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### MANAGEMENT DEVELOPMENT IN RUSSIA

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#### Preface

This paper is part of a series of working papers published under the ILO's Action Programme on Privatization, Restructuring and Economic Democracy for use by governments, workers' organizations, employers' organizations, development assistance agencies, consultants, academics and managers. The ILO is particularly interested in the social aspects of privatization, structural adjustment and economic transformation. However, it is also concerned with helping all stakeholders better to understand and assess the economic, political and cultural conditions that lead to their successful implementation. Experience has indicated that in the areas of privatization and economic transformation countries that can effectively adapt their administrative and management cultures are more successful. The purpose of this paper is to trace the recent trends in management development in transforming economies and to identify the main areas in which international assistance may be most effective.

With focus on the experience of the Russian Federation, the paper explores the meaning of management development in transforming economies and its relationship to economic reform. It describes the impact of economic reform on enterprise management and the emergence of new requirements for managers. It outlines the types of activities of enterprises in transforming economies oriented towards management development and describes management retraining processes. It also presents the state of, and trends in, pre-employment managerial and business education. Finally, it summarizes lessons gained from experience so far and provides some guidelines for the application of international assistance to management development. The ILO wishes to thank Prof. Igor Gurkov of the Higher School of Economics (State University) of Moscow for the preparation of this paper.

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## Acknowledgements

The purpose of this paper is to trace the recent trends in management development in transforming economies and to identify the main areas in which international assistance may be most effective. In this work I have summarized my experience as a researcher, policy advisor, trainer and consultant in industrial management, organizational diagnosis and corporate change. However, as the area of management development is broad, complicated and rapidly expanding, I am naturally indebted to many persons who assisted in collecting information or in clarifying policy issues. I am glad to mention among them Prof. Valery Meskov, Deputy Minister for General and Professional Education of the Russian Federation; Dr. Andrey Markov, Head of Human Resources Unit, the World Bank Moscow Office; Mrs. Ekaterina Druzhinina, USAID, Moscow; Dr. Alexander Posadski, President of the Association of Economic and Management Consultants, Moscow; Dr. Alexander Dyatlov, Dean, Faculty of Management of the Higher School of Economics (State University); my research associates at the Center for Organizational Development, Moscow (Dr. Elena Avraamova, Dr. Galina Boulytchkina, Dr. Michael Mikhaluk and Dr. Nadezhda Titova); and many others.

This work was partly undertaken during my one-term leave from the Higher School of Economics (State University), Moscow, which enabled me to occupy a position of Research Fellow at the Foundation for Economic Research, Rotterdam. I wish to acknowledge the valuable comments and suggestions of my Dutch colleagues, especially Prof. Solomon Cohen and Mr. Maarten de Zeeuw.

This work is a part of the ILO's activities in promoting social justice, democracy, improved working conditions and human development. I am grateful to Dr. Max Iacono, who attracted me to this project, set the benchmark for work at the ILO and made many valuable suggestions and comments on an earlier draft of the paper.

Nevertheless, all facts, opinions and potential errors are the responsibility of the author alone.

Moscow, March 1997. Prof. Igor Gurkov.

## Executive summary

Chapter 1 serves as an introduction to the paper. It explores the meaning of management development in transforming economies, the growing interest in and necessity for management development and its relationship to economic reform. In this chapter the link is explained between management development and managerial/organizational learning. Three types of learning are distinguished: (i) individual learning; (ii) group learning; and (iii) organizational learning. The conjunction of individual and group learning comprises the "core" of management development processes in transforming economies. The "shell" of management development is organizational learning, which manifests itself in the mastery of successful recovery strategies and the implementation of organizational change. Chapter 1 also presents the logic and explains the structure of the paper.

Chapter 2 describes the impact of economic reform on enterprise management and the emergence of new requirements for industrial managers. First, major challenges are identified: (i) the establishment of a strategic agenda for company survival; (ii) the development of the potential for horizontal mobility in the managerial labour force; (iii) the mastering of an adequate role in emerging governance structures based on private property rights. Second, this chapter explores the new requirements for three groups of managers: (i) shop-floor and middle managers; (ii) staff officers; (iii) corporate executives.

Chapter 3 outlines the types of activities of enterprises in transforming economies that are oriented towards management development. In this chapter, two forms of informal and formal training are identified: (i) changes in job and job content; (ii) development processes within the job. The first form

of training includes methods such as: (i) job promotion and job rotation; (ii) stretching the boundaries of a job by allocating additional responsibilities; (iii) escaping from job routines by the creation of internal ventures. Most of these methods are illustrated by mini case- studies of Russian privatized companies. Development processes within the job include: (i) coaching; and (ii) mentoring. Chapter 3 also evaluates the role and effectiveness of in-house training and counselling as methods for management development.

Chapter 4 describes management retraining processes. The demand for retraining is evaluated, including: (i) managers' reasons for formal training and (ii) the desired subjects of training. The supply of formal management education is reviewed, including: (i) distance education and self-education; (ii) internal training and counselling; and (iii) outside/external training. Chapter 4 also deals with issues of international networking in managerial training and quality assurance in training and executive education. The main principles are illustrated by mini case-studies of various retraining programmes.

Chapter 5 presents the state of, and trends in, pre-employment managerial and business education. It describes the types of business schools that have emerged in transforming economies, the problems of establishing new curricula and teaching methods and the advantages and pitfalls of copying Western systems of management education. Special attention is given to the evaluation of the system of quality assurance and standards in management education and to the role of international networking in the further development of modern educational systems.

The lessons gained so far from experience are outlined in Chapter 6 in order to provide guidelines for the application of international assistance to management development. It is suggested that the key for effective management development in Russia is inside training and counselling. In this respect, recommendations for enterprise managers, management development trainers and consultants and domestic and international policy-makers are drawn. One of the recommendations includes the proposition to increase the role of the ILO as a coordinator of all internationally assisted management development initiatives in Russia.

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## 1. Introduction

"Management development" has become the new mantra of the transforming economies of Central and Eastern Europe. Having rapidly created the basic institutional infrastructure of a market economy and weathered a post-liberalization recession, the economies of Central and Eastern Europe face a new challenge -- learning to cope with the requirements of production and managerial efficiency in a modern economy. Thus, full economic recovery depends not only upon the continued evolution of those businesses which survived the transition from a command to an open economy, but upon the establishment of new businesses which operate under the principles of modern management techniques.

Management development is usually defined as "the attempt to improve managerial effectiveness

through a planned and deliberate learning process" (Mumford, 1995: 6). Management development in transforming economies may be viewed as an open-ended process, which not only involves managers themselves, but also prospective managers (that is, newcomers to the market of managerial positions) and the enterprises over which they exercise control. Governmental and non-governmental organizations also play an important role in management development by designing, regulating, supporting and performing a number of activities which favour management development.

Irrespective of the rising doubt as to the complete applicability of Western economic and managerial paradigms to the transforming economies of Central and Eastern Europe, the process of management development in these countries has already begun. So far, the chief characteristic of management development in Central and Eastern Europe has been rapid internationalization. The major international donor agencies which have provided financial support for management development in Central and Eastern Europe, naturally insisted that Western standards be applied to the content of such programmes -- not only as a means of ensuring the programmes' cost efficiency, but as a prerequisite for the receipt of such aid. However, a second, and far more powerful catalyst behind the rapid internationalization of management development, is the opening of the formerly closed economies of Central and Eastern Europe to foreign competition, through trade liberalization and direct foreign investments. These have led to a fundamental transformation in the managerial culture of successful businesses, resulting in significant shifts in priorities and paradigms.

The experience of developed economies suggests that the massive transformation of management techniques and managerial culture will neither be easy nor quick. A recent survey of 160 large multinational companies revealed that a change in managerial initiatives required, on average, approximately four years. Moreover, the transformation of such crucial aspects of an enterprise as "training/development", "workforce composition", "leadership style" and "career development" may take as long as eight years or more (Carr et al., 1996: 228). In the case of an economy undergoing transformation, managerial change is complicated by a general ambiguity about the direction of change, the agents of change and the objects of change.

In general, a successful transition to a market-based economy requires that a large number of people learn completely new commercial, financial and managerial skills. In transforming economies, millions of managers, entrepreneurs and administrators are restructuring enterprises, creating small businesses, operating new banks and transforming public finance and administration. This transformation has created an overwhelming need for managerial development as a means of filling the enormous and ever-increasing demand for managerial skills in many critical areas. Given these factors, it is impossible for a single study to encompass all of the peculiarities of management development in every area of a transforming economy. Therefore, the scope of this paper is limited to an evaluation of the trends in managerial development in enterprise management. These trends are illustrated by selected cases of best practices in management development.

It is necessary to distinguish three types of learning in organizations:

individual learning;

group learning; and

organizational learning.

In the context of enterprise development in transforming economies, the essence of *individual learning* is the acquisition of knowledge -- how to work and how to get one's bearings in new market conditions (Gurkov and Kuz'minov, 1995a).

*Group learning* amongst managers in a transforming economy includes several interrelated social

processes, including:

separating themselves as a new social entity distinct both from employees (workers and technical staff) and employers (outside shareholders);

mastering new forms of "transformational leadership" which will enable them to maintain and improve their position in relation to workers and other stakeholders.

Together, individual learning and group learning comprise the "core" of management development processes in a transforming economy. The "shell" of managerial development, on the other hand, is organizational learning. Organizational learning manifests itself in the ability to successfully cope with perilous situations through the implementation of recovery strategies (Jones and Hendry, 1992; Booth, 1993). Such strategies can only be realized through the transformation of pre-existent structures, the establishment of performance goals and the redirection of resources -- in other words, through major organizational change.

This understanding of management development as one particular aspect of organizational learning leads us to accept a rather opportunistic approach in our overview of managerial development in transforming economies. It is our honest belief that, in the pragmatic world of business, "development for development's sake" does not exist. While, in many Western countries it is currently fashionable to peruse corporate development through such programmes as "total learning partnerships" or "permanently unfrozen organizations" such measures are simply partial responses to the challenges presented by a hostile environment, rapid technological change and the often unpredictable fluctuations in market conditions. Moreover, it has previously been established that "organizations in hostile environments face new problems and are often forced to develop new niches, but their possibilities to learn are often restricted by scarce resources and limited strategic opportunities" (Hedberg, 1981: 14). Therefore, after reviewing the impact of economic reform on enterprise management, we will identify those new challenges which must be met with accelerated management development, before outlining the immediate response of enterprises to both the real and perceived needs in the field of management development. Next, we will examine the "external" solutions to Russia's enterprises' problems, including the revamping of the pre-employment educational system for managers. We will then raise a set of related issues, such as the development of national management policies and explore the question of international networking. Finally, we will analyse quality considerations before deriving specific conclusions about current and potential trends in management development in transforming economies.

All of the above-mentioned factors predetermined the structure of this paper, which is organized as follows. In Chapter 2 we present the new requirements and challenges for enterprise management -- the "shell" of management development in transforming economies. Chapter 3 is devoted to the management development policies and practices of enterprises, including such on-the-job development processes as coaching, counselling and mentoring. Chapter 4 deals with the external development processes of management training and consulting. Trends in pre-employment management education and training are traced in Chapter 5, while both Chapter 4 and Chapter 5 include paragraphs which discuss quality issues in specific areas of management development and the role of international networking in management development. Chapter 6 contains conclusions and policy recommendations.

We must also stress that the paper will centre its attention on management development in Russia. For 75 years -- more than three generations, far longer than in any of the other transforming economies -- the population of Russia was almost completely cut off from contact with market economies. As a result, there is an immense gap between the knowledge and skills which the average Russian manager possesses and that which is required to efficiently transform factories and plants into modern production facilities.

## **2. New challenges and requirements resulting from the impact of economic reform on enterprise management**

### **2.1. New challenges for enterprise management**

#### **2.1.1. A survey of economic reforms**

Economic reform in Central and Eastern Europe has brought about a major transformation in pre-existent economic activity. In general, the impact of economic reform may be divided into three categories:

economic liberalization;

the transformation of the structure of the economy; and

the development of the private sector through the privatization of state-owned enterprises and the creation of new private businesses.

In focusing on enterprises in transforming economies, therefore, it is possible to analyse the current situation as regards:

companies producing finished goods (for consumers); and

companies producing intermediate and/or investment-calibre goods (for producers).

As regards the production of consumer goods it must be noted that, since 1990, the transforming economies have been confronted with an ever-increasing influx of imported consumer goods. While not always of the highest quality, most of these imports are attractively and colourfully packaged and are shrewdly marketed through aggressive advertising campaigns. New domestic consumer groups which enjoy a high income and a low price elasticity of demand display a consumption pattern based upon the assumption that imported foreign goods are superior to domestically manufactured goods. Lower income groups not only attempt to emulate the new consumer groups' spending habits, but display a similar aversion to domestic consumer goods. The recession, therefore, severely affected the production and sale of consumer goods. The production of many types of non-durable and durable consumer goods, such as tape recorders, sewing machines, footwear and knitwear, fell to extremely low levels. In 1994, the level of production in these industries was less than one-third or one-half of the 1990 level. By 1995, the production of consumer goods in Poland, Hungary, Slovakia and the Czech Republic had once again begun to increase, but other Central and Eastern European countries are still experiencing a decline in the production of such goods.

The producers of intermediate goods have been able to best adapt to the new conditions in Eastern Europe. First, the problems of quality for this type of goods is not as severe; therefore, intermediate goods are in a better position to compete in overseas markets. Second, the so-called "fixed costs" of production in other industries consist mainly of the costs of intermediate goods. Even under crisis conditions, therefore, demand for intermediate remains relatively stable. Indeed, while the general industrial output of Russia continued to decline in 1995, there was some growth in the production of intermediate goods.

Finally, in many transforming countries, the decline in the output of capital goods was -- and still is -- even higher than the decline in consumer goods. The transition has rendered a large percentage of capital goods obsolete, while the initial macroeconomic shocks of privatization -- the

post-liberalization recession and the risky and uncertain environment -- discouraged productive investment. This phenomenon was exacerbated by the fact that, under communism, a major share of all machinery produced in Central and Eastern Europe was manufactured, under state orders, expressly for export to other COMECON countries. For example, machines manufactured in the former GDR were imported by the USSR, while in the USSR producers in Russia and the Ukraine supplied machinery to the Central Asian republics. The collapse of COMECON and the disintegration of the Soviet Union disrupted these established business ties. For these reasons, therefore, the future of technologically modern capital goods industries in Eastern and Central Europe is still uncertain.

The conjunction of domestic and external liberalization caused a deep economic recession in all of the transforming economies. None of the countries of Central and Eastern Europe equalled their 1989 GDP again before 1995. In 1995, for example, the Russian GDP was 41 per cent less than its 1989 level (World Bank, 1996). According to a number of different estimates, the Russian GDP may not regain its 1989 level until sometime between 2003 and 2009 (Russian Economic Trends, June 1996: 6).

The development of the private sector was the third direction of economic reform. By 1995, the output of the private sector surpassed 30 per cent of the GDP in the majority of the transforming economies. That same year, privatized and newly established private companies produced almost 60 per cent of the GDP in Poland, Hungary, Russia and the Czech Republic.

The combination of economic liberalization, structural changes and institutional transformation resulted in a set of challenges for enterprise management. Three major challenges can be identified:

building the strategic agenda for a company's survival (section 2.1.2);

developing the potential for horizontal (cross-industry and cross-sectoral) mobility (section 2.1.3);

enterprise reforms -- mastering the responsibilities of legal ownership of a privatized company (section 2.1.4).

The first two challenges are common to all of the transforming economies. The third challenge, however, which arises from the transformation of managers, in particular top executives, into the legal owners of the enterprises over which they exercise managerial control, is specific to Russia and therefore requires particular attention.

### **2.1.2. Building the strategic agenda for company survival**

A few years after deregulation and the opening of domestic markets to foreign competition, the prevailing attitude within firms in Central and Eastern Europe could be summarized in the complaint of one re-engineering pioneer: "No more unearned, inherited brand loyalties; no more cordial rivals in the same markets; no more confident pass-alongs of rising wages and benefits in the form of higher prices; and no more indulgent protection by national government" (Champy, 1995: 18).

We shall now pause to outline some of the distinguishing features of companies in transforming economies. Note that these features, albeit with different emphases, *apply to the production of all goods*, whether final, intermediate or investment goods.

*First*, in terms of their competitive situation, the most common feature of companies in transforming economies is single-business orientation. Moreover, most of the companies are single-plant firms -- the consequence of 60 years of state-mandated "specialization" policies (see Cohen, 1993).

*Second*, there is a traditional separation between production and marketing.

*Third*, increased transportation costs and local "regulatory" requirements (levied by local authorities and/or local Mafia dons) are causing serious fragmentation in many sectors, especially in the countries of the former Soviet Union.

*Fourth*, most of the exchange environments in transforming economies exhibit the *characteristic conditions of emerging markets*. There are no accepted "rules of the game" and the question of how the market will function is open-ended. Firms not only lack solid information about their competitors, but about potential customers' needs and preferences. Consequently, the search for the right industrial strategy is a hit-or-miss proposition. Enterprises constantly encounter difficulties securing supplies of raw materials, basic industrial components and capital.

The only possible response to such adverse conditions is the formulation of turnaround strategies such as drastically revising marketing schemes and actively searching for market niches; analytically reconsidering supply arrangements and, if necessary, rebuilding entire value chains; creating an "enclave" of stability, either by gaining access to government orders and subsidies or by becoming a subsidiary of a foreign company; etc. Inherited inadequacies, however, present formidable obstacles to the implementation of turnaround strategies by enterprises in transforming economies. These inadequacies may be divided into technical shortcomings, economic shortcomings and organizational shortcomings.

*Technical shortcomings* are expressed not in terms of technological capability, but the inability to meet international product and service standards. Even when the *physical* qualities of a product are comparable, most Eastern European companies do not compare favourably well with their Western counterparts in terms of such non-product attributes as delivery, convenience, information and attendant services before, during and after the sale (see Gurkov et al., 1996). An additional distinction may also be drawn between *process* and *product* technology. And, as far as product -- as opposed to process -- technology is concerned, it has often been observed that Eastern European firms rely on less than state-of-the-art technology or are dependent upon Western partners for licences (see Abell, 1992).

*Economic shortcomings* stem from the deep liquidity crisis of companies in transforming economies. Three main reasons for the liquidity crisis are the inherited tradition of higher-than-necessary investments in inventories and receivables, the difficulty of actually collecting receivables and high interest rates. The most debilitating effect of the liquidity crisis is a decrease in the *economic efficiency* of production activities. This implies working under conditions of sub-optimal capacity utilization, which usually increase the share of fixed costs and overhead. Illiquidity also leads to non-optimal "make or buy" decisions. Moreover, most of the production operations are transferred back to the companies, irrespective of opportunity costs and incremental costs. This also leads to the overdiversification and overstaffing of enterprises, thereby worsening the relative cost positions of Eastern European firms vis-à-vis their main competitors.

*Organizational shortcomings* may be summarized as a conjunction of overall organizational ineffectiveness, inadequate control systems and incongruous organizational structures.

Overall organizational ineffectiveness is used here in its purest sense, to connote weakness in an enterprise's organizational operations. The lack of any tradition of personal responsibility in office work has retarded the development of effectively operating offices, whose poorly prepared documents, inability to effectively process data and chaotic scheduling chronically undermines the effectiveness of top management. Another source of the overall organizational ineffectiveness of enterprises in transforming economies is the lack of adequate control systems and the lack of a basic understanding of the role of accounting in effective management. While accounting data exists in abundance, it is seldom presented in a fashion which supports managerial decision-making.

The above-mentioned organizational shortcomings are aggravated by incongruous organizational structures. Typically, most companies in economies undergoing transformation are not structured in a market-oriented fashion. The dominant organizational form is manufacturing plants on the one hand and support services on the other (Abell, 1992). Newly formed "marketing" or "commercial" departments are overcentralized and have little connection with manufacturing divisions.

In general, we can conclude that the development and implementation of turnaround strategies will require major changes in every sub-system of enterprise management.

### **2.1.3. Development of the potential for horizontal mobility**

Historically, Central and Eastern European businesses allowed industrial managers very little opportunity for horizontal mobility. Managers were traditionally trained mainly as engineers for a particular industry or even a particular type of production. *General managerial skill* and proficiency was acquired mostly through on-the-job experience and, therefore, were also highly specific. Mobility was mostly vertical, through a closely supervised system of promotion along the managerial chain of command: from foreman to department manager; department manager to plant superintendent; plant superintendent to chief engineer; chief engineer to general director; and general director to high-ranking civil servant in an industrial ministry. Horizontal mobility was also closely supervised and restricted to cases where new industries were being launched or were being developed in remote areas.

In many transforming economies, but especially in Russia, a shortage of housing combines with specific institutional rules to limit regional mobility (see Commander and Yemtsov, 1995). Persistent industry-wide depressions, such as that which continues to plague Russia's machine-building and textile industries, also stymies managerial mobility, especially in large, remote regions which are dominated by single industries. In light of these factors, cross-sector and cross-industry mobility, together with the growth of small businesses and self-employment, has become especially important. In facing these challenges, managers will have to overcome the skill mismatch and expand their previously narrow scope of knowledge and professional dexterity.

### **2.1.4. Enterprise reforms: Mastering the responsibilities of legal ownership**

According to the rather optimistic appraisal of the World Bank, "at the heart of transformation lies a change in incentives, none more important than those for managers of enterprises ... Transition requires changes that introduce financial discipline and increase entry of new firms, exit of unviable firms and competition ... Decentralizing ownership is the best way to increase competition and improve performance" (World Bank, 1996: 44).

The World Bank's opinion, however, hardly affected the design of economic reform in Central and Eastern Europe. Between 1990 and 1995, most of these countries implemented massive privatization programmes, utilizing either equal-access voucher privatization schemes (as in the Czech Republic and Lithuania) or sale of industries to outside investors (as in Hungary and Estonia). The only country that implemented a completely original privatization programme, under the rubric of the equal-access voucher privatization scheme, was Russia.

With the launching of the state programme of privatization in June 1992, Russian enterprises were given 60 days to corporatize (i.e. to transform their legal entity into a joint partnership or joint-stock company), select privatization variants and develop and submit their privatization plan to a supervising privatization agency. Three variants of privatization were proposed for medium and large-scale industrial enterprises. In the so-called "second variant", for example, which was chosen by 74 per cent of Russian enterprises, workers and managers were allowed to purchase up to 51 per cent

of a company's stock by closed subscription at a nominal price: 1.7 times the book value for July 1992. The remaining 49 per cent was divided into two parts. Twenty-nine per cent was to be sold by voucher auction before June 1994, while the Government retained possession of the remaining 20 per cent, which was to be sold off through cash auctions or investment tenders.

Complete employee buy-outs, however, were still allowed until the middle of 1993. As a result, many state enterprises were transformed into 100 per cent employee-owned closed partnerships or closed joint-stock companies. Since the middle of 1993, when complete employee buy-outs were forbidden, managers have sought to circumvent this proscription by collecting vouchers from workers or buying vouchers on the "street market", thereby assuring the "working collective" a maximum possible share of corporate ownership. As a result, when the voucher privatization programme was officially reported "successfully completed" on 1 July 1994, most of the managing directors of Russia's medium and large-scale industrial enterprises found themselves the newly elected presidents of companies manned by employee-shareholders. Moreover, managing directors recognized the hard work of outside investors, who had already defrauded many workers of their shares or who had acquired stakes in the companies in exchange for vague promises of future investment.

This situation created a unique challenge for Russia's top managers -- how to separate themselves as a new social entity from other employees (workers and technical staff) *and* other employers (outside shareholders) while expeditiously acquiring a controlling interest in the company they manage, so as to maintain and improve their position in relation to their employees and other stakeholders.

In a series of papers (Gurkov and Asselbergs, 1995; Gurkov, 1996) we have scrutinized and explained the principal methods -- including direct buy-outs, the assignment of voting rights, the unification of workers shares in "pocket" holding companies, etc. -- employed by top-level managers to transferring their employees' shares to themselves.

The extent of managerial ownership in Russia's companies is difficult to assess. In my survey of 20 companies, all privatized by employee buy-outs of at least 51 per cent of the company's stock, I was able to compare the managerial perception of "real ownership" at three points in time: 1994, 1995 and 1996.

Four predominant patterns of control in Russian privatized companies emerged from the surveys conducted in 1994:

dispersed control, defined as a situation where more than 40 per cent of the company's managers regard themselves as the "real owners";

concentrated managerial control, where more than 40 per cent of a company's managers consider the top management as the "real owners" of the company;

director's control, where at least 40 per cent of the company's managers view the general director as the company's "real owner";

non-clear control, where more than 40 per cent of managers believe that "nobody really owns the company".

Of the 20 companies surveyed in 1994, dispersed managerial control prevailed in six, concentrated managerial control governed a further six, the general director was viewed as the real owner of three, while no clear control was reported in five companies (see Gurkov, 1995).

The 1995 survey revealed new evidence of post-privatization development. First, a slight rise in director's control, from three to four companies, was observed. Second, while the share of companies

under concentrated managerial control remained unchanged, the number of companies under dispersed managerial control decreased from six to four.

Another significant result of the comparison of control arrangements between the 1994 and 1995 surveys, was the appearance of a new type of control: "outsiders' control". It should be stressed that, prior to 1994, "outsiders" had acquired considerable interests in eight of the 20 companies which comprised the total sample. During the period extending from 1994 through the first half of 1995, however, in only two instances did outsiders' interests increase through investment tenders obtained through the selling off of the Government's 20 per cent share of a privatized company's holdings. By contrast, in 1994, there were no companies under the control of outsiders and none of the managers then surveyed reported that foreign shareholders had a significant influence on their company's business. In 1995, three companies previously reported as under unclear control had become controlled by outsiders, while, in another three companies, at least 10 per cent of the managers believed that outside shareholders -- in particular foreign investment funds and banks -- had become the "real owners" of their company. The survey shows that by 1995, the intervention of outside investors in the management of Russian industrial concerns -- or at least the perception of such intervention -- had become apparent to an ever-increasing number of managers (Gurkov and Maital, 1996).

The results of the 1996 survey clearly reveal the "destiny" of employee ownership in Russia. Director's control has become predominant -- it was observed in seven companies. By contrast, dispersed control was reported in only two companies. The shares of concentrated managerial control and outsiders' control remained unchanged -- six and three companies, respectively. A situation of "unclear" control prevailed in two companies, but shortly after the survey was completed, we learned that one of these two companies had been acquired by a foreign firm. The results of our survey are consistent with those reported by other surveys of corporate governance in Russia (Frydman et al., 1996).

We should stress that the first challenge -- company survival -- and the third challenge -- securing control over a company -- are closely interrelated. Indeed, on the one hand, in order to survive the recession, top executives should implement a major reorientation of their company's operations through the establishment of new standards of performance and quality, as well as new requirements for their company's personnel. To realize this goal, however, these top-level executives need more power over and more autonomy in, strategic decision-making. Total managerial autonomy in strategic decision-making may be secured only by the possession of at least a blocking interest in the company. On the other hand, should an executive prove his ability to successfully run a company in an uncertain and unfavourable economic climate, that manager will have derived a tangible claim to ownership over that company. Moreover, a company's improved performance increases both its cash flow and its credit rating, potentially facilitating a managerial buy-out.

In general, the above-mentioned challenges imply very specific requirements for managers in transforming economies. These requirements will be summarized in the next section of this paper.

## **2.2. Managerial response to new challenges -- Setting new requirements**

### **2.2.1. Managers' opinion on the necessity of a new managerial culture**

In this section, we will trace how old professional standards, mental models and "codes of behaviour" are being rendered obsolete and irrelevant.

In our longitudinal study of 20 industrial companies in Russia, for example, we asked managers to assess the importance of the everyday problems their companies face. Between 1994 and 1996, the "shortage of qualified managers" rose from the bottom of the list (the eighth rank) to the middle level

of priority (the fifth rank). The key element which explains this rise is the term "qualified". It means that the knowledge and skills currently possessed by Russian managers are no longer viewed as adequate, even by themselves. This is especially true as regards the economic culture of managers. In our survey, we asked managers to estimate the level of the economic culture of their colleagues. This direct question showed a slightly negative self-perception by managers of their economic culture.

It would be appropriate at this point to differentiate between separate sets of requirements for three distinct groups of managers:

shop-floor and middle managers,

staff officers,

top executives.

We will start our analysis at the lower managerial positions.

### **2.2.2. New requirements for shop-floor and middle managers**

New requirements for shop-floor managers have arisen in response to the new rights and responsibilities enjoyed by this group of managers. In our survey of privatized Russian industrial companies, we asked shop-floor managers about their perception of changes in their decision-making authority after privatization.

In the most successful companies, shop-floor managers reported an increase in their authority over such key areas as:

the production mix (increase 1.50 on a three-point scale);

choice of customers (increase 1.50); choice of suppliers (increase 1.20);

quality standards (increase 0.75);

authority over their own job (increase 0.33);

bonus level of subordinates (increase 0.25);

the administering of rewards and punishments to subordinates (increase 0.17).

From this data, we can clearly conclude that shop-floor managers must possess greater skills in marketing and human resource management in order to exploit the new opportunities presented by the increase in their authority over the above-mentioned areas of enterprise management.

In examining the sources of the increased authority shop-floor and middle managers have acquired, we should keep in mind that the intensive restructuring processes at work in economies undergoing transformation have provoked a genuine revolution in promotion schemes, reward systems and the general orientation of middle and shop-floor managers.

As one of the interviewed Russian managers said: "We have spent all our life sitting behind the high fence that separated us from the customers." As a result, most of the older top and senior-staff managers are incapable of leading independent companies, of building separate marketing networks, or coping with financial problems.

The inability of most older, established managers to adapt to the rigours of the transforming economy has created unique opportunities for shop-floor managers. It should be stressed that manufacturing companies in the transforming economies long operated in a "two-tiered economy". Beside the official economy, there existed clandestine, "underground" production operations, which utilized a company's facilities, workforce and stolen materials. The cash inflow from these operations enabled managers and workers to survive during wage payment delays which could last for months. Now, those shops and departments that once operated clandestinely are openly reorganizing into the cores of semi-independent subsidiaries. Managers who demonstrated their ability to set up underground business activities have been promoted to lead newly established subsidiary companies. While this transforms them from shady "intrapreneurs" to respectable entrepreneurs, they still need to master entrepreneurial skills commensurate with the increased scale of their business activities.

**2.2.3. The new requirements for staff officers**In Soviet-style enterprises, there existed a strict managerial hierarchy which dictated the relative importance of different corporate functions: production, engineering and R & D, planning, supply, salary administration, accounting, sales and personnel. Due to the structure and nature of the command economy, finance and marketing were all but ignored, while legal officers were preoccupied mainly with individual labour disputes. As a result, the second most important official in a traditional Russian enterprise was the chief engineer, who supervised production and engineering. His importance could easily be discerned from the physical location of the chief engineer's office in any Russian industrial company: door-to-door with the general director's office, sharing the same secretary and other facilities.

Since the downfall of centralized planning, the relative importance of functions within individual enterprises has changed dramatically. First and foremost, sales, and not supply, has become businesses' main priority. While sales are no longer guaranteed by state orders, the problem of supply has been transformed from a general shortage of material resources to "the lack of means with which to purchase raw materials and semi-finished goods". Therefore, the importance of sales departments has increased. An additional factor has augmented the importance of sales. Where widely dispersed mutual arrears occur, most deliveries take the form of barter. As a result, an average industrial company is involved in transactions that concern a wide range of goods: from cement and oil to sugar, cars and electrical appliances. As a means of managing these wholesale and retail transactions, most industrial companies have founded what are called "commercial" departments, headed by a commercial director, whose responsibilities include supervising the sales department, supply depots and newly born marketing departments.

Accounting departments have also benefited from the momentous shift in the Russian economy. The complicated system of taxation, which holds the chief accountant and the general director jointly and fully responsible for their enterprise's finances, has transformed the chief accountant into a "plenipotentiary", in whom rests complete responsibility for the financial health -- and propriety -- of the company.

The functional departments which have generally experienced a deterioration in their position of power and which, consequently, have had their staffs slashed are: the planning department, salary administration and engineering. Released from their obligatory compliance to state-dictated plans and faced with a high level of uncertainty, most Russian enterprises have abandoned formulating annual, and even quarterly, plans. Nowadays, the only duty of planning departments is the calculation of the cost of new products. The importance of the salary administration department has decreased as detailed government labour regulations gave way to payroll taxation. Moreover, the greater authority over the administration of rewards and punishment which (as was reflected in our survey) has been granted to line managers, has also decreased the importance of centralized salary administration. With regard to the engineering departments, the overall fall in investment and the shortage of available research materials and monies in transforming economies has led to the cessation of "frontal" R & D, the main purpose of which has traditionally been the satisfaction of engineers' curiosity with materials

supplied by the firm. Today, as our surveys have shown, small technical improvements fall under the authority of line managers, whereas large technical innovations are initiated from the top, after a careful examination not only of the project's technical feasibility but its financial potential.

The shift in relative importance of different functional departments has a direct impact on the manoeuvrability and adaptability of companies. Indeed, the usual algorithm of executing a large new order in a Russian manufacturing firm would look as follows:

First, the sales/marketing department finds a promising customer and, during the initial bargaining, clarifies the preliminary conditions of the order, such as the range of acceptable prices, the desired quantity and quality and the mode of payment (cash, treasury bonds, tax indulgences, barter; the level of prepayment).

Next, the production/engineering departments undertake a feasibility study of the new order.

The planning department then calculates the expected costs of production and sets the desired price, by a cost-plus method.

The accounting department then investigates the previous payment history of the customer, its projected creditworthiness and the possibility of eliminating mutual indebtedness, etc.

Finally, a draft of the contract is prepared by a legal officer and is okayed by a top executive: either the commercial director or the general director. If the proposed order is quite large and cannot be executed with the existing personnel and stock of raw or composite materials, the top executive simultaneously gives appropriate instructions to the supply and staffing departments (see Gurkov and Cohen, 1996).

Obviously, under conditions of general economic uncertainty, this mechanism of internal interactions must work like a Swiss watch -- quickly and precisely -- in order not to lose the client. In order to achieve such precision, staff officers must expand their expertise into other functional areas. Indeed, in our longitudinal survey of Russian industrial companies, we observed that -- especially in the most successful companies -- the set of types of decisions characterized by staff officers as "beyond my position's duties" shrank significantly between 1994 and 1996.

This means the emergence of new requirements for all staff officers. For example, marketing departments need to have a clear understanding of the technical feasibility of ordered production, accounting/finance officers need to be able to fabricate flexible payment plans for various types of clients, while engineering departments need to be able to forecast the costs and benefits of any technical improvement, etc.

#### **2.2.4. The new requirements for top executives**

In comparison to other transforming economies, the new requirements for top executives are quite distinct in Russia. In most of the transforming economies where privatization took the form of sale to outside owners or equal-access vouchers and where more or less clear principal-agent relationships were established, the requirements for top executives do not differ much from those in developing economies. The main requirement for these top executives is "to keep all of the boxes balanced" -- that is, to determine the strategy of the company, to communicate his vision to his managerial subordinates and to inspire his workers. Another aspect of the top executive's art is to harmonize any of the conflicting interests of the different functional areas of the enterprise he manages. For example, the sales department aggressively seeks out orders at any price in order to earn commission fees, while the planning department attempts to set the maximal price for "normal" profitability of sales. Of course, by definition, top executives in transforming economies must also prove their ability to

provide effective transformational leadership: simultaneously wear the hats of problem-solver, coach and teacher. This forces them to "stay one step ahead" of their subordinates and to demonstrate state-of-the-art expertise and up-to-date knowledge in virtually every managerial area.

While all of the requirements for effective executive leadership in a transforming economy are equally valid when applied to the Russian scenario, that country's top executives must meet additional requirements which have been imposed upon them by the unique system of enterprise management in Russia.

The Soviet system of enterprise management was an amalgam of paternalistic and egalitarian traditions. It was as deeply rooted in the popular "communal" mentality of a formerly peasant country, as it was in the rules imposed upon enterprises by central planning boards. In the centre of this system was the concept of the production unit as a "labour collective". The achievement of an enterprise, therefore, was not measured simply by the volume of its production and (since the 1960s) its profitability, but by the size, educational composition and skill level of the labour force; the number of houses built and kindergartens supported; the scale of its cultural and sporting facilities, etc. Even after privatization, the belief that the production unit is a "labour collective" -- a social entity that encompasses all of an enterprise's employees -- is still widely held by Russian production workers. We have demonstrated that, in the majority of enterprises, top managers were successful in gaining control over their enterprises. However, as has been previously stressed: "Even when the controlling interest falls into the hands of management and its associates, they are only able to exercise their rights of ownership within the enterprise to the extent that the workers recognize the legitimacy of their claims" (Clark, 1996: 54). Therefore, top managers have to *both* manifest their paternalistic concern for the labour collective *and* ensure the financial viability of their enterprises. The ultimate prerequisite for becoming an effective top-level manager, therefore, is the honing of a high level of skill and dexterity in social manipulation, negotiations and transactions management, in order to balance the contradictory interests of internal and external shareholders. In this respect, top managers must possess deep knowledge in the following completely new areas:

civil law, especially the regulations of corporate governance structures;

financial accounting, in order to cope with new requirements in *accountability*, imposed by outside shareholders;

social psychology, in order to understand, to retrace and, if necessary, *to prevent* the conflicts with and within "labour collectives".

### **3. Management development policies and practices of enterprises**

With respect to management development processes, it is possible to distinguish several types of activities which, directly or indirectly, aim at "improving managerial effectiveness through training and learning". These include:

development processes within the company (in-company formal and informal training);

formal training and learning outside the company for already employed managers;

pre-employment management education.

This chapter outlines the first area of activities.

#### **3.1. Informal management training**

Development processes within the company often include some forms that are not perceived as training in its proper sense. However, some "routine" changes in job and in job content may be assessed as a powerful means of *informal training*. We may mention among the ways of informal training such forms as:

promotion to a new job;

job rotation, i.e. movement to a job at a similar level but in a different function, product, or activity;

stretching the boundaries of a job by allocating additional responsibilities or tasks.

### **3.1.1. Job promotion**

Advances in economic reform and the onset of internal transformation within enterprises created novel challenges and opportunities for managerial promotion. First, the old principles of seniority were abandoned as people in their late twenties and early thirties began to prove themselves capable of managing the largest commercial banks, trading companies and governmental agencies. There was no longer any rationale for adhering to the tradition of reserving senior positions within industrial enterprises exclusively for older engineers. The second opportunity for promotion stemmed from the establishment of new functional areas, such as marketing and finance, within enterprise management, and the subsequent creation of corresponding functional department heads who enjoyed high rank and wide powers (see section 2.2.3).

We should distinguish here between enterprises' practices regarding the financial and marketing departments. Positions in financial departments -- especially senior positions -- are filled mostly with professional financiers, drawn either from other industrial companies or public services, or with graduates from economic departments and specialized courses. At the same time, marketing departments are mostly filled "from within", by personnel from the engineering and R & D departments and even shop managers. In many cases, especially in the machine-building, high-tech and chemicals industries, such policies may be viewed as appropriate. Indeed, in many Eastern European industrial enterprises, engineers have proven far more effective as marketing directors than have graduates of MBA programmes, for while the latter may have already mastered advanced marketing concepts and techniques, they are woefully lacking in industrial and managerial expertise. The resultant "bifurcation" of career paths has given birth to an extremely intensive atmosphere of on-the-job training in the marketing departments of many industrial companies.

### **3.1.2. Job rotation**

Unlike job promotion, in the Soviet-style system of management job rotation was viewed as an extremely undesirable practice. There were two main reasons for such an opinion among industrial ministries' officials and Communist Party functionaries. For ministries' officials job rotation was undesirable because of high "transaction costs". For example, if a manager moved to another city he/she should be provided by a new flat by the ministry. In conditions of underdeveloped housing markets and permanent "housing crisis", this burden was considerable. From the point of view of Communist Party officials, especially "local sovereigns", talented industrial managers were valuable "subjects" to be given to another "sovereign". The low level of job rotation was also due to the normal functioning of enterprises through a broad system of informal relations (see Alashev, 1995: 28-46). Any manager moving to a job at a similar level, but in a different activity, was forced to exert a considerable effort not only so as to develop competence in his/her new activity, but to insert him/herself into a new informal system of industrial relations.

This started to change after 1992. First, the dissolution of both Communist Party and industrial ministries removed most of the formal barriers for horizontal mobility for top managers. Second, the

growing differentiation in economic performance of industrial enterprises forced middle and shop-floor managers to search for better jobs, usually within the town or industrial district. However, the third most powerful impact on job rotation was the establishing on new industrial empires around major Russian banks and financial groups. Having acquired dozens of industrial enterprises, new owners try to implement quick "revitalization" of those companies by appointing new, sometimes younger, top executives. New owners also have sufficient financial resources to break out the barriers for territorial mobility, as they may subsidize renting of housing or to purchase new housing for a moved manager. From 1995, we may see a real start of large-scale "head-hunting" for industrial managers to fulfil the positions of general directors, chief engineers, etc. This process has also a profound impact on time horizons and career preferences of industrial managers in Russia. The tradition of lifetime employment is not completely rejected yet, but for middle and especially top managers there is a growing understanding of benefits from well-prepared job rotation. Indeed, as the perspectives for vertical mobility (from top managers of industrial companies to middle-ranked ministerial servants) are not very attractive anymore, the perspectives of finding better jobs showed a proved record of turnaround management and superior performance. Such attitudes of industrial managers not only strengthen their desire to acquire additional knowledge and skills in various subjects of industrial management, but also facilitate their willingness to test themselves in various additional tasks. Both processes contribute to management development and may lead to an increase in the organization's overall effectiveness, as we will see from the examples in the next section of the paper.

### 3.1.3. Stretching the boundaries of a job by allocating additional responsibilities or tasks

The practice of stretching the boundaries of a job is one of the main forms of "informal management development" and it has been used by many successful companies. When implemented in an appropriate way, stretching the boundaries of a job may revitalize an organization, infuse it with a new entrepreneurial spirit and result in rapid organizational development.

#### Mini case-study 1

#### Total marketing Russian style

Enterprise No. 15 produces winter outerwear. Production has a strictly seasonal character: in March-April demand falls by 70-80 per cent. During the summer down time, almost all middle and shop-floor managers and engineers work as distributors. A flexible system of benefits, which rewards managers for every contract they conclude, makes the summer distributorship a highly attractive activity. Direct observation of company No. 15 revealed that the managers had already divided Russia into separate trading areas and competed among themselves, establishing long-term relations with retailers. As a result of such close contacts with the retailers in their designated sales area, each manager obtained a clear and detailed picture of consumers' needs and preferences. Thus, potential misunderstandings between the marketing, engineering and production departments are circumvented and a constant stimulus towards production innovations and high quality was firmly established.

Source: I. Lipsits, I. Gurkov and A. Neschadin (eds.): *Essay of the best Russian business practices* (Moscow, Expert Institute, 1995).

We can see that, in this example, stretching the job's boundaries is very close to the practice of

"secondment": the process of moving a manager into a job outside of his employing organization. As the Institute of Personal Management's code on secondment says, secondment provides a "unique development opportunity for employees to learn to perform in challenging new situations" (IPM, 1988). In accord with the IPM's suggestion that "the secondee must be debriefed to elicit what has been learnt from the secondment", the practice of "total marketing" generates strong feedback for the seconding company from the secondee's "environmental scanning" of the seconded company's operations. Temporary work in distributorship also provides powerful incentives for intensive "learning by experimentation" in the fields of marketing principles, communication, negotiating and bargaining skills, etc.

### Mini case-study 2

Chief engineers are going to be directly involved

in daily marketing

One example is the experience of a bread-baking plant, whose managers realized that many competitors started to use cellophane for the packing of bread and confectionery. The company responded by installing two types of packaging facilities. Black and white bread is wrapped in paper, which conserves bread equally well as cellophane-- at least for a period of at most two days. Yet paper wrapping is considerably cheaper, which helps the company in recapturing the lowest market segments. On the other hand, the firm installed imported equipment for the packing of confectionery: Italian cartons with cellophane windows are colourful, contain advertising information and -- very importantly -- fits with the demand of the "New Russians" for high status and fresh confectionery. As a result, the company also succeeded in regaining a part of its market share in the highest market segment, which is increasingly the domain of imported foodstuffs.

A second example is derived from the experience of the surveyed milk companies. The chief engineers of these companies made significant efforts in miniaturizing the size of prepacking. Cheese spread, cheese curd and yoghurt are offered to customers in smaller packing. The lowering of sales prices per unit has a strong psychological effect among low-income customers, who can afford to purchase the products for daily or even trial purchases, even if the price per weight unit increases.

Source: I. Gurkov, E. Visser and S.I. Cohen: *External and internal organizational development of Russian SMEs: Policy implications*, Paper presented at the 2nd International Conference of SME Development in Transitional Economies, Bristol, 24-26 October 1996.

Another means of "stretching job boundaries" is to expand the functional authority of executives. While this strategy appears less radical than "secondment", it is, nevertheless, also highly effective. This type of job enrichment is widespread in small and medium-sized companies (SMEs). Historically, in centrally planned economies, SMEs copied the organizational design of large state-owned companies. A majority of SMEs, even those employing less than 200 employees, have retained an organization structure which features the chief engineer as second in command. After the breakdown

of central planning, many large companies created the office of commercial director, whose task it is to supervise transacting activities, such as supply depots and the marketing department. Some SMEs followed suit, introducing a high-ranking commercial management officer into their managerial structure.

Our evidence, however, suggests that commercial effectiveness in SMEs has been especially enhanced in those companies which did *not* establish a distinct corporate position for marketing (the commercial director), but which decided, instead, to expand the authority of the chief engineer. This is, apparently, a surer guarantee that the corporate officer in charge of marketing possesses both marketing *and* technical knowledge and skill.

These two examples of the innovative responses of SMEs to increasing competitive pressures, show that market-driven technological innovations have a better chance of being swiftly and effectively developed and applied when chief engineers are directly involved in daily marketing concerns and decisions and are thus receiving first-hand information about customers' preferences.

The practice of creating "informal management training" also includes promoting "intrapreneurship". Many companies are implementing such schemes and methods of management development. It seems that the creation of "internal ventures" is especially effective in overdiversified industrial companies. It combines the goals of developing shop-floor managers and of transferring underground production activities -- widespread in many companies -- from the "shadow" economy to the official economy.

### Mini case-study 3

#### Internal ventures as an alarm clock

#### for middle and shop-floor managers

The following example is derived from the experience of one Russian company producing construction components. After privatization, outside shareholders appointed a new general director, who triggered off intensive changes in the company's management culture.

The first step in this was the quick replacement of senior staff officers, especially in marketing, sales, supply and finance, by younger people with proven records of running their own small businesses.

The second step was to "arouse" middle and shop-floor managers. A system of "internal ventures" was introduced. The development of new products was organized by the establishment of semi-independent working units with their own sub-accounts. Quickly setting up new production activities is stimulated by a profit-sharing scheme, which becomes effective after the agreed production output has been reached.

In short, the attention of middle and shop-floor managers was shifted towards the search of possibilities to increase the flexibility of production and to decrease operating costs, in order to make their shops attractive for the implementation of such a scheme. Shop-floor managers also started "environment scanning" to identify prospective customers who had escaped from the attention of the marketing department

marketing department.

Source: I. Gurkov: *Intrapreneurs in a Russian industrial company -- A case-study* (Rotterdam School of Management, Dec. 1996; mimeographed).

In general, the mentioned and other examples of "informal management training" within Russian companies show very important features of management development in transforming economies:

economic reforms have the profound impact on "routines" of managerial jobs -- job promotion and job rotation. Both processes mean in the present Russian conditions the serious changes in traditional functions' duties and therefore require the intensive acquisition of new knowledge and skills;

the most serious transformation of a traditional "career path" was observed for top managers, as the perspectives for vertical mobility for them have deteriorated after the fall of the communist system. In this respect, the growing value of horizontal mobility forces top managers to expand their traditional functional areas and to test themselves in new types of activities. For example, direct involvement of chief engineers in marketing processes has a generally positive impact on corporate performance;

the extreme form of "informal management training" is observed in the widely dispersed practice of "intrapreneurship". Such a practice in industrial companies may be viewed as the "internalization" of a powerful entrepreneurial movement in transforming economies.

### 3.2 Formal management training

within the company

Development processes within the job include two main forms of formal development intervention:

*coaching*, i.e. deliberately guiding an employee through a series of problems and issues with the specific intention of developing the employee's personal responsibility, decision-making skills and level of expertise (usually carried out by the boss);

*mentoring*, i.e. an advisory relationship between a manager and a respected senior individual (someone other than the manager's direct boss) who provides guidance and advice on processes and organizational policies;

*in-company training* through courses and development programmes, offered by consulting and other specialized companies.

Coaching and mentoring serve as powerful tools for the transfer of the specific knowledge of a firm's "professional secrets" -- i.e. what to do and how to do it effectively, expeditiously and correctly. Coaching and mentoring are also effective techniques for building "state-of-the-art" expertise within an organization. Indeed, some authors envisage coaching as a joint process in which "the coach is likely to learn as much as is the person he is coaching" (Singer, 1979). In-company training serves as a means to apply the general knowledge to a firm's particular need and requirement. In many cases in-company training may be viewed as a creation of a new knowledge during interactions between company managers and outside trainers (business and management consultants).

#### 3.2.1. Coaching as a management development technique in transforming economies

For quite some time, the use of coaching as a management development technique has been especially prevalent in accounting departments, where chief accountants have transmitted professional secrets to the most able and devoted bookkeepers. Recently, this method has become the main means of

expeditiously establishing marketing departments and commercial services, employed by newly appointed managers who retrain employees to fill quickly and effectively positions as sales agents and market analysts. The phrase "learning by experimentation" is equally applicable to both sides of the coaching equation, as usually neither the boss nor the subordinate possess all of the requisite skills and competencies to fulfil their roles in a newly established corporate department. In such situations, the act of coaching is quite consistent with contention that it is "concerned more with asking questions which help a man to think than with teaching him what to do" (Singer, 1979).

The greatest coaching burden falls on the general directors. In order to maintain a position of leadership, it is necessary for them to exhibit their "expert power" (expertise) in every area of enterprise management.

However, in one regard, even perfect coaching and expertise-gathering skills are insufficient. Most of the general directors of industrial companies in transforming economies were originally recruited from the ranks of the companies' engineers. Therefore, while they may make effective coaches and trainers for production and engineering officers -- as well as salespersons and corporate planners, who also tend to be retrained engineers -- they are unable to provide detailed supervision and guidance to accounting officers, who, in any economy, are members of a semi-closed guild. As we have previously illustrated, the power and role of chief accountants in the corporate hierarchy has grown exponentially, as government regulations concerning financial reporting for fiscal purposes are becoming increasingly strict and complicated. While the chief accountant virtually monopolizes all of the economic, and especially the financial, information within a company, the advent of computerization in financial and cost accounting has led to an erosion of this absolute authority. Today, the countries of Central and Eastern Europe are experiencing a boom in the use of computer software for financial accounting. Almost all of the manufacturing firms of the transforming economies have already purchased elementary computer hardware and software. The next step in the computerization of the transforming economies, is a shift from the use of standard, commercially available, computer systems for financial accounting to individually tailored or home-made integrated systems for cost accounting and managerial accounting. In order to develop such systems, large industrial companies are turning to the personnel who once manned the "automatic control systems" departments which were the legacy of the cybernetics boom of the 1960s and 1970s. Smaller companies, which initially did not have any staff experienced in the use of computers, were forced to develop computerized workplaces from scratch and, consequently, now enjoy an advantage over larger firms. In several Russian companies we observed integrated information systems which are used jointly by the accounting, planning and marketing departments and which provide generalized information to top executives as well. In this respect, the main requirement for top executives is developing integrative skills to absorb and to use in a creative way the different types of business information.

### **3.2.2. Mentoring**

Although the term "mentoring" was unknown in the literature of management until the late 1970s (Clutterbuck, 1991), this informal development process was certainly well known in management, as in other aspects of life. This was especially true in the Soviet-type system of management. "Tutoring" was promoted by the central authorities as the officially approved method of integrating new employees into "labour collectives". Older employees and the most experienced and qualified workers were paid to mentor apprentices and inexperienced workers. This practice was less dispersed among managers, because bosses perceived it as a threat to their authority and were unwilling to expose their subordinates to the influence of others.

The realities and exigencies of economic reform changed the dynamics and the emphasis of the tutoring system. Faced with the fear of unemployment, most skilled workers are now unwilling to divulge their professional secrets and accumulated knowledge to younger potential rivals for jobs.

Tutoring among managers, on the other hand, has blossomed in a new, unexpected form. It now pertains to the relationship between shop managers and foremen. In my work as an organizational development consultant in Russian companies, I have found that in many large and even some medium-sized companies there are a few informal leaders among the shop managers. While they may have little formal authority over the company's functioning, they serve as referents for other shop managers and foremen and sometimes even as powerful allies or rivals to top executives. The main areas of emulation displayed by these informal leaders are their ability to execute both official and underground production and commercial activities, as well as their ability to exert control over the workers. These informal leaders usually excel in motivating and enthusing the workforce, securing the essential supplies necessary for the conduct of the company's business, locating official contracts or sources of unofficial work and even in the collection of debts and in barter trade. As pioneers of new, market-oriented modes of thought and action, these informal leaders are instrumental in the breaking down of traditional models of managerial conduct. Such informal leaders may be viewed as constituting a special and specific group: "gold-collar workers" (Kelly, 1985; Sadler, 1994). Thus, in organizations where mentoring is promoted, it serves as an impetus for more expeditious learning and as a catalyst in the changing of organizational cultures. The deliberate mentoring of informal leaders also fills a fissure which was created by the stress of economic reform -- the gap between liberal rhetoric and the day-to-day reality which industrial managers face.

### 3.2.3. In-house training and counselling

In-house training and counselling is one of the most dynamic, albeit chaotic, areas of management development in Russia. In the past six years, myriad "would-be consultants" have offered consulting and training services to enterprises in transforming economies. However, as consultancy fees began to reach international standards, enterprises imposed stricter quality requirements on in-house training and counselling. Facing increased competition, the best local consultants/trainers have attempted to separate themselves from the turbid stream of "would-be consultants" by establishing strict professional standards and "codes of conduct". The main role in establishing the "rules of the game" belongs to national associations of business consultants. For example, the Association of Consultants for Economics and Management (ACEM), created in 1989 and incorporated in 1991 as a non-profit organization, now includes 185 consulting and training firms which employ over 2,000 consultants. ACEM is an associated member of the European Federation of Associations for Organizational Consulting (FEACO) and the European Foundation for Management Development (EFMD) and cooperates with the International Labour Organization, the World Bank and other international organizations. Amongst other activities, ACEM conducts regular appraisals of the supply and demand for consulting and management training in Russia. The existence of similar organizations in all of the countries of Central and Eastern Europe set the ground for the foundation of the Central and Eastern Europe Association for Management Development (CEEMAN).

We should stress one important feature of the in-house management development practised in Russia and other transforming economies -- in-house training very seldom takes the form of formal teaching of particular subjects (like strategic management, marketing, business finance, etc.). Instead, in-house training increasingly centres around what is called "consultancy for development" (*razvivajutchee konsultirovanie*). In "consultancy for development", the emphasis is placed upon *group work conducted by executives and consultants, the goal of which is improving inter-company communications, supplying executives with decision-making tools and inspiring teamwork and creative problem-solving*. It is hardly surprising, therefore, that in 1996, the first award in an all-Russian competition for training programmes in human resource management was given to a programme of Prof. Sergey Filanovich named "Effective Communications".

Until recently, consultancy and in-house training were grossly underdeveloped areas of the transforming economies. In Russia, for example, where there are about 5,000 management consultants, the total revenues from management consulting services may be estimated at not more

than US\$200 million, or 0.05 per cent of GDP, while in 1991, the revenues of management consulting firms in the United States were US\$14.5 billion, or 0.3 per cent of GDP (United Nations, 1993b: 11-12). It appears that in-house management development in transforming economies would receive more attention from enterprises if cases of improved performance resulting from successful in-house training were more widely and aggressively advertised.

An additional obstacle to the widespread acceptance of in-house training and counselling is the overall lack of essential knowledge and skills amongst the consultants/trainers themselves. Therefore the establishment of a network for formal in-house management development must be a two-tiered process, consisting of the simultaneous improvement of consultants' competence in substantive areas of management know-how and consulting methodology and the application of acquired competence through real consultancy and training activities (see mini case-study 4).

#### Mini case-study 4

Development of management development:

#### The World Bank's approach

In 1994, the World Bank identified that one of the main measures in achieving the Bank's objectives of promoting market-based institutions and the private sector in Russia is the support for management training. A US\$40 million loan was arranged to finance a project in management and financial training. Out of US\$40 million the financing management development will amount to US\$14.8 million.

One of the management development project's subprogrammes aims at developing 17 sets of learning/training materials covering management topics where the needs are most acute due to the profound difference between a command and a market economy (entrepreneurship, strategic management, marketing, business finance, innovation, change management, enterprise restructuring and others), retraining 100 trainers in each subject area covered (1,700 in total), and providing further training to selected trainers willing to serve as master trainers in various regions of Russia. The planned cost of this subprogramme is US\$5.1 million.

Another subprogramme is oriented towards the strengthening and upgrading of the emerging Russian consulting profession. The target of the subprogramme is to train 370 consultants and managers of consulting firms. The project would finance the training of consultants and their trainers, internships in foreign consulting companies, the training of founders and managers of Russian consulting firms, the translation and production of professional consulting guides, and advisory services for structuring and developing the consulting profession. The planned costs of this ambitious programme is US\$1.4 million.

Source: The World Bank: *The Russian Federation. Management and Financial Training Project*, Nov. 1994.

Both of these factors -- the lack of demand and the lack of skill -- make in-house training and counselling especially dependent on international assistance.

So far, we have traced the main forms of management development currently occurring within industrial companies in Russia. We have seen that in-house formal and informal training are the foundation of the current processes of management development. However, these forms of management development have limits. *The main limitation of in-house informal training is its reactive character. Informal training implies the dissemination of practical knowledge about reality -- knowledge that is often insufficient in identifying, confronting and coping with new challenges. Therefore, informal training, in and of itself, cannot ensure the level of quality in management*

*development necessary to cope with the completely new challenges and requirements of transforming economies. Regarding the formal training inside the company, either as mentoring and coaching or as in-house training and counselling, we should also stress their limits. Mentoring as well as counselling are oriented towards the current particular problems. It is rather natural that coaches or tutors -- limited in time available and under severe pressure from their own duties -- devote the primary attention to developing specific knowledge and skills to be applied for a particular position within a particular company. Regarding in-house training and counselling, offered by business consultants, being limited in resources, we should stress that business consultants in Russia, like in any country during the economic depression, face the primary challenge -- to improve the current performance of their clients, to supply them with "easy to implement" solutions and "instrumental skills".*

The main conclusion from the above is that management development within the company is the necessary but not sufficient part of the management development processes which aim to produce a qualitative change in enterprise management. Therefore, the needs of management development may only be satisfied by a combination of in-house training with intensive retraining and expanded pre-employment management education. These are the subjects of the next two chapters of this paper.

#### **4. Management retraining**

In our overview of management retraining, we start with an appraisal of the demand for training from within enterprise management: that is, the areas where the upgrading of knowledge and skills seems necessary and the subjects which are perceived as indispensable for satisfying the new requirements. In this section, we have based our analysis mainly upon the results of a longitudinal survey of Russian industrial enterprises. Around 200 industrial managers completed a long questionnaire, consisting of almost 500 questions, for each of the years 1994, 1995 and 1996. A section of the questionnaire was devoted to assessing the managers' retraining needs and preferences. Since the highest response rate was obtained in 1995, we will present the results for that year.

##### **4.1. The demand for retraining**

###### **4.1.1. Managers' reasons for retraining**

In our survey, we assessed the strength of the managers' desire to acquire new knowledge and skills on a five-point scale, ranging from 1 ("not necessary at all") to 5 ("extremely necessary"). Managers were also asked to evaluate the demand for new knowledge and skills in 10 possible spheres of application, varying from "better use of the family budget" to "establishing one's own business" (see table 1).

#### **Table 1. Main reasons for acquisition of new knowledge and skills by Russian managers**

It is necessary to upgrade my knowledge and skills ...	Average for all managers	Top managers	Senior staff officers	Middle managers	Shop-floor managers
For better understanding company's business	4.02	4.10	4.26	3.75	3.97
To meet job requirements	3.90	4.20	4.18	3.35	3.86
To defend my own rights	3.90	3.80	3.95	3.72	3.95
To defend group's rights	3.86	4.00	3.82	3.32	4.00
To be sure to find another job	3.84	3.90	3.91	3.52	3.88
To start my own business	3.66	3.26	3.51	3.60	3.85
To influence decision-making	3.65	4.05	3.89	3.20	3.57
For career success	3.51	2.95	3.42	3.58	3.66

Note: The scale used ran from 1 ("not required at all") to 5 ("extremely necessary").

The ranking of reasons for upgrading one's skills and knowledge varies for different groups of managers. Top managers consider conformity with job requirements, a better understanding of the company's situation and, subsequently, greater influence upon decision-making as the most important areas in which to improve their knowledge and skill. In general, when ranking the importance of different areas of skills acquisition, senior staff officers exhibited response patterns similar to those of top managers. However, senior staff officers ranked "a better understanding of the company's business" extremely high. This confirms our previous qualitative observations about the extreme necessity of upgrading the knowledge pool in marketing and finance, the new functional areas of enterprise management.

Shop-floor managers, by contrast, exhibited very specific preferences for knowledge acquisition. It should be stressed that "starting my own business" was ranked much higher than "career success". This means that shop-floor managers perceive horizontal mobility and the institutionalization of their entrepreneurial aspirations as their greatest opportunity for personal advancement.

We also found that the formal level of education achieved by an individual has no direct impact on that individual's training preferences. We may thus conclude that even recently acquired formal education has little impact on the demand for retraining services. This is an important conclusion in the assessment of the general demand for retraining in Russia.

#### 4.1.2. The development of management

competencies: Desired subjects

The next step in our analysis was to determine: (1) which subjects are most pertinent for the proper execution of existing jobs; and (2) which knowledge needs to be acquired before a change of job.

#### Table 2. Perceived necessity of Russian managers for training

in specific subjects for succeeding in their present job

	All managers on average	Top managers	Senior staff officers	Middle managers	Shop- floor managers
For success in performing my current job					
it is necessary to improve my knowledge and skills in ...					
Computer literacy and data processing	3.58	4.30	4.11	3.54	3.16
Law	3.44	4.20	3.80	3.26	3.12
Human resource management	3.44	4.10	3.47	3.32	3.30
General management	3.42	4.10	3.86	3.04	3.14
Economics	3.42	3.95	3.81	3.22	3.15
Accounting	3.41	3.80	3.77	3.24	3.17
Financial management	3.30	3.80	3.57	3.17	3.08
Strategic management	3.04	3.90	3.40	3.17	2.66
Engineering	2.97	2.58	2.88	2.45	3.24
Foreign languages	2.78	3.25	2.82	2.86	2.64
Other subjects	3.08	3.88	2.84	2.56	3.14

Note: The scale used ran from 1 ("not required at all") to 5 ("extremely necessary").

On average, the only two subjects which are viewed by managers as medium-urgent requirements are engineering (which is in demand only for shop-floor managers) and foreign languages (which is required only by top managers). Significantly, the necessity of improving one's skills in one's initial (non-economic) field of specialization placed close to the end of the general list of subjects, especially for top and middle managers.

The fact that "computer literacy and data processing" was accorded the highest priority in all groups, except for shop-floor managers, may initially strike the reader as surprising. Yet, the reason for this high score is quite simple: Russian managers conceive of "computer literacy" as a whole set of new decision-making and planning tools which are applicable in any area of enterprise management.

One additional detail regarding the structure of the demand for retraining should be kept in mind. The average age of the two groups of managers that expressed the highest demand for retraining in most of the subjects is 42 years for top managers and 45 years for senior staff officers. *This means that major executive retraining programmes should be tailored to suit the peculiarities, prejudices and perspectives of this age group.* It should also be noted that top managers accorded a high priority to subjects other than the ten mentioned above, which means that executive retraining programmes should include very specific, even "exotic" courses, in order to accommodate this demand.

The results presented below outline the patterns of demand perceived as necessary for retraining for "vertical" and "beyond" mobility, i.e. for success in one's present job or workplace. We also tried to identify the managers' requirement for retraining for "horizontal" mobility, i.e. for success in another job or area of activity.

Table 3. Necessity perceived by Russian managers for training in specific subjects

for moving to another job

For a successful change of job it is necessary to improve my knowledge and skills in ...	All managers	Top managers	Senior staff officers	Middle managers	Shop-floor managers
Computer literacy and data processing	3.71	4.29	3.83	3.67	3.55
Accounting	3.44	3.69	3.60	3.29	3.35
Law	3.41	4.12	3.50	2.86	3.36
Economics	3.40	4.00	3.50	3.00	3.35
General management	3.39	4.29	3.32	3.35	3.24
Human resource management	3.24	3.94	3.08	2.62	3.34
Financial management	3.20	3.88	3.44	3.14	3.19
Strategic management	3.16	3.83	3.37	2.80	3.00
Foreign languages	3.06	3.29	3.05	2.86	3.07
Engineering	2.91	2.31	2.47	2.50	3.31
Other subjects	3.07	3.57	2.68	2.80	2.26

Notes: The scale used ran from 1 ("not required at all") to 5 ("extremely necessary"); two-tailed probability of difference of means <0.05.

The results presented in table 3 suggest that, as in the previous case, "computer literacy" is the most universally desired subject of study -- the "master-key" with which managers hope to unlock better quality work and broader job perspectives. In ranking the other subjects, however, different groups of managers displayed very distinct preferences. Top managers clearly exhibited a "generalist" approach to horizontal mobility. Since they count on moving on to senior positions if they themselves ever change jobs, for them, the most important subjects, besides "computer literacy", are: "general management", "law", "economics" and "human resource management". And, while they completely neglected subjects such as "engineering", they accorded the need to master foreign languages in order to successfully obtain a senior position at another job greater than for continued success in their existing job. This perception is a tangible manifestation of the top managers' reaction to the sudden internationalization of the job market through the intensive penetration of foreign capital and foreign products into the transforming economies of Central and Eastern Europe.

Another specific set of subjects about which the acquisition of knowledge is perceived as necessary in order to obtain another job was identified by shop-floor managers. We should also keep in mind that shop-floor managers ranked reasons such as "starting my own business" much higher than any other group of managers (see table 1). Indeed, in their selection of subjects we can discern a rational pattern for acquiring knowledge which might assist one in starting up a new business -- again, after the ubiquitous "computer literacy": law, accounting, economics, human resource management and engineering. We should also stress that in Russia, especially for shop-floor managers, the concepts of accounting and financial management are largely overlapping.

The results presented above also demonstrate that, although in only one subject (foreign language) managers expressed a statistically significant difference in their preferences for retraining subjects, analysis within each group revealed quite a large variance in their preferences. *This indicates that -- even for specific management groups -- retraining programmes should satisfy a variety of requirements.*

Our sample was limited to mostly domestically oriented industrial companies. In reported cases of the acquisition of Central/Eastern European companies by foreigners, managers expressed an even greater need for the internationalization and "generalization" of management skills. The main areas of learning in acquired companies were identified as "general management", "specific know-how", "foreign languages" and "cultural issues", as a means of achieving "sensitivity to the partner's culture" (see Villinger, 1996).

We believe that the methods of qualitative analysis we have used in this paper will assist the quantitative appraisal of the potential demand for upgrading managers' knowledge and skills. Indeed, if we count only persons who perceived some subjects as "absolutely necessary", we obtain the following figures for the different subjects (see table 4).

**Table 4. An example of the assessing of the potential demand for retraining**

	% of Russian managers who believe that upgrading their knowledge and skills in this subject is "absolutely necessary"	% of Russian managers who believe that upgrading their knowledge and skills in this subject is "necessary"
Computer literacy and data processing	36.7	26.1
Accounting	29.4	24.6
Financial management	29.2	21.6
General management	28.6	20.5
Law	28.3	22.8
Human resource management	25.8	24.7
Economics	24.7	26.4
Strategic management	21.1	20.5
Foreign language	20.2	13.7
Engineering	14.4	21.1

These back-of-envelope calculations illustrate the extent of the potential demand for management development in transforming economies. Roughly one-half of enterprise managers are actively seeking retraining. *This is the lowest estimate for the demand by managers from large and medium-sized industrial firms for business-like retraining in at least one particular subject.* Among them, almost 30 per cent are ready to use their own money to pay for retraining -- a willingness which is steadily growing. Having thus concluded our preliminary assessment of the demand for formal management development, we shall now proceed to the supply side of external training.

#### **4.2. The supply for external management training**

In this section, we shall review the recent developments and current trends in distance education and in external training (executive education).

#### 4.2.1. Distance education and self-education

Russia, as well as the other republics which formerly comprised the Soviet Union, has a strong 70-year-old tradition of *distance education*. Over one-third of all post-secondary students in Russia -- approximately 1 million people -- are furthering their education through correspondence courses. Distance education in Russia consists mainly of "sandwich courses", formal classes which emphasize individual study and which meet only 40 to 60 days per year. As of 1 October 1995, 29.9 per cent of the 2,642,000 students enrolled in Russia's state colleges and universities and 45.2 per cent of the 135,000 students enrolled in Russia's private colleges and universities are participating in distance education (UNESCO, 1996b: 60).

The Government has continued to actively encourage and expand distance education in Russia. In 1995, a federal programme was instituted to develop a unified system for distance education (SDE) by the year 2000 (UNESCO, 1996a). Russia is also a participant in the international "Distance Education in New Information Environment" project (DESCOP) and was approved by the 6th Session of the General Conference of UNIDO (Vienna, December 1995).

Meanwhile, attempts have been made to strengthen the pre-existent system of distance learning in Russia. A new Russian "Law on Graduate and Post-graduate Professional Education", which was enacted on 22 August 1996, endows working students participating in distance learning a number of privileges. Specifically, such students are entitled to:

40 to 50 additional fully paid holidays per year, plus a fully paid four-month holiday for the composition of a final thesis, as well as a one-month paid holiday for final exams;

one round-trip ticket per year to enable the student to visit an educational centre that offers a distance learning programme (article 17, clauses 1 and 3).

It should be stressed that these privileges are granted to *all* working students participating in distance learning at higher educational centres with state accreditation, irrespective of their employer's legal status or ownership structure.

The aim of maintaining and expanding these privileges is to make distance learning more attractive to potential students and to increase enrolment in state-owned educational centres which enjoy state accreditation. The major Russian correspondence school for business, the All-Union Extra-mural Institute of Finance and Economics, operates 21 territorial subdivisions through its Moscow branch -- total enrolment exceeds 26,000 students (Higher Educational Institutions of Russia, 1994: 310-311). Other centres for higher correspondence education in business, affiliated with state-owned universities and institutes, are much smaller. (For example, 3,300 "extra-mural" students are enrolled at the Samara Economic Institute; 2,300 at the Far Eastern Commercial Institutes, 1,700 at Moscow International University of Business and Informational Technologies, 1,500 each at the Saratov Economic Institute and the Kazan Finance and Economic Institute, 1,400 at the Novosibirsk National Economic Institute, etc.)

The main obstacle which compromises the quality of distance learning in Russia is the limited use of modern telecommunications technology -- in particular, computer-based training, electronic mail and narrow and broadcast television. This deficiency has retarded the dissemination of modern teaching materials. It should be stressed that the use of electronic mail and broadcast television for educational purposes has been stymied by a number of serious obstacles. Use of electronic mail has been retarded by the slow development of computer networks, while the use of broadcast television is limited by the virtual absence of cable TV outside of Russia's major cities and by the high price of leasing time on commercial channels. The mere existence of such "objective" obstacles, however, does not excuse the

limited use of computer-based training materials in distance learning. Today, virtually every industrial enterprise in Central and Eastern Europe possesses PC facilities. Moreover, many Central and Eastern European countries have a large number of skilled software engineers. If the system of managerial training through distance learning in Russia is to reach a level commensurate with that of Central/Eastern Europe, it is essential that interactive computer training materials be rapidly developed and implemented.

From the middle of the nineteenth century onward, Russia has maintained a continuous tradition of *self-education and external studies*. External studies -- defined as self-education, followed by exams administered by, and graduation from, one of Russia's higher institutions of education -- were not encouraged under the planned economy, as the success of external students raised unsettling questions concerning the efficiency of full-time studies. After the collapse of the command economy, external studies were seized upon as a suitable means of decreasing the economic burden which the subsidization of higher education placed on the Government, while preserving minimal quality standards. The new Russian "Law on Higher Professional Education" not only envisages an expanded role for external studies, but broadens the definition of external studies, as well. In particular, it allows students enrolled in higher education establishments *operating without a state licence* to graduate from accredited institutions of higher education under the same conditions as external students (article 6, clauses 8-10).

Finally, over and above "institutionalized" studies, oriented towards formal graduation and the granting of diplomas, there exists a broad rubric of *managers' self-education*. Since 1991, this most flexible form of upgrading knowledge (and, to a smaller extent, skills) has experienced exponential growth. First, most of the classical undergraduate texts on management, marketing and economics were translated into the major languages of Central and Eastern Europe. This was followed by the translation of books on executive economics, industrial marketing, management psychology and leadership, business administration, managerial accounting, commercial banking, special aspects of international business law and many other special subjects. However, the real boom began approximately in 1994, when local experts, who had accumulated sufficient experience in operating within a market economy, began to share it in print with an eager audience of managers and businessmen. Today, a very incomplete catalogue of business books published in Russian in 1995-96, includes more than 2,500 titles, from "Totally legal methods for tax optimization" and "The magic of aggressive sales", to "Crisis management strategies" and "Modern Western economic thought" (Biznes-Kniga, 1996).

One significant feature distinguishes most Russian business books from similar works printed in the United States or Britain. Proud of their newly acquired expertise in a particular area of enterprise management, Russian authors tend to reveal all of their personally accumulated knowledge in their books, including those "secrets of the trade" that Western business writers usually hold in reserve. It is not clear whether this tendency towards "professional exhibitionism" in Russia and other transforming countries will be long sustained, but at least for the present, this phenomenon makes books penned by local experts especially valuable for a type of "book knowledge" which can be immediately applied to the real practice of business.

## Mini case-study 5

### A self-reproducing network of distance management education -- An example of LINK

Among the examples of successful establishment distance learning we may distinguish the International Centre for Distance Training (LINK), which specializes in business education on an international standard. LINK, originally set in Jukovski, a high-tech industrial centre near Moscow, is actively expanding through the former Soviet Union and has established contacts with the Open University of Britain and the European Doctoral Educational Network (EDEN).

The main competitive advantage of LINK is its character of an open educational network. Any local entrepreneur with some experience in business and management consultancy may start a new LINK centre. Under the special agreement he/she will be provided by standard training materials, developed as an application of the Open University's courses to Russian business reality. Now LINK is related to 60 centres located throughout the former Soviet Union and is actively recruiting new operators.

The appearance of new, private, Western-oriented institutions of distance learning in the field of management is especially promising because, until recently, the best state-owned centres for managerial education in Russia, such as the State Academy of Management, the Russian Academy of Economics, and the Higher School of Economics did not offer correspondence courses.

In general, distance education, combined with self-education, has proven an effective method of management development in transforming economies. This has been tangibly acknowledged by some donor agencies, especially the United State Agency for International Development (USAID). During the last few years, USAID has intensively supported activities such as:

the purchase of copyrights on American business and management books in order to facilitate their translation into the major languages of the transforming economies;

the creation of training materials for distance education, including a 40-hour video course in enterprise restructuring.

*Other donor organizations should be made aware of these promising activities and encouraged to intensively maximize the potential of national networks of distance training.*

#### **4.2.2. External training**

Under the command economy, the state training system was highly centralized, specialized and compartmentalized. Each sectoral ministry established a large personnel department, one of whose functions was to operate the training infrastructure of the sector-specific upgrading institutes. The central ministry also provided the financing for these institutes. The Government provided allocations through the national budget for the financing and development of the training system. Training establishments had no difficulty locating participants for their programmes; government planning and financing guaranteed them a steady clientele. Senior and middle-level managers were obliged to periodically attend in-service courses. In addition, larger enterprises maintained their own training departments and centres to provide training for lower and middle-level management and financial personnel.

## Mini case-study 6

From an elite economic school to a management training centre --

An experience of the Higher School of Economics, Moscow

The Higher School of Economics was created in 1992 as a small elite institution for graduate education in economics. From the beginning, the Higher School of Economics enjoyed strong financial support from the European Commission TACIS programme and the Government of France, as well as organizational support from the Government of Russia. These financial and organizational resources enabled the Higher School of Economics to attract the best economics professors, to establish close links with leading European universities and to offer programmes in theoretical and business economics comparable to international standards. Having acquired the reputation in graduate economics education, the Higher School of Economics turned towards management training. In 1994, HSE opened a retraining faculty, which offered five programmes: in banking, financial management, investments and capital markets, accounting and enterprise management. Simultaneously, HSE opened a regional branch, strategically located in one of the most market-oriented regions of Russia -- Nijny Novgorod.

The main competitive advantage of HSE's retraining programmes was their direct link with both Western "know-hows" in executive education and Russian policy-makers. The direct link with Western "know-hows" enabled trainers from HSE to use the most advanced training methods and materials. From the other side, under conditions of permanent changes in business legislation and governmental economic policies, HSE attracted governmental servants and experts to teach in many "instrumental" courses. This was the only way to provide the trainees with both modern Western "tools" for managerial decision-making and local "material for decision-making".

In 1996, in both Moscow and Nijny Novgorod training centres of HSE there were around 400 trainees. The interest of corporate managers in this type of programme was so high that HSE practically refused to finance any advertising activities. Instead, alumni of the retraining faculty secretly advised their colleagues and friends that this institution was a reliable centre for valuable knowledge and skills.

The collapse of the command economy caused major changes in the state system of training. Sectoral training institutes have received neither adequate financial support nor clear guidelines on how to adjust to the new economic realities. Moreover, most enterprises are unwilling to fund the training of their managers through traditional programmes. As a result, some upgrading institutes have closed, some have perused alternative activities and many have attempted to reorganize and offer more modern services. In addition, while university-based education for managers and financial officers at the degree level continues to be government-financed, outside funding must now be sought to cover the expense of training and retraining employees.

As the state system of management training experienced transitional difficulties, hundreds of smaller private training centres and companies were established in the vast majority of Russian cities. It has been observed that "the main aim of these opportunistic institutions, in the absence of quality standards, has been to quickly profit from the strong, but inexperienced demand for market economy skills" (World Bank, 1994: 8).

However, in 1995-96 the situation started to change. A number of respectable training institutions, usually located in Moscow or in Sankt-Petersburg are expanding their regional activities and creating strong competition for "opportunistic institutions".

However, the throughput of HSE's management training programme is 300 trainees per year. We also see, that especially in the best examples, management training is dependent on international assistance and cooperation.

#### 4.2.3. International assistance in management (re)training

Aside from the mushrooming of local training centres, since 1989, an increasing number of leading Western academic institutions and major consulting firms have begun to penetrate the market for executive education in Central and Eastern Europe. Prior to 1991, these were mostly "partisan" activities which enjoyed the support of only a few private funds, such as the Soros Foundation and the Ford Foundation, and a handful of bilateral governmental agreements. Upon first entering the new market, Western academic institutions and major consulting firms sought to use standard Western textbooks and teaching methods, which proved poorly adapted to the managerial cultures of Eastern and Central Europe (see Jankowics, 1994: 523-526). However, further involvement in management development in transforming economies forced Western training institutions to comprehensively and critically review their approach and switch to training "as unusual". The factor that contributed most to the transformation of the initial training patterns of Western institutions was their participation in the establishment of new training centres throughout the region. Some of these centres rapidly developed relevant curricula, attracted the best teachers and trainers available and have become "benchmarks" for management training in these countries.

Beginning in 1991, international organizations such as the European Commission, OECD, the World Bank, the European Bank for Reconstruction and Development and the ILO, as well as the national institutions of the G7 countries, have exerted considerable effort in supporting management development in the transforming economies. We have already mentioned the World Bank's efforts to strengthen management development in Russia, resulting in the establishment of a National Training Foundation to manage a US\$40 million "educational loan". Among the other organizations fostering management development in Eastern Europe and the CIS we should single out the TACIS and PHARE projects of the European Commission and USAID's activities for special mention.

Indeed, within the framework of the TACIS and PHARE projects of the European Commission, there are three types of management development projects:

projects aimed at strengthening existing, or establishing new, training institutions and delivering training for enterprise managers (under the general header of "human resource development");

"enterprise restructuring and development" projects, in which usually more than 50 per cent of the budget is devoted to training activities;

specific sector projects (energy, transport, military conversion, etc.) in which training expenses comprise between 5 and 50 per cent of total costs.

It is important to stress that virtually every TACIS/PHARE project provides *at least* one form of training (expertise transfer, training seminars, study trips abroad, etc.).

Among the largest "human resource development" projects is the "Training in Enterprise Management in the Tyumen region (Russian Federation)" programme (ECU2.89 million). We should also mention an ECU21 million officers' retraining programme, aiming at helping discharged army officers in Russia to adapt to civilian life. In Russia over 400 teachers from 15 regions were trained within the framework of that programme in general management and marketing, as well as the principles of a market economy and modern teaching methods. These teachers are now transferring their knowledge to 16,000 army officers.

Amongst the largest TACIS "enterprise restructuring projects" with considerable training elements we should mention the "Post-privatization of enterprises" project in the Urals region (Russian Federation), worth ECU9 million and the "Assistance to Russian enterprises and managers in their negotiations with foreign partners" (ECU1.1 million).

We should also stress that the development of distance teaching methods was partially supported by pilot projects sponsored by the European Commission. For example, ECU1 million of the 1993 TACIS budget was spent on such projects.

Another large contributor to joint projects in management development in Russia is the United States Agency for International Development (USAID). The potential, as well as the actual, impact of outside/external training programmes in which there is international participation may be illustrated by the experience of USAID's NIS Exchange and Training Project.

### **Mini case-study 7**

What training abroad means for individuals and for their organizations:

The results of NET Russia post-training evaluation

In 1993-95 the NIS Exchange and Training Project of USAID (NET) comprised 3,520 Russian trainees who participated in 236 short-term US training programmes. Shortly after the training the trainees were asked to indicate the impact of their training in three areas: new attitudes, knowledge and skills; individual work performance; and institutional performance. It was reported that as a result of their training, 41 per cent of the returnees were more willing to change their work style; more than one-third of the trainees became more confident and more willing to take risks as a result of training (36 per cent and 34 per cent respectively); almost one-third of the trainees (29 per cent) became more open-minded and more willing to tolerate different viewpoints. *Regarding individual work performance*, more than two-thirds of the returnees (68 per cent) reported improved job performance as a result of their training. Forty per cent of the returnees have increased job responsibility after training. Finally, regarding the overall effectiveness of their organization, 70 per cent of the trainees reported improvements in the operations of their respective work units as a result of their training. Over half (57 per cent) also attributed improvements in the overall functioning of their organizations to their training.

Source: *NET Russia: Preliminary results (1993-95)*, USAID Russia, 1996.

The extremely positive results achieved through participation in short external training courses may represent a reaction to a type of "culture shock", which stimulates high-ranking trainees to discard existing role models within their organizations, to set new goals and to aggressively participate in the formal organizational decision-making process. It is precisely the aim of such training courses to temporarily disorient trainees, as a means of more rapidly introducing and acclimatizing them to the elements of a new, more responsible work environment and culture. A far more continuous effort, however, is usually required to overcome the "organizational inertia" which plagues the transforming economies. This factor creates a need both for follow-up activities and continued cooperation of between trainees and trainers. Several such programmes of "continuous training" have already been realized by local experts in transforming economies, as well as by international donor organizations, especially the European Commission and USAID. For example, in Russia, USAID's New Business Development Programme operates six regional business development centres through its main contractor, Deloitte and Touche. And the Morozov Foundation, an indigenous Russian organization, offers training and business development services through a broad-based network spanning all of Russia's regions. One example of the follow-up approach to management training is the Golden Ring TACIS project.

## Mini case-study 8

From an occasional meeting to action planning consultancy:

An example of the Golden Ring programme

Beginning its operation in 1996, the Golden Ring TACIS project aimed to create a "critical mass" of management development in one of the most crisis-prone regions of Russia -- the so-called "Golden Ring", which embrace Vladimir, Yaroslavl and Ivanovo Oblasts. The project enables Western management experts to stay permanently in the region, providing counselling and technical assistance to both local governmental privatization bodies and enterprises in the areas of strategic marketing and organizational restructuring.

The principal approach of the Golden Ring project is to create the conditions which would assert top managers in the necessity of in-company training and intensive consultancy.

As the initial step in use of that approach the Golden Ring project organizes a series of workshops for top managers in the areas of managerial accounting, total quality management, strategic marketing, etc. These workshops bring together from five to 15 top managers. The main method used in the workshops is group work. The trainees are exposed to modern techniques of industrial and strategic management.

After the workshops, top managers are capable of identifying their the trainees' specific needs for further in-house training in particular areas of enterprise management and address to the Golden Ring project's experts for a follow-up individual consultancy.

In general, international assistance for management development in transforming economies has proved effective. However, the level of donor activities' coordination in the area of enterprise development is much lower than that achieved in a single financial institution's development project agreed upon at the G7 Summit in Tokyo and which is financed by the World Bank, the EBRD, TACIS and other institutions. Such a level of coordination is also desirable in assisting enterprise development.

### 4.2.4. Quality issues in training and executive education

One of the unresolved issues in formal management development is the lack of quality assurance over training and the lack of a complete, comprehensive standard for executive education. Here we should pause to distinguish between *training* -- educational activities aimed at expanding the skill and applied knowledge base of trainees, without the award of a formal diploma -- and *executive education* -- activities aimed at providing advanced education in another (business) field to managers who have already earned a diploma in engineering, technology, etc., from an institution of higher education.

The problems of standardization for executive education in Central and Eastern Europe may be viewed as rather strange from the perspective of traditional Anglo-Saxon business education. Even in the US and Western Europe, however, fierce competition rages between business schools as they vie for position on lists which profess to rank the quality of the national and international MBA they confer. These rating lists are usually based on three main criteria: students' GMAT scores, the starting salaries of graduates and the reputation of the research activities of a school. Taken together, these criteria provide American and Western European institutions with quite a rigid system of quality maintenance.

In Russia, all three of the above-mentioned criteria of quality maintenance are largely inapplicable. First, there is no GMAT requirements for enrolment to MBA programmes. Moreover, *there is no*

*attempt* to establish a test system like GMAT in Russia. One possible explanation of this is mutual suspicion of leading business schools of one another and all of them to any independent evaluation centre. Second, the first salary level, a usual rating criteria of Western business school, is also hardly appropriate as different sectors of the national economy have completely different remuneration standards and scales. Third, research activities of professors cannot also be used as a base for MBA ranking as very few Russian management teachers are actively publishing in international journals. Therefore, the only possible solution is to set compulsory minimal standard requirements for retraining and to use them as a guide for licensing and accrediting the schools and their programmes.

Currently, the licensing of training centres for enterprise managers (as opposed to those for accountants, stockbrokers, etc.) is based on rather weak criteria. The licensing of training activities is largely decentralized and does not differ much from licensing in other areas of commercial activities. As a result, almost a quarter of private training centres do not have their own faculty (Kozlova and Puffer, 1996: 464). Moreover, even if a training centre succeeds in attracting the best trainers, most of the subjects in the training curricula are taught in isolation from one another.

A stricter control mechanism exists in the branch of executive education which dispenses "secondary higher education". In addition to licensing requirements, educational centres need to pass a *state accreditation programme* -- which demands that they document the experience and qualifications of the faculty, the availability of teaching facilities, etc. -- in order to obtain the right to issue a standard diploma. The main obstacle to the imposition of such a system on executive education, however, is the general lack of accepted standards for this type of education. For example, until recently in Russia, only a single standard -- which governed a highly specific 1,200-hour retraining programme for middle managers -- existed in the field of executive education. (This programme may be compared with Sloan's "Managers of Technology Programme".) And, since there are no standards for full-time MBA or Executive MBA programmes, Russia's leading business schools depend on their Western partners to issue some sort of a diploma to students in their MBA programmes.

In February 1996, a National Centre for Accreditation of Economic Education (NCAEE) was created as a non-profit organization. Among the objectives of the NCAEE are:

- the development of national Russian standards for MBA and Executive MBA programmes;
- setting uniform criteria for programme accreditation for state-run and private educational centres;
- the international coordination of MBA programmes.

The main goal of NCAEE is the creation of an "open international space for management development".

On the whole, the system of management training in transforming economies is far from stagnant; as new parties enter the market for retraining, competition is growing sharper, while the content and overall design of retraining programmes is gradually approaching the requirements of the emerging market economy. However, problems such as the considerable fragmentation of efforts, the lack of exchange of information and collaboration among institutions and individuals, and the lack of specific policies for improving the system as a whole, still affect the development of the system of management training in most of the transforming economies. In general, it is possible to observe a trend towards further integration of the various forms of formal management development. The critical point here is to establish an effective link between formal management development and development processes within jobs, in order to create a "critical mass" that will rapidly transform management techniques and culture in transforming economies.

## **5. Pre-employment management education**

## 5.1. Pre-employment management education in the command economy

Under the command economy, the countries of Central and Eastern Europe were well-educated societies characterized by near universal primary and lower secondary school enrolment, high levels of literacy and impressive levels of basic mathematic and engineering skills. All types of education were free, although higher education was offered on a competitive basis. Indeed, although the idea that the antagonism between supply and demand can be removed from a centrally planned and controlled economy is a basic tenet of Marxism, it was not applied to higher education. The prestige of higher education was enormous and the universities, especially in capital cities, enjoyed a high level of competition for available positions between high school graduates. However, as has already been noted, in the East, management was hardly recognized and rarely taught as a profession. The first special institutions for pre-employment *management* education were established at the beginning of the 1970s -- for example, the Warsaw University School of Management and the Moscow Institute of Management. At about the same time, as information technologies began to play an increasingly important role in operations management, numerous faculties of "economics, organization and management" were created within specialized technical institutes. This form of specialized, industry-related pre-employment management education was developed particularly in the former USSR. The majority of the curriculum was devoted to mathematics and technical disciplines, as well as operations management and other elements of industrial engineering.

## 5.2. Types of newly emerged business schools in transforming economies

By the end of the 1980s, all of the restrictions on business schools in all of the countries of Central and Eastern Europe were lifted and new "management" institutes mushroomed (United Nations, 1993: 41). Management quickly became one of the most popular subjects for students in transforming economies. In Russia, for example, as of 1 October 1995, some 448,800 students, or 18.5 per cent of the total number of students in state-owned universities, were training in specialized economic and management programmes (UNESCO, 1996: 60). As for the 135,000 students in Russia's private universities, 13.5 per cent were studying "Management", while an additional 9 per cent were pursuing "Economics and management", as opposed to the 37 per cent of students who were specializing in "Law", which has long been the most popular area of specialization.

Before proceeding further, we should distinguish the main "sources" of the newly created business schools. The *first type of business schools were created as "spin-offs" -- that is, the commercialization of certain departments in educational institutions which already provided an education applicable for work in the West.* In the case of Russia, such institutions included a few "elite" schools like the International Business School of the Moscow State Institute for International Relations, the International Centre for High Business Administration under the Diplomatic Academy and the High Commercial School of the Ministry of Foreign Economic Relations of the Russian Federation. The main advantage of these schools is the international orientation of their time-tested curricula, the familiarity of the teaching staff with modern management techniques, their personal acquaintance with life and work in the West and a strong knowledge of foreign languages.

The *second type of newly created business schools are converted centres for graduate education in economic, industrial engineering, finance, or commerce, many of which were originally the most advanced centres of their kind.* In the case of Russia, this includes such institutions as the International Moscow Finance and Banking School, the High School of International Business of the Academy of the National Economy, the Centre of Management Training under the Russian Academy of Economics, the School of Business Administration at Moscow State University, etc.

The *third, and rarest type of management centre, is the completely new state-owned or private establishment, which is built with massive support from international donor organizations.* An

example of this type of centre is mentioned in mini case-study 6, Higher School of Economics, Moscow, which was created with the support of the TACIS programme and the Government of France.

Finally, the *fourth*, and by far the most prevalent, type of management centres are those that emerged from the *conversion of former faculties of "economics, organization and management" of specialized institutes into business or management schools*.

Most of the first three types of schools participate in the Russian Association of Business Education (RABO) which currently comprises around 60 institutions.

### **5.3. International cooperation in pre-employment management and business education**

#### **5.3.1. The role of international cooperation in pre-employment management and business education**

Our short overview of emerging business schools in transforming economies reveals that international assistance and cooperation in building new curricula and teaching methods has served as the engine of development in the field. This was exhibited in a recent survey of Russia's leading business schools (Kozlova and Puffer, 1994: 462-468). This survey encompassed 11 state-owned and 13 private business schools throughout Russia. The most interesting result of this survey was the profile of the faculty of the *leading business schools*. In two-thirds of the cases, both private and state-owned business schools have foreign exchange programmes that secure the participation of expatriate staff in teaching core courses. Yet, 30 per cent of the schools involved in foreign exchange programmes also stressed the "ignorance of the Russian market by foreign professors". In addition, 20 per cent of public and 10 per cent of private schools reported that the "unsatisfactory professional level of visiting professors" is one of the major stumbling blocks to international cooperation. Nevertheless, almost two-thirds of the surveyed schools, both public and private, counted the "extension of foreign exchange programmes" as a major component of their plans for development. The results of this survey clearly illustrate that Western business education continues to be the benchmark for Russia's pre-employment management education.

#### **5.3.2. The relevance of international development initiatives**

At the outset of economic reform, two "risks" were identified as potential limitations to the long-term effectiveness of development initiatives in transforming economies. A *type I error* represents an "outside dominance trap". This is a situation where, "for all practical purposes, the intent is to replace the existing system with a new one imported from outside. This creates a dependency on outside initiatives and may leave the system largely powerless to undertake self-directed change. The system is unlikely to achieve a long-run individual identity and capacity to manage its own development" (Voros and Schermerhorn, 1993: 71).

A *type II error* represents a "local convenience trap". It is "associated with development programmes that simply 'tack on' to the existing system some outside elements. These elements are adopted without much modification of their outside usage and they are not integrated. They remain awkward appendages to a system that may otherwise show little signs of constructive change. While easy for all partners involved, this approach is likely to create a relatively myopic system with considerable inertia and be severely limited in its ability or desire to change in progressive directions" (ibid, p. 72).

The conjunction of these errors is highly visible in the story of transformation of pre-employment management education in Russia. Traditionally, in Russia both universities and technical institutes granted state diplomas of higher education after five years of study (six years for medical faculties). Anyone who decided to leave university before graduation received the much less respected certificate

of "incomplete higher education", which did not allow its possessor to occupy an engineering position, the traditional starting point for a managerial career.

In 1993, a new two-level system of "higher professional education", designed to allow Russia to "enter the world cultural and educational space, [and] to receive the necessary legal basis for international recognition of education documents", was introduced. It is important to note that the new two-level system did not replace the existing system of five-year education, but coexists with it. In the new system, after four years of study at an institute of higher education, a student may receive a "bachelor" diploma and after two additional years a "master diploma". The new system was immediately applied to programmes in new specializations: industrial economics, management, marketing, commerce, accounting and auditing (State Committee of the Russian Federation for Higher Education, 1995: 27).

Many students who were already enrolled in the traditional five-year course of studies were overjoyed at the prospect of spending one less year studying to receive a state diploma of higher education. Persons who had already completed their higher education or who had already studied for a number of years in traditional university programmes were also allowed to enrol in the newly created master programmes. In 1995, however, as the first graduates of bachelor's and master's programmes entered Russia's job market, new sources of confusion and conflict emerged. The relative position of the graduates of master's programmes on the job market was rather favourable, as employers viewed master's degrees as superior to the standard state diplomas traditionally awarded to "specialists". Graduates of the bachelor's course of study, on the other hand, found themselves in an extremely unfavourable position. Most employers simply did not recognize their diplomas as sufficient evidence of a complete, competent education and therefore refused to hire possessors of bachelor's degrees for positions requiring higher education. Finally, in August 1996, the new "Law on Higher and Professional Education" explicitly declared that "the qualification of 'bachelor' gives the right to occupy positions which require higher professional education" (article 6, clause 7).

Meanwhile, possessors of bachelor's degrees encountered further difficulty securing their place in professional life. High school graduates refused to enter four-year programmes unless they could be assured of the possibility of receiving a diploma which conferred upon them the rank of "specialist". While this confusion has still not been completely resolved, it has provided local policy-makers with a real-life illustration of the importance of taking local considerations into account when devising new procedures and regulations. In Russia today, an opportunistic approach is used to harmonize the requirements of students (future employees), employers, educational establishments and the State -- the main sponsor of the pre-employment education system. As a result, a five-level system of higher education in business-related subjects is now being developed. In this system, after two years of study, a person may leave the university and receive a *qualification certificate* for professional work in a particular sphere of enterprise management, such as accounting, small business management, etc. After four years of successful study, a student is compulsory graduated as a "bachelor" in a selected *speciality*. Then, depending on his personal preference, he may study for an additional year, after which he receives a standard diploma denoting his status as a "specialist", or he may choose to enter a two-year master's programme and graduate with a "master's" degree in a particular *specialization* (which is narrower than a speciality).

In general, we can see that, after an initial stage of copying and mechanically attempting to graft outside elements onto a pre-existent system, pre-employment management education is moving towards a state of "sustainable development". In the realm of pre-employment management and business education in transforming economies, "sustainable development" will be achieved through a disciplined process of self-directed learning and self-renewal. The goal of this "sustainable development" is the production of a mature responsible system of higher education. In Russia's case, according to the Federal Programme entitled "Development of Education in Russia", the stable functioning of the professional education system will be achieved by the year 2000. By 2005, when

the country is supposed to once again reach GDP level of 1989, the system of education will have entered the sustainable development phase (UNIDO, 1996: 54-57). In the interim, the two main challenges to the development of an effective and enduring system of pre-employment education in business and management remains financing and the implementation of new curricula and professional standards.

#### **5.4. Financing pre-employment management education**

As was explored above, in Russia most students of economics and management are enrolled in state-owned educational institutions. The same is true in all other CIS countries and in the majority of other transforming economies. As was declared in the "Law on Education of the Russian Federation" of 1992 (article 5) and explicitly repeated in the "Law on Higher and Professional Education" of 1996 (article 2), "the State guarantees its citizens free higher and post-graduate professional education on a competitive basis in state and municipal higher education institutions within the framework of state-approved standards, if a citizen gets education of that level for the first time". State financing and additional state-derived financial support (mostly in the form of redistributed donor aid) therefore remain the main foundation of the entire system and a major prerequisite for its very existence.

The available figures do not allow us to pinpoint actual spending for management and business education within universities. However, using aggregate expenditure data for education over the last few years as a proxy, over the period extending from 1991 to 1995 total expenditures for education may be estimated at US\$78-80 billion. In addition, OECD donor activities in the Russian Federation amounted to US\$578.8 million for education -- 2.0 per cent of the total assistance delivered through bilateral agreements (cited in Wilson and Treller, 1996: 12) and around 0.8 per cent of domestic expenditures. From 1991 to 1994, the total of funds allocated to Russia by TACIS for "public administration reform, social services and education" brought in an additional ECU125 million (TACIS, 1995: 49). Some of these funds are specifically earmarked for pre-employment management education, for example, the projects "Teaching of economics and business at secondary schools and technical and general universities in Russia" (ECU5.1 million) and "Strengthening of management and business training for engineers" (ECU2.5 million). However, the overall financing of education in CIS countries can still be categorized as insufficient. For example, the biggest single programme in the field of higher education, funded within the framework of TACIS, is the ECU24 million TACIS TEMPUS programme, "a cooperation scheme aimed at developing and restructuring higher education institutions in the New Independent States" (TACIS, 1995: 46). Such an amount obviously cannot satisfy the demands of larger countries, such as Russia.

At the same time, we should stress that bilateral and multinational projects have recently been identified as the key point of management/business education that may serve as a catalyst for rapid self-development in the area of business and management research. Indeed, as researchers from transforming economies interact with their Western colleagues in an attempt to produce research which satisfies international standards, they definitely apply some of those standards to the courses they teach. Among the largest programmes which support cooperation in the field of research in management studies, we can identify the ACE PHARE and ACE TACIS programmes, the UK Know How Fund, the Ford Foundation, the William Davidson Institute's programme and others. The ACE (Action for Cooperation in the field of Economics) programme, for example, a part of the general TACIS schemes, has supported projects such as "Re-engineering in Russian Industrial Companies".

#### **5.5. Quality assurance in pre-employment management education**

##### **5.5.1. The system of quality assurance in pre-employment management education**

In our overview of pre-employment management education we have explored various issues related to quality assurance. In this section we shall summarize the existing approaches to quality assurance in

transforming economies, as well as outline some of the particular instruments used to assure minimal quality requirements.

In general there are three main instruments currently in use in transforming economies to guarantee the quality of higher education:

state educational standards;

rules for state licensing and state accreditation for higher educational institutions and specific programmes, which are, to a great extent, based on the state educational standards;

formal and informal mechanisms of achieving national and international recognition and ranking for post-secondary diplomas.

State educational standards occupy the first and foremost place in this "triad". Currently, in Russia, for example, state standards determine:

the structure of higher professional education;

the documents certifying higher education;

the general requirements for basic professional educational programmes in higher education;

the general norms and scope of the training load for students at institutes of higher education; the academic freedoms of higher education institutions;

general requirements for a list of fields of study (specialties) in higher professional education;

procedures for the elaboration and approval of state requirements for the minimum content and level of graduate training in specific fields;

the rules of state control over the observance of the state educational standards (State Committee for Higher Education of the Russian Federation, 1995: 13).

As we stressed above, observance of the State's educational standards serve as the main criterion for both state licensing and state accreditation of educational institutions. The aim of licensing is defined as "protecting students from any possible unfair practice in the teaching activities of educational establishments" (UNESCO, 1996b: 67). Since licensing is based on "determining whether the structural, educational, cadre, material and technical conditions of educational establishments meet requirements of high quality education", referring to the state standards helps an educational institution determine whether the available faculty is capable of competently teaching all of the courses listed in an index of compulsory disciplines. According to the new Russian "Law on higher education", licensing for new specialties must be obtained without reference to the presence of licences for routine specialties.

Unlike licensing, *state accreditation* deals not with the scope, but with the content of graduate training. Teaching programmes, therefore, must embrace all of the topics listed in the state standards for that particular discipline. State accreditation is granted for a discrete period of time and confers upon educational institutions the right to grant state-recognized diplomas.

The mechanism for the formal international recognition of post-secondary diplomas awarded in transforming economies is set by a system of mutual treaties. Prior to 1992, such mutual treaties existed between all of the countries of the Soviet block. After the fall of the communist governments

and all of their affiliated international institutions (COMECON, the Warsaw Pact, etc.) a technical task force was established to confirm the previous intergovernmental agreements. However, when the main direction of skilled labour migration was taken into account, the principal priority became the recognition of Eastern European diplomas in the West. On this point, various national educational authorities have mixed feelings. On the one hand, all of the countries of Central and Eastern Europe, especially those which anticipate accelerated integration into the European Union (Slovenia, Hungary and the Czech Republic) welcome a broader recognition of national diplomas. These aspirations are singularly stressed in PHARE TEMPUS objectives. It was explicitly stipulated, for example, that "TEMPUS will be embedded in the pre-accession strategy developed for the associated countries. This means that more resources will be devoted to projects in relevant areas such as law, technical standards, the *acquis communautaire* and the mutual recognition of post-secondary diplomas" (PHARE, 1996:18). On the other hand, some countries, especially Russia, are conscious of the possibility that broad recognition of post-secondary diplomas may shift the brain-drain flow towards younger graduates in management. This has led the educational authorities to simply augment existing programmes with a few "elite" programmes in economics which are totally oriented towards rendering the most talented graduates "exportable". In this respect, Russia has recently taken a very cautious approach. The new "Law on higher education ...", for example, stipulates that "higher educational institutions may receive *public accreditation*. The public accreditation is the confirmation of the level of activities of an educational institution as meeting the criteria and requirements of corresponding educational, professional, scientific and industrial organizations" (article 10, clause 8). It is the last statement of that clause, however, which is the most illustrative: "Public accreditation does not entail financial or other obligations from the State" (*ibid.*). Since the state standards represent the basis of the direction of quality assurance, it would behove us to take a closer look at some specific standards in management education.

### 5.5.2. Structure of standards in pre-employment management education (Russia's example)

The last compilation of state educational standards for higher professional education in Russia contains the compulsory minimum state requirements for bachelor programmes in three "fields of study": management, economics and commerce.

To a great extent, the requirements for all the three "fields of study" are similar:trong>

(1) they set exact amount of time -- 7,236 hours -- for each field;

(2) the requirements for the cycle of "general humanities, social and economics disciplines" (1,690 hours) are identical, irrespective of the fact that, for these fields, this cycle does not include economics, which is a special discipline;

(3) identical requirements for the disciplines of mathematics and natural sciences (1,200 hours), with little regard paid to the fact that several completely distinct types of mathematics are used in management science, economics and business calculations. Indeed, the cycles for the general professional disciplines in these three fields are so close content-wise, that we decided to compare them in one table (see table 5).

**Table 5. The structure of Russia's state standards for higher education**

in management-related specialties

Management	Economics	Commerce
<i>General humanities, social and economics disciplines (1,690 hrs.)</i>	<i>General humanities, social and economics disciplines (1,690 hrs.)</i>	<i>General humanities, social and economics disciplines (1,690 hrs.)</i>

-- philosophy	-- philosophy	-- philosophy
-- foreign language	-- foreign language	-- foreign language
-- culture study	-- culture study	-- culture study
-- history	-- history	-- history
-- physical culture	-- physical culture	-- physical culture
-- science of law	-- science of law	-- science of law
-- sociology	-- sociology	-- sociology
-- politology	-- politology	-- politology
-- psychology and pedagogics	-- psychology and pedagogics	-- psychology and pedagogics
<i>Mathematical and natural science disciplines (1,200 hrs.)</i>	<i>Mathematical and natural science disciplines (1,200 hrs.)</i>	<i>Mathematical and natural science disciplines (1,200 hrs.)</i>
-- mathematics, information science and computer programming	-- mathematics, information science and computer programming	-- mathematics, information science and computer programming
-- modern natural science conceptions	-- modern natural science conceptions	-- modern natural science conceptions
<i>General professional disciplines (2,900 hrs.)</i>	<i>General professional disciplines (2,900 hrs.)</i>	<i>General professional disciplines (2,900 hrs.)</i>
-- economic theory	-- economic theory	-- economic theory
-- history of economic thought*	-- history of economic thought*	-- history of economic thought*
-- economic history**	-- economic history**	-- economic history**
-- statistics	-- statistics	-- statistics
-- bookkeeping work	-- bookkeeping work	-- bookkeeping work
-- finance, money circulation and credit	-- finance, money circulation and credit	-- finance, money circulation and credit
-- management	-- management	-- management
-- economics and sociology of labour	-- economics and sociology of labour	-- economics and sociology of labour
-- world economics	-- world economics	-- world economics

-- human resource management***	-- personnel management	-- marketing
-- marketing	-- marketing	-- fundamentals of commercial activities
-- research into management systems	-- economics of an enterprise	-- macroeconomics
-- strategic management	-- strategic planning	-- exchange business
-- innovation management	-- pricing	-- computers in business
-- theory of organization	-- social and economic prognostication	-- basics of metrology
-- organizational behaviour	-- taxation system	-- banking
-- the development of management decision	-- policy of income and wages	-- insurance
-- elective courses (1,058 hrs.)	-- elective courses (1,058 hrs.)	-- legal regulation of foreign economic activities
		-- commercial law
		-- elective courses (358 hrs.)
<i>Special professional disciplines (836 hrs.)</i>	<i>Special professional disciplines (806 hrs.)</i>	<i>Special professional disciplines (690 hrs.)</i>
<i>Additional training and optional subjects (610 hrs.)</i>	<i>Additional training and optional subjects (640 hrs.)</i>	<i>Additional training and optional subjects (1,200 hrs.)</i>

\* In the official English version "history of economic teachings". \*\* In the official English version "history of economics". \*\*\* In the official English version "managing the personnel".

Note: Although the original Russian version of the document was available to us, we tried to adhere as closely as possible to the official English version.

Analysing the data in table 5, we can clearly see that the standards in all three fields -- management, economics and commerce -- reflect the transitional state of management/business education in Russia. It is an attempt to incorporate some business-oriented subjects into the traditionally broad "university" (humanities) education. Russian educational authorities themselves view these standards as the first step in the right direction in the modernization of business education. Surprisingly, they also consider these standards heavily "Americanized" and, in the future, intend to model the curricula more closely on those offered at European business schools.

## **6. Tentative conclusions: Situation, trends, areas of immediate action and spheres for long-term responses**

In the previous chapters, we presented the content of management development processes in transitional economies; identified new challenges for enterprise management; and detailed the responses which individuals, enterprises, specific institutions, national governments and international agencies to these challenges. In this chapter we will summarize the main findings and outline the possible direction of future action.

### **6.1. The situation and trends in management development in Russia**

Management development in Russia, like in other transforming economies, is an "open-ended" process, aimed at improving managerial effectiveness through the deliberate acquisition of specific and practical knowledge. Three of the major challenges which fostered the acceleration of the acquisition of knowledge by managers are:

developing the potential for an individual's horizontal and vertical mobility;

obtaining and mastering an adequate role in emerging entrepreneurial governance structures based on private property rights;

transforming management techniques, structures and values in a market-oriented fashion in order to both revitalize and strengthen enterprises and gain a competitive advantage.

These challenges are currently being met through the rapid expansion of all forms of management development activities: changes in job and job contents, coaching and mentoring, in-house training and counselling, outside/external training and executive education and the qualitative and quantitative growth of pre-employment management and business education. However, the rapidity and breadth of the expansion of each of the above-mentioned forms of management development vary substantially.

Changes in job and job contents (job rotation, stretching the boundaries of a job) as well as development processes within a job (coaching and mentoring) require significant "intangible" managerial resources, such as time, executives' attention, etc., but little "tangible" financial and material resources. Therefore, these forms of management development are more likely to expeditiously enter into a state of *sustainable development, i.e. self-directed and self-reliant progress and renewal*.

In-house training and counselling, like outside/external training and executive education, are forms of management development requiring greater formal commitment on the part of both individuals and institutions. In a situation characterized by an acute scarcity of resources, which is typical of most of the industrial producers operating in emerging commodity and financial markets, the aforementioned forms are highly dependent on external sources of financing and expertise. The only reliable external sources of financing and expertise for management training and counselling are international donor institutions, such as the European Community, the World Bank, OECD, G7 collective and bilateral actions, the ILO, the United Nations and private and public development funds. When one takes into account the current trends in the development of training and consulting services -- namely the quick saturation of a currently small market for such services and the high "exploration costs" necessary to fashion a larger potential market -- it is doubtful that these forms of management development will escape the "outside domination trap" in the near future.

Pre-employment managerial and business education requires an appreciably greater amount of resources -- material, financial and human -- than any other form of management development. It is also characterized by a lag between the consumption of resources and the extraction of any tangible social benefits. The support of tertiary education from funds originating in the public sector, therefore, should play -- and actually already does play -- a primary role in almost all OECD countries. Prior to 1992, most of the countries of Central and Eastern Europe -- especially Hungary and the Soviet Union -- had managed to spend a share of GDP on education which was close to, or even surpassed, the OECD average. Although governments have tried to maintain this proportion during the economic recession, the absolute fall in the volume of GDP has led to a lessening of public financing without an adequate increase in funds from the private sector. In 1992-96, international financial assistance in the sphere of tertiary management and business education constituted a minute fraction of total education expenditures. Thus, while devotion to new programmes and teaching methods remained high, the countries of Central and Eastern Europe fell into the "local convenience trap", as some outside elements were simply mechanically grafted onto an old system. It seems that the stabilization of the

educational system in Russia is more closely associated with the total recovery of GDP. This, however, may take up to ten years to transpire and, consequently, will impose an unflagging demand for international financial and expertise assistance in the field of business/management education. It should also be stressed that, as the amount of resources necessary for strengthening the business/management education system in the largest transforming economies -- namely, Russia -- vastly exceeds the capacity of international donor institutions, allocated resources will have positive effects locally, but will be insufficient to facilitate systemic change.

In general, we can conclude that, if informal and formal in-house training and counselling serve mostly as "internal stabilizers" for economic adaptation and, in a broader sense, macroeconomic stabilization, the progress of pre-employment managerial education is largely dependent on macroeconomic stabilization.

## **6.2. The speed of economic transformations and management development: The dialectics of micro- and macroeconomic change**

A recent study by the World Bank (1996) confirms that the extent of liberalization (defined in its broadest sense, as a conjunction of internal liberalization, external liberalization and the development of a private sector) is closely associated with the speed of GDP recovery. The larger the extent of liberalization, therefore, the sooner growth begins. This relationship has a direct impact on the specific processes of management development in transforming economies.

In the countries that have already started real economic recovery (Poland, Hungary, the Czech Republic and Slovenia), management development performs its normal function of improving individual and organizational effectiveness within a stable framework of managerial norms and values. However, in countries where the industrial decline is still continuing (especially in Russia), management development performs very specific functions. We may, therefore, say that in these countries a progressive destruction of the national managerial archetype is occurring. The old "Soviet-style" managerial culture has lost its credibility and is almost universally perceived as unsuited to the new economic system. Moreover, the entire set of traditional values, beliefs and "mental models" governing enterprise management are now presumed to be inadequate. As a result, a deep "inferiority complex" has descended on many managers. In our study of Russian industrial managers, we have seen that middle managers expressed the least willingness to acquire additional knowledge, as they did not perceive additional training as a means of relieving their current situation. As the impetus behind knowledge acquisition weakens, so too does individual performance and, as a result, organizational effectiveness and efficiency. Since any fall in organizational efficiency lessens the pool of resources available for management development, such managerial decay encloses an enterprise in a vicious cycle of degradation.

Informal training cannot break this cycle, as they operate mostly through the dissemination of role models and new conduct patterns for the improvement of current business performance. On the other hand, enterprise management cannot benefit from the strengthening of modern pre-employment managerial education, as graduates attempt to avoid employment in economically, as well as mentally, depressed sectors of the national economy.

In addition, management development may provide little support for enterprise revitalization if the government pursues a chaotic macroeconomic policy that destroys investments and discourages productive innovations. Moreover, under such macroeconomic policies, the most creative behaviour of industrial managers is repeatedly punished and, in the long run, people's ingenuity is oriented towards unproductive and socially dangerous activities within the black and "grey" economies.

The weak link in this vicious chain is in-house formal training and counselling. Although in transforming economies these activities are highly fragmented and dependent on external (presumably

international) support, they may serve as catalysts for systemic change. Even the current dependency of training and counselling on external sources renders them relatively immune to national macroeconomic policies. In addition, in-house formal training and counselling are the only proactive forms of management development in which there is a minimal lag between the discovery and the exercise of new business knowledge, even in the face of a constantly changing economic reality. They are also the forms which are best suited to the establishment of new socially productive forms of managerial conduct, values and mental models. Thus, a relatively small level of additional spending aimed at fostering greater openness in, and the broader dissemination of, training and counselling, may create the critical mass necessary for the crystallization of a new framework of managerial culture which is not only well-suited to functioning in new economic conditions but is also suited to the national mentality.

### **6.3. The agenda for action**

The clear lesson of management development in transforming economies is that international assistance should be subordinated to the overall targets of economic reform and should, therefore, be very specifically and selectively applied to each transforming economy.

In Russia, like in the other transforming economies of Eastern Europe and in CIS countries, which are still struggling with the post-reform economic recession, the *key to management development is in-house training and counselling*. These two forms of management development should be used intensively to simultaneously perform two related tasks: the rebuilding of managers' self-confidence and "softly and smoothly" institutionalizing new mental models and patterns of conduct in enterprise management. Our study enabled us to draw some recommendations for three specific groups involved in management development processes: enterprise managers, management development consultants and trainers, domestic and international policy-makers.

#### **6.3.1. Recommendations for enterprise managers**

Enterprise managers should recognize that management development is the key instrument for performance improvement. The resources to be spent on in-house training and counselling have the highest return on investment not only in the long-term but also in the short-term perspective. The in-house training should be used primarily as a mean to improve internal communications in the company, to promote teamwork and mutual understanding between managers of different functional areas.

In this respect, top executives should ask the external trainers and consultants to pay attention primarily to integrative courses to be delivered to all middle managers, especially in areas of business economics, marketing and personnel management.

For themselves, top managers should pay attention primarily to upgrading their knowledge in corporate law, financial management, strategic marketing and social psychology and to developing their skills in negotiating and coaching. Top managers should ask trainers and consultants to provide them with "guided self-education courses". That means establishing long-term relations between a top manager and a consultant, who should serve as a private tutor for a top manager.

In selection of perspective persons to be sent for external retraining courses or for MBA programmes, top managers should take into account the present and potential capacities of a candidate to serve as a disseminator of new knowledge and as a coach for his/her colleagues and subordinates.

Special attention should be given to the persons presently occupying the positions of chief engineers. Taking into account the usual underutilization of their innovative potential, top executives may consider the expansion of the area of chief engineers' authority towards marketing management.

### 6.3.2. Recommendations for development trainers and consultants

Development trainers and consultants should subordinate their activities to specific needs of enterprises and to centre the activities in the following areas: developing integrating skills of top managers, expanding the general knowledge and horizontal capacity of middle and shop-floor managers.

Trainers and consultants should try to integrate in-house training and counselling in a united "developing consultancy" interactive process. Therefore, the attention of trainers and consultants should be devoted to a maximal involvement of middle and, if possible, shop-floor managers to every stage of consultancy process.

Development trainers and consultants should pay more attention to creation or adaptation of self-learning materials: "cookbooks", interactive educational software and multimedia. Despite the usual opinion, the broad dissemination of such materials does not suppress but increases the demand for "non-virtual consultancy and training".

Regarding the exploration and the development of the market for in-house training and consultancy, trainers should avoid the "dumping" approach, broadly used in various technical assistance programmes. While the use of foreign financial resources for minimization of enterprises' burden of consultancy services may be considered in many cases as appropriate, providing training and consultancy completely free may deteriorate their value as perceived by company managers.

In selection of particular industries and particular locations, the use of foreign or domestic aids in the form of training and management consultancy should follow the usual rules and criteria of competition policy. In this respect, the design of any assistance programme should be oriented to an equal access to those services to all enterprises in a particular region and line of business.

### 6.3.3. Recommendations for policy-makers

#### 6.3.3.1. Recommendations for domestic policy-makers

Domestic policy-makers, involved in design and implementation of management development policy in Russia, now face a number of choices to be made in two relatively separate areas: development of already employed managers and development of pre-employment management education.

In the area of the development of employed managers policy-makers should choose the best way of promoting the expansion of in-house training and counselling. One possibility is greater use of centralized financial resources to subsidize such kind of activities. Different forms of subsidies may be appropriate (governmental grants, local development initiatives, etc.). Another possibility is to decentralize the governmental assistance for management development. In this way various forms of tax exceptions for companies' resources really spent on in-house training, executive education and counselling may be highly relevant.

In the area of pre-employment management education domestic policy-makers should make a much harder choice regarding the regulation of the standards for pre-employment management education. Indeed, the general intent in the pre-employment education in Russia is to raise the standards towards the international level. However, only a very small fraction of educational institutions may now meet such standards. In this respect, *it is proposed to demarcate two types of management education -- free education towards bachelor diploma and advanced management education at MBA or M.Sc. level. For the first type of programmes a gradual increase of standards' requirements may be appropriate. For the second types of programmes the sharp increase of standards seems to be*

*necessary.*

### 6.3.3.2. Recommendations for international policy-makers

We showed in our survey some of the best examples of management development programmes in Russia and the areas of the highest demand for international assistance -- self-education, distance learning, in-house training and counselling. The main problem of international assistance in the area of management development is the fragmentation and duplication of efforts. The fragmentation and duplication of efforts have an especially negative impact on the implementation of capital-intensive projects (satellite systems of distance learning, developing of interactive software and educational multimedia). In this respect, one recommendation may be the creation of a united data bank on all internationally assisted management development programmes and initiatives in Russia. *The creation of such a data bank may prove its validity and usefulness only if it will be managed by highly respected politically neutral non-governmental international organizations like the International Labour Organization.* A properly maintained and updated data bank on management development initiatives will serve as a repository for all international and governmental institutions (the World Bank, the USAID, the European Commission, the EBRD, the OECD, etc.) in order to coordinate their activities and to improve the allocation of their resources.

We believe that the results of our study will assist domestic educational institutions and trainers, as well as international aid agencies, in establishing the priorities of management development, thereby ensuring the highest long-term return on their investment in human capital.

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