostile countries<sup>1</sup>.

As the analysis of domestic laws has shown, the goal of the Russian Government was laid in harsh restriction of an opportunity of realization of entrepreneurial function, in the reduction of the total number of enterprises owned by persons from the hostile countries, and in decrease of the returns and profits of both entrepreneurs and their

firms. In a whole, the existed pre-war system of private laws was generally preserved but its survival became possible only under rigorous governmental control.

In reality, the wartime policy touched upon not only German and Austrian firms, but also from the allied countries. In final analysis, 796 enterprises turned out to be under the Russian administration control, including regional branches and local industrial units of central-office companies. More than half of them were located in capital cities: 223 in Petrograd and 213 in Moscow. In the list there were leading firms in Russian economy such as Allgemeine Elektrizitäts-Gesellschaft, “Siemens und Galske”, “Siemens–Schukert”. “The Singer Company”, the Partnership of brass and rolled copper production plant by Kolchugin that joined the business group of “Wogau & Co.”, the Partnership of Russian-French factories of rubber, gutta-percha and cable manufactures “Provodnik”. Of those regulated companies, 60 firms replaced a signboard or completely changed hands. In the wartime 543 governmental inspectors were engaged in realization of the state policy. According to opinion of officials from the Ministry of Trade and Industry, 248 enterprises were subjected to liquidation including 156 units placed in capital cities<sup>2</sup>.

As the Russian historians pointed out, the liquidating policy was directed mainly against the German businessmen. From 611 joint-stock companies, in which the presence of German and Austrian capital was revealed, only 96 were subjected to the decision of stoppage of operations, at that 62 enterprises avoided liquidation and 19 firms changed their owners. In the end, the whole number of closed enterprises counted merely 23 industrial and 7 commercial units<sup>3</sup>. The list of land holdings under sequestration included 44,285 estates. One hundred and seventy one owners offered their property to the State Peasant Land Bank, and the latter purchased 431 estates, 642 possessions were disposed *ex gratia*<sup>4</sup>. Hence, the wartime emergency measures of the Government yielded insignificant results but received notorious publicity.

The case of the Singer Company, American by its origin, demonstrated all unforeseen negative consequences of the Governmental policy towards foreign businessmen from the hostile country. The Company suffered severely from the official campaign of the so-called struggle against German domination in the Russian economy. In spite of numerous and detailed explanations by the Singer’s top managers and Russian representative business organizations about the firm’s origin and advocacy by separate officials, the Company couldn’t get rid of prosecutions and even accusations in espionage activities<sup>5</sup>. One of the main reasons of such negativism was lack of coordination between various state organs of different departments and levels.

By the beginning of the 1917 the situation of the Singer Company in Russia had worsened significantly, political harassment in printed press did not cease. A number of employees underwent legal prosecution, which ended in commitment. The firm was involved in endless judgments and spending considerable sums for lawyers. On February 24, 1917, the Petrograd military district court entered an acquittal on much publicized case “about agents of the Singer Company”. As the Minutes of general meeting of shareholders from May 27 pointed out “the dreadful case, which appeared to be so disastrous for the Company, ended at last. Successful abatement of action enabled petition for taking down of the governmental control that was satisfied in March 1917”<sup>6</sup>.

However, negative tendencies in Russian economy and political life developed apace, and the Singer Company could not take any advantage of the victory. Moreover, its further existence was in doubt.

The specific measures against foreign entrepreneurs from the hostile countries seriously separated business community, society and the Government and in final analysis enhanced the social instability in pre-Revolutionary Russia.

Another aspect of state policy during the war was connected with creation of particular governmental organs to solve the problems of crisis in armaments and in material supply of the Russian Army— so-called Special Counsel for defense. It was the highest authority in unwieldy system of military-economic regulation in Russia subjected exclusively to the supreme power. Initially according to the act of June 7, 1915 four representatives from commercial and industrial community were expected in the Counsel. Thus the prominent Russian businessmen went to the first Counsel “of May”, namely Aleksei Putilov — president of Russo-Asiatic Bank, Ivan Vyshnegradsky — president of St.-Petersburg International Commercial Bank, Yakov Utin — president of St.-Petersburg Discount and Loan Bank Those capital credit establishments created far-reaching and economically powerful commercial and industrial groups that integrated the largest and the leading Russian firms.

The revised version of the law (of August 17) broadened its competencies. In accordance with it the Special Counsel for defense should carry out uppermost supervision of state and private plants fulfilling military contracts, promote construction of new enterprises or modernize the old one, as well as it should distribute orders necessary for military supply. As far as its membership was concerned, the new act replaced the delegates- entrepreneurs for four representatives from the Central Military Industrial Committee organized by business circles. The new organization united the wider stratum of Russian entrepreneurs owing to numerous regional branches. As a result, business delegation was enlarged sufficiently due to the permanent invited members of proceedings. Among them, there were well-known and authoritative businessmen and engineers Nikolai von Dietmar, Vladimir Litvinov-Falinsky, Pavel Ryabushinsky, German Meidell<sup>7</sup>. At a later stage, the Counsel under the guidance of deputy Minister of Trade and Industry Pyotr Palchinsky obtained more democratic and bourgeois elements within its bureaucratic structure.

As we can see, WWI forced the Government to seek for the business community support in the sphere of distribution of official defense orders. And the above-mentioned Counsel became one channel in more intensive set of interactions between the authorities and the entrepreneurs who were previously deprived of the right to solve the problems of nation-wide economic policy.

From its part the disunited Russian business community created an alternative institution to the Imperial Ministry of War. In 1915, the Military Industrial Committees were founded to assist the Government to mobilize Russian economy. By 1917, they spread their activities all over the country and all branches of economy. The role of the said committees could not be reduced to intermediary function between the Government and private industry. In spite of serious limitations on the operation side

they became the major channel of practical influence of the entrepreneurial unions on various parts of political machinery<sup>8</sup>.

As recent researches have shown, the organization of reception and distribution of military orders proved to be unsystematic. In case of necessity the Imperial authorities applied to the committees, and the latter began to search for contractors and materials. Therefore, there was no opportunity to start non-stop military supply production at certain enterprises. One of the negative results from this situation was an insignificant amount of fulfilled contracts by the military industrial committees in overall bulk of distributed state orders<sup>9</sup>.

### **Alterations in business practice**

In the situation of economic imbalance caused by the war, many Russian firms and foreign stock companies did their best to obtain the right to fulfill the defensive contracts irrespectively of supply chain. The governmental orders helped them to survive in very unfavorable economic conditions and poor state of the market. For several corporations it turned to be one of the main kinds of business activity during the war; however, the range of patterns was multifarious.

The leading Russian textile firm, the Nikolskaya Mill Partnership “Savva Morozov’s son and Co.”, got a profit from its conventional business until 1917 but net income looked down after the end of 1915. During its life the company was oriented exclusively on mass market supplies, even in wartime. The firm possessed a great amount of reserve funds that allowed staying up for a long time<sup>10</sup>. Nevertheless, the Partnership accepted the state orders on manufacturing khaki as well as sank-work; by the way, these kinds of activities were insignificant to the firm. Being economically self-sustainable down to the time of overall disintegration of the country in 1917, it preferred to spend considerable sums on military needs through entrepreneurial organizations deducting costs as marketing expense every year<sup>11</sup>. The case of the Nikolskaya Mill Partnership was typical for the oldest textile firms in the Central Industrial Region in European Russia.

In metallurgy and metalworking industry the situation was far more complicated than in light industry. On the eve of the war, the New Russia Company experienced relatively high-level average annual rates of growth of main types of production, which fluctuated in between 5.25–6.9 percent. Moreover, the enterprise undertook large-scale modernization program that had not been accomplished by 1914<sup>12</sup>. Before WWI, that successful British company in Russia was more oriented on private market than on state contracts. Needless to say that the former segment of business suffered seriously due to a sharp drop in private demand for steel and metal products during the war. Therefore, defense orders turned to be a matter of life and death for the said enterprise.

In 1916, the Hughes plant of the New Russia Co. fulfilled orders on ten products for the Ministries of War, of the Navy and some other governmental institutions. The articles in need were coal, coke, pig iron, shell steel, ordinary semiproducts, profile iron, sheet iron, plates, bolsters and channels, bridges. Unfortunately, available archival sources do not allow to calculate a bulk of state contracts in total production, nevertheless we can illustrate their vital importance for the enterprise by the following sampling figures. In 1916, annual production of coal and pig iron amounted to

82,818,283 and 13,580,528 puds\* correspondingly, while on 1 May 1916 state orders on these items constituted 37,284,058 and 4,184,000 puds. The defense contracts were significant value in production of coke as well as shell steel. Manufacturing of the later sharply increased in 1916: from 1,685,248 to 8,215,065 puds, or about 4.9 times<sup>13</sup>. As a result, the New Russia Company stayed among profitable enterprises.

Business of the Russian Singer Company suffered severely during the WWI in comparison to the above-mentioned corporations because of its very tight financial links with the US mother firm. One the eve of the war the entrepreneurial activities acquired distinctly two distinctive sides. On the one hand, the plant in Podolsk, the Moscow Province, manufactured six classes of family sewing machines, and on the other hand, the Company sold special professional machines produced in the USA or in Great Britain for private enterprises and several governmental institutions. In the latter case, the Singer Manufacturing Company was a lender to the Russian firm. The war destroyed well-established business because of acute transportation problems that worsened day by day. Nevertheless, the Singer Company tried to continue the business laying itself out and steadily increasing indebtedness. It amounted to 91,881,314 rubles in 1914 that was more than 20 millions rubles higher than in 1913<sup>14</sup>. In commerce activity, selling and leasing of special sewing machines to the governmental institutions and private companies, fulfilling defense orders, were of high priority.

The situation with production at the Podolsk plant was very complicated too. Private demand for family sewing machines looked to long-term down, and finally in the middle of 1917, the manufacturing of sewing machines was stopped because of shortage of primary materials and impossibility to receive component parts from abroad. The plant obtained its first defense contract in January 1915. Over half year period there were fabricated 16 items of articles of supply and munitions on total sum more than 5 million rubles. In summer of 1915 Walter Dixon, the director of the Podolsk plant, addressed the Chief Committee of the *All-Russia Zemstvo* and the *City Union* offering enterprise capacities for the needs of national defense. A new woodworking department built in the previous year was planned to equip for manufacturing of three and six-inch shells with a productivity rate of correspondingly 2000 and 1000 grenades per day<sup>15</sup>. In final analysis, national defense needs constituted 86% of all plant production. Nevertheless, it became a loss-making factory. In September of 1917, the sewing machine plant in Podolsk was let on hire to the regional branch of the Special Counsel on defense — the Moscow factory counsel. That was a least-evil solution for the Singer's top managers trying to escape the enterprise shutdown<sup>16</sup>.

In spite of all-out effort, the Singer Company stopped to yield profit in 1914. Total wartime losses exceeded 17 million rubles<sup>17</sup>.

### **Corporate social policy during the war**

Previously very successful and profitable corporations were obliged to change their own social policy in 1914–1916 to preserve the former public image, as well as stable and peaceful relations within the firm. On the one hand, the firms initiated several charitable actions to help the society to overcome numerous wartime difficulties and constraints by organizing, for example, public hospitals. On the other hand, the

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\*Old Russian measure of weight. One pud is equal to 16.38 kilograms.

employers supported the workers and their families by introducing new forms of allowances and benefits.

During the war, a number of merchant, municipal and public institutions were among the recipients of the Nikolskaya Mill Partnership, which donated considerable sums for the needs of defense. There were the Moscow Merchant Society, the Moscow Stockbreeder Committee, the All-Russian City Union and some others. Total sum of multipurpose benefactions amounted up to 670 thousands of rubles for 1914–1916. Organization of a Moscow military industrial factory constituted one of the most substantial contributions. The Nikolskaya Mill Partnership paid much attention to the problems of Russian disabled veterans, refugees and prisoners of war<sup>18</sup>.

The board of directors of the Morozov's firm adopted its first measures of social assistance of workers in 1915 by fixing cost-of-living allowance at the rate of 5% to the wages from August. Next year from the Easter it was augmented once more up to 35%, and from February 1917 it was increased by 55%. Simultaneously the board of directors raised the tariffs on all kinds of job up to 10% from mid of 1916 as well as it started to pay higher New Year bonus. Wages indexation of employees commenced in May 1915 from the low-paid job positions. The top management worked out a detailed scale of pricing for them. As for themselves, the board of directors cut off their own average earnings from 7200 to 4800 rubles per year in 1914–1915 and in 1915–1916 — to 5900 rubles\*. Finally, in 1917 the Morozovs declared about foundation of so-called veteran capital for disabled soldiers, the former workers of the firm<sup>19</sup>.

The Singer Company followed the tradition of advanced and socially oriented Russian enterprise, nevertheless it adhered to other principles in performing charitable actions. Director Walter Dixon subjoined workers by order to beneficent measures. During WWI the charities acquired even greater scope. Practically all central offices and depots started fundraising for the military needs by deduction of 1.5 % from earnings. By 1916 they collected in total almost 51.4 thousand rubles. Moscow branches gave the largest donation, the city's share in overall sum gathered in 1914–1915 equaled 16.5 %. Resources were used for making gas masks, compresses, haversacks. The Kursk city central office and its depots were the second large donor, and about 294 persons took part in charitable action<sup>20</sup>.

At the very beginning of the war the Singer Company transferred gratis more than ten thousands sewing machines to numerous public committees working on defense. Their total number constituted around 8000 items. Besides that, the factory administration offered free rooms for hospitals supported by top managers of the Company. Dixon's wife, who was Russian by origin, founded a local department of the Committee of Her Imperial Highness Grand Duchess Elizabeth. This public institution organized soldier's underclothes sewing. It paid much attention to offering job to the members of families of employees and workers mobilized by the army. The Singer Company organized in the capital cities special workshops for underclothing fabrication. In 1915 St.-Petersburg and Moscow ateliers manufactured more than 114.5 thousands items<sup>21</sup>.

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\* The directors were shareholders of the Partnership that carried them very high interests.

Simultaneously the Singer Company organized relief to families of employees and factory workers mobilized by the army. Over 571,600 rubles was paid out by the 1<sup>st</sup> of August, 1915; that sum was divided between the factory and the trade workers in following proportions: 220,700 rubles and 350,900 rubles. By 1917, the Singer Company granted benefits on total sum 1,267,000 rubles<sup>22</sup>.

Thus, the Singer Company executed its social obligations in spite of very difficult financial position and business instability surviving all war hardships together with Russian society.

Nevertheless all the efforts were in vain in front of economic ruin caused by the war and broadening revolutionary movement in Russia in 1917.

- <sup>1</sup>Vladimir Rosenberg. *Present-day legal relations towards hostile subjects, with the appendix of laws on this subject*, Petrograd, 1915, p. 18, 19.
- <sup>2</sup>Data based on *The alphabetic list of the enterprises subjected to the governmental control (dated 15<sup>th</sup> of October 1916)*, Petrograd, 1916.
- <sup>3</sup>Valentin Dyakin. "The First World War and measures on liquidation of the so-called German domination". In *The First World War. 1914–1918*. Moscow, 1969, p. 234–237.
- <sup>4</sup>Ivan Sobolev. *The struggle against the German domination in Russia during WWI*. St.-Petersburg, 2004, appendix.
- <sup>5</sup>Central Historical Archive of Moscow (further TsIAM). RG. 526, inv. 1, f. 130, p. 4–6; *Minutes of the Commission formed from representatives of All-Russian Zemskyi and City union for elucidation questions on staff membership of Russian joint-stock venture "The Singer Company"*, Moscow, 1915.
- <sup>6</sup>TsIAM. RG. 1292, inv. 1, f. 56, p. 35–36.
- <sup>7</sup>Svetlana Voronkova. *Documents by the Special Counsel on defense of the state*. Moscow univ. press, 1975, p. 19–20, 30.
- <sup>8</sup>Vladimir Laverychev. *Military state-monopoly capitalism in Russia*. Moscow, 1988, p. 123.
- <sup>9</sup>Pavel Kyung. "Information potential of archives of military-industrial committees and their value in the study of history of economic development of the Russian Empire (1915–1918)" In *Economic History. Yearbook. 2009*. Moscow, 2009, p. 641, 648–651; Idem. "Business under conditions of mobilization economy, 1914–1915" In *Economic History. Yearbook. 2010*. Moscow, 2010, p. 191–196.
- <sup>10</sup>Irina Potkina. "On the Olympus of success; the Nikolskaya manufacturing enterprise of the Morozovs, 1797–1917". Moscow, 2004, p. 67. 324, 325, 330. 331.
- <sup>11</sup>TsIAM. RG. 342, inv. 2, f. 1444, p. 165; f. 1373, p. 165; f. 1697, p. 165.
- <sup>12</sup>Russian State Historical Archive (further RGIA). RG. 1498, inv. 1, f. 14, p. 10, 20, 22, 26. 31.
- <sup>13</sup>RGIA. RG. 23, inv. 28, f. 1497, p. 5; RG. 1498, inv. 1, f. 14, p. 10, table no. 5, p. 20, table no. 14, p. 22, table no. 17.
- <sup>14</sup>*Minutes of the Commission. Op. cit.*, p. 7.
- <sup>15</sup>*Ibid.*, p. 12.
- <sup>16</sup>TsIAM. RG.526, inv. 1, f. 483, p. 94; RG. 848, inv. 1, f. 141, p. 15, 21, 31.
- <sup>17</sup>*Ibid.* RG. 526, inv. 1, f. 483, p. 92; RG. 848, inv. 1, f. 141, p. 18.
- <sup>18</sup>TsIAM. RG. 342, inv. 1, f. 86, p. 109 ob., 112 ob., 117.
- <sup>19</sup>*Ibid.* RG. 342, inv. 1, f. 828, p.54; f. 82, p. 224–225 ob.; f. 86, p. 117;
- <sup>20</sup>Calculations based on: *The general review of deductions of employees' salaries of joint-stock venture "The Singer Company"*. Moscow, 1916.
- <sup>21</sup>*Minutes of the commission. Op. cit.*, pp. 9, 11. The appendix 6; TsIAM. RG. 526, inv. 1, f. 18, p. 20–29, 31–33; f. 483, p. 93 ob.; RG. 1292, inv. 1, f. 104, p. 10.
- <sup>22</sup>TsIAM. RG. 526, inv. 1, f. 483, p. 93 ob., 97 ob.