

THE TRANSFORMATION OF THE SOVIET ENTERPRISE AND ITS  
MANAGEMENT: A LITERATURE REVIEW

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## **Abstract**

This article reviews literature on the transformation of the soviet enterprise and its management. The review shows that soviet management was much more multidimensional than previously assumed on the basis of official management descriptions. According to the official descriptions, the position of the soviet manager mainly corresponded to that of the plant director who was responsible for the internal production processes of the factory. However, in reality, a soviet manager's field of duties expanded from internal production management to struggling against the shortages of the centrally planned economy.

Correspondingly, the review on transformation literature indicates that some of the empirical studies suffer from a rather inadequate methodology, as they tend to study enterprises and their management only at one point in particular time. Regardless of this, they sometimes draw very strong conclusions on transformation. In other words, several studies are based on a certain 'commonly accepted' view of Soviet management, instead of truly analysing the transformation taking place in post-Soviet companies.

As previous empirical studies have not reached an unambiguous conclusion on the important topics linked to successful transformation, the article proposes some essential themes, which could increase understanding on the organisational and managerial transformation, and hence support the overall economic transformation process in the former Soviet Union.

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## Foreword

*“Managers of post-communist enterprises have to assume ... a leadership role in the milieu of sudden discontinuity and dramatic change. They are the only ones potentially capable of translating changes in the macro-economic environment into corresponding micro-economic behavior of the firms. Otherwise, transformation to a market economy will not happen.”*

Andrzej K. Kozminski (1993) *Catching Up? Organizational and Management Change in the Ex-Socialist Block*, p. 145

## **1. Introduction to the Transformation of the Enterprise Sector in the Former Soviet Union**

The abolition of state monopoly and the development of company legislation caused an enterprise boom in the former Soviet Union (FSU). To illustrate the rapid expansion of the enterprise sector, the Russian enterprise population which has grown by 15 times can be taken as an example. According to Blasi et al. (1997, 25), “*at the beginning of 1991 the Russian Federation had approximately 23,766 mid-sized and large industrial enterprises and 170,000 smaller ones, mostly retail shops*”. By the beginning of 1999, the number of registered enterprises was over 2.9 million (RSC, 1999). In addition to these three million registered organisations, several million unregistered ones are estimated to operate in the former Soviet Union. “*Estimates suggest that additional 2-3 million small undertakings exist [in Russia alone] but remain unregistered*” (EBRD, 1996, 170)<sup>1</sup>.

Although the number of enterprises has multiplied, the expansion of the enterprise sector has not increased economic output of the former Soviet republics, but on the contrary, it has decreased considerably. For instance, real gross domestic product (GDP) of the FSU in 1998 amounted only to approximately 60 per cent of the 1989 level. In addition, the transformation has caused a fall in industrial production. For example, the industrial production of Russia had fallen to half of the 1991 level by 1996. Despite the fall of industrial production, in some former Soviet republics industry still plays a leading role in the economy. For example, in Belarus and Russia the share of the industry in GDP was some 40 per cent in 1997 (BF, 1997; EBRD, 1998).

One of the main reasons for the deep decline in economic output was the disintegration of the Soviet production network. Correspondingly, the decrease in the relative importance of industry is mainly due to the fact that the Soviet economy overemphasised industrial production and respectively neglected the development of services. The neglect of services in the Soviet era was one reason for the service sector and the retail trade to witness an enterprise boom. For example, the

enterprises registered within trade amounted nearly to 30 per cent of all registered enterprises in Russia in 1996 (Liuhto, 1998a).

A natural consequence of the abolition of state monopoly on enterprise activity was the decreasing role of the state in the economy. The shift from state-determined enterprise activity to privately driven entrepreneurship is not only caused by privatisation of state enterprises *per se* but rather by the foundation of new private enterprises. For instance in Estonia, only 7 per cent of all private enterprises were created directly as a result of privatisation. However, it is necessary to keep in mind that some of these new private enterprises were established especially in order to use the opportunities created by privatisation (Purju, 1998).

In Russia the share of state and municipal companies in 1996 was less than one-fourth and in Estonia only few per cent of the enterprise sector. Despite the relatively small number of state companies, they still play a rather significant role in the former Soviet economies. In the mid-1998, the non-private sector share stood at approximately 80 per cent at its greatest (Belarus) and, at its lowest, at 30 per cent (Estonia, Lithuania, and Russia) of GDP (SOE, 1996; EBRD, 1996; 1998; Liuhto, 1998a).

In addition to the liberalisation of enterprise activity, the abolition of state monopoly in foreign trade has been another major means of transforming the Soviet enterprise sector. Due to liberalised foreign trade, enterprises can handle their foreign trade independently from the intermediary of the state-led foreign trade associations. As a consequence, the structure and geographical distribution of foreign trade have changed. The share of consumer goods has increased considerably, and correspondingly the proportion of investment goods has decreased. Furthermore, the geographical distribution of foreign trade has altered: the West has replaced the former Soviet republics and socialist countries (WIIW, 1998).

In addition to the liberalisation of foreign trade, the former Soviet republics have been integrated into the world economy through foreign direct investment (FDI). Although enterprises from capitalist

countries had a right to found subsidiaries into the Soviet Union since 1987, their enthusiasm to do so remained fairly low until the collapse of the centrally planned economy. By the beginning of the 1990's only approximately 1000 foreign-owned enterprises had been registered in the FSU, whereas Russia and the Baltic States alone had approximately 60,000 - 70,000 registered enterprises with foreign ownership by 1996<sup>2</sup>. The cumulative FDI inflow to the FSU was about USD 28 billion between 1989 and 1998, of which the Baltic States covered 15 per cent (Katila, 1990; Laurila, 1993; EBRD, 1997).

Besides the investment inflow to the former USSR, it is necessary to note that enterprises in the late Soviet economy are integrating into the world market through the Eastern investment in other transition countries or even in the West<sup>3</sup>. Although there are only few studies on the internationalisation of the post-Soviet companies, the empirical findings indicate that the post-Soviet companies have been relatively passive in investing abroad though they have expressed their interest in investing especially in other former Soviet republics (Liuhto, 1998a). According to Sôrg and Ivanova (1999, 1), “... *the prospects of the Estonian banks for internationalisation are promising but the results up today are modest and one-sidedly directed towards the East*”.

The collapse of the centrally planned economy has had a surprising effect on the regional dimension of enterprise activities. Although a strong expansion from economic centres towards rural areas after the Soviet era might have been anticipated, statistics do not support this assumption. In Russia, the importance of the capital city is considerable in entrepreneurial activity. Approximately one fourth of enterprises were registered in the Moscow region by the beginning of 1998. Such centralisation in the capital region may be explained by the more rapidly growing economic activity in capital cities. For example, in Russia over 50 per cent of active companies with foreign ownership were registered in the Moscow in 1997 (RSC, 1998).

Economic system change has expanded the enterprise sector in the FSU. However, in addition to the increase in the number of enterprises, the ex-Soviet enterprises need to grow and increase their

effectiveness in order to be able to compensate the output fall caused by the economic system change. In order to succeed in the transformation, enterprise managers in the ex-Soviet republics ought to improve the performance of their company as they are ultimately responsible for putting of the economic transformation into practice.

Therefore, it is of utmost importance to review literature how the post-Soviet enterprises and their managers have succeeded in adjusting to the transformation from the centrally planned system towards a market economy, i.e. how the former Soviet companies and their directors have managed in transforming their companies to meet the requirements of the ‘invisible hand’ of the market instead of the ‘visible foot’ of the central planning.

Understanding organisational and managerial transformation in the former Soviet republics is not only important for policy-makers and economists aiming at accelerating the catching up of the former USSR, but also for the foreign business community interested in doing business with the ex-Soviet companies. Deeper comprehension of transition in the former Soviet companies is necessary as it may offer valuable information about the advancement of potential partners, competitors and investment opportunities in the FSU.

Even if academic interest in organisational and managerial transition has increased during the past few years, there is still a multitude of unanswered questions puzzling scholars and practitioners. Besides, it should be stressed that transition is an extremely vivid phenomenon, which constantly introduces new questions.

To support the research on the organisational and managerial transformation in the FSU, this article aims at reviewing literature on the transformation of the Soviet enterprise and its management. The review on Soviet management is necessary, as without knowledge on the starting point of the transformation it is impossible to understand the current organisational and managerial transition.

## 2. The Soviet Enterprise and Its Management

This section reviews the management of the Soviet enterprises, which operated under the central planning. The privately owned producers' co-operatives, which operated outside the central planning, or the foreign-owned joint ventures, which were registered in the Soviet Union will not be studied. These enterprises were not included because the main aim of this research is to study how change from the centrally planned system affects the management of enterprises, which were directly co-ordinated by the central planning. Neither will this section study the impact of the Soviet reforms on the enterprise management, and therefore, only a summary of the consequences of these reforms to the Soviet enterprise management is presented in the following table (see Table 1)<sup>4</sup>.

Even if the table above points out dissimilarities between various periods, the impact of these reforms on the enterprise management is not analysed here since their effect on enterprise management was rather cosmetic. Berliner (1988, 277) has characterised the apparent managerial transformation by referring to the change between the 1940's and the 1980's with the phrase, "*old wine in new bottles*".

The failure of the reforms has been explained in various ways. Firstly, bureaucracy stifled reforms and changes took place more at the administrative than at the enterprise level (Berliner, 1988). Secondly, the reforms did not fulfil the set goals, either (both) because they were badly designed and executed or (and) because an economic system has a tendency to reject alien parts and thus render all partial reforms inefficient (Sutela, 1991). Thirdly, the changes were technical rather than fundamental, involving such matters as new success indicators or revised planning procedures (Berliner, 1988).

In the mid-1980's, *Perestroika* began a transformation process, which proved more significant for enterprise management than earlier economic reforms during the Soviet era. The impact of Perestroika on enterprise management is outlined briefly at the end of this section.

Before analysing management of the Soviet enterprises operating in the planned economy, it is necessary to discuss whether there were major differences within enterprise management or whether the Soviet enterprise management can be considered homogeneous. Answering this fundamental question requires a comparison drawn between the management of the different types of the Soviet enterprise.

First, Soviet enterprises could be compared by dividing them into two main categories: the *khozraschetnyi* and the *biudzhetniy*. The former were required to follow the system of economic accounting, which meant that the income of the enterprises must cover the costs. The latter were part of the state budget, which meant that the *biudzhetniy* enterprises had no direct need of self-profitability (Berliner, 1988).

Although this division would have been important for the management of enterprises operating in a market economy, it should not be forgotten that the demand of self-profitability for the *khozraschetnyi* was to a large extent theoretical. Soviet enterprises did not go bankrupt even when costs would have exceeded their income. Although the authorities could dismiss managers if a Soviet enterprise became unprofitable, Soviet managers had a fairly firm hold on their posts and were dismissed surprisingly rarely (Gregory and Stuart, 1981; Sutela, 1982). Furthermore, both of these enterprise types were ultimately owned by the state and operated under state control, and therefore, it can be assumed that the differences in managerial behaviour were not marked enough to allow one to talk about completely different management cultures between the *khozraschetnyi* and the *biudzhetniy*.

Secondly, Soviet enterprises could be compared on the basis of the administrative unit to which they were subordinated. Milner et al. (1986, 29) divide Soviet enterprises into five groups: (1) enterprises of all-union ministries; (2) enterprises of republic ministries; (3) enterprises of local subordination; (4) enterprises of union-republic subordination; and (5) enterprises of direct subordination of union-republic ministries of the USSR.

It might be presumed that national and regional characteristics would have reflected most strongly in the enterprises that operated under the control of republican, regional or local authorities rather than in all-union enterprises, which were more directly subordinated to the centrally planned system. However, empirical research data from Soviet Estonia indicate rather surprisingly that very few differences existed between the centrally supervised and decentralised enterprises (Conyngham, 1982). Presumably, such small variation can be explained because ultimately all Soviet enterprises operated under the centrally planned system.

Although a great number of nationalities existed in the Soviet Union in 1989 (White, 1991), empirical studies seem to indicate that national differences were reflected faintly in enterprise management. Only six per cent of over 100 Estonian managers believed that a manager was able to freely display her/his national cultural characteristics in the management of a Soviet organisation (Liuhto, 1997a). On the other hand, studies point to differences between nationalities in foreign-owned joint ventures, which did not operate under the central planning (Liuhto, 1991).

Previous research findings emphasise the homogenising effect of the centrally planned system on enterprise management. Thus, this research is based on the assumption that relatively little significant variation could be found in the management of Soviet enterprises which operated under the central planning. On account of this, management of enterprises under the Soviet planning regime is here referred to as “*Management Sovieticus*” (Liuhto, 1993b, 8)<sup>5</sup>. In the following, the basic characteristics of Management Sovieticus are described as it creates the basis for the organisational and managerial transformation from the Soviet-type planned system towards a market economy<sup>6</sup>.

Instead of studying the theories on organisation and management that prevailed in the USSR, this study aims to characterise concrete management behaviour of the Soviet enterprises<sup>7</sup>. The reason for focusing on real enterprise management derives from the fact that the management of Soviet enterprises deviated considerably from these

ideologies and theories (Conyngham, 1982; Sutela 1984; Kiezun, 1991; Sutela, 1991).

This section aims to approach Management Sovieticus from a manager's perspective. A system description of the planned economy was considered less significant in this context because ideal enterprise management differed to a great extent from actual enterprise management (Berliner, 1988). Therefore, the planning mechanism is only described in those parts that were directly reflected in concrete Soviet enterprise management.

To begin, Soviet enterprise management was based on state ownership and centralisation of economic activities (Sutela, 1984). Enterprises in the planned economy formed one economic entity within which they were closely integrated to one another's operations<sup>8</sup>. The enterprises were closely integrated that free competition between state companies was a relatively unknown concept in the Soviet Union. Kozminski (1993, 7) emphasises this close integration of enterprises by describing all economic operations within the planned economy with the term, "*one big factory*", and correspondingly, Blasi et al. (1997, 27) with the term "*one giant corporation*".

The 'board of directors' of this giant factory was the Communist Party, which formulated visions to develop the Soviet society and economy. The responsibility of the planning mechanism was to implement these visions into practical measures (Milner et al., 1986). The planned system also took care of the establishment of enterprises, the determination of business ideas and the strategic management of enterprises. In this official model, the duties of enterprise managers were restricted to the organisation of production (Gramatzki, 1988; Kornai, 1992; Mintzberg, 1992).

The planning mechanism made plans for enterprise management<sup>9</sup>. Enterprise managers were legally obliged to fulfil these goals. At most, they were obliged to accomplish as many as 200 different plans. At the end of the 1970's, the number of plans dwindled to 'only' twenty (Sutela, 1982). Although there were plenty of single goals,

they can be divided roughly into four main categories (Milner et al., 1986, 20):

- (1) *Production goals* were connected to the particular demands of society for the organisation's products and services.
- (2) *Economic goals* focused on the contribution of the organisation to national revenue, the maximum productivity of labour, and the optimal use of resources.
- (3) *Technological goals* were oriented towards the introduction of new technologies and production equipment, progressive materials and products, and advanced scientific ideas.
- (4) *Social goals* specified the role of the organisation in solving the programme tasks of social progress, and in meeting the social needs of working.

A fundamental shortcoming of the centrally planned economy was the fact that the state and enterprise management had different goals (Richman, 1965). The state aimed at maximising the efficient use of resources, whereas the enterprise management aimed at maximising its own bonuses<sup>10</sup>. The maximisation of bonuses usually led to the optimisation of production goals instead of the maximisation of production capacity use (Conyngham, 1982).

In practice the optimisation of production goals meant that enterprise managers attempted to fulfil the set goal but did not, even if capable, exceed it. This optimisation occurred because to exceed a goal would have raised the future plan. A raised production goal was a risk factor because the enterprise might not be able to fulfil the goal in the future and could thus risk its bonus (Sutela, 1982; Berliner, 1988).

An example of how increased efficiency could negatively affect enterprise operations is the notorious experiment in the *Shchekino*

*Chemical Combine* which tripled its volume of production and quadrupled its labour productivity. The more efficient the operation, the higher the goals of the combine were set. Finally, the enterprise could no longer maintain the high output level and, as a result, the enterprise and its personnel lost their bonuses (Tiusanen, 1987; Beissinger, 1988).

This aim of the planning mechanism to raise goals resulted in enterprise managers benefiting more from maintaining the organisational *status quo* than from operating their enterprise more efficiently. Given the inherent structural problem of the planned system, it would have proved irrational to develop innovations within this system. Innovative managers took a financial risk as they could reserve no exclusive rights for innovations, which were meant for the use of all socialist companies (Tiusanen, 1988). The inadequate planned system was one of the main reasons for weak innovative skills among the organisation's personnel and low capacity to change in the organisation (Berliner, 1988).

Another fundamental deficiency of the planned system was its overemphasis on production goals. Berliner describes the emphasised role of the production goals as follows (1988, 28) "*if the firm could fulfil either the profit plan [economic goal] or the output plan [production goal] but not both, it ordinarily would choose that alternative which provided premia, i.e. fulfilment of the output plan*". This overemphasis on quantitative product goals led to a management behaviour which was less geared to increase the efficiency of company operations.

In addition, plans failed to function as a measure of efficiency largely because efficiency was determined by the 'visible foot' of the planning mechanism, instead of the 'invisible hand' of market forces. The fact that prices were determined artificially managed to further complicate the process of indicating efficiency through plans. Besides, money played a passive role in economic activity. Thus money was not a factor that either encouraged or inhibited the economic activity of Soviet enterprises (Gregory and Stuart, 1981).

Because the planned system operated imperfectly, enterprise managers began to deviate from the official model for enterprise management and to manipulate the system. The means of manipulation were directed to three main areas: (1) the availability of production factors; (2) the plans determined by administrative organs; and (3) the output of production.

The availability of production factors was manipulated mainly because the planned system operated deficiently and the Soviet Union faced a chronic shortage of production factors. Enterprise managers were forced to resort to non-legal and even illegal measures to ensure obtaining their factors of production (Anderle, 1976; Conyngham, 1982)<sup>11</sup>. The four main ways of securing the availability of supplies were: (1) increasing enterprise autarky; (2) hoarding production factors; (3) personal production network; and (4) use of non-legal middlemen (*tolkachi*).

Enterprise managers aimed to gain control over the entire production chain from the production of raw materials to the processing of the final products. Enterprise autarky was a measure for minimising the risks of dependence on uncertain deliveries from the planning mechanism. The greater the emphasis placed on self-sufficiency of the enterprise, the more difficult it was for the planning system to gain advantage from the specialisation of production (Berliner, 1988)<sup>12</sup>.

A less official measure than the autarky policy was to hoard production factors. By hoarding production factors unofficially in storage, enterprises attempted to avoid the material bottlenecks of the planned economy and thus ensure that they could fulfil the given goals. Enterprise managers would be able to hoard production factors, for instance from the previous five-year plan, if their enterprise had not used all of its supplies. In other words, enterprise managers secretly stored spare supplies and thus created a *perestrakhovka* i.e. a supply 'insurance' for the enterprise (Grancelli, 1988).

As a result of the hoarding of labour, the hidden labour reserves in industrial enterprises ranged from 10 to 20 per cent of total personnel (Grancelli, 1988). Other sources suggest that a share of 'surplus

labour' was substantially larger. Kuznetsov (1994, 964) offers an illustrative empirical finding on extensive labour hoarding in the ammonium industry; "*several producers of ammonia, using the same technology and plant, were surveyed in Russia in 1983. According to a normative, the production needed manpower of 83. The actual employment ranged from the normative figure to as many as 230, 294 and even 490 in some enterprises*".

In order to attract employees, the Soviet managers did not only promise better wages, but also fringe benefits. These benefits could include housing, kindergartens, holiday accommodation and *deficit* (shortage) goods for employees (Hanson, 1986; Sutela, 1987). Gradually various social tasks accumulated around the actual operation of the Soviet enterprise that it began to resemble more a feudal system, rather than a business enterprise (Lehtinen, for reference see Liuhto, 1991).

For the Soviet economy hoarding proved disadvantageous, as consequently enormous amounts of resources were unused and even spoilt in storage (Tiusanen, 1987). Secondly, hoarding further added to the bottlenecks in the supply of factors of production, which in turn weakened the efficiency of the centrally planned economy and forced enterprises to hoard even more production factors (Grancelli, 1988). Hoarding formed a self-enforcing vicious circle, which led to the planned economies being duly characterised as "*economies of shortages*" (Kornai, 1979, 1).

The managers of Soviet enterprises also attempted to solve the supply problems of the official planned system through an unofficial commodity exchange, that is to say through resorting to their personal production networks (Berliner, 1957). This unofficial commodity exchange was based more on personal relations and the principle of reciprocity than on financial compensation (Millar, 1988).

A fictional example of the personal production network could be a situation where the manager of the *Red October* enterprise has rendered a favour to the manager of the *Dynamo* enterprise. Later, if needed, the manager of *Red October* could ask the manager of

*Dynamo* to return the favour. If the latter is unable to personally fulfil this request, (s)he can resort to her/his own personal relation network and seek a manager who owes a favour and can fulfil *Red October's* manager's wish.

The use of personal relationships in unofficial activities is commonly referred to as *blat*, which “*indicates the use of personal influence to obtain something one is not entitled to - or conversely, to something one is entitled to but that is unobtainable through official channels*” (Grancelli, 1988, 88). In this context it is necessary to point out that the use of unofficial relations should not be interpreted as a sign of the immorality of Soviet managers, who might not have resorted to managerial non-legalities if the official economic system had functioned properly (Berliner, 1988).

Fairly close to this *productional blat* was the use of *tolkachi* i.e. non-legal supply agents. *Tolkachi* were people who had personal relation networks with producers and authorities working in the central planning. They used them in supplying production factors from one enterprise to another without the knowledge of the official mechanism. The enterprise receiving the supply paid for *tolkachi's* services, often in cash or other financial benefits (Berliner, 1957). The main difference between a personal production network and *tolkachi* was that the former was chiefly based on reciprocity whereas the services of *tolkachi* were principally compensated in roubles or in hard currency.

In addition to ensuring the availability of factors of production, another means to secure the fulfilment of goals was to attempt to reduce state plans. Here it is necessary to point out that an enterprise was able, even within the official system, to influence the goals determined by higher authorities. Enterprise management had, when the plans were being defined, a right and an obligation to report its own production capacity to the administrative organs (Katila, 1985).

In most cases the enterprise management gave the co-ordinating organisation a slightly lower estimation of its production capacity than it was in reality. This simply derives from the custom of the

planning mechanism to raise the goals. In other words, while the management of the enterprise tended to underestimate its production capacity, the planning mechanism tended to overestimate it. This type of ‘gambling situation’ was a relatively far-spread practice and cannot be regarded as illegal even though it was not in accordance with the idealistic model (Sutela, 1982; Linz, 1988).

The planning process turned illegal if enterprise managers aimed, with the help of their personal relations, to manipulate plans, that is to say, to use *administrative blat*. If the managers of the enterprise had functioning personal relations with the officials involved in the planning process, they could attempt to bargain for an artificial reduction of their production goals. The managers could offer, for instance, financial benefits to the official they knew in a ministry so that he could then reduce the enterprise’s goal, or replace it with an easier one. Because of these measures, the centrally planned economy has from time to time been referred to as ‘bargaining economy’, where planning occurred by negotiating (Berliner, 1957).

A third major way of fulfilling the goals by unofficial means was the manipulation of production output, either by creative production decisions or even actual distortion of production figures. The main types of creative production decisions were, for example, the reduction of the quality of products, irrational production decisions, and a production mix, which contradicted the plans.

The quality of products was frequently reduced by a conscious decision, often because the enterprise was in danger of falling behind its production goals. The managers of the Soviet enterprise, which was lagging behind its goals, were forced to increase the pace of production, and hence, reduce the quality of production. The artificial reduction of quality with the purpose of fulfilling production goals was called *sturmovshchina* i.e. storming (Grancelli, 1988).

Reduction of quality proved a fairly safe means to fulfil production goals, as quality was not as easy to control as quantity (Berliner, 1957; Kemme, 1989). Besides, the authorities responsible for quality control frequently connived at an enterprise which fell short of the

quality standards as long as it thus managed to fulfil the quantitative production goals (Melin, 1996).

In addition to *sturmovshchina*, Soviet managers made irrational decisions concerning production output, so that they could fulfil their production goals. To illustrate this, windows, paper or steel, which were too thick, or oversized nails might be manufactured when the efficiency indicator was the weight of production. When the indicator was changed to the quantity in pieces, the enterprise might manufacture, for instance, window glass so thin that it was broken during transportation (Sutela, 1982). From the perspective of the state, the production decisions mentioned above were irrational, but from the perspective of an enterprise manager they were rational because thus the manager and the enterprise could ensure their bonuses. If the manager of a Soviet enterprise had attempted to manufacture useful and high quality products, the enterprise would not necessarily have been able to fulfil the set goals and thus would have lost its bonus.

In addition to quasi-rational production decisions, Soviet managers were under some circumstances forced to manipulate the production mix of the enterprise. As an example one can take a fictional Soviet enterprise, which had to manufacture products A and B, whose estimated production costs were 10 roubles. Their calculated sales prices, however, were different: the calculated sales price for product A was 12 and for B 15 roubles. The plan required the enterprise to produce 1,000 units of both product A and B, when a total output value would have been 27,000 roubles and total production costs 20,000 roubles.

Due to practical problems, the real costs rose to 10.2 roubles so that the enterprise management could not meet the cost plan. However the enterprise could meet the total cost target and the total value of output target by manipulating the production mix. Therefore, the enterprise produces 180 units less of A, and 180 units more of B. By this managerial manoeuvre, the value of output exceeds the production costs by slightly more than 7,000 roubles, and the enterprise receives its bonus. The consequence of changing the production mix on enterprise level was that overproduction of certain commodities and

shortage of others existed simultaneously in the Soviet Union (Berliner, 1957).

If the enterprise failed to fulfil the goals by the unofficial means described above, the last means was the falsification of production figures. Falsification could occur, for instance, when the enterprise reported a higher number of its semifinished products than the number existing in reality. The basic motive behind the falsification of production figures was to 'buy extra time' so that the production goals could be fulfilled. In other words, the enterprise management intended to mend the falsified production figures in the near future so that the managers would not be caught in illegal manipulation of the accounts (Berliner, 1957).

In addition to this illegal manipulation of accounts, literature also provides examples of managerial illegalities which did not aim at the attainment of the goals, but merely to an improvement in management's own well-being (Grossman, 1976; Katsenelinboigen, 1977). An example of this kind of managerial misuse was uncovered in Soviet Georgia. The managers of this particular enterprise hid raw materials from the state, transferred legally employed people to work in an illicit enterprise and finally sold the products on the black market (Grancelli, 1988).

The leaders of the Soviet Union were not unaware of the dangers of misuse in enterprise management and for that reason built endogenous and exogenous control systems to monitor enterprise managers. Their activities were supervised, for example through the self-control of managers, by the ministries, party and trade unions<sup>13</sup>.

In the background of managers' self-control was the principle of ideological maturity which was believed to make managers fulfil the set goals more obediently (Anderle, 1976). This principle functioned so that managers sought to become members of the Communist Party, i.e. 'enlisted' themselves in a kind of *nomenklatura*, which was frequently the basis for managerial appointments (Gregory and Stuart, 1981). In practice party membership turned out to be more of an

attempt to gain personal advantage than a display of real loyalty (Conyngham, 1982).

In addition to managers' self-control, ministries supervised enterprises. Although the Soviet planned economy is usually considered a tightly controlled system, ministries were prepared to connive at small misuse as long as the enterprise was thus able to fulfil its goals (Millar, 1988). The reason for this practice was simply that strict control over enterprises might have led to the failure of both the enterprises and thus the co-ordinating ministry to attain their goals. Similarly, it was beneficial for the party secretary working within the enterprise to create a positive image of the enterprise for higher party organs since her/his position was also evaluated in terms of the enterprise's 'administrative' efficiency (Berliner, 1957).

Trade unions exercised less real control over the Soviet enterprise management than ministries and party secretaries. The reason for this was that enterprise management could fairly easily replace the trade union representative of the enterprise (Berliner, 1957). Similarly, the trade union meetings were an apparent attempt to influence enterprise management (Grancelli, 1988).

To sum up the control of the Soviet enterprise, it can be stated that the structural problem inherent in the control system was that the supervising organs and enterprise management shared the same objective - to fulfil the production goals. This common goal led to the situation where unofficial management behaviour became widely accepted and used in the Soviet Union.

In this context, it is necessary to stress that the control system was not always aware of unofficial activities in the enterprise. Enterprise managers could fairly effectively cover their illegal activities through Cupertino within the enterprise (*krugovaya poruka*). The director of the enterprise tried to create a close loyalty network between the key persons of the enterprise, which included the general director, the chief engineer and the chief accountant. The chief engineer was important as (s)he was responsible for production in the Soviet enterprise, and the chief accountant as (s)he was responsible for the

financial administration of the enterprise. When necessary, this management *troika* (trio) usually succeeded in hiding the unofficial side of Management Sovieticus (Grancelli, 1988)<sup>14</sup>.

It needs to be pointed out that the general director of the enterprise was capable of effectively pressing these key persons to cover up non-legal management practices. For instance, (s)he could resort to certain managerial sanctions or withhold bonuses if the other key persons were not willing to co-operate. Similarly, leaving the *krugovaya poruka* was difficult because enterprise managers could threaten to reveal previous misuse in which these key persons were involved. Through the *krugovaya poruka* key persons and their activities had to be closely controlled as the breaking of the *troika* could endanger the future of the whole top-management team (Berliner, 1988; Grancelli, 1988).

To conclude, it can be argued that unofficial managerial methods grew to be a part of the official management culture of the Soviet enterprise. Therefore, the description of Management Sovieticus should not exclude the unofficial side to management. Figure 1 sums up both faces of Soviet enterprise management - the unofficial and official side.

The left-hand side of the figure describes the official (or idealistic) management of the Soviet enterprise. The right-hand side summarises the unofficial (or realistic) management of the Soviet enterprise. The unofficial side of Management Sovieticus is shaded because it was not, despite its scale, in accordance with the official rules.

The top of the figure contains the party and the planning mechanism, which functioned, in the idealistic model, as the strategic leading body of one giant corporation. Due to the increased bureaucracy of the Soviet economy, the party and the planning mechanism handled their tasks routinely rather than according to the principles of strategic management (Tiusanen, 1980). Strategic management was only emphasised when the Soviet Union attempted economic reforms (Berliner, 1988).

According to the idealistic model, the management of the Soviet enterprise was responsible for the organisation of production within the enterprise, as the task of the official system was to supply the enterprise with the factors of production which were determined by the plans (Katila, 1985). In the official model Soviet managers could justifiably be referred to as plant managers (Melin, 1996). As a result of the imperfect operation of the planning mechanism, the centrally planned economy became a shortage economy thus managers of Soviet enterprises were obliged to divert attention from internal production management to externally-shaped survival management (Storm, 1991). In fact, the shortcomings of the planning mechanism expanded the Soviet manager's field of duties from production management towards enterprise management in market economies.

The fundamental idea behind the official model was that plans were to optimise the use of resources and hence to maximise the production output of enterprises (Kantrovich, 1972; Veinshtein, 1972). The deficiencies of the planned economy led, however, to enterprise managers using means bordering between legal and illegal, manipulating the availability of production factors, state plans and production output (Berliner, 1988).

Unofficial measures reduced the quality of produced goods and the quantity of production, which further added to the shortage of production factors. One means of fighting the material bottlenecks was to increase production autarky. As a consequence, however, Soviet managers could no longer attain the objective of the idealistic model - specialisation (Berliner, 1988).

Socialist ideology emphasised the ideological maturity of the manager, who was then believed to be loyal to the aims of Soviet society. The embodiment of ideological maturity was membership of the Communist Party (Anderle, 1976; Conyngham, 1982). The importance of the Communist Party membership for enterprise management can be illustrated in the fact that only few general directors of significant industrial corporations were not party members (Gregory and Stuart, 1981). However, even party

membership could not guarantee the loyalty of the enterprise manager and managerial misuse was not unusual.

The principles of socialist ideology also entailed that, firstly, enterprise personnel would participate in the managing the enterprise and, secondly, that all employees would be equal. In practice, however, Soviet enterprises had adopted the one manager principle as early as during Stalin's era (Kiezun, 1991). The position of the Soviet manager within the enterprise proved much stronger and more powerful than the idealistic model would suggest. Granick (1960, 161-162) has aptly described the strong position of the manager: "*despite all the formal centralisation, the individual plant director in Russia [the Soviet Union] seems to be much more successful in building his own little empire than his counterpart in the American giant corporation*".

Managers were able to gain power within the enterprise rapidly, as neither the external nor the internal control system interfered in the centralisation of power and activities of the enterprise managers as long as the enterprise was fulfilling its plans and its managers were not caught in conducting managerial illegalities (Berliner, 1957). Although Soviet managers had considerable power within the enterprise (Arakelian, 1950), they tried, within their capabilities, to minimise risks. Risk avoidance could be seen, for example, in decision-making, which was to a large extent based on transforming orders from higher authorities into written orders for subordinates (Lawrence and Vlachoutsicos, 1990)<sup>15</sup>.

The managers of the Soviet enterprise became a managerial élite, which included the general director, the chief accountant and the chief engineer. In addition, the party secretary operating within the enterprise had influence to the enterprise management (Melin, 1996). As management in most cases did not follow the official regulations, the general director, along with other key persons, tended to withhold information both from the employees and co-ordinating organisations (Krips, 1992; Kozminski, 1993). The position of employees was in reality far from equal in the Soviet enterprise.

To sum up, the Management Sovieticus is to some extent incomprehensible when approached from the enterprise manager's perspective operating in a market economy. Western managers operating in a different economic system are not always fully aware of the logic behind the following five core pillars of the Management Sovieticus: (1) quasi-rational management; (2) overemphasised *status quo* management; (3) system immobility created survival management; (4) *nomenklatura* management; and (5) extensive bureaucratisation of management. As the main content of these aspects was elaborated already earlier in this section, they are described in this context only shortly.

Firstly, inappropriate performance criteria and their deficient control created many managerial decisions which were irrational at the system level but rational at the management level as they ensured the fulfilment of the plan, and hence the achievement of the bonus. The irreconcilable conflict between the system's goals and managerial behaviour led to quasi-rational management i.e. to managerial decisions which fulfilled the external appearance but not the core of the plan. The overemphasis on the superficial plan fulfilment caused many absurd managerial decisions when approached from the perspective of a manager operating in a market economy. For example, a Soviet transportation company did not use the shortest or the fastest route to convey the goods from the factory to the final destination when the performance was evaluated on the basis of transported kilometres or hours. Due to inappropriate performance criteria, a company did not aim at minimising the transported journey or time, but on the contrary, maximising them. Correspondingly, due to deficient control a Soviet factory produced goods, which could not always be used for their original purpose.

Secondly, the overemphasised *status quo* management derives from the fact that the Soviet management did not aim at exceeding the production plan (quantity of production) or the production standards (quality of production) even if the enterprise would have been capable in producing more and better goods. This *status quo* policy in management was logical risk aversion practice, as exceeding production plan would have raised the production goal of the next

planning period. Correspondingly, exceeding quality standards could have jeopardised the achievement of the production goal without any substantial compensation for producing better commodities. Although *status quo* management may seem irrational from a Western manager's point of view, it can be considered rational when approached from the Soviet manager's perspective.

Thirdly, even if the system immobility created survival management may sound rather a controversial concept it needs to be stressed that the immobility at system level caused turbulence at the management level. In other words, deficient operation and chronic shortages of the planned system forced the Soviet management to practise unofficial managerial measures to fulfil the gaps of the system. For example, quite many Soviet enterprises hoarded raw materials and labour despite the fact that there was no immediate need for obtaining these resources. These resources remained often unused for several years and were sometimes even spoiled in the warehouse. Furthermore, the Soviet management was sometimes forced to use non-legal management practices to be capable to fulfil the plan.

Fourthly, *nomenklatura* management signifies the ideologisation of managerial work. For example, the Soviet managers were appointed to the most prestigious management posts not only on the basis of their managerial qualities but rather on the basis of the (external) ideological maturity of the manager. This *nomenklatura* policy obviously slowed down the mobility and the accumulation of the managerial know-how in the Soviet enterprises. Even if the ideologisation of the Management Sovieticus was to some extent only an official play, a few of ideological aspects reflected in actual management behaviour. The role of the party representative in the management and the numerous social obligations of the Soviet factories are just examples of the overall ideologisation of the Soviet enterprise management. The activities of the Soviet enterprises were influenced by the multitude of ideological, political, and social rationales of the state not by the commercial motives of the enterprise managers and owners like it is the case in the majority of the companies operating in market economies.

Fifthly, extensive bureaucratisation of management is a feature, which clearly separates the Management Sovieticus from 'the market economy management'. It can be stated that the enterprise management in a market economy operates within the framework created by laws, but in the Soviet Union the managers operated as a part of the web designed by 'the bureaucrats'. In other words, in a market economy enterprises can operate freely within certain legislative frame but in the Soviet system the enterprises fulfilled a specified task in a giant production network. Even the largest Soviet companies became non-independent departments, which obeyed 'the visible foot' of the Soviet bureaucracy. The extensive bureaucratisation of the Soviet management meant that the state machinery was not an external guide but an internal controller of managerial activities.

To conclude, Management Sovieticus was much more multidimensional than what can be assumed on the basis of the official descriptions. According to the official model, the position of the Soviet manager mainly corresponded to that of the plant director who was responsible for the internal production processes of the factory. In the unofficial model the Soviet manager's field of duties expands from internal production management to struggling against the shortages of the planned economy, or coping with the bottlenecks of the external management environment. Unofficial management bears more resemblance to enterprise management in a market economy than management defined in the official model. However, in this context, it needs to be remembered that unofficial management likewise excluded four sub-areas of market economy management: legal entrepreneurship, strategy, innovation, and leading change (Kozminski, 1993).

These characteristics began to be emphasised during the second half of the 1980's, when enterprises operating under the planned system were gradually given more independence. One notable feature in increasing independence was the replacement of state plans with state orders (Beissinger, 1988; Kuznetsov, 1994). Enterprises had a right to sell the surplus of state orders directly to other enterprises or consumers (Burawoy and Hendley, 1992).

The reforms carried out in the mid-1980's did not only increase the opportunities of the organisations that had operated within the planned system, but also abolished state monopoly in entrepreneurship. In the latter part of the 1980's, it was legal to establish enterprises, which operated outside the central planning. These types of enterprises included producers' co-operatives, which were owned by private Soviet citizens, and foreign-owned joint ventures. In addition, enterprise managers and employees had a right to lease the assets of state enterprises and thus practise legal entrepreneurship outside the central planning (Filatotchev et al., 1992)<sup>16</sup>.

Even if the legislative development of the mid-1980's laid the seeds for entrepreneurship, the real opportunities did not emerge until the 1990's when the structures of the centrally planned economy finally disappeared (Hisrich and Gratchev, 1995). Although the first steps of the organisational and managerial transformation in the Soviet era were not long, they were extremely important for the organisational and managerial transition since these steps started the diversification of fairly homogeneous Management Sovieticus. The heterogenisation of enterprise management should not be overlooked when studying the organisational and managerial transformation from the centrally planned system, as new forms of operation start from different bases in transformation than those companies which have operated under the central planning.

### **3. Research on the Organisational and Managerial Transformation in the former Soviet Union Reviewed**

This section reviews research on the transformation in post-Soviet enterprises and their management<sup>17</sup>. The review indicates firstly that the emphasis on Russia among the former Soviet republics can clearly be noticed. Special interest towards Russia is understandable, as she is the biggest former Soviet republic with 150 million inhabitants and has vast natural resources. These factors, among others, have enticed many foreign companies to Russia.

Correspondingly, the interest of foreign companies in Russia has attracted Western academics, both directly (more extensive research funding) and indirectly (wider circle of readers) to study the transformation in Russia. Secondly, the review shows that many researches deal with ownership changes (mainly privatisation) and restructuring, which are often explicitly or implicitly linked with the analysis of enterprise performance. However, the research results on the relationship between the ownership and performance are by no means unambiguous.

Some studies indicate that private ownership in the post-communist economies influences positively the transformation in enterprise management (EBRD, 1997; Frydman et al., 1998). For example, Frydman et al. (1998, 2) argue that *“private ownership dramatically improves corporate performance, and that its impact is the strongest enhancing a firm’s ability to generate revenues”*. This view indicates the importance of the ownership shift from the state to private owners in accelerating organisational performance.

On the other hand, some scholars suggest that the empirical results on the relationship between privatisation and performance are not clear (Akimova and Schwödiauer, 1998). Moreover, some academics argue that privatisation may not necessarily lead to considerable improvement of performance (Jones, 1998, Jones and Mygind, 1998; Liuhto, 1999c). Romanov (1996, 233) takes even more critical standpoint on the results of privatisation when stating that *“the Russian government is obviously disappointed that privatisation of enterprises has not brought fast positive shifts in management and in the growth of efficiency. The possession of shares has not brought radical changes in the behaviour of the new owners of industry - the existing managers (actual owners) or the workers (the nominal owners)”*. It has also been concluded that the consequences of the privatisation in post-socialist company are not comparable with the experiences of privatisation in a market economy (Zilcken, 1995).

Shama (1993) compares the basic characteristics of management between privately and state-owned companies. Shama’s observations seem to show that management of state-owned companies shares

similar features with Management Sovieticus and, respectively, management of privately-owned companies is closer to market oriented management. Shama's views are summarised in Table 2.

Although Shama's comparison points to marked differences between private and state-owned companies, its indifference to managerial differences within the private or state sector make it slightly exaggerating. In this context, it should first be reminded that pressure for change in state-owned companies can differ. Even though the majority of managers in these non-private companies have witnessed the disappearance of the state's soft budget constraint, some state-owned enterprises (for example, in Russian heavy or defence industry) have managed to maintain their special status in state funding (Yergin and Gustafson, 1995). The companies with a special status have presumably experienced less pressure for managerial transformation than the state companies operating on the principle of self-profitability.

Secondly, it needs to be stressed that there exists also diversity among privately owned companies. For example, the management of enterprises privatised by employee buy-out may differ from the private companies with a more clearly focused ownership. Management of collectively owned companies is special because of unstable ownership arrangements. For example, “... *managers may threaten to dismiss those employees who sell their shares to outsiders*” (Kalmi, 1997, 35), and therefore, acting managers of employee-owned enterprises can become less focused on the main business as they may try to secure own position within the company. Besides, the ownership battles have even led to brutal crimes, such as assassinations of managers (Kabalina et al. 1996).

Moreover, one of the problems that collectively owned companies face in their management is that employees may aim to maximise their own benefits in the short run rather than act in a manner which maximises the longer-term shareholder value. According to Filatotchev et al. (1996, 91), “*compared to conventional shareholders, employee-owners who are unable to freely sell their shares may prefer the firm to make decision that benefit them in the*

*short term (such as through higher pay-outs of profits in the form of higher wages, the maintenance of employment, and corresponding lower levels of investment). With virtually all their human and financial capital tied up in one enterprise, employee shareholders may seek to reduce risks by voting for excessive product diversification by the firm”.*

Taking into consideration managerial turbulence in employee-owned companies, it does not come as surprise that employee-owned companies have experienced problems in improving their performance. Difficulties of employee-owned companies should be considered when conclusions about a linkage between private ownership and organisational success are drawn (Filatotchev et al., 1996)<sup>18</sup>.

In the light of the empirical results presented above, it can be concluded that private ownership is not a factor, which leads automatically to performance improvement, at least not at early stages of the transition. This is not to say that the private ownership would not be a more efficient ownership arrangement than the non-private in the long-term. Even if the private ownership will most probably turn out to be more effective ownership arrangement than non-private ownership in stabilised market environments, there are still some obstacles in turbulent transition conditions, which may deteriorate the effectiveness of private ownership, and hence, these transition-specific factors should be taken into consideration before the sign of equality is put between private ownership and organisational success.

In addition to the superiority of private ownership, some studies stress the importance of foreign investments and foreign ownership in the organisational transformation. According to the EBRD (1998, 82), *“FDI contributes to the transition and economic performance across the region [the former socialist countries] in three major ways. First, FDI may directly increase capital accumulation. Second, it raises the productivity of the enterprise sector and benefits export performance. Third, it generates technological and organisational benefits for domestic suppliers and competitors”.*

Hertzfeld (1991, 91) argues that “*direct foreign investment is a fundamental engine of social change in the Soviet Union*”. Similarly, Purju (1998) has suggested the significance of foreign ownership as it leads to a better financial position and easier penetration to foreign markets.

Despite the possible correlation between a high FDI inflow and progress in transition, the following question may arise; does a high FDI inflow cause the positive transition, or *vice versa*, is progress in transition the main reason for growing FDI inflow. Moreover, in assessing the role of the FDI inflow, the significance of the FDI should be analysed *vis-à-vis* the total investment accumulation. For example in Russia, the FDIs formed only three per cent of the gross investments in 1995 whereas in smaller former Soviet republics this share can be much higher (Rautava, 1996; Kivikari, 1998).

Furthermore, it can be asked whether foreign investment is the ultimate factor behind the positive transformation or whether the main determinant is the increased investment capital regardless of the country of origin. In this context, it should be reminded that it is estimated that a substantial share of the FDIs, for instance, in the Russian Federation is Russian by origin, although they might have ‘a foreign flag’ on them<sup>19</sup>. In other words, some Russian capitalists have first moved the financial capital outside Russia, and thereafter, they have started to ‘repatriate’ the capital in Russia. In many cases, such capital movements have been a precautionary measure to protect investments in Russia with the foreign status. On the other hand, in some cases money laundry and tax evasions have been the ultimate motive behind these capital transfers (Liuhto, 1998a).

In addition to the questions presented above, research findings point out how foreign influence is not a pre-condition for successful organisational transition. For example, Akimova and Schwödiauer (1998, 20) state that “[*organisational*] restructuring can start successfully even in the absence of foreign investment”. Moreover, scholars suggest that foreign practices are not always effective in the FSU, and therefore, foreign practices should be adapted to the local circumstances before their use (Nurmi and Üksvarav, 1993; Holt et

al., 1994; Shekshnia, 1994). According to Holt et al. (1994, 136-137), “... any universalist assumption concerning direct transferability of Western values, management techniques, or organizational expectations is erroneous. ... The Russians do not want to feel subordinated to a system adapted from Western practices; they want to create a new economic and social system unique to their culture. They recognize the value of adopting principles and practices that are proven effective, but do not want to unconditionally accept any model that we [Westerners] might propose”.

It seems that the post-Soviet managers are trying to copy effectiveness not the management culture *per se* from the Western firms. Although Western management practices have proven to be effective in a market economy, it does not mean that Western practices would be directly transferable to transition conditions since direct adaptation most probably diminish the efficiency of the Western management practices. Therefore, the adaptation of the suitable Western practices and their integration with the local business culture are probably the key words for the positive performance, not the copying of the Western management culture as a whole. In other words, the question is more which Western methods can be imported and which local practices should be adopted than whether either Western management methods or local practices alone are the best solution in a transition economy.

Arenkov and Rakhmatullina (1999, 17) aptly describe the need for the optimal balance between Western and Eastern practices as follows: “They [international companies operating in Russia] have to find a balance between standardization and adaptation to local market conditions. Being global these companies generally use standardized approach in their product and communication strategies. Adaptation to local condition takes place mostly in packaging and advertising texts, slogans and in some cases trade mark names according to cultural and legal requirements”.

The fact that the post-Soviet managers do not want to adapt all Western influences is not perhaps the best indication that Western management practices are not directly transferable to the FSU but the

fact that foreign managers adopt local practices in their management behaviour (Shekshnia and Puffer, 1996; Suutari, 1998). According to a Finnish manager who operated in Russia, *“the management models that I have learned did not apply in Russia, and thus I had to start to learn a totally new basis for my thinking”* (Suutari, 1996, 262-263). Foreign managers are sometimes forced to adopt features that are at least partially influenced by less advanced methods of the Management Sovieticus. As an example, authoritarian management style and the use of written instructions and direct orders can be mentioned (Suutari, 1996).

A rather good indicator that foreign ownership does not guarantee organisational success is a large number of inactive foreign companies. For example in Russia, only some 15,000 companies with foreign ownership were active of approximately 45,000 registered foreign companies in the beginning of the 1999 (Liuhto, 1997b; RSC, 1999). As some two-thirds of foreign companies do not operate on permanent basis, it might be appropriate to reconsider before the sign of equality is put between foreign ownership and organisational success. It is perhaps too early to draw definite conclusions on a strong linkage between foreign ownership and rapid organisational transition before reasons for such widely spread inactivity among foreign companies are analysed thoroughly.

To conclude the discussion about the impact of the foreign investments and foreign ownership on the organisational and managerial transition, the role of the foreign companies and investment become visible rather easily especially in small transition economies, whereas in large transition countries the foreign companies can be regarded more as a lubricant than engine of the transformation.

These diverse views concerning a relationship between the ownership and the organisational and managerial transition stress the importance to search for alternative explanations for successful transformation elsewhere than ownership arrangements. One alternative path is to analyse the responses of the post-Soviet companies to changes in the external management environment.

Shama (1993, 22) describes the fundamental shift in external management environment and its influence on the enterprise management as follows; *“Imagine, if you will, managers, executives and CEOs [Chief Executive Officers] working in a stable, predictable, and centrally planned environment, where managerial functions such as production, pricing, exporting, planning, distribution, R&D [research and development], and personnel management are performed in a simple, almost mechanist manner for more than forty years. Imagine, then, how bewildered these managers would become when, almost overnight, the static and predictable environment with which they have become so familiar and comfortable undergoes a total and drastic change”*.

Due to the revolutionary change in the external business environment, it is natural that reactive behaviour dominate in the enterprise management (Shama, 1994a). Although proactive management behaviour seems to be linked with business environmental stabilisation, it does not imply that proactive behaviour would be unsuitable for turbulent environment. In fact, the situation is the opposite. Should the post-Soviet managers be capable to design sustainable strategies in such unstable conditions, this might offer a key to success in the long run. Unfortunately, many post-Soviet managers are too busy with extinguishing small fires that they do not necessarily recognise the main balefire (Liuhto, 1999a).

The evaluation of the EBRD (1998) on the external management environment suggests that the Baltic States have progressed fastest and correspondingly Turkmenistan and Belarus slowest among the former Soviet republics. Russia ranked the 7<sup>th</sup> among the 15 ex-Soviet republics. Russian enterprise managers considered that a high taxation, a lack of financial sources and difficulties in collecting payments are the most severe problems in the Russian business environment. The general directors of the Russian companies do not believe economic miracles but expect incremental improvement to happen in the business environment by the end of the millennium (Liuhto, 1998a).

As comprehensive empirical studies comparing the transformation of the external management environment in all former Soviet republics have not been conducted yet, it can only be guessed what the main differences are. However, it seems that former Soviet republics with five million citizens or less have progressed faster than larger ones. There are two exceptions to this 'rule': Kazakhstan and Turkmenistan. Kazakhstan is an example of a large ex-Soviet republic, which has managed to improve its business environment fast, and correspondingly, Turkmenistan is an example of a small former Soviet republic, which has had serious difficulties in developing her business environment (EBRD, 1998).

Although comparative empirical studies on the transformation of the external management environment are missing, it can be assumed that it is easier to build a comfortable playground for a small enterprise population than to build a sufficient field for a large enterprise population. Due to obvious difficulties involved in massive building projects, the regionalism within large transition countries could open a path to obtain advantages of both economies of scale and economies of dynamics (Liuhto, 1999d).

As strategic adaptation to changed business environment is the key word for positive organisational transition, a closer look on strategies of the post-Soviet enterprises is necessary. Hirvensalo (1996, 54-56) divides Russian companies on the basis of the activity of their strategy and need to change, into five main categories: (1) strategic restructurers and restructurers looking for outside help; (2) traders; (3) lobbyists; (4) asset strippers and down-sizers; and (5) footdraggers.

Strategic restructurers recognise the need to change and work actively to produce that change either entirely on their own or trying to identify outside investors who could provide the needed funding. Traders recognise the need to change, but they are mostly short-term oriented and opportunistic. Lobbyists do not recognise a significant need to change, because they believe in survival by lobbying for soft budget constraints. Lobbyists' strategies aim at defending the *status quo* in the short or medium-term. Assets strippers and footdraggers see no need to change, because they believe that the government will

have to help them out, anyway. The downsizers in turn are likely to become active lobbyists or passive footdraggers depending on the development of their connections to other actors.

Although the characterisation above indicates that some Russian companies can be regarded as strategic restructures, many studies reveal that strategic management thinking especially in the early phase of the transformation was deficient. For example, a person in a Russian company stated about the strategic thinking of the general director of that company: *“It was just a stream of consciousness, talking about everything. I think he used the audience to try out various versions of our future operations. At the same time he had no clear-cut strategy”* (Sterlin, 1991, 16). Also other case studies show that strategies were not carefully designed. For instance, a manager of an automobile factory expressed that *“in general, we are always looking for niches where heavy investment is not required. This is our strategy”* (Naumov, 1991, 11).

Although strategic thinking has obviously improved since the first years of the transformation, the improvement has been relatively slow. Hisrich and Gratchev (1999, 13) indicate that strategic thinking has not improved substantially after almost 10 years of transformation when stating that *“the future vision of [Russian] business leaders is limited, even in the fast growing modern industries such as telecommunications and financial services. Very few companies apply strategic management techniques using internationally recognized instruments”*.

As the improvement of strategic thinking is a pre-condition for successful business in the long run, the importance of management education and training becomes emphasised (Puffer, 1993; Kozlova and Puffer, 1994; Greer 1995; Hisrich and Gratchev, 1995; Zhuplev and Kozhakhmetov, 1997). Hisrich and Gratchev (1995, 8) stress the role of Western methods in upgrading post-Soviet managers' skills by arguing that *“all business schools [in Russia] should have a Western-based curriculum and teach Western business techniques and entrepreneurship”*.

Despite the indisputable contribution of the Western education and training methods in market economies, the effectiveness of the Western management knowledge in the FSU has been questioned. For instance, Holt et al. (1994, 136) conclude that *“we cannot, for example, merely teach (or preach) a doctrine of free enterprise development. ... What our Russian colleagues want ... is a way of establishing a pattern of successful examples. This is the essence of learning operant conditioning in which sensory evidence can be obtained, analyzed, and verified, providing experience and a realistic model for adaptation by other organizations”*.

These two views presented above show that scholars do not share opinions about the applicability of Western methods into the post-Soviet Union. As a fierce dispute between the managerial universalism and localism does not contribute too much on successful organisational and managerial transition, it might be worth evaluating the priority of managerial skills needed in various transformation stages instead.

Tesar (1993) divides management training needs in transition economies into immediate, intermediate and long-term needs. As immediate needs, decision-making, negotiation and communication skills are mentioned. Intermediate needs focus on the main activities of the company, such as personnel, financial, production and marketing management. Long-term needs mainly concern top managers, executive development programmes, corporate management and strategic planning.

Tesar's division of training needs indicates that upgrading operative management skills is the first priority in the short-term, whereas the strategic spheres of the management become emphasised in the longer run. Although the division is understandable, it should not be forgotten that even the most skilful managers can become 'inefficient' if the company is drifting without a predetermined strategic goal and vision.

In addition to acquiring new knowledge, scholars have stressed the importance of de-memorising of old unsuitable knowledge (Rebernik,

1993). In fact, some Western companies have tried to accelerate de-memorising of dark sides of the Management Sovieticus by employing such managers who do not carry the burden of Soviet management, that is to say managers who did not operate in management posts in companies under the centrally planned economy. This rather paradoxical practice reveals that some Western companies believe teaching new managerial methods to inexperienced people may be a more effective personnel policy than changing the managerial style of an experienced Soviet manager<sup>20</sup>.

Recruiting persons without previous experience on the field leads indirectly to discussion about the impact of managers' age on organisational performance. Krips (1992, 143-144) argue that "*senior leaders [age 40-60] are often able to lead effectively but do not want to, whereas young leaders [age 25-35] are both unable and unwilling to lead efficiently*". Although Krips implicitly suggests that managers' age is not linked to better organisational performance, other scholars argue that a relationship between younger age and positive organisational performance exists (Richey et al., 1988; Liuhto, 1999c). For example, Richey et al. (1998, 26-27) indicate that "... *younger companies and younger directors may find it easier to deal with the difficulties in the transition. This may be due to the lesser intensity of socialization of the younger managers ... and the agility of company entities that were established under 'new rules'* ".

Although the views on the impact of manager's age on organisational performance are not unambiguous, it is rather commonly agreed that the changing of ineffective Soviet methods and unethical practices has a positive effect to the transformation. Due to the negative impact of dark sides of the Management Sovieticus on the transition, research on business ethics in transition economies has received increasing attention.

According to Puffer and McCarthy (1995), there are several aspects found in the business ethics that the Russians regard unethical and the Americans ethical, and *vice versa*. Puffer and McCarthy argue that Russian business ethics would hold profit maximisation, whistleblowing, exorbitant salary differentials and layoffs unethical,

whereas it would be acceptable in American business ethics. Respectively, a contrary situation would be the personal favouritism (*blat*), grease payments, price fixing, manipulating data and ignoring senseless laws and regulations.

Puffer and McCarthy (1995, 41-42) summarises the importance of the context-specific factors in evaluating the Russian business ethics as follows: *“as so often occurred under Communism, managers are virtually forced to disregard senseless and contradictory laws, including those that discourage reasonable business decisions in a competitive market economy. The political and economic environments have created a survival mentality in which strictly construed ethical behavior can hardly be expected. The extreme uncertainty and hardship have led to the wide-spread practice of situational ethics wherein inconsistent behavior and variable ethical standards are common. The ethical approach of managers might well be described as utilitarian, with the end seen as justifying the means”*.

Unethical business practices among the post-Soviet managers are not necessarily due to completely eroded moral standards in the FSU. Unethical business practices can often be explained by the burden of the Management Sovieticus, chaotic business environment, deficient legislative framework and deteriorated control.

Even if the de-memorising of dark sides of Management Sovieticus is well grounded, it must be remembered that backward managerial methods dating from the Soviet era cannot be transformed overnight, though top managers would be fully aware that the use of old methods would slow down organisational and managerial transformation. In other words, top managers cannot progress at their own speed but they have to adapt their managerial methods to the business environment and the employees of the enterprise. This is simply due to the fact that there cannot exist a gap between the enterprise management and its external and internal environment, as such a gap would lead automatically to deteriorating organisational performance. In this respect, it needs to be stressed that the core objective of the organisational and managerial transformation is not change *per se* but the improvement of enterprises effectiveness (Liuhto, 1998b; 1999b).

Although former Soviet managers are occasionally forced to maintain some of managerial methods dating from the Soviet era, Management Sovieticus is not always maintained by conscious choice. Research findings indicate that managers do not always notice how managerial methods of the Soviet era may sometimes be unsuitable in changed business environment. In other words, Soviet organisation culture has become a barrier to change (Kuznetsov, 1994).

An illustration of the existence of Management Sovieticus in contemporary management culture is the social responsibilities that some state or even privatised companies are still expected to perform (Rutland, 1994). Another fairly well survived feature is the authoritarian managerial style, which manifests itself in manager-centred decision-making and inefficient delegation (Suutari, 1996; Gurkov, 1998). A third feature to survive is the central role of managers' personal relations in the post-Soviet business culture.

According to a Russian manager "*personal relationships are 90 per cent of the business*" (Bäckman, 1997, 43). The existence of the relations dating from the Soviet era has been supported by the turbulence of the market, which is why enterprise managers, at the first stages of the economic transformation in particular, resorted to their old relationships rather than taking risks by forming new business contacts (Salmi, 1995). Along with the development of the external business environment, the role of personal relations has weakened and, more than on relationships, emphasis is now placed on the partner's liquidity. Kharkhordin and Gerber (1994, 1081) illustrates such change by citing a Russian manager; "*I do not care who they are if they pre-pay the delivery*".

Some of the latest writings indicate that the friendship network is loosing its grip in the post-Soviet business culture, as managers are increasingly using official agreements, mergers or formal alliances. For example, Lehmbuch (1999, 5) suggests that "*... there is little evidence of 'clan'-style 'directors' networks' based on direct personal trust. Rather, economic actors prefer a two-pronged strategy of dealing with environmental uncertainty: While attempting to minimize*

*environmental exposure by establishing forms of vertical integration, they also hedge their exposure by maintaining multiple, often loose outside affiliations”.*

Although the personal relation network was extremely important in the Soviet enterprise management, this friendship network has not ever been and it will not ever be an intrinsic value in the enterprise management. In the Soviet era, the personal network secured the enterprise management against the imperfect operation of the centrally planned economy whereas the contemporary network acts as a business insurance to ensure the reliability of a business partner in highly turbulent environment.

Despite turbulence in the business networks, political, administrative and economic élite of the Soviet period has maintained rather well its position in the contemporary business circles especially in those former Soviet republics where reforms and market forces have not managed to flush the old Soviet friendship network away. In these less market oriented ex-Soviet republics, the economic system change has rather enlarged the business élite than removed decision-making power entirely from the Soviet élite (Liuhto, 1999d).

Although some of the Soviet managerial methods seem to have survived, empirical observations also indicate that some aspects of Management Sovieticus have changed considerably. Salmi (1995) states that post-Soviet managers are shifting focus from production efficiency to overall organisational effectiveness. This finding indicates that the post-Soviet managers have moved from internal production management towards more comprehensive business thinking.

Similarly, a number of researchers point also out that managers have become less production-centred as they have started to pay more attention to marketing and finance (Klaamann, 1992; Nurmi and Üksvarav, 1993; Üksvarav and Nurmi, 1993; Klaamann, 1994; Gurkov, 1998). For example, Gurkov (1998, 1) states that “ ... *corporate executives [Russian] are moving far away from the traditional Soviet paternalistic and production-oriented management*

*archetype. At the same time, their subordinates - neither middle managers nor workers, do not accept such a movement”*.

As Gurkov's view above brings up the disagreement about the transition between the top management and the rest of the company, also other research findings show that attitudes towards change are not homogenous in the post-Soviet enterprises. It has been suggested that the top management of companies have fairly open attitudes to change, whereas the lower management and workers tend to show less enthusiasm towards change (Clarke et al., 1994; Migliore et al., 1996; Gustavsson and Ljung, 1998; Liuhto, 1998b). In addition to differences between various organisation levels, the literature review also indicates increasing divergence in organisational behaviour between various post-Soviet republics (Jerschina and Gorniak, 1997), though some similarities are still visible in leadership styles (Suutari, 1996).

Due to growing divergence between ex-Soviet republics, the following apt characterisation of the Russian leadership style does not apply to the rest of the FSU, though some features can still be traced in the management culture of some former Soviet republics. *“The aggregate profile of the Russian leader ... provides a picture of a contradictory person, with a visible tough autocratic style and decisive behavior, ability to make individual decisions and assume responsibility for these decisions. The leader is autonomous, not relying strongly on teamwork, not trying to save face, and acting openly, quickly and quite competently in the Russian unstable and risky environment. He/she is not highly performance oriented, being at the same time status conscious. However, this assertive manner and the way he/she acts in an uncertain economy with the lack of future vision, does not make the individual a strong charismatic leader”* (Hisrich and Gratchev, 1999, 14).

If the organisational and managerial transition in the FSU is approached from the theory building perspective, it can be noticed that a comprehensive theory explaining organisational and managerial transition has not been designed by the end of the millennium. Even if a comprehensive theory has not been created yet, Shama (1994b) has

designed a model of transformation from a planned economy to a market economy, which takes also into account the microeconomic transition. Although the model can be characterised more as a description of occurred re-orientations rather than a complete explanation of causal relationships between these re-orientations, this model describes aptly the multidimensional and the comprehensive nature of the transition (see Figure 2).

To conclude, the main observations of the literature review on the organisational and managerial transition in the FSU can be summarised as follows. First of all, the ownership structure does not necessarily determine the organisational and managerial success, although ownership presumably does have a strong influence on changes. Second, even if company's strategic response to the revolutionarily changed business environment is a pre-condition to organisational success, a lack of strategic management thinking is not uncommon among post-Soviet companies. Third, well-designed business and adequately modified education and managerial training are required to aid post-Soviet enterprises to avoid *ad hoc* re-orientations and secure organisational competitiveness in the long run.

Fourth, the different position of companies in relation to the central planning should be acknowledged in the study of the organisational and managerial transformation, since the organisational restructuring does not necessarily demand the same managerial skills than building a new organisational entity from scratch. Fifth, the post-Soviet companies have inherited features of Management Sovieticus, which draws attention to the ability to de-memorise the unsuitable Soviet managerial practices. Sixth, empirical studies indicate that certain aspects of management seem to have transformed while some others have preserved features of Management Sovieticus, sometimes by managers' conscious choice or because of organisational inertia.

Seventh, foreign managers operating in the FSU are sometimes forced to adopt features of Management Sovieticus, and therefore, they do not automatically distribute Western management practices in the ex-Soviet Union. Eighth, the organisational and managerial transformation seems to be progressing at a different speed and

following different paths in former Soviet republics. Ninth, the recovery of business ethics from the unhealthy heritage of the Management Sovieticus should be supported, since without change in deeper level of an enterprise the transition remains superficial. Tenth, cultural features of nation-states and regions are increasingly manifested in the post-Soviet enterprise management, and therefore, relatively homogeneous Management Sovieticus has disintegrated to many distinctive national and regional management cultures.

The following table presents almost 150 studies concerning organisational and managerial change in the former Soviet Union (see Table 3). The table is by no means a comprehensive presentation of all important contributions in the research field. These studies have been named as examples of investigations concerning the organisational and managerial transformation in the FSU. Even if the list does not include all notable studies, the table may provide with a fast access to some interesting empirical researches.

#### **4. Some Suggestions for Future Research**

Earlier studies have strengthened the basis of understanding organisational and managerial transformation in the FSU. However, some of these researches suffer from a rather inadequate methodology, as they tend to study post-Soviet enterprise and its management only at one particular point in time. Regardless of such a cross section approach, they sometimes draw very strong conclusions on the transformation. As the previous empirical studies have not reached unambiguous conclusions, it would be essential to conduct further research on the following themes:

- (1) Analysis of the transition phases and tracks of various enterprise populations in the FSU, as research could help in focusing the enterprise support.
- (2) A detailed study on investment behaviour, as intensified and adequately focused investment activity is the fundamental source of economic growth and development.
- (3) The change of top-management team and its impact on organisational transformation, as research could pinpoint the

managerial characteristics leading to improvement of enterprise performance.

- (4) A detailed study on the impact of foreign influence (foreign ownership, foreign management team and foreign trade activities) on organisational effectiveness, as contemporary findings on the relationship between foreign influence and enterprise performance are not unambiguous yet.
- (5) Thorough analysis on changes in business network and inter-enterprise relations, as it seems that the transition of the enterprise web plays a crucial role in the overall transformation.
- (6) A comprehensive research on enterprise financing, as it would be of utmost importance to distribute the scarce aid and funding to the most promising companies.
- (7) A detailed study on the relationship between private ownership and enterprise success, as the previous research has not produced unambiguous results on this issue, which can be regarded as the core of the transformation from socialism to capitalism.
- (8) Designing comparative competitiveness analysis for the post-Soviet companies, as a comparative competitiveness scheme could create a more solid basis for evaluating ex-Soviet companies and offering foreign and national aid to truly competitive enterprises.
- (9) A large survey on inter-enterprise payments, as the economic crisis in the former Soviet Union has created enormous inter-enterprise arrears. Research could offer a solution to escape from the vicious circle of inter-enterprise arrears.
- (10) A longitudinal study on the 'soft sides' of post-Soviet enterprises, such as development of business ethics and managerial values, would be necessary since without change in these 'invisible' parts of an organisation the transformation of 'hard' aspects of the enterprise management remains artificial.

It seems appropriate to start finishing this report with the words of the Estonian academic, Raoul Üksvarav (1991, 11) who stated on the eve of the disintegration of the Soviet empire as follows; *“There have been, and still are several theories and practices on how to go from capitalism to socialism. They have all, actually failed more or less so*

*far. Yet there does not exist a single theory on how to go from socialism to capitalism”.*

As a comprehensive theory on organisational and managerial transformation has not been designed yet despite almost 10 years of transition, both quantitative and qualitative empirical studies on the issues mentioned above would contribute considerably to theory building. However, the uniqueness paradox should be taken into consideration when theories and models on the organisational and managerial transition are built. In other words, although the transformation at the system level is indisputably unique in the history of mankind, the author believes that the impact of the economic system change, at the enterprise level, is not necessarily so unique, as it resembles profound and enterprise population-wide re-orientation, which occurs in an extremely turbulent business environment.

In fact, the views stressing the complete uniqueness of the transformation at the enterprise level would argue, at least implicitly, that the logic behind organisational and managerial behaviour in transition economies is significantly different from the organisational and managerial logic in market economies, which is not so easy to believe in. Therefore, explanations for differences in enterprise behaviour between transition economies and in advanced market economies should not necessarily be searched for at the economic system level but at the enterprise level.

For example, the organisation cultural approach might aid to discover the main factors for these differences in management behaviour. In other words, cultural approach stressing the importance of the heritage of the socialist organisation culture in understanding the contemporary enterprise behaviour may be a more important determinant in explaining differences between the post-socialist companies and enterprises operating in advanced market economies than the economic system change *per se*.

Although transition economies would not require unique microeconomic theories, it should be stressed that the organisational and managerial change in transition economies is much more

profound and comprehensive than in the West, as almost the entire enterprise population and even the whole society are transforming. Despite the profoundness and the comprehensiveness of the transformation, it can be argued that change at the enterprise level is more transition-specific than completely unique and therefore allows academics to use 'Western' theories and models on the organisational and managerial change to the microeconomic transition of the post-socialist economies.

So far, scholars have been relatively passive in combining Western theories on organisational change and Eastern empirical data, though advantages of such integration seem obvious. Hopefully, the contribution of integrating Western theories and Eastern data is recognised more often in future research efforts, as the integration would most probably lead to accelerated accumulation of understanding on the organisational and managerial transformation in the FSU and in the rest of the former socialist bloc. In fact, appropriately balanced combination of Western theories and Eastern data might enable scholars to build a theoretical bridge between the East and the West, and hence, to support the integration of the post-socialist companies into the global business world.

## Notes

1. Deficiencies in the statistical material and the deteriorated comparability of the statistics in the post-Soviet republics should be taken into consideration when statistical data is presented in this article.
2. It needs to be noticed that a great share of foreign owned companies does not operate, though they have been registered. For example in Russia, more than 45,000 enterprises have been registered while only some 15,000 operate on permanent basis in 1998 (RSC, 1999).
3. According to Fitch Ibcia organisation, the capital flight from Russia was USD 136 billion during 1993-1998 (Kauppalehti, 1999). Should this estimate be correct, it would mean that the capital flight from Russia is almost 15 times the FDI inflow to Russia (EBRD, 1998). This inflow-outflow analysis indicates clearly that attracting foreign capital is a less significant policy measure to increase investment capital in Russia than creating business environment, which would strengthen Russian capitalists' belief in the opportunities offered by their home market.
4. Kleiner (1994) describes also the impact of the post-Soviet reforms on the enterprise management in Russia. These reforms have not been presented here, as this section does not deal with the post-Soviet changes.
5. In this context, it should be stressed that the Soviet management can be regarded as relatively homogeneous until the Perestroika era, when the differences started to become wider and more visible.
6. The research refers to no comparative management studies, as their contribution here is not very significant. Many of them are methodologically inadequate. Furthermore, they tend to compare the management of enterprises in different countries

rather than different economic systems. In other words, this type of comparison is largely based on descriptions of management instead of reasons behind these managerial differences. However, some writings can be illustrative, such as Richman, (1965), Granick (1972), Banai and Levicki (1988), Lawrence and Vlachoutsicos (1990), and Kiezun (1991).

7. The reflection of management theories on Soviet enterprise management can be summed up by stating that, during Lenin, management theories were based on socialist *Taylorism*, which was founded on a strict, 'scientifically' determined division of labour and the political loyalty of the employees. Inspired by socialist *Taylorism*, Bogdanow developed the theory of *Tektology* and Kerzhentsev the theory of *Scientific Labour Organization*. During Stalin, management theories were considered unsuitable for the operations of Soviet enterprises. This explains the neglect and *ad hoc* measures, which were applied to enterprise management (Gorelik, 1975; Kiezun, 1991). After Stalin's era, the Soviet Union again began to utilise some managerial practices which were also used in the West, such as the system approach in enterprise management (Conyngham, 1982). Although there is quite a considerable amount of organisation studies published in the Soviet Union after Stalin (Beissinger, 1988), they are principally normative system descriptions rather than analyses of real managerial behaviour. In addition to normativeness, the reliability of Soviet studies can be questioned as it was not rare for researchers to publish results that pleased their employers or even to distort the findings (Bauer et al., 1959; Shlapentokh, 1989; Dewhirst and Farrell, 1973). Given the normativeness and potential unreliability of organisation studies published in the Soviet Union, this research is mainly based on studies published outside the Soviet Union.
8. In practice, the Soviet-type planned economy was more vertically than horizontally integrated. In other words, the enterprises were closely linked to the administrative organs

above them, but fairly loosely linked to the operations of other enterprises (Conyngham, 1982).

9. The operation of the Soviet industrial enterprise was governed in almost every respect by the *techpromfinplan* (technical-industrial-financial plan). This plan was annual (semi-annual, quarterly, monthly) subplan of long-term (five- to seven-year) perspective plans (Gregory and Stuart, 1981).
10. When the functioning of the reward system is evaluated, “*one must not leave unnoticed that ‘bonuses’ had gradually ceased to be an extra payment and become something regular as a normal wage (the first signs of this phenomenon were noticed by Granick as early as 1960) ... The impact of bonuses being only marginal, the importance of non-cash incentives can be expected to increase. Owing to the bureaucratic nature of the relationship within management hierarchies in a command economy, to behave rationally for the manager would imply maximising his status. Here under status we understand power, privileges and career opportunities. The importance of status followed from the fact that an individual was evaluated and rewarded according to the position occupied in a hierarchy*” (Kuznetsov, 1994, 961).
11. The term ‘non-legal’ refers here to activity which is in principle illegal but unofficially approved by the central planning. This is to say that the officials did not interfere in the unofficial activities of the enterprise if it could hence fulfil its plans. However, some measures were not allowed even unofficially and they were regarded as illegal (Millar, 1988).
12. Enterprise autarky was increased particularly in the 1970’s. An indication of the increased autarky was that 18,000 enterprises had joined the industrial associations by 1981 (Beissinger, 1988).
13. As planning the activities and controlling a large number of small enterprises would have been a complicated task, the

centrally planned economies tended to prefer a small number of large enterprises. Another reason besides controlling enterprises was the economies of scale thinking, which emphasised large production units in increasing efficiency. These are two main reasons why the company size was considerably larger in the centrally planned economies than in market economies (Kuznetsov, 1994; Ickes and Ryterman, 1997).

14. Some scholars define managerial *troika* slightly differently. For example, Kivinen (1988) suggests that managerial *troika* consisted of enterprise management (managerial *troika*), party organisation, and labour union.
15. The managers of Soviet enterprises attempted to minimise their risks while acting within the framework of the official system. Despite this risk-aversion, ‘red entrepreneurs’ operating in the shadow economy were ready to risk even their personal freedom in practices that were legal in market economies but sanctioned in the Soviet economy (Hisrich and Gratcev, 1993). According to Kusnezova (1999, 60), “*until 1987 entrepreneurship was considered to be crime*”.
16. The legislative foundations for producers’ co-operatives were formulated during 1986-1988 (Linz, 1988; Plokker, 1990). Producers’ co-operatives should not be mixed up with collective farms (*kolkhoz*) operating in agriculture, because they were practically operating under the central planning. Foreigners from capitalist countries had had a right to establish subsidiaries in the Soviet Union since 1987. The joint venture act of 1987 was especially directed at companies coming from the capitalistic countries because the enterprises of the socialist countries had already had a right to found subsidiaries in the Soviet Union since 1982. Despite this right, enterprises from socialist countries had not been very enthusiastic about establishing joint ventures in the Soviet Union before the act of 1987 (Matejka, 1988). As a result of allowing new types of enterprises in the Soviet Union, some 200,000 producers’ co-operatives, 1000 foreign-owned, and 2,400 leased enterprises were registered by

the beginning of the 1990's (Katila, 1990; Slider, 1991; Filatotchev et al., 1992; Laurila, 1993).

17. A large number of quotations is presented in this section to offer colourful and apt descriptions of the essential empirical findings.
18. However, some other scholars have found that there is no constant linkage between the employee ownership and weak performance. For example, Jones and Mygind (1998, 1) state that "*the key obstacle to enhance performance does not appear to be employee ownership [in Estonia]*".
19. For example, the share of Cyprus was some 12 per cent of the FDI inflow to Russia in 1998. Most probably, Russian capitalists are behind these extensive investment flows from Cyprus to Russia (RSC, 1999).
20. This finding is based on the interviews of joint venture managers in 1991 and 1992 (Liuhto, 1991; Liuhto, 1993a).

**Table 1: Some Consequences of the Soviet Reforms to the Enterprise Management**

<b>Period</b>	<b>Cause of Changes</b>	<b>Type of Management</b>	<b>Main Independent Units</b>	<b>Conventional Name of Period</b>
40s-50s	Industrial management reform 1940-41	Centralized	State	“Command Economy”
End of the 50s- mid 60s	Krushchev’s 1957 economic reform	Regional	Regional committees of national economy	“Regional Decentralization”
Mid 60s- mid 70s	Brezhnev’s 1965 economic reforms	Industrial	Industrial ministries	“Ministerial Administrative Command Planning”
Mid 70s - mid 80s	Brezhnev’s 1973 industrial management reforms	Subindustrial	Main boards of ministries, all-union	“Departmental Administrative Command Planning”
	Various schemes of industrial management		All-Union industrial corporations	
Mid 80s-1992	Gorbachev’s Perestroika reforms, state enterprise law of 1987	Enterprise	Large enterprises, corporations enterprises	“All-Union Industrial Combines” VPO

Source: Kleiner (1994, 112)

**Table 2: Characteristics of Management in Privately-Owned and State-Owned Companies**

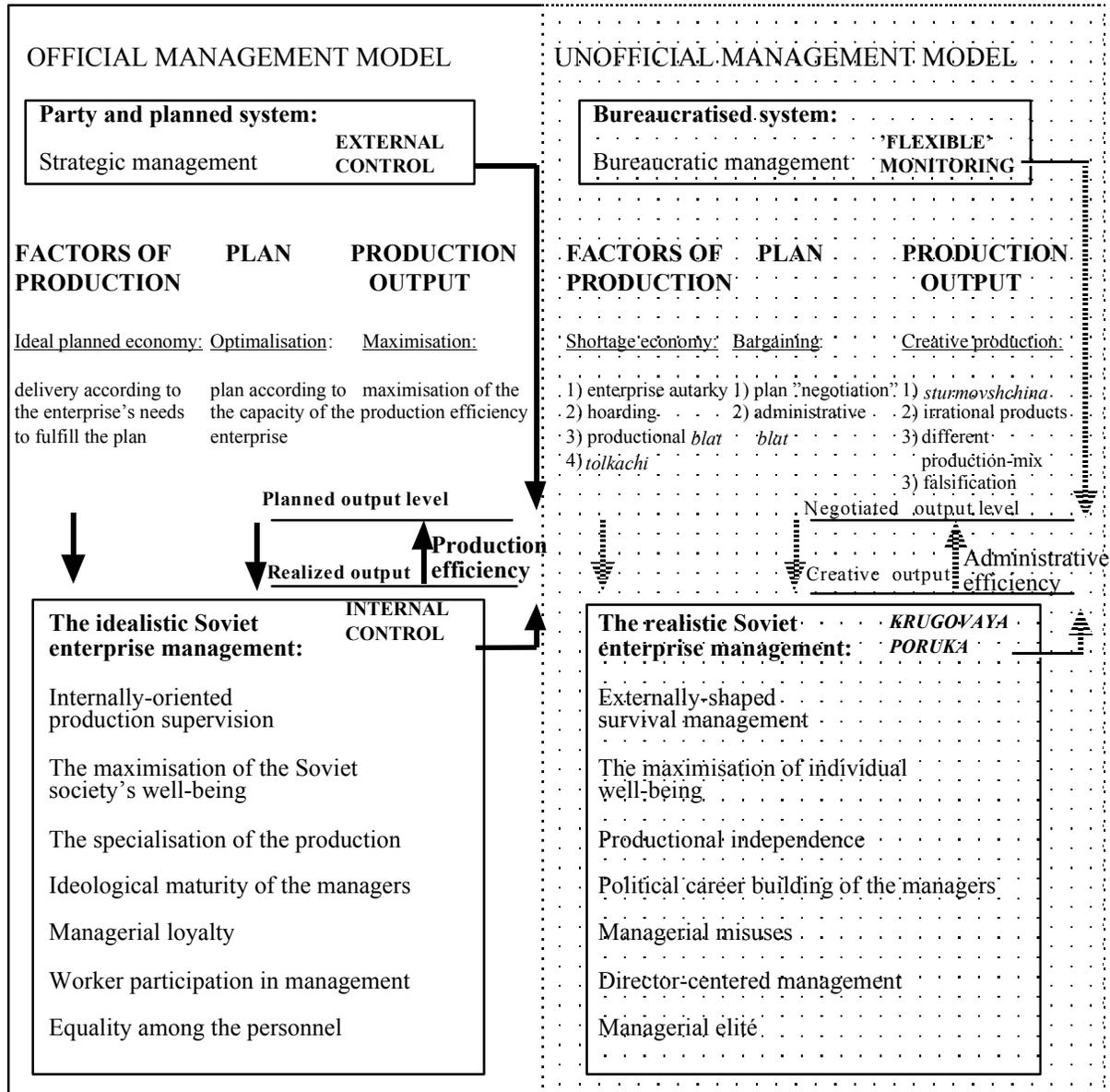
<u>Managers of Private Companies</u>	<u>Managers of State-Owned Companies</u>
Younger	Older
Professional education	Nomenklatura
Pro-change, hopeful for future	Anti-change, look to past
Sales background	Engineering background
Active, fast to act	Passive, slow to act
Flexible, open minded	Rigid, closed-minded
Problem solvers	Stick to plan
Order-givers	Order-takers
Businessmen	Party men
Entrepreneurial, risk-takers	Conservative, risk-averse
Strategic, externally oriented	Operations focused, inside people
Market oriented	Plan oriented
Consumer oriented	Production oriented
Rely on market signals	Rely on personal contacts
Price according to market demand	Price according to costs
Use promotional tools	No use for promotion
Use more efficient distribution	Distribution is state-dictated
Pay for performance	Pay for grade
Speak languages of markets	Speak language of past markets

Source: Shama (1993, 31)

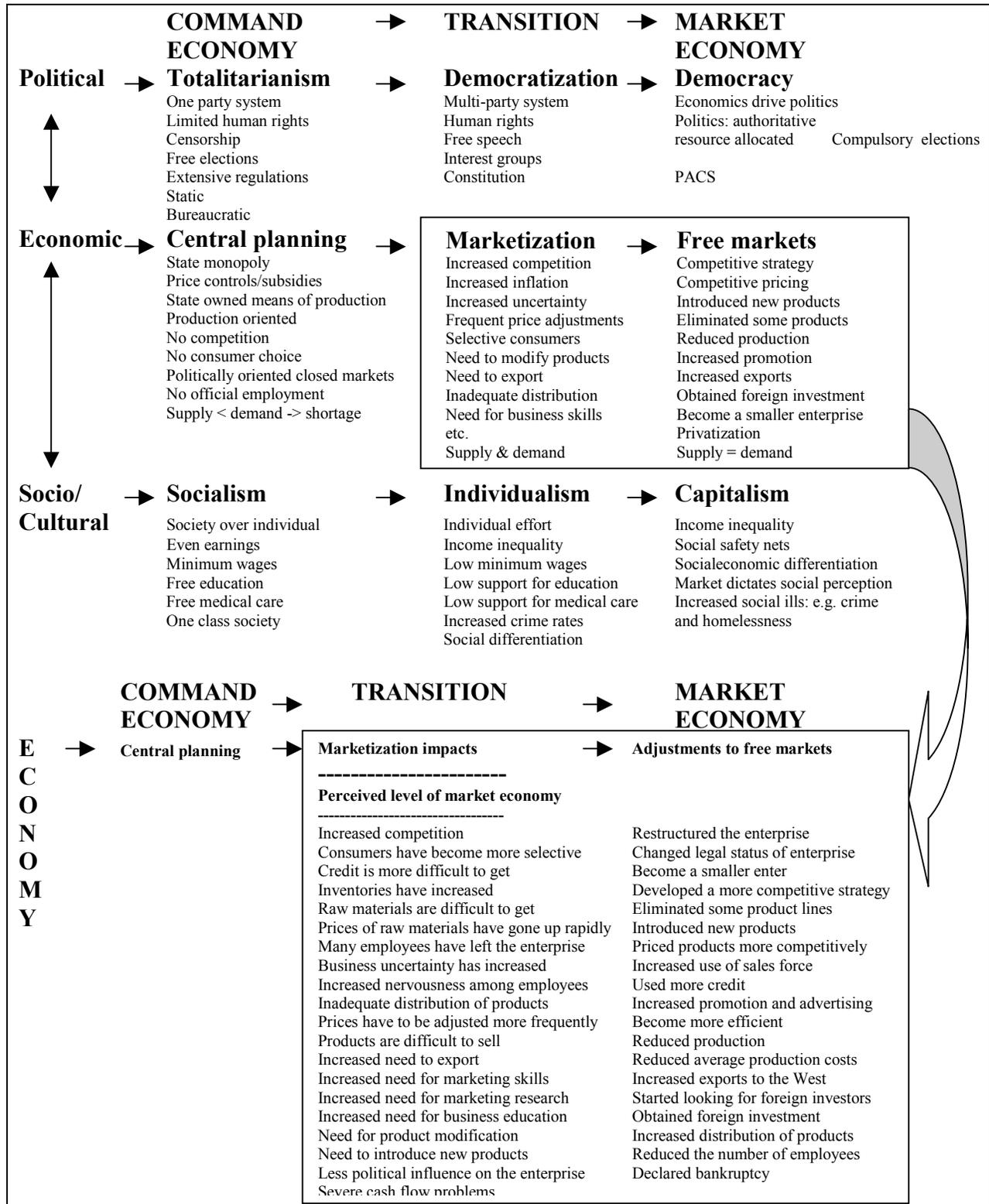
**Table 3: Some Studies Concerning Organisational and Managerial Change in the Former Soviet Union**

<u>Main Theme</u>	<u>Author/s (publication year) Country Focused On</u>
<b>Ownership Transformation, Restructuring and Other Organisational Arrangements</b>	von Hirschhausen & Hui (1995) <i>the Baltic States</i> Frydman et al. (1993) <i>the Baltic States, Russia &amp; Ukraine</i> Djankov (1998) <i>the CIS</i> Nellis (1996) <i>Estonia</i> Filatotochev et al. (1992/1996); Hendley (1992); Ash & Hare (1994); Brown et al. (1994); Clarke et al. (1994); Rutland (1994); Vacroux (1994); Boycko et al. (1995); Buck et al. (1995/1996); Freinkman (1995); McCarthy & Puffer (1995); Radygin (1995); Tsenzharik (1995); Zilcken (1995); Barberis et al. (1996); Boycko (1996); Earle & Estrin (1996/1997); Earle & Rose (1996); Schleifer & Vasiliev (1996); Shekshnia & Puffer (1996); Brown (1997); Duflo & Senik-Leygenie (1997); Ickes & Ryterman (1997); Kalmi (1997); Scott (1997); Healey & Lekslin (1998); Wright et al. (1998) <i>Russia</i> Hare et al. (1996); Akimova & Schwödauer (1998) <i>Ukraine</i>
<b>Enterprise Performance</b>	Mygind (1997); Liuhto (1999b) <i>the Baltic States</i> Jones & Mygind (1998); Purju (1998) <i>Estonia</i> Kuznetsov & Kuznetsova (1996); Richter & Schaffer (1996); Fey & Denison (1998) <i>Russia</i>
<b>Business Environment and Organisational Adjustments and Re-orientations</b>	Üksvarav & Nurmi (1993); Gustavsson & Ljung (1998); Liuhto (1998b/1999a); Tammeraid et al. (1999); Vensel (1999) <i>Estonia</i> Dent (1994); Golden et al. (1995); Krueger (1995); Kabalina et al. (1996); Varshavskaya & Donova (1996); Bruton & Rubanik (1997); Gurkov et al. (1997); Linz (1997); Hendley (1998); Mills & Polonsky (1998); Richey et al. (1998) <i>Russia</i>
<b>Corporate Governance, Management and Leadership</b>	Kustin (1998) <i>Belarus</i> Liuhto (1996) <i>Estonia</i> Suutari (1996) <i>Estonia &amp; Russia</i> Kozminski (1993); Puffer & McCarthy (1993); Shama (1993/1994b); Welsh et al. (1993); Kuznetsov (1994); Longenecker & Popovski (1994); Puffer (1994); Shekshnia (1994); Frydman et al. (1995); Pistor (1995); Melin (1996); Romanov (1996); Blasi (1997); Gurkov (1998); Matthews & Yeghiazarian (1998) <i>Russia</i>
<b>Management Education, Training and Development</b>	Greer (1995); Radosevic (1997) <i>the Baltic States</i> Elenurm (1999) <i>Estonia</i> Zhuplev & Kozhakhmetov (1997) <i>Kazakhstan</i> Puffer (1993); Kozlova & Puffer (1994); Wiley (1994); Hisrich & Gratchev (1995) <i>Russia</i>
<b>Organisational Learning</b>	Nurmi & Üksvarav (1993); Nieminen & Törnroos (1996) <i>Estonia</i> Gurkov & Kuzminov (1995); Kuznetsov (1995); Nieminen (1997/1999) <i>Russia</i>
<b>Investment Behaviour</b>	Zilcken (1997) <i>Latvia</i>
<b>Business Ethics</b>	Kharkhordin (1994); Kharkhordin & Gerber (1994); Puffer & McCarthy (1995); Hisrich & Gratchev (1999) <i>Russia</i>
<b>Organisation Cultural Aspects and Business Philosophy</b>	Jerschina & Gorniak (1997) <i>the Baltic States, Belarus, Russia &amp; Ukraine</i> Liuhto (1997a); Vadi & Buono (1997) <i>Estonia</i> Urmov et al. (1993); Migliore et al. (1996); Puffer et al. (1996); Ralston et al. (1997); Holden et al. (1998); Vlachoutsicos (1998); Kusnezova (1999) <i>Russia</i>
<b>Personal Relationships and Networks in Business</b>	Salmi (1995/1996); Lehtinen (1996); Bäckman (1997); Rizoupolous (1997); Ledeneva (1998); Boiko & Tsenzharik (1999); Lehmbuch (1999) <i>Russia</i>
<b>Market Entry, Strategies and Operations of Foreign Companies in the FSU</b>	Hirvensalo (1996) <i>the Baltic States &amp; Russia</i> Borsos (1994); Nieminen & Törnroos (1995); Törnroos (1996); Ziatic (1998/1999) <i>Estonia</i> Suutari (1998); Nieminen & Larimo (1999) <i>Estonia &amp; Russia</i> Franko (1996) <i>Lithuania, Russia &amp; Ukraine</i> Cattaneo (1992); Jermakowicz & Jermakowicz (1993); Lawrence & Vlachoutsicos (1993); Hamill & Versun (1996); Thornton & Mikheeva (1996); Anderson et al. (1997); Arenkov & Rakhmatullina (1999); Sutyryn & Trofimenko (1999) <i>Russia</i> Bridgewater et al. (1995) <i>Ukraine</i>
<b>Internationalisation of Post-Soviet Companies</b>	Sörg & Ivanova (1999) <i>Estonia</i> Liuhto (1998a) <i>Russia</i>

**Figure 1: The Duality of Management Sovieticus**



**Figure 2: A Model of Transformation from a Planned Economy to a Market Economy**



Source: Shama (1994b, 302-304)

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