

# Changes of Control and Business Reengineering in Russian Privatized Companies

Igor Gurkov

**The success of societal transformation in Russia depends on the ingenuity of Russian managers to link the legacy of the communist regime and the national patterns of industrial organization with the prerequisites of a modern economy. This article reports on a study of management in organizational transformation for 20 privatized industrial companies in Russia and describes the changes in their control structures and strategies. Organizational and economic factors determining the establishing of specific control arrangements and their impact on business reengineering are analyzed by synthesis of surveys and case studies. Implications for western partners and suggestions for further research are drawn. © 1996 John Wiley & Sons, Inc.**

---

This work was undertaken with financial support from the European Commission's Tacis ACE Programme 1994. The author acknowledges the valuable assistance of Gary B. Asselbergs and Gregory J. Rosmaita during the article editing. The comments of two anonymous referees on earlier drafts were also extremely useful. All errors are the author's sole responsibility.

---

*Igor Gurov is a Professor at the Higher School of Economics in Moscow and a Research Fellow at the Foundation for Economic Research, Erasmus University, Rotterdam, e-mail: Gurkov@micro.FEW.eur.nl.*

The International Executive, Vol. 38(3) 359–388 (May/June 1996)

© 1996 John Wiley & Sons, Inc.

CCC 0020-6652/96/030359-30

## INTRODUCTION

The process of social transformation in Russia has had a plethora of significant effects upon production. It is now provoking an economic depression of unprecedented proportions. It is also increasingly evident that any attempt to effect long-term political stabilization in Russia should be based on economic stabilization, or—at the very least—through the successful adaptation of new rules of economic behavior by the country's principal industrial producers. The future will depend on the ingenuity of Russian managers to link the legacy of the communist regime and the national patterns of industrial organization with the prerequisites of a modern economy.

In analyzing transitional economies and transitional management, it is better to develop a set of knowledge clusters which can be applied to business transactions than to construct one universal theory. The exploration of organizational transformations in transitional economies has attracted myriad management scholars. Numerous articles attempting to explain particular aspects of organizational transformations have been published in both academic and management journals. Analysts have concentrated upon changes in decision-making authority (McCarthy and Puffer, 1992; Luthans, Welsh and Rozenkrantz, 1993; Welsh, Luthans, and Sommer, 1993); the emerging new model of leadership (Puffer, 1995); developing marketing strategies in the most vital sectors of the Russian economy (Elenkov, 1995); modification of human resource management (Koubek and Brewster, 1995) and the acquisition of new knowledge and skills (Holden and Cooper, 1994).

An examination of such organizational studies, however, reveals a series of inadequacies. First, given the incredible speed of change in Russia, the technique of single observation used in most studies does not make it possible to accurately retrace emerging trends in organizational development. Moreover, the limited scope of single observation studies robs them of the power of prediction, thereby limiting their usefulness as decision-making tools in an era of constantly changing reality. Another source of weakness in organizational studies stems from the "otherness" of the researcher in relation to the "alienness" of the informant—a phenomenon which is further exaggerated by the constricted scope of these studies. The surveys of Eastern European managers cited in some studies, for example, were compiled in the unfamiliar and artificial environs of western business seminars, far from their subjects' usual working environment (McCarthy and Puffer, 1992). When a researcher does observe managerial behavior "in the field," however, informants' fear of disclosing

sensitive data often leads to conclusions based on "illustrations" rather than "evidence" (Kostera, 1995).

Moreover, most organizational studies—especially those whose subject is Russia—give only cursory notice to what is, in actuality, one of the major elements of the industrial structure of Eastern Europe: domestically oriented privatized companies. Since these companies account for approximately 60 percent of Russia's industrial output, as well as 60 percent of its industrial employment, the successful adaptation of domestically oriented privatized companies to market conditions is essential if the entire Russian economy is to be revitalized.

This article fills the aforementioned gaps in the study of organizational transformation in Russia through an examination of the changes in the control structures and strategies of the management of 20 privatized industrial companies. Specifically, the goals of this study are:

1. To clarify the types of control recently established in Russian privatized companies, and trace the changes in control arrangements during 1994–1995.
2. To explore how companies distinguish themselves in their marketing, organizational, and human resource management strategies under the direction of their top executives.

## **BACKGROUND OF THE CURRENT TRANSFORMATION PROCESSES**

The break-up of the Soviet Union and the liberalization of prices from state control on 1 January 1992 inaugurated a new economic era in Russia. The collapse of business ties between Russian companies and companies in other former Soviet republics, high inflation, and the reduction of government support to producers have combined to cause a deep fall in the nation's industrial output. In 1992 Russia's industrial output decreased by 16 percent; in 1993, by 15 percent; and in 1994, by 24 percent (Institute of Economy in Transition, 1995).

Outsiders, unfamiliar with conditions within the country, are often shocked by their initial encounter with Russian industrial statistics. By 1994, the real purchasing power of industrial wages had plummeted 55 percent from the level for 1989 (Centre for Economic Conjuncture, 1994). In 1994, the monthly indices of physical output in industry fluctuated between 45 and 52 percent of the average monthly levels for 1989, while the physical output of the machine-

building industry for 1994 was approximately 25 percent of the 1989 level. The companies observed in this study shared the same fate. In 1993 the industrial output, in constant prices, of the companies under observation was only about 40 percent of the 1989 level; while for the first quarter of 1994, the industrial output of these companies was only 20 percent of that posted during the first quarter of 1989.

Moreover, during this recession, Russian enterprises were forced to pass through a corporate restructuring process, called privatization. According to the World Bank, "mass privatization is a process in which a substantial portion of an economy's public assets is quickly transferred to a large, diverse group of private buyers. . . . Mass privatization usually involves the distribution of shares of state enterprises to the public, either for free or for a minimal charge, generally through a voucher allocation scheme. Vouchers take the form of certificates distributed to the population and are convertible into shares in state enterprises. . . . The economic objective of such a programme is quickly privatizing a large number of firms to deepen market forces and competition within the economy." (World Bank, 1995:3).

With the launching of the State Programme of privatization in June 1992, Russian enterprises were given 60 days to corporatize (i.e. to transform their legal entity into joint partnership or joint-stock company), select privatization variants, and develop and submit their privatization plan to a supervisory privatization agency. Three variants of privatization were proposed for medium and large industrial enterprises. In the so-called "second variant," for example, chosen by 74 percent of enterprises, workers and managers could purchase up to 51 percent of a company's stock by closed subscription at a nominal price: 1.7 times its July 1992 book value. The remaining 49 percent was divided into two parts. Twenty-nine percent was to be sold by voucher auction before June 1994, while the government retained possession of the remaining 20 percent, which was to be sold off through cash auctions or investment tenders.

Until the middle of 1993, however, complete employee buyouts were still allowed. As a result, many state enterprises were transformed into 100 percent employee-owned closed partnerships or closed joint-stock companies. Since the middle of 1993, when complete employee buyouts were forbidden, managers have sought to circumvent this proscription by collecting vouchers from workers or buying vouchers on the "street market," thereby assuring the "working collective" the maximum possible share of corporate ownership. As a result, when the voucher privatization program was officially reported "successfully completed" on 1 July 1994, most of the managing directors of Russia's medium and large industrial enterprises

found themselves the newly elected presidents of failing joint-stock companies manned by employee-shareholders interested not in dividends, but in keeping their jobs. Moreover, their companies' stock had been dangerously devalued. Many workers had been defrauded of their shares by investment companies interested only in speculation, while large numbers of shares had been acquired by outsiders, in exchange for vague promises of future investment.

## RESEARCH METHOD

This study uses both qualitative and quantitative methods to generate insights into the organizational development and reengineering of business in Russian companies. The qualitative approach has been employed as a means of revealing several of the more obscure, unique, and enigmatic aspects of Russian corporate life. Much of the current literature on the Russian economy either ignores or gives only cursory notice to such complicated issues as the long-term goals of owners or the relationship between corporate executives and outside shareholders. The qualitative approach was also used in the basic formulation and classification of such complex phenomena as marketing strategies. This application of qualitative methods is consistent with the general function of qualitative research as a means "to seek answers to questions that stress how social experience is created and given meaning" (Denzin and Lincoln, 1994: 4). Quantitative methods were used mainly to estimate the popular perception of company life as a means of verifying, and hence expanding, the results of the qualitative analysis.

### Research Instruments

In this study three sources of information are used:

1. interviews with top managers (general directors, commercial directors, chief engineers and personnel managers),
2. a survey of managers and workers using a questionnaire specially developed for each group, and
3. external and internal financial accounting statements of companies.

The interviews with company presidents, chief accountants, chief engineers, and personnel officers were conducted in an informal setting. The principal leading questions raised during the interviews concerned the current economic situation of the company; the goals

of its top managers; the implemented marketing, human resource, and organizational strategies; and the relationships with outside shareholders, business partners and local authorities.

The length of individual interviews depended largely upon the availability of a corporate executive, but usually lasted between 1 and 3 hours. Shortly after the conclusion of the interviews, the structural decomposition and normalization of interviewees' answers was carried out using a special framework which allowed the interviewer to compare the situation of different companies.

The second component of the study was a survey of managers and workers. It involved all levels of the managerial staff, as well as production and clerical workers. The questionnaires were distributed and collected by research assistants—students of Higher School of Economics, Moscow. Individual respondents were repeatedly and explicitly reassured that neither their supervisors nor their colleagues would have access to the answers which they provided the researchers.

The questionnaires consisted of several blocks used to measure and map the response to the following key variables:

- the perception of the present economic situation of a company and the causes of its successes and troubles;
- trust in the abilities of top managers to improve the companies' economic performance;
- transformations in the decision-making authority;
- perception of changes which took place after privatization.

The evaluation of company records provided additional insights into the economic viability of the companies under observation. All of the information concerning the performance of these companies was provided by their accounting offices. Quarterly balance sheets and income statements for the last three years were also obtained from these companies. In addition, copies of the official statistical forms—reporting the physical output of these companies in detailed nomenclature, cost structure, shutdown periods, etc.—were obtained. Most of the data, including financial data, were judged reasonably reliable. Having compiled this information it was possible to test the perceptions of both workers and managers by comparing the performance ratios for those companies under observation which are in the same branch of business. For a detailed presentation of the research methodology see Gurkov (1994) and Gurkov (1995).

Clearly, one can only characterize the financial performance of most of these companies as precariously perched upon the precipice

of insolvency. The acid test ratio (cash and quasi-cash per current liabilities) dropped out of the "safe zone," falling steadily for several quarters of 1992–1994 to below 0.1. The current ratio (current assets per current liabilities) for most of the observed companies varied between 1.0 and 1.5 in 1994. In the textile and machine-building companies, a situation of complete insolvency was observed, when, in 1994, the current ratio fell below 1.0.

### **The Sample**

Field research was carried out in two steps. First, a pilot study, extending from November 1993 through May 1994, examined 35 companies in the central region of Russia. The pilot study proved the reliability of the measurements used and the general applicability of the research methodology. Twenty companies were then selected for repeat observation, conducted in April–May 1995. The findings in this article are based solely upon a comparison of the results of the 1994 and 1995 studies of the 20 companies selected for repeat observation. Among the twenty enterprises thus observed were two textile companies, two chemical factories, two mechanical works, six food processing companies, and eight companies involved in construction and the production of construction materials. Forty-five interviews were conducted with top executives in 1994, while questionnaires were administered to 197 managers and 245 workers. In 1995, 72 interviews were conducted, while questionnaires were administered to 202 managers and 559 workers.

### **TWO MAJOR CHALLENGES FOR RUSSIAN TOP EXECUTIVES—TRANSFORMATION INTO LEGAL OWNERS AND BUILDING THE STRATEGIC AGENDA FOR COMPANY SURVIVAL**

Three years after price liberalization and the opening of domestic markets to foreign competition, the prevailing attitude within Russian firms could be summarized in the complaint of one re-engineering pioneer: "No more unearned, inherited brand loyalties; no more cordial rivals in the same markets; no more confident pass-alongs of rising wages and benefits in the form of higher prices; and no more indulgent protection by national government." (Champy, 1995: 18.) In actuality, the everyday problems confronted by Russian industrial companies are quite similar to those faced by their American counterparts, particularly smaller companies, during a recession—lack of cash, high bank indebtedness, irregularity of produc-

tion due to the absence of orders and uneven supply, and poor work discipline (see National Institute of Business Management, 1991).

When surveyed, managers and workers were asked to indicate the most disturbing factors facing their company's operations, using a 5-point scale ranging from "not important at all" to "extremely important" (see Table 1). Mutual arrays, lack of the means to purchase raw materials and semifinished goods, high debts to banks and suppliers, and irregularity of production were listed as the most disturbing factors both in 1994 and 1995. The only statistically significant improvements in 1995 were the stabilization of energy supply and the strengthening of work discipline. At the same time, the managers realized the increasing danger of unemployment as their companies were moved toward bankruptcy. On this point the difference between 1994 and 1995 was quite significant (2-tailed prob. < 0.01).

The continuous nature of the above mentioned disturbances has seriously affected the functioning of the observed companies. By 1995, the acuteness of the situation had become glaringly evident to all employees, regardless of rank or seniority. In the 1995 survey, both managers and workers were asked to assess the status of their companies (see Table 2). On the whole, only 12 percent of managers and 11 percent of workers characterized companies as "stable," while 18 percent of workers and 13 percent of managers viewed the situation as "extremely bad." It is hardly surprising that managers were slightly more optimistic in their estimates than were workers, for

**Table 1. Assessment of Importance of Business Problems by Managers**

	1994	1995
Nonpaying debtors	4.22	4.07
Disturbances in supply of raw materials	4.15	4.02
High bank debts and trade liabilities	4.02	3.72
Irregularity of production operations	3.96	3.88
Absence of orders, contracts	3.92	3.84
Irregularity in energy and fuel supply	3.84	3.42 <sup>a</sup>
Poor work discipline	3.76	3.54 <sup>a</sup>
Staffing by managers	3.69	3.78
Staffing by qualified workers	3.61	3.53
Delays in wage payment	3.37	3.42
Languor of the company's top management	3.31	3.49
Danger of unemployment	3.35	3.70 <sup>b</sup>

Scale: 1, not important at all; 2, small importance; 3, significant; 4, important; 5, extremely important.

<sup>a</sup>*p* < 0.05.

<sup>b</sup>*p* < 0.01.



**Table 2. Assessment of Companies' Situation by Employees**

	Managers (%)	Workers (%)
Company works stable and there are good perspectives	11.5	10.5
Company is in difficult situation, but some improvements have emerged	33.3	22.2
Company is in bad economic situation	38.5	42.0
Company is in very bad economic situation and may be called bankrupt	12.5	18.0
I have not brooded about this	4.2	7.3

managers are better informed about prospective contracts, and hence are able to perceive opportunities far earlier than are workers.

The assessment of the current situation varied between companies in different industries. While 14 percent of the managers and 16 percent of the workers in construction-related companies perceived the situation as stable, there was not a single manager in a machine-building company who reported a "stable" situation. Almost half of the managers in machine-building companies described the situation as bad, while another 27 percent reported the status of their enterprise as "very bad."

Managers and workers were also asked to select a possible explanation for businesses failures. Managers and workers alike selected three main causes of failure: the "collapse of former business ties" (37 percent of managers and 37 percent of workers); "weak top management within the company" (20 percent of managers and 32 percent of workers); and "business partners let us down" (17 percent of managers and 20 percent of workers). The explanations emphatically stressed the human element—namely, the incapability of top managers to maintain business ties or to establish new contacts.

The survey also revealed a profound discrepancy between managers and workers in their assessment of the abilities of current top-level management to improve the situation. Both managers and workers were asked to express their level of agreement on a 5-point scale, ranging from "completely disagree" (coded as 1) to "completely agree" (coded as 5), with several statements that described the behavior of top management. In 1994, the assessment of managers by workers was positive. However, in the 1995 survey the assessment of current top-level management by workers was overwhelmingly negative (see Table 3). The only segment of management singled out for positive assessment by workers were their direct supervisors—shop-floor managers, the majority of whom vigorously defend the rights of workers. In addition, while managers of lower ranks still assess pos-

**Table 3. Managers' and Workers' Assessment of Present Top Management of their Companies**

Statement	Managers		Workers	
	1994	1995	1994	1995
The present top management of the firm is able to improve its economic situations.	3.57	3.27 <sup>a</sup>	3.51	2.98 <sup>c</sup>
Management does its best for employees' benefits.	3.70	3.29 <sup>b</sup>	3.16	2.63 <sup>c</sup>
Management does its best to maintain job security.	4.03	3.60 <sup>c</sup>	3.42	2.98 <sup>c</sup>
Management does its best protect the employee-shareholders' interests.	3.58	3.14 <sup>c</sup>	3.17	2.55 <sup>c</sup>
My supervisor is sufficiently vigorous in defending the interests of his subordinates.	3.82	3.62	3.86	3.36 <sup>c</sup>
The disagreements in our firm are settled quickly and effectively.	3.41	3.18 <sup>a</sup>	3.25	2.89 <sup>c</sup>

All *p* values are 2-tailed probabilities. The original scale: 1, completely disagree; 5, complete agree.

<sup>a</sup>*p* < 0.05.

<sup>b</sup>*p* < 0.01.

<sup>c</sup>*p* < 0.001.

itively the actions of top managers, the confidence of shop-floor and middle managers in the goodwill, and abilities of top managers to protect jobs and to defend their other interests also deteriorated.

This situation presents a serious potential threat to the top managers. It should be emphasized, however, that privatization initially transferred controlling interests in companies to employees. In most of the observed cases, the top managers did not own more than 5 percent of the shareholders' equity at the beginning of 1994. Such findings are generally consistent with the results of other surveys of privatized Russian companies (Blasi, 1994). The profound dissatisfaction of worker-shareholders with present top management, therefore, may proceed to changes in corporate governance.

Currently, the top executives of Russia's privatized companies face two major challenges: the expansion of their control over the companies they manage, and the discovery of solutions which will enable their companies—and, by extension, themselves—to survive the recession. These tasks are closely interrelated. Indeed, on the one hand, in order to survive the recession, top executives should implement a major reorientation of their company's operations, thereby establishing new standards of performance and quality and new requirements for their company's personnel. To realize this goal, however, these top-level executives need more power over, and more autonomy in, strategic decision making. On the other hand, should an executive prove his ability to successfully run a company, despite an uncertain

and unfavorable economic climate, that manager will have derived a tangible claim to ownership over that company. Moreover, a company's improved performance increases both its cash-flow and its credit rating, potentially facilitating a managerial buy-out. The analysis of these companies, therefore, makes it possible to discern the interaction of these processes in real life.

## **ESTABLISHING NEW CONTROL ARRANGEMENTS**

The first issue which these surveys explored was the configuration of control over privatized companies. In order to determine the extent of organizational transformation, managers were asked to select the "real owner" of the company they administer from a list of 11 options which included: "yourself and the employees of your level"; "the general director"; "the top managers"; "domestic financial institution"; "foreign firm"; and even "nobody really owns" this company. Since the number of respondents varied from company to company, the main intent of this line of inquiry was not to determine the general distribution of answers, but rather to discern the situation of individual companies.

Four prevalent types of control patterns for privatized companies in Russia emerged from the surveys conducted in 1994:

- dispersed control, defined as a situation in which more than 40 percent of a company's managers select themselves as the real owners;
- concentrated managerial control, in which more than 40 percent of managers consider the top management the real owner of their company;
- director's control, in which at least 40 percent of a company's managers view the general director as the company's real owner;
- non-clear control, in which more than 40 percent of managers believe that "nobody really owns the company."

Of the twenty companies surveyed in 1994, dispersed managerial control prevailed in six, concentrated managerial control governed a further six, the general director was viewed as the real owner of three, and no clear control was reported in five companies (see Gurkov, 1995).

The survey of 1995 revealed new evidence of postprivatization development. First, a slight rise in director's control—from three to four companies—was observed. Second, while the share of companies under concentrated managerial control remained unchanged, the

number of companies under dispersed managerial control decreased from six to four.

After cross-tabulation of "old" and "new" control arrangements, these changes become more evident. In two companies previously under dispersed managerial control, there was a shift toward concentrated control, while another shifted towards director's control.

Another significant result of the comparison of control arrangements between the 1994 and 1995 surveys was the appearance of a new type of control—"outsiders' control." It should be stressed that prior to 1994, "outsiders" had acquired considerable interests in eight of the 20 companies which comprised the total sample. In only two instances, however, during the period extending from 1994 through the first half of 1995, did outsiders' interests increase through investment tenders obtained through the selling off of the government's 20 percent share of a privatized company's holdings. By contrast, in 1994, there were no companies under the control of outsiders, and none of the managers then surveyed reported a significant influence over their company's business by foreign shareholders. In 1995, three companies previously reported as under unclear control had become controlled by outsiders, while in another three companies, at least 10 percent of managers believed that outside shareholders—in particular foreign investment funds and banks—had become the "real owners" of their company. Clearly, the survey shows that by 1995, the intervention of outside investors in the management of Russian industrial concerns—or at least the perception of such intervention—had become glaringly apparent to an ever-growing number of managers.

Both in 1994 and 1995, almost in a half of the surveyed companies' managing directors or other top executives were viewed by other managers as real owners of their companies. However, despite this confluence of managerial opinion, the two surveys described above clearly illustrate the inherent instability of the corporate control arrangements present in postprivatization Russia. Between 1994 and 1995, the managers of three of the companies under observation reported that their general managers had lost control over corporate strategy. The second survey revealed that while, in one instance the director now shared authority with the company's other top-level executives, the managers of the other two companies reported a situation of general strategic confusion, which had led to the loss of a clear market orientation, resulting in the companies' deteriorated performance. Such a situation was characterized by managers as a shift to "nobody's control." In an effort to avoid such instability, top-level corporate managers are attempting to acquire controlling interests in the companies they administer, thereby converting them-

		CONTROL IN 1995					No. of companies	
		Disperced	Concentrated	Director's	Unclear	Outsiders'		
CONTROL IN 1994	Disperced	* *	*	*			7	
	Concentrated	* *	*				6	
	Director's		*		*		3	
	Unclear				*	* *	4	
		No. of companies	4	6	4	3	3	Total 20

**Figure 1.** Change in control arrangements in 1995 by comparison to 1994. Note: Number of \* corresponds to the number of companies of each type

selves into the companies' legal owners. Executives view this step not only as a means of consolidating their personal control over corporate policy, but as a shield against challenges to their authority from both employees and "outsiders."

In-depth interviews with top executives revealed five principal methods employed in transferring employees' shares to top-level managers. The first method entails the direct buy-out of employees' shares at arbitrarily set prices. It should, however, be noted that the face value of shares corresponds to the book value of fixed assets in 1992 prices. In order to counterbalance the deleterious effects of high inflation during the era of privatization, fixed assets were reevaluated, in accordance with new replacement prices, annually. The resultant increase in equity, however, was simply accounted "additional capital," without new stock being issued or an alteration of the face value of existing stock. As a result, the formal stockholders' equity (registered capital) amounts to less than 1 percent of the total equity in the majority of the surveyed companies. The usual price per share, paid to employees by executives, although 15 to 50 times the face value of the stock, is at least several times lower than its real value. Since none of the joint-stock companies surveyed were listed on the stock exchange, employee-shareholders were forced to sell their stock for artificially low prices in a buyer's market, which is manipulated and monopolized by the buyers.

The second method of transferring employees' shares in a joint-stock company to its top-level managers is the formation of an alli-

ance between the company's top managers. This pattern of transference emerges in instances in which the managing directors lack the financial and organizational wherewithal necessary to acquire the employees' shares outright. The surveys conclusively demonstrated a pattern of clustering amongst the worker-shareholders. Each group of employees revolved around, and was identified with, one of the allied top managers. Each manager—for example, the general director, the chief engineer, and the chief accountant—maintained such a “cultivated plot” of employees, from whom he attempted to elicit control over the rights pertaining to their shares in the company. The assignment of voting and return rights to the manager was then legalized by a formal agreement, known as “passing the title.” There is considerable anecdotal evidence that similar schemes have been employed in many other privatized Russian companies. Few top managers, however, are willing to admit to complicity in such a scheme, so as not to reveal the true extent of their extensive wealth and power.

When employees proved unwilling to sell their stock, top managers engineered high levels of personnel turnover by employing such tactics as wage delays, by enforcing absurd rules of employee conduct, and by refusing to rectify poor or dangerous working conditions. Such extraordinarily high turnover rates were the culmination of a well-defined organizational agenda. By law, any employee-shareholder who was fired from a closed joint-stock company or from a limited partnership was required to sell his/her shares in the company back to the company for a nominal price. All the “liberated” shares were then concentrated in the hands of general directors and other top executives. While a stockholder who is fired from an open joint-stock company is free to keep or dispose of his or her shares as he sees fit, former employees of open joint-stock companies overwhelmingly prefer to sell their shares back to the company for a standard nominal fee, rather than risk a potential loss of principal in Russia's underdeveloped, unstable, and largely unfamiliar capital markets.

In the fourth method of stock transference documented by this study, the general director served as the “black knight” of a corporate takeover—the point man for the investment company, trading house, or commercial bank which provided the means necessary to conclude an intensive buy-out of a company's workers' holdings. As payment for such service, the general director was awarded a significant amount of the company's stock (between 20 and 30 percent) once the outside interest's controlling interest had been consolidated.

Finally, the fifth method, used mainly by large companies, entailed the unification of workers' shares in holding companies. Gen-

eral directors were then elected to the presidencies of these new companies, which functioned as "parent" companies, enabling the general directors to maintain control over "subsidiary" businesses. Top-level management was thus able to retain the profits accrued by the subsidiary companies, thereby gaining sufficient credit to finance a stock buy out of the "parent company."

## **BUSINESS REENGINEERING IN DIRECTOR-CONTROLLED COMPANIES**

The success of the above described organizational strategies depended mainly upon the ability of top management to draw up a strategic survival agenda for their company and to mobilize the support of lower ranked managers. The loss in decision making authority to top management had to be offset, either through material benefits or through the prevention of bankruptcy and unemployment. The two surveys and subsequent analysis of corporate records revealed that the strategic actions of director-controlled companies have several distinguishing features. Indeed, they may, in some ways, be compared to the business reengineering processes which occur in western companies. The main steps in reorganizing business in order to assert the hegemony of director-owners are:

- the creation of a new strategic vision;
- empowerment, i.e. delegating greater authority to middle and shop floor managers and the promotion of entrepreneurship;
- developing sensitivity toward customers, by drastically revising marketing schemes;
- the reconsideration of supply arrangements;
- converting local authorities into active protectors of business;
- the search for foreign strategic partners.

### **Creation of a New Strategic Vision**

The first, most crucial challenge for director-owners is the creation of a new strategic vision. As a result of their self-propelled transformation into the true owners of their companies, director-owners have begun to consider their companies not as sets of obsolete equipment, old buildings, outdated infrastructure, and workers which they must maintain, recompense, and feed, but as networks of tangible and intangible assets, that must be augmented and safeguarded in order

that they might be transferred to their children and grandchildren. This new strategic vision is, perhaps, the most significant shift in the mind-set of Russia's top executives. A new strategic vision has begun to noticeably permeate the agendas of director-controlled companies. Short-term goals have begun to be displaced by long-range planning, marketing strategies have begun to broaden and diversify, existing modes of business have begun to be examined critically, and a genuine disdain for unprofitable and counterproductive activities and practices has emerged.

### **Empowerment and the Promotion of Entrepreneurship**

General directors who have already assured their leadership through the acquisition of controlling interests over their company need not fear their subordinates. On the contrary, many such general directors have already begun to delegate greater decision-making authority to second-tier managers. Our survey assessed the decision-making authority of managers at different levels. Managers were asked to indicate the changes in their influence over 24 types of decisions—from “establishing joint ventures” and “new stock issues” to “choice of customers”—on a 6-point scale, ranging from “beyond my position's duties” (a value of 0), through “much deteriorated” (a value of 1) to “much improved” (a value of 5). This scale was the development of McCarthy and Puffer's instrument (McCarthy and Puffer 1992). The additional point on the scale, “beyond my position's duties,” enabled us to restrict the appraisal of perceived authority to strongly reliable points.

On average, middle and shop-floor managers in all the surveyed companies, indicated a considerable decrease in their authority. This was true even in areas of their ultimate competence: the installation of new equipment (mean  $-0.36$ ); equipment repair (mean  $-0.39$ ); disbursement of wages to subordinates ( $-0.04$ ); disbursement of bonuses to subordinates ( $-0.32$ ); promotion of subordinates ( $-0.17$ ); and the determination of one's own position's duties ( $-0.04$ ). In regards to strategic decisions (participation in joint-ventures, investment plans, stock issues, etc.) more than 50 percent of senior staff managers and more than 65 percent of managers of lower ranks indicated that such questions are “beyond their position's duties.”

Most of the lower-ranking managers in director-controlled companies, on the other hand, reported a positive shift in their decision-making authority. Indeed, the shop floor managers in director-controlled companies indicated an increase in their authority over production mix ( $+1.50$ ), choice of customers ( $+1.50$ ), choice of suppliers ( $+1.20$ ), quality ( $+0.75$ ), pricing ( $+0.50$ ), authority over their



own job (+0.33), and the administration of bonuses to subordinates (+0.25) (see Table 4).

In a series of cases it was possible to observe the promotion of entrepreneurs within director-controlled companies. One of the best examples of a transformation of organizational culture was company No. 20, which produced construction materials. The general director promoted technical innovations through intracompany ventures. For the authors of several innovations, he created semi-independent temporary units, provided them with the necessary financial and material resources, and—after evaluation of the cash flow of the implemented project—he rewarded the initiators from the surplus operating income.

### **Developing Sensitivity to Customers and the Revision of Marketing Schemes**

Newly privatized Russian companies find themselves in a unique situation: after decades of operating in a closed market—complete with state subsidies and price controls—they must now develop the requisite marketing skills to protect local markets against both foreign and domestic competition. In order to achieve these goals, Russian companies must quickly learn the rudiments of customer satisfaction. As one production superintendent colorfully phrased it during his interview: “We have spent all our life sitting behind the high fence that separated us from the customers.”

The urgency of learning modern marketing techniques is also dictated by new opportunities for Russian enterprises in foreign markets. So far, only a few Russian companies—especially those specializing in the energy sector, nonferrous metallurgy, and the production of bulk chemicals—have been able to find markets for their exports in developed countries. The freezing of the exchange rate in July 1995, however, has made exportation decreasingly profitable even for these industries. Moreover, since 1992, Russia has been inundated with an ever-increasing influx of imported consumer goods. While not always of the highest quality, most of these imports are attractively and colorfully packaged, and shrewdly marketed through aggressive advertising campaigns. “New Russians”—the only domestic consumers with a high income and low price elasticity of demand—have constructed a conspicuous social image based upon a total aversion to domestic-made goods. Lower income groups have tried to emulate the spending habits of the New Russians. While they share the same appetites and aspirations as the New Russians, lower income Russians are hamstrung by a high price elasticity of demand. The commercial cravings of this class of consumer has led to

Table 4. Perception of Change in Decision-Making Authority of Company Managers in All Surveyed Companies and in Director Controlled Companies

Type of Decision	Top Managers	Senior Staff Managers	Middle Managers	Shop Floor Managers
Participation in joint ventures	0.73 (1.33)	0.11 (0.00)	-1.00 (0.00)	-0.09 (0.20)
Crediting and borrowing	0.57 (-0.33)	0.13 (0.50)	0.33 (1.00)	-0.24 (0.00)
Share issues	0.13 (-0.68)	-0.19 (0.00)	n.a. (0.00)	-0.29 (0.00)
Capital investment	0.23 (-0.75)	-0.09 (0.00)	-0.25 (0.00)	-0.23 (0.00)
Research & development	0.07 (-1.00)	-0.11 (0.00)	0.00 (0.00)	-0.23 (0.00)
New technology installation	0.44 (-0.33)	0.19 (0.75)	-0.36 (1.00)	-0.37 (0.00)
Equipment repair	0.32 (-0.33)	0.04 (0.33)	0.00 n.a.	-0.30 (0.00)
Recruitment to your division	0.40 (0.20)	0.29 (0.80)	0.50 (1.00)	0.06 (-0.33)
Hiring people	0.45 (0.20)	0.29 (0.50)	0.50 (-0.50)	0.06 (0.00)
Administering rewards	0.45 (0.20)	0.33 (0.67)	0.13 (-0.50)	-0.04 (0.17)
Administering punishments	0.60 (0.40)	0.38 (0.15)	0.00 (-0.50)	0.04 (0.17)
Promoting your subordinates	0.60 (0.60)	0.02 (0.14)	0.00 (0.00)	-0.17 (-0.17)
Authority over your own job	0.47 (0.75)	-0.03 (-0.40)	0.35 (0.25)	-0.04 (0.33)
Wage of your subordinates	0.30 (0.20)	0.03 (0.00)	-0.46 (-0.33)	-0.32 (0.00)
Bonus level of your subordinates	0.16 (0.00)	0.03 (0.25)	-0.46 (-0.33)	-0.32 (0.25)
Your proper wage and bonus level	-0.06 (-0.40)	0.03 (-0.20)	-0.15 (-1.00)	-0.38 (0.25)
Level of dividend	0.35 (0.25)	0.03 (-0.50)	-0.50 (0.00)	-0.55 (0.25)
Quantity	0.41 (1.00)	-0.11 (0.00)	-0.11 (0.00)	-0.20 (0.33)
Pricing	0.40 (0.67)	0.58 (0.33)	0.56 (0.00)	0.00 (0.50)
Product mix	0.65 (0.75)	0.37 (0.75)	-0.40 (0.00)	0.06 (1.50)
Product for export	0.86 (1.33)	0.17 (0.00)	-0.22 (0.00)	-0.11 (0.33)
Quality	0.43 (1.00)	0.46 (0.75)	-0.15 (-0.50)	0.38 (0.75)
Choosing suppliers	0.94 (1.67)	0.65 (0.25)	0.33 (0.00)	0.05 (1.20)
Choosing customers	0.80 (1.67)	0.61 (0.50)	0.00 (0.00)	0.07 (1.50)

Results were received by subtraction of 3 from the original average. Data in parentheses is reflecting the answers of managers in director-controlled companies. The original scale: 0, beyond my position's duties; 1, much deteriorated; 2, deteriorated; 3, no change; 4, increased; 5, much increased.

the development of a new strategy called “window dressing,” which entails the production of mediocre quality goods which are marketed at a sharp price.

An analysis of the data collected for this study indicates that the window dressing strategy has been successfully adapted by the majority of successful Russian companies. The realization of such a strategy requires two preconditions:

- a good understanding the preferences and tastes of the “poor” consumers who ape the tastes of “rich” consumers;
- selling at bargain prices.

In turn, these preconditions require an enormous amount of preliminary and constant work, which includes:

- the qualitative and geographical segmentation of consumers and markets;
- determining the demand elasticity of each type of consumers in each sales location for every kind of goods to set “significantly” different competitive prices;
- the minimization of overhead, transport, distribution and production costs to maintain the profitability of sales at bottom prices.

Maintaining production operations at the lower limit of profitability and on the “sensitivity border” of the marketing department forces a company to completely reorganize its production and distribution systems. Successful implementation of the window-dressing strategy also necessitates a reorganization of the distribution system in order to enable the producing company to employ a direct sales strategy so as to maximize its profit from the production and sale of low-margin items. A direct sales strategy not only eliminates the role of the profit-draining middle-man, but enables the company to keep a close eye on the ever-shifting tastes and demands of the market for which it is in the business of producing goods. The window dressing strategy, therefore, forces a company to be more flexible in its production schedules, the acquisition of new contracts, and decreases the turnaround time of orders, which are executed immediately so as not to lose the market.

Variants of the window dressing strategy have been successfully applied in all of the observed industries. In the housing industry, for example—an industry which is now catering to a small, relatively rich, Russian market composed of businessmen, local Mafiosi, directors of privatized companies, and the like—producers of panel-

construction apartment blocks began to offer inexpensive “pseudo-cottages” built from large panels, but decorated so as to resemble more expensive brick villas. Likewise, in the food processing industry, dedicated to the mass consumer, the main attention of managers is devoted to discerning every aspect of solvable demand. Company No. 22, for example, a dairy, divided its production lines into two segments: one which produced small packages, which were then retailed from moving kiosks which served offices and factories, and another which produced large packages, designed for household consumption, which were retailed in supermarkets.

Another example of adaptation to market conditions can be found in the geographical segmentation of markets. In small towns, confectionery producers determined the location of commercial banks and installed retail outlets for the vending of more expensive confectioneries at those locations. Spurred by the success of these ventures, several confectioners have effectively marketed goods in sophisticated packaging which imitates the style of imported—and hence, more expensive—goods, thereby increasing their profit margins. Privatized bread factories, which face stiff competition from small private bakeries, have attempted to offer new and imaginative services to customers whose primary commercial impetus is no longer merely hunger, but, increasingly, convenience. Many bread factory managers have discovered that the fleets of trucks which their companies maintain for the dispersal and sale of their baked goods provide them with a competitive advantage over private bakeries. Several enterprising managers have exploited that competitive advantage by delivering fresh bread to summer-cottage communities, cementing a yearround link with their winter customers—city dwellers who seek refuge from the crowded cities during the summer months.

None of the strategies enumerated above could have come to fruition had not new channels of distribution been established following the dissolution of the Soviet Union’s centrally planned economy. One of the primary features of the centrally planned system was a tightly controlled monopoly over the distribution of goods. After the collapse of the communist system, around one million new private wholesalers and retailers were established. Most of these new economic distributorships, however, are little more than small scale traders which conduct business within a small geographic area. Manufacturers have thus been forced to deal with a large number of distributors operating under vastly different conditions. Moreover, the extremely high commission rates applied by private retailers make it impossible for producers to maintain competitive consumer prices. Fortunately, Russian managers entered the recession without textbooks such as “How to Survive the Recession,” which suggested that

“strategies should (at least until the crisis is over) generally avoid a fundamental change in the character of business and major changes in the business at the interface with consumers” (Prescott, 1982: 117).

One of the most original solutions to this problem was proposed in director-controlled company No. 15. This company produces winter outerwear. Production has a strict seasonal character; in March–April the demand falls by 70–80 percent. During the summer downtime, almost all middle and shop floor managers and engineers work as distributors. A flexible system of benefits, which rewards managers for every contract they conclude makes the summer distributorship a highly attractive activity. Direct observation of company No. 15 revealed that the managers had already divided Russia into separate trading areas and competed among themselves, establishing long-term relations with retailers. As a result of such close contact with the retailers in their designated sales area, each manager obtains a clear and detailed picture of consumers’ needs and preferences. Thus, potential misunderstandings between the marketing, engineering, and production departments are circumvented, and a constant stimulus towards production innovations and high quality was firmly established.

Another example of an enterprise reorganizing its marketing strategies in order to adjust to economic realities was observed when a second textile plant—a large factory that had tremendous difficulty finding a market for its material—took over several clothing factories. The textile plant first forced the clothiers to tailor exclusively with the material it produced. It then concluded long-term agreements with more than 100 retail shops concerning the marketing of both the material and the clothing it produced. This scheme enabled the textile factory to establish close contact with the consumers of its products, which led to the implementation of strict new quality standards for its material.

## THE RECONSIDERATION OF SUPPLY ARRANGEMENTS

The maintenance of low prices should be based on cost advantages, which, in turn, lead to the optimization of the production structure, the exploitation of the economies of scale, and the minimization of organization expenses. An excellent example of this principle in action is company No. 1, which produces furniture. Over the last two years, the list of suppliers was drastically revised by the company’s procurement department. The main criteria for the choice of supplier were:

- the quality of the semi-finished products and raw materials it supplied;
- reasonable price;
- stability of supply;
- the financial position of the supplier.

The last two points were of crucial importance. Company No. 1 preferred to deal with suppliers that were in dire financial straits and that suffered from problems of procurement. The company's strategy in regard to such firms was to intercept their key lines of procurement, thereby forcing a supplier to conclude a special agreement of barter trade. Such long-term bilateral agreements granted firm No. 1 the exclusive rights to the supplier's stock of raw materials. A special Russian term, *davaltcheskoe syrie*, describes this system of multilevel barter trade, in which a consumer provides a manufacturer with the raw materials necessary to fashion the desired product.

The terms of these agreements, concluded while suppliers are in dire fiscal distress, are naturally extremely favorable toward company No. 1. The prices the company sets for raw materials are 2 to 2.5 times below average market prices. (see Gurkov and Kuzminov, 1995a.)

Sometimes, the terms of barter trades are even more complicated. One of the most imaginative uses of barter was observed in director-controlled company No 9, a meat-packing factory which had strained relations with the stock-breeding farms which were its main suppliers. Since the farms suffered from a severe cash shortage which prevented them from purchasing fodder, they attempted to raise capital by increasing the price of their stock. In response, company No. 9 adopted a sophisticated policy. It began to deliver meat for less than its market value to a kindergarten belonging to a construction company, which, in turn, repaired the fodder producing factory. In exchange for these kindnesses, the factory began to supply fodder directly to company No. 9 at reasonable prices. Company No. 9 then exchanged the fodder with the stock farmers in return for cattle.

### **Converting Local Authorities into Protectors of Business**

The weakening of centralized government support for Russian industry made local authorities important players in the business game. While local authorities usually lack the means to help industrial companies directly, they do possess a wide range of instruments which can create trouble for companies. As the head of a district

administration said: "We are able to bankrupt half of the companies of our district, but we try to save everyone."

For example, a total of eleven taxes are levied on profits by the district and national administrations. Accordingly, the debt of companies to the tax service is usually very high. In half of the companies surveyed, the tax debt amounted to at least 10 percent of total assets, while in four companies, the tax debt amounted to at least 20 percent of total assets. A personal examination of internal accounting documents revealed that district authorities actively interceded on behalf of companies in central tax inspections. Whether or not fines for air and water pollution are levied upon a company also depends largely on the closeness of a company's relationship with district authorities. District authorities also usually protect local markets against producers from other regions. For instance, local authorities ensure the sales of local food producers. In general, local authorities try to temper the restrictive macroeconomic policy of the central government and make many efforts to counter the industrial recession.

Direct observation has shown that the intensity of contacts between the general directors of director-controlled companies and local authorities is much higher than similar contacts between companies with different control structures. There are two principal factors that stimulate this close cooperation.

First, the power of the general directors of director-controlled companies enables them to make serious decisions personally, without waiting for a meeting of the Board of Directors. Therefore, any emerging problems between local authorities and director-controlled companies can be resolved quickly and effectively during personal meetings between local officials and general directors. The speed with which problems can be rectified by the general directors of director-controlled companies also appeals to the local authorities and encourages further contacts.

Second, the ability of a general director to acquire the controlling interest in his company is based largely on his strong personality and leadership ability (see Zaleznik, 1991, and Kanter, Stein and Jick, 1992). If such a charismatic executive is able to "stimulate" various benefits for his company from local authorities, he will most assuredly cultivate close contacts between the two parties.

### **The Search for Foreign Strategic Partners**

Once control over a company is secured, general directors tend to actively seek foreign partners. The main reason a general manager seeks international cooperation is not to solicit direct investment in

fixed assets, but to arrange for the transfer of technological know-how and advanced managerial and financial techniques to the company he heads. Such aspirations have been observed in several of the director-controlled companies included in this study's sample. For example, company No. 26 produces cement. It recently established a joint venture with an English firm for the production of high-quality cement, which is in short supply in Russia. Since the main contribution of the foreign partner was technical know-how, the director of the cement-works utilized the opportunity the collaboration presented to study the most efficient and up-to-date methods of production and marketing, enabling him to subsequently update the technological processes in his plant and expanding his company's share of the local market.

### **Reengineering without IT and Downsizing?**

In the previous paragraphs we have demonstrated mostly the best examples of Russian managerial behavior. There are, however, several weak points in the organization and strategies of Russian privatized firms.

First, there is a widely-dispersed contempt for advertising. As a recently completed survey of 150 Russian industrial companies showed, on the average, only 19 percent of the respondents' new customers had been attracted to their goods through an advertising campaign conducted in the mass media, while 43 percent of the respondents' new customers were attracted through personal contact with top managers (Lipsitz et al., 1995). While conducting our own survey, we observed several companies which, although they produced goods of superior quality, were incapable of organizing a simple advertising campaign to apprise potential customers of the utility and quality of their products.

Russian industrial enterprises have been loathe to recognize mutual trust as the basis for fair and open business transaction. Almost all Russian companies refuse to disclose even the simplest, most basic financial data. The above-mentioned survey also revealed that although 42 percent of the companies print a small number of brochures containing technical descriptions of their products in Russian, and 24 percent generate similar materials in English, only 11 percent of the surveyed companies were able to present any printed matter which explained the financial situation of their companies. Of the 11 percent, only 4 percent have financial disclosure materials in English (Lipsitz et al.: 78).

Another weakness of Russian managerial culture is an overall inefficiency in office management. There are two sources of ineffi-



cient office work—the poor training received by office workers and the absence of elementary office equipment. Most of the work performed in the financial and accounting departments of the vast majority of companies is not computerized. Even if a computerized system is implemented for bookkeeping purposes, none of the other departments is able to use the data, and so, marketing departments, for example, are usually unable to retrace the payments for executed contracts in real time.

Finally, the main problem with reengineering—in the proper sense of the term—is layoff avoidance, especially the prevention of managerial layoffs. On this point, there is a great distinction between director-controlled and outsider-controlled companies. Such action is not always productive, because traditionally, the normal functioning of Russian enterprises is maintained by an intricate system of informal managerial contacts. The appointment of new top executives destroys this invisible mechanism of self-adjustment. The quick replacement of top executives may, however, facilitate the immediate implementation of business innovation, for as our research into director-controlled companies clearly shows, it is often extremely difficult for a general director to get rid of “old management guards” and attract younger, more capable people to senior positions.

## CONCLUSIONS

Russia now stands at a key crossroads, between two competing scenarios, which will determine the direction and pace of reengineering in Russian companies. In the first scenario, general directors will reinvest enough capital, energy, and time in their companies that they will gradually be able to reshape the enterprises' top-level management to reflect their individual strategic vision. In the second scenario, the accelerated expansion of outsiders into Russian enterprises will cause a drastic replacement of the top executives in industrial companies, and reengineering will be focused on short-term objectives, such as the increased profitability of sales and a return on equity. The possible combinations of these scenarios for various industries will determine the dissemination of business reengineering in Russia.

Therefore, it is still too early to draw general conclusions about the efficiency of the prevailing control schemes and reengineering models in Russian industries. Privatization has, however, increased both the maneuverability of management and the ability of companies to develop and execute individually conceived marketing and organizational strategies. In our survey we asked managers to indicate their

**Table 5. Managers' Perception of New Opportunities Appeared After Privatization**

Opportunity	Type of Control				
	Dispersed Managerial	Concentrated Managerial	Director's	Unclear	Outsiders'
To attract foreign companies to cooperation	-0.07	0.22	0.22	0.72	-0.04
To improve intra-factor management	0.08	0.30	0.42	0.09	-0.03
To strengthen work discipline	0.30	0.29	0.28	0.22	-0.41
To choose business partners	0.89	0.20	0.56	0.72	0.40
To determine production mix	0.72	0.58	0.85	0.34	0.14

Results were received by subtraction of 3 from the original average. The original scale: 1, much worse; 2, somewhat worse; 3, no change; 4, somewhat improved; 5, much improved.

perception of new opportunities in different aspects of business that have appeared after privatization. Table 5 contains the averages reported by managers for each type of control. In companies under concentrated managerial control, and especially in director-controlled companies, managers are quite optimistic about the opportunities for the improvement of intrafirm management, the adjustment of the production mix to market requirements, the establishment of cooperation with foreign partners, and the strengthening of work discipline. By contrast, managers of outsider-controlled companies expressed mostly their negative assessments of changes. This dichotomy reflects the general organizational confusion, which has been displayed by western companies in the initial period of adjustment following a takeover (see Buono and Bowditch, 1989).

The main question which potential foreign partners raise when they initially approach a Russian company, however, does not pertain to the speed of overall economic change in Russia or the availability of new economic opportunities across the breadth of the country, but whether a profitable deal can be struck with a particular company or group of companies. The fruits of this analysis can be extracted into a series of recommendations for potential foreign partners:

1. Do not expect to find a promising Russian partner easily, especially if you are looking for a "green field." The extant business

directories consist mainly of the companies already known to foreign investors; companies with considerable—and not always successful—experience in joint ventures and export contracts. In this respect, it is better not to rely on intermediary consulting firms. Instead, one should endeavor to contact one of the “old guard”—the general director or chief engineer of a company in the same industry as the one in which you are interested in investing, especially if it is in an upstream or downstream line of business. Such individuals are quite often the repositories of valuable and reliable information about a number of companies, their situations, key executives, etc.

2. Be prepared to find the interested company in the midst of an internal or external battle for control. Try not to become drawn into such a struggle. Endeavor instead to identify whether the company's key assets, production facilities, and personnel are what you require, then either lease it or incorporate a small joint venture.
3. Be patient when confronted with a slow response to your proposals. The delay is probably caused not by any absence of cooperative goodwill, but rather by the pressure exerted by the bewildering variety of daily “fire-actions” demand the managing directors' immediate attention. Hire a good Russian translator and work closely with the commercial director and the heads of the planning and marketing offices. By following this course of action, you will not only allay the fears and suspicions of your intentions which the directors harbor, but you will receive, first hand, an accurate and complete accounting of the information you need in order to evaluate the risks and promises of the deal prior to a massive outlay of capital.
4. Be an adroit improvisationalist. The best business opportunities may arise accidentally in the middle of deal, when you learn more about the business environment and local markets. The more open you are to the possibilities of increased investment and engagement in the local economy, the more Russian managers will understand your intentions and endeavor to assist you fully explore every opportunity.
5. Allocate a considerable part of your investment to the immediate inauguration of a comprehensive program of training for the technical and clerical staff. Make such training an integral part of any projected endeavor. Alert the managing directors at the outset of your negotiations of the necessity of improving office management and automatizing all paperwork. An initial investment in office equipment, combined with substantial

training, will have a profound positive effect upon the quality and profitability of your overall investment.

These suggestions are the fruit of only a few partial outcomes of the analysis of a limited number of industrial companies. The further evaluation of patterns of organizational restructuring and business reengineering in Russian privatized companies promises not only to enrich the academic literature on economics in transition but the arsenal of crisis management methods used by companies in market economies. Accordingly, next stages of the research should center on two topics:

- the mapping of the emerging control structures in Russian privatized companies by larger longitudinal surveys, embracing hundreds of companies in various industries;
- the synthesis of surveys and case studies into an operational model of transitional management.

The first attempts to perform such a synthesis look promising (Shama, 1994; Carlin et al., 1994). However, a series of further serious efforts are needed in order to shift the emphasis of the research from the passive description of cases to the comprehensive exploration of the complete phenomena of transitional management with the powerful tools of modern organizational theory.

## REFERENCES

- Blasi, Joseph (1994) "Russian Privatization: Ownership, Governance and Restructuring," in I. Lieberman and J. Nellis (Eds.), *Russia: Creating Private Enterprises and Efficient Markets*, Washington, DC: World Bank.
- Carli, Wenfy, Reenen, John V., and Wolf, Toby (1994) *Enterprises Restructuring in the Transition: An Analytical Survey of the Case Study Evidence from Central and Eastern Europe*, European Bank for Reconstruction and Development, Working Paper No. 14.
- Centre for Economic Conjecture (1994) *Russia-1994. The Economic Conjecture*, Moscow.
- Champy, James (1995) *Re-engineering Management: The Mandate for New Leadership*, New York: Harper Business.
- Clark, Ed and Soulsby, Anna (1994) "Transforming Former State Enterprises in the Czech Republic," *Organizational Studies*, 16(2), 215–242.
- Denzin, Norman K. and Lincoln, Yvonna S. (Eds.) (1994) *Handbook of Qualitative Research*, Thousand Oaks, CA: Sage.
- Elenkov, Detelin S. (1995) "Russian Aerospace MNKs in Global Competition," *Columbia Journal of World Business*, XXX(2) 66–78.

- Gurkov, Igor (1995) *Popular Response to Russian Privatization: Surveys in Enterprises*, Centre for the Study of Public Policy, No. 245, Glasgow.
- Gurkov, Igor (1994) *A Framework for Empirical Analysis of Organizational Behavior in Transitional Economies*, Working Paper No. 1, Higher School of Economics and Foundation for Economic Research, Moscow–Rotterdam.
- Gurkov, Igor and Asselbergs, Gary (1995) "Ownership and Control in Russian Privatized Companies: Evidence from a Survey," *Communist Economies and Economic Transformation*, 7(2), 195–211.
- Gurkov, Igor and Kuz'minov, Yaroslav (1995a) "Organizational Learning in Russian Privatized Enterprises: The Beginning of Strategic Change," *International Studies of Management and Organization*, to appear.
- Henry, John and Johnson, Garry (Eds.) (1993) *Strategic Thinking: Leadership and the Management of Change*, New York: Wiley.
- Holden, N. and Cooper C. (1994) "Russian Managers as Learners and Receivers of Western Know-How," *Management Learning*, 25(4), 503–522.
- Institute of Economy in Transition (1995) *Review of the Russian Economy*, Moscow.
- Kanter, Rosabeth M., Stein, Barry A., and Jick, Todd D. (1992) *The Challenge of Organizational Change*, New York: The Free Press.
- Kostera, Monika (1995) "Differing Managerial Responses to Change in Poland," *Organizational Studies*, 16(4), 673–698.
- Koubek, Josef and Brewster, Chris (1995) "Human Resource Management in Turbulent Times: HRM in the Czech Republic," *International Journal of Human Resource Management*, 6(2), 223–248.
- Lipsitz Igor V. et al. (1995) *Performance and Behavior of Enterprises in Textile, Chemistry and Machine-Building Industries*, Unpublished Report to the Ministry of Economy, The Russian Federation, Moscow, Expert Institute of the Russian Union of Industrialists and Entrepreneurs, October.
- Luthans, Fred, Welsh, Dianne H.B., and Rozenkrantz, Stuart A. (1993) "What Do Russian Managers Really Do?" *Journal of International Business Studies*, 741–762.
- McCarthy, Daniel J. and Puffer, Sheila M. (1992) "Perestroika at the Plant Level," *Columbia Journal of World Business*, XXVII(1), 86–99.
- National Institute of Business Management (1991) *Recession Proofing Your Business*, New York.
- Prescott, J. (1982) *How to Survive the Recession*, London: The Institute of Chartered Accountants in England and Wales.
- Puffer, Sheila M. (1995) "Shedding the Legacy of the Red Executive: Leadership in Russian Enterprises," *International Business Review*, 4(2), 157–176.
- Shama, Avraham (1994) "Marketing Management in Russia," *The International Executive*, 36(6), 599–625.
- World Bank (1995) *Mass Privatization in Central and Eastern Europe and the Former Soviet Union. A Comparative Analysis*, Washington, DC.
- Welsh, Dianne H.B., Luthans, Fred, and Sommer, Steven (1993) "Manag-

ing Russian Factor Workers," *Academy of Management Journal*, 36, 58–79.

Zaleznik, Avraham (1991) "Leading and Managing: Understanding the Difference," in Kets de Vries, M.F.R. and Associates (Eds.), *Organizations on the Couch: Clinical Perspectives on Organizational Behavior and Change*, San Francisco, CA: Jossey-Bass, 97–119.