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UNDERSTANDING THE TRANSFORMATION OF LOCAL RUSSIAN FIRMS FROM ENTREPRENEURIAL TO PROFESSIONAL ORGANIZATIONS

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ABSTRACT

This paper describes and contextualizes organizational transformation in Russian companies from entrepreneurial to professional organizations from 1998 to 2003. The study is based on in-depth longitudinal case studies of three Russian firms in the food sector and is grounded in Russian management, organizational life cycle, change, and institutional theory. The paper suggests that in Russia stages in life cycles happen in a somewhat different order from that in the West. For example, using Quinn and Cameron's (1983) integrated nine life-cycle model as a basis, we show that Russian firms tend to progress from stage one (entrepreneurial stage) to stage three (formalization and control stage) without progressing through stage two (collective stage).characterized by informal communication, development and communication of a clear mission, and workers who are fully committed to the firm. We suggest that one reason that changes in Russian organizations have had less impact than possible is that in most cases some features of stage 2 of the model have yet to be addressed. However, these issues need addressing before stage three changes can have maximum effect. Further, we find Western change and life cycle literatures only partially applicable to the Russian context and thus suggest an appropriate model of transformation to professional organizations for the Russian context. Our research indicates that Russian firms are changing, moving from an entrepreneurial style to professional organizations. Further, despite the different product markets, operational practices, and management structures, each company in the study focused on four areas to increase competitive advantage and growth, between 1998 and 2003. Specifically, these areas are: technological upgrading, securing sources of raw materials, improving management quality, and refining their product and market. We consider the observed changes in the context of Western change and life cycle theory. We find such theory applicable to some degree but in need of modification in order to work fully in Russia. This paper suggests such needed modifications.

<u>Key Words</u>
Organizational Change
Organizational Transformation
Life-cycle
Russia

The ongoing rapid changes occurring to the Russian environment since the break-up of the Soviet Union have necessitated that Russian firms make significant changes. In the matter of a few years the central planning apparatus was dismantled—prices were freed, the market replaced the planning apparatus, and private enterprises step by step largely replaced state enterprises. Indeed, change has been a constant theme in Russia in the 1990s and 2000s. In particular, the change from entrepreneurial to professional firms is a crucial change that needs to be understood better since such change is a difficult, but necessary, change for firms in any country. Further, this is a particularly important change that many Russian firms will continue to gothrough in the coming years as both Russian firms and their environment mature. Since no private firms in Russia are older than 19 years and most private firms in Russia are less than 5 to 10 years old, many Russian firms are just at the stage that they need to transform from an entrepreneurial to a professional organization to be able to continue their growth. This transformation is a difficult step for all firms, but this is a particularly important transition to understand now in Russia since such a large percentage of Russia's firms are in the process of starting to make this transition. In addition, the rapid changes that have occurred in Russia's external environment (institutional upheaval) result in few models existing for firms to follow making such a transition more difficult in Russia than in many other countries. The fact that Russian firms are undergoing change as their institutional environment is also undergoing significant change also makes such change particularly interesting to investigate from a theoretical standpoint as we have a unique opportunity to study a natural experiment. Indeed, the process by which organizations in Russia change is particularly interesting as it is not well understood and is likely to differ from the situation in more developed countries (Newman, 2000).

Thus, this paper aims to increase our understanding of how Russian firms change from entrepreneurial to professional firms and to develop a better understanding of what needs to be done to facilitate a successful transition. A key output of this study is the development of a model for such change in Russia. Our investigation of this transformation from entrepreneurial to professional organizations is grounded in the extant Russian management, life cycle, institutional, and change literatures. By integrating these theoretical perspectives, we are able to explain more thoroughly the transformation of Russian firms. Empirically, our study is based on in-depth case studies of the evolution of three private Russian companies operating in the food sector. We investigate the evolution of these companies over a five-year period from 1998 to 2003 with interviews conducted at the beginning and end of this five-year period. Specifically, the companies are Petrokholod, an ice-cream manufacturer established in 1939 that produces a variety of ice-cream products predominantly for the St Petersburg market; Parnas-M, a leading sausage producer that also has a range of non-related factories and shops under its umbrella organization; and Fries[1], a company producing frozen french-fries.

There is a much need for more research on change in Russian companies since this is an important and challenging topic yet very few studies on the subject exist. The majority of research on Russian companies has focused on other subjects including the effects of Western investment and management on Russian companies (e.g., Michailova, 2000); restructuring following privatization (e.g., Buck, Filatotchev & Wright 1994; Linz 2001; Wright, Hoskisson, Filatotchev & Buck, 1998); issues relating to the development of management capability in Russia (e.g., Bollinger, 1994; Puffer, 94; Puffer & McCarthy 1995); joint ventures (e.g., Husted & Michailova, 2002); HRM practices in Russian companies (e.g., Fey & Bjorkman, 2000), organizational culture (e.g., Fey & Denison, 2003); trust (Ayios, 2004);leadership in Russia (e.g., Fey, Adaeva & Vitovskaia, 2000; Kets de Vries, Shekshnia, Korotov, Florent-Tracy, 2004) and transferring management knowledge to Russia (e.g., May, Puffer, & McCarthy, 2005).

The paper is structured in the following way**.** We begin by briefly describing Russia's recent economic history, the performance of the food sector in the post-communist period**,** and some background information regarding the firms in this study. The theory section that follows describes the Russian management, institutional, change, and life cycle literatures. In the third section the change processes in our case study firms are described and compared to the Western literature. The observed similarities and differences, and causes of these, are then evaluated in detail. The paper ends with a discussion section that discusses results, presents conclusions, and puts forward suggestions for fruitful future research. Like Kazanjian and Drazin (1989), we do not pretend that the conclusions we make from studying three firms in one industry can necessarily be transplanted to all Russian firms. We believe, however, that the study can provide "a theory applicable to a mid-range sub-set of growing organizations" (Kazanjian and Drazin, 1989: 1491) in Russia and is therefore an important first step in understanding this little-researched subject. We begin with a description of Russia's recent economic history and developments in the food sector**.**

[1] "Fries" has been used to protect the real identity of the participating company. Some other identifying information has been changed in order to protect the company's anonymity.

THE SETTING: RUSSIA AND THE FOOD PRODUCTION INDUSTRY

Russia has now had a pseudo-market economy for over fifteen years. The initial years in the transition period were unstable, culminating in the 1998 financial crisis that resulted in very high inflation, many bankruptcies, and an overall decrease in international confidence in Russia. Since then, however, the economic climate has been much more stable with good signs of growth—something many foreigners have been slow to realize. GDP growth each year from 2000-2003 was over 6.5%. Further, by 2003 GDP per capita had risen to $8350, inflation was 13.6%, and official unemployment was 8.5%, (Economics Intelligence Unit, 2004). Russian national culture will be discussed in the section "Understanding the context: Russian and Soviet culture" on page 6.

The local food production sector first started to develop substantially after the 1998 economic crisis, which led consumers to seek local products over foreign produced goods that had overnight become radically more expensive as a result of the rouble's devaluation. The growth of the sector was aided by companies requiring relatively small amounts of investment and technology to start production or more commonly boost production in ailing existing plants; a large amount of foreign investment entering the sector; and later from the rapidly rising purchasing power of the upper and middle class in Russia (Aris, 2002).

In the years since the 1998 financial crisis, the Russian food production sector has evolved greatly and it has now been described as "dynamic and adjusted to market conditions" (FC Novosti Information Agency, 2005). In 2004, the sector grew 8% (6% the previous year) and contributed 11-12% of aggregate Russian industrial output (FC Novosti, 2005). In terms of its contribution to GDP, it is placed behind only the fuel and energy, metallurgy, and machine building sectors. The sector continues to have strong growth potential with customers eager to try new products after years of the same standard, unimaginative offerings (FC Novosti Information Agency, 2005). While slightly larger in the greater St. Petersburg area than in many other places in Russia, the food sector in greater St. Petersburg approximately mirrors the national situation in that it is an important sector in most regions in Russia. In St.. Petersburg, the food sector contributes 35% of St Petersburg's industrial structure (*Economic Monitoring* a, 2004) and nearly 25% in Leningrad region (*Economic Monitoring* b, 2004). Many national brands are based in St. Petersburg, including the three companies in this study.

METHODOLOGY

This research utilized an interview-based comparative case study approach to begin to develop a theory of how Russian firms can successfully change from entrepreneurial to professional firms. Our methodology was guided by Yin (1989)'s and Eisenhardt (1989)'s recommendations for conducting effective case study research. We considered several factors in selecting our cases. First, we decided to limit our case study firms to one industry to minimize extraneous variation following the advice of Eisenhardt (1989) regarding case studies. We chose the food processing industry because it is a prominent industry in Russia with a number of key firms in the St. Petersburg area. In addition, case study firms were chosen because they were successful, were involved in both production and sales, were more than four years old in 1998, and had over 100 employees. In the initial round of interviews in 1998, ten interviews were conducted at each firm with employees from different departments from all levels ranging from senior management to shop-floor workers to obtain a complete picture of the situation at the companies. In 2003, another round of interviews were conducted with the general manager and at least one other department head from each company.

The interviews were carried out in Russian by one native and one non-native Russian speaker who were both also fluent in English. The native speaker took notes and ensured clarity in the discussion (Eisenhardt & Bourgois, 1988). Interview write-ups were typed up within 24 hours of the interviews to facilitate accuracy. Special attention was made to separate clearly interviewee comments from interviewer perception. Following each interview and again within 24 hours of the interview transcripts being completed both interviewers discussed the content of the interview and the accuracy of the interview writeups in order to ensure accuracy of understanding. Eisenhardt (1989) noted the strength of having multiple researchers attend an interview noting that two (or more) people "often have complementary insights which add to the richness of the data" (Eisenhardt, 1989: 538).

The second set of interviews in 2003 focused on establishing the changes that had occurred in the intervening years, what had driven these changes, how they had been managed, and in which ways the companies had restructured to facilitate new activities. Conducting the interviews at two different points in time, separated by five years, allowed us to observe if changes had been made and compare how these changes and the general evolution of these firms compared to the experience from other countries. Data reduction and searching for patterns in the data began immediately after the interviews.

CASE STUDY COMPANIES

We now briefly describe our three case study companies to provide background for the analysis to follow.

Petrokholod

Petrokholod was created in 1993 from the existing No.6 Refrigeration Combine, which itself was founded in 1939. It has had the same general manager since 1989. In 1998 the company employed 750 people, increasing to 1,000 in the busy summer period. The company makes a variety of popular ice-cream products that are sold primarily in St. Petersburg where the company has approximately 30% of the market. At the end of 1999 the company also began making some frozen food products. The main commercial challenge the company faces is the competitiveness of the ice-cream market as new brands have entered the market. The longevity of the general director, the age of the company, and the local popularity of its products all contributed to this company's exhibiting the strongest organizational culture of the three companies studied.

Parnas-M

Parnas-M was formed in 1983 by five friends who worked in the Russian Navy together. In 1998 there were approximately 2,000 employees. It is the largest and most successful of the three companies interviewed in terms of profit and sales. The company's main business is producing sausages and sausage-related products (e.g., sausage skin production, a chain of sausage/supermarket stores, farms, etc.), but under the Parnas-M umbrella organization there are also a range of non sausage-related factories and businesses including many shops and restaurants, a fish wholesaler, and a women's underwear manufacturer. Parnas-M had acquired these unrelated businesses as it was able to get them at a good price and because the management believed that one of its core competencies was restructuring businesses (as it had done with many of the acquired sausage factories). Currently, the main challenge for the management of the company is to integrate the various parts into an efficient and effective organizational structure. Also, the company wants to become attractive to foreign investors as it has more opportunities than money.

Fries

Fries was founded in 1994 by five friends who had previously worked for a Polish sausage importer. The company was formed partly in response to the poor quality of goods that the Polish company produced with the five realizing that there was a gap in the market for quality frozen food products since most had been made at home in Soviet times. Originally Fries' sole product was frozen french-fries and more or less sold by itself, but market saturation resulted in company management deciding to focus much more on marketing and sales and horizontally diversifying to produce a new range of quality frozen food goods (e.g., frozen vegetables) that now account for 40% of sales. The company employs approximately 1,000 people and recently restructured to increase management efficiency bringing in some external middle management.

THEORETICAL BACKGROUND

The theoretical background for this paper draws on the literature on change, organizational life cycles, and institutional theory with the literature on Russian management and culture used to provide context. These literatures are discussed below.

Understanding the Context: Russian and Soviet Culture

Many scholars have suggested that organizational theorizing needs to be modified to be applicable in different countries due to differences in national culture (Boyacigiller et al., 2003). Indeed, there is significant evidence that the way management practices work are affected by national culture (Hofstede, 1993). As a result of the above, it is especially worthwhile to consider the context in which this study is set.

Understanding the Soviet economic history and Russian mentality is necessary to understand fully Russian firms as this is the institutional and cultural context from which these firms developed. Looking at Hofstede's four dimensions of national culture for Russia is one way to get a brief overview. Elenkov (1997) measured Hofstede's dimensions for Russia since Russia was not part of the original Hoftede (1980) study. The dimensions are power distance, uncertainty avoidance, masculinity, and individualism. *Power Distance (PD)* refers to the extent to which members of institutions and organizations accept that power is distributed unequally. Russians scored high on power distance which is associated with a greater centralization of authority, managers making decisions autocratically, and organizations with hierarchical structures. *Uncertainty Avoidance* (UA) refers to the lack of tolerance for ambiguity and the need for formal rules. Russia also scored high on this index which implies that traditionally Russians are resistant to change and appreciate rules and regulations that help increase certainty. *Masculinity* indicates to what extent values focus on work goals and assertiveness, as opposed to quality of life. A country scoring high on masculinity is one driven by material gain and money; a low scoring society is one driven by social and psychological needs. Russians scored *low* implying, among other things, that motivation can be achieved in other ways than providing only monetary rewards—for example by making work not so time-consuming such that a good quality of life can be had or providing improved working conditions or training. The final dimension, *Individualism* relates to whether a society tends towards individualism or collectivism. Russia scored low on individualism suggesting that group behavior dominates individual initiative. This tendency also may also suggest why Russians enjoy working in teams are effective in this organizational structure..

The Soviet system compounded and accentuated the above-mentioned traits. Under the Soviet system the state controlled almost everything. What was to be produced, how much, for what price, and by whom was determined centrally as was allocation of capital, raw materials and supplies, and labor--a situation sometimes referred to as "USSR Inc.". General Managers in firms were paternalistic and had an almost unlimited amount of power (Puffer, 1994). However, they were only responsible for fulfilling production plans, and not with whether the goods being produced were useful, usable, or even wanted. As a result of the overriding need to fulfill the plan and the fact that individuals were often severely punished for making mistakes, managers became afraid of taking initiative, and even minor decisions were passed up the chain of command to become the responsibility of senior managers. The result was that senior managers were overwhelmed with work and middle managers failed to develop decision-making capabilities, while ordinary workers had their ambition and initiative denigrated (Michailova, 2000). Employees were also unlikely to inform bosses in advance that a project was unlikely to meet a deadline since employees did not want to admit "failure." Traditionally one would be severally punished for such failure. Of course in most cases a boss would prefer to know in advance that a project might be late in order to warn a client and develop alternative plans. However, this strong wish to complete a task on time (not to fail) has resulted in Russians' having ability to work extremely hard at the end of a project (some say that 50% of the work is often done in the last 10% of time) and an ability to come up with very creative solutions to problems with limited resources (historically often the situation in Russia) (Fey and Shekshnia, 2006).

Traditionally, Russian workers rarely contributed suggestions to managers partly due to wanting to avoid making mistakes and partly because this would distinguish them from their colleagues which historically was considered desirable in a collective society. Other characteristics of Russian workers which have been observed by researchers include—difficulty in managing change proactively (Fey & Denison, 2003); a lack of absorptive capacity (Husted and Michailova, 2002); a tendency to be obedient, passive, and inclined to respond to authority (Ivancevich et al, 1992); and a preference to withhold opinions (Michailova: 2000). A notable positive aspect of business under the Soviet system was the presence of strong organizational cultures due to long tenure of employment, paternalistic leaders, ties to a company extending beyond work to other aspects of life such as social activities and sports teams, etc. However, while a strong organizational culture has many helpful aspects like providing direction for employees, it is also a double edged sword in that it also brings with it challenges since a strong organizational culture makes change more difficult. The Russian workforce is also known for being highly educated.

The form that many Russian businesses therefore took during the collapse of the Soviet system and immediately afterward was typified by dominant leaders making decisions in functionally incomplete organizations, (lacking, for example, sales and marketing departments or modern finance departments) which lacked competitive knowledge and skills. Production typically used obsolete or aging equipment and workers normally had little or no input into company strategy. Further, workers were rarely informed about the rationale for various decisions or at times about the decisions themselves. Such firms had few management systems. This type of management and organization corresponds to entrepreneurial firms in which management is characterized by highly centralized decision-making, an overdependence on one or two key individuals, inadequate repertoire of managerial skills and training; a paternalistic atmosphere dominated by firm founders that reflected the expertise and personality of the founder, and information that is shared or not shared as the owner sees fit (Charan, Hoffer & Mahon, 1980; Gedaljlovic, Lubatkin, and Schulze, 2004). We return to reflect on such typical characteristics of Russian firms when addressing the life cycles of Russian firms below. However, because of significant changes firms in our study were undergoing during the period of the study, we now turn to consider the change management literature.

Change Management

Types of organizational change can be divided into two broad categories. Watzalwick, Weakland & Fisch (1974) term these first and second order change, although other authors have referred to continuous and episodic change (Weick & Quinn (1999), convergent and radical change (Johnson, 1987), or single and double-loop learning (Argyris & Schon, 1978). First order (continuous, convergent or single-loop) change occurs within an existing framework as a redirection of existing patterns and behaviors (Watzalwick et al, 1974, Weick & Quinn 1999). In contrast, second order (episodic, radical or double-loop) change is a break from past assumptions and frameworks. Second order change is infrequent, discontinuous, and intentional (Dunphy & Stace, 1993). Russian companies have primarily experienced second order change because of the large magnitude of changes in Russia's economic, political, and business environment. This second order change is likely to continue from both predictable sources (e.g., introduction of international accounting standards) and in unpredictable ways (e.g., sudden changes in legislation, audits by the Russian tax authorities). Additionally, change is an ever present feature of the dynamic Russian business environment,and as markets become more competitive, the ability to manage change effectively is essential (Beer & Eisenstadt, 1996; Weick and Quinn, 1999).

Change can be driven by external triggers and/or internal factors. Possible external drivers include technological advancement, new legislation, changes to the competitive environment, or changes to a country's economic or political circumstances. Internal drivers of change can be employee dissatisfaction, the failure of a firm's strategy to achieve its organizational goals, poor management, or an inappropriate organizational structure to fulfill firm goals. In their contingency model of organizational change, Dunphy and Stace (1989) concluded that during periods of second order change, "d*ictatorial transformation"* is the optimal style of management. This is top-down directive decision making and leadership that enables leaders to make necessary changes but which may meet with opposition (Dunphy and Stace, 1989). However, when first order change is required, Dunphy and Stace (1989) and many other authors (e.g., Dunphy, 1997; Kotter, 1995) advocate the use of a consultative collaborative approach to change featuring discussion and involvement with the work force. Even in situations where transformational (second order) adjustments are required and time is available, many scholars, including Dunphy and Stace (1999), suggest a collaborative-consultative approach.

Communication and involvement are two of the most commonly mentioned facilitators of successful change management. For example, Mead (1996:460) states that, "a change plan is unlikely to have practical consequences unless it is effectively communicated." Employees who feel some ownership over the process are more likely to become involved in it and support it (Beer and Noria, 2000). However, as we previously mentioned, in traditional Russian culture workers have a tendency to prefer strong directive leadership and do not naturally participate in decision making for fear that they will be punished if something will go wrong. Of course some of these preferences are starting to change in Russia today, but the preference for a strong leader remains. However, today, Russians appear to prefer a strong leader who leads based on significant demonstrated competence rather than just by virtue of his/her position.

A firm's organizational culture will also play an important role in determining how change works. It influences how easy it is to facilitate change and the way/extent that change is communicated to the organization (Mead, 1997). However, a strong organizational culture is a double-edged sword. Some research has indicated that a strong organizational culture can help facilitate desired changes occurring (Kotter & Heskett, 1992) as it creates agreement among employees regarding what constitutes appropriate behavior and reactions to circumstances (Labianca, Gray and Bass, 2000; O'Reilly, 1989; Weick & Quinn, 1999) and thus once change is started the entire organization will hopefully change together to the new state. However, Weick & Quinn (1999) have also observed that the more entrenched behaviors are in an organization (and a strong organizational culture helps create entrenched behaviors), the greater the organizational inertia and the greater the difficulty in implementing change. Established schemas are difficult to break and can create resistance to change (Labianca et al, 2000). Indeed, Labianca et al (2000) assert that when established schemas exist, normally change can occur only gradually over time and when the environment is dramatically altered or if a new organizational leader articulates a novel vision.

Institutional Theory and Change

The above notion of change is echoed in the institutional theory literature. Institutional theory suggests that a firm's behaviors, ideas, values, and beliefs are the product of the institutional context in which they operate--the systems, laws, regulatory bodies, financial markets, etc. (Newman, 2000). Russian firms were part of an example of a strong institutional context in the form of the Soviet state. However, with the collapse of the Soviet Union, changes that transpired over the decade that followed represented what institutional scholars call institutional upheaval. Indeed, institutions became weaker and it became clear that traditional firm behaviors were not effective. However, examples of the behaviors firms should follow to be effective in the newly emerging environment have been unclear and slow to emerge. The institutional literature describes that after a period of institutional upheaval firms must adjust their strategies and structures to survive but that establishing these new strategies and structures can be hindered by the lack of knowledge with regards to the future and the institutional reality that awaits (Newman, 2000; Peng, 2004; Peng, 2001).

Institutional upheaval (Newman, 2000) is an extreme version of second order change that results in firms' existing skills, experiences, and resources suddenly rendered useless. This decreases existing organizations' chances of survival and makes the performance of organizations less stable (Havemen, 1992). In such a situation where institutions are changing (new laws, regulatory bodies, systems, etc.), companies must learn new ways of communicating, integrating, and working in order to survive (Havemen, 1992). However, it is difficult for firms to know exactly how they should change because of scarce frames of reference for such change. The initial lack of clear models of successful firms in a new environment makes decision making problematic. It is particularly difficult because this new environment continues to evolve. It is certainly not the case that there was one environment in communist times and then one now in post-communist times. In fact, there have continued to be significant changes in Russia's external environment throughout the 1990s and 2000s with the financial crisis of 1998 being but one prominent example.

Institutional theorists argue that until new systems and institutions are formed, firms will not have the necessary guidance on how to behave or organize and thus it is very difficult to make a transformation successfully. In the immediate post-communist period, lack of stable institutions was compounded by a lack of relevant organizational capabilities, a lack of relevant management skills, a lack of financial resources, and excess physical assets (Peng & Heath, 1996). Such deficiencies have contributed to making a successful transformation especially difficult for firms in Russia. Once that environment becomes apparent , adapting to the new institutional environment is also not trivial, but it is easier than when the new institutional environment is not apparent. Such adaptation is also necessary since organizations that do adapt are more likely to obtain scarce available resources and to have a higher chance of survival than those that do not (DiMaggio and Powell, 1991). The largest problem for a firm adapting to developing circumstances is the organization itself. Many authors have argued that the more embedded an organization is in its context, the more difficult change will be (Greenwood and Hinings, 1996). As indicated in previous research, the primary methods by which organizational embeddedness can be overcome is through new leadership over time (Newman, 2000).

The schema in Russian firms are likely to be strongly entrenched because of the traditional long tenure of employees, the dominance of one or more leaders for long periods of time, the historical isolation of Russia from other countries, and the prevalence of business practices that limited the frames of reference that people had with regards to various ways that people might behave or organize. Further, the lack of market economy experience compounds these challenges since different schema are optimal in a market economy, but few well-developed frames of reference for such schema were available in Russia. This lack of alternative frames of reference reduces the likelihood of mimicry as an option when searching for new strategies (Wilkins & Dyer, 1988). Instead, the search for new strategies often becomes a trial and error process.

Finally, as noted by Peng's (2000, 2004) work on firm strategy and change during institutional upheaval, incumbent firms in transition economies often take longer than new firms to adjust to a new environment, as incumbent firms often prefer to cling to established practices until the new institutional realities become apparent rather than engaging in significant experimentation. However, even incumbent firms will eventually change or die when traditional firm strategy becomes even less effective as a new institutional environment develops and takes hold even more (Peng, 2004). Peng (2004) also noted that during the transition process, the age of a firm's management, the age of the firm, ownership, and size of the company all have an impact on the willingness and extent of change a company undertakes. The younger the firm, the more likely it is to engage and carry out deep restructuring.

Life Cycle Theory

The life-cycle literature of firms suggests that firms tend to progress through the same series of stages. And, while some researchers dispute whether the complex and varied incidences and dynamics of many changes can be reduced to a series of stages of a change process (Tornatzky, 1983), evidence indicates that change often does occur in a linear fashion and that firms do tend to go through a series of similar stages (Kazanjian & Drazin, 1989; Van der Ven and Poole, 1995). Further, firms normally progress through the stages sequentially. For example, firms rarely make reverse changes (moving back to a lower change stage after being at a higher change stage) and changes made when moving from one stage to the next normally involve a broad range of organizational activities and structures (Quinn & Cameron, 1983). Each stage builds on the efforts of previous stages and incrementally adopts something which already exists (Van der Ven & Poole, 1995). The impetus for firms to move to the next stage can include the desire for growth (Scott 1970 as quoted in Kazanjian & Drazin,1989), internal crises (Greiner, 1972), changes in the external environment, changes in the strategies of other firms, and developments relating to organizational stress and inertia (Huff, Huff & Thomas, 1992).

Previously, we described the management and organizational structure of many Russian firms as akin to that of entrepreneurial organizations. At some point most entrepreneurial firms attempt to become professional organizations (Charan, Hoffman & Mahon, 1980) as they grow and find that their entrepreneurial organizations are hard to manage with their increased size and in more developed markets. Thus, most entrepreneurial firms eventually strive to evolve into professional firms characterized by delegation of authority, utilization of formal information analyses, existence of intra-firm consultative processes to make some decisions free from dependence on key individuals, and the development of systems such that part of a firm's competitive advantage is its systems and not only in a few key individuals (Charan, Hoffer, & Mahon, 1980). The transition from an entrepreneurial to a professional organization is a fundamental one that unfortunately many companies do not complete successfully. The literature notes that acquiring new skills, expertise, and different rules of engagement is often hard for companies centered on one individual (normally the case of entrepreneurial firms) to adapt to. In their research on this transition in entrepreneurial US companies becoming professional, Charan, Hoffman, and Mahon (1980) describe four parts to a successful transition. These are: (1) analyzing the existing business strategy and decision making processes, (2) formalizing decision making processes and information systems, (3) selecting and training key personnel, and (4) monitoring (to ensure a smooth transition) and additional available capable human capital. These actions help to decrease a firm's dependence on key individuals.

A more extensive description of organizational life cycles was derived by Quinn and Cameron (1983) who integrated nine existing life cycle models into one summary model, known as their "integrated 9 life cycle model". Because this model is a summary model, we use this model as a starting point for considering the life cycle evolution in our case study firms and thus will present this model in some detail. The nine life cycle models had many similarities despite all using slightly different factors to explain what drove firm change over time. These factors were: managerial concerns driving change (Lippitt & Schimidt, 1967); organizational members driving change (Torbert, 1974); goal orientation and search for legitimacy (Downs, 1967); internal crises (Greiner, 1972); functional problems (Lyden, 1975); corporate forms based on natural sequence (Katz & Kahn, 1978; Scott, 1971); major organizational activities (Adizes, 1979); and the evolution of a medical school's life-cycle (Kimberly, 1979).

Most importantly, Quinn and Cameron (1983: 40) identified that, "all nine life cycle models suggest that firms progress through similar life cycle stages." Quinn and Cameron condensed the stages through which firms as shown in the nine models they merged into a four stage integrated model. They also identified key criteria for organizational effectiveness at each stage. The first stage is the "Entrepreneurial Stage" that includes much activity and creation of ideas, but little planning. In this stage, there is a focus on action and a niche is formed for the firm. Organizational effectiveness is measured by innovation and the ability to marshal resources. At the second

"Collectivity Stage" a sense of mission is developed and communicated, and a collective spirit is created in order to get a larger group of employees committed to the organization and its goals and to develop and harness the ideas of this larger group as the organization grows. At this stage human resource development, morale, cohesion, and human needs satisfaction are the key indicators of an effective organization. Stage 3 is the "Formalization and Control Stage" where rules are formalized, a stable structure is established, and procedures are institutionalized. In stage 3 internal processes and rational goals (i.e., goal setting, attainment, productivity, stability, and control) are the most important criteria for organizational effectiveness. Finally, in Stage 4 the "Elaboration of Structure Stage", decentralization and elaboration of the structure occurs and adaptation and renewal are ongoing features. In this final stage open systems criteria are the most important means of monitoring and controlling the organization (Quinn & Cameron, 1983). As we will use this model to contextualize the development of our case study firms, it is presented in some detail in Table 1.

Insert Table 1 about here

Michailova (2000) noted that after foreign firms acquire or make a substantial investment in Russian companies they normally decide they want to initiate significant changes. However, executing these changes smoothly often proves challenging. In her research Michailova (2000) identified four items to address when planning change in order for change to be successful in firms in Russia with foreign participation. The four items were: identifying members' roles, developing a common understanding, crafting and communicating a vision, and providing symbols and signals. (Michailova, 2000). This analysis seems to indicate that Russian workers were interested in what was happening in their organization and required guidance on how to behave. However, the extent and pace of change occurring in Russia is symptomatic of institutional upheaval, in which successful strategies and behaviors are not immediately apparent and in such conditions with few well-developed frames of reference, change has been shown to be difficult.

Theory Integration

As we have shown above, typically private Russian firms have displayed management and organizational characteristics similar to entrepreneurial firms. As these firms grow, they must transition to professional organizations both because of their increased size and complexity and in order to compete effectively in the increasingly competitive market economy now emerging in Russia. This change requires firm leadership to start delegating authority, adopting an intra-firm consultative processes to alleviate decision-making by only one person, utilizing formal analyses, and developing more formal systems such that the systems and not only a few key individuals also become sources of competitive advantage. Russian firms also need to learn how to manage change better in their organizations. There are significant challenges to all of this happening—many organization members are firmly embedded in the previous institutional environment and thus resistant to change; there is a long tradition of strong leadership and lack of involvement by employees in organizational decision making in Russian organizations; and most Russian entrepreneurs are used to quickly making ad hoc decisions based on good judgment and gut feelings rather than fully utilizing management systems and careful analysis for strategic planning and decision making. In addition, because of the significant changes ongoing in Russia's external environment and accompanying institutions, there are not many clear models of what successful firms should evolve to especially since this is a new and constantly evolving target.

In the next section we study the situation of three case study firms in 1998 and how they had evolved by 2003. We consider what changes took place and how these changes were managed. The life cycle of our case study firms is then compared to the developmental stages a typical firm in the West progresses through in its life cycle. Learnings are then drawn from the experience of the case study firms and a model for the transformation of Russian firms from entrepreneurial to professional firms is developed.

CHANGE IN RUSSIAN FIRMS

Table 2 summarizes the situation in each of the case study companies in 1998, shortly after the economic crisis.

Insert Table 2 about here

All three companies displayed features typical of Russian firms as described above. All had strong, centralized leadership, poor horizontal and vertical communication flows, and a lack of employee involvement. In addition, two of the companies displayed moderately strong organizational cultures. However, it is worth noting that even in the firms with strong organizational cultures, employees had limited understanding of what the firm's mission was by employees was limited. The situation observed in our Russian case study firms is similar to Charan et al's (1980) description of entrepreneurial firms in the West which they suggest are commonly characterized by centralized decision making, an over-reliance on top management, lack of management skills throughout the organization, and insufficient internal communication.

Petrokholod was dominated by the General Director and the Chief Engineer. As one employee put it, "*The top boss here is the General Director. If he wants something we will implement it.*" The workers in the company were close and moderately committed to the company. For example, they regularly cleaned the yard together. However, employees contributed few ideas and had little impact on decisions in the company. As one employee said, O*rdinary employees suggest little*." In addition, ordinary employees knew little about company goals and there was dissatisfaction with the limited internal communication that took place.

Parnas-M was also dominated by strong central management that controlled decision-making and company strategy. This company had the weakest organizational culture of the three firms studied. For example, decisions were not explained to employees. As one employee said, "*They are quite good managers…but we would be happy to be able to know more about what is going on and why and have more chance to suggest things,"* There was poor information flow between departments, management decisions often appeared to be made by intuition (fortunately employees perceived that on average management intuition was good—especially that of the general manager), and there was little loyalty to the company from employees. However, while there was little loyalty among the rank and file employees, the top management team was very close and devoted--stemming from the time that all but one of them had spent together in the Navy.

The management at Fries was also dominated by the founding managers. However, workers at Fries who were experiencing morale problems as a result of a lack of suitable premises, still associated themselves strongly with the company and valued the General Manager. As one marketing employee stated, *"If I am in a difficult situation I can always go to the General Manager and ask for help."* Similarly, *a* production worker commented, "*Workers here feel they are taken care of."* These comments were typical of many comments we heard. This company was the only one in which employees stated that they received information about company goals and strategy. A typical comment from one employee demonstrates this awareness of goals: "W*e know how our company wants to grow because our director holds meeting with different departments.*" However, there was not much explanation as to why the company's goals had been chosen. As with Petrokholod and Parnas, workers made few suggestions and top management did not seem eager to receive many suggestions. Fries had also been able to purchase high-quality Italian machinery that had enabled the company to improve the quality and efficiency of production.

The companies were also all characterized by their formal stable structures and hierarchy of communication. In this way they closely fulfilled the criteria of Quinn and Cameron's (1983) third stage of organizational life cycle, the "Formalization and Control" stage. Specifically each firm exhibited formalized rules, stable structures, conservatism, and institutionalized procedures; although because of the immediate post-crisis period none of the firms had been significantly able to focus on improving efficiency as the financial resources for such activity were not available.

Five years later, in 2003, there had been a number of changes to the strategic goals, organizational culture and focus of the three case study companies. These changes are detailed in Table 3.

Insert Table 3 about here

Table 3 shows that in the interim years the companies all faced increased competition within their sectors but were faced with different challenges in combating this. Demand for Petrokholod's cold storage business had become unstable and the company's management had focused more on its ice cream business. A key focus was securing quality, natural raw materials for its ice cream production that it felt would differentiate it from its competitors. Parnas was trying to figure out how to deal with growth. The company had acquired a number of other companies and was having trouble finding managers for these units whom top management felt were competent and emulated thinking and actions of company leaders. In addition, Parnas saw many opportunities and as a result was interested in going public to raise additional funding to allow the company to pursue more of these opportunities. There was a recognition that going public would require implementation of a more transparent system with even more such systems. However, while there was a common wish to go public in the next few years, there was reluctance and lack of understanding about exactly what needed to be done. Fries' management was faced with difficulty in expanding geographically because of the logistical problems and cost associated with transporting frozen foods over large distances. In addition, lack of a good distribution system in other cities was an issue. As a result, the company chose to focus on expanding the range of its products within its existing geographic area and devote even more efforts to quality to keep and hopefully expand market share. Of the three companies in the study, Fries had experienced the greatest restructuring of its management by hiring quite a few new middle managers with more professional competence. However, the top management team remained the same and the middle managers, who had been hired because of their skills and experience, complained that they did not have enough freedom to be able to utilize their knowledge to its maximum because of top management's strong beliefs and an unwillingness to let go of some control over their companies despite recognizing some need to do this. Despite different pressures, all three companies focused on four areas to increase their companies' competitiveness: technological upgrading, a focus on product and market refinement, organizational restructuring (including management training and development), and securing good-quality raw material supplies. The actions taken by the three case study firms are summarized in Table 3 and discussed in detail below.

Technological Upgrading

All three companies modernized or upgraded their existing technology in order to enhance their competitive advantage. For example, Petrokholod obtained a US$5mn bank loan in order to purchase state-of-the-art mixing equipment from Tetra Pak Hoyer. In 1999 the company also started some production of frozen food products using new technology. Fries already had modern machinery to produce frozen french fries and also acquired additional modern machinery to produce frozen vegetables—their expanded product range. Additionally, Fries hopes to implement an enterprise resource planning (ERP) system in about one year. Parnas-M also partially replaced and modernized some production equipment and is also developing its capabilities and know-how via the acquisition of related companies (primarily backward integration). For example, it acquired a company to produce sausage cover. These modernizations are quite typical of the food industry in Russia. Between 1997 and 2000, $800bn to $1.2bn was invested in the modernization of the food industry annually (Novosti, 2005).

The above demonstrates that expenditure on new technology was not only to replace obsolete machinery which was traditionally the focus of Russian companies, but that specific technology had been invested in to achieve specific strategic goals to enable the firm to create a competitive advantage. The importance of continuing to spend on upgrading technology despite difficult times is consistent with the strategy literature's recommendations. For example, in the six generic rules for turning around firms, Bruton & Rubanik (1997) noted that in industries where technology is significant, it is recommended that firms continue expenditure even in times of turnaround. This is to be expected especially for Russia where much technology is quite outdated and thus even greater gains are possible with the use of more modern technology. Additionally, the importance of Russian managers' acquiring new technological skills has been noted (Longenecker & Popovski, 2001).

Focus on Products and Markets

Since 1998 each case company refined its product range and/or the target geographical area for sales. Petrokholod launched a frozen food range and a variety of new ice-cream products and purchased new mixing equipment to enable improved quality and volume. It also developed specific sales goals including entering the Moscow market. Fries' response to the saturated frozen french-fries market has been to diversify horizontally into frozen vegetables and to place a greater focus on systematically growing sales through advertising and systematic effort in making sales. Fries felt it was easier to diversify into another related product like frozen vegtables then to expand into another geographic area beyond NW Russia due to the high cost of shipping frozen goods and difficulties in building up a good distribution network. Product packaging was also changed at fries to look better. As the marketing manager at Fries' commented, "previously it had been enough just to produce a good product in our area and people bought it. Now, because of increased competition and more demanding customers, systematic effort is needed to improve quality even further, explain why your product was the best, and especially to aggressively pursue sales just to maintain the market share we had before." Parnas-M has introduced new varieties of sausage, the main distinguishing feature which is the use of a specially developed protein cover which is of high quality and unique in Russia. Parnas-M also worked on expanding its sales in Russia geogrpahically. However, Parnas-M's array of other companies means that its main strategic goal is to develop a good way of integrating and managing all of its companies.

There are some parallels between the Russian situation and the situation in recently deregulated industries in the West. Zajac and Shortell (1989) noted that in a competitive deregulated environment a firm's competitive advantage is achieved through *focus* in business scope (the range of targeted market segments, types of products and services, and geographic market) and in resource commitments (deployment of human resources, financial resources, etc.). Likewise, Kim and McIntosh (1999) found that immediately after deregulation the optimal strategy is normally focus with organizational flexibility.

Sourcing Raw Materials

Securing quality raw materials was a key issue for all case study firms. In Russia, one can not take for granted that quality inexpensive inputs are available in a timely and reliable fashion for your main production activity as firms are developing at different speeds. Thus, sometime more backward integration than would be optimal in the West is beneficial in Russia. As a result, as quality, timeliness, and cost-efficiency became greater concerns to all three firms in our study, all three firms in our study took actions to improve their situation regarding sourcing raw materials is situation. Petrokholod acquired two farms that now provide 80% of the raw materials it require, and the company has formed an agricultural department to increase their control over the timing, quality, and cost of key inputs (Petrokholod only uses natural ingredients in their ice-cream). Parnas-M has secured raw materials for its sausages via the acquisition of up-stream companies.

Fries took an alternative approach to improving raw materials sourcing. It was able to find a company which was a potential key supplier for them which Fries thought had potential, but currently was not at the level Fries needed. Thus, Fries formed an alliance with the firm to ensure preferential treatment in terms of on-time delivery and they worked with the supplier to improve quality. While this sounds like an ideal solution, Fries management was quick to point out that it took considerable time (both in terms of it not being able to be done overnight and in terms of requiring significant management time which was needed for other tasks also) to develop their alliance partner; that while results were improved, they were not totally satisfied; and that it was not possible to find good enough companies in Russia to make this a workable solution for many inputs. Never the less, Fries management was pleased with the decision they had taken to make the alliance as it had reduced a number of problems.

It is worth pointing out that the fact that all of our case study firms were having supply issues is partially a result of problems that firms encountered post-1998 when the devalued Rouble led to radically increased costs of imports and thus to the need to develop local suppliers to provide affordable supplies. However, with local suppliers came more issues of quality, service, and reliable deliver while at the same time local suppliers of many products were necessary as firms grew and wanted to become more cost-efficient.

Management Restructuring

Despite being smart and often highly educated, many Russian managers do not have the skills necessary to work in a market economy. In Russia today it is not uncommon for a Ph.D. nuclear physicist to be working as a furniture sales manager—highly educated, but not possessing much education relevant for the current job. In addition, the Russian market is constantly changing. As a result, there is a strong need for companies to train and re-train key employees and employees are normally very eager to receive training since education has traditionally been highly valued in Russia. Petrokholod's management continues to be dominated by one director who has been in charge of the company since 1989 and who makes most decisions. However, since 2003 there is a management board that includes the ten heads of departments (i.e., finance, sales, production, etc.) all of whom have some input into decision making. Formal budgets have now been introduced that cover months and years allowing for forward planning (previously not was done). Meetings of the management board are held almost daily, and communication between departments has been greatly improved. Previously, there was not as much horizontal information in the company. While still not on extremely high levels between average employees, horizontal communication between departments has increased especially because of more management interaction. Effort has also been undertaken to strengthen the sales department.

Fries' management has always centered on the five individuals who formed the company. Of the three companies, Fries has implemented the most substantial changes restructuring management, laying off staff, and recruiting 70% new senior managers from outside of the company over the last five years initiating a process of internal reorganization. The layoffs were made because top management felt that a significant portion of managers in the company were of an "older" mindset and lacked needed skills to enable the firms to compete in a competitive marketplace. This restructuring process came to an end only in the summer 2003 and, as the marketing director says, "has been *a long and painful process.*" The process was particularly painful as employees were not explained the reason for bringing in new management. However, the management believes that the firm's largest changes are behind them and that the company is now well positioned for the future and has learned how to manage future changes better. The other significant development in internal restructuring at Fries has been in the expansion of the marketing and sales departments. Prior to 2003, these departments did not receive much focus or any training since the company was very production-focused and just providing a good product was enough for that time period.

In 1998 Parnas-M's senior management had been dominated by the founders who comprised all but one person on the top management team and who controlled strategic direction. The top management team does not have any specific functional skills and almost no management training was provided in the company. Now, the management is starting to develop a program and budget for management training. This follows an unsuccessful attempt to install Parnas-M's internal middle managers at newly acquired companies where they would have more independence than in the parent company and have the task of transforming the acquired firms into successful companies. This strategy was aborted for the time being when it was discovered that the middle managers did not have the sufficient skills to run the failing companies by themselves. This situation forced top management at Parnas-M to realize that the company had to pay more attention to management development and that as their company had grown, they could not do everything themselves anymore. However, while there is an understanding that management development should take place, there is still a reluctance from Parnas-M's top management (especially the CEO) to let go of much control at the Parent company even if this action might produce good training opportunities and improved results.

All of our case study firms were extremely dependent on a few individuals to make most decisions and lead the firm. Initially, most decisions were made by these key managers in an ad hoc manner based on their intuition. ,These were very talented individuals who had a good ability to predict the market and thus their gut decisions were pretty good. In addition, initially the most important thing was to be able to act quickly to have a good idea and act quickly to acquire state resources cheaply or be first to market. Having a strong leader making decisions largely by himself helped facilitate speed. However, as markets and firms became more sophisticated between 1998 and 2003, the firms needed more than just a good idea implanted quickly. They needed to develop more sophisticated and refined strategies based on more careful analysis from which to develop a good organizational design to carry out the strategy. Previously organizational designs had largely been noise. As a result, during this five year period we saw firms start to take steps to address these issues including some broadening of the competence base of the organization (starting to provide training to employees, starting to worry about developing managerial competence, and in some cases making new hires), the beginning of implementing of some systems (e.g., implementing financial reporting systems which managers had access to, starting to think about implementing an ERP systems, etc.), and implantation of some new structures (e.g., a management board). However, as is often the case in transitions in entrepreneurial firms in different contexts, top management made these changes by taking two steps forward and then one step back. Change is difficult for seasoned managers and employees. For example, the management of Fries made half of a big change by bringing in a significant new portion of middle management with more professional skills. However, then Fries' top management were reluctant to delegate much authority to these new middle managers and thus this change did not have as much of an effect as it could have had. Clearly, such extensive changes are processes that-- take time not events that happen instantly.

Additional Comments on Change in the Firms

In all three companies the management remained dominated by the owners of the companies (although, as described above, Fries had made significant changes to its middle management). At Petrokholod, one of the managers we spoke to was unsure how much the changes were understood by and affected the workers. As the manager said, "I am not sure if workers understand these changes and how much they affect them.*"* *Further, at Peterkholod* there had not been any significant restructuring of personnel. At Parnas-M, the management still took a largely paternalistic view of the workers, commenting that the company offered a stable job that was most important. Still, little training had been introduced and the details of changes and the rational for the changes were rarely communicated to employees. Fries' restructuring had led to changes in organizational culture. A manager to whom we spoke commented that as the number of employees had risen to 1000, the company was no longer able to be the personal company of the past and had abolished the typical celebrations of birthdays and holidays that are common in many Russian firms. He worried how this might affect employees commitment to the company long-term.

The change process was managed in a very similar way in all three firms. All three firms took a "try it and see" approach to change----a typical company strategy during institutional upheaval (Newman, 2000). We also found support for Peng's (2000) assertion that the more entrenched a firm is, the less willing it will be to change and the less radical change will be when it is carried out. In Petrokholod, the oldest company (established from a pre-Soviet company), changes were the smallest among the three firms and built upon the company's existing abilities. Parnas M had made somewhat larger changes and done some experimentation to see how they should change. For example, in one instance they sent some middle managers to acquired firms in order to restructure the firms as had been done in other parts of Parnas M. However, it was soon discovered that these new managers did not have the skills to do this so they were recalled to gain more experience and training and the top management of Parnas M had to also take on this task. Fries, the youngest case study firm, underwent the most radical transformation and took the most formal approach in identifying the optimal new strategy. The company recognized the need for additional professional skills and thus initially hired a consultant to guide them in developing a new strategy and management practices. However, the company then rejected most of the consultant's suggestions because of trouble in believing someone else's analysis. The company also tried hiring the services of a recruitment company to professionalize the hiring process and obtain people with additional needed critical skills. However, management found personal contacts to yield better results in finding suitable new employees. Fries quickly introduced new product lines and realized that it would need to hire managers with formal competences in order for the company to grow and survive. Fries was the most willing of the three companies to act on this understanding. Below we summarize changes that occurred in the three Russian firms and compare them to extant Western literature.

TRANSITION IN RUSSIAN FIRMS

Previously we considered Quinn and Cameron's (1983) integrated 9 life cycle model and other extant change and institutional literature including entrepreneurial transformation literature. With regards to a specific life cycle model, we return to a comparison of the experience of our Russian case study companies with how Quinn and Cameron's integrated life cycle model suggests that firms are likely to progress through the different stages. Indeed, it seems that our Russian case study firms progress through a series of similar stages. However, the Russian firms seem to progress through these stages in a different order than what Quinn and Cameron (1983) suggest for western firms. Our Russian case study firms seem to move from Quinn and Cameron's (1983) first stage (entrepreneurial) to the third stage (Formalization and control) of their model without ever implementing activities normally done in Quinn and Cameron's second stage (collectivity). Indeed, our case study firms were largely stage 1 entrepreneurial firms in 1998 and between 1998 and 2003 seemed to spend most of their effort on stage 3 issues (especially emphasis on efficiency and maintenance) without ever dealing with stage 2 issues.

Indeed, in contrast to Quinn and Cameron's model, Russian firms in the second phase of their life cycle focused on tangible areas of improvement: improving product quality, training sales staff, securing raw materials, increased marketing, etc. These improvements resemble actions focused on in the third phase of Quinn and Cameron's model that is based on the experience of Western firms. In Russian firms, less tangible factors, such as clearly developing a mission and specific goals, insuring adequate communication between different levels and departments in the organization, and a greater emphasis on human resource practices-- issues that Western companies wrestled with in the second “Collectivity Stage--” have either not been addressed or have been addressed only mildly in our case study firms. These stage two issues seem to be the issues that our Russian case study firms are only now starting to think about after they have already dealt with stage three issues. Thus, it appears that Russian firms address stage two and three issues in a different sequence than Western firms.

Communicating the vision, developing symbols, and identifying the roles of organizational members were identified by Michailova (2000) as being particularly important, but difficult, during the change process in Russian firms. However, these goals still had not become a priority in the firms in our study. Possible explanations for this neglect relate to Russia’s cultural and economic history of managers’ dominating organizations and workers’ not being informed or very concerned about company mission. We develop this point further below and give possible explanations.

In general, we see several important differences between the transformation process described by Quinn and Cameron (1983) as typical in Western firms and that which we observed in our Russian case study firms. Russian firms tend to have fewer clear goals and strategies in stage two than Western firms. Instead, Russian firms seem to have emergent strategies (Mintzberg, 1994) rather than clearly defined ones. This may well have to do with the fact that since Russian firms are operating in a new and changing institutional environment and thus there are less clear successful organizational templates (DiMaggio and Powell, 1991) from which firms can tend to copy--there are weaker mimetic institutional pressures for change. Mimetic change is an organizational response to uncertainty resulting from an institutional force through which Dimaggio and Powell (1983) and others suggest that firms seeking legitimacy in their environments change their strategies and structures to imitate other successful organizations. Russian firms also tend to have a shorter-term focus than their Western counterparts perhaps because of the dynamic environment they are in, perhaps because they have less clearly developed goals and strategies, or perhaps because they have fewer professional planning skills to guide their firms at their disposal.

It is also interesting to note that in stage one Russian firms placed a clear premium on acting quickly so that they could be the first firm in a new market and thus capture market share more easily or acquire state assets very inexpensively. What and how fast one accomplished goals was what mattered and not how they were done. Thus, Russian firms entering stage two have had very little focus on how results were accomplished in their firm and thus this is a particular need in stage two of

Russian firms. Indeed, it is first in sage two that how a Russian firm is managed, rather than just what it is doing and that is acting quickly, starts to become an important determinant of success and thus an area of focus for the firms. While working on increasing efficiency in stage two, Russian firms often appear to go even beyond the point where Western firms might be in stage two. In addition, lack of capital which is always a challenge for newer firms, was a particular problem for Russian firms especially in the late 1990s when capital markets were largely non-functional. Thus, Russian firms needed to make money in stage one to be able to work on efficiency improvements in stage two. Capital markets function better and better in Russia year by year, but it still remains more difficult and expensive to borrow money in Russia than in the West.

Russian employees had fewer options (especially in the late 1990s) than employees in the West and thus Russian managers felt that there was less of a need to focus on human resource management issues than in the West since many Russian employees were simply happy to have a reliable job. Most Russian top managers were hard-working forward-thinking people who were willing to take risks. However, many of them did not have extensive market-based management skills. As a result, most Russian firms were particularly slow to develop professional management and various systems compared to firms in the West. Finally, Russians have a history of strong leaders, and most Russians like strong leaders because as workers they are concerned about being severely punished for mistakes as was the case in Soviet times. Thus, many Russian firms had more centralized decision making, based their success on key individuals rather than on systems, had less flow of information, and solicited fewer employee ideas in stage two than was the case in the West.

The three companies in our study all had strong leaders throughout their transformation process. Indeed, strong management has enabled these companies a degree of flexibility and adaptability that is particularly crucial to a firm's effectiveness in Russia. However, strong leadership as we understand it in Western countries is still often paired with significant employee participation in, for example, idea generation, even if key decisions would be made at the end of the day by a strong leader. However, there was very little employee participation in our Russian case study firms. This is interesting especially since employee involvement and participation are often suggested to be helpful in creating employee commitment to change in the Western change literature (Beer & Noria, 2000).

It is interesting to note that after years where employees were severely punished for mistakes, many Russians are not eager to be the person who is responsible for a decision (even if step by step this situation starts to change). This is important to keep in mind since most western literature on employee involvement takes employee readiness for participation for granted. This seems to be a poor assumption for the Russian context in many cases. Indeed, in Russia the coevolution of managerial skills and expectations and employee skills and expectations is an interesting issue. Russian top managers are slowly starting to see that they can't do it all themselves as their companies grow and competition increases.

However, as with many changes, it is to some degree two steps forward and one step backward. We see this in Parnas-M's attempt to have middle managers run acquired companies, but finding that there middle managers skills were not yet developed enough to do this since they had not had significant opportunities to have large responsibilities (and both get comfortable mentally with being responsible for outcomes and develop the skills to take on such responsibility). Similarly we see this when Ravioli brought in external middle managers who had additional competencies, but then did not give them enough power to use their skills for maximum effect. Further, while some average employees wanted to have the ability to influence company actions more, many did not, and those that did were less eager to be on committees which had to take responsibility that came with following through on suggestions. Certainly there is an evolution underway in Russia where Russian employees want to work in organizations which are more participatory and where top management is starting to realize that they need more significant involvement of a larger group of people in the company. However, this desired level of involvement is far less than found in the West. Further, since different people evolve at different speeds it is important for management to constantly monitor the speed of the evolution of their employees in this regard such that there is a good match between leadership style and employee readiness.

Despite the above-mentioned evolution, strong leadership in some form seems set to stay in Russia. Strong leadership as we understand it in the West is demonstrated by the ability to listen to employees, to communicate ideas, and delegate authority (where appropriate) as much as it is about developing and articulating strategic vision, charisma, or business acumen. However, strong Russian leaders had somewhat less of a tendency to listen to employees, communicate ideas, or delegate authority than their Western counterparts in stage one and two. Bate, Khan and Rye (2000) observed that successful change is not created by a "mythical leader" transforming the organization; it is a process where many actors need to be motivated and engaged in order for it to be successful. In the literature review, we identified that new leaders are often a key feature of a change process as they can provide a new vision for the company (newman, 2000). However, none of the companies in our study replaced their leaders/CEOs--quite possibly because they were also shareholders and also because of a lack of experienced senior managers in Russia and the importance of personal relationships in business in Russia.

As accuracy of decisions becomes increasingly important in Russia's more stable and maturing environment, having a broader leadership base is of increasing importance especially as single leaders will not have the skills, time, or ability to make all key decisions. Professional and competitive organizations require empowered employees and managers to make rapid decisions. However, developing a broader base of skilled managers is not as easy as it sounds, and in Russia we have often seen top managers that have difficulty letting go of decisions they have traditionally made even if they realize they do not have the time and/or knowledge to make such decisions anymore. If new managers brought in are not included in decision-making processes, the skills the company acquired the new managers for will not be utilized. Further, managers used to following orders rather than making decisions, often have trouble in adjusting to acting empowered and making decisions—an issue all case-study companies struggled with. Improving horizontal communication, vertical communication, and delegation will be important for firms to implement in order to progress. However, an important issue to consider is the readiness of Russian employees to make these changes as many of them have previous experience grounded in the more traditional Soviet type firms. It is possible that these workers simply do not understand that their views could be valued by their employers and could help the organization achieve its goals.

The importance of communicating changes within organizations to employees emerged clearly from our analysis. In our study we found that the changes and new strategies that Parnas-M, Fries, and Petrokholod implemented were not well communicated. While perhaps less communication from management as to why they take certain actions is required in Russia compared to the West given cultural differences, the upset that was felt at Fries when top management did not explain the rationale or process of replacing existing managers would indicate that communication is important (especially at times of change) in Russia also. Had the reasons for the change been explained, the process may have gone more smoothly. Thus, we believe Russian firms must include such features as involvement, communication, and decentralized decision making as priorities in their next stage of development. With the above analysis in place, we are now in a position to posit a stage change model for Russian companies.

DEVELOPING A MODEL OF CHANGE IN RUSSIAN FIRMS

With the information described above, we have derived a life cycle model for Russian firms that is presented in Table 4 and different then the classic life cycle model of Western firms as represented by Quinn & Cameron (1983). In the first stage, the "Survival" stage, survival in the

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Insert Table 4 about here

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aftermath of institutional upheaval is the main driver behind companies' actions and their structures remain similar to those of firms in Soviet times. At this stage, decision making is centralized with little or no involvement from employees. Indeed, the strong central management and complacent personnel typical of Russian firms may be one of the success factors for organizations at this stage. The other success criteria is the ability to marshal resources for production as there are often little or no resources to fund modernization of existing product lines or new product lines. As a result, the selection of products is often limited. In stage 1 both Western and Russian firms have similarities with dominant centralized leadership and successful marshalling of resources being important. Further, at this stage both types of firms struggle with identifying a successful strategic direction or niche. Russian firms often have trouble due to institutional upheaval and western firms often struggle in identifying specific market niches.

The second stage of Russian firms' organizational life cycle is "C*ompetitiveness Development."* At this stage Russian companies are able to start improving the competitiveness of their product and organization and start focusing on aspects which were unstable in the previous stage (e.g. securing good suppliers of raw materials). The second stage is, as with the first, undertaken with a sense of urgency, as companies must act quickly in order to generate competitive goods in a period when foreign products and local competition is increasingly present. Thus, at this stage the emphasis is on improving technology in order to produce more efficiently and / or to increase the range of product offerings. Organizational restructuring, an increased focus on the products and markets, and some staff training and new skills are brought in at the senior level. The organizational and management structure remains dominated by the initial top management team and existing formal structures and procedures. More clear goals and strategies begin to emerge in the Russian firms, but these goals and strategies are often not well communicated yet to the average employees and are still emergent.

The second stage of Russian firms' organizational life cycle contrasts to the second stage of Western companies. Western companies in the second stage of development focus on human resource practices, increasing informal structures, increased communication, and developing and communicating a clear company mission. In the West, worker empowerment is considered fundamental to company success and development to capture the most from the company's human capital. Encouraging a sense of mission and commitment to the organization is thought to facilitate employees being more productive and contributing good ideas to the firm. Indeed, most employees like to have some input into decisions. In Russia, there is a greater urgency to bring product competitiveness "up-to-speed" and as employees are not accustomed to being included in decision making there has been less urgency to include employees in such decision making.

At the third stage in Western literature, the focus of activities switches to formalizing the practices in the organization including formalizing rules and regulations. However, many Russian firms have quite a few formalized rules and procedures when they enter Stage 3 although they lack systems (e.g., formal communication, financial information, employee development) and thus a focus on systems is likely a key focus for Russian firms in Stage 3. It appears that in stage 3 Russian firms will begin to address the soft features of organizational development that were developed in Stage 2 in Western firms. Specifically, we believe that Russian companies will start to develop and communicate their corporate mission clearly, decentralize decision making to an increasingly competent layer of middle management, increase horizontal and vertical communication, and adopt HR methods that will further develop and take fuller advantage of employees, and see employees' views solicited and taken into account by management. In product terms we can expect to see increased focus on customer requirements and a more mature product offering and a focus on geographical expansion/ distribution of products.

Stage 3 firms can take a more holistic view of change, and as a result change in such firms is normally carried out less urgently since competitiveness and core advantages of the company have already been established. Change is increasingly driven from within the organization. A further influencing factor that will guide the change process and provide a stabilizing effect to organizations is the increasing coherence and clarity in the institutional features of Russian society against which change in organizations can be mapped (e.g. international accounting practices, more developed financial markets, more models of successful Russian firms, a more clear legal system, etc.). Indeed, with this increased coherence and clarity, firms are likely to conform to institutional theorists' argument that companies eventually organize similarly as a result of mimetic and normative forces becoming stronger which brings organizations into alignment with each other and with the institutions upon which they depend (Meyer et al, 1990).

CONCLUSIONS

This paper contributes to our understanding of Russian companies and change by providing a clear framework that we can apply to the development of private Russian firms. In it we have discussed organizational change in Russian firms, drawing on Western literature relating to change and organization life cycles and showing that differences exist in the stages Russian firms pass through in their life cycle. We have identified that both Russian and western firms in their first stage focus on idea generation, little planning, marshalling resources, fast action, etc. However, in the second stage when western firms start to focus on developing a clear mission, informal structures, internal communication, a sense of collectivity, and human resource aspects, Russian firms have focused on establishing the competitiveness of their products and in surviving externally-driven second-order change. To do this Russian firms have focused on technological upgrading, product and market choice and refinement, securing raw materials, and some organizational restructuring. This leaves Russian firms in their next stage of business development to focus on aspects of mission, internal communication, employee involvement, other human resource aspects, and more systematic analysis among other things.

We have also discussed how traditionally Russian firms have focused on strong central management with little involvement in decision making by others, and we highlight that this pattern must be altered if further change, flexibility, and the success of the organization is to continue at maximum speed and effectiveness. However, we stress that a moderate amount of involvement is probably appropriate due to Russian cultural traditions and we highlight that many Russian employees are not willing to take on too much involvement—a basic assumption in the Western change literature. Indeed, as managers and employees develop, it is critical to carefully monitor the situation so that there is a good fit between leadership style and workers both in terms of desire and skills.

Like all studies this study has some limitations. The limitations of this paper primarily relate to the small number of companies in the study. Indeed, there is always a difficult tradeoff between making an in-depth study of a few companies or making a more superficial study of a larger number of companies. We chose the former this time due to the lack of previous research in this area and our wish to understand the phenomena in more depth. Building on our work, we encourage more widely encompassing research (both in terms of number of companies and the industries in which they operate) in the future. How much employee participation is optimal given Russian cultural traditions, how employees can be encouraged to participate in the development and running of organizations, and how this can best be merged with Russia's traditions of strong leadership is an interesting point that requires more research. Further, we also echo Peng's (2004) call for further work on the inter-relationships between institutional environments and organizational strategy. The change from entrepreneurial to professional organizations is one that many Russian companies will need to undertake in the near future. As a result, the insights gained from this study are important. This paper has given a first glimpse of changes that many Russian firms are going to need to go through in the coming years in order to be/continue to effective.

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Table 1: Quinn & Cameron's Model Integrating Nine Other Life Cycle Models

1. Entrepreneurial Stage	2. Collectivity Stage	3. Formalization & Control Stage	4. Elaboration of Structure Stage
• Marshalling of resources • Lots of Ideas • Entrepreneurial Activities • Little planning and co-ordination • Formation of a niche • "Prime Mover has power"	• Informal communication and structure • Sense of collectivity • Long hours spent • Sense of mission • Innovation Continues • High commitment	• Formalization of Rules • Stable structure • Emphasis on efficiency and maintenance • Conservatism • Institutionalized procedures	• Elaboration of structure • Decentralization • Domain Expansion • Adaptation • Renewal

Note: A summary of Quinn & Cameron (1983)

TABLE 2: Comparison of Organization of Fries, Petrokholod and Parnas-M in 1998

	Petrokholod	Parnas-M	Fries
Decision Making	TOP DOWN:	TOP DOWN	TOP DOWN:
Leadership	STRONG SINGLE LEADER WHO HAS BEEN WITH THE COMPANIY FOR MANY YEARS.	TEAM OF FIVE FORMER NAVY MEN WHO FORMED THE COMPANY. ONE IS GM.	TEAM OF 5 PEOPLE WHO FORMED THE COMPANY. ONE OVERALL GM.
Org Culture	STRONG	POOR - MEDIUM	STRONG
Communication	POOR	POOR	OK
Involvement	LOW	LOW	LOW
Technology/ product quality	OK	OK	GOOD
Training	MINIMAL	MINIMAL	MINIMAL

TABLE 3: Description of Changes in Fries, Petrokholod, and Parnas-M Between 1998 and 2003

	Petrokholod	**Parnas-M**	**Fries**
Strategic Pressures	• Increased competition in ice-cream market from international as well as Russian competitors. • Reliant on other companies for supply of Raw ingredients • Cold storage business had become unprofitable	• Acquisition of up and down stream businesses • *Restructuring* of company into a Holding Company structure	• New competitors entering french-fries market (primarily national Russian companies) resulting in increased competition • Saturation of fries market • Difficulty in geographical expansion
Areas of Change	• *Technology:* Purchase of new mixing equipment from Tetra Pak	• Technology: continual upgrading of equipment step by step	• *Technological*: New production lines
	• *Product:* New lines of ice-cream introduced and new frozen food products • Geography: Penetrate Moscow market as it is where wholesalers from across the country go to source products	• *Product*: Started to use a special protein sausage cover which a company it acquired produced • *Geography*: Continued expansion throughout Russia, but still with a strong NW region base	• *Product:* Horizontal diversification – frozen vegetable range • *Geography:* Focus on the NW region and expand product range to frozen vegtables instead of geographic expansion due to high cost to transport frozen foods + difficulty to develop distribution
	• *Raw Material Supply* Backward integrated to have greater control over inputs including purchase of a dairy farm. New Resource Department created to ensure reliable supply of quality inexpensive inputs.	• *Raw Material Supply:* Acquisition of up and down stream businesses such as sausage cover factory	• *Raw Material Supply:* Developed an alliance with a company providing a key input to production to obtain preferable treatment and work with the supplier to improve quality
	• *Management Restructuring:* New senior management team of 10 with more functions represented including sales, distribution etc. • *Restructuring*: Additional focus on sales, distribution and marketing,	• *Restructuring:* Restructuring the company to a holding company structure • *Restructuring:* Acquisition of other companies, though integration did not appear to be well planned	• *Management* Replacement of old style management with more professionally skilled. Reluctant to give new managers enough power to have max impact • *Restructuring:* Increased focus on marketing and sales department and introduced regular training
involvement, communication	• "I am not sure if workers understand these changes and how much they affect them" • Daily management meetings increased communication some • Little employee participation	Average employees have little involvement and not much communication in the organization Did try to give middle managers more responsibility to run acquired firms, but did not feel that the managers were up to the task yet	• Feel staff not ready for new psychological training • Informal meetings between directors as well as formal quarterly meetings. • Still little employee involvement and communication
Organizational culture	• Employee was proud to work for the company • Run by strong leader who is respected and like father. Company started to formally plan and have budgets. More professional • "Company is becoming more distribution focused"	• Still felt that employees benefited from the stable environment – paternal attitude • Run by strong leader who is respected • Employees did not feel that management cared about their opinions and no family culture	• Run by strong respected leadership team. Increased rapidly to 1,000– altering organizational culture to have less family feel. 70% middle management replaced with people with more professional skills. • "We want to become a more professional organization" and have a quality focus
Method of Change	• Self generated and designed • "try it and see"	• "Try it and see" 3 choices – make mistakes and not learn, make mistakes and learn, or acquire knowledge and avoid mistakes. We try avoid 1 and do mostly 2. Option 3 sounds good, but is difficult to implement.	• Hired a consultant which did not work, so fired him • "try it and see"

Table 4: Russian Change Model

Stage 1: Survival Stage	**Stage 2: Competitiveness Development**	**Stage 3: Developing commitment and professionalism**
Mission and goals evolving and not clear. Many ideas. Vague idea and looking for good opportunities to quickly take advantage of. Focus on making it to morrow and long-term	Mission of the firm starts to become clearer. Goals and strategy begin to become clearer (often an emergent process), but not so widely communicated to employees yet. Still shorter term focus.	Clear mission and goals communicated to all employees. Some employee involvement and suggestions encouraged. Start to think also about at last the medium term
Centralized leadership and decision making, ad hoc rules and procedures, and few systems in place.	Introduction of some new senior management and many retained. Some training of key staff (e.g. sales training). Decision making still centralized, but increasingly more formal rules and procedures.	Competent tier of middle managers put in place. Decision making decentralized. Systems implemented to increase effectiveness and decrease dependence on key individuals. Diverse informal communication increasing.
Focus on being the first to do things and doing things quickly rather than on analysis and doing things in the correct way.	Starting to develop some analytical skills to use in making decisions, but these skills are not complete or systematically used.	Still quick compared to western organizations, but more focus on analysis before action
Minimal participation in running of company from employees. Little understanding of firm goals. Little focus on HR.	Little input received from employees.	More focus on company HR practices, availability of training programs, and concern about employee satisfaction.
Limited product range and activity in a relatively small geographic area. Product may be of varying quality. Little focus on marketing. Make a needed product and customers will come.	Focus on developing better quality products and some expansion of product range and or/ geographical area. Some customer focus.	Focus placed on geographic expansion and improvements to distribution. A special focus on what customers want and customer service. More marketing used due to increase competition.
Varying quality and dependability of suppliers and inputs.	Securing reliable suppliers through working with suppliers, looking further away for good suppliers, or often backward integrating and acquiring suppliers.	More reliable suppliers are developed.
Inefficient production, small range of product lines.	Increased spending on new technology and introduction of new product lines. Improved efficiency and increased focus on quality.	Focus on establishing clear mission and company values and communicating these