

The Central Department Store and the Soviet State: Tallinna Kaubamaja – Estonia’s “Department Store”

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Tallinna Kaubamaja, which in English translates to “Tallinn Department Store” was established in July 1960, and is the oldest department store, and currently the largest department store in terms of sales in Estonia. Tallinna Kaubamaja began as a State owned enterprise within the Soviet planned economic system and was privatized by the Estonian government in 1994. Tallinna Kaubamaja played a central role in both the Estonian retail sector, and pre-1991 in the larger Soviet retail agenda (as early as 1935 each Soviet Republic capital was charged with establishing a model department store to represent the success of the Soviet system – Hessler, 2004). This is the first known study that has documented Tallinna Kaubajama’s, or any other Estonian retail establishment’s historical case story in terms of successful retail transition from Soviet era enterprise to successful free-market retailer. This research is based upon access to recent historical company documents provided to the author.

Tallinna Kaubamaja, which in English translates to “Tallinn Department Store” was established in July 1960, and is the oldest department store, and currently the largest department store in terms of sales in Estonia. Estonia was annexed into the Soviet Union in 1940 and did not regain independence until 1991. Tallinna Kaubamaja began as a State owned enterprise within the Soviet planned economic system and was privatized by the Estonian government in 1994.

Tallinna Kaubamaja played a central role in both the Estonian retail sector, and pre-1991 in the larger Soviet retail agenda (as early as 1935 each Soviet Republic capital was charged with establishing a model department store to represent the success of the Soviet system – Hessler, 2004). The department store was gone through a number of renovations over the years with the most recent one completed in 2004. This study provides an overview of the role of a central department store in the Estonian Soviet Socialist Republic, during the period of 1960-1991.

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recent historical company documents provided to the author, as well as preliminary archival study in Estonia.

The purpose of this study is to contribute to a better understanding of what forces and attributes have allowed Tallinna Kaubamaja to transform from the old and to evolve and prosper in Estonia from Tallinna Kaubamaja’s beginning in the latter part of the Soviet period to Estonia’s recent accession to the European Union. This research provides an in-depth accounting of the key historical events, players, and performance indicators that have enabled Tallinna Kaubamaja to succeed under such disparate systems. As noted by Yin (1994) a case study can best be used to answer the key questions of how Tallinna Kaubamaja has managed to succeed, and why Tallinna Kaubamaja as a former Soviet department store, did succeed while many others did not.

As way of background, Estonia retail trade had a strong history due to Estonia’s tradition of membership in the Hanseatic League and international east-west trade (Raun, 2001). The retail sector in Estonia during the years of independence from 1919-1940 consistently mainly of small shopkeeper co-ops which represented a strong sense of nationalism and beyond providing employment, were also a funding source of Estonian education goals (Palm, 1989).

Although in 1929 coops only represented approximately 6% of all retail outlets they represented 40% of Estonia’s retail trade. In 1940/41 the Soviet Union nationalized the coops which were now subordinate to the central government (Central Union of consumers’ Societies in the USSR), and state owned retail outlets dominated the cities, but coop stores continued to do well in rural areas. Under this initial period of Soviet power, retail outlets in Estonia dropped in number up to four times. The forced industrialization shifted the role of Estonian suppliers of consumer goods to ship them to other regions of the Soviet Union. Less consumer goods remained in Estonia and the other Baltic states (Kutt, 1968), but overall, Estonia had access to better consumer goods and good distribution systems which has been attributed as a cause of the higher standard of living in Estonia compared to rest of USSR (Järvesoo, 1978).

By the 1980’s coops began moving to urban settings as coops could now purchase inventories from coop producers, state enterprises, or individuals. As consumer

shortages began to occur, the regional governments tried to increase the flow of goods and services to consumers, but most Estonian coops continued to focus on serving state contracts for the same goods, as these provided bigger orders and would accept "poorer" quality. This compounded the shortages as goods that could be "semi-finished", those that could be used in further production such as zippers, electrical components, were bought up from retail establishments by coops to use in industrial (higher profit) items. In order to halt this process local governments would limit (or in some cases ban) coops from buying these goods from State stores, which was the case with Tallinna Kaubamaja (Palm, 1989)

The Soviet period, in Estonia and other republics, represented a prolonged period of underinvestment in the retail sector best exemplified by these shortages of consumer goods which were both a result of production and inventory management practices, but in terms of retail performance, Tallinna Kaubamaja, appears to have performed quite well. Company financial documents indicate that in the period of 1960-1985 the store reached turnover plans in all but five years, as well as certain internal performance measures (TK, 1985). What was of interest was the fact that as a service orientation began to be implemented in the early 1980's the focus changed to employee efficiency measures which were increased by decreasing employees;

"the application of the all-Union experimental planning and awarding system at TK, 1983, bonuses of sales staff, cashiers and store managers no longer depend on the fulfillment of the commodity circulation plan of a structural unit, but on their work quality instead...the average number of employees dropped 0.3%, hence turnover per employee increased by 4.1%" (TK, 1985)

Furthermore, the changes in structure and incentives may have been of benefit to the employees and meeting of company goals, but the customer was still a very small part of the equation;

"new types of departments were formed with the rewarding of bonuses according to labour input and average remuneration per employee increased due to the payment of 100% of the remuneration of absent employees to pieceworkers instead of the previously paid 50%." (TK, 1985)

The critical omission, from a retailing and a marketing perspective, was that even though service measures were implemented, a lack of focus on the customer continued to be the norm. Nowhere in TK's financial performance document, was the customer mentioned. In fact, the only area where an indirect acknowledgment was made with respect to the customer was in the criticisms as to the lack of proper product being made available, and thus certain sales targets not being achieved (i.e. little concern was expressed that consumers could not buy products they wanted, but rather that TK could make sales targets if only the right products were available).

It could be argued that Western retailers also infrequently include references to consumers in their financial reporting, but the reason to expect that the TK report would include customer references would be that as cited by Randall (2000), as early as the 1930's the Soviet central government issued awards for outstanding retail workers, which included a customer service component, in addition to productivity goals. As contained in the preface to TK's document they were awarded many awards, but no mention of customer service;

"Tallinn Department Store has been successful, marked by numerous awards...on 13 occasions; the first place and challenge standard in the republican socialist competition on 56 occasions; second place on 7 occasions plus a number of diplomas and certificates of honour." (TK, 1985)

Thus, by examining the history of a retailer such as Tallinna Kaubamaja, allows for greater insight to often over-looked retail environment and the role of the retail sector in both the shaping of what Khrushchev saw as a promise of the growth of consumerism, and an overt effort to educate consumers the socialist "culture" of shopping (Reid and Crowley, 2000). This preliminary study of the financial records of one such retailer helps to clarify why questions can be raised for this not being the case. Future study of the Estonian markets', and Estonian consumers' perspectives on why this was the case is the source of future analysis.

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