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Overlapping effects: Path dependence and path generation in management and organization in Russia

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ABSTRACT

An important contribution to our understanding of management transformation in post-socialist societies has been made by new institutionalism. The strength of this approach derives from its critique of normative models based on neo-classical economics, which has tended towards institutional and management voluntarism. It has been able to grasp complexity in societies undergoing structural change, stressing that path dependence in property, political and social structures helps to define business organization. The limitation of new institutionalism lies in its tendency to overstate institutional stasis, failing to treat (national) institutions as contradictory and transient (localized) expressions of global processes. Based on extensive qualitative data, our article extends the understanding of path-dependence. Rather than dispensing with key insights of new institutionalism, we bridge the notion of path dependence with the contradictory processes of institutional reshaping and adaptation. Using an adapted version of the 'system, society and dominance' (SSD) model, we demonstrate that the nature of Russia's insertion into the global market has had a substantial impact on firm ownership and strategies, while simultaneously limiting reforms to management structures and work organization.

KEYWORDS

business systems theory ▪ Central and Eastern Europe (CEE) ▪ institutional theory ▪ international/comparative management ▪ organizational change ▪ path dependence

Introduction

The collapse of state socialism in Eastern Europe and the Soviet Union has generated a considerable body of literature dealing with management change. One approach has stood out as particularly auspicious. The new institutionalist critique of 'capitalism by design' (Stark, 1996, 2001; Stark & Bruszt, 1998; Stark & Grabher, 1997), promulgated by mainstream political scientists and neoclassical economists (Aslund, 1997; Boycko et al., 1995; Commander et al., 1996; Sachs, 1994; Shleifer & Treisman, 1998), has maintained that reforms based on the 'transition' paradigm pay little or no attention to the embeddedness of the economy within societal structures (Granovetter, 1985). Institutions, combined with the political influence of actors within the economy wishing to preserve their basis of power, make the Russian economy incompatible with the demands of global capitalism and the 'new economy', holding back many aspects of reform (Stark, 1996; Stark & Bruszt, 1998). On the other hand, while failing to embrace radical change, actors preserve specific organizational forms as a defensive, 'best of a bad situation' position (Stark & Bruszt, 1998). Conceptually, the durability of traditional institutions in Russia is further evidence to support the different perspectives on the enduring divergence between nation-based systems of economic governance (Boyer, 1997; Dore, 2000; Hall & Soskice, 2001; Hollingsworth & Boyer, 1997; Streeck, 1997; Whitley, 1999).

The arguments provided in these texts claim a strong explanatory role for institutions in holding back and shaping change. However, while the emphasis on institution-based path dependence (Maurice & Sorge, 2000; Stark, 1996; Stark & Bruszt, 1998; Whitley, 1999, 2005) provides an important counterweight to the more extreme versions of convergence theories (Gereffi, 1994; Ritzer, 1993; Sklair, 2002), its view of largely internally shaped change can be theoretically emasculating in the face of radical changes which undermine established arrangements and practices. It can posit institutions as:

> knowing strategic agents, and national business systems as unchanging; when in practice, institutions arise, decay and change – through the force of outside events, the rise of new interest groups or class struggle between collective actors . . . which can lead to recasting of national settlements in novel ways.
>
> (Smith, 2007: forthcoming)

Our analysis builds on Stark and Bruszt's (2001) view that the dynamics of management in post-socialist firms represent the evolutionary development of existing practices under the impact of market structures. However, in constructing our paradigm we place this perspective within the limits of the 'system, society and dominance' (SSD) model (see Elger & Smith, 1994; Smith, 2006, forthcoming; Smith & Meiksins, 1995). According to this model, three distinct effects shape the nature of management and work organization: the *system effects* – deriving from the essential aspects of capitalism, the *society effects* – deriving from the embeddedness of economies in historically developed and culturally defined institutions, and *dominance effects* – deriving from the 'one best way' logic emerging from dominant multinational firms, intellectual currents or powerful interests. However, in drawing upon this model we make one conceptual refinement, based on the difference between the focus of our research and the original concern with establishing the sources of diversity and congruence within organizations exposed to internationalizing processes. Our research suggests that a broader understanding of dominance effects is called for, consisting not only of the sum pressures of 'world best practice' but of the global political-economic hierarchies that compel national business systems to enmesh with the global business environment, producing changes in the institutional configurations.

The significance of applying the present theoretical framework lies in enabling us to accentuate the external pressures that constitute what Stark and Bruszt (1998) call 'critical junctures'. Whereas the new institutionalist focus on path dependence has stressed societal effects as the cardinal mechanisms in reinforcing the relevance of traditional practices in organizations, particularly regarding how property is acquired and maintained, capital is raised, and business strategy is devised and fulfilled, we believe this provides only part of the explanation. Particularly in the case of societies undergoing transition to capitalism, the 'system' effects of capital accumulation, the profit motive, the subordination of use value to exchange value, cannot be presupposed as either inevitable or identical with existing experience in developed capitalist societies, where much of the research and theories of organization have been formulated. Likewise, new institutionalism conceptually pays insufficient attention to external economic forces in producing 'critical junctures' (Stark & Bruszt, 1998) or steering business actors and networks towards practices that remould legitimate institutions and reshape the contours of society. Consequently, these have a bearing on business strategy, management structures and work organization. By incorporating the developing structures of capitalism in Russia and the prevailing economic developments globally, we are able to treat social institutions as one of a number of extrinsic constraints on organizations, providing us with a conceptually more complicated and contradictory account. This allows us to argue that management structures and work organization do not express the inertia of institutions per se, but are shaped by the external processes of interaction between: 1) the social foundations of contemporary Russia as a capitalist market economy; 2) the institutional environment which shapes economic policy and the material basis of the economy; and 3) the 'terms and conditions' of the global economic order within which the Russian economy is positioned (McCann & Schwartz, 2006).

The effect on business strategy, management structures and work organization is furnished by Russia's insertion into the world market on the basis of the global division between national economies and national policy responses. The reforms of the 1990s have left Russia in considerable economic decline and structural stagnation. Subsequent changes have entailed consistent and well orchestrated policy changes aimed at keeping the value of the domestic currency low to stimulate domestic output while engaging with the global economy by using the existing industrial capacity and infrastructure, benefiting from the secular rise in oil, gas, metals and other commodity prices. The external variables have differently shaped the opportunities and constraints on different organizations, fostering within-country variance in corporate forms and compelling firms, actors and networks to rely on existing skills, models and resources as a means of engaging with the opportunities or repelling the instabilities of the market. While the incorporation of extrinsic influences does not rule out changes produced by internal elite configurations, templates and competencies derived from past settings (Powell & DiMaggio, 1991; Stark & Bruszt, 1998), it provides the analytical framework within which to gauge more fully the institutional influences on changes in strategy, management structures and work organization.

This article proceeds in four parts. In the next section we briefly outline the sample and methods of data collection. We begin the third section with an overview of firm strategies which have given rise to and consolidated the variance in corporate forms. This analysis continues in the subsequent two sections, dealing in detail with management structures and work organization. We summarize our findings by suggesting the following. The 'dominance effect' of the global political economy, maintained through relentless competition and innovation according to the rules set by transnational governance institutions, has induced Russian government and business policy makers to seek a more insulated form of engagement, protecting the economy from the full force of the global market as a means of attaining stability and growth. In conjunction with the former, the 'system effect' of operating under market constraints has shaped distinct strategic orientations of Russian firms and produced attendant corporate forms within specific industries and markets. The 'society effect' of social institutions that set limits of action within the practicable and acceptable has fostered the retention of many traditional aspects of management structures and work organization.

Sample and methods

This article draws on three separate research projects conducted between 2000 and 2006.[1] The research was carried out in 10 Russian cities (Ekaterinburg, Kazan’, Kemerovo, Moscow, Naberezhnye Chelny, Perm, Samara, St Petersburg, Syktyvkar and Ulyanovsk) and involved over 70 enterprises of different sizes (from 10 to 3000 employees), industries (metallurgy, engineering, automotive, telecommunications, construction and construction materials manufacturing, oil and oil refining, chemical, food processing, and light industry), ownership forms (holding companies, independent former state enterprises and small and medium enterprises) and management structures.

The cities were selected on the basis of their relatively diverse policy environments. Russia’s federal government provides for some regional differences in terms of the relationships between regional authorities and businesses, degrees of investment climate openness, and structures of the economy. Though there are some performance differences between regions or cities, with Moscow and St Petersburg showing greater growth, diversification, degrees of foreign and domestic investment, and standards of living, there are considerable similarities between the selected cities. Namely, all are large, highly industrialized conurbations, with relative degrees of economic structure complexity, and clear advantages in certain sectors, giving each a degree of dynamism. All regions are experiencing the effects of Russia’s general economic trajectory, with the main source of wealth in the last five to seven years deriving from the export of oil, gas and metals, while ageing but sizeable industrial and engineering sectors, and a rather limited and basic service sector, have been moribund, surviving without advancing, and having few opportunities or incentives to develop. All of the cities, industries and enterprises were, therefore, selected because they could be said to be ‘typical’. Accordingly, within firms we have focused on three variables which allow us to analyse the degrees of variance, similarity and change in the management system: *strategy*, *management structures* and *work organization*.

The data were collected by way of close to 600 semi-structured interviews. These were conducted with enterprise or company directors and/or their deputies, heads of managing departments (finance, strategy, marketing, and personnel), shop or line managers, foremen, trade union presidents, and workers (individuals and groups). The case studies of individual firms were used as the basis of both hypothesis building and comprehensive analysis. Given the dynamic nature of management and organization change in Russia, this method was seen as vital to acquiring reliable information and overcoming the limitation of using traditional survey methods.

The rationale for basing this article on three research projects carried out over six years is twofold. First, the combination provides us with a larger sample and greater diversity of cases, providing not only a diversity of regions, industries and types of firms, but, because of relative differences in the focus of the three studies, additional variables which increase our appreciation of management transformations. Second, the period within which the studies were carried out is of some importance in producing a more accurate understanding of continuity and change, as research has coincided with the period of redefinition and reshaping of political and policy environments under the present administration, bringing about profound legal, institutional and organizational implications for the economy and society. The richness of detail obtained in the studies is impossible to convey within the limits of this article. However, its breadth offers an opportunity to provide an analytical overview and to refer broadly to key conclusions, with selected interview excerpts provided to illustrate key arguments.

System transformation, dominance effects and firm strategies

The collapse of the Soviet system radically transformed the environment in which enterprises were obliged to operate and survive. Firms no longer obtained supplies, investment funds, or money for wages and welfare expenditures on the basis of the Plan, but had to find ways to earn revenue from the sale of products and services. However, rather than reap the anticipated benefits of the market, enterprises found the largest share of their surpluses being appropriated by the state through taxation, by monopolistic energy and raw materials suppliers, and by financial and commercial intermediaries which arose out of the privatization of state functions (and which owed their monopoly position to the continued support of the state or criminal forces). Debt mounted while enterprises stayed afloat due to lenient bankruptcy laws. Enterprise stagnation persuaded many authors to argue that Russian firms were effectively lying in stasis as ‘zombie enterprises’ (Kruger, 2004: 32) or ‘virtual enterprises’ (Gaddy & Ickes, 1998). Although chronically lacking capital and ability to generate income, firms could rely on ‘social capital’, involving ties with local or federal government bodies, or postpone payments to workers or suppliers, to buy time (Earle & Sabirianova, 2002;

Kapelyushnikov, 2001; Lehmann et al., 1999). It was this situation, typical of the first decade of transition, which considerably bolstered the arguments regarding the role of institutions and path dependent forms of socialized economic behaviour, 'leading some to doubt that Russia was in a transition to capitalism at all' (Clarke, 2004: 405).

The 1998 financial crisis and, in particular, the introduction of a stringent bankruptcy law revived the prospects for domestic production, long suppressed under the overvalued currency. The crisis especially affected the banks, significantly reducing their ability to profit from financial operations. At the same time, the bankruptcy law made it easy for creditors to acquire even solvent enterprises at favourable prices, leading many bank-centred financial-industrial groups towards investment in industry. Domestic investors moved into production on a large scale, facilitating the re-monetization of the economy and macroeconomic recovery. Yet, the process has been one-sided, as most acquisitions and the highest incomes have been concentrated in the oil and gas, metallurgy and commodity export sectors, reflecting the strategy of acquiring assets requiring low investment (given extant working plant and technology) and producing high returns. On the other hand, uncompetitive manufacture and limited services development has coexisted with the high earnings export sector, sustained by the monopolistic structure of the economy where single enterprises dominate entire industries or regions. The currency regime has sheltered domestic manufacturers from competition by making the price of imports excessive.

Table 1 presents these changes in our case study companies, illustrating how they have influenced strategic orientation towards three broadly defined types of firm: oligopolistic holding firms, independent former state-owned enterprises, and small- to medium-sized enterprises, providing an overview of the direction of change in management structures and work organization across firm types.

Holding companies, having their roots in the financial and commercial sectors, have emerged as central players in the revitalization of the Russian economy.[2] As raw materials export intermediaries and financial service providers, they benefited from hard currency revenues and monopoly positions, were least affected by the crisis and were best placed to acquire extraction, processing, and distribution facilities. The objectives of acquisitions differed between companies, encompassing vertical integration (acquiring enterprises to form a production chain), horizontal integration (establishing a regional or national monopoly based on distinct products or services), or portfolio diversification.

Vertically integrated holding companies are prominent in the oil and gas, metallurgy, forestry, and pulp and paper industries, where groups

Table 1 Directions of change across three main types of Russian firm

Type of firm	*Strategy*	*Management structures*	*Work and organization*
Holding firms	Capital originates from financial operations and industry intermediation. Increasing investment in export-oriented commodity (oil, gas, metals, timber) and domestic consumer goods markets. Acquisition and vertical and horizontal integration of firms to ensure reliability in supplies and distribution, cost reduction and rationalization, and local and regional market domination. Acquisition of non-related firms into diversified portfolios.	Rationalize operation of subsidiaries through cost-cutting initiatives. Tighten budget discipline. Develop marketing and customer service departments. Centralize management to the holding company level. Management decision-making and command and control mimic management structures of former Soviet planning/branch ministries.	Limited investment in new technology and working arrangements, as income largely generated through export of semi-processed goods or raw materials. Unreformed monopolistic structure of economy results in lack of competition, little impetus for major changes to labour management methods or work systems. Above average wages (and rebuilding of some traditional social benefits) alongside work intensification, employment reduction and tougher work discipline.
Independent FSEs	From survival to recovery. Streamlining of product lines. Low quality, low value-added production for domestic market in conditions of import substitution. Very limited or no capital replacement or new technology. Attempts to fully utilize existing capacity.	Marketing, finance and customer service functions remain rudimentary, and subordinate to production department. Lack of competition in certain sectors where firms operate enables continuation without substantial management restructuring.	Deterioration of skills and degeneration of production methods. Use of traditional Soviet salary scales and payment methods, but consistently lower than average wages. Loss of well trained, highly experienced and valuable employees, replaced recently by and influx of younger inexperienced employees. Substantial deterioration or collapse of social provision, preventing escape from vicious cycle of poor work organization.
SMEs	*De-novo* firms – based on self-generated start-up capital and personal initiative. Offering services and products otherwise not available. Concentrated in consumer services and retail. Small FSEs – under new, private ownership. Basic industrial products. Streamlining non-essential product lines and processes, tightening budgetary constraints. Local survival strategies – bribing officials and paying protection to local criminal organizations.	*De-novo* firms' management highly informal, flexible and personalized. Few or no hierarchical structures. Strategy and control exercised by owner-managers. Small FSEs under new ownership rely on old management team, using same structures and know-how, but under stricter budgetary regime.	Work intensification. Greater experimentation in payment systems. Informal, undeclared payments to staff. Shadow economy involvement. Break-down of traditional social benefit provision in small FSEs; no history in *de-novo* firms. In some cases mimic traditional FSEs in allocating discretionary benefits, using traditional hierarchies and social norms.

previously involved in intermediation and export acquired supplier and processing enterprises to achieve integration. They are also expanding into other sectors, as a means to strengthen the position of their subsidiaries by securing control of supplies and markets, including domestic markets which require limited investment but have considerable demand and potential. The concern of such holding companies is to secure the reliable delivery of high quality inputs and outputs at an economical price.

Horizontally integrated holding companies have developed particularly in sectors dominated by a relatively small number of large producers of standardized products. Their main concern is to establish dominance in regional or national markets and to cut costs by rationalizing subsidiary operations. These objectives have been achieved by concentrating production in the lowest cost producers and by centralizing management functions in the holding company. In the words of a senior manager in a large and expanding telecoms firm:

> We hold a federal licence. We worked very hard to obtain it, so our priority is to establish our network as wide as possible. If we are able to position ourselves as the dominant player, providing good service, reliable image, low prices, we squeeze out the existing local operators. This has been the case already in a number of regions, and where it hasn't happened yet we occupy a good position for doing this or to compete with other national operators based on our advantages. But, at the same time, being present in the whole region doesn't mean we have to employ many staff – just have a couple of installations, a distributor. This is how we cut our costs but still keep visibility.
>
> (Network development director, Telecommunications enterprise-1, Samara)

Diversified holding companies tend to take the form of industrial groups, which comprise a number of relatively independent vertically and horizontally integrated holding companies. Such companies are concerned above all with maximizing the profits of their subsidiaries and improving their long-term prospects by reducing costs or investing in new plant.

The second major type of enterprise emerging from the new strategic orientations is the privatized former state-owned enterprises (FSEs). These have remained independent from financial-industrial groups and have undergone little financial and organizational reform compared to holding companies. These enterprises typically declined in the previous decade, some running up debts to customers, suppliers and utilities companies, delaying or failing to pay wages (Earle & Sabirianova, 2002; Kapelyushnikov, 2001;

Lehmann et al., 1999), and losing large proportions of their workers (Clarke, 1998). However, having been saved from closure by the interference of local authorities, the skilfulness of the director or the willingness of employees to stay in work without pay (Schwartz, 2003, 2004), the devaluation of 1998 gave these firms a new lease of life, as imports became prohibitively expensive. They largely continue to manufacture traditional low quality, uncompetitive products for domestic consumption.

These companies have received very little investment in new technology, plant or production methods. While employment and wage levels have risen since 1998, they are considerably lower than those in holding company enterprises, although working conditions in all organizations remain arduous, unpleasant and unappealing to the younger generation:

> Wages are quite good here. But we are finding it difficult to compete with the neighbouring [export-oriented holding company enterprise]. We just don't have the same investment and development funds. Our market is still relatively small. So, we have had people leaving, particularly lately, where they have been increasing pay in line with the Euro, which has been growing faster than the Dollar. And the problem is these are younger people [leaving] . . . Our workforce is more than 70 per cent people 30–50 years of age; there are no people under 20, and 103 are pensioners. We can't attract too many young people. The work is too difficult. They want to work in new firms, in the service, with computers, for example.
>
> (Personnel manager, Petrochemical enterprise-2, Samara)

These enterprises have been particularly vulnerable to the long-term deterioration of their technological and skill bases.

Russian small- and medium-sized enterprises (SMEs) are a particularly heterogeneous group that cuts across industries, ownership and origins. However, we can narrow these to two kinds. The first are *de-novo* firms, which were set up in the mid-1990s through the initiative, energy and capital of their owners. The second are former state enterprises which were privatized in the early and mid-1990s, but which were later acquired by independent owners with no previous relationship to the enterprise or former commercial intermediaries who used the 1998 bankruptcy to make the acquisition. Upon transfer to new owners the enterprises were stripped of their non-core functions (such as the traditional social assets, housing, childcare, recreation facilities, and obligations to local collective farms, schools and communities). They also experienced some (usually very limited) investment and oriented themselves towards niches within local or regional markets, usually retaining the production methods and management of the old enterprise.

Both enterprise types range in size from firms with up to 10 employees, mainly in the consumer services sector, to firms of around 300 employees, in small-scale manufacturing. Many enterprises in our research faced problems with racketeering and other kinds of organized crime, although the situation seems to have eased for most during the last five to seven years. In the words of a senior government analyst interviewed in one of the research projects:

> A specific climate has been created, blocking the promotion of sophisticated systems and intelligent people into business. Individuals prefer to be employees, not self-employed. It is too risky and too unpleasant [. . .]. Small business reproduces criminalization of the sector. It provokes racketeering and corruption. [. . .] For me, it is a generational problem. The first generation has to create a more or less tolerable atmosphere. The system has become a little bit more civilized. It is a process of institutionalization and normalization of relationships.
>
> (Russian Presidential Administration analyst, Moscow)

The SME sector is widely regarded with a degree of optimism as the driver of change, and some of the firms have experimented with imitation of western business practices. However, its financial and political influence remains very marginal, consigning it to the periphery of the Russian business environment.

Organizational adaptation to system transformation has been pursued by business actors through the use of existing skills, templates and networks. This partly explains the organizational inertia and the flexibility with which firms have ensued with low capital investment and existing capacity utilization, permitting simultaneous advancement of the fortunes of some organizations and stagnation of others. At the same time, the focus on institutions fails to account for the fragmentation in strategic orientation and outcomes that result from the interplay between Russia's insertion into the world market and its policy responses. On the one hand, this interaction has cultivated economic structures conducive to energy and commodity export, encouraging the development of powerful holdings. On the other hand, it has provided domestic market insulation that has sustained outmoded and rudimentary manufacture and services, blocking the diversification and modernization of the economy. Likewise, this does not denote institutional adaptation to extrinsic constraints that leaves the content of institutions untouched. Extrinsic forces can shape the political and business elites' desire for greater and fuller integration into the world market, deepening the political, legal and administrative reforms which hasten institutional obsolescence and disintegration. Signs of this are already emerging among organizations of various forms and sectors in our research, pointing to how the dominance effect can progressively alter the societal effects of national institutions.

Management structures and the rationalization of traditional management

In the wake of mass privatization of the 1990s, as market pressures increased and enterprises came up against the threat of bankruptcy, conflicts in firms broke out between different management levels. Departments which sought to satisfy the demands of the creditors and to balance books demanded higher quality goods and services. Those which sought to maintain full production capacity demanded the means to buy supplies and equipment, and the wages to pay the workers. The priority of the enterprise director in the period of reforms was, therefore, to reconcile these differences as a means of maintaining the platform that enabled them to tap various income flows, attempting to ensure enterprise survival. The 1998 bankruptcy law changed the framework within which uncompetitive enterprises operated. The changes implied that former creditors or those who took over enterprise debts could bring them in. On the other hand, owners of those enterprises which were of no interest to the financiers who wanted to maintain their earnings would have to establish profitable operations, which primarily involved addressing the management structure.

The enterprises in our sample belonging to holdings underwent substantial reorganization, involving much tighter budgeting, more focused strategic planning, the development of marketing and customer service functions, changes to product lines, and the termination of non-profitable or non-core products or services. The acquired enterprises were previously independent FSEs, and their integration into holding companies mimics their former relationship to the respective ministries in the Soviet system. On the one hand, the strategic integration and subordination of enterprises to the holdings involves the top management of the holdings imposing very strict and inflexible budgetary policies on subsidiary firms. On the other hand, the headquarters of the holdings do not, despite initial attempts, exercise rigid managerial control over the production process and day-to-day financial management of the enterprises. As many of the senior and middle managers at the enterprises have remained unchanged, holding companies rely on the knowledge and expertise of production managers and their skill in managing relations between different units.

The success of vertically integrated companies derives from trading in raw and minimally processed materials on the world market, where their advantage lies in low unit labour costs, particularly given the low investment costs in acquired enterprises and the relative cheapness of the Russian currency. The horizontally integrated companies benefit from their regional or national monopoly positions. Thus, both types of companies face less stringent pressures to invest in new plant, improve production methods, implement new techniques and technology, impose more rigid control over labour or improve financial and management accounting at the level of the enterprise.

> There is no need for us to spend money unnecessarily on new technology or start things from scratch, as if we did not have the expertise, were not professionals in what we do. This enterprise has been around for almost 70 years. We have very sophisticated equipment which was installed in the 1980s – still the most sophisticated in our industry in Russia – and have managed to be successful even in the most difficult times. Now we have new owners, who appreciate the advantages of this enterprise and are able to furnish us with a steady supply of money and materials, and offer a stable market for our goods, without the conflicts of the last decade.
>
> (Director, Metallurgical enterprise-3, Samara)

In all cases the companies have not made considerable investments, and this has meant that there has been little impetus to change substantially the existing management structures at the level of the enterprise. Indeed, radical change at the present stage might prove counter-productive, undermining the stability which underpins the degree of success obtained in the context of recent economic stabilization which has been based on the secular rise in energy and commodity prices and domestic economy insulation.

The former state enterprises which did not form part of the holding companies underwent less reorganization than those within holdings. Although tighter budgeting has been introduced in all cases, it is focused on maintaining enterprise solvency rather than capital accumulation (see Table 1). Although some enterprises closed down certain shops to focus on successful product lines, those with unique output, regional monopoly or proximity to the end consumer (such as food processing and light industry), maintained the same product strategy, management accounting methods and management structures:

> We have a stable management team, most of us are also owners of the enterprise – so there is a visible proprietor (*khozyain*) who is concerned about the prospects of the enterprise. We don't need to attract outside capital. We've always done everything through our

> own efforts. And we don't have such a wide range of activity that we need to change our strategy. We have developed a distribution network in the last five years, headed by our marketing department, which allows us to reach even places as far away as Moscow and St Petersburg. We have been improving our products, using new methods, even bought some [used] equipment allowing us to make a number of very sought after items . . . We don't have the same level [of techniques and quality of finish] as imported [goods], but [among domestic producers] we only have one competitor in Cheboksary, and the prices for domestically produced goods are cheaper, so we have limited competition.
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> (Director, Textile enterprise-1, Samara)

This continuity in management structures is not solely a manifestation of path-dependent social institutions, but also represents the conscious response of FSE managers. Those FSEs which are oriented towards basic solvency and survival, the traditional management structures and work organization have served to repel the persistent perils of the system and dominance effects of the transition to capitalism.

With the exception of those firms which were start-ups with little or no initial capital, all other SMEs, which were former state enterprises acquired by individuals or groups, underwent some level of reorganization. Although the nature of that reorganization ranges from cutting out non-core activities and installing additional (used) plant to doing nothing more than redecorating the facilities, new owners introduced much tighter budgeting, more focused strategic planning, and gave primacy to the financial, marketing and customer service departments.

Although in some cases new owners hired new senior managers, or replaced the existing director, so as to break with the past, typically the managing personnel was hired from similar enterprises. In all cases, the traditional expertise of the managers is seen as central to organizing production, managing relations between different departments, and establishing relations with the outside. The basic principles of structure and operations management remain unchanged, apart from the lower level of formalization of relations and procedures, particularly regarding the nature of labour contracts, pay and reward management, tax compliance and business transparency. While less bound than FSEs by traditions and societal effects, SMEs are in contrast threatened by limited capital and resources. The future of the SMEs in our research appears to rest on the hope that demand will persist, although without major changes in management methods and investment such hopes could be dashed.

System, society and effects on work organization

Within the Soviet system of management the organization of work was subordinated to the demands of the plan, which placed priority on production volume with little regard for quality (Arnot, 1988; Clarke, 1993; Filtzer, 1994). There was little interest in controlling the way employees worked other than to control the quantity of output. Poor quality, pervasive waste, shortages, unreliability and irregularity of supplies were endemic, but the role of managers within industry was to chase supplies, resolve conflicts, fix breakdowns, retrofit operations and monitor targets. Work organization was highly informal and relied largely upon personal relationships between employees and line managers, cementing managerial discretion as an essential ingredient of the stability of the system. The informal and discretionary nature of management has proved extremely difficult to eradicate in the post-socialist period (Clarke, 2007).

The introduction of the market was seen as the key to breaking the employment system which was at the core of Soviet stagnation. However, far from forcing changes in the social structure of the enterprise, the subordination of the enterprise to the market reinforced many traditional problems of production. These were worsened by the increase of raw materials and energy costs brought about by price liberalization, the breakdown of long-established economic links, and the collapse of demand for many enterprises' products. Unpredictability, irregularity of supplies and unreliability of supply networks, along with the need to secure the conditions for proper working in the absence or instability of outside technical services, reinforced the traditional concerns with maintaining the social structures of the enterprise as the backbone of survival.

We expected our case study holding companies to have undertaken serious reforms. However, we found that, on the whole, the organization of work has not changed very much. Shop managers continue to exercise a significant degree of autonomy in organizing work, relying on traditional methods and relations, but compelled to intensify working conditions. Employees who have survived the headcount reductions are experienced and loyal, disciplined by the difficulties of the 1990s, and grateful for being retained in better paying jobs. They are, therefore, malleable to management demands.

There has been little change in systems of payment and reward. Many enterprises continue to use the Soviet handbook of professions and salary scales, if only as a guide, with the traditional 'plan fulfilment bonuses' still making up a substantial proportion of wages. Stricter control of enterprise finance means that line managers have much less discretion in rewarding workers for carrying out specific tasks than has been traditionally the case.

This has been welcomed by the senior management, but is seen by line managers as a problem, as it robs them of a powerful lever of control. The centralization of bonus systems leaves line managers with only punitive control measures:

> When the new owners arrived we were all very happy, because finally we would get regular pay, timely supplies, and production would be smoother. I was happy, because I felt I could offer my workers more opportunities. But, it hasn't been straightforward. Sure, there are supplies and the rest, but there is also a lot of pressure on us, and the finance office is very strict. Plus, the bonus funds, foreman's funds, for example, are no longer available. So I have fewer resources to motivate the workers . . . We divested our social welfare functions – the housing is no longer ours, the [children's summer] camp, the nursery, so what can I do to make the work here more attractive to young people. The wages are not bad, but it's not enough.
>
> (Shop manager, Automobile enterprise-1, Ulyanovsk)

There has generally been little substantive change in the technical nature of quality control, and the responsibility for maintaining quality is usually left to the discretion of individual workers and supervisors. Quality problems do inevitably arise due to ageing equipment or low-grade components and raw materials, but the result is that the traditional methods prevail, wherein workers are expected to use their ingenuity and skilfulness in retrofitting operations and overcoming technical shortcomings in exchange for favourable relations with line managers and the possibility of extra pay.

The holding company enterprises reverted to or revamped social benefit provision, which had been a central feature of Soviet enterprises and defined their character as the 'labour collective' united in overcoming extrinsic forces. However, the revival has taken a much adapted form, stimulating a traditional production-oriented culture with strong factory patriotism, but containing fewer substantial aspects. Many holding companies differentiate their labour force in social benefit provision, reserving the most sought after services, such as housing loans, holidays and healthcare, for the higher echelons, while widening the participation of all workers in the increasing number of communal celebrations.

There were broadly similar or less significant changes in work organization in the independent FSEs. Shop managers exercise a significant degree of autonomy in managing work, but, unlike holding company enterprises, the degree of stringency with which to adhere to production plan indicators tends to vary. Labour and other resource utilization tends to be flexible, and the absence of clear accounting mechanisms allows line managers to work within broader limits of the budget, providing enough scope to manoeuvre the wage funds as a means of increasing their control over employees. These enterprises offer relatively low wages and there is a continuous problem of labour turnover and the ageing of the workforce.

> We used to have one shift during the late 1990s. In the last few years we've moved to two shifts. Basically, the volumes have increased . . . It's not only the volume which has increased, but the nomenclature of the manufactured products. So, for example, 10 years ago we made the standard nomenclature . . . we knew exactly which articles to make and, accordingly, how many of them were necessary . . . Today, customers want something different. We have to try to modify our methods, using this old equipment we have to achieve new standards! This is not very easy. But at the same time, given the nature of our business and equipment we simply cannot work any faster, more intensively – it takes as long as it takes and we can only employ as many people as stated on the technical specifications of the machinery.
>
> (Shop manager, Construction materials enterprise-6, Ulyanovsk)

There has been some recovery of employment in FSEs, with greater numbers of younger recruits filling vacancies left open by the slump of the 1990s. The problem this creates is one of growing differentiation between long-serving, experienced and dedicated employees and employees lacking appropriate qualifications, skills and traditional moral 'upbringing' within the enterprise culture, a problem which is vexing in the context of the demise of vocational training (Walker, 2006).

The system of payment and reward at most FSEs continues to have traditional features, with production workers on piece rates plus bonus and other staff on time rates plus bonus. Most use the Soviet salary scales, and the traditional plan fulfilment bonuses still make up a substantial proportion of the wage. In one food processing enterprise new pay scales were introduced soon after the 1998 crisis, when output began to surge, only to be discarded after conflicts between shop and senior managers broke out over their destructiveness to the cohesiveness of the labour collective.

> We introduced new a pay system. It was meant to be simpler – less work for the wages department, like studying and norming jobs. I was not opposed to it in principle. But the problem was implementing it in practice – many workers perceived it as unjust. [. . .] It didn't recognize how much more valuable [experienced workers] are to us. And as for me – I was concerned too. How was I supposed to manage in these circumstances? These workers are our backbone.
>
> (Shop manager, Brewery-1, Ulyanovsk)

Where possible, FSEs maintain some elements of social benefit provision. Line managers continue to see social benefits and their differentiated allocation as an additional lever in the management environment where their power is increasingly curtailed by unpredictable and relatively low wages. The technical aspects of quality control remain unchanged, with large areas of responsibility over quality left in the hands of workers and supervisors. As we have seen, there are limits to the extent to which working with ageing equipment or low-grade components and raw materials can be overcome through individual inventiveness, and in the longer term enterprises have to consider investing in substantial re-equipment.

Since a proportion of small- and medium-sized enterprises are not constrained by traditional work organization, we expected to see the most radical changes among enterprises in this group. However, on the whole, management practices in the small manufacturing firms resemble those in use more widely. Particularly in small privately held FSEs, where the new owners have little knowledge of the day-to-day running of the enterprise, the management team exercises a significant degree of autonomy, even though they are under enormous pressures to adhere to the financial indicators passed down by the owners.

As in the holding company enterprises, work intensification and a tightening of discipline have been significant, but unlike in the former this has seldom involved comparable wage increases. Work intensification is expressed in an increased tempo, pressure to work overtime and weekends to complete specific orders, often without payment, and greater flexibility and multi-tasking. These are sometimes reinforced by brutal management discipline methods, which range from shaming to physical threats (Construction materials enterprise-7, Samara). Despite the labour turnover that this generates, companies are able to fill vacancies despite poor wages and sometimes appalling working conditions, mainly because the employees sought are in particularly depressed labour market segments. On the other hand, start-up service sector companies have their pick of employees, due to the more pleasant nature of the work and slightly higher pay.

> I don't think the wages here are good – you've seen the work, it's dirty and hazardous. We should be earning more. On top of this, I have to travel from far and take three different buses. Sometimes [I question] – is it worth it? But, the problem is, where we live enterprises don't offer even what I earn here. I can't move, because we have an apartment that my wife's parents left us, and there is no housing here. Then, I don't have the technical education that would allow me to seek a better job. So I'm happy to have this job.
>
> (Worker-2, Construction materials enterprise-7, Samara)

There has been greater experimentation in payment systems, although most enterprises continue to distinguish between main and auxiliary workers, offering piece rate plus bonus to the former and time rate plus bonus to the latter. In the service sector and some particularly small manufacturing firms, verbal employment contracts and pay arrangements, without clear indication about skill-related pay structures, progression or promotion, are commonplace. The most important feature of SMEs is their tendency to operate partly in the shadow economy, putting employees under pressure to accept low taxable wages and to be offered the remainder in cash, with a considerable number of employees in the SME sample reporting this to be a major source of pay fluctuation. However, very little of this information is disclosed to authorities or dealt with by trade unions, because it results from collusion between workers and managers.

SMEs also tend to enact strict and punitive quality regimes, with shop managers or directors immediately involved in fining the individuals or groups of workers. However, as with other enterprises, there is little technical change in quality control, so that the old production equipment and low-grade raw materials limit the extent workers' monitoring abilities, despite skills and experience.

The traditional social benefits and the maintenance of an elaborate social sphere in the enterprises was usually the first casualty of the new owners in small and medium (former Soviet) enterprises, and never existed in *de-novo* service firms. Benefits were stopped and facilities were closed down, sold off or spun out into separate companies. At the same time, many managers and workers show a desire either to restore or enlarge the social functions of the business. While the workers cite practical reasons for social benefits, such as sending children to summer camps, holidaying by the sea or using enterprise recreation facilities, the mangers see social functions of the enterprise variously as a 'natural part of what enterprises *ought* to offer their workers' (Director, Printing enterprise-1, Samara).

Conclusions and research implications

Our data demonstrate that there have been substantial changes to the ownership and strategies of many of the firms in our sample, limited changes to management structures and systems of control of the enterprise, and very few changes to work organization. This combination of change and continuity can be explained by a number of factors. First, the insertion of the Russian economy into the global market has provided political and business elites with the opportunity to elaborate strategic responses. The government currently maintains a currency regime buttressing domestic industry by making high value added imports from Europe, North America and Japan out of reach of most household and, especially, industrial customers. The implications for business strategy have been to focus on core competencies, consolidating the position of powerful holdings in energy, metals and commodity exports, but leaving most manufacturers of consumer and industrial products insulated from competition. While the degree of integration between Russia and the leading (G10) economies is largely limited to trade and investment in energy and commodity markets, Russia's status as a supplier of oil, gas, metals and other raw and semi-processed materials, and its absence in engineering, services, finance and technology markets, is part of a specific international 'division of labour' enabling us to talk of the dominance effect. Business strategy and attendant management structures and work organization, is shaped as much by such an effect as by the domestic business and government policy choices.

Second, while the strategic orientations of the firms in the sample provide an explanation for the consolidation of three corporate forms discussed above, they also point to the way policy and strategy interact with institutions. The post-1998 currency regime has favoured limited import substitution, resulting in the increase in disposable incomes generated by the primary revenue earners in the energy and commodities sectors, reinvigorating production in former state enterprises and in small and medium firms, but failing to put firms under the kind of competitive pressures that might impose radical changes in management. The substantial continuity and uniformity in management structures, organization design and work arrangements are an expression of the societal effects – of the customary templates, codes and practices of social institutions which are given merit by the insertion into global markets and policy and strategy responses.

The question posed by these transformations is of the extent to which we can bridge the exogenous variables with the institutional view in accounting for management and organizational change in Russia. On the one hand, the changes which have taken place do not constitute 'the passage from one order to another but rearrangements in the patterns of how multiple orders are interwoven' (Stark, 1996: 995). The distinctly traditional characteristics of management, organization and work dynamics in Russia are evidence of path-dependence based on recombination – the 'rebuilding of organizations and institutions not *on the ruins* but *with the ruins* of communism' (Stark, 1996: 995, italics in the original). Additionally, from the perspective of economic performance in a divergent global economy, the experience of Russia, in particular its recent GDP growth and attendant increase in international power of some of its companies, illustrates how distinct institutional patterns sustain organizations that obtain functional equivalence within the global economy (Boyer, 1997; Boyer & Hollingsworth, 1997; Streeck, 1997).

On the other hand, the manner in which organizations have responded, the driving forces behind the responses and the hierarchy of spheres affecting the responses have been more contradictory than the strict focus on institutional path-dependence suggests. Rather, the institutional 'lag' is underwritten by the interaction with international political economy. The terms of this order cannot remain fixed in the face of pressures for change in ownership, forms of investment, or search for increased profitability. While the micro-level view pays heed to the role of social structures, and the macro-level view notes the pressures from international regulation and management 'best practice', neither view has consistently established the hierarchy of effects on organizations. Our treatment of the data has highlighted the need systemically to integrate the exogenous effects with the core features of capitalism and the institutional filters through which they pass before affecting management structures and work organization.

We suggest that there is a conceptual hierarchy in understanding the interaction between system, society and dominance effects on management and work organization. First, the globalization and deregulation of finance gives it the primacy in setting the dominant economic, political and regulatory agenda which draws national systems into its ambit. Second, while not presupposing as identical (with developed capitalism) the system effects, such as capital accumulation, the profit motive, and the subordination of use value to exchange value, we recognize their centrality in establishing how Russia engages with the global political and economic hierarchy. Finally, organizational responses to global market and political and economic pressures are not flexible adaptations which leave the institutional core unchanged and unchangeable (Berger & Dore, 1996; Boyer, 1997; Streeck, 1997), but constitute the 'critical junctures' which bend the shape of institutions.

The key question arising from our research is of the extent to which western-derived organization theories are conducive to studying the empirical context of post-socialism, and of the degree to which research in post-socialist societies has advanced the ways in which we think about and research contemporary issues in organization and management. The answer to the first part of the question is affirmative. As we stressed at the outset, the best set of conceptual tools has been provided by new institutionalism. The effectiveness and quality of these ideas lie in their elementary attentiveness to context, building the explanation and rational ordering of the context into the theory. While normative theoretical constructs are vulnerable to attributing qualities to action by presupposing specific social structures, new institutionalism is successful not only in avoiding these pitfalls, but in providing an intrinsic critique of such constructs. Moreover, the problematic elements in new institutionalism we have sought to highlight through our analysis, do not invalidate but supplement its edifice. As Stark and Bruszt (2001: 1136) highlight 'we need new hybrids, with theoretical combinations not limited to the trinity [of Marx, Durkheim and Weber]'. Consequently, the experimentation can embrace a diversity of concepts from different disciplines, combining 'extended embeddedness' and 'horizontal accountability' with ideas from property rights theories and network analysis to highlight varying network analytic features of property, such as topology, connectivity, density, extensivity; 'drawing on organizational ecology and complexity theory in arguing that adaptability is a function of the *organization of diversity,* a capacity to interweave diverse evaluative principles' (Stark & Bruszt, 2001: 1136, italics in the original).

This inevitably brings us to the second part of the question – the contribution of post-socialist transformation to organization theory. While post-socialism can be, and has been, treated as a site for testing existing theories, the collapse of communism and the magnitude and significance of subsequent social transformations presents us with the challenge of conceptually co-ordinating heterogeneous aspects of action and structure.

> Postsocialism is a laboratory – not a place where we run experiments, but a site where social experimentation produces lessons applicable for our own challenges in this epoch of organizational transformation . . . where public and private are mixed, the boundaries of firms are blurred, and legitimating principles are not bound to discrete domains. (Stark & Bruszt, 2001: 1136)

The transformations in Russia and Eastern Europe provide social scientists in general and organization theorists in particular an additional piece of the theoretical puzzle of the emerging 21st-century business environment (DiMaggio, 2001).

Notes

1 Two of the projects were carried out by the authors in Samara, Ulyanovsk and Republic of Tatarstan, in 2000–03. For more details of the sample and methods used in these projects see McCann (2005) and Schwartz (2003). The third project, coordinated by Simon Clarke, University of Warwick, was carried out in 2002–06, funded by the Economic and Social Research Council (grant R000 23 9631). Surveys were subsequently designed on the basis of the case studies and survey data gathered by administering 725 questionnaires to different categories of respondents, both aspects of the data having been subject to multivariate statistical analysis, although these were excluded for the purpose of this article. Further details of the project may be obtained at: [http://www.warwick.ac.uk/russia/manstruct/management_structures.htm].

2 The discussion in this sections benefits from an earlier published article by Clarke (2004), which draws on the same research data. The authors would like to thank Simon Clarke and others involved in the project for helping us to formulate our ideas.

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