

Management innovations in Russian export-oriented companies: The results of large-scale surveys conducted in Russian enterprises¹*

Igor Gurkov**

This report presents the results of a large-scale survey involving Russian enterprises during the year 2000. The results show that Russian export-oriented companies are implementing the latest methods in operations and quality control management, and some forms of modern managerial accounting and personnel management. Despite that fact, Russian CEOs perceive the overall suitability of Western management methods as low. This signifies that CEOs of export-oriented companies will not be active advocates and promoters of advanced Western management techniques in local business networks.

Dieser Aufsatz präsentiert die Ergebnisse einer großen Umfrage bei russischen Unternehmungen im Jahre 2000. Die Ergebnisse zeigen, dass russische exportorientierte russische Firmen mit den neuesten Methoden im Operations- und Qualitätskontrollmanagement sowie mit einigen Formen des modernen Buchhaltungs- und Personalmanagement auf Führungsebene arbeiten. Trotz dieser Tatsache stufen russische CEOs die allgemeine Eignung der westlichen Managementmethoden als gering ein. Dies bedeutet, dass CEOs von exportorientierten Unternehmen sich weder aktiv für fortgeschrittene westliche Managementtechniken in lokalen Firmennetzwerken einsetzen noch sie befürworten.

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** Igor Gurkov, born 1965, Professor and Head of the Laboratory for Organizational Development at the State University – Higher School of Economics, Moscow. Major areas of interest: Organizational Change and Development, Management of Innovations, Human Resource Management.

1. Introduction

After the ruble lost three-quarters of its value in the last quarter of 1998, Russian industries had an incentive for export expansion. In 2000, Russia's total exports grew by 38.9%. Russian exports to non-CIS countries grew by 42.4% and reached 86.4% of Russia's total exports (Goskomstat, 2001). The registered trade surplus of the Russian Federation reached 45.9 billion dollars for the March 2001-February 2002 period. Russian exports currently consist not only of basic commodities but also include merchandise aimed at satisfying low-end demand on the world market. Oil products, ferrous metals, fertilizers, textiles and machinery together comprised 27.7% of Russia's total exports to non-CIS countries. The value of machinery and equipment exported to non-CIS countries increased by 14.3% in 2000 and accounted for 7.7% of the total exports to these countries.

The crucial question for the further development of the Russian economy is: "To which extent is an export boom accompanied by a strengthening of the competence base of Russian firms?" The active accumulation of knowledge by Russian exporters and the subsequent diffusion of that knowledge through local value chains may enhance overall national competitiveness and contribute to sustainable economic growth (see Denton, 1999). However, the absorptive capacity for technical and especially organizational innovations (Cohen and Levinthal, 1990) of Russian exporters is still unclear. The number of studies of the causes and consequences of export activities at the enterprise level is quite limited (see Buck et al., 2001). In addition, is it not clear to which extent Russian exporters may serve not only as absorbers, but also as diffusers of knowledge.

The theoretical framework of the present study is derived from recent theoretical and empirical studies on the absorption and diffusion of innovations in an international setting. Regarding the *absorption of knowledge*, it has been suggested that user-supplier relations are central to the diffusion of innovations (Dosi et al., 1990). Such user-supplier relations may, and do, take place over national borders and over large geographical distances. In addition, it is well known that a network that extends beyond a dense core group and into more distant and less frequent contacts, can be of great importance for radical change, i.e. "the strength of weak ties" (Granovetter, 1973, 1360-1380). In Russia, where the majority of exports are directed towards developed economies, we may present such user-supplier relations as direct or indirect contacts with "advanced users." Therefore, we may speculate that intensive exporting should have a profound impact on the internal organization of Russian firms. Indeed,

- Trading partners from developed countries may require better contract discipline; contract violations with international partners may have more severe consequences than similar violations with local partners. This implies

that not only the timing of deliveries should follow the agreed schedule, but also that the quality of goods and services should be more stable.

- The stability of quality requires the normalization of production processes. This may be brought about by *internal normalization*, for example, by the application of modern standards for operation management (such as ISO standards) or by *external normalization*, for example, a careful selection of local suppliers.
- Such normalization may effect further changes in the internal organization of the firm, such as in human resource practices and organizational structures, and in its external organization, for instance marketing strategies and financing sources.

As a result, the side effects of exporting to developed countries should include not only technical innovations but also organizational innovations. We combine purely organizational innovations and the “soft side” of technical innovations into the term ***“management innovations.”*** Such a combination is widely used in current management literature and indeed makes sense, as there are strong connections between the technical innovations and the organizational innovations in real enterprises (see: Leonard-Barton, 1988).

This position determined the first goal of the study: to explore to which extent Russian exporters absorb new knowledge and are inclined to implement management innovations.

However, to serve *as diffusers of managerial innovations*, Russia exporters should meet some additional requirements. It was stressed that the costs and benefits of organizational innovation are hard for the potential adopter to evaluate, since the results of the implementation of organizational innovations are more difficult to perceive than those of technical innovations. It is also difficult to determine, in advance, the direct effects of managerial innovations on organizational performance (Kimberley, 1981). Therefore, the possible ex ante criteria of the profitability of organizational innovations for late adopters may be:

- Performance gains of early adopters² and
- Subjective beliefs of earlier adopters in the applicability of particular organizational innovations in a broader local context.

In order to understand the role of Russian exporters in the absorption and diffusion of modern management techniques, we should address the following issues:

² Greater than what? What is the relationship between late and early adopters?

1. What is the current proportion of actively exporting companies to total sum of companies in Russia's main industries? Do they represent a critical mass among local companies?
2. How are export activities linked to innovations in various areas of enterprise management?
3. What are the attitudes of export-oriented company managers towards the implementation of advanced Western management techniques?

We suppose that if Russia exporters

- demonstrate better performance than their local-oriented colleagues and
- their managers believe in the applicability of advanced management techniques in Russian business conditions,

they may serve as active diffusers of knowledge.

2. Research Design

2.1 The approach to research design

The approach to research design was predetermined by the research goals. However, in identifying the particular methods of data collection we faced additional challenges. First, there was the challenge of the selection of a suitable method for data collection. Our major task was to receive at least a "quasi-representative" picture of the innovation processes in Russian enterprises. Although observational studies coupled with interviews may be the most appropriate form for studying innovation processes (Kimberley, 1976, pp. 321-347), surveys have the advantage of taking into account the tradeoff between scale and costs. One additional advantage of using surveys in transition economy research is the possibility of capturing an "instant photograph." Under the rapidly changing economic and business conditions characteristic of transition economies, such "instant photographs" often have a greater resolution than prolonged observational studies.

After selecting the survey as the main form of data collection, the second question was the choice of relevant respondents. It has been emphasized by most scholars that while top management can serve an important function in the decision to adopt technical innovations, the importance of top management involvement and visible support for the implementation of management innovations is of greater magnitude. Therefore, we decided to consider the

CEOs of Russian enterprises³ as the persons in charge of the implementation of most of the organizational changes in their companies. In addition, since management innovations can be influenced by the adopter's subjective interpretation (see Alange and Jacobsson, 1998), the CEOs' perception of the effects of particular management innovations may present more valuable and relevant information about innovative processes than any factual data.

The third challenge usually related with the use of surveys is the necessary restriction of the survey to a necessary limited number of items. In studying transition economy management innovations, there is the additional risk of overlooking important areas of change in enterprise management. We overcame this difficulty by using the following two methods. First, we managed to collect 30 reports written by senior executives about the recent changes in their companies. Such reports became an invaluable source of information about the particular new management methods and techniques being tested in various Russian companies. Second, we carried out a series of pilot surveys (three pilot surveys including 210 CEOs) to refine the survey's questions and determine its scale.

2.2 The sample

In the present paper, we address the outlined issues using the results of a large-scale survey of Russian CEOs. In October-December 2000, we conducted a survey that included 1000 CEOs from various companies. The response rate was 73% (732 questionnaires were collected). The administration of the survey used the network of an influential governmental agency which has local branches in each of Russia's 89 federal divisions (oblast, kray, republic within the Russian Federation). Although the survey was anonymous, special features ensured that the addressed CEOs would complete the questionnaires themselves⁴.

Around 13% of the companies in the sample are small with less than 100 employees. Twenty-six percent of the companies have between 100 and 500 employees. The remaining 61% of the companies in the sample have more than 500 employees. Our sample roughly corresponds to the overall structure of the Russia's large industrial enterprises with 26% of the surveyed CEOs managing

³ Generally, the title of "General Director" of a Russian company assumes a broader authority than that of a Chief Executive Officer in a Western company. Russian general directors usually also serve as the Chairmen of the Boards of Directors for their companies (see Nestor and Jesover, 2000).

⁴ In addition to the usual methods, like the insertion of personal questions about age, length of service and the arrangement of the working week among various types of work, we also included, as an addition to the questionnaire, special self-diagnostics tools to assist CEOs to assess the status of innovation management in their company.

machine-building companies, 14% working in food-processing, 11% managing oil and gas production, 10% active in electronics, 9% working in textiles, 7% involved in the chemical industry and finally 6% active in metallurgy. Around 87% of the surveyed companies were established before 1991. Only 9.3% of the surveyed companies are start-ups and 1.5% are joint ventures.

2.3 Research Instruments

The questionnaire consisted of several sections addressing the goals of the study⁵. To map the overall assessment of the company situation for the subsequent comparison between companies at various levels of export activities, two questions were used. First, CEOs were asked to assess the economic situation of their firm on a five-point scale (ranging from bad to excellent), and to compare the present situation with the situation two years ago (again on a five-point scale ranged from much deteriorated to much improved).

Second, we asked CEOs to report on management innovations that had taken place in their companies to see how export objectives were translated into real actions. CEOs were asked to indicate the magnitude of changes in financial management, marketing management, human resource management and organizational design. An opportunity to add to the list was offered to the respondents. Here we used the following three-point scale: 1- no changes, 2 – minor changes, 3 – major changes. In addition, we requested ratings, again on a three-point scale, for eight management tools commonly used in Russian companies, including ISO standards, Internet marketing research, etc.

Lastly, we asked CEOs to express their attitudes about the applicability of Western methods in six areas of enterprise management on a five-point scale (ranged from not applicable at all to completely applicable).

3. Findings

3.1 The level of export activities

First, we determined the surveyed companies' export sales during the past three years (see Table 1).

Our results show that Russian exporters are wary of revealing business details. About a quarter of the surveyed CEOs refused to provide answers to this question, while for other questions, the non-response rate was only 1-3%. We may conclude that the subsequent analysis will consider only so-called "white exports," exports with proper custom clearance and tax procedures.

⁵ The English version of the questionnaire is available from the Center for Organizational Studies: Kochnovsli prozed, 3, Moscow 125319, Russia; e-mail: gurkov@hse.ru

Nevertheless, the data suggests that the number of Russian industrial companies that actively export has only slightly increased over the past three years. In 1998, about 24% of companies had exports that comprised more than 5% of their total sales, and in 2000, 26.6% of companies had exports comprising more than 5% of sales.

Table 1. The share of exports in total sales (percentage of companies)

Share of exports in total sales	1998	1999	2000
Less than 5 percent	49.4	47.7	47.3
5 – 20 percent	11.6	12.8	14.7
21 – 50 percent	4.9	6.0	4.9
51 – 80 percent	4.2	3.7	4.6
More than 80 percent	3.1	4.1	4.4
No answer	26.8	25.7	24.1

Besides the number of exporters, we determined the proportion of exports in the main industries (see Table 2).

A high proportion of exporters to all companies in the industry indicates the possible presence of export-enabled knowledge acquisition within each line of industry. We may see that in oil and gas, metals, timber and textiles the number of active exporters (with exports accounting for more than 20% of sales) exceeds 15% of the surveyed companies. This means that industry-specific knowledge transfers to other industries only along the value chains in supplier-user relationships with export-oriented companies.

3.2 Economic performance of exporters versus non-exporters

To receive a clear picture of the particular strengths and weaknesses of Russian exporters, we divided all companies into five groups according to the percentage of their exports to their total sales. Group 1 contained companies with less than 5% of sales accounted for by exports, Group 2 consisted of companies with exports totaling 5 to 20 % of sales, Group 3 included companies with exports making up 20 to 50% of sales and Group 4 included companies with exports representing 50 to 80% of sales. Finally, Group 5 was comprised of “total exporters,” companies with exports accounting for more than 80% of their sales. The subsequent analysis will be based on a comparison between these groups using the ONEWAY ANOVA statistical technique.

First, we compared the perceived company performance for a range of companies with different levels of export activity (see Tables 3-4).

At first glance, a concentration in export sales seems to be a “ticket to heaven” for Russian companies. Total exporters differ significantly from all other groups as can be seen by their positive assessment of the current situation. Total openness towards foreign markets, however, does not automatically guarantee

stable performance. Despite the generally positive conditions for most Russian exports, around 12% of total exporters feel that their situation is “somehow worse” when compared to 1998.

Table 2. Export intensity (industry analysis)

		Share of exports in total sales (percent)				
		Less than 5	5-20	20-50	50-80	More than 80
Industry	Minerals	43	21	18	8	8
	Oil and gas	61	17	6	13	2
	Timber	54	22	3	6	13
	Chemicals	59	33	2	2	2
	Metals	23	33	20	13	10
	Machine-buildings	58	22	6	7	6
	Electronics	64	24	3	3	5
	Food	76	10	3	3	7
	Textiles	63	13	13	4	6
	Construction	100				

Table 3. Perceived economic situation of the companies as assessed by CEOs

Current economic situation	Group 1	Group 2	Group 3	Group 4	Group 5
Bad	21.4	9.7	2.9	12.1	0.0
Satisfactory	64.4	76.7	80.0	69.7	62.5
Good	14.2	13.6	17.1	13.2	37.5

Table 4. Perceived performance dynamics in 1999-2000 as assessed by CEOs

Economic position of the firm as compared with 1998 is...	Group 1	Group 2	Group 3	Group 4	Group 5
Much worse	7.1	4.8	0.0	3.0	0.0
Somewhat worse	10.7	4.8	5.7	3.0	12.5
No change	10.4	9.6	8.6	9.1	12.5
Somewhat better	55.2	52.9	57.1	48.5	40.6
Much better	16.6	27.9	28.6	36.4	34.4

3.4 Managerial innovations realized by exporters versus non-exporters

First, we tried to establish the extent to which companies in different groups have adopted new management methods and techniques (see Table 5).

As was hypothesized, active exporters (*Groups 4 and 5*) are eager to implement all the identified forms of new management techniques. Companies in *Group 4* (with the exports accounting for 50 to 80% of total sales) put special emphasis

on new methods of product design and manufacturing. Almost 50% of companies in **Group 4** see the implementation of ISO standards as the most fruitful element of the existing management techniques. Companies in **Group 4** also appreciate the introduction of CAD/CAM techniques and are the most ardent users of the Internet for marketing research.

Table 5. Introduction of particular management tools (percentage of companies in each group)

Tool	Group	Introduction status		
		Not introduced	Introduced with minimal effects	Introduced with significant positive effects
ISO 9000-140000	Group 1	59.7	24.3	16.0
	Group 2	41.8	33.7	24.5
	Group 3	46.9	18.8	34.4
	Group 4	33.3	18.2	48.5
	Group 5	30.0	36.7	33.3
Computer programs for business planning	Group 1	51.3	35.2	13.4
	Group 2	38.8	37.9	23.3
	Group 3	35.3	35.3	29.4
	Group 4	31.3	40.6	28.1
	Group 5	25.0	37.5	37.5
CAD/CAM	Group 1	49.7	30.9	19.4
	Group 2	37.9	33.0	29.1
	Group 3	40.6	25.0	34.4
	Group 4	25.8	32.3	41.9
	Group 5	41.9	19.4	38.7
Computerized systems of managerial accounting	Group 1	39.0	39.9	21.1
	Group 2	25.5	46.2	28.3
	Group 3	32.4	50.0	17.6
	Group 4	18.2	42.4	39.4
	Group 5	12.9	45.2	41.9
Marketing analysis using Internet resources	Group 1	55.6	30.0	14.4
	Group 2	31.7	51.0	17.3
	Group 3	44.1	41.2	14.7
	Group 4	43.8	34.4	21.9
	Group 5	48.3	31.0	20.7
Computerized systems of personnel testing	Group 1	83.0	13.1	3.9
	Group 2	74.0	18.3	7.7
	Group 3	74.3	25.7	0.0
	Group 4	68.8	25.0	6.3
	Group 5	67.7	25.8	6.5

By contrast, companies in **Group 5** (with the exports totaling more than 80% of total sales) are more preoccupied with managing the cash inflows resulting from export operations. Companies in **Group 5** place special emphasis on mastering

financial planning (more than 80% of companies) and managerial accounting systems (almost 90%).

As active exporters proved to be at the forefront of implementation of advanced management techniques, we decided to check whether such methods lead to changes in the organization of Russian companies. We may speculate that the implementation of advanced management methods that center on the computerization of particular management processes may eventually require the search for new personnel or changes in performance requirements and the performance assessment of existing personnel. We tested this hypothesis using the CEOs' responses to questions about the intensity of changes in human resource practices in their companies (see Table 6).

The data suggests that in the implementation of new forms of recruitment and performance appraisal, active exporters certainly exceed their local-oriented colleagues. However, in administration of salary payments, there is no such discrepancy between exporters and non-exporters.

3.5 Exporters as trainers – subjective prerequisites

Our data suggests that active exporters are powerful adopters of various advanced management methods. Exporters also proved to be in better financial shape than local-oriented companies, although this security does not come automatically. But it remains unclear to which extent there is a willingness among exporters to serve as “trainers” to their local colleagues. We have indicated that such willingness would start with an overall assessment of whether modern (presumably Western) management techniques are applicable to Russian business conditions.

We compared CEOs' opinions on the overall applicability of Western methods in various areas of enterprise management (see Table 7) and found the outcome surprising.

Although the perceived applicability of technology and quality control management is proportional to percentage of exports that comprise total sales, it is not true for other areas of enterprise management. Human resource management and organizational design are the areas where, accordingly to most Russian CEOs, the chances of successful direct application of Western management techniques are low.

4. Discussion

First, we should briefly repeat our main findings.

- In oil and gas, metals, timber and textiles the proportion of active exporters (with exports accounting for more than 20% of sales) exceeds 15% of the

surveyed companies. In other Russian industries the proportion of active exporters is much smaller.

- The higher the percentage of exports in total sales, the better the CEOs assessed the current performance of their companies. However, the performance of Russian exporters is unstable.

Table 6. Comparison of intensity of changes in various aspects of human resource management (percentage of companies in each group)

Type of innovation	Group	Did not introduce	Introduced	
			To some extent	To a great extent
New forms of recruitment and personnel selection	Group 1	56.3	32.8	10.9
	Group 2	45.3	33.0	21.7
	Group 3	34.3	54.3	11.4
	Group 4	18.2	48.5	33.3
	Group 5	29.0	48.4	22.6
New methods of performance appraisal	Group 1	50.0	36.2	13.8
	Group 2	36.1	42.9	21.0
	Group 3	22.8	57.1	20.0
	Group 4	24.3	51.5	24.2
	Group 5	20.0	43.3	36.7
New wage schemes	Group 1	36.8	40.0	23.2
	Group 2	22.6	45.3	32.1
	Group 3	14.3	57.1	28.6
	Group 4	12.1	60.6	27.3
	Group 5	25.8	35.5	38.7

Table 7. The perceived applicability of Western methods in various areas of enterprise management (opinions of CEOs)

Area	Group 1	Group 2	Group 3	Group 4	Group 5
Technology management	2,93	3,03	3,21	2,94	3,37
Quality control	2,73	2,91	3,30	2,84	3,23
Marketing	2,67	2,78	3,03	2,79	2,96
Human resource management	2,39	2,43	2,50	2,55	2,72
Organizational design	2,53	2,54	2,63	2,63	2,73

Note: scale used – 1 = completely inapplicable, 3 = moderately applicable, 5 = completely applicable

- In all the surveyed industries, active exporters demonstrated a broader use of modern management methods. CEOs of such companies are inclined to see increased performance from the use of advanced management techniques.
- Companies with the exports accounting for 50 to 80% of total sales place special emphasis on mastering techniques for quality improvement and overall normalization of operations, including ISO, CAD/CAM, etc.

- The active implementation of new management techniques is accompanied in export-active Russian companies by a limited modification of human resource practices, especially personnel selection and appraisal methods.
- The high respect for Western methods in technology management and quality control coexists with widespread doubts about the applicability of Western methods in the “soft aspects” of enterprise management, namely, human resource management and organizational design.

At first glance, we may see a considerable discrepancy between the export- and local-oriented sectors of the Russian economy. The export-oriented companies are adopting the latest methods in production and operations management. The favorable financial performance of the majority of the surveyed exporters makes possible active recruitment policies that call for managers who can effectively apply the advanced techniques. In addition to the need for mastering new operation, accounting and marketing methods, there is a strong inclination by CEOs to implement new business methods. CEOs' attitudes towards the effectiveness and efficiency of the new management methods have established a pattern of internal adoption and the willingness to disseminate the knowledge. Within the company, a CEO's enthusiasm for new management tools is often a prerequisite for its successful implementation. It has been found that subordinates generally study the behavior of their managers to determine what is really important; what the top manager does and visibly demonstrates, and not merely what he says, gets the most attention. In Russia, where a strong paternalistic tradition exists, young well-educated managers, often believed to be the main players in mastering advanced management methods, still emulate their bosses' attitudes and leadership patterns (Gurkov and Maital, 2001).

In the intra-company networks, the transfer of knowledge concerning management innovations usually happens informally. In this respect, the inclination of a CEO towards new management tools and his acknowledgment of their performance gains serves as a pattern for the imitation of such a tool by the local business community. Even if CEOs are trying to hide their “powerful competitive weapon,” such management tools become especially valued by local competitors.

We may see an export-oriented CEO's opinion of a particular management tool as an indicator of its future use in Russia. For example, in our survey CEOs of export-oriented companies assessed the results of the implementation of ISO standards as highly positive (70% of CEOs in Group 4 who tested the methods found the effects to be positive). This assessment referred to their evaluation of 1999-2000 figures. The experts who studied the motivation of local companies to implement ISO standards in 2001 stressed the need “to start to export or to serve the exporters” as the main reason for implementation (Ovsianko, 2001). It seems that export-oriented companies have served as information brokers and role models for their local-oriented colleagues in the assimilation of ISO

standards. We may also speculate that export-oriented companies have initiated the bandwagon effect regarding the adoption of ISO standards in Russia. A bandwagon, as described by Abrahamson and Rosenkopf (1993), is a diffusion process wherein adopters choose an innovation, not because of its technical benefits, but because of the sheer number of other companies that have already adopted the innovation. As more firms adopt innovations, pressure increases for other firms to adopt them as well. Bandwagons create self-reinforcing loops, because the bigger the bandwagon gets, the larger the number of organizations desiring to join the bandwagon.

We may observe similar patterns of acceptance with other management tools. Since computerized systems for managerial accounting were highly rated by export-oriented companies in 2000/2001, local companies frequently implemented them in 2001/2002. This trend, taking industry limitations into consideration, is also applicable to CAD/CAM techniques. At the same time, active exporters have not found Internet marketing research particularly effective and have found computer-assisted personnel testing to be totally inadequate (less than a quarter of users experienced any significant positive results by implementing such systems). Such methods are still unpopular in Russian companies.

Besides serving as testers of various management methods, active exporters may perform as “barriers for other potential testers.” We have seen that CEOs of export-oriented companies do not believe in the applicability of Western models in human resource management. Such subjective “dismissals” make these models unattractive for both internal implementations by company managers or for imitation by local-oriented colleagues (competitors).

5. Conclusions and Practical Implications

Our study suggests that we should not expect a “second managerial revolution,”⁶ even though such a revolution might result from the current extremely favorable foreign trade position of Russia. Russian exporters, who are generally in good financial shape, spend a significant amount of money and time adopting advanced methods for operations management and quality control. In this they partly rely on the expertise and assistance of their foreign partners. However eager to adopt technical (operational) innovations, Russian CEOs are cautious in changing the traditional financial and human resource management routines currently in place. When CEOs are forced to do so, pressured by foreign partners and (in some cases) by foreign owners, they consider such methods to be inappropriate in general for Russia’s business and

⁶ The “first managerial revolution” in Russia was claimed by S. Puffer and associates to happen at the beginning of 1990s (see Puffer, 1992).

social environment. The weaknesses of these methods prevent CEOs of export-oriented companies from acting as information brokers and advocates of such methods within local business networks.

In general, we may conclude that in the foreseeable future organizational imitation will play an important role in Russian business. The improving quality standards of products and services and the growing accuracy in business transactions will please the Western trading partners of Russian companies. As long as foreign companies will be able to inform Russian partners about the newest production methods, without going deeply into the internal organizational of their Russian partners, both sides may work well together. Active exporters also may serve effectively as role models for local-oriented Russian companies in absorbing technological and operational innovations, sometimes even initiating the bandwagon effect. However, the local traditions and routines of human resource management will remain largely unaffected by Western methods.

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