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**UNLEASHING RUSSIAN EMPLOYEES' POTENTIAL: THE IMPORTANCE
OF CULTURALLY-ADAPTED ORGANIZATIONAL CULTURES**

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ABSTRACT

This study investigates the types of organizational cultures which are effective for local firms operating in Russia and the extent to which these effective organizational cultures differ from those which would be effective in the USA where much management theory, now applied in Russia, has been developed. The study uncovers significant differences suggesting that organizational culture theory is highly dependent on national context and should be generalized with caution. Specifically, this study suggests that it is important to consider the characteristics of Russia's national culture as well as its history when developing organizational cultural theory. Based on four in-depth case studies, the study discovers that effective organizational cultures in Russia focus on providing social benefits, creating job security, using groups, conveying the company's mission and strategy, and creating an organizational culture that views change as an opportunity rather than a threat. Further, the study suggests that in order for firms to be successful in Russia they need to create innovations. Such innovations are more likely to occur in firms with flexible structures, little bureaucracy, and stable environment inside the firm (e.g., job security).

Key Words:

Organizational Culture

Russia

UNLEASHING RUSSIAN EMPLOYEES' POTENTIAL: THE IMPORTANCE OF CULTURALLY-ADAPTED ORGANIZATIONAL CULTURES

INTRODUCTION AND BACKGROUND

The relationship between culture and the functioning of various types of social organizations has been a topic of interest for over 50 years (e.g., Weber, 1930; Mead, 1934; Radcliffe-Brown, 1952). Starting primarily in the 1980s, business scholars have begun to investigate this issue (e.g., Wilkins and Ouchi, 1983; Barney, 1986). Despite this relatively long history, however, relatively little progress has been made in developing theory and research (Denison and Mishra, 1995). Further, most organizational culture research has been conducted in the USA and, as a result, little is known about how results may vary by national culture. This US bias in the research is somewhat surprising since organizational culture is known to interact strongly with national culture and thus different results in different national settings are to be expected (Adler, 1991). Needed, then, is research on the relationship between organizational culture and effectiveness in non-US contexts. To help fill this gap, this study will investigate the types of organizational culture that are effective for local firms operating in Russia, a context arguably quite different from the USA. Besides assisting in developing an understanding of how firms should be designed to have the best chance of operating effectively in Russia, this study provides important input in answering the question of the generalizability of cultural theory which was developed based on US data to other geographic contexts.

Russia is undergoing a period of unprecedented transition as it changes to a market economy. Though many Russian firms, old and new alike, have been unable to make this transition successfully, some Russian firms have been extremely successful. Many managers in Russia have suggested that learning to create an appropriate organizational culture is one of the key challenges that they face (Fey, Nordahl, and Zätterström, 1999). With so many changes occurring, it is not surprising that it is important but difficult to develop an organizational culture conducive to a modern market economy while at the same time incorporating Russian traditions such that the Russian workforce is harnessed to its full potential. Thus, obtaining a better understanding of the relationship between organizational culture and its effectiveness in Russia is of importance to business scholars and practicing

managers alike. In order to provide a foundation to accomplish this task, we first briefly summarize the state of the organizational culture field.

ORGANIZATIONAL CULTURE

Organizational culture deals with organization members' basic values, beliefs, and assumptions and the behavior that results from them. Organizational culture research has its roots in both the symbolic interactionist perspective (Blumer, 1969; Mead, 1934; Cooley, 1922) and the social-anthropological perspective (Levi-Strauss, 1963; Kluckhohn and Strodtbeck, 1961). It has been argued that perception is more important than reality since people generally base their actions on their perceptions. In the case of organizational culture, many researchers (e.g., Berger and Luckmann, 1966) consider that reality is socially constructed. Myths (Eliade, 1959), archetypes (Mitroff, 1984), and stories (Starbuck, 1982) help individuals to develop their socially constructed organizational cultural reality. A sizable amount of the organizational culture literature consists of ethnographic texts, for example, those by Jaques (1951), Dalton (1959), Schein (1985), or Kunda (1992). However, many articles on organizational culture have also made important contributions to the literature. The earliest is Whyte's (1949) classic article which analyzed the social structure of a restaurant. Whyte's paper considered interaction patterns that occur between organizational members of different gender, status, and occupation. Other important articles on organizational culture include Smirich and Calas (1987); Martin, Sitkin, and Boehm (1985); Rosen (1985); Barney (1986); Trice and Beyer (1984); and Geertz (1971). Of course many other organizational culture studies have contributed to the literature.

Although the organizational culture literature is quite diverse, several topics that have received considerable attention deserve special mention. These include the use of stories to convey an organization's values (Martin and Powers, 1983; Martin, 1982; Wilkins, 1978), the socialization process by which new organization members come to understand the organization's culture (Schein, 1985; Trice and Beyer, 1984; Sathe, 1983; Siehl and Martin, 1981; Van Maanen, 1977), and the management of culture (Deal and Kennedy, 1982; Peters and Waterman, 1982; Starbuck, 1982). How best to study culture has received much attention. Several authors have critiqued survey methodologies which are used often in organizational research (Louis, 1981; Martin, 1981; Argyris, 1980; Pettigrew, 1979). Other authors have focused their

attention on advocating the use of ethnographic or anthropological approaches to the study of organizational culture (Jones, 1988; Garfinkel, 1967; White, 1949). Finally, the link between certain types of organizational culture and performance has been investigated (see next paragraph).

It is also worth noting that while the connection between organizational culture and firm performance has a long history, most of the current literature can be traced back to the early 1980s. Deal and Kennedy (1982) and Peters and Waterman (1982) brought this topic to attention and created an interest in the topic that is still visible today. Peters and Waterman (1982), despite being vague in scholarly terms, were particularly influential due to their early publication which popularized the concept to managers. Deal and Kennedy (1982) also contributed to the field by discussing the issue of change and the importance of having a "strong" culture over time. Kotter and Heskett (1992) expanded on earlier work by further exploring the importance of the "fit" between an organization and its environment. Recognizing that "fit" is essentially a static concept, they also went a step further by introducing the issue of adaptability as an essential characteristic of a performance-enhancing organizational culture. In a sense, they restated Deal and Kennedy's (1982) point of view, adding a dynamic component to the argument.

Denison (Denison 1984, 1990; Denison and Mishra 1995) moved the field one step further by developing an explicit model of organizational culture and effectiveness and a valid method to measure organizational culture. Denison and Mishra (1995) tested the model by having top executives in 764 organizations complete a survey assessing their firms' organizational cultures. These organizational culture data on Denison and Mishra's four dimensions (adaptability, mission, consistency, and involvement) were then compared to a set of effectiveness measures. Their results supported the idea that different cultural traits are related to different criteria of effectiveness. For example, this research found that the stability traits of mission and consistency were the best predictors of profitability, while the flexibility traits of involvement and adaptability best predicted sales growth in the USA.

Our current study advances previous research by investigating the characteristics of organizational culture that are effective in a setting outside the USA. Russia was chosen since it is arguably quite different from the USA. Understanding if similar relationships to those discovered in the USA are observable in Russia is

important for increasing our understanding of the generalizability of US-based theories. Adler (1991) and many others have indicated the importance of such a line of research.

Because several key debates characterize the organizational culture literature, often arguments between proponents of the different perspectives have hampered the advancement of the field. One important debate has been between those scholars favoring a phenomenological approach and those favoring a functionalist approach. The phenomenological perspective emphasizes the emergent nature of organizational culture in contrast to the functionalist approach which emphasizes the contribution of purposeful action which creates an organization's culture. Following the lead of Giddens (1979) and Riley (1983), this study considers both approaches to play an important role in developing an organizational culture. Thus, we propose that although constraints limit the type of organizational culture that can be created, through hard work over time managers have the possibility of making some changes to their organizational cultures.

RUSSIAN NATIONAL CULTURE

We use analysis of Russia's national culture to develop several hypotheses about the types of organizational cultures that are likely to be effective in Russia. Adjusting organizational cultures to meet national preferences is important since as Bollinger (1994, p. 49) describes, "Every society generates its own cultural values. It creates its own vision of the world to explain man's destiny, and organizations and management systems compatible with that vision."

Hofstede's (1980) framework, which was developed based on IBM employees world-wide, provides a useful starting point to characterize Russia's national culture. Hofstede's model identifies four important traits on which national cultures often differ:

Power distance is an indication of the extent to which less-powerful people in a society or organization accept that power is distributed unequally. For instance, in a country with low power distance, one may think all inhabitants should have equal rights.

Uncertainty avoidance is an indication of the extent to which society feels threatened by uncertain and ambiguous situations and tries to avoid these by providing greater career stability, establishing more formal rules, etc.

Individualism describes the relationship between an individual and society. Individualism implies a loosely knit social framework in which people are supposed to take care of themselves and of their immediate families only. A low individualism score implies a preference for collectivism and pressures for acting like other people.

Masculinity is the extent to which people feel that they can control their destiny. A low masculinity score implies that people feel that they have little control over what will happen to them.

Russia was not included in Hofstede’s original (1980) study. However, Elenkov (1997) has subsequently measured Hofstede’s dimensions in Russia. In the current study, these results are compared to Hofstede’s results for the USA since much of current management theory was developed in the USA and thus has a US cultural bias (see table below). Further, it should be mentioned that each of Hofstede’s traits was measured on a 100 point scale where 100 indicates the trait is highly typical of the culture and 0 indicates the trait is not at all typical.

| | Elenkov Russia | Hofstede USA |
|-----------------------|-------------------|-----------------|
| Individualism | 40 | 91 |
| Uncertainty Avoidance | 87 | 46 |
| Masculinity | 50 | 62 |
| Power Distance | 89 | 40 |

Given the history of totalitarianism and tight control in Russia, it is not surprising to see that Russia scored high on the power distance index. For several hundred years Russians have been used to a strong regime. Prior to Communism, the czars had exercised tight control. Russians also scored high on uncertainty avoidance explaining perhaps why a Communist system was attractive to many Russians. Bollinger (1994, p.50) states that “*Russian executives display a high level of anxiety about the future which manifests itself in a tendency to be nervous, emotional and aggressive.*” This anxiety was also mentioned in interviews for the current study. Further, it is well-known that the basic building block of Communist society was the group. Thus, it is not surprising that after many years of Communism, Russians continue to score low on individualism. Finally, after living for many years in a society where one had little ability to influence one’s future, it is not surprising that Russians continue this inclination and thus score relatively low on Hofstede’s masculinity dimension.

It is important to complement our understanding of a culture obtained via indices which facilitate cross-national comparison with a more qualitative understanding which is not confined to the limits of indices. One author of this article is Russian and the other is American. Both authors have lived in their co-authors' countries for more than one year. Thus, hopefully we can shed some light on Russian culture, and how it differs from American culture the context in which much management theory has been developed. For a Westerner, a striking aspect of Russian culture is the extremely important role that family continues to play for Russians throughout their adult life. For example, it is very common that three generations of Russians live in one apartment. In contrast, in the USA and most Western societies, by sometime in their early to mid 20s children begin to live fairly independently. The economic situations in Russia undoubtedly plays a role in explaining the above-mentioned difference. However, the explanation goes beyond economic differences. Living arrangements are symbolic of the relatively larger role (compared to the USA) that Russian parents continue to play in their adult children's lives even if their adult children live independently (Naumov, 1996). It is, for example, insightful to note that it is possible to find young Russian married couples living in their parent's apartment and owning a nice car and a mobile phone. In fact, having a nice dwelling does not appear to play as large a role in Russia as in the West since it is possible to find families of four living in an average two-room apartment in a not-so good location which could cost about \$20,000 to buy and owning a \$30,000 sport-utility vehicle and the most modern mobile phone (both popular status symbols in Russia). In interpreting Russian family relations it is also important to recall that it has often been noted that Russian culture has traditionally emphasized values of solidarity, close personal relationships, and care for the weak (Conner, 1991). Thus, Americans are more individualistic than Russians.

Russians and Americans also have very different concepts of time. Americans tend to be very punctual while it is socially acceptable for Russians to be late (perhaps because of the many legitimate obstacles that can arise in everyday life in Russia). In addition, time equals money in the USA, but generally other resources are more carefully evaluated in making decisions in Russia.

The importance that political influence, informal arrangements, and personal connections have played in Russia should also not be forgotten (Elenkov, 1997; Lawrence and Vlachoutsicos, 1990). It should also be noted that Russians are very

hospitable and resourceful (Kliuchevskii, 1990). In addition, Russians tend to be extraverts and easy to get to know (Diligenskii, 1996). It is also important to note that Russians tend to place a high value on established social norms (Puffer, 1994; Holt, *et al*, 1993). Russians are often very influenced by feelings. This tendency can be seen by, for example, many Russian's devotion to cosmology. This tendency may be explainable by the difficulty to obtain reliable data which is needed for rational planning in Russia and the fact that traditionally political issues have weighed stronger than rational analysis in making many decisions in Russia.

THE RUSSIAN CONTEXT

Russia's transformation to a market economy has not been easy. In 1994-1995 the annual inflation rate was 100-200% per year. In 1997 inflation declined to 10% but quickly increased to 50-80% due to the August 1998 financial crisis (RECEP 1998; 1999). GDP has continued to decline throughout the 1990s. Official unemployment has doubled to 18% since the financial crisis. Until the most recent crisis, exchange rates had stabilized, varying less than 10% during 1996-1997. However, in 1998 the ruble was devalued again (RECEP, 1999). Foreign direct investment has been allowed in Russia since 1987, and since 1991 wholly-owned foreign firms have been legal in Russia. Despite this change in policy, foreign direct investment in Russia has remained fairly modest at about \$47 per person (BISNIS, 1997).

With vast natural resources, a well-educated and inexpensive labor force, and 150 million people, Russia has attracted many foreign firms. Nonetheless, doing business in Russia can be very risky. Risks include factors such as organized crime, intractable bureaucracy, uncertain legislation, an arbitrary tax system, and an unstable political and economic system. These environmental factors are characteristics of the market place and are difficult for any single company to influence. In contrast, this paper seeks to examine the influence of enterprise factors such as organizational culture on the success of foreign firms operating in Russia.

Because previous management research conducted in Russia has not explicitly focused on the relationship between organizational culture and effectiveness, the remainder of this section reviews some of the more important Russian management studies to provides a useful background for the current study. The most extensive study on comparative US-Russian management practices is Lawrence and

Vlachoutsicos' (1990) book *Behind Factory Walls* and two related articles (Lawrence & Vlachoutsicos, 1993; Vlachoutsicos & Lawrence, 1990). Their project was based on data collected by the Harvard research team and their Russian colleagues at four US and four Russian electronic and truck factories. The study provided several powerful insights into managerial decision making in Russia, but their focus on case studies places limits on the generality of their findings.

A second influential stream of Russian management research is that done by Luthans and his colleagues at the Tver Cotton Mill. Luthans, Welsch, and Rosenkratz (1993) systematically observed the activities of 66 Russian managers. Welsch, Luthans, and Sommer (1993) tested several human resource management theories developed in the USA and found that extrinsic rewards and behavioral management increased worker performance, but that participative techniques resulted in decreased performance.

Puffer has also made several important contributions to the Russian management literature. She has investigated issues such as compensation (Puffer, 1993a, 1997), differences between Russian and US business ethics (Puffer & McCarthy, 1995), Russian business leaders (Puffer, 1994), and Russian managerial motivation (Puffer, 1993b). Her work has included both qualitative case studies and quantitative surveys such as her 1997 comparison of the preferences of Russian and American managers for allocating rewards.

Another significant contribution to the Russian management literature comes from a recent series of studies of the restructuring of Russian firms following privatization. These studies (Buck, Filatotchev, & Wright, 1998; Filatotchev, Buck, & Wright, 1993; Filatotchev, Hoskisson, Buck, & Wright, 1996; Wright, Hoskisson, Filatotchev, & Buck, 1998) have benefitted from several large-sample surveys, rare to find and difficult to conduct in countries like Russia.

Elenkov (1997) has also made important contribution to our understanding of Russian national culture (discussed in the previous section). Further, Holt, Ralston, and Terpstra, and Cheng have made particularly significant contributions in helping us understand the Russian managerial psyche (Holt, Ralston, and Terpstra, 1994) and Russian managerial values and how these values compare to other contexts (Ralston, Holt, Terpstra, and Cheng, 1997).

Other important articles also help define the field of Russian management studies. For example, Sedaitis (1998) has investigated the link between alliance

strategy and structural relations among networks of new firms. Cattaneo (1992), Fey, (1995) Fey and Beamish (1999, 2000), and Rosten (1991) have examined the management of joint ventures. Shama (1993, 1997) has investigated the changing patterns of foreign direct investment in Russia. Johansson, Ronkainen, and Czinkota (1994) have examined some negative “country-of-origin effects,” and McDonald (1994) has examined the Russian raw-materials sector. In addition, Ivanavich, DeFrank, and Gregory (1992) have explored Russian leadership issues, Kvint (1994) has investigated the promises of various Russian geographic regions, and Randall and Coakley (1998) have examined the Russian defense industry. Entrepreneurship has been examined by Zhuplev, Konkov, and Kiesner (1998) and Hisrich & Grachev (1993). Fey, Nordahl, and Zätterström (1999) have conducted a study of organizational culture in Russia where they provide some managerial prescriptions for foreign firms operating in Russia based on anecdotal evidence. Finally, human resource issues have been studied by Fey, Engström, and Björkman (1999), Fey, Björkman, and Pavleskaya (2000), May, Young, and Ledgerwood (1998), and Longenecker and Popovski (1994).

HYPOTHESIS DEVELOPMENT

As we have seen above, Russians have traditionally had high power distance. Concentration of authority has a long history in Russia and can be seen in actions of the czars, landowners, leaders of the Russian Orthodox Church, and Communist party elite. A particularly clear example of Russia’s high power distance traditions can be seen in Peter the Great’s system of 14 ranks which from 1722-1917 determined the benefits of a given person in society. More recently, as Elenkov (1998, p. 135) states:

Highly centralized control in all areas of life in Russia was strongly reinforced during the years of communist rule, with one-person leadership being mandated by Lenin in 1923 as the guiding principle of the whole socio-economic system.

In the several times in Russian history when power has not been so centralized, movements towards chaos have occurred and thus many believe that authority needs to be centralized for Russians to function well (Mead, 1955). Russia also scored low on masculinity. This trait resulted in the average Russian feeling that he or she had little ability to influence their future. The average Russian also feel significant anxiety about an uncertain future.

Given the average Russian's feeling that he or she had little control over their destiny and strong traditions of large power distance, the average Russian would gladly turn the role of determining their future over to their company in return for some signs of concern for their future welfare, job security, and social benefits (e.g., inexpensive lunches, free childcare, free use of a vacation resort, etc.). These benefits assure the average Russian the ability to provide a reasonable life for his/her family. Such benefits are one way to deal with the high inflation, characteristic in Russia for the last decade, where a salary's buying power is uncertain. Further, since the average Russian has a large desire to avoid uncertainty, he or she is normally glad to trade some salary for increased job security. The average Russian's natural level of uncertainty avoidance is further amplified since most Russians today live around the poverty level. Understandably, when one is concerned about providing for the basic needs of one's family, one becomes even more averse to risk. Thus, we arrive at our first two hypotheses:

Hypothesis 1: Russians will work better in companies that provide social benefits and thus such companies will perform better.

Hypothesis 2: Russians will work more effectively in companies that trade off higher salaries for greater job security and thus such companies will perform better.

As mentioned above, Russians score low on individualism having traditionally been a collective society. Under Communism, people were discouraged from trying to do better than the rest of the group as such behavior was seen as taking away the rightful share of another group member (Connor, 1991). There is a telling Russian story that compares Americans and Russians. Two Americans are walking down the street and see a large new house. One American turns to the other and says, "We have to figure out how to get enough money so that we can buy such a house." When the same situation is repeated with two Russians, one Russian turns to the other and says, "It is not fair for that family to have such a nice house. We have to figure out how to take it away from them." The above story suggests a basic collectivist orientation still present in Russian society compared to the USA which is far more individualistic.

In addition, the group was the basic building block of Communist society. A famous Russian proverb says, "It is better to have 100 friends than 100 Rubles." This orientation towards significant interaction with and mutual dependence on other people (even at work) is a philosophy deeply rooted in the Russian workforce. Such a

dependence on other people might make Americans feel uncomfortable since they would not be able to adequately control their own lives. However, this dependence helps Russians to feel comfortable since they know that other people are in similar situations and thus somehow they will find a way to survive together. As a result, it is not surprising that Russians like working in groups and are good at using this structure. Thus, we arrive at our third hypothesis:

Hypothesis 3: Russians will work better in companies that incorporate much group work and thus such firms will perform better.

Because Russians score high on uncertainty avoidance and are living in a turbulent environment, it is important for a firm to express a clear mission for its company. Knowing the company's mission provides extra comfort to employees. However, it is not enough simply to provide a mission because Communist days were filled with goals and slogans which often were not achieved. Thus, today Russian workers also want to know the strategy by which the firm plans to carry out its mission. This discussion results in our fourth hypothesis:

Hypothesis 4: Russians will work more effectively in firms which clearly communicating a clear mission and strategy chosen to achieve that mission. Thus, such firms will perform better.

Innovation

Many studies have shown that innovation is highly correlated with company performance (Drucker, 1985). As Hannay (1988, p. 678) writes, "The principal determinant of competitive success is the ability to introduce a continuing stream of commercially successful new products through innovation." As a result, it is important to understand the conditions that facilitate innovation. Amabile (1988) has developed a contextual theory of organizational innovation which suggests that for innovation to occur it is important that sufficient organizational motion to innovate, sufficient resources, and appropriate management practices exist. Woodman, Sawyer, and Griffin (1993) developed a similar approach, but also included included factors from outside the organization while placing more importance on intradepartmental factors in their interactionist approach. Their approach focused on group characteristics (norms, group cohesiveness, size, etc.) and organizational characteristics (organizational culture, strategy, structure, etc.).

Scholars outside the business area have also been interested in innovation. For example, Siegel and Kaemmerer (1978) advanced our understanding of innovation by developing an instrument to measure conditions which facilitate innovation in schools. However, Amabile, Conti, Coon, Lazenby, and Herron (1996) found the school context to be very different from the business context and thus questioned the usefulness of this instrument. As a result, Amabile, Conti, Coon, Lazenby, and Herron (1996) developed an instrument to measure conditions that facilitate creativity (a related construct to innovation). They found that work group support, having challenging tasks, organizational encouragement, and supervisory encouragement facilitated creativity. Based on theoretical development (but without any empirical support), Deshpande, Farley, and Webster (1993) suggested that a strong shared culture will facilitate innovation. Further, several authors have suggested and provided anecdotal evidence that certain types of organizational cultures may play a role in facilitating innovation (e.g., Claver *et al.*, 1998; Feldman, 1988). In particular, Feldman (1989) suggests that it is critical that an organizational culture legitimates autonomy while at the same time supporting some control for innovation to have the best chance at occurring.

It is also worth mentioning several other articles that have contributed to the debate about what types of organizational cultures facilitate innovation. When considering how to design an organizational culture that will facilitate innovation it is worth heading Calori and Noel's (1986) warning to be sure to keep the customer's wishes in mind when pursuing innovation and not just focus on innovation for the sake of innovation. After all, innovation needs to be bottom-up not top-down. Dussauge, Hart, and Ramanantsoa (1992) suggest that teamwork is an important characteristic of organizational cultures trying to facilitate innovation. Finally, Brannen (1991) stresses the importance of developing a culture that supports change to facilitate innovation.

This article advances the field by conducting an empirical study (not just a theoretical one), by explicitly focusing on organizational culture, and by focusing on what types of organizational cultures facilitate innovation as opposed to concentrating on the fact that the organizational culture should be strong or on a specific dimension of organizational culture. The current study also advances past work by seeking to understand the role that national culture plays in affecting the organizational culture-innovation relationship by setting our study in Russia.

In order to study innovation, it is important to understand the concept of innovation. In essence, innovation is the process of developing new products or processes, but it is important to consider what conditions are likely to facilitate this innovation process.

Before the Russian financial crisis in August 1998, the exchange rate was such that the price for foreign products was comparable to that for products produced locally in Russia. The only way for Russian companies to survive was for them to compete on quality and/or innovation. This trend supports Quinn's (1978) proposition that innovation is the best way to solve human needs. Further, it can be said that competition is the mother of innovation in Russia. Not surprisingly, as competition intensified in Russia, the pressure for faster, better, and cheaper innovations increased, as is suggested by Porter (1990). In the presence of this competition, Russian companies that prospered offered new products for the market. For those companies to be successful, their only chance was to offer a product which was significantly different from anything that was imported in the same class of products. This need for innovation was true, since, given two equal products, Russian consumers were likely to choose a foreign product because of the stigma of bad quality attached to Russian products and because Russian consumers were interested to experience foreign products after years of being deprived of them during Communism. Dougherty and Hardy (1996) suggested several problems which impede innovation including outdated rigid organizational structures. Rigid formal organization structures make innovation difficult since they inhibit the flexibility and experimentation that leads to innovation. Thus, a more entrepreneurial structure where people do not confine themselves only to their strict job description and where department boundaries and functions are somewhat flexible is much more likely to facilitate innovation. Further, it is important that large companies are made to feel more like small companies by decentralizing to some degree while still maintaining the efficiencies that large companies can offer (Burgelman, 1983). These factors lead to the following hypothesis:

Hypothesis 5: Large firms need to create the feeling of being in a small entrepreneurial firm to facilitate innovations.

Working to create an innovation is uncertain. It may happen tomorrow or it may never happen. The innovation may or may not be a great success. The external environment in Russia is also uncertain. Since people live closer to the poverty line in

Russia, working to develop innovations is even more uncertain in Russia than in many other countries. Therefore, developing innovations is more risky in Russia than most places, and the consequences for failure are greater if compensation is tied to innovation success since Russians typically have smaller monetary reserves. In such a situation, a stable environment in the company as a whole (and thus hopefully an innovator's compensation system) is helpful in providing the needed peace of mind to facilitate innovations. Thus, we arrive at hypothesis 6:

Hypothesis 6: A stable secure environment in the company creates a good base for innovations.

Closely related to the concept of innovation is the concept of adaptation. Feldman (1988, 1986) and Kanter (1983) have suggested that organizational culture can play an important role in facilitating adaptation. We build on this past work by suggesting that because Russia is such a turbulent environment, creating an organizational culture that encourages firm members to view organizational culture as an opportunity rather than a threat should be strongly associated with firm effectiveness in Russia. Encouraging such adaptability will allow firms to respond to changes in the external environment and take advantage of new opportunities that such rapid environmental changes often present for a limited period of time. Further, such a preference for adaptability is also obviously conducive to various forms of innovation—especially business innovations. In turn, these business innovations facilitate firm performance. Further, Brannen (1991) has suggested that creating an organizational culture which supports change is critical for facilitating innovation. Thus, we conclude with our seventh and final hypothesis:

Hypothesis 7: An organizational culture that encourages adaptability will be strongly associated with successful innovation.

METHODOLOGY

Performance data from 1998-1999 for a random sample of 125 Russian firms in St. Petersburg which the authors had from another study they were conducting formed the basis of the sample selection for this study. Firms in the top one third of the performance spectrum were scanned to identify four firms in a common industry for this study. Since four firms in this group were in the food and beverage industry and all were involved in both production and sales, these four firms were chosen for

the case studies for this project. All four firms were at least four years old and had at least 100 employees. Ten interviews were conducted at each firm with employees from a variety of hierarchical levels (e.g., general manager and factory workers) and functional areas (e.g., production and sales). It is important to stress that all four of these firms were experiencing excellent performance. Thus, this project's strategy was to try to understand what has facilitated this success.

Given the exploratory nature of this project, case-study methodology was chosen as is appropriate for such studies according to Yin (1984). Such studies are important for the advancement of our understanding of phenomena because these studies provide a rich and deep understanding of the phenomena being investigated and help challenge traditional beliefs that may be incorrect (Yin, 1989).

The interviews were semistructured and based on the approach described by Merton, Fiske, and Kendall (1956). Using a semistructured approach with a core set of questions in each interview facilitated comparisons across organizations yet it allowed enough flexibility for specific topics to be explored in greater depth in different interviews, depending on interesting avenues that emerged during the initial interviews.

The interviewers took detailed notes during the interviews. The interviews were not tape recorded because previous work in Russia by the first author had uncovered that Russians are very closed when interviews are tape-recorded (perhaps due to memories of KGB activity). Data reduction began immediately after the interview to help make the raw data clear and put it in a more manageable form. Interview write-ups were typed within 24 hours of the interviews and completed in a logical and consistent manner. The recommendations of Yin (1984) and Bourgeois and Eisenhardt (1988) were followed in structuring the write-ups: (1) The researcher's impressions were kept separate from the informants' impressions; (2) all data obtained were included in the write-ups even if they were not specifically asked for in the interview guide; and (3) the researchers continually asked themselves questions such as "what did I learn from the interview?" and "how does what I heard in this interview compare to prior interviews?" In order to facilitate systematic analysis of the interview data the memoing process described by Glaser (1978) was used throughout the research process. The memoing process involved recording patterns that the researcher noticed across firms as well as unique observations about a particular site.

MINI CASES

Parnas M

The #3 factory of the Kirov Industrial Conglomerate was started in 1984 and became Parnas M in 1994. Parnas M's primary business is producing sausage. Today the firm has 1300 employees and is capable of producing 125 tons of sausage a day. Before the crisis of August 1998 the factory produced 75 tons a day. When the crisis hit, the output dropped to 40 tons a day, but sales have responded well and were at 90 tons a day by the summer of 1999. The factory, which uses 100% imported raw materials due to superior quality and ease of purchase, produces more than 100 varieties of sausage. Parnas M tries to use all possible distribution channels—factory-owned retail outlets, independent retail outlets via a distributor, wholesale, etc.). Most of Parnas M's products are sold to North-West Russia, but recently efforts have increased to sell more in Moscow and Siberia.

In addition to its core sausage business, the Parnas M family, which employs 5500 people, operates a variety of other secondary businesses including a factory which produces high-quality women's underwear (all for export to England), a factory which produces protein cover for sausages, a fish wholesaling firm, and a trading house which sells products from Parnas M and other firms.

Significant changes occurred in the company when Sergey Petrovich Udachin became general manager in 1996. One of his key contributions has been to build a strong top management team which worked well together. Udachin did this by filling most top management positions with people whom he had served with in the navy. While this significant changeover among top management has caused some stress in the company and a feeling of "in" (the navy group) or "out" (everyone else) has emerged to some degree, the firm has prospered as never before under the leadership of Udachin's and his new management team.

Peterkholod

Founded in 1939, Peterkholod originally focused on all types of refrigerated storage, but since 1950 it has produced ice cream (now its core business). Peterkhold employs 634 people and has two key shareholders plus a number of individual employees who own shares. The company uses foreign equipment to produce ice cream and imports most needed raw materials. The company's main challenge today is that its cold storage business is no longer

profitable. Ice cream production occupies only 30% of Peterkholod's space, but accounts for 92% of Peterkholod's profits.

The ice cream market in Russia is extremely competitive. Nevertheless, the volume produced by Russian companies today comprises only 70% of that produced in the country before the market reforms. Many foreign firms entered the Russian market in the 1990s but stopped operations after the August 1998 crisis increasing the room for Russian producers. Ice cream produced by Petrokholod is very popular in St. Petersburg--everybody in the city knows the ice cream brands Mitya and Dasha. However, it is not widely known that Peterkholod produces Mitya and Dasha.

The company pays significant attention to the quality of the ice cream produced and uses only natural ingredients as inputs to achieve a superior product. As part of its quality campaign, the company did away with artificial colorants and aromatizers used by most foreign producers.

Ravioli

Ravioli, which produces pelmeni (Russian Ravioli), was started in 1994 by five friends who had previously worked selling sausage imported from Poland. When the import company felt significant pressure to lower prices to compete with competitors, it asked the Polish sausage producer for less expensive sausage. This lower-quality sausage was not well-received by Russian consumers (despite its lower price) and thus killed the Polish brand in Russia. This experience persuaded the five entrepreneurs of the importance of quality in the Russian market and from this grew the firm Ravioli and its unbending focus on quality.

Since pelmeni are traditionally made at home in Russia, Ravioli had to undertake significant advertising to persuade Russians that factory-produced pelmeni can also be good quality (and of course save time). Today, Ravioli employs 600 people and has three different factories. Management prefers smaller factories in order to facilitate a family feeling where everyone feels responsible for and an important part of the process.

Stephan Razin

Stephan Razin, which produces beer, is one of Russia's oldest existing companies having been founded in 1796. It currently has 1,500 employees. One feels

the company's history when one is at the factory as most employees have worked for the company a long time. Stephan Razin appears beaurocratic and hierarchical in that top managers must make or approve most decisions. The company makes several varieties of natural beer (without many of the preservatives found in imported beer) which appeals to Russian tastes. Stephan Razin beer has recently increased substantially in popularity as the novelty of foreign beer begins to wear off and price differences between local and foreign beer increase as a consequence of the Ruble devaluation which occurred as part of the August 1998 financial crisis. Russians have also begun to appreciate Stephan Razin's focus on quality. It seems Stephan Razin's decision to expand production only at the rate at which high quality can be controlled has payed off.

DISCUSSION

When working with Russian companies, one inevitably encounters local managers' opinion that Russia has a unique culture and that as a result, Western management techniques are often inappropriate for Russia. However, much of the new management theory applied in Russia today, like in many other countries, is theory which was developed in the West (often USA). As will be shown in the following discussion, this context miss-match is often problematic and raises questions about just how generalizable many theories developed in the West/USA are. This article focuses on identifying the characteristics of organizational cultures that facilitate superior performance and innovation for local firms operating in Russia.

Since the economic situation in Russia is very unstable, a company's very survival, as well as its success, depends on the company's being adaptable. At the same time, Russian managers and employees highly value stability and predictability (Elenkov, 1998). Our research has discovered that one solution to this paradox is for a firm to work hard on creating a "one-family" atmosphere coupled with a clearly articulated mission. Such an atmosphere and mission can provide the needed stability while at the same time allowing an organization to be adaptable. In fact such an atmosphere can even facilitate a firm's ability to adapt rapidly since such close organizations can more quickly mobilize employees to take part in a change effort than can a more splintered organization. And, having a clear mission helps employees understand what the company is working towards even if the path there is a bit zig-zaged due to changes in the external environment. Of course there are still

challenges to make employees feel the internal stability they would like in a turbulent external environment. As will be explained below, our case studies suggest several possibilities for achieving these dual goals. First, Russians work better in a company that provides social benefits. In addition, it appears that Russians prefer to forego higher salaries for greater job security.

Under a planned economy, traditional Russian enterprises were, in a sense, a second family for their employees. They generally provided salary and some additional benefits. Given the general low level of salaries and the scarcity of goods in Soviet-era Russia, these benefits coupled with the care enterprises showed for their employees were highly valued. Such benefits could include access to vacation resorts, gifts of scarce goods such as refrigerators or washing machines, use of sports facilities, etc. Under Soviet times, a company played a large role in most aspects of employees' lives. For example, it was common that a company would help to solve personal or family problems. During the interviews, it was revealed that currently successful "old" companies still continue some of these practices. Especially valued were access to resorts, organization of sports teams (especially for employees' children), and other items which both helped employees financially, but also made them feel a part of a company team/family. Such treatment of the employees by all companies (old and new alike) was highly valued by employees.

Many employees pointed out the sense of "family" which existed at the company and the fact that the company went beyond its formal work role in its relationships with them. One woman from Petrokhod said, "When a new person comes to the company he/she has to become a 'member of the family'; otherwise it would be difficult to work. I am very happy with my work and would not want to go anywhere else. When my twins were born I was allowed to come to work later and leave earlier. The company was very cooperative in this respect and it helped me to raise my children well."

While "extra" benefits that companies are doing sound nice, they obviously all cost money. As a result, one can wonder if they are a good investment. Further, since most goods and services are readily available in post-Soviet Russia, one can wonder whether it would not be better to discontinue all extra services and simply pay employees more money. The answer appears to be "no." Certainly, it is advisable to provide fewer extra services today than was the case during Soviet times since many of these services can be purchased in a similar form on the open market and because

the bottom line is now key. There also appears to be more interest in continuing the practice of providing services rather than goods. Most employees we talked to preferred to receive more money and decide if they wanted to buy a new refrigerator or a new sofa rather than have their company give them a new refrigerator since practically all goods are now readily available in Russia today. However, Russian employees appear to highly value the provision of some extra services. This preference appears to be in part because Russian employees are used to receiving some extra services, in part because the extra services help create some stability in a country where inflation is at times extremely high and purchasing power of the ruble unclear, in part because these extra services help create a family feeling that employees highly value, and in part because when a company buys services in bulk they can get a better deal on them than an individual can and thus employees get more for their money. Employees at all levels in the company appeared to share these values.

It was also interesting to find that Ravioli, a relatively new firm that appeared after the end of the Communist era in Russia, has chosen to pursue a policy of provision of extra services which is similar to that of the two old firms in our study. Ravioli was founded by five Russian businessmen only five years ago. However, while Ravioli does much to foster a one-company atmosphere, senior managers at Ravioli are entrepreneurs looking for opportunities in the market and they are ready to take risks in order to increase profits. Managers' salaries are strongly dependent on company performance. The system of values of these top managers differs significantly from that of the average Russian worker described above. However, in creating the organizational culture for their employees, Ravioli managers followed an approach similar to that of the "old" Russian companies recognizing that a one-company feeling, showing care for employees, provision of some extra services, and providing stable salaries was what the average Russian employee valued. The company, just like the "old" Russian companies, always pays salaries on time and offers additional social benefits. All of these actions stimulate employee loyalty and motivation.

The employees of Parnas M, the company in our sample which is using extra services to a much smaller extent, showed a lower level of loyalty to the company and lack of motivation among employees. It is also important to note that these conditions were despite the fact that Parnas M paid the highest salaries of any of the companies

in our study. Thus, our case studies confirm our hypotheses that Russians work better in a company that provides social benefits. Thus, support is provided for hypothesis 1 that Russians work better in companies that provide social benefits and that as a result the company will perform better. The only exception to this relationship appears to be managers in new companies which appear to have different values and are more ready to take risk and thus prefer money to social benefits.

This research has also shown that most Russian employees have high uncertainty avoidance since most employees indicated that they would prefer a small salary at a stable company to the opportunity to earn more at a company whose long-term stability is uncertain. This is true for lower level employees working in both old and new Russian companies and for most managers of traditional old Russian companies. Here again, managers in new Russian companies often had different values.

The companies whose organizational structure is based on the principles of stability and job security--Petrokholod, Stepan Razin, and Ravioli--consider their main objective to be supporting the high quality of their products and offering a variety of choice to their customers. The organization structure of Parnas M is primarily designed to achieve business growth and take advantage of all market opportunities, but it provides little stability and security for ordinary employees which results in less than optimal employee effectiveness.

The companies that foster a sense of job security among employees gain in response higher loyalty to the company and association of the company's success with their employees' individual futures. Employees in these companies pointed out that they feel as though all management and employees are in one boat together and that as a result they are ready to do everything possible to make their company prosper. Employees especially valued when they felt that their jobs and those of their colleagues were likely secure. Confidence that companies would provide salaries on time and in full was also important to employees. It is important to note here that the employees' perception and confidence about what the company might do, was far more important than reality (although of course the two are normally, but not always, closely linked). Clear communication of management's intentions and a close family-like atmosphere was shown to be extremely important in facilitating the perception of job security. A production worker at Ravioli provided good support for the importance of job security when he said:

Ordinary employees feel how the company is doing because we are all together. Workers feel that they are taken care off. The shareholders always pay wages before other expenses. There were cases when the shareholders had to take loans from outside to be able to pay wages, but they did it. The owners do all they can not to have to lay off people even in difficult times—we are family after all. People are confident about the company, therefore turnover is very low and the firm performs well.

In conclusion, most Russians prefer to trade off higher salaries for greater job security. Firms which provide such a stable environment are providing the atmosphere needed to facilitate superior firm performance since this stability helps Russians to focus on their work and work more effectively. However, managers of “new” companies appear to have a different set of values which are more oriented towards risk taking. Thus, support is largely provided for hypothesis 2.

Our third hypothesis, that Russians will work better in a company that employs much teamwork, is closely linked to those above. All the companies in the study use teamwork to varying degrees. For example, Parnas M top management works closely together as one team. Managers and employees of Ravioli work as a group of like-minded people. And, "old" companies organize much of their work using teams with Petrokholod applying this to low-level employees and Stepan Razin to middle managers. Units organized on the principles of teams facilitate all companies achieving central goals for the firms. These include producing high quality products in the “old” companies, searching for new opportunities in the market for Parnas M, and both of these tasks in the case of Ravioli. Many managers and employees in the firms mentioned to us that teams have demonstrated the highest productivity and are enjoyed most by Russian employees.

Stepan Razin middle managers are sure that the use of teams is the most important explanation for their success. And their success has been impressive over the last year as they have taken away significant market share from their key competitor Baltica who is backed with much foreign capital and technology. For example, one Stepan Razin middle manager said, “I think we have everything for the success and we do not need to add anything. The most important thing is that we have a strong and harmonious team.” This observation confirms the conclusion made by Holt, Ralston, and Terpstra (1994: 130) that "in Russia, self-accomplishment has been closely associated with achieving the objectives of social collectivism." Individuals

who try to stand out from the rest of people in one way or another are often treated by colleagues with suspicion, envy, and distrust. As a production employee at Peterkholod said: "We all work well, it is not fair to point out somebody". The managers of Parnas M who work as a military unit appreciate the contribution of every member of the team and place significant emphasis on team spirit and the sense of mutual support as motivating factors. A strong core of the company's team is formed by the group of the former submarine officers. The relations between them are rather informal, with very little hierarchy. All of them started as friends and are growing together. This group sets the rules and the management style in the company, which in many respects is based on military principles of organization and decision making. The military principles of work are intended to ensure a quick response to quickly-changing circumstances and to help the company survive in the extreme situations. Thus, hypothesis 3 that Russians will work better in a company which employs much teamwork and thus in turn such a firm will perform better was fully supported by the findings from our study. Both Russian managers and lower-level employees enjoyed working in teams, were good at doing so, and appeared to have increased productivity (based on manager's assessments) when they did work in teams.

The question of how important it is to clearly communicate the company's mission and strategy to the workforce is important. Parnas M is a company where the purpose is not clearly articulated. Many employees mentioned that vague understanding of the direction in which the company is going creates a lack of confidence about the future of the company and encourages search for other job opportunities. The absence of a clearly articulated purpose also results in a feeling of distrust towards senior managers of the company. There were no such opinions at the other three companies, where all employees understood that high quality was their mission. It is especially interesting to note that this was the case with Ravioli, which is owned by five top managers in the company. Those having a strong mission which was clearly communicated to all employees seemed to provide a sense of direction and thus comfort to Russian employees who were confronted with Russia's constantly unpredictable environment. A middle manager at Peterkholod provides support for the importance of mission:

Our environment changes rapidly and thus the company must change rapidly. Without other information, this would make an employee feel

confused and uncertain. However, our company leaders have clearly explained where we are going. They have explained to us that it is like driving down a highway with four lanes. Our company may change lanes, but it will keep driving down the same road.

Likewise a middle manager Stephan Razin explained the importance of providing a clear mission *and* the strategy to achieve that mission, “in Communist days communicating our mission or goal was important. However, nobody ever knew how these goals would be achieved and thus they were largely ignored. Thus, today we must explain to our employees how we will achieve our goal and then they are motivated.” A clear mission gave employees something to focus on and work towards even if the company had to make many changes in day-to-day actions along the way due to Russia’s dynamic environment. Thus, support is provided for hypothesis 4 which states that Russians highly value having a clear mission and strategy for their company communicated to them and thus firms following these principles will perform better.

We next turn our attention to our hypotheses dealing with conditions which facilitate innovation. We see in our case study companies that innovation is facilitated by making a company feel entrepreneurial even if the company is not so small and thus a more formal rigid structure is what first comes to mind as needed. This “be big act small” approach is facilitated in the case study companies in several ways. First, the companies focus their efforts on developing an organizational structure built on the principles of small business. For example, much is done to facilitate a feeling of belonging to a family which is the firm. This makes employees more concerned about the outcome of the company and more willing to trust and go along with initiated changes that will facilitate rapid change when needed. Next, while top managers normally make the decisions, they make it clear to employees that they are open to input. Third, each manager normally performs a wide variety of functions and is not strictly bounded by a formal job definition. Fourth, informal, as well as formal, relationships play important roles in these firms.

Of course the larger a business becomes, the more challenging it is to make it feel like a small business. As Peterson (1981, p. 71) says, “The number of employees in an efficiently working firm, which utilizes advantages of a small firm, should not exceed 200 people.” Our case study firms attacked the challenge of how to be big and act small in several ways. For example Ravioli split into several smaller units as it

grew. Each unit operates as a small business. The five key managers (shareholders) broke into three groups who lead now the three divisions of Ravioli. Every unit has the same management structure: General Director, Director of Production, and four Shift Managers. General directors are responsible for strategic issues within every unit and advertising while financial issues are discussed among all the directors. Ravioli's original corporate culture is preserved in each unit by having managers and employees from the original Ravioli working at the new division and by having all new employees trained at the base company.

Parnas M is a large company which has long ago grown beyond the size of a small business. However, it maintains several key aspects of a small business such as the ability to adapt extremely rapidly. This adaptation taps managers' entrepreneurial skills. Managers' roles are loosely defined and few rules and formal systems govern what managers must do at Parnas M. The managers achieve co-ordination largely via regular informal contact facilitated by the fact that most of the key managers are ex-navy officers from the same unit. However, as Parnas M continues to grow, this form of organization (or lack of organization) has started to show signs of stress as co-ordination failures have begun to occur. As a result, management has begun to look for new forms of organization structure which will allow them to maintain the adaptability fostered by their current system while providing more co-ordination and control systems which will continue to allow the company to grow. Thus, support is provided for our fifth hypothesis that large firms need to create the feeling of being in a small firm to facilitate innovations.

Many of the employees we interviewed in our case-study firms stated that it was easier for their firm to develop/implement innovations because employees felt more secure about their jobs. They indicated that if they were not sure about the future of their job, they would be reluctant to make changes from the status quo. As one employee at Ravioli indicated, "I feel confident that I will keep my job. This security gives me the confidence to think about how I can improve the way we do work here since I know that as long as I work with good faith I won't lose my job even if the results are not what I had hoped for". Several other employees in case study companies indicated that because they worked in an environment where their jobs were fairly secure, they were much less skeptical that moves by management were aimed to eliminate jobs/be bad for employees. Thus the job security led to an

openness to trying new innovations. Thus, support is provided for our sixth hypothesis which states that a stable environment inside the firm facilitates innovations.

Our final hypothesis is that, an organizational culture which encourages adaptability will be strongly associated with successful innovation. Firms which encourage adaptability create a feeling that change can be an opportunity rather than a threat. In most firms employees come up with plenty of ideas for potential innovations. What separated the firms which were successful at creating innovations from those which were not was that those which created innovations normally had created a culture which encouraged employees to pursue their own innovative ideas or, at a minimum, was open to new ideas posed by management. Thus, the difference between successful and unsuccessful innovators is not in how many ideas for innovations exist, but how little resistance to change or how much support for new ideas exists inside the organization. Following this philosophy, all four of the firms in this study were successful in developing innovations. In the case of Ravioli, it was the innovation of taking a product which was traditionally only homemade and being able to produce it in bulk with high enough quality that it tasted as good as the homemade variety. Ravioli also had to educate the consumer that its product existed, that it was not much more expensive than making it at home, and that buying the pre-made pelmeni saved time—an increasingly valuable commodity for some people in post-Soviet Russia.

For Petrokholod, the innovation was making several new varieties of Russian ice-cream which were specially designed for Russian tastes as well as utilizing modern Western packaging technologies making the ice cream bars look very attractive. Parnas M's innovation was introducing a much larger variety of meat products to the market than was previously available. And finally, Stepan Razin built its competitive advantage by producing a traditional Russian-tasting fresh beer with consistent quality in several varieties. As is demonstrated above, a key feature that allowed our case-study firms to be successful was their high adaptability to the changing environment. Thus, our seventh and final hypothesis is supported (An organizational culture that encourages adaptability will be strongly associated with successful innovation).

CONCLUSIONS

This study has begun to explore the complicated issue of what types of organizational cultures can enhance a local firm's chances of success in Russia. This is a topic that deserves more attention in any context, but it is especially interesting to investigate this topic in a country that is arguably very culturally-distant from the United States where most extant research on the relationship between organizational culture and effectiveness has taken place. This study developed several hypotheses about what types of organizational culture are effective for local firms in Russia. Based on four in-depth case studies, preliminary support is found for the hypotheses. The use of case studies allowed us to obtain a more thorough understanding of the phenomena under investigation which is appropriate given the lack of previous research on this topic. However, a weakness of this study is its lack of ability to confidently generalize results due to the small sample size. Thus, building on the understanding provided by this study, future studies are urged to undertake large-sample data collection to investigate the generalizability of this study's results. Collecting data in multiple countries for explicit comparison would also be a useful future addition. While this study is clearly only an exploratory first step, it is an important starting point upon which future studies can build.

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