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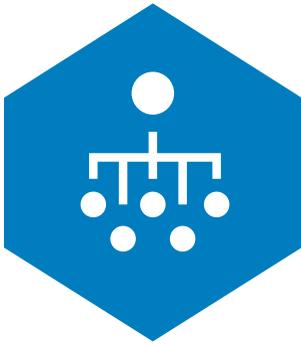
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VOLUME 12

Organizational Cultures

An International Journal

Contemporary Issues of Management by
Values in Emerging Markets

The Russian Case

NATALIA GUSEVA

ORGANIZATIONAL CULTURES: AN INTERNATIONAL JOURNAL
www.ontheorganization.com

First published in 2013 in Champaign, Illinois, USA
by Common Ground Publishing LLC
www.commongroundpublishing.com

ISSN: PENDING

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Contemporary Issues of Management by Values in Emerging Markets: The Russian Case

Natalia Guseva, National Research University Higher School of Economics, Russia

Abstract: The Management by Values (MBV) approach has been growing in popularity in countries with developed economies since the late 1990s. Considered to be a strategic management tool, this approach seeks to increase the company's market value by enhancing interconnections among employees. Until recently, this model of firm management and HR management in particular, has been used on a very limited scale in emerging markets. This paper presents the results of the research of contemporary management issues in Russia with a particular focus on the MBV approach. The logic of the paper is based on five main research tasks, namely: the analysis of global organizational tendencies with respect to internal and external environments; a survey of the evolution of the major management concepts; analysis of main characteristics of management approaches MBI, MBO and MBV; research of core management values underlining business behavior and corporate culture in Russian companies, as well as study of limits for the application of MBV approach in Russia.

Keywords: Management Approach, Management by Values, Corporate Values, Organizational Changes, Culture, Russia

Introduction

Russia has been chosen as an object for studying the contemporary issues of modern management practices in emerging markets for a variety of reasons. Russia is one of the largest countries in the world in terms of land mass (17,080,000 km²), population (145 million), and GDP (1.9 trillion USD). In addition it is very rich in natural resources, and possess a very well-educated and low cost labor force (Fey, Opening the Black Box of Motivation: A Cross-Cultural Comparison of Sweden and Russia 2005). However, despite a century's long history of achievement, Russia has not reached its economic potential in the modern sense. Russia currently ranks 66th in terms of quality of life (Economist Intelligence Unit, The Economist n.d.), 130th in investment climate (U. S. Department of State n.d.), and the 143th place in terms of economic freedom (The Heritage Foundation n.d.) making it one of the "mostly unfree economies" in the worlds. With regard to global enterprises, of the top hundred largest companies in the world are only three Russian, Gazprom (15th) and Rosneft (56th) from the oil and gas industry, and Sberbank of Russia - ranking 73rd in the banking and finance sector (Fortune, CNN Money n.d.).

Improving Russia's economic position on the world stage largely depends on the organizational changes, improved effectiveness of corporate governance and the adoption of modern approaches to management by Russian enterprises. Recent research has discovered that the majority of Russian top-managers (98%) want to operate effectively in Russia, but at the same time very few of them (7% of respondents) are familiar with new management approaches (Вестник McKinsey 2008).

Enterprises in the majority of Russian industries report ongoing and growing shortage of qualified staff (26% of CEOs stated reported staffing problems December 2011, while in December 2010 the number was 23%) (Статистические сборники, НИУ – Высшая школа экономики 2012).

In addition to the difficulty of finding the right number and kinds of talent' operational managers face two kinds of additional problems. First, clashes between the interests of first generation entrepreneurs and hired managers and restive shareholders. And secondly the lack of professionals to staff the wide range of technical business assignments required to compete in the

global market. The majority of Russian businesses are led by their founders and, as a consequence, business-processes are very much oriented on personal qualities and working style of the founder. As such, many of business practices of these firms are idiosyncratic and difficult to integrate across the network of partners, suppliers, and distributors characterize advanced economic systems (Газин 2003).

Very importantly, the authoritative management style (Theory x) that was once the hallmark of Western industrial capitalism, is still highly prevalent in Russia, where executives suppress subordinates' engagement and as a consequence diminish employee personal investment in the success of the enterprise (Байэр 2005).

The process of forming a new type of top-managers - transformational leaders has progressed very slowly in Russia. Russian top-managers can be characterized in a way as: «constructors, not managers», for them «a much more attractive prospect (than adopting new management techniques) ... would be the usage of the enormous financial and administrative resources for penetrating into new, undeveloped spheres of business» (Газин 2003). Nonetheless, recent evidence suggests that experimentation is taking place in a number of small - size businesses, especially those in the innovative technology sector.

In this connection there is a great need in the research of modern management approaches aimed at increasing efficiency and effectiveness of corporate governance in Russia. The article highlights the results of the first stage of a new project «Monitoring of Management' Approaches in Russian companies» conducted by National Research University - Higher School of Economics (Moscow, Russia) aimed at monitoring management approaches and major set of corporate values in Russia. Influence of Russian cultural peculiarities upon implementation of modern conceptual management approaches in Russia is under analysis.

Global Organizational Tendencies

Studying the peculiarities of the contemporary economic landscape, formed during the past decade, we have identified four global key organizational tendencies specific for that period. They are:

- The tendency towards high quality goods and services and enhancement of customer satisfaction (Powell 1995; Stewart and Juran 1999; Greenwood and Uysal 2005, etc.);
- Tendency of formation of a new type of «strategic leaders», i.e. transformation of managers into leaders and coordinators vs. bureaucratic administrators (Elenkov, Judge and Wright 2005; House, Hanges and Javidan 2004; Hitt, Keats and DeMarie 1998; Vera and Crossan 2004, etc.);
- The tendency towards autonomy and professional responsibility (Байэр 2005; Coeckelbergh 2006; Hoecht and Trott 2006, etc.);
- The tendency towards teamwork and networking (Cohen and Mohrman 1995; Salas, Bowers and (eds) 2002, etc.).

The companies, which nowadays want to be successful in the conditions of increasing competition on the global market, are now beginning to reject early 20th century industrial models of management. Manufacturing of large batches of homogeneous standardized production has become outdated and inefficient. Modern competition requires sustainability of added value to the production process in order to meet client's satisfaction in terms of the ratio between the price of the product or service and its quality. This tendency is represented by personalization, which acts as a key factor of competition in the new economic landscape (Powell 1995; Stewart and Juran 1999; Greenwood and Uysal 2005).

The increasing requirement for initiative and responsibility of employees causes a tendency of transformation of managers into leaders and coordinators. Initiative and independence of employees is not possible without leaders who assume responsibility for organizing all working processes effectively. Top managers are becoming coordinators of their personal success and success of their colleagues.

A set of concepts of modern leadership developed over the past four decades in prosperous economies, converges into one core point: the leader should inspire his/her employees, direct their efforts, form and unite teams of professionals. Leaders use the values aimed at engagement of employees in the working process, continuous learning, creativity, mutual trust, and fidelity. It would be desirable to notice that instructions are a managerial tool of managers, and formation of goals and tasks are tools of coordinators (Elenkov, Judge and Wright 2005; House, Hanges and Javidan 2004; Hitt, Keats and DeMarie 1998; Vera and Crossan 2004).

The emergence of new informational space and development of cognitively demanding technologies show the increased requirements to the level of workers' professionalism. A new paradigm of "a talented professional employee", is replacing the old one - "hired passive, non-initiative worker". Professionals are distinguished by their ability to formulate their values and transform into creative working processes. Employees at this level want to be treated as self-sufficient people and they want their work to be recognized as both personal and organizational achievements. In this case independence is an indispensable condition for execution of responsibility for the performed work. The employee, who is unable to work independently, cannot be considered as a real professional, he or she can only be an executor, dependent on his superior's instructions (Байер 2005; Coeckelbergh 2006; Hoecht and Trott 2006).

Multilevel bureaucratic structures with hierarchical levels do not offer sufficient flexibility for successful competition in the conditions of dynamic global market. Reduction in number of hierarchical levels, by reducing transaction costs and bureaucratic delays, is often cited as a contemporary management practice leading to improved organizational efficiency. Simpler, flatter corporate structures coupled with effective working teams have consistently been demonstrated to improve organizational performance (Cohen and Mohrman 1995; Salas, Bowers and (eds) 2002). In this case favorable conditions for employees' initiative are created being an extremely important prerequisite for the formation of competitive advantages of the company (Hoegl, Weinkauff and Gemuenden 2004).

Thus, Russian firm entry into the global market economy requires new organizational structures based on information networks, project teams and «mini – businesses» capable to adapt to constant changes. Nowadays the ability to adapt to the conditions of high level of uncertainty is the obligatory requirement for participation in organizational life. It can be considered as the key competence for personal and professional development.

Evolution of Management Concepts

As a consequence of interaction of the key organizational tendencies there is an evolution of concepts of management (fig. 1). Using the approach of Dolan, Garcia and Richley (2006) we can distinguish three distinct phases - Management by Instructions (MBI), Management by Objectives (MBO) and Management by Values (MBV) (Dolan, Garcia and Richley, *Managing by Values: A Corporate Guide to Living, Being Alive, and Making a Living in the 21st Century* 2006).

As we can see in Figure 1, for the beginning of the 20th century the traditional management approach was Management by Instructions. It was effective for stable markets where there was little necessity of adaptation to environment changes and uncertainty. The goal of the organization was reduced to manufacturing and stability maintenance. The management philosophy was led by the «top - down» principle, with a rigid subordination and direct activity control. The basic characteristics of the given approach are stated in Table 1.

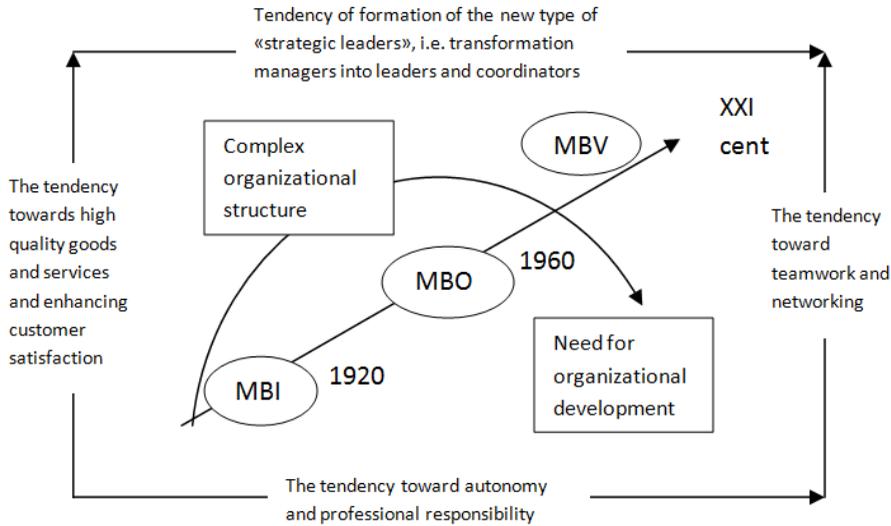


Fig. 1: The evolution of management concepts

The necessity to adjust to the moderately volatile market and prompt changes occurring in 1960's, codified in the work of Peter Drucker, led to the appearance of the new management approach "Management by Objectives", allowing managers to choose operational strategy independently with continuous monitoring and promotion of personal achievements. In terms of the given approach the ability of the organization to adapt to uncertainty of the environment raises, the emphasis is placed on control of variance for a formal plan and encouragement of personal achievements, and the purpose of the organization activity is adjusted to results improvement (Tab. 1).

Table 1: Main characteristics of management approaches MBI, MBO, and MBV

Characteristics	MBI	MBO	MBV
Type of market	Stable	Moderately volatile	Unpredictable, dynamic
Adaptation to uncertainty	Low	Medium	High
Philosophy of management	Top-down management, direct activity control	Continuous monitoring and promotion of personal achievement	Promoting independence
The goal of the organization	Support the production	Improve results	Continuously improve the process

The influence of technological innovations and global competition at the beginning of the 21st century has led to the formation of new management approach - Management by Values being based on comprehension of the company's values. Under this model it is argued that the system of values unique to the firm differentiates the organization, influences the behavior of individual workers, fosters a style of leadership, and facilitates organizational change and company development (Collins and Porras 1991; Schwartz 2009).

Thirty years ago the management approach that was based on values was considered as «too weak and unstable». Today it becomes a basis of the organizational strategy. Dolan, Garcia, and

Richley argue that the «Management by values» concept is not only a philosophy, but a management practice as well, because this approach combines both the major values of the company, and its strategic objectives (Dolan, Garcia and Richley, *Managing by Values: A Corporate Guide to Living, Being Alive, and Making a Living in the 21st Century* 2006).

In the process of management concepts evolution from MBI to MBO and towards MBV we can observe the main transformation of the organizational values' set (Table 2): from quantitative production, loyalty to the company, conformity and discipline, specific for the MBI concept, to an estimation of individual results, rationalization, motivation and efficiency (MBO), and then towards orientation of employees' involvement in the process, continuous learning, creativity, mutual trust and fidelity.

Table 2: Comparative characteristics of management approaches MBI, MBO, and MBV

Characteristics	MBI	MBO	MBV
Scale of the strategic vision	Short-term	Medium - term	Long - term
Type of organizational structure	Multi-level pyramid	Pyramid with several levels	Networks, project teams and functional association
The need for initiative and responsibility	Low	Medium	High
Type of leader	Traditional	Focused on resource allocation	Transformational leadership
Level of staff professionalism	Performers	Staff	Professionals
Main values	Quantitative production, loyalty, conformism, discipline.	Evaluation individual results, rationalization, motivation, efficiency.	Employee participation in the process, continuous learning, creativity, trust, fidelity.

So, throughout the 20-th century the evolution of conceptual management approaches took place from «Management by Instructions» towards «Management by Values». Each of them was effective for a specific market type with the required level of adaptation to the environment changes and the image of the client.

Thus, having considered the theoretical part of this study we can highlight the benefits of the modern management concept «Management by values», corresponding to the best contemporary requirements for the unpredictable dynamic market, the long-term strategy, the need for effective leadership, contributing to the processes of change and the use of a high level of professionalism of the employees, their initiatives and responsibility. In this regard, we hypothesize the priority of using modern management concept “Management by values” in Russia.

Corporate Values Research in Russian Companies

Research of the corporate values and main organizational tendencies in Russia was carried out during the years 2007–2010. As a core research strategy we have used a combination of quantitative and qualitative methods.

Quantitative analysis has been conducted through a survey of 130 top - and middle level managers participating in the EMBA program as students of the main Russian business schools in Moscow and Siberia (Moscow State University of Management and Moscow State University of Lomonosov, Baikal State University of Economics and Law). The respondents were

comprised of independent business owners (40 %) and senior managers (60%) of large and medium business companies (124 different companies) from 12 different industries. The structure of respondents is given in table 3. The average age of respondents is 39 years.

Table 3: Structure of respondents participating in the survey 2007–2010

Industries	Moscow		Siberia	
	owners/ managers		owners/ managers	
1. Manufacture of machinery and equipment	4	8	2	-
2. Metallurgical production	3	3	1	-
3. Gas & Petroleum production	1	5	-	4
4. Wood finishing	3	5	3	-
5. Energy production and distribution	3	6	2	3
6. Pulp and paper industry	1	3	-	2
7. Food production and distribution	7	6	3	-
8. Telecommunications	2	4	1	2
9. Transport	1	2	-	1
10. Banking and financial sector	2	7	1	3
11. Real estate and juridical services	4	4	1	2
12. Tourism	5	6	2	2
Total	36	59	16	19

Qualitative data was collected via interviews with owners and top-managers (20 in-depth interviews), direct observation and analysis of company legal documents.

In the framework of the survey senior managers were first asked to identify *five* major values, which they *want to be shared* in their companies and rank them on the basis of their strive for forming strong corporate culture. Results of the conducted survey are presented in Table 4.

Table 4: Range of major desirable values viewed by Russian managers

Values	Moscow	Siberia	Total	Range
1. Quantitative production	30	14	44	7
2. Appreciation of individual results	29	12	41	8
3. Employees' participation in the process	49	12	61	4
4. Loyalty	66	12	78	2
5. Discipline	35	13	48	6
6. Rationalization	14	12	26	12
7. Conformism	5	4	9	13
8. Motivation	51	24	75	3
9. Efficiency	23	12	35	10
10. Continuous learning	19	13	32	11
11. Trust	90	22	112	1
12. Fidelity	24	12	36	9
13. Creativity	40	13	53	5

The main values in which the respondents strongly believe desirable by order of importance are: trust, loyalty, motivation, employees' participation in the process and creativity. All these

values are very much in line with modern conceptual management approach «Management by values». But these are «desirable values» of Russian top managers.

The second step of this research was the analysis of existing corporate values actually experienced by participants in the study. In other words, Phase I identified desired values and Phase II indentured actual/experienced values in Russian companies. Data was again collected via in-depth interviews and surveys. The executives reported the *five existing corporate values* in their companies. The results are presented in Table 5.

Table 5: Major existing corporate values in Russia

Values	Moscow Siberia		Total	Range
1. Quantitative production	71	53	124	1
2. Appreciation of individual results	6	2	8	12
3. Employees' participation in the process	7	5	12	11
4. Loyalty	62	4	66	4
5. Discipline	96	19	115	2
6. Rationalization	29	20	49	6
7. Conformism	35	9	44	7
8. Motivation	54	27	81	3
9. Efficiency	33	19	52	5
10. Continuous learning	2	3	5	13
11. Trust	36	2	38	8
12. Fidelity	21	11	32	9
13. Creativity	23	1	24	10

"Quantitative production" is the leader in this list, being considered by the majority of respondents as the main existing corporate value, then goes discipline (2) and motivation (3), followed by loyalty (4) and efficiency (5). These results are very different in comparison with data presented in Table 4 and are mostly in line with management approach "Management by Instructions" based on quantitative production, loyalty, discipline, and conformity. Some of the shared values such as motivation (3) and efficiency (5) testify introduction of approach "Management by Results". In other words, there is a gap between desirable and existing corporate values in Russia (table 6).

The biggest gap between desirable and existing corporate values in Russia are in trust (-7), employee participation in the process (-7), creativity (-5) and appreciation of individual results (-4). These are the core values of MBV management approach, which are missing in Russian corporate culture.

Prevalence of existing corporate values in quantitative production (+6), conformism (+6), rationalization (+6) and strict discipline (+4) - all these are peculiar for the Russian corporate culture and strictly in line with the conceptual approach «Management by instructions». However, this approach was effective in the first half of the XX century and does not meet the requirements of dynamically changing environment nowadays.

Table 6: Comparison of existing and desirable corporate values in Russia

Values	Desirable values range	Existing values range	Distance
1. Quantitative production	7	1	+6
2. Appreciation of individual results	8	12	-4
3. Employees' participation in the process	4	11	-7
4. Loyalty	2	4	-2
5. Discipline	6	2	+4
6. Rationalization	12	6	+6
7. Conformism	13	7	+6
8. Motivation	3	3	0
9. Efficiency	10	5	+5
10. Continuous learning	11	13	-2
11. Trust	1	8	-7
12. Fidelity	9	9	0
13. Creativity	5	10	-5

Limits of the Application of Management by Value Approach in Russia

The theoretical basis of our research is focused on the evolution of conceptual management approaches from Management by Instructions towards Management by Values. Contemporary management research clearly shows the advantages of modern corporate governance concept that is based on a system of shared values between the owners and employees of the companies. In this study we investigate the current status of the Management by Values approach in Russia. The influence of Russian cultural peculiarities is under analysis and is considered as limits upon implementation of modern conceptual management approaches in Russia.

The importance of culture in contemporary research is undeniable. «Culture - solves everything!» according to Harrison and Huntington, (2000). It is nowadays a study subject of many different research groups. The pluralism of opinions on this issue testifies the relevance of research topics, its demand, and necessity of the further study.

Many researches of culture influence on management being conducted by G. Hofstede, G. Triandis, F. Trompenaars, Ch. Hampden – Turner, S. Schneider, J. – L. Barsou, etc. during the last 20 years allow to distinguish the most significant cultural dimensions influencing the model of corporate governance and corporate culture formation (Hampden – Turner and Trompenaars 2004) (Harrison and Huntington. 2000) (Hofstede, Culture’s Consequences: Comparing Values, Behaviors, Institutions, and Organizations Across Nations 2001) (House, Hanges and Javidan 2004).

Among them G. Hofstede's cultural dimensions approach is the most popular theory in Russia and has the greatest prevalence. G. Hofstede identifies five main dimensions to characterize a country’s dominant value systems affecting human thinking, feeling, and action in a predictable way within an organization. His concept includes such dimensions as power distance (PD), individualism – collectivism (IDV), uncertainty avoidance (UA), masculinity - femininity (MAS) and relation to time (short-term – long-term orientation - LTO).

Power Distance index is defined as the distance in social status or power. This represents inequality, but is defined from below rather than from above. It suggests that a society’s level of inequality is endorsed by the followers as much as the leaders. The Power Index shows readiness in a society to admit the distinctions connected with the power and the rights. It shows, what degree of an inequality between people is perceived as norm in a society: from relative equality

where the index of a distance of the power aspires to zero, to an extreme inequality where value of the given indicator comes nearer to hundred (table 7).

For comparison, level of Power Distance Index in the USA – 40, in the Great Britain is equal 35, in in Germany – 35, Austria – 11, which means 3 to 8,5 times less as compared with Russia (PI = 93). In BRIC countries Russia have also the highest score of PD Index (China – 80, India – 77, Brazil – 69).

Table 7: Cultural dimension score according to G. Hofstede (2012)

Country	Individualism	Power Distance	Uncertainty avoidance	Masculinity/ femininity	Long-term orientations
Russia	39	93	95	36	10
China	20	80	30	66	118
India	48	77	40	56	61
Brazil	38	69	76	49	65
USA	91	40	46	62	29
UK	89	35	35	66	25
France	71	68	86	43	40
Germany	67	35	65	66	31

High index of “Power Distance” in Russia implies a high hierarchy and authority, rigid chain of command, lack of initiative and insufficient level of entrepreneurship among employees. Staff of the Russian companies do not express openly disagreement with the managers’ decision, 86 % of the Russian employees consider the management style of their boss as authoritative; subordinates are afraid to show the initiative and prefer to leave the final decision of the major problems to the boss (Guseva, Efficient Management of Multicultural Teams: Methodological and Applied Aspects 2004).

The second cultural dimension *Individualism-Collectivism* measures the degree to which a country’s citizens learn to act as individuals rather than as members of a cohesive group. It reflects the extent to which people emphasize personal goals over those of a wider group. The issue addressed by this dimension is an extremely fundamental one, regarding all societies in the world. On the individualist side we find societies in which the ties between individuals are loose: everyone is expected to look after her/himself and her/his immediate family. On the collectivist side, we find societies in which people from birth onwards are integrated into strong, cohesive groups, often extended families (with uncles, aunts and grandparents) which continue protecting them in exchange for unquestioning loyalty.

Russia have bottom third level of IDV score = 39, comparable with Brazil score (IDV = 38), twice as high as in China (IDV = 20) and significantly lower in comparison with developed countries like USA, France and the UK. It characterizes collectivistic set of mind with high level of loyalty to company, conformism, discipline and lack of creativity and employees initiatives.

The third cultural dimension is *Uncertainty avoidance* and it shows the way a given culture adapts to various situations, specifically, its tolerance to uncertainties and ambiguity. It indicates to what extent culture ‘programs’ human beings feel either comfortable or uncomfortable in unstructured situations. Uncertainty-avoiding cultures try to minimize the possibility of such situations by means of implementation of strict laws and rules, safety and security measures, and on the philosophical and religious level with the belief in absolute truth. Index of UA explains the choice of strategy of employees’ participation in organizational changes and development. Low level of UA, implies the possibility of using democratic strategy and active employees involvement in organizational changes. Such society is the most dynamic and relations between people can be characterized as «everything curious is perfect».

In Russia the index of uncertainty avoidance equals 95 that testify high level of “changes resistance”. Society with high uncertainty avoidance index is rigid, people tend to big stresses and expenses of nervous energy in unstable situations, and there is no desire to work in constantly changing environment. Thus, the Russians prefer stable situations and tend to avoid

organizational change and development, which are typical for most countries in Western Europe, USA and BRIC countries (China = 30, India = 40).

Besides, there is another important dimension of the national culture rendering a great influence on management approach – *Exogenous – Endogenous Motivation*, proposed by Trompenaars and Hampden – Turner (Hampden – Turner and Trompenaars 2004). The force of the endogenous motivation is concentrated in the person and it is necessary to force the world to accept it. With exogenous motivations force is considered to be in the nature, therefore it is necessary «to tame the nature or to adapt to it». In other words, endogenous motivation is based on consciousness and personal belief, and exogenous motivation – on examples and the influence going from outside.

The presence of exogenous motivation, typical for the Russians, causes them to expect constant control «from outside» i.e. from a manager or a superior, very often authoritarian, where the force of example is of great importance (Guseva, *Efficient Management of Multicultural Teams: Methodological and Applied Aspects* 2004; Gousseva 2005; Guseva, *Elements of Strategy of French – Russian Efficient Cooperation: Cross-Cultural Approach* 2011).

Thus, the influence of national culture research supports the hypothesis of limitations of Management by Values approach application in Russia and determines the Russian current reality of the rigid authoritative approach based on exact subordination, execution of instructions and desire of employees to be in clear stable situations which is typical characteristic for the approach «Management by Instructions».

Conclusion

From our point of view the MBV approach could be considered as a vector of management development for Russian companies, that is based on formation of core corporate values, such as - participation and involvement of everyone in the process; transformational leadership; continuous learning; motivation system is based on correlation between remuneration and results of performance; both honesty and fearlessness forming the base of trust and effective interaction; promotion of survival or prosperity of company in the global market. The introduction of corporate management system based on “Management by Values” approach is a management concept of the 21st century, and should be viewed as a source of competitive advantage in emerging markets.

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ABOUT THE AUTHOR

Prof. Natalia Guseva: Natalia Guseva is a professor and the Head of International Relations in the Department of Management at National Research University Higher School of Economics, Moscow, Russia. She is also Director of the programme «Doing Business in Russia» and Head of International Accreditation Project EPAS. She received Ph.D. degrees in Management and Sociological Sciences from the University Paris – Dauphine, (Paris, France) and St. Petersburg University of Economics and Finance (St. Petersburg, Russia). She teaches courses in management, cross-cultural management, project – management, organizational behavior and negotiations. N. Guseva is a member of Associations of International Business; Russian Association of Business Education and Association “Cercle Kondratieff”. She is the author of more than 95 publications. Her main research interests are focused on modern management tendencies, organizational changes, corporate cultures and cross-cultural management including multicultural team management, motivation and negotiation process.

