



Päivi Karhunen

FIELD-LEVEL CHANGE IN INSTITUTIONAL
TRANSFORMATION:
STRATEGIC RESPONSES TO POST-SOCIALISM
IN ST. PETERSBURG HOTEL ENTERPRISES

HELSINKI SCHOOL OF ECONOMICS

ACTA UNIVERSITATIS OECONOMICAE HELSINGIENSIS

A-298

Päivi Karhunen

FIELD-LEVEL CHANGE IN INSTITUTIONAL
TRANSFORMATION:
STRATEGIC RESPONSES TO POST-SOCIALISM
IN ST. PETERSBURG HOTEL ENTERPRISES

HELSINKI SCHOOL OF ECONOMICS

ACTA UNIVERSITATIS OECONOMICAE HELSINGIENSIS

A-298

© Päivi Karhunen and
Helsinki School of Economics

ISSN 1237-556X
ISBN 978-952-488-122-7

E-version:
ISBN 978-952-488-123-4

Helsinki School of Economics -
HSE Print 2007

Acknowledgements

This study is the result of a long expedition aimed at unraveling some parts of the mystery called the post-socialist transition. During this journey, I have received support from a number of individuals and organizations.

First of all, I wish to express my sincere thanks to my supervisors, Professor Asta Salmi at the Faculty of International Business of the Helsinki School of Economics (HSE) and Professor Riitta Kosonen at the HSE Center for Markets in Transition (CEMAT) for their encouragement and support. In addition to thanking Riitta for her professional guidance, I want to express my gratitude to her as the director of the CEMAT, which provided me the infrastructure and also financial support needed to complete the thesis.

It has been a great privilege to have Professor Tuija Mainela from the University of Oulu and Professor Paul Ingram from the Columbia Business School as the pre-examiners for my dissertation. I am grateful for their constructive comments on the manuscript, which helped me to improve its final version and gave me a good deal of self-confidence.

At CEMAT, where I worked most of the time in the years I was writing the thesis, I thank Piia Heliste who shared with me both the occasional frustration and joyful moments which are an integral part of the life of a doctoral student, for her support. I also thank my former colleague Natalia Väänänen for her assistance in organizing the data collection for the thesis. Moreover, I thank Dr. Inkeri Hirvensalo, the former director of CEMAT, for her encouragement to take the path towards a PhD in international business.

My special thanks go to Dr. Svetlana Ivanova and her team at the Center for Comparative Social Research (CESSI) in St. Petersburg for their invaluable assistance in the collection of interview data for my study. Also, I express my deep gratitude to all interviewees of the study, who provided me with insightful and extremely valuable information on the object of my study. I am thankful to Grigori Dudarev, the CEO of Solid Invest Group, St.

Petersburg, who commented on the empirical part of my thesis and to Mr. Simo Leppänen at CEMAT for commenting on the macro-economic part of the manuscript. I am in deep gratitude to Dr. Joan Löfgren, who improved the language and logic of argumentation of the thesis.

There are persons who have provided me intellectual support and encouragement during my research. Among them, I wish to thank Professor Kristian Möller at the HSE Department of Marketing and Professor Kjell Grønhaug at the Norwegian School of Economics and Business Administration, whose excellent PhD course “Managing the Doctoral Thesis” was a source of great advice and inspiration for me at the early stage of my research. I also thank Professor Klaus Meyer at the Reading Business School for his excellent editorial comments on an article manuscript, the writing of which greatly advanced my thesis as well. Moreover, I thank Dr. Modestas Gelbuda at the London School of Economics and Prof. Olav Jull Sorensen at Aalborg University for their encouragement to go on publishing as a PhD student.

For financial support, I wish to thank CEMAT and the following foundations: Helsingin kauppakorkeakoulun tukisäätiö, Paulon Säätiö, Jenny ja Antti Wihurin Rahasto and Suomen Kulttuurirahasto.

Finally, I thank my family for their encouragement. I express my gratitude to my partner Yura for his great flexibility and for our fascinating discussions on real life in the Soviet Union and Russia. I am grateful to our son Kristo for growing from a wonderfully patient baby to real sunshine in our life. I also thank my mother Hilikka and brother Jarkko for their continuing support for and interest in my academic efforts. I am grateful to Jarkko also for being the reliable IT support person at my home office.

Helsinki, March 24, 2007

Päivi Karhunen

Abstract

This dissertation examines the ways in which the transition from command to market economy affects institutional isomorphic pressures towards strategic and structural homogeneity within an organizational field, and how different types of enterprises respond to these pressures. The study develops a conceptual model, which allows examining institutional processes at different levels of analysis. The national-level institutional context is conceptualised as consisting of formal and informal constraints, which provide the institutional framework in which organizational fields are embedded. Field-level processes are examined by analysing the sources and strength of coercive, mimetic and normative isomorphic pressures. Strategic responses of enterprises to these pressures are analysed along a continuum from passive acquiescence to active resistance. Background factors, such as the duality of institutional pressures faced by MNE subunits, are investigated as factors accounting for potential variety in strategic responses between domestic and foreign enterprises.

The conceptual model is empirically applied in a processual case study of the hotel industry in the Russian city of St. Petersburg. The primary empirical data includes semi-structured interviews with 27 top managers of former state-owned hotels, foreign-managed properties, and new Russian-managed hotels. In addition, a database of documentary evidence consisting of more than 200 articles in the mass media, and industry reports is used to support the primary data. The empirical data allows distinguishing three time periods (central planning until 1991, the early transition 1991-1998 and the late transition 1998-2005), which differ in the nature of the national-level institutional context and consequently in field- and enterprise-level processes.

The key findings of the study demonstrate that a radical change in the national-level institutional context affects the nature and strength of institutional isomorphic pressures and enterprise responses to them. During *central planning*, the St. Petersburg (then Leningrad) hotel industry was fairly homogeneous due to the overwhelming pressure from the central

planning system and socialist ideology. In contrast, the *early transition* was characterised by ambiguity of institutional pressures, which resulted in intra-field diversity. The main factor explaining diversity in this period is foreign versus local management. Foreign-managed hotels resorted to their global resources and practices, whereas Russian-managed hotels relied on resources and practices inherited from the socialist period.

During the *late transition* the boundary between foreign and locally managed hotels started to blur. As the market economy gained a stronger foothold in Russia, foreign-managed hotels started to resort to local resources and Russian-managed hotels started to pay increasing attention to factors such as service standards. In addition, the legitimacy of operations appeared as a new factor accounting for diversity. The field consisted of “the legitimates”, which operated transparently with shared industry norms and practices, and “the illegitimates” whose operations were based on the exploitation of loopholes in industry regulation and on the ignorance of industry norms.

The study advances the institutional perspective of business strategies in transition economies by showing how enterprise strategies vary as transition proceeds and which factors account for strategic and structural diversity. In addition, it contributes to institutional theory in organizational analysis by demonstrating the key role that a change in the national-level institutional context plays in field-level processes. The dissertation also has practical implications as it furthers our understanding of the challenges of the Russian business environment and ways in which enterprises cope with them.

Keywords: Institutional change, Russia, organizational field, strategic responses, hotel industry

Table of Contents

1	Introduction	1
1.1	Background and purpose of the study	2
1.2	The research problem and objectives of the study	7
1.3	Research approach and theoretical positioning of the study	8
1.3.1	Post-socialist transition as institutional change	8
1.3.2	The new institutionalism in economics and organizational analysis	11
1.4	The position of the study in international business and management research	16
1.5	Outline of the study	19
2	Theoretical framework for the study	21
2.1	Institutionalism as a theoretical approach	21
2.2	Analyzing macro-level institutional contexts: Formal and informal constraints	25
2.3	Formal and informal institutions in transition economies	28
2.4	Empirical research gap	37
2.5	Examining industry-level institutional processes: organizational fields and strategic responses	38
2.5.1	Explaining strategic and structural homogeneity in organizational fields: institutional isomorphism	41
2.5.2	Strategic responses to institutional pressures	48
2.6	Theoretical research gap	58
2.7	Investigating business strategies in the St. Petersburg hotel industry	60
2.8	Summary: Conceptual framework for the empirical analysis	61
3	Research methodology	67
3.1	Research strategy: Processual research	67
3.2	Methods for collecting and analyzing the data	70
3.3	Primary data	72
3.4	Secondary data	81
3.5	Evaluating the research design	84
4	Macro-level institutional change in Russia: From central planning towards a market economy	87
4.1	The Soviet institutional framework until 1990	88
4.1.1	Formal institutions: central planning regime and bureaucratic control	88
4.1.2	Informal institutions: networks and personal relations	92
4.2	Institutional framework in the early transition: between plan and market	95
4.2.1	Formal institutions: shock without therapy?	96
4.2.2	Informal institutions: clinging to past practices	102
4.3	Institutional framework in the late transition: market economy gains a foothold	106
4.3.1	Formal institutions: stabilization and strengthening of market institutions	108
4.3.2	Informal institutions: towards market-based practices	110
4.4	Summary: Macro-level institutional change in Russia	111
5	Field-level institutional processes in the St. Petersburg hotel industry	115
5.1	Basic characteristics of the St. Petersburg hotel industry	115

5.2	The development in institutional isomorphic forces in the St. Petersburg hotel industry	123
5.2.1	The Soviet hotel industry: an “iron cage” constructed by the regime?	124
5.2.2	The hotel industry during the early transition: from iron cage to jungle.....	131
5.2.3	Hotel industry during late transition: the jungle gets more order.....	139
5.2.4	Summary: Institutional isomorphic forces from socialism to late transition	148
6	Strategic and structural adaptation of St. Petersburg hotel enterprises.....	151
6.1	Central planning until 1990 – structure and practices imposed by the Plan.....	152
6.1.1	Structure of a Soviet hotel: Planning and supply departments dominate	153
6.1.2	Practices of a Soviet hotel: two parallel “ways of doing things”	154
6.1.3	Summary: structure and practices during central planning	158
6.2	Early transition: 1991-1998	160
6.2.1	Structural changes: exit planning, entry sales and marketing department	160
6.2.2	Practices: the city a major stakeholder	163
6.2.3	Summary: structure and practices during early transition	170
6.3	Late transition 1998-2005	172
6.3.1	Structure: withdrawal of City Hall from hotel industry ownership.....	173
6.3.2	Practices: market exchange stabilizes.....	175
6.3.3	Summary: Structures and practices during late transition	184
7	Identifying field-level institutional processes	187
7.1	Institutional isomorphic pressures from socialism to late transition	187
7.1.1	The socialist period: coercive, mimetic and normative pressures from the state.....	188
7.1.2	Early transition: sources of isomorphic pressures start to diversify	192
7.1.3	Late transition: sources of isomorphic pressures gradually established.....	195
7.1.4	Summary: the changing nature of the field-level institutional context	199
7.2	Changing enterprise responses to institutional pressures	201
7.2.1	Strategic responses during state socialism: formal and informal responses.....	202
7.2.2	Strategic responses under early transition: enterprise strategic action enabled...204	
7.2.3	Strategic responses during late transition: convergence between “us and them”	207
7.2.4	Summary: from imposed acquiescence towards voluntary acquiescence	212
7.3	Evaluating the Conceptual Framework of the Study.....	214
8	Summary and conclusions	222
8.1	Summary of the study	222
8.2	Evaluation of the research contribution.....	225
8.3	Conclusions	230
8.3.1	Field-level processes and enterprise adaptation during economic transition	231
8.3.2	Managerial implications	234
8.3.3	Future research	235
	References	237

List of Figures

Figure 1: A continuum of strategic responses to institutional pressures	49
Figure 2: Conceptual model for the study	64
Figure 3: Size distribution of hotel enterprises included in the study	76
Figure 4: Category distribution of hotel enterprises included in the study	76
Figure 5: Age distribution of the hotel enterprises included in the study	77
Figure 6: Foreign visitors in the Northwest border district and St. Petersburg (1995-2004)	118
Figure 7: Number of nights in St. Petersburg hotels (1995, 2000-2003; in thousands)	119
Figure 8: Average occupancy rate in St. Petersburg hotels 1997-2005 (%)	120
Figure 9: Leningrad hotel industry during central planning	215
Figure 10: St. Petersburg hotel industry during the early transition	217
Figure 11: St. Petersburg hotel industry during the late transition	219
Figure 12: Structure of the St. Petersburg hotel industry during the late transition	220

List of Tables

Table 1: Main elements of an institutional framework	26
Table 2: Institutional frameworks in transition economies	29
Table 3: Mechanisms of institutional isomorphic change	43
Table 4: Predictors of high likelihood of isomorphic change	45
Table 5: Antecedents of strategic responses	52
Table 6: Ownership and operation mode of the hotel enterprises included in the study	77
Table 7: Industry experience of the interviewees in the study, number of persons	79
Table 8: Main documentary data sources	81
Table 9: Classification of the documentary evidence	83
Table 10: St. Petersburg hotel capacity by category (2003)	116
Table 11: Main sources of institutional isomorphic change in the hotel industry	123
Table 12: Main sources of institutional isomorphic change in the Leningrad hotel industry	130
Table 13: Main sources of institutional isomorphic change in the St. Petersburg hotel industry during the early transition	138
Table 14: Main sources of institutional isomorphic change in the St. Petersburg hotel industry during late transition	147
Table 15: Elements of strategic and structural adaptation of St. Petersburg hotel enterprises	151
Table 16: Elements of strategic and structural adaptation of Leningrad hotel enterprises	159
Table 17: Elements of strategic and structural adaptation of St. Petersburg hotel enterprises during early transition	171
Table 18: Elements of strategic and structural adaptation of St. Petersburg hotel enterprises during late transition	184
Table 19: Change in isomorphic pressures from socialism to the late transition	188
Table 20: Strategic responses of hotel enterprises to institutional pressures from socialism to late transition	202

Annexes

- Annex 1: Interview manual
- Annex 2: Profiles of interviewees

1 Introduction

The market reforms that started to sweep through the Soviet Union and the socialist countries of Central and Eastern Europe (CEE) in the late 1980s evoked great interest in Western enterprises, many of which rushed to these transition economies¹ with the hope of exploiting the business opportunities of the formerly closed markets. In the early euphoria of the economic reforms of the early 1990s many expected that the transition from command to market economy would take place at a rapid pace. In addition to the implementation of market reforms on the level of the national economy, the introduction of Western management models and practices into local enterprises was viewed as an integral part of the transition.

However, it was soon realized that despite the rather rapid implementation of macro-economic reforms, the business environment faced by Western enterprises still had many peculiarities. Some of them related to the uniqueness of the transition, whereas others were clearly identified as legacies of the centrally planned economy. Therefore, it became evident that Western management models were not transferable as such, and foreign entrants had to adapt their business strategies. Also, to the surprise of many reformers, local incumbents did not change their behavior as fast as expected but stuck to many practices developed to cope with the socialist system in the transitional period. Moreover, after an initial boom in the foundation of new, private enterprises, new business creation has not been as rapid as expected due to bureaucratic and other obstacles of the institutional framework.

In short, it has become evident that the institutional framework in transition economies has a major impact on enterprise behavior. Thus, to understand the implications of post-socialist change in enterprise strategies, the institutional approach is particularly promising. The potential contribution of the new institutionalism to strategy research comes from its highlighting of the interactive role that institutions play in both constraining and enabling

¹ "Transition economies" include the successor states of the former Soviet Union and the former socialist countries in Central and Eastern Europe (CEE), where state socialism was abandoned for a market economy, but also China and Vietnam, where market reforms are being implemented within the socialist system.

organizational action (Ingram and Silverman, 2002). When applied to strategy research, institutions “directly determine what arrows a firm has in its quiver as it struggles to formulate and implement strategy, and to create competitive advantage” (Ingram and Silverman, 2002: 20). However, institutions should not be viewed only as immutable constraints when making decisions, a firm can cultivate and exploit its ability to successfully manage diverse institutional hazards in its environment (Henisz and Delios, 2002).

In transition economies, the relationship between institutions and business strategies is underlined. Although some years ago it was argued that the preeminence of institutional theory in helping to explain the impacts of transition on enterprise strategies would be limited to the early years of market reforms (Hoskisson et al., 2000), more recent research has shown that institutional theory has become a new dominant theory guiding strategy research in transition economies (Wright et al., 2005; Meyer and Peng, 2005). This study adds to the growing body of research which aims at explaining the linkages between institutional change and enterprise strategies in transition economies by providing an in-depth investigation of the St. Petersburg hotel industry.

1.1 Background and purpose of the study

Enterprise operations in transition economies have generated a substantial number of studies in international business and management research. Both the strategies of foreign entrants and the restructuring of local incumbents have been in the focus of research, and also questions related to entrepreneurship and new business creation have started to receive attention. Theoretical perspectives applied in existing research have varied. Following the classification of a recent literature assessment in the field (Meyer and Peng, 2005), they can be broadly divided into three groups; organizational economics theories, resource-based theories, and institutional theories. This classification is, however, not strict, as many studies have combined various theoretical perspectives by incorporating institutions into other theories (Meyer and Peng, 2005).

Empirically, studies focusing on the operations of *foreign entrants* have firstly addressed the motives and entry strategies of foreign firms in transition economies, including the choice of entry mode and entry negotiations (McCarthy and Puffer, 1997; Morgan and Thorpe, 2001; Meyer, 2001; Bridgewater, 1999; Brouthers and Bamossy, 1997; Peng, 2000a; Karhunen, 2002). Secondly, various elements of the subsequent business strategies such as human resource management (HRM) practices (Fey et al. 1999; Fey and Björkman, 2001; Shekshnia, 1998), and the management of business relationships and networks (Salmi, 1995; Törnroos and Nieminen, 1999; Johanson, 2004) have been examined. Moreover, differences between Western and Russian management culture in general (Puffer et al., 1996; Ralston et al. 1997) and their implications for managerial practices in regard to, for example, knowledge sharing (Hutchings and Michailova, 2004; Michailova and Husted, 2003), learning (Child and Markóczy, 1993) and the implementation of organizational change (Michailova, 2000) have been analyzed.

Business and management research on *local incumbents*, in particular state-owned enterprises (SOEs) and privatized firms (Meyer and Peng, 2005), has been concerned with various management aspects related to the adaptation of these enterprises to emerging market conditions. Among the issues studied has been the performance of privatized enterprises, in particular those with foreign participation (Uhlenbruck and de Castro, 2000) and strategic change (Whitley and Czaban, 1998). Also, transformation of managerial behavior and business culture following the change of the economic system has been the interest of studies addressing issues such as organizational learning (Newman, 2000), the importance of networks in management (Oleinik, 2004; Batjargal, 2003; Michailova and Worm, 2003), partner selection behavior (Wright et al., 2002; Hitt et al., 2004), and the perception of risk among managers (Makhija and Stewart, 2002).

Research on *newly established local firms* in transition economies is a relatively new phenomenon, because entrepreneurship is a relatively new phenomenon in transition economies (Peng, 2001; Wright et al. 2005). Most of the existing literature has focused on the co-development of the institutional context and entrepreneurship in the transitional context. These studies have addressed questions such as the challenges for new business

creation (Kontorovich, 1999), and the impact of the lack of formal market economy institutions (McMillan and Woodruff, 2002) or the ordering of institutional reform (Johnson et al. 2000; Spicer et al. 2000) on the development of entrepreneurship. Managerial values and the business culture of the post-socialist generation of managers have also received some attention (Grachev and Izyumov, 2003; Heliste et al. 2005).

As the brief literature review above indicates, existing studies have often focused on one group of enterprises (foreign entrants, local incumbents, or newly created businesses) at a time. Treating these enterprise groups separately has been justified, as in the early years of economic transition the challenges faced by each of them varied greatly (see, e.g. Peng, 2003). Foreign entrants had to cope with a totally unique host environment, formerly state-owned enterprises had to restructure their operations to meet market conditions, and new businesses had to cope with institutional imperfections for new business creation. However, those studies that have investigated the behavior of the three groups of enterprises in parallel have shown that the linkage of enterprise type and business strategy is not straightforward. For example, foreign entrants may apply practices deriving from the socialist past, whereas there are former state enterprises that have rapidly abandoned them (Kosonen, 2002). On the other hand, it has been proposed that the institutional pressures faced by the three types of enterprises converge as the transition proceeds, which narrows down the gap between their strategic behavior (Peng, 2003). Hence, as the macro-level transition has been now officially completed in most of the transition economies, including the Russian Federation, which was recognized as a market economy by the European Union and the U.S. in 2002, it is timely to compare the strategic behavior of these groups of enterprises in more detail.

The purpose of this study is to explain how enterprises respond to the changing institutional context of post-socialist transition in Russia. In particular, the study is concerned with the ways in which enterprise strategies change as the transition proceeds. It also discusses whether the strategic responses of foreign entrants, former state enterprises, and newly created businesses converge or diverge over time.

As enterprise strategies and structures are often industry- or-sector specific (Child and Smith, 1987), this study investigates the strategic adaptation of enterprises within an *organizational field*². In doing that, the study joins the research domain of institutional organization theory, where an organizational field is a key unit of analysis when analyzing organizational behavior, and its linkages to the institutional context. In particular, the study applies here concepts of new institutionalism in organization theory, rooted in sociology. It thereby aims at contributing to this theory by applying its concepts to a unique institutional context of post-socialist transition.

The hotel industry as an object of inquiry

To empirically address the research problem, this study uses the hotel industry of the Russian city of St. Petersburg as an empirical case of an organizational field. The selection of the concrete case to be examined was guided both by the theoretical approach, and empirical preferences. In theoretical terms, the hotel industry has features which make it an interesting object of inquiry for institutional theorists. First, in structural terms it is characterized by a division into chain-based and independent operations. Second, the dominant operation mode in the industry, by management contract, implies that carrying out a hotel business often involves two independent partners (a management company and a property owner), which adds complexity to the organizational set-up. Therefore, it is not surprising that there are a number of existing contributions analyzing the hotel industry from an institutional perspective (Lant and Baum, 1995; Ingram and Inman, 1996; Ingram and Baum, 1997; Baum and Ingram, 1998; Ingram and Roberts, 2000). These studies, empirically focusing on developed market economies, provide a background against which the institutional nature of the St. Petersburg hotel industry can be mirrored.

To empirically address the research phenomenon, it was decided to limit the boundaries of the case both in functional and geographic terms. The St. Petersburg hotel industry was defined as consisting of the “production system” of hotel services (i.e. the hotel enterprises

² The concept of organizational field² builds on the more conventional concept of “industry”, but adds to the focal population of organizations operating in the same domain those other organizations that critically influence their performance (Scott, 1995: 56).

at its core, surrounded by their suppliers, customers and supporting services), and the actors in its institutional environment, in particular the federal and city authorities regulating the industry. The reason to geographically limit the analysis to St. Petersburg arose from the strong regionalization of the Russian economy. It has been argued that there is no Russian hotel market, but just the markets of Moscow and St. Petersburg. Moreover, in the Soviet planning system administration and control were implemented by regional departments of the central organs. Therefore, it was relatively easy to isolate the case.

From the viewpoint of business and management research in transition economies, the reasons for selecting the hotel industry as the object of inquiry were manifold. First of all, the changing nature of the hotel industry from a “non-productive” part of the Soviet economy into an industry with a strategic significance for the St. Petersburg local economy well illustrates the importance of services in economic transition. Nevertheless, in research on post-socialism, service industries have received scant attention, as the main body of the existing research has addressed manufacturing operations. Due to the relative backwardness of the service tradition in transition economies (e.g. Kostecki and Fehérváry, 1996), post-socialist organizational change on the enterprise level can be expected to be particularly profound. In particular, foreign entrants face a major challenge to establish hotel operations meeting global service standards. This has been empirically illustrated in studies focusing on human resource management in foreign-managed hotels in transition economies (Upchurch et al., 2000; D’Annunzio-Green, 2002; Hasselman, 1998; Cerviño and Bonache, 2005; Zhang Qiu and Wu, 2004). However, research on other parts of business strategies of foreign hoteliers and the behavior of locally managed hotels in transition economies is scant³. Finally, the selection of the empirical case can be justified by my prior experience in the hotel industry from a practitioner’s viewpoint. My B.Sc. degree in hotel and restaurant management and working experience in the hotel, restaurant and tourism sector provided the necessary background information on the industry logics and helped me to focus on aspects relevant to the empirical setup.

³ An early contribution in this field is Taylor’s (1994) case study on strategic planning in a former state-owned hotel in St. Petersburg.

1.2 The research problem and objectives of the study

The key *research problem* to be addressed in this study is formulated as follows:

How do enterprises respond to the change in the institutional context from centrally planned to market economy?

Consequently, three more specific *research questions* are put forward in the study:

1. *How does the progress in the transition from centrally-planned to market economy affect the isomorphic pressures towards strategic and structural homogeneity faced by enterprises?*
2. *How do enterprises respond strategically in order to cope with these pressures, and how and why such responses vary over time?*
3. *Do the strategic responses of foreign entrants, local incumbents and new start-ups converge as the transition proceeds?*

Consequently, the study has both empirical and theoretical objectives. In empirical terms, it aims at contributing to the knowledge on *how the institutional change from centrally-planned to market economy is reflected in enterprise strategies*. This objective is approached empirically by studying the strategies of foreign- and locally managed hotel enterprises in the Russian city of St. Petersburg from the late Soviet period until 2005. To structure the analysis and describe progress in the transition process, the time span investigated is divided into three subsequent periods: the Soviet period (until 1990), the early transition (1991-1997), and the late transition (1998-2005). Hence, the *national-level institutional context* is that of the Soviet Union / the Russian Federation. The key elements of formal and informal institutional constraints, and changes in them between the three periods under investigation, are illustrated. Moreover, this macro-level institutional change from a centrally planned economy to a market economy is viewed as a framework in which the *field- and organization-level institutional processes* in the hotel industry are examined. Hence, the study aims at empirically contributing to the knowledge on enterprise adaptation in post-socialism.

The theoretical objectives of the study are, first, to advance the institutional perspective of business strategy in transition economies. This is done by *introducing the organizational field as an intermediate unit of analysis linking macro- and enterprise-level processes and explaining the diversity of strategic responses among foreign and local enterprises*. Second, the study aims at *exploring the applicability of key concepts of the new institutionalism in organizational analysis (such as institutional isomorphism and institutional duality) in the unique institutional context of post-socialism, and making suggestions as to how to use them in further research*. This is done by constructing a conceptual model and applying it to the empirical analysis.

1.3 Research approach and theoretical positioning of the study

The study builds on new institutionalism when examining enterprise adaptation in post-socialism. It thereby joins the institutional perspective on business strategies in transition economies (Peng, 2000a, 2002, 2003; Peng and Heath, 1996), which builds on the new institutionalism in economics and organizational analysis. By emphasizing the different speeds at which formal and informal institutions change, this perspective represents the so-called transformation tradition in post-socialist research.

1.3.1 Post-socialist transition as institutional change

The total transformation that took place in Russia and the former socialist countries of Central and Eastern Europe was unique in world history, both in terms of its peaceful nature and its speed (Kornai, 2006). Owing to the uniqueness and magnitude of the change, scholars and policy-makers did not have existing templates indicating how the change process should be implemented and what would be the outcomes of the different strategies. Analyzed from the institutional perspective (North, 1990), i.e. addressing the change in formal and informal institutions, there were basically two options based on different logics. The first, so-called *transition* view, sees the complete collapse of the economic structures

of state socialism as a mitigating condition that clears the way for the institutionalization of capitalist relations and Western-type free markets (Sachs, 1990; Peck and Richardson, 1992; Blanchard et al., 1994). The approach embodies the belief that economic science will devise a model for the expeditious design of the new system and fill the void left by defunct centralized structures (Dobrev, 1999). According to this perspective, the system of market-based exchange is to be built from scratch after the crumbling of the old methods of production and distribution. It was assumed that once the formal market economy institutions were in place, respective changes in enterprise behavior would follow. In policy terms, this approach was called “shock therapy” and it was implemented, for example, in Russia.

An alternative view of change can be labeled the *transformation* approach, which emphasizes the importance of the informal institutions of state socialism and their persistence in the post-socialist period (Stark and Nee, 1989; Stark, 1996, 1992; North, 1994). This approach maintains that although macro-level market economy institutions can be introduced rather quickly, a respective change in the behavior of economic agents such as enterprises takes more time. Moreover, as the capitalist blueprints are based on century-long natural economic development, they are not transferable as such to transition economies (North, 1994). The transformation approach directs attention to the persistence of informal practices rooted in state socialism (such as social networks) as a primary mechanism regulating economic exchange during economic transition. Moreover, in addition to stressing the path-dependent⁴ nature of institutional change, the transformation view maintains that post-socialist change is also a path-shaping process where new trajectories are possible (Nielsen, Jessop and Hausner, 1995). In other words, post-socialist change may result in a market economy different from the archetypal Western models.

In policy terms, such a gradualist approach called for a more controlled change in formal institutions leaving time for informal institutions to follow. The market reforms implemented in China without abandoning the socialist system are an example of such a gradualist approach. Although evaluating the success of the alternative policies (shock

⁴ Path-dependence entails that the consequence of small events and chance circumstances can determine solutions that, once they prevail, lead one to a particular path (North, 1990: 94).

therapy versus gradualism) in transition economies is beyond the scope of this study, some remarks giving support to the transformation view can be made. In countries such as Russia where a shock therapy policy was applied, the initial results of economic reforms were not as positive as expected but rather a “shock without therapy” occurred. It took several years for economic growth in Russia to gather speed after the introduction of market reforms. Moreover, the rapid introduction of market economy institutions was not followed by respective changes in the behavior of economic agents, but enterprises clung to the informal practices of the socialist past instead. For example, exchange based on networks dominated over that based on markets in particular in the early years of transition.

This study takes the transformation approach to post-socialist change, maintaining that change is an evolutionary process with no predetermined outcome rather than a teleological one-way transition from one end state to another. In theoretical terms, the transformation approach can be divided into sub-groups, each of which views post-socialist change from a different perspective (Kosonen, 2002). Researchers in disciplines such as socio-economic geography and political studies have aimed at theorizing post-socialist change by focusing on class relations, institutional regulation and accumulation, or evolution and the socio-economic embeddedness of economic life (Kosonen, 2002: 5). Some business and management researchers have also taken a standpoint in the discourse on the nature of post-socialist change⁵ but the main focus has been on the implications of macro-level institutional change on enterprise and managerial behavior, and business strategies. Nevertheless, underlying assumptions regarding the nature of the change can be traced on the basis of the theoretical perspectives applied and empirical problems addressed. A move from the transition towards the transformation view can be seen, as in the early 1990s many researchers were interested in how Western management models could be transferred to transition economies. Consistently with the transition view, it was assumed that local managers and enterprises would adopt Western market-economy practices and models relatively quickly. Later on, the uniqueness of the institutional context in transition economies was acknowledged and its implications for business strategies became the focus of increasing attention. The influence of informal institutions of the socialist period on

⁵ For example, Salmi (1995) takes the transformation view of post-socialist change.

managerial and enterprise behavior, and the limitations posed by the transitional institutional context on foreign entrants' strategies, gained increasing research attention.

1.3.2 The new institutionalism in economics and organizational analysis

The theoretical framework applied in this study is based on the new institutionalism, in particular as applied in organizational analysis (DiMaggio and Powell, 1983; 1991) and economics (North, 1990). Institutionalism purportedly represents a distinctive approach to the study of social, economic, and political phenomena (DiMaggio and Powell, 1991: 1). Consequently, there are several new institutionalisms representing economics, organization theory, political science and public choice, history, and sociology. These approaches share the opinion that “institutions matter” but also diverge along disciplinary lines starting from the very definition of *institution*. (DiMaggio and Powell, 1991) In particular, economics and sociology have been viewed as opposing each other. For example, organization scholars have traditionally treated transaction cost theory (rooted in new institutional economics) and the sociology-based institutional theory applied in organizational analysis as two contradictory perspectives and started to examine possibilities to integrate them only recently (see, for example Martinez and Dacin, 1999; Roberts and Greenwood, 1997). A detailed analysis and comparison of the different institutionalisms and their interrelationships is beyond the scope of this study. Rather, it supports the view that when applied to the analysis of business strategies, the various approaches potentially complement rather than contradict each other (Scott, 1995; Peng 2002; Meyer and Peng, 2005). Consequently, the theoretical framework combines elements of two strands of the new institutionalism: in economics (in particular the work of the economic historian Douglass North) and in organizational analysis building on the sociological stream of the new institutionalism (Meyer and Rowan, 1977; DiMaggio and Powell, 1983; 1991).

North's theory of institutions: rules of the game in a society

For this study, the new institutional economics provides a conceptual framework to analyze the macro-economic institutional change from socialism to market economy in Russia, which provides the context in which the industry- and organization-level changes are embedded. To conceptualize the institutional framework, the definition of institutions as “the rules of the game” in a society (North, 1989, 1990, 1994, 1997, 2006) is applied. These rules are both formal (laws and regulations) and informal (customs, norms and culture) and they provide constraints within which actors pursue their own interests. The relationship between formal rules and informal constraints is complex. Formal rules can complement and increase the effectiveness of informal constraints. They also may be enacted to modify, revise, or replace informal constraints.

North was interested in how institutional change occurs, and his central notion was that formal and informal rules change at different speeds. Although formal rules can be changed overnight, informal constraints do not change as rapidly since they had evolved gradually as extensions of previous formal rules. This creates an ongoing tension between informal constraints and the new formal rules, as many are inconsistent with each other. This study is interested in this potential for discrepancy between formal and informal rules, associated with the institutional change taking place in Russia. Thus, North's theory on institutions provides concepts with which to analyze the change in the macro-economic institutional context in Russia.

The new institutionalism in organizational analysis: tracking field- and organization-level processes

The research problem of this study comprises multiple levels of analysis, ranging from macro to industry and enterprise levels. To investigate the two latter levels, the theoretical framework of the study adopts concepts and ideas of the “sociology-flavored” (DiMaggio and Powell 1991: 11) new institutionalism in organizational analysis. The new institutionalism in organization theory focuses on organizational structures and processes

that are industry-wide, or are national or international in scope. The concept of organizational field was introduced to demonstrate the interdependence between organizations of a certain domain, and institutional constituents, which have an impact on their behavior. One of the key theoretical assumptions of the new institutionalism in organizational analysis is that organizations in a field become increasingly homogeneous over time. This process is referred to as institutional *isomorphism*, and it has various sources such as the state, professional associations and inter-organizational imitation. It is expected that organizations seek legitimacy within their environment, which explains that even inefficient organizational forms and practices may persist over time. In other words, the institutional context provides organizations with “templates for organizing” (DiMaggio and Powell, 1991: 27), which are largely field-specific. These templates are transmitted to organizations within the field by the state, professional associations, regulatory agencies and leading organizations (Tolbert 1985; Greenwood and Hinings 1996). An important notion is that organizational fields vary in their structure and thereby in the strength of institutional pressures exerted within them. *This study views the St. Petersburg hotel industry as an organizational field in transition, i.e. where institutional pressures are in flux due to the radical change in the macro-level institutional context.*

However, although the new institutionalism in organizational analysis is interested in homogeneity and the persistence of organizational forms and practices, it has also increasingly started to acknowledge the role of organizations as active agencies. To examine how enterprises respond to pressures towards homogenization, this study builds on the work of Christine Oliver (1991) who elaborated an array of organizational responses to institutional processes, varying from passive acquiescence to proactive manipulation. Oliver (1991) also linked the likelihood of different organizational responses to the nature of the institutional context and institutional pressures. Therefore, her ideas are complementary to views focusing on field-level dynamics, i.e. the institutional context varies between organizational fields, resulting in different responses.

However, empirical research has shown that strategic responses may vary also *within* an organizational field due to, for example, organizational characteristics such as ownership

(Goodrick and Salancik, 1996; Kostova and Roth, 2002). *This study examines organizational responses and their intra-field divergence or convergence in terms of the operational strategies of enterprises having different characteristics.* Here, foreign ownership and/or a foreign enterprise's managerial participation are viewed as potential sources of variation due to the duality of institutional pressures (Rosenzweig and Singh, 1991) that subunits of multinational enterprises (MNEs) operating in multiple institutional environments face. Hence, MNE subunits are pulled to achieve isomorphism with the local institutional environment, but also face an imperative for consistency within the organizational practices of the MNE. (Rosenzweig and Singh, 1991; Westney, 1993; Kostova, 1996) Consequently, their strategic responses are likely to differ from those of local enterprises confronting only one set of institutional pressures (i.e. those from the local environment).

The analytical gap: how does a change in national-level institutional context manifest in sector- and enterprise-level processes?

Institutional processes within organizational fields have been the focus of numerous theoretical and empirical contributions. However, existing literature has usually taken the national-level institutional context as given, and relatively stable. What is lacking is analysis of how a change in the national-level institutional context affects field-level processes, such as sources of isomorphic pressures, and organizational responses to them. Moreover, existing research on the effect of institutions on enterprise strategies in post-socialism has paid little attention to field-level processes. This study views these analytical gaps as complementing each other, and aims to tackle them.

Key concepts of the study

The study applies a number of concepts of institutional theory, the most significant of which are the following.

Due to multiple levels of analysis being included in the study, *institutions* are understood broadly as “cognitive, normative, and regulative structures and activities that provide stability and meaning to social behavior” (Scott, 1995: 33). Institutions operate at multiple levels of a society, of which three are of interest for this study.

On the **macro-level**, the *institutional framework* of a nation (i.e. Soviet Union/Russia) consists of *formal and informal constraints* that provide the “rules of the game” for economic actors. The formal constraints are of a written nature (e.g. legislation) and informal constraints unwritten (e.g. norms and codes of conduct).

The macro-level institutional framework provides the context in which **industry-level** (the hotel industry) structures and activities are embedded. In this study, the concept of an *organizational field* is applied to study institutions on the industry-level. The organizational field builds on the traditional concept of an industry, but encompasses also *institutional constituents* (i.e. structures and actors) that are sources of *institutional pressures* towards strategic and structural homogeneity among the industry’s enterprises. This process of homogenization is referred to as *institutional isomorphism*.

On the **enterprise level**, institutions are approached by analyzing the *strategic responses* of hotel enterprises towards isomorphic pressures. These responses are empirically investigated by studying the *operational strategies* of hotel enterprises in relation to various stakeholder groups.

Consequently, *institutional change*, which is of interest for this study, occurs in all three of the levels referred to above. On the macro-level it means a change in the institutional framework from central planning to market economy. On the level of an organizational field, this implies that both institutional constituents and the nature of institutional pressures change accordingly. Consequently, strategic responses of enterprises to the new set of pressures change.

1.4 The position of the study in international business and management research

Institutions and their impact on enterprise strategies have been neglected in much of international business and management research until recently (Ingram and Silverman, 2002; Meyer and Peng, 2005). This is by and large due to the fact that the mainstream theoretical approaches of the discipline have been developed in mature market economies, and model firms and markets, independently of environmental peculiarities. Both formal and informal elements of the institutional framework have thus been taken for granted by many international business and management researchers. (Meyer and Peng, 2005) However, in the 1990s scholars in international business and management research started to pay increasing attention to the importance of institutions in firm strategy (Westney, 1993; Ingram and Silverman, 2002). The institutional perspective was applied to explain, for example, foreign entry-mode choice (Brouthers, 2002; Yiu and Makino, 2002) or the adoption of a multinational enterprise's organizational practices by its subsidiaries (Kostova and Roth, 2002). One very important reason for the rise of interest in institutions was the institutional change that was taking place in transition economies, which brought researchers focusing on them to the forefront in the development of institutional theory in international business and management research. (Meyer and Peng, 2005)

In the field of international business and management studies, this study joins the research stream that aims at explaining enterprise adaptation in post-socialism from an institutional perspective. A key aim in this body of research is to depict the mechanisms whereby the institutional context affects enterprise strategies. To achieve this, existing studies have often incorporated institutions into other theoretical approaches such as theories on the growth of the firm (Peng and Heath, 1996), the network approach (Salmi, 1995), transaction cost economics (Bevan et al., 2004, Meyer, 2001), organizational change and organizational learning (Newman 2000) and the theory of local economic governance (Kosonen, 2002). This research has identified a number of institutionally derived forces (Meyer and Peng, 2005). Institutions affect business strategies in a post-socialist environment through increasing transaction costs (Meyer 2001) and increasingly important relational networks (Peng and Heath 1996). Moreover, the importance of informal

institutions as a means of coping with the turbulent post-socialist environment has been recognized (Kosonen, 2002; Salmi 1995).

Notwithstanding the growing body of institutionally derived business and management research on transition economies, there remain issues calling for more attention. First, research on business strategies and enterprise adaptation in the post-socialist institutional context has often empirically focused on either foreign entrants, local incumbents or new start-ups, whereas the comparison of strategies and practices of these types of enterprises has received less attention. Moreover, the findings of such comparative studies are not unanimous. Peng (2000a, 2003) theorized that in the early phase of transition, institutional pressures faced by the three types of enterprises would differ considerably and result in strategic diversity. In particular, local incumbents would be more inclined to apply practices rooted in the previous economic system than foreign entrants and new start-ups. However, as the transition proceeds, both institutional pressures and enterprises' strategic responses to them would gradually converge, as those enterprises that fail to strategically adapt to market conditions would not survive. In contrast, Kosonen (2002) empirically showed that the picture is more complex. First, especially in the early years of transition, also foreign entrants resort to practices inherited from the previous system in order to cope with the turbulent business environment. Over time such practices may become established parts of their business strategies in transition economies. Second, local incumbents may sometimes be more market-economy oriented in their business strategies than their foreign counterparts. This is the case, for example, in those sectors of the economy that started to develop only after the collapse of the central planning. In short, the question of diversity in and potential convergence of the strategies of foreign entrants, local incumbents and new start-ups calls for additional research.

Another gap in the existing research concerns the persistence of strategies and practices of foreign enterprises in transition economies over time. Many of the studies investigating the interplay between the institutional context and foreign business strategies in transition economies have taken a "snapshot" view by illustrating specific situations in a specific time period. However, due to the progress in the transition, some actions taken to cope with the

chaotic business environment of the early 1990s may no longer be valid, whereas others may have become established practices. Moreover, as main macro-level reforms such as privatization of state enterprises have been largely completed, the institutional context that foreign entrants face has changed. For example, local governments as negotiation partners in joint ventures and acquisitions are increasingly replaced with *de novo* private enterprises or privatized and subsequently restructured former state enterprises.

In short, this study seeks to contribute to the development of an institutional perspective on business strategies in transition economies by examining the interplay between macro- and sector-level institutional forces and firm strategies. In addition, it addresses the question of whether the strategies of foreign entrants, local incumbents and new start-ups converge or diverge over time. From the viewpoint of international business, it analyzes how the institutional context faced by foreign entrants changes over time and how this change is reflected in foreign enterprise strategies.

The application of concepts of the new institutionalism in organizational analysis in this study positions it also in that research domain. Traditionally, most of the research addressing institutional processes in organizational fields has focused on non-profit sectors. This is by and large due to the conceptual definition of organizational environments as consisting of institutional and technical elements. Many researchers have interpreted this definition as meaning that organizational environments are either institutional or technical, and consequently organizations face either of them. (Orrù et al. 1991) However, according to the original formulation it is a question of dimensions, i.e. all organizational environments contain both institutional and technical aspects (Powell, 1991). The nature and domain of the organization defines to what degree it is subject to each of them. In general, non-profit organizations are more subject to institutional forces and corporations to technical pressures, but not exclusively. As the post-socialist context shows, institutional forces have a profound impact on commercial enterprises as well.

Notwithstanding the dominance of non-profit sectors in the organizational analysis building on new institutionalism, a number of empirical contributions focus on profit sectors,

addressing questions such as the development and diffusion of new practices (Leblebici et al., 1991; Galaskiewicz, 1991; Sherer and Lee, 2002; Delmas and Toffel, 2005), and the diffusion of selected organizational forms (Fligstein, 1991; Lee and Pennings, 2002) and their institutional origins on the national level (Orrù et al., 1991; Peng et al., 2004). *By empirically focusing on the hotel industry, this study joins the line of new institutionalism in organizational analysis which aims at explaining institutional processes in profit sectors and linking institutional elements of the environment with enterprise structures and practices. More specifically, it aims at contributing to this body of research by examining simultaneous change in the institutional environment and organizational change.*

1.5 Outline of the study

After this introductory chapter, the dissertation proceeds as follows.

Chapter 2 presents the theoretical foundations of the study. It discusses the principles of the new institutionalism in general, and its application in this study in particular. Moreover, central theoretical formulations (such as North's theory of institutions) and concepts (such as institutional isomorphism, and strategic responses to institutional processes) are elaborated. In addition, it reviews existing contributions in terms of the impact of institutions on enterprise strategies in transition economies. Based on this account, the chapter summarizes these research contributions and shows gaps in the existing literature. The chapter concludes with a presentation of the conceptual model applied in the empirical analysis.

Chapter 3 presents the methodology applied in the study, and the empirical research design. The research strategy, the methods for collecting and analyzing the empirical data, as well as the quality criteria adopted for the study are discussed.

Chapters 4, 5 and 6 are devoted to the description and analysis of the empirical data, starting from a description of macro-level institutional change focusing on the central

formal and informal institutions in the Soviet and subsequently Russian economy (Chapter 4). Then field-level institutional pressures, i.e. sources and mechanisms for institutional isomorphism, are described (Chapter 5). Finally, strategic enterprise responses to these pressures are illustrated, including a comparison of foreign entrants, local incumbents, and new start-ups (Chapter 6).

Chapter 7 discusses the main findings of the empirical study against the conceptual model of the study. Hence, it analyzes issues such as the nature and strength of isomorphic pressures in different time periods, and divergence versus convergence in the strategic responses of different types of enterprises. The chapter also evaluates the applicability of the conceptual model to the empirical context of post-socialist change.

Chapter 8 summarizes the main results of the study, and draws both empirical and theoretical conclusions on enterprise adaptation in post-socialism.

2 Theoretical framework for the study

This chapter presents the theoretical foundations of the study and constructs a conceptual model to be applied in the empirical analysis. After a brief introduction of institutionalism as a theoretical approach in general and its development in economics and organizational analysis in particular, it moves on to discuss the new institutionalism in these disciplines and its application to this study more in detail. In addition to presenting theoretical concepts, the chapter reviews existing contributions where these concepts have been applied in empirical set-ups. Here, research on enterprise adaptation and business strategies in transition economies from an institutional viewpoint receives particular attention. The chapter concludes with the identification of theoretical and empirical gaps in existing research, and presents the conceptual model to be applied in the empirical analysis.

2.1 Institutionalism as a theoretical approach

Institutionalism as a theoretical approach started to develop in various disciplines of the social sciences already from the late 19th to the mid 20th century (Scott, 1995). Despite the shared interest in institutions, there are as many institutionalisms in the social sciences as there are disciplines — and more (DiMaggio and Powell, 1991). The common denominator for the institutionalism in various disciplines seems to be that “institutions matter”, but there are also various points of divergence starting from the very definition of the concept of institution, to the level of analysis, and to the carriers of institutions. However, the different approaches can be gathered under an umbrella definition of institutions, as consisting of “cognitive, normative, and regulative structures and activities that provide stability and meaning to social behavior” (Scott, 1995:33). Institutionalists vary in the extent to which they focus on one or another of these elements. In general, economists stress regulatory factors; political scientists (like early sociologists), normative factors; and recent sociologists, anthropologists, and cognitive psychologists stress cognitive-cultural factors. Correspondingly, the arguments and assumptions made by each collection of

theorists tend to vary systematically and substantially. Furthermore, they differ in terms of the locus of institutional processes from the level of the specific organization to the level of the wider environment. (Scott, 1998)

This study explores institutional processes and their outcomes on three levels: on the level of a national economy (Russia), of an organizational field (the St. Petersburg hotel industry), and of an organization (hotel enterprises). Therefore, the theoretical framework applied in this study combines views of different streams of institutional analysis. In doing so, it supports the view that the various approaches (the economics and sociological in particular) potentially complement rather than contradict each other (Scott, 1995; Edeling, 1998; Peng 2002, Meyer and Peng, 2005). Such an integrative approach has proved fruitful in existing studies applying institutional ideas to the study of business strategies in transition economies (see, for example Salmi, 1995; Peng and Heath, 1996; Peng, 2000a, 2002, 2003).

From the viewpoint of this study, the development of institutional theory in economics and organizational analysis is of particular interest. The institutional perspective in *economics* started to develop in the beginning of the 20th century as early institutionalists (such as Thorsten Veblen and John Commons), challenged neoclassical economics by questioning some of its core assumptions. The institutionalists did not support the neoclassical assumptions of perfect competition and unique equilibriums, or the determination of preferences on an individual basis. Moreover, institutional theorists criticized the utilitarian assumptions of neoclassical models as naïve, and called for more pragmatic and psychologically realistic models. Finally, institutionalists insisted that economic analysis should take into account historical developments in shaping features of a national economy, instead of making “timeless and placeless” assumptions. (Scott, 1995) In other words, early institutionalists wanted to add a social, psychological and historical dimension to economic analysis. However, the early institutional economics did not completely succeed in challenging the neoclassical economics as a dominant approach, mainly due to its lack of theory to support empirically derived assumptions (Scott, 1995). It was only in the 1970s when the institutional ideas were newly brought to the forefront with the rise of the new

institutional economics (Scott, 1995). New institutional economists operationalized institutional assumptions into theoretical constructs by introducing the concepts of *bounded rationality* and *transaction costs*. These concepts will be discussed more in detail in section 3.2, which focuses on the concepts of the neo-institutional⁶ economics applied in this study.

Institutionalism in *organizational analysis* started to develop only in the 1950s and 1960s, when theorists began to recognize the existence of organizations as special institutional forms. Until then, early institutionalists in the social sciences had focused on analyzing either wider societal systems, or the behavior of individuals in social interaction. The emphasis of “old” institutionalists in organizational analysis was, however, on intra-organizational institutional processes rather than on organizations as parts of wider institutional contexts. In contrast, the new institutionalism, which started to develop in the mid-1970s across the social sciences, brought attention in organization studies to the interface between organizations and their environments.⁷ (Scott, 1995) This development also caused the conceptualization of the environment in organization studies to progress, as institutional environments⁸ were distinguished more and more from technical environments (Scott, 1991). The criteria for distinguishing such environments developed as well.

The early idea that societal sectors are either institutional or technical was modified to acknowledge that it is more useful to treat the distinctions as dimensions along which environments vary rather than as dichotomous states. Hence, there are organizations (such as banks) that are subject to both strong institutional and technical pressures, and organizations (such as health clubs) that face weak institutional and technical pressures. Moreover, some organizations (e.g. schools) face strong institutional but weak technical pressures, whereas manufacturing enterprises are subject to weak institutional but strong technical pressures. (ibid) From the viewpoint of business and management research

⁶ In the literature, the concepts “neo-institutional theory” and “the new institutionalism” are used in parallel.

⁷ For this study, it is the shift in the level of analysis that has the most relevance as a distinction between old and new institutionalisms in organizational analysis. For a detailed discussion of other points of divergence see, for example DiMaggio and Powell (1991), Hirsch and Lounsbury (1997).

⁸ Institutional environments are defined as those characterized by the elaboration of rules and requirements to which individual organizations must conform if they are to receive support and legitimacy. Technical environments, by definition, are those in which a product or service is produced and exchange in a market such that organizations are rewarded for effective and efficient control of their production systems. (Scott and Meyer, 1991: 123)

focusing on commercial enterprises as organizations, this classification is interesting. It suggests that the nature of institutional environments varies across sectors, i.e. enterprises in some sectors would face stronger institutional pressures than in others. As a part of the analysis of the St. Petersburg hotel industry as an organizational field, this study assesses the strength of institutional pressures in this sector.

To address the sectoral variation in organizational environments, new institutionalists in organizational analysis introduced an intermediate level of analysis, linking organization-level processes to wider institutional environments. (Scott 1995) Theoretical concepts introduced to capture phenomena on the interorganizational level included: organizational set, organizational population, interorganizational field, societal sector (Scott and Meyer, 1991), and organizational field, which has been acknowledged as the concept of most significance to institutional theory (Scott, 1995). The concept of an organizational field is one of the key concepts of this study, which encompasses three levels of analysis by linking enterprise, sector and macro-level institutional processes. It will be discussed more in detail in section 2.5.

After this brief introduction of the development of institutional theory in economics and organizational analysis, the rest of the chapter is structured as follows. To start the description of the various elements of the conceptual framework of the study, the following section presents economic historian Douglass North's theory representing new institutional economics, which conceptualizes macro-level formal and informal institutional constraints. The chapter then goes on to describe the conceptual toolkit provided by the new institutionalism in organizational analysis to depict institutional processes on industry and enterprise levels. Finally, it draws together the theoretical foundations of the study into a conceptual framework to be applied in the empirical analysis.

2.2 Analyzing macro-level institutional contexts: Formal and informal constraints

The conceptual definition of national-level institutional environments as consisting of formal and informal constraints was introduced by Douglass North (1989, 1990, 1994). His theoretical foundation is neo-institutional economics, which in broad terms is concerned with the rule and governance systems that develop to regulate or manage economic exchange at all levels of the economy, from the national-level to individual organizations. The new institutionalism in economics questions the traditional neo-classical assumption of individuals as rational actors. The concept of “bounded” (limited) rationality was introduced by Oliver Williamson (1975), as an extension of the work of Ronald Coase (1937). Coase was intrigued by the question why firms exist as governance structures. As an answer, he introduced the other central concept of the new institutional economics: “transaction costs”. This concept refers to the costs associated with using the price mechanism, i.e. the costs of negotiating and concluding a separate contract for each exchange transaction in the market. Williamson for his part worked out two paired conditions explaining the increase in transaction costs and thereby also the existence of the firm as a governance structure. First, transaction costs increase when the individual “bounded” (limited) rationality of individuals is confronted by heightened complexity and uncertainty. Second, the increase occurs when individual opportunism is coupled with the absence of alternative exchange partners. Under such conditions, exchanges are likely to be brought within an organizational framework from the market. In addition to the two basic forms of governance examined by Coase (market vs. hierarchy), Williamson’s arguments stretched to cover also “hybrid” forms such as franchising or alliance forms. (Scott, 1995)

In contrast to the above-mentioned neo-institutional economists whose focus is on firm-level behavior, North (1990) applied the argument of firms and individuals as minimizing transaction costs to demonstrate the role of institutions on the level of a national economy. He suggested that institutions help reduce uncertainty for individuals and organizations as they interact with each other (Peng, 2000a), thereby reducing the costs of economic transactions. To conceptualize an institutional framework of a nation, North defined institutions as “the rules of the game in a society or, more formally, the humanly devised

constraints that shape human interaction” (1990:3). Institutions thereby reduce uncertainty by providing a structure to everyday life as they define and limit the set of choices of individuals. These “rules of the game” comprise an institutional framework, consisting of both formal written rules and typically unwritten codes of conduct [i.e. informal constraints] that underlie and supplement formal rules. (North, 1990) Table 1 summarizes the main formal and informal constraints of an institutional framework.

Table 1: Main elements of an institutional framework

Formal constraints	Political and judicial rules Economic rules Contracts
Informal constraints	Extensions, elaborations, and modifications of formal rules Norms of behavior Values

Source: North (1990)

More specifically, formal rules include political and judicial rules, economic rules, and contracts. The hierarchy of such rules from constitutions to individual contracts defines constraints, from general rules to particular specifications. Informal constraints are 1) extensions, elaborations, and modifications of formal rules, 2) socially sanctioned norms of behavior, and 3) internally enforced standards of conduct [i.e. values]. Informal constraints are to a large extent defined by culture. Therefore, they are often nation-specific. The relationship between formal rules and informal constraints is complex⁹. Although informal constraints supplement and complement formal rules, formal rules can also complement and increase the effectiveness of informal constraints. Formal rules may also be enacted to modify, revise, or replace informal constraints.

⁹ North’s use of terms “rules” and “constraints” linked with formal and informal institutions has not been uniform in all his work, and therefore it is somewhat ambiguous (Hodgson, 2006). However, the application of North’s ideas in transition economies (see, e.g. Peng, 2000a; 2003) has drawn a rather clear distinction between what is meant by formal and informal elements of an institutional framework, which will be applied in this study as well.

A key aspect in North's theory on institutions is how institutional change occurs in general, and how organizations and entrepreneurial individuals (as key decision-makers that introduce ways of thinking in them) are the agents of, and shape the direction of, institutional change in particular. North builds his argument on the maximizing behavior of the firm, which takes the form of making choices within the existing set of constraints or of altering the constraints. Whether a firm decides to act within the existing institutional framework or to devote resources to changing the institutional constraints depends on its subjective perception of the payoffs.

A central difference to the new institutionalism in organizational analysis is that North draws a crucial distinction between institutions and organizations¹⁰, i.e. he does not treat organizations as institutions. For North, organizations (like institutions) provide a structure for human interaction, but organizations develop in consequence of the institutional framework. Both what organizations come into existence and how they evolve are fundamentally influenced by the institutional framework. In turn they influence how the institutional framework evolves, i.e. act as agents of institutional change. In sum, North acknowledges the two-directional interaction between institutional frameworks and organizations. On the one hand, organizations are constrained by institutional frameworks, but also participate in their construction.

A key feature of North's conceptualization of institutional change is the dynamics between formal rules and informal constraints. Informal constraints do not change as rapidly as formal rules (which can in principle be changed overnight by agreement), since they evolve gradually as extensions of previous formal rules. This creates an ongoing tension between informal constraints and the new formal rules, as they are not always consistent with each other.

¹⁰ It should be noted that North draws this distinction to serve his practical purpose: to examine the macro aspects of institutional change. He agrees that for other purposes one can consider organizations as institutions. (Hodgson, 2006: 19)

2.3 Formal and informal institutions in transition economies

In North's terminology, the transition from command to market economy represents discontinuous change. North makes a distinction between incremental and radical, discontinuous change in a nation's institutional framework. He states that in most cases the nature of the change is the former, consisting of marginal adjustments in the complex of rules, norms, and enforcement that constitute the institutional framework. Change is likely to occur when there are issues requiring solution on the margins, and the solution in turn is defined by the relative bargaining power of actors. For example, resourceful firms may affect the polity in order to change the rules. (North, 1990) In such conditions of incremental change, it can be assumed that the gap between formal and informal institutional change are not that large. However, North (1990) acknowledges that institutional change can also be discontinuous, resulting from external shocks such as wars, revolutions, conquest, and natural disasters. By discontinuous change North means a radical change in the formal rules, which is eventually followed by changes in informal constraints. However, in comparison to incremental change, the gap between formal and informal rules seems to be larger and therefore more time is required for informal constraints to adapt to the new formal rules. Hence, "revolutionary change is never as revolutionary as its supporters desire" (North, 1994: 366). This has been shown empirically in transition economies, some of which followed a "shock therapy" approach to reforming the formal institutional framework. The implementation of these reforms has often been incomplete, as informal constraints have not been able to keep pace with changes in formal rules. Hence, economic agents have clung to the informal practices of the previous system. This will be discussed in more detail in the subsequent sections.

Despite North's conceptualization of formal and informal institutions as intertwined, most research in new institutional economics has considered them independent (Zenger et al. 2002). Although some scholars addressing national-level institutional development have recognized the role of informal institutions in defining societal rules (Ensminger, 1997; Greif, 1997), most work in new institutional economics has focused on formal institutions (Zenger et al., 2002). This may in part be due to the difficulties associated with

operationalizing informal institutions as measurable variables. Economics-based research on post-socialist change is hardly an exception as it has mainly focused on the change in the formal institutional framework for economic action.

Whereas economists have focused on describing formal institutional development in transition economies¹¹, business and management research has addressed the relative importance and co-evolution of formal and informal institutions, thereby linking national-level institutional development to firm behavior. In particular, North's distinction has been used to describe and analyze the formal and informal elements of the institutional framework in centrally planned economies, and subsequent changes in them induced by economic transition (Table 2).

Table 2: Institutional frameworks in transition economies

	Before the transition	During the transition
Formal constraints	Central planning regime Bureaucratic control	Lack of credible legal framework Lack of stable political structure Lack of strategic factor markets
Informal constraints	Networks and personalized exchange	Networks and personalized exchange

Source: Peng, 2000a: 47

The main formal institutional constraints of state socialism were the central planning regime, which defined all economic activity, including providing strategic factors of production to enterprises. The implementation and coordination of plans was controlled by extensive state bureaucracy. However, the planning system was not perfect, so informal practices such as networks and personal relations played an important role in complementing the formal rules. As the socialist state ceased to exist and its planning system was dismantled, the former formal institutions such as legislation and political structures were abolished. In addition, enterprises were left in a vacuum as to strategic

¹¹ Due to the focus of this study on firm-level strategies and organizational behavior, such studies are not reviewed here. However, the main features of formal institutional development in Russia, as relevant to the empirical research problem, will be discussed in the empirical part of the study.

production factors when the planning apparatus was dismantled and new market-based institutions did not appear overnight. To cope with this situation, economic actors relied on the previous informal institutional practices of personal relations and networks. However, in the new circumstances such practices were even more important than in the old regime. Given the lack of credible formal institutions, informal institutions not only supplemented but even replaced formal rules. The interplay of formal and informal institutions during socialism and under the transition in Russia will be discussed in more detail in Chapter 4. This section will conclude with giving an overview of how formal and informal institutions have been dealt with in business and management research on transition economies.

Institutional constraints on business strategies in transition economies

Recent research has identified a number of institutionally derived forces (Meyer and Peng 2005) that affect business strategies in a post-socialist environment through transaction costs (Meyer 2001) or relational networks (Peng and Heath 1996). Such research has aimed at advancing institutional theory by building on evidence of post-socialist transition as a specific empirical context. Another body of research has investigated institutionally derived empirical phenomena, such as the legacies of socialist management culture in local enterprises without explicitly referring to institutional scholars in their theoretical framework. The emphasis on various elements of institutions has varied according to the type of enterprises being studied (foreign entrants, local incumbents or new start-ups). The following literature review describes first research focusing on each of the three types of enterprises and then studies that have taken a holistic view on institutions and business strategies by addressing different types of enterprises simultaneously.

Foreign entrants' strategies

Institutionally derived research on foreign enterprise strategies in transition economies has focused, first, on the institutional constraints on entry strategy set by the institutional framework and second, on the elements of informal institutions in socialist economies such as business culture and their difference vis-à-vis market economy ones. The quality of

formal institutions (and also informal institutions in the case of Russia) has been found as a decisive factor behind foreign enterprises' initial decision whether to enter transition economies at all and which one of them to select (Bevan et al., 2004). Moreover, it has been found that institutional barriers may induce some foreign firms to avoid establishing operations at all in a given location, while others may seek to overcome the barrier by selecting a particular entry mode such as joint venture (Karhunen, 2002; Meyer and Nguyen, 2005).

In addition to the actual decision whether to enter at all, formal and informal elements in the institutional framework in transition economies constrain the choice of entry mode via, for example, increased transaction costs related to wholly owned ventures which direct foreign entrants to prefer other entry modes (Meyer, 2001). Furthermore, institutional change has an impact on the structure and nature of a foreign enterprise's networks (Salmi, 1995). Moreover, the market reforms implemented in the early stages of transition modified the range of available entry modes, some of which involved the state as negotiation partner. This was the case in privatization acquisitions, where the presence of the government as negotiation partner and possible shareholder in the privatized enterprise brought specific challenges to the foreign enterprise and had an often negative impact on the post-acquisition performance (Meyer, 2002; Uhlenbruck and De Castro, 2000). In addition to privatization acquisitions, entry by joint venture implied a visible role of the government as a negotiation partner as potential joint venture partners were often state enterprises. It has been shown that transitional governments as key stakeholders intervene at different stages of the negotiation process and have a great influence on the process (Brouthers and Bamossy, 1997; Peng, 2000b).

In the initial entry stage, the foreign enterprise faces host country institutions in its relations with the environment. After the initial entry stage, however, a foreign enterprise confronts host country institutions and institutional differences within its own organization (Child and Markóczy, 1993; Michailova, 2000; Meyer and Peng, 2005). In particular, informal institutions such as work and managerial culture become crucial. Existing research has often investigated these issues by confronting "Eastern" and "Western" business cultures

on the basis of underlying institutional differences (Meyer and Peng, 2005). Such institutionally-derived differences in managerial culture have been found in, for example, decision-making and perceptions of risk (Makhija and Stewart, 2002), managerial work values (Ralston et al., 1997; Elenkov, 1998), as well as in perceptions, understandings, work patterns and behaviors in East-West organizational settings (Michailova, 2000). In particular, features such as a reluctance to make decisions, information hoarding and the absence of a clear personnel policy have been explained by the characteristics of the socialist system (Child and Markóczy, 1993; Makhija and Stewart, 2002). This study focuses on the institutional constraints exerted on both foreign entry and the subsequent management of operations, and how they have developed in Russia during the 15 years of economic transition. Moreover, although not taking a comparative East-West perspective as such, it aims at identifying differences in the foreign and local ways of managing hotel enterprises. A potential convergence in these ways as the transition proceeds is of particular interest.

Local incumbents' strategies

In addition to foreign business strategies, institutional theory has been applied to analyze strategies of local incumbents (i.e. state-owned enterprises and privatized firms). While the outcomes of privatization and other macro-level institutional reforms for enterprise behavior have been mainly investigated in microeconomics¹², in business and management research the main focus has been on informal institutions, such as business culture and the networking practices applied by enterprises. In general, it has been shown that even radical changes in the institutional context do not necessarily manifest in major changes on the enterprise level. Macro-level institutional reforms had brought hardly any changes, for example, in the products and markets of former state enterprises (Whitley and Czaban, 1998). Also, there is evidence that organizational changes made by state-owned enterprises during the early years of post-socialist transition do not necessarily affect enterprise performance (Spenner et al., 1998; Liuhto, 1999). Wright et al.'s (2002) results further confirmed that old, command economy institutions exert a strong influence on the business decisions of enterprises during the economic transition, which hinders, for example, the

¹² For detailed reviews see, for example Djankov and Murrell, 2002; Wright and Suhomlinova, 2003.

development of links with foreign partners. In addition, it has been shown that differences in institutional frameworks among transition economies result in different strategic behavior. For example, the (in)stability of the institutional framework is reflected in the criteria by which enterprises select alliance partners (Hitt et al., 2004).

Research on networks and the use of personal relations as central informal practices in transition economies has analyzed on the one hand how such practices are used, and on the other hand to what degree they are products of the socialist economy vis-à-vis of national culture. As Kuznetsov and Kuznetsova (2003) pointed out, managerial practices such as the propensity to barter transactions, a low level of investment, labor hoarding and the importance attributed to networks and unorthodox forms of corporate governance are in fact rational reactions to the uncertainty and challenges caused by institutional distortion. Although being “a ticket to failure” in a market economy contradicting its rules and institutions, such practices bring rewards in a transitional environment where market institutions are not properly functioning. (Kuznetsov and Kuznetsova, 2003) Networks are an important means of gaining financing, and also of negotiating favorable contractual terms. Thereby, they have an influence on firm performance. (Batjargal, 2003) In addition to economic exchange between enterprises, networks and personal relations between enterprises and the public sector also have a key role to play in transition economies. Frye (2002) showed that firms influence both the definition and the interpretation of formal institutional rules by lobbying authorities. This is done via personal consultations, but often also by collective action.

There is, however, a general consensus among researchers that the wide use of networks in transition economies cannot be explained by the transitional context only. In Russia, networks are used not only as a means of coping with chaos during transition, but they are also a cultural and historical tradition (Batjargal, 2003; Oleinik, 2004). In addition, it has been argued that due to the dual roots of the use of networks in transition economies they are likely to evolve over time. Also, national culture would in part explain differences between the network practices of different transition economies such as Russia and China. (Michailova and Worm, 2003)

From the viewpoint of the current study, the persistence of business practices rooted in the Soviet economic system in former state hotels is of particular interest. In addition, it will be assessed what kinds of changes the economic transition brought in their business strategies, given the inertia demonstrated in existing research.

Strategies of new start-ups

Entrepreneurship in transition economies is a relatively new phenomenon, and institutional theory has consequently been less applied to new businesses and entrepreneurships than to foreign entrants and local incumbents (Peng, 2001; Wright et al., 2005). Existing research has mainly analyzed the implications of formal and informal institutional frameworks on entrepreneurship and new business creation in transition economies. It has been analyzed, what kinds of institutional reforms would best foster entrepreneurship on the one hand, and how the institutional context in transition economies impedes new business creation and development on the other hand. Spicer et al. (2000) argued that entrepreneurship would be better fostered through gradualist policies permitting negotiated solutions to restructuring, as opposed to radical, market-driven reforms. In addition, it has been illustrated that imperfections in the formal institutional framework do not necessarily impede new business creation (Johnson et al., 2000). In the absence of functioning formal institutions, new entrepreneurs build themselves substitutes for the missing institutions, i.e. mainly rely on informal contacts and networking (McMillan and Woodruff, 2002).

However, informal practices can also form an obstacle to new business growth. In Russia, the creation of an institutional framework that would stimulate entrepreneurship and new business growth has not been very successful, resulting in a stagnation of new business creation. Kontorovich (1999) suggests that the obstacles to new business creation in Russia include not only formal institutional aspects, such as an increased tax and regulatory burden, but also informal factors such as plunder by authorities and incumbents' use of the authorities and/or racketeers to erect barriers to new entrants.

The managerial culture in new start-ups in transition economies has received scant attention so far. A move in this direction was made by Grachev and Izyumov (2003), who identified three models of business culture found in present-day Russia: state-oriented bureaucratic entrepreneurship, black-market-oriented predatory entrepreneurship and global-market-oriented competitive entrepreneurship. They concluded that the bureaucratic and predatory models dominate Russian business culture at present, as these two models of behavior better correspond to the perceived characteristics of the current business environment. Although the model of competitive entrepreneurship is expected to gain a firmer foothold in the future, some features of the currently dominating models such as the reliance on informal networks are likely to continue.

This study addresses new start-ups by analyzing the institutional challenges that they face in business creation and subsequent operations, and the ways of coping with these challenges. In part, it will be compared whether and how they differ from those of local incumbents and foreign entrants.

Towards an institutional view of business strategy in transition economies

In addition to the studies referred to above, which have examined specific aspects of formal and informal institutions and their implications for different types of enterprises, a number of scholars have taken a more holistic approach to depict the co-evolution of institutional frameworks and firm strategies in transition economies. As argued by Peng (2000a), the transitional context calls for an institutional view of business strategy that takes into account the specific challenges faced by different types of enterprises (i.e. foreign entrants, local incumbents and new start-ups) when explaining their behavior. For example, institutional constraints in transition economies do not allow firms to grow by generic expansion or acquisitions as traditionally in the West. Instead, firms apply a network-based strategy of growth, building on personal trust and informal agreements among managers. (Peng and Heath 1996) Moreover, institutions have a crucial role to play in determining the scope of the firm. In transition economies, “high” institutional relatedness (i.e. the organization’s informal linkages with dominant institutions in its environment) (Peng et al.,

2004) and the redistribution and recombination of former state assets blur the boundaries of firms, and also the boundaries between the public and private (Stark, 1996).

An important notion in the theoretical development of an institutional view of business strategy is that the relative importance of various institutional pressures varies not only among types of firms, but also in terms of time (early versus late phase of transition). This leads to various strategic choices. (Peng, 2003) In particular, Peng (2003) proposes that institutional pressures to engage in market-based impersonal exchange instead of network-centered strategies grow stronger as formal market institutions develop. This development eventually pushes also incumbent firms, whose reliance on network-centered strategies was the strongest in the early phase of the transition, to go for market-based strategies.

Such strategic diversity among different types of enterprises was empirically identified by Puffer et al. (2000). They showed how the strategic progress of state-owned enterprises, entrepreneurships, and hybrid organizations that are primarily private with some state ownership varied in Russia throughout the 1990s. They concluded that the progress made during the decade varied among the three types of enterprises, as well as among enterprises within each type. Moreover, major changes in the institutional environment (such as privatization) influenced the types to different degrees, notwithstanding the 1998 financial crisis that made all of them fight for survival. The diversity in business strategies in transition economies was also analyzed by Kosonen (2002), who studied the adaptation of foreign and local enterprises to post-socialism in the Russian border city Vyborg. Building on institutionally based regulation and governance theories, she developed a typology of enterprises based on the extent to which the socialist heritage and market economy thinking can be identified in their stakeholder relations. Of the six types identified, most of the enterprises represented “hybrid” strategies, mixing old and new thinking. Interestingly, her results do not show a straightforward division along enterprise type, i.e. that foreign entrants were exclusively more market-oriented than old state enterprises. Some foreign enterprises in her data were actually characterized as “more socialist than the original Soviet enterprises” (Kosonen, 2002).

2.4 Empirical research gap

The review of existing literature analyzing the role of institutions in shaping business strategies in transition economies shows that the impact of institutions on firm behavior in a post-socialist context has been analyzed from many viewpoints. Scholars have addressed both the change in formal institutions and its implications for firm behavior, and informal institutions specific to transition economies vis-à-vis market-economy ones. Most research has followed the conceptualization of institutions developed in new institutional economics (North), whereas concepts of new institutionalism in organization studies have hardly been applied to the post-socialist context. However, attempts have been made to integrate the ideas of neo-institutional economics and of the new institutionalism in organizational analysis into an institutional view of business strategy. Such a view maintains that the institutional context affects different types of firms to a varying degree, leading to strategic variety. Moreover, it recognizes that both institutional pressures and the strategic responses of firms to them vary over time as the transition from a centrally planned towards a market economy proceeds. It has been suggested that strategic diversity would decrease over time, as enterprises increasingly divert from practices rooted in the socialist economy to market economy ones (e.g. Peng, 2000a; 2003). On the other hand, it has been argued that the divergence in business strategies is not explained by type of enterprise only. It is not only former state enterprises that resort to old practices, such as networking, but also new entrants may apply them in a transitional context. (Kosonen, 2002)

Notwithstanding the increasing knowledge on the role of institutions in shaping business strategies in transition economies, I argue that existing research has not sufficiently incorporated two important dimensions. First, most of the existing research has linked the strategic behavior of firms directly to the macro-level institutional context without depicting industry-level processes. Such an intermediate unit of analysis is important to take into account, as macro-level institutional forces, such as federal and state regulations, seldom directly impact single organizations but are mediated by field-level structures and processes (Scott, 1998: 130). Therefore, the hotel industry as an organizational field provides a relevant context in which the strategies of incumbent firms, new start-ups, and

foreign entrants facing the same institutional environment can be compared. Second, the question how the institutional context and business strategies in transition economies develop in parallel requires more empirical attention. With few exemptions, existing research has focused on describing the interplay of institutional constraints and business strategies as such, giving minor attention to their evolution over time. Now, over a decade and a half since the commencement of economic reforms in the transition economies, it is timely to take a longitudinal perspective on this issue.

Consequently, to contribute to filling the gaps in the existing literature, the conceptual framework of the study adds constructs of the new institutionalism in organizational analysis to North's (1990) conceptualization of macro-level institutional environments. The next sections will discuss how theoretical constructs of the new institutionalism in organizational analysis can be applied to depict industry-level institutional processes and enterprises' strategic responses to them.

2.5 Examining industry-level institutional processes: organizational fields and strategic responses

Moving from the macro-level to the industry and enterprise levels, this section focuses on the new institutionalism in organizational analysis. The starting point of neo-institutional theory in organizational analysis is that organizations are open systems — strongly influenced by their environments — but that it is not only rational or efficiency-based forces that are at work. Also socially constructed belief systems and normative rules exercise control over organizations — both how they are structured and how they carry out their work. (Scott, 1998) Organizations receive support and legitimacy to the extent that they conform to contemporary rules and norms as determined by institutional constituents — concerning the “appropriate” way to organize (Meyer and Rowan, 1977). Such rules and norms are products of institutional constituents, such as professional groups, the state and public opinion (Meyer and Rowan, 1977) and they are often mediated at the level of individual organization by field-level structures and processes (Scott, 1998). In sum, field-

level institutional environments provide organizations with templates for organizing (DiMaggio and Powell 1991: 27). This drives organizations within a field towards increasing homogeneity in their structures and practices. This homogenization resulting from institutional processes is referred to as institutional isomorphism (DiMaggio and Powell, 1983), which is a central concept for this study in examining business strategies within the St. Petersburg hotel industry.

In transition economies, the question how institutionalized rules and norms shape organizational structures and practices is of particular interest, as the institutional environment itself is in flux. The radical change in the macro-level institutional context leaves organizations to “wander in the wilderness” (Peng, 1994) as the templates of organizing provided by the old system lose their relevance and new templates are not yet available (Newman, 2000). Consistent with the ideas of North (1990) on the persistence of informal practices, it has been argued that in the absence of alternative templates, organizations resort to their old practices however irrelevant they may be in the new situation (e.g. Newman, 2000).

The idea of organizations as seeking legitimacy with their environment has been mostly applied to non-profit organizations, but the importance of institutional elements for profit – making organizations (i.e. enterprises) as well has been increasingly recognized. As a matter of fact, this development coincides with the emerging interest in institutions in strategy research. As noted above, the institutional framework influences firm behavior by setting formal and informal constraints on strategic choices that firms make (North, 1990; Oliver, 1997; Peng, 2002). A central claim of the institutional approach on organizations is that organizational activities are not always based on economic rationality, even in profit firms. For example, a firm may retain the same unreliable supplier over a period of years simply out of habit, without questioning the rationality of such allegiance (Oliver, 1997). The justification of actions by managers with claims such as “we’ve always done it in this way” or “that’s the way things are done around here” illustrate the institutionalized nature of activities (Oliver, 1997). Also, practices initiated by external regulative institutional

forces, such as the introduction of a specific law, may be later justified by economic efficiency (Dobbin and Sutton, 1998).

However, despite its focus on institutions as taken-for-granted structures, institutional theory in organizational analysis has increasingly begun to recognize the role of organizations as active agencies. In contrast to the “oversocialized” view of institutions (e.g. Granovetter, 1985), which leaves little room for organizational action, scholars have started to recognize that organizations within a field may conform to institutional pressures to varying degrees. It has been acknowledged that organizations exercise “strategic choice” (Child, 1972) as a response to institutional pressures. Organizations are not viewed as blindly conforming to all environmental pressures but actively selecting to which pressures comply and to what degree they will conform (Oliver, 1991). Hence, many neo-institutional organization theorists acknowledge that organizations vary in their level of conformity to institutional norms not only *between* organizational fields but also *within* them (DiMaggio and Powell, 1991; Oliver, 1991). This study explores the variety in strategic responses in the St. Petersburg hotel industry, and their origins. In particular, it focuses on organizational characteristics such as foreign versus local management that may account for such variety.

In sum, this study reflects my interest in institutional processes in the St. Petersburg hotel industry as an organizational field from two complementary viewpoints. First, it aims at identifying institutional forces that drive hotel enterprises of St. Petersburg towards increasing strategic and structural homogeneity. Based on the existing institutionally based research on business strategies, it is not evident that such forces are at work in the transitional context where the institutional framework is in constant flux. It can, however, be assumed that as the transition proceeds and the institutional context stabilizes, isomorphic processes gather speed and result in an increased convergence between strategies of different types of enterprises. Second, to investigate whether such homogenization of structures and practices within the field is taking place, the study investigates the nature of strategic responses of enterprises of different types, and how they evolve over time.

The following sections discuss the key theoretical concepts of the study in more detail, starting from the concept of isomorphism and then moving to conceptualizing strategic responses of organizations to institutional pressures.

2.5.1 Explaining strategic and structural homogeneity in organizational fields: institutional isomorphism

One of the core features of neo-institutional organization theory is its focus on interaction between organizations and their environments. A key concept with which to theoretically address inter-organizational processes in institutionalization is the organizational field, defined as “those organizations that, in aggregate, constitute a recognized area of institutional life: key suppliers, resource and product consumers, regulatory agencies and other organizations that produce similar services or products”. This conception builds on the more conventional concept of “industry” but adds to this focal population those other and different organizations that critically influence their performance. (DiMaggio and Powell, 1983) In this study, the St. Petersburg hotel industry is viewed as an organizational field, consisting of hotel enterprises, their suppliers and customers, and related institutional actors such as the city government.

DiMaggio and Powell (1983) note that organizational fields only exist to the extent that they are institutionally defined – or structured. The process of structuration includes increasing interaction among organizations in the field, the emergence of well-defined inter-organizational structures and patterns of coalition, and an increase in the information load with which organizations in a field must contend. It also embodies the development of mutual awareness among the organizations that they are involved in a common enterprise (DiMaggio 1983). In other words, organizational fields cannot be defined a priori, but must be investigated empirically. Moreover, although most of existing research has treated organizational fields as homogeneous, it has also been acknowledged that such fields may consist of several subfields where actors share more specific ways of conducting themselves (Bourdieu, 2005; Coser et al., 1982, Jyrämä, 1999). For example, industries

may consist of different sectors with different sets of rules of conduct or practices (Coser et al., 1982). As for organizational fields as a whole, also subfields often cannot be defined along quantitative measures such as size only. How actors view their organizations and consequently identify themselves in a given subfield is by and large a subjective question (Coser et al., 1982). Existing empirical research has addressed the construction of subfields also in the case of the hotel industry (Lant and Baum, 1995). Their examination of the Manhattan hotel industry showed that strategic groups could be identified solely based on managers' beliefs about who their competitors are rather than objective variables. Moreover, it was shown that hotels in such competitive groups shared characteristics, such as size, location and price. In addition to examining the St. Petersburg hotel industry as an organizational field, the study also pays attention to the possible existence of subfields and features such as ownership accounting for it.

In their elaboration of institutional processes in the organizational field, DiMaggio and Powell (1983) made a key assumption that organizations in the same field increasingly start to resemble each other over time. Organizations may change their goals or develop new practices, and new organizations enter the field. But in the long run, organizational actors making rational decisions construct around themselves an environment that constraints their ability to change further in later years. To conceptualize the process of homogenization among organizations, DiMaggio and Powell (1983) applied the concept of isomorphism, defined by Hawley (1966) as a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions. Following Meyer (1983) and Fennell (1980), DiMaggio and Powell (1983) maintain that there are two types of isomorphism: competitive and institutional. The former is in many terms consistent with the ideas of neoclassical economics, assuming rationality and free and open competition. The institutional view of isomorphism takes into account the institutional elements in the organization's relations to its environment, thereby expanding the analysis beyond economic transactions based on rationality.

DiMaggio and Powell (1983) identify three mechanisms through which institutional isomorphic change occurs, each with its own antecedents: (1) coercive isomorphism that

stems from political influence and the problem of legitimacy; (2) mimetic isomorphism resulting from standard responses to uncertainty; and (3) normative isomorphism, associated with professionalization. This typology is an analytic one and in the real world the types often overlap. (DiMaggio and Powell, 1983) When mirrored against North's (1990) conceptualization of institutions, the first type of isomorphism can be more associated with formal institutional rules, whereas the two latter stem from informal components of institutions. Table 3 summarizes the main mechanisms of institutional isomorphic change.

Table 3: Mechanisms of institutional isomorphic change

Type of isomorphism	Antecedents	Main source	Way of diffusion
Coercive isomorphism	Political influence and the problem of legitimacy	Government regulation	Imposition
Mimetic isomorphism	Standard responses to uncertainty	Successful or legitimate organizations in the field	Indirectly through employee transfer Explicitly by organizations such as trade associations
Normative isomorphism	Professionalization	Formal education Professional networks	Filtering of personnel Professional associations

Source: DiMaggio and Powell, 1983

Coercive isomorphism results from both formal and informal pressures exerted on organizations by other, often state organizations upon which they are dependent and by cultural expectations in the society within which organizations function. Sometimes the pressure can be direct, when for example a government introduces new regulations in the legislation. In addition to the state, coercive pressure can be exerted by other organizations that the organization is dependent upon, for example monopolistic providers of service infrastructures such as telecommunications. (DiMaggio and Powell, 1983) In socialist economies, the coercive pressures exerted by the state on organizations were extremely strong due to the centralized, ideologically based economic system. The post-socialist

transition implied that legislation and other formal regulation had to be reformed, including the mechanisms to control their enforcement. In such a situation, coercive isomorphic pressures can be expected to be weak until the new institutional framework is functioning properly.

Mimetic isomorphism derives from uncertainty, either within the organization or in its environment. Organizations respond to uncertainty by modeling themselves after other organizations that they consider to be more legitimate or successful¹³. Models may be diffused unintentionally, indirectly through employee transfer or turnover, or explicitly by organizations such as consulting firms or industry trade associations. (DiMaggio and Powell, 1983) This study is interested in identifying to what degree mimetic processes are likely to take place in a transitional context. In addition, the mechanisms of diffusion of organizational models seem to include an underlying assumption of well-established field-level organizations, such as industry associations. This would predict mimetic isomorphic pressures to be weak in transition economies where all structures of the economy are undergoing change.

A third source of isomorphic organizational change is *normative* and stems from professionalization. Professionalization is understood as the collective struggle of members of an occupation to define the conditions and methods of their work, to control “the production of producers” (Larson 1977:49-52), and to establish a cognitive base and legitimacy for their occupational autonomy. Two aspects of professionalization are important sources of isomorphism. One is to rely on formal education and the resulting shared cognitive base produced by university specialists; the second is the growth and elaboration of professional networks that span organizations and across which new models diffuse rapidly. Universities and professional training institutions are important centers for the development of organizational norms among professional managers and their staff. Professional and trade associations are another vehicle for the definition and promulgation of normative rules about organizational and professional behavior. This study aims at

¹³The concept of mimetic isomorphism is close to models of interorganizational imitation, identified in learning theory. It has been proposed that mimetic isomorphism is equal to frequency imitation (copying very common practices) and trait imitation (copying practices of other organizations with certain features) (Haunschild and Miner, 1997)

identifying to what extent professionalization is taking place in the St. Petersburg hotel industry, where managers have different cognitive bases, molded by different education systems ranging from the ideology-flavored Soviet-era party schools to Western hotel universities. In addition, I have investigated whether intra-industry professional networks are strong enough to act as vehicles for diffusion.

Following the conceptual definition of the three types of isomorphism, DiMaggio and Powell (1983) developed predictions of the likelihood of isomorphic change on the levels of organization and field, summarized in Table 4.

Table 4: Predictors of high likelihood of isomorphic change

Organization-level predictors
Strong dependency on other organizations as resource suppliers or exchange partners
Uncertain relationship between means and ends and ambiguity of goals
Reliance on academic credentials in staffing
Participation of managers in trade and professional associations
Field-level predictors
Strong dependency on a single or several similar source(s) of support for vital resources
Uncertain technologies and ambiguity of goals
High degree of professionalization
Large extent of transaction with state agencies
Low number of visible alternative organizational models
High degree of structuration

Source: DiMaggio and Powell, 1983

According to DiMaggio and Powell (1983), high likelihood of isomorphic change is predicted by both organizational and field-level characteristics. An organization's likelihood of conforming to isomorphic pressures is high, first, when it is strongly dependent on other organizations such as resource suppliers or exchange partners. Such dependence implies that the stronger party in the transaction relationship can coerce the weaker party to adopt its practices (Powell, 1983). Second, organizations that are uncertain

of the relationship between means and ends and/or whose goals are ambiguous, are likely to seek legitimacy by mimicking other organizations they view as successful. This in turn enhances survival.

Finally, normative isomorphic processes are likely to be strongest in organizations that rely on academic credentials in staffing (i.e. hire staff which have already gone through the socialization process in university programs), and whose managers actively participate in trade and professional associations through which organizational models are diffused. These organization-level predictors of isomorphic change will be used in this study to assess the likelihood of isomorphic change for enterprises in the three groups studied (foreign-managed, former state-owned and newly established hotels).

In addition to organizational characteristics, DiMaggio and Powell (1983) identify field-level predictors of isomorphic change. Low variation and diversity are found in fields, where first, the supply of resources is centralized and organizations are thereby subject to similar pressures. Second, it is proposed that abrupt increases in uncertainty and ambiguity in a field, after brief periods of ideologically motivated experimentation, lead to rapid isomorphic change. In particular, new entrants that could serve as sources of innovation and variation would cope with uncertainty by imitating established practices within the field. Third, those fields which are subject to a great degree of interaction with state agencies are more subject to coercive pressures from the state. Fourth, a high degree of professionalization (i.e. robust education programs and vital professional and trade associations) indicates a high degree of normative isomorphism on the field level. Fifth, it is proposed that any organizational field will eventually reach a threshold level, beyond which the adoption of the dominant form will proceed with increasing speed (Granovetter, 1978; Boorman and Levitt, 1979). Finally, it is proposed that highly structured fields with well-established diffusion structures for new models and norms, and high interaction between organizations, are more homogeneous. As for organization-level predictors of isomorphic change, this study will use the field-level predictors to investigate the nature of the St. Petersburg hotel industry as an organizational field, which allows assessing the likelihood of isomorphic change on the field level.

The theoretical conceptualization of institutional isomorphic processes in organizational fields has inspired a number of researchers to test them empirically. Often, studies have focused on specific practice and analyzed their diffusion based on statistical analysis of large datasets. Hence, the emphasis has been rather on the analysis of outcomes of institutional processes (i.e. the existence of homogeneity) than on the isomorphic processes themselves (Schneiberg and Clemens, 2006). Moreover, the main body of the research on institutional isomorphism is focused on non-profit sectors, but also profit sectors such as industries have received attention. Existing research has shown in particular that field-level social networks are crucial as predictors of the mimetic behavior of enterprises (Lee and Pennings, 2002; Buchko, 1990). Enterprises utilize information gathered through such networks in their decision-making. In particular, firms are likely to mimic the decisions of those whom they know or consider to be “elite”. (Galaskiewicz and Wasserman, 1989) Furthermore, the dependency on similar customer firms results in homogeneity (Buchko, 1990).

In the case of the hotel industry, it has been shown that managerial networks have a positive impact on performance (Ingram and Roberts, 2000; Baum and Ingram, 1998). Moreover, it has been shown that isomorphism is related to legitimacy, i.e. those firms that are deviating from behavior considered to be “normal” are not considered to be legitimate by institutional constituents (Deephhouse, 1996). Finally, in addition to field-level processes, existing research has also provided some evidence on the impact of the broader socio-cultural environment as a source of isomorphic pressures faced by firms. It has been shown that the power with which normative prescriptions result in isomorphism can vary over time and across levels of analysis (Dacin, 1997). Moreover, the national institutional context may play an important role in shaping dominant organizational forms employed by enterprises. The national institutional context provides conditions that shape firm strategies and structures to conform to the needs of the environment both in terms of technical efficiency and legitimacy. (Orrù et al, 1991)

2.5.2 Strategic responses to institutional pressures

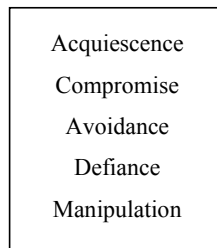
The previous section discussed field-level institutional pressures and processes, which lead to the homogenization of organizational practices over time. The theoretical construct of institutional isomorphism was originally developed to demonstrate the effects of the institutional environment on organizations, thereby viewing the environment-organization relationship as unidirectional. Consequently, it has been criticized for downplaying the role of active agency and resistance in organization-environment relations (see e.g. Oliver, 1991: 151 for a summary of these critiques). As a reaction to these critiques, the neo-institutional organization theory started from late 1980s to increasingly recognize that organizations may take active responses instead of only passively conforming to institutional pressures. It was recognized that institutional environments are not “iron cages” (DiMaggio and Powell, 1983), but organizations may be expected to exercise “strategic choice” (Child, 1972) in relating to their institutional environments and responding to institutional pressures (Scott, 1991). In other words, organizations may select how and to what degree to respond to these pressures instead of automatically conforming to them. For example, enterprises may take an active role to change their institutional environment, as it was shown in Ingram and Inman’s (1996) account of hotel groups in Niagara Falls. They showed that when facing a common threat resulting from a major environmental change, enterprises took collective action to shape their institutional framework. Moreover, the hotel industry has been also used as a case to illustrate how the passive behavior of existing enterprises (independent hoteliers) provides new entrants (hotel chains) with a greater possibility to shape the institutional context of the field (Ingram and Baum, 1997). The hotel chains acted as institutional entrepreneurs, and mobilized logics of professionalism to establish schools of hotel management. This finding is interesting for the present study as well, as the hotel sector of St. Petersburg is in a similar situation as that described by Ingram and Inman (1997), i.e. foreign hotel chains are entering a field dominated by locally-managed, independent hotels.

To theorize the behavior of organizations as active agencies, Oliver (1991) elaborated a continuum of strategic responses of organizations to institutional pressures, ranging from

passive conforming to active resistance and manipulation. Combining institutional theory with the resource dependence perspective¹⁴, she identified different strategic responses, and respective tactics, which organizations enact as a result of the institutional pressures toward conformity that are exerted on them. The two theoretical perspectives were combined to propose that institutional theory could accommodate interest-seeking and active organizational behavior. More specifically, Oliver (1991) proposed a typology of strategic responses to institutional pressures that vary according to the degree of active agency and resistance exerted by the organization (Figure 1).

Figure 1: A continuum of strategic responses to institutional pressures

PASSIVE CONFORMITY



ACTIVE RESISTANCE

Source: Adapted from Oliver (1991), p. 152

When discussing pressures and constraints of the institutional environment, Oliver (1997) defined institutions as regulatory structures, governmental agencies, laws, courts, and professions (Scott 1987a: 498). Starting from the most passive response, *acquiescence* may take alternative forms, from unconscious habit-like adherence to rules or values to conscious compliance to norms, values, or institutional requirements (Oliver, 1991). Therefore, acquiescence is a strategic response that concurs with the idea of institutional environments as determining organizational behavior. More specifically, imitation as an acquiescence tactic is consistent with the concept of mimetic isomorphism – an

¹⁴ The resource dependence perspective views an organizational environment as a bundle of resources which an organization seeks to mobilize to reach its goals. In doing so, it exercises active choice behavior. (Oliver, 1991:147)

organization aims at applying “the way things are done around here” to conform to institutional pressures from the environment.

In addition to passive conformity, organizations may take more active responses, which have different forms and antecedents. *Compromise* strategy is explained by conflicting institutional demands, or inconsistencies between institutional expectations and internal organizational objectives related to efficiency or autonomy. Organizations may apply balancing tactics, i.e. attempt to achieve parity among or between multiple stakeholders and internal interests; or pacifying tactics by mounting a minor level of resistance to institutional pressures but devoting most of its energies to appealing or placating the institutional source it has resisted; or bargaining tactics which is a more active form of compromise than pacifying. (Oliver, 1991) In other words, such responses are likely to be made when organizations are “between a rock and a hard place” as regards institutional pressures. For example, foreign entry into transition economies might represent such a situation, where the local institutional environment is in dissonance with the organizational objectives of Western firms.

Moving towards more active responses, *avoidance* strategy is an organizational attempt to preclude the necessity of conformity (Oliver, 1991). To put it differently, an organization seeks to circumvent institutional pressures. Here, concealment tactics involve disguising nonconformity behind a façade of acquiescence. Buffering tactics refers to an organization’s attempt to reduce the extent to which it is externally inspected, scrutinized, or evaluated by partially detaching or decoupling its technical activities from external contact (Pfeffer and Salancik 1978, Scott 1987b, Thompson 1967). A more dramatic avoidance response is escape, where an organization may exit the domain within which pressure is exerted (Hirschman 1970) or significantly alter its own goal, activities, or domain to avoid the necessity of conformity altogether. (Oliver, 1991) Resorting again to the empirical case of foreign entry in transition economies, two hypothetical situations representing avoidance strategy can be presented. First, a foreign company may buffer itself from the local institutional environment by minimizing its contacts with local organizations

such as suppliers. Second, it may even exit (i.e. escape) the market altogether or postpone entry instead of conforming to institutional demands.

The next strategy in the continuum towards increasing resistance is *defiance*, where an organization ignores institutional rules and values, or challenges the existing rules and requirements. The most aggressive defiance tactic is to attack the institutional pressures and expectations. (Oliver, 1991) In North's (1990) terminology, as the avoidance strategy would mean a partial refusal to play the game with the existing rules, defiance strategy implies that an organization actively challenges those rules. In transition economies, where corruption is a common feature of the business environment, a refusal to pay bribes would be an example of such a defiance strategy.

Finally, *manipulation* strategy is the most active response intending to actively change or exert power over the content of the expectations themselves or the sources that seek to express or enforce them. As a tactic, an organization may choose to co-opt the source of the pressure (by e.g. persuading an institutional constituent to join the organization's board of directors), or to direct more general influence tactics toward institutionalized values and beliefs or definitions and criteria of acceptable practices or performance. It can also apply controlling tactics, i.e. specific efforts to establish power and dominance over the external constituents that are applying pressure on the organization. Such a strategy corresponds to the empirical evidence on the nature of business lobbying in Russia (Frye, 2002), where powerful enterprises and business groups frequently lobby the public sector to adapt the institutional framework to their needs.

For the purposes of this particular study, Oliver's (1991) typology provides a conceptual basis for exploring the diversity of business strategies in the St. Petersburg hotel industry. In addition to tracing different strategic responses, the analysis also focuses on the dominant features in the field-level institutional environment that account for them. Oliver's (1991) theoretical ideas provide a basis for that as well. In addition to classifying strategic responses, Oliver (1991) hypothesized conditions where different strategic responses would be most likely. She identified five institutional factors, which the

willingness and ability of organizations to conform to institutional pressures are related to (Table 5).

Table 5: Antecedents of strategic responses

Institutional factor	Research question
Cause	Why is the organization being pressured to conform to institutional rules or expectations?
Constituents	Who is exerting institutional pressures on the organization?
Content	To what norms or requirements is the organization pressured to conform?
Control	How or by what means are the institutional pressures being exerted?
Context	What is the environmental context within which institutional pressures are being exerted?

Source: Oliver (1991: 160)

When discussing each of the institutional antecedents of strategic responses more in detail, the *cause* refers to the basic question *why* the organization is being pressured to conform to the institutional rules or expectations. The reasons fall into two broad categories: social and economic fitness. When an organization anticipates that conformity will enhance either or both of them, acquiescence will be the most probable response. An example of pressures to make organizations more socially fit is environmental legislation, whereas demands the government puts on its agencies to be more effective in their use of budgetary funds represent pressures towards economic fitness. (Oliver, 1991) In a transition economy, where the institutional framework is under construction, it seems that the cause behind institutional pressures is often ambiguous. For example, the purpose of many legislative initiatives is often unclear, which frustrates enterprises and individuals who should comply with them.

Moreover, a central factor in predicting the nature of strategic responses is the institutional *constituents*, i.e. *who* exert institutional pressures. These include the state, professions, interest groups, and the general public. Oliver (1991) hypothesizes that the more there are

various constituents and/or the less the organization is dependent on them, the greater the likelihood of organizational resistance to institutional pressures. Understandably, the greater the number of constituents, the greater the likelihood that their demands conflict (Pfeffer and Salancik, 1978). Therefore, perhaps the easiest way for an organization to cope with these multiple demands is to first and foremost comply with those organizations' demands that it is most dependent upon. The dependence is also one of the factors predicting isomorphism (DiMaggio and Powell, 1983), i.e. acquiescence to institutional pressures. In the case of transition economies, the systemic change from command to market economy dramatically influenced the nature of constituents. To put it bluntly, in a command economy the only institutional constituent of importance was the state, which organizations thereby were highly dependent on. Following the market reforms, firms have to increasingly take into account the interests of new constituents. These include not only other firms but also actors in the emerging civil society such as non-governmental organizations.

The *content* of institutional pressures predicts also organizational responses. Organizations are likely to resist institutional pressures, when they are inconsistent with organizational goals and/or when the conformity to institutional pressures leads to a loss in organizational decision-making freedom. (Oliver, 1991) In other words, organizations selectively comply with those pressures that are in line with their strategy and don't threaten their independence. For example, a foreign firm aiming to enter a transition economy may be pressured by the host government to select a joint venture with a state-owned enterprise as its entry mode, although the firm would prefer a wholly owned subsidiary. Therefore, the foreign entrant is likely to try a strategy to resist the pressure from the host government as an institutional constituent.

Moreover, *control*, i.e. the means by which institutional pressures are imposed, is another factor predicting organizational response. The lower the degree of legal coercion or enforcement, and of voluntary diffusion of institutional norms, values or practices, the greater the likelihood of organizational resistance to institutional pressures. (Oliver, 1991) As noted above, the existence and strength of mechanisms influencing how institutional

pressures are mediated to the organization level depends on the nature of the organizational field. For example, law enforcement has been a common problem in post-socialist Russia, thus delineating the effect of legal reforms. In other words, although the institutional pressures seem to be present, it is not evident that they are effectively transmitted to the organizational level.

Finally, the environmental *context* predicts the likelihood of organizational resistance. Organizations are more likely to resist institutional pressures when the level of uncertainty and the degree of interconnectedness in its environment are low. This is consistent with the ideas of institutional isomorphic change as related to field-level factors. First, to cope with environmental uncertainty, organizations look for templates of organizing to adopt from their environment, for example by mimicking other organizations, thereby conforming to institutional pressures. Second, the degree of interconnectedness is one of the dimensions of structuration of the organizational field. Consequently, the high degree of interconnectedness implies that the field is highly structured and thus the propensity to conform to institutional pressures is high. In transition economies, environmental uncertainty is high, due to the systemic change from command to market economy, which would theoretically predict high conformity to institutional pressures. However, at the same time the institutional pressures are ambiguous and the environment does not provide well-defined templates of organizing. In other words, the degree of structuration in organizational fields is low. Thus, this dimension of Oliver's (1991) model is of particular interest for this study given the unique nature of institutional environments in transition economies.

The conceptualization of strategic responses to institutional pressures implies that the form of organizational pressure is as much a reflection of the institutional pressures that emerge from outside the organization as it is the form of organizational structure and culture that exist inside the organization (Hoffman, 2001). Therefore, responses differ not only between fields but also within them. The role of the nature of institutional pressures in the intra-field variation in responses has been explained by two situations. First, divergent strategies and practices exist during a temporary pre-convergence period, when institutional pressures are

ambiguous and complex (Dobbin and Sutton, 1998) or surrounded by a great degree of uncertainty (Goodrick and Salancik, 1996). Hence, it can be assumed that in the turbulent institutional context of transition economies institutional pressures are ambiguous, resulting in diversity¹⁵. As the institutional context stabilizes, homogeneity in enterprise responses becomes more likely. Second, organizations may be subjected to various levels of institutional pressure due to the structure of the field. For example, field-level organizations may provide support to some of the organizations of the field thereby speeding up practice adoption. (Lounsbury, 2001). In the organization level, ownership structure - public versus private - (Goodrick and Salancik, 1996) and the distribution of power across corporate departments (Delmas and Toffel, 2005) have been identified as factors explaining different responses to institutional practices. This study seeks to identify to what degree such variety in strategic responses exists in the St. Petersburg hotel industry, and the organization and field level factors accounting for this variety. In particular, it is investigated whether the ownership and management structure (foreign or local) of hotel enterprises explains variety in strategic responses.

The inclusion of foreign-managed hotels, representing subunits of multinational enterprises adds a specific dimension to the study, as the theoretical concepts of institutional isomorphism and Oliver's typology of strategic responses are universal, i.e. applicable to all types of organizations from non-profit organizations to firms. However, these concepts assume that organizations operate in a single national environment, where the organizational field is embedded. For most organizations this is the only operating context, but multinational enterprises that operate in multiple institutional environments are an exception to the rule. MNE subunits hence face a tension between the pressures imposed by the institutional constituents of the host environment, and the multinational company's own internal practices (Rosenzweig and Singh, 1991).

Consequently, it is argued that the degree of MNE subunits' compliance towards institutional pressures from the environment in part results from the relative strength of

¹⁵ This view echoes the transformation school of post-socialist research, where organizational evolution is characterized as moving from a lack of diversity in state socialism through the formation of organizational diversity after the systemic collapse, and eventually towards less diversity as dominant organizational forms meeting the new conditions evolve (see, e.g. Grapher and Stark, 1997; Kosonen and Oinas, 1999).

these two sets of pressures. Moreover, it should be noted that MNE subunits face also additional pressures from the environment in comparison to local enterprises. These include political pressures originating from the host government policy towards foreign direct investment (Rosenzweig and Sigh, 1991). The pressures towards conformity with the MNE's internal practices for their part vary along the nature of the industry (Rosenzweig and Singh, 1991). The hotel industry is an example of a global industry, where worldwide standardization of practices is a key success factor and therefore pressures towards intra-MNE conformity to institutional pressures from the local environment may not necessarily mean adopting patterns that are dominant in local organizations, just as "standardization" may not necessarily mean adopting parent company practices. A local organizational field may be populated largely by MNE subsidiaries, either because there are few major local competitors or because MNE subsidiaries define their field in terms of each other rather than local organizations. In such a field, the "local" patterns that are exerting the strongest isomorphic pulls may be those institutionalized in the MNE subsidiaries, rather than those institutionalized in purely local firms. (Westney, 1993)

The theoretical perspectives developed for understanding organizations' strategic responses to institutional pressures have been applied in different empirical set-ups. *Oliver's typology* has generated empirical research where it has been tested and further developed. Goodstein (1994) provided support for Oliver's (1991) hypothesis that organizations are more likely to conform to institutional pressures when they see that conformity is in line with organizational goals and brings benefits. On the other hand, Ingram and Simons (1995) questioned Goodstein's assertion that organizations respond to institutional pressures consistent with their goals. Etherington and Richardson (1994) further dimensionalized the five strategic responses, stating that each of the strategies may be viewed along the level of activity (active or passive) and pattern of resistance and accommodation (negative to positive). Hence, the authors regrouped the strategies into three categories: passive, active-positive and active-negative. A key difference compared to Oliver's work was placing compromise and manipulation in the active-positive category. As Oliver categorized manipulation as the most active form of resistance, Etherington and Richardson (1994) maintained that manipulation is de facto a collaborative strategy to work "within the

system”. Finally, Clemens and Douglas (2005) showed that field-level networks in part explain the nature of strategic responses. They found that firms that cooperate with others in their industry favor less active firm strategies, and are less inclined to engage in the actively resistant strategies of avoidance and defiance.

Empirical evidence on *MNE subunits' responses to dual institutional pressures* indicates that the question whether host environment or internal pressures towards conformity weigh more in MNE strategies is complex and context-specific. It has been found that practice adoption versus adaptation varies along with the nature of the practice itself, the institutional context of the host country, and the operation mode. For example, HRM practices (which are usually surrounded by a well-defined regulatory framework of labor legislation) of MNEs often follow closely local practices (Rosenzweig and Nohria, 1994). Moreover, Kostova and Roth (2002) identified different degrees of practice adoption, ranging from active to ceremonial adoption, which vary across foreign subsidiaries along with the institutional profile of the host country, and the relational context within the MNE.

Davis et al. (2000) linked the question of institutional duality to entry mode, showing that the levels of internal (parent) isomorphism versus external (host environment) isomorphism vary along entry mode. Zaheer (1995) addressed the financial outcomes of importing home-country organizational capabilities versus copying the practices of successful local firms. The results of the study suggest that firm-specific advantage, as embodied in imported organizational practices, may be a more effective way for multinational enterprises' subunits to overcome the “liability of foreignness” than imitation of local practices. Finally, it has been shown that as the institutional context in the host country dramatically changes as a consequence of economic crisis, foreign firms' strategic choices regarding, for example, operation mode, also change to conform to the new institutional context. (Chung and Beamish, 2005; Hirvensalo, 1996)

In sum, when mirrored against the institutional context of transition economies, the question of strategic responses to institutional pressures deserves special attention. First, it seems that an underlying assumption in Oliver's (1991) typology is a stability in the

institutional environment, where the five institutional antecedents are well defined. In order to conform or resist, an organization should not only face a well-defined set of pressures, but also have clear organizational goals against which the different responses can be evaluated. This is rarely the case in transition economies, where both the institutional environment and organizations are undergoing transformation. In other words, although the typology incorporates environmental uncertainty and conflicting institutional pressures on the field-level, it does not discuss the role that the wider (i.e. national) institutional environment would have in shaping field-level institutional pressures. Therefore, the application of Oliver's (1991) typology in this study serves two purposes. First, the typology provides conceptual tools to empirically assess strategic responses of St. Petersburg hotel enterprises and second, the outcomes of this assessment will contribute to the development of this typology by pinpointing peculiarities of the transitional context in terms of institutional pressures and organizational responses.

Second, the presence of MNE subunits in the organizational field adds another dimension to the nature of institutional pressures faced by organizations and the consequent strategic responses. In this study, judging from the nature of the global hotel industry, where the competitiveness of hotel MNEs is mainly related to technologies shared by all subunits, it may be expected that the St. Petersburg-based operations of foreign hotel chains would face strong pressure towards conformity to internal practices of the MNE. On the other hand, the institutional constraints of a transition economy limit the applicability of global business practices and call for local adaptation. Therefore, it is worth studying here, which set of institutional pressures are stronger in the St. Petersburg empirical context, and what the resulting strategic responses are of the foreign-managed hotels as MNE subunits.

2.6 Theoretical research gap

The theoretical constructs presented above play a twofold role in this study. First, they serve as conceptual tools used to address the research questions of the study, thereby contributing to the advancement of an institutional view of business strategy in transition

economies. Second, the application of these constructs to the unique empirical context of post-socialism provides an opportunity to contribute to their further refinement. More specifically, existing theoretical and empirical research aiming at an increased understanding of such field-level institutional processes as the interplay of pressures towards homogeneity (i.e. institutional isomorphism) and strategic responses of organizations to them has left some gaps to be filled. Most importantly, the majority of existing research focusing on field-level processes has taken a stable macro-level context as given. Some researchers have, however, argued that in addition to field-level forces changes in the national-level institutional context have an impact on organizational behavior. Hence, as the macro-level institutional context changes as radically as in the transition from central planning to market economy, it can be hardly argued that field-level processes would remain intact. This study aims at depicting those processes by which macro-level institutional change is reflected in the field-level institutional context and thereby in organizational behavior by illustrating both the nature of institutional pressures and their outcomes in organizational structures and practices in the St. Petersburg hotel industry from socialism to market economy.

The approach taken in this study to explain the nature of institutional change in the St. Petersburg hotel industry as an organizational field answers also the recent critique of field-level studies as focusing on outcomes of institutional processes (i.e. homogeneity in organizational structures and practices) rather than aiming to explain these processes. Although applying the concept of isomorphism, which assumes increasing field-level homogeneity, the study aims rather to examine whether institutional pressures in the St. Petersburg hotel sector in different time periods are strong enough to produce such homogeneity rather than taking it as given. Moreover, the study supports the view that institutional pressures toward homogeneity are not overwhelming, but organizations make strategic responses to them. In addition, it assumes that due to both field and organizational characteristics, such organizational responses vary also as a result of the change on the macro-level. Moreover, the totality of actors in the organizational field being studied includes subunits of multinational enterprises, which brings an additional dimension to the analysis of variety in strategic responses. By bringing the dimension of institutional duality

faced by foreign-managed hotels into the analysis of strategic responses in an organizational field, the study aims at adding to the knowledge of intra-field variety in organizational behavior.

2.7 Investigating business strategies in the St. Petersburg hotel industry

After presenting the theoretical constructs to be applied in the study, the dissertation discusses how the strategies of hotel enterprises in the St. Petersburg hotel industry have been addressed in the empirical analysis. First, it is important to note that the study focuses on the *implementation* of a business strategy rather than on the whole process of strategic planning and management (Harrison and Enz, 2005). Consistent with the institutional approach to organization-environment relationships, the study examines strategy implementation via hotel enterprises' relations to stakeholders both within the organization (labor and management) and in its environment (property owners, customers, suppliers, and the public sector) (Harrison and Enz, 2005; Freeman and McVea, 2001). In addition to addressing practices by which these relations are governed, the empirical analysis encompasses also the respective organizational design and structure.

Consequently, the business *practices* of St. Petersburg hotel enterprises are examined in respect to their functional strategies towards other members of the production chain (i.e. suppliers and customers) and towards personnel as a critical resource for hotel operations. In addition, I analyze the practices that enterprises apply in their relations with the public sector as an important stakeholder in transition economies. Existing research on business operations in transition economies has shown that the transitional context has a profound impact on the nature and management of supplier and customer relationships (see, e.g. Salmi, 1995; Johanson, 2004) and on human resource management practices particularly in the hotel industry (Upchurch et. al, 2000; D'Annunzio-Green, 2002; Hasselman, 1998; Cervinõ and Bonache, 2005; Zhang Qiu and Wu, 2004). Moreover, the public sector has been shown to play a key role in, for example, constraining foreign business strategies and providing the overall framework for business operations (e.g. Kosonen, 2002; Karhunen et al., 2003). Such a holistic approach echoes that taken by Kosonen (2002), who provided an

in-depth analysis of enterprise adaptation to post-socialism on the local level by examining enterprises' relations to other enterprises, the public sector and labor.

The *structure* of the hotel enterprises is examined both on the strategic and operational levels. A strategic-level question regarding structure is the operation mode, consisting of dimensions as to whether the hotel is owner-managed or run by a separate management company, and whether it is independent or a member of a chain. These dimensions have been shown as having importance in studies approaching the hotel industry from an institutional perspective (see, e.g. Ingram and Baum, 1997). On the operational level, it is somewhat evident that a transition from central planning to market economy brings changes to enterprise structures, as enterprises take over functions previously conducted by the central planning apparatus. In addition, it is assumed that for foreign-managed hotel enterprises in St. Petersburg the adaptation of business practices is reflected in enterprise structure as well. For example, bringing the service level to correspond to world standards would require a large human resource department.

2.8 Summary: Conceptual framework for the empirical analysis

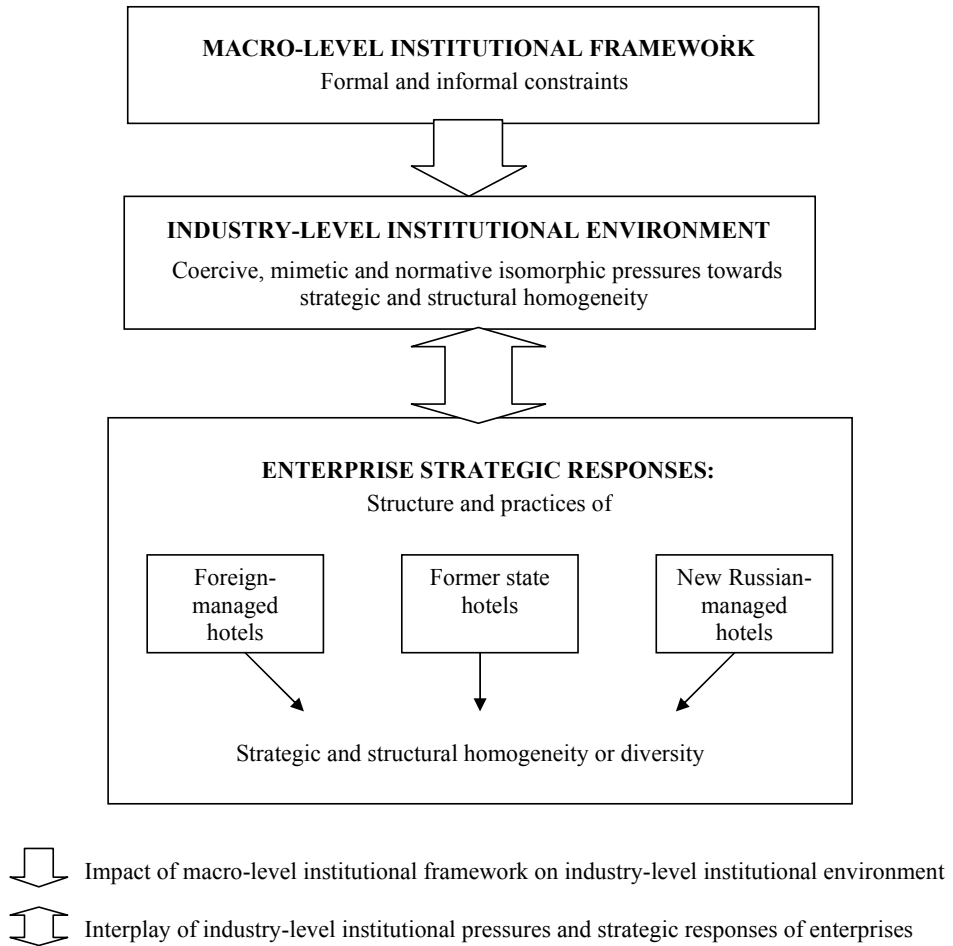
To conclude this chapter, this section draws together the theoretical constructs presented in this chapter into a conceptual model to be applied in the empirical analysis. Before outlining the model, I briefly summarize how institutional processes on different levels are theoretically approached in the study. First, the study views the macro-level transition from command to market economy as an institutional framework, where processes on the industry- and enterprise-levels take place. Such a framework and its change over time are analyzed by decomposing it into formal and informal constraints, which set the “rules of the game” for economic agents (North, 1990). The formal constraints consist of laws and regulations, and the informal constraints of behavioral norms and dominant practices such as business culture. Empirically, this study describes the change in the macro-level institutional framework in Russia from socialism to market economy.

Second, the industry-level institutional processes are tackled by building on the concept of institutional isomorphism (DiMaggio and Powell, 1983). The core idea of the concept is that organizations in the same organizational field (here, the St. Petersburg hotel industry) become increasingly homogeneous over time as a result of pressures exerted on them by institutional constituents. Such pressures are of a coercive, mimetic or normative nature. Coercive isomorphism originates mainly in state regulation and mimetic isomorphism in inter-organizational imitation, whereas normative isomorphism is driven by professionalization resulting e.g. from managerial networking. The study analyzes the nature and change in these pressures over time, and assesses whether they are strong enough to result in homogenization. Moreover, it supports the view of “sectors within industry” (Coser et al., 1982; Bourdieu, 2005) i.e. that an organizational field can consist of several subfields with specific shared norms and practices.

Third, enterprise level processes are investigated by adopting the view of organizations taking strategic action, rather than blindly conforming to pressures towards homogeneity. This is done by applying the continuum of strategic responses, elaborated by Oliver (1991), which identifies a variety of strategic responses varying in the degree of resistance from passive acquiescence to proactive manipulation. Oliver (1991) examines the likelihood of resistance as a result of both organizational characteristics and the nature of institutional pressures such as the reason why they are exerted, and the constituent that is exerting them. Hence, a variety in strategic responses may occur both between organizational fields with different sets of institutional pressures, but also within a field populated with organizations with different characteristics. This study examines the strategic responses of hotel enterprises in the St. Petersburg hotel industry both in terms of resistance vis-à-vis conformity to institutional pressures, and in terms of variety between enterprises. It is explored, whether there are organizational characteristics such as foreign versus local management that account for such variety. Here, to address the strategic adaptation of foreign enterprises to the transitional context, the concept of institutional duality is employed. This concept captures the dual institutional pressures faced by subunits of multinational enterprises towards isomorphism with the host environment on the one hand,

and towards conformity with organizational practices of the multinational enterprise on the other hand (e.g. Rosenzweig and Singh, 1991).

Finally, to empirically address business strategies in the St. Petersburg hotel industry, they are viewed as consisting of organizational practices applied when conducting various parts of business operations, and the respective organizational structure. The practices under investigation consist of hotel enterprises' practices in their relations with the other members of the production chain (i.e. suppliers and customers), with personnel as a critical resource, and with the public sector as an important stakeholder. The analysis of structure includes strategic-level issues such as operation mode, and operational-level issues such as various departments. To illustrate the interrelationship between the various elements of the theoretical framework of the study, the following figure draws them together into a conceptual model.

Figure 2: Conceptual model for the study

The figure combines the theoretical concepts of the study, and illustrates the interrelationships between different levels of analysis, which follow an up-to-down logic. Here, it should be noted that the purpose of the figure is to serve as an analytical tool and as such it provides a simplified picture of reality where, for example, macro- and industry-level institutional processes often overlap. The logic of the figure arises from the nature of the research problem of the study. First, it is important to note that although the institutional theory of Douglass North views the interrelationship between the nation's institutional

context and organizations as bi-directional, i.e. organizations are both constrained by and constructing their institutional framework (North, 1990), this study focuses on processes on lower levels of the economy and views the national-level institutional context only as a general framework in which field- and organizational processes are embedded. In other words, this study primarily focuses on how the change in the macro-level context from central planning to market economy affects industry- and enterprise-level institutional development. The question of how organizations as actors contribute to the macro-level change is of secondary importance. Hence, the uni-directional arrow between the macro- and industry-level elements of the framework.

Second, the study views field-level institutional isomorphic forces as exerting pressure on organizations, which for their part make strategic responses to them. In doing so, organizations eventually participate in the construction of such pressures. This can occur both intentionally or unintentionally. For example, enterprises may participate actively in defining new regulations for the industry, or support the existing ones without questioning their relevance. Therefore, the field-organization interface in the picture is illustrated as a bi-directional arrow consisting of industry-level pressures in one direction, and of strategic responses of enterprises in the other direction.

Finally, the lowest part of the figure represents the analysis conducted for examining strategic responses of hotel enterprises in St. Petersburg. Based on existing argumentation of strategic diversity among foreign entrants, local incumbents and new start-ups, the analysis includes a comparative dimension. The study first examines practices that enterprises of these various types adopt in their relations with suppliers, customers, human resources and the public sector and the respective organizational structure for implementing these practices. Second, it analyzes whether these responses vary between (and also within) these groups, resulting in either homogeneity or diversity in the structure and practices of enterprises in the organizational field. It thereby explores whether the organizational field of the St. Petersburg hotel industry is divided into subfields, and which organizational characteristics such a division is based upon.

To illustrate the change in the institutional processes on the macro- and industry-levels, and their respective outcomes on the enterprise level from socialism to market economy, the empirical description of the St. Petersburg hotel industry is conducted by analyzing the change in each level of the theoretical model from central planning through the transition period from 1991 to 2005. To stress the progress in transition during this 15-year time period, it is divided into the early transition from 1991 to the economic crisis of 1998, and the late transition after the 1998 crisis until 2005. This allows illustrating institutional processes on different levels of analysis in a dynamic manner. An alternative approach, constructing the empirical description of the application of the model as a whole within each time period, would have run the risk of providing three “snapshot” pictures rather than a description of a change process. The ways of and data for conducting the empirical analysis are discussed more in detail in the next chapter.

3 Research methodology

This chapter presents the research strategy selected for the empirical part of the study, and the respective methods applied for the data collection. This is followed by a description of the primary and secondary empirical data, and the data collection procedure. Finally, the empirical research design is evaluated.

3.1 Research strategy: Processual research

The analysis of institutional change in organizational fields has a number of specific features, which pose requirements for the selection of research methodology and the nature of empirical data on the research phenomenon. First, the core of institutional theory in organizational analysis has traditionally included a rejection of reductionism, i.e. the behavior of organizations as actors is attributed not to the characteristics or motives of that entity, but to its context (Schneiberg and Clemens, 2006). Although such a view of pure environmental determinism has been challenged by the recognition of organizations as exercising strategic action (e.g. Oliver, 1991), it is clear that institutional research requires research designs that link levels of analysis rather than commit to actor-centered analysis only (Schneiberg and Clemens, 2006). Second, institutional theorists have started to increasingly acknowledge the segmented nature of organizational fields, i.e. that institutional effects across fields are not uniform but may occur in an uneven fashion (Schneiberg and Clemens, 2006; Davis and Greve, 1997).

These theoretical refinements of institutional processes in organizational fields pose methodological challenges to the collection and analysis of empirical data. Until recently, the majority of existing research on field-level processes has focused on their outcomes, such as the commonness of a particular organizational practice in the field rather than the process of homogenization itself (Schneiberg and Clemens, 2006). Consequently, they have applied statistical methods to analyze large quantitative datasets. Such an approach has

been challenged by in-depth, qualitative-historical analyses to illustrate the process by which homogeneity – or heterogeneity is constructed (e.g. DiMaggio, 1991; Orrù et al., 1991; Leblebici et al., 1991). This study aims at exploring institutional processes potentially resulting in strategic and structural homogeneity versus diversity rather than statistically measuring their outcomes. Hence, a processual case study was selected as the research methodology to allow such an examination. The empirical case being studied is the St. Petersburg hotel industry. Hence, individual enterprises are not examined as cases but as embedded units of analysis within the case (Yin, 1994).

According to Pettigrew (1997), processual analysis aims at accounting for and explaining the what, why and how of the links between context, processes and outcomes. In this study, the context is the systemic transition from command to market economy in Russia, which provides a framework for studying two processes: First, how the change in the macro-level context is transmitted to the industry level and second, how it manifests in enterprise strategies. In other words, different strategic responses taken by enterprises as a response to field-level institutional processes shaped by the macro-level context are viewed as an outcome of the process studied.

Pettigrew (1997) gives five guiding assumptions for processual research. The first, *embeddedness*, refers to the study of processes across a number of levels of analysis. The second, *temporal interconnectedness*, calls for studying processes in past, present and future time. Thirdly, both *context and action* should have a role in explanation. Fourthly, the researcher should search for *holistic* rather than linear explanations of process. Finally, there is a need to *link* process analysis to the *location and explanation of outcomes*.

In this study, which aims at illustrating a transformation process of an organizational field, all the aforementioned elements are present. In order to gain understanding of the process on the level of an organizational field, also other levels such as those of individual organization and the macro-level institutional context have to be taken into account. As for temporal interconnectedness, one of the basic assumptions of the transformation approach to post-socialism is that the new systems are built both on the ruins and from the ruins of

the former system (Kosonen, 2002). The presence of both context and action manifests in the institutional view of change, according to which the changing institutional context provides the framework for action. The action in turn shapes the framework. The holistic approach in the study means that the transformation is viewed as a gradual, non-linear process, the outcomes of which cannot be predicted in advance. In other words, the explanation of the change process is holistic rather than linear. Finally, linking the process with outcomes in this study was achieved by starting the analysis from the “state of the art” description of the research object and going backwards to find out what the process was by which the outcomes were achieved.

In processual theory, the change process can be viewed in different ways, based on fundamentally different logics. The transformation view on post-socialism applied in this study views the change from centrally planned to market economy as an evolutionary process, in which new institutions are gradually developing as a result of the interaction of the old and new. The outcome of the process is not known in advance. This view contrasts the transition view which is more a teleological approach considering the market economy as a desired end state. In organization studies, evolutionary theory centers on the “dynamic process of social construction and transformation of alternative forms within and across generations of competing organizational routines, forms and institutions” (Van de Ven, 1992). The transformation view in this study means that the strategic behavior of St. Petersburg hotel enterprises is expected to change in an evolutionary manner together with the institutional context.

The processual analysis in this study is conducted in the form of a case study, which is a methodology often applied in processual research (Pettigrew, 1997). The case study approach aims at answering questions of how and why, and gaining a holistic picture of the phenomenon (Yin, 1994). Consistent with the theoretical approach of the study, the process view of institutional theory (Mohr, 1982), the empirical research focuses on the “how” question. It aims at explaining how enterprise strategies within an industry evolve as a response to a macro-level institutional change from central planning to market economy. Characteristically, the case study combines different data collection methods, such as

interviews, observation and documentary analysis. In this study, evidence was collected from various sources. The following section discusses the data collection methods in detail.

3.2 Methods for collecting and analyzing the data

The present study uses multiple sources of evidence, which is characteristic for the case study approach (Eisenhardt 1989, Yin, 1994). The main emphasis of the data collection was on qualitative methods, i.e. interviews with the management of St. Petersburg hotels. This primary data was supported by documentary evidence, collected from hotel and tourism industry magazines and newspapers, and reports produced by industry observers such as investment agencies and consulting companies. Moreover, existing empirical studies on the research phenomenon were utilized. Finally, the empirical data was supplemented by my personal observations of the Russian hotel industry from a customer's viewpoint and my previous experience as an industry practitioner.

The various data collection methods supported each other in answering the research questions outlined in Chapter 1, with somewhat differing emphasis. As noted by Yin (1994), one of the most important sources of case study information is the interview, whereas the most important use of documents is to corroborate and augment evidence from other sources. Observational evidence can be used to provide additional information about the topic being studied. (Yin, 1994) In this study, primary data mainly consisting of interviews was utilized as the main evidence to describe the organization-level processes. Secondary data (i.e. documentary evidence) were retrieved to construct a picture of the field-level dynamics and changes in the operating context such as general trends in tourist flows. Finally, personal observations were used to collect anecdotal evidence on the conditions of the premises of the hotels, the service attitude and foreign language skills of the staff, and the variety of services provided by the hotel. Here, the author's previous professional experience from the hotel industry proved helpful. The data and their collection are described in more detail in section 3.4.

To deal with the complex process data of a study consisting of multiple levels, in Weick's (1979) wording "to make sense of it", it was recognized that several analytical strategies would be needed (Langley, 1999). The main analytical strategy was a temporal bracketing strategy, which was supported by a narrative strategy. The narrative strategy, i.e. construction of a detailed story from the raw data (Langley, 1999), was applied to organize and describe the data as a preliminary step toward the actual analysis. Here, interview and documentary evidence was organized into a narrative form, following a chronological order. The temporal bracketing strategy (Langley, 1999) was applied by separating the data into three successive periods (central planning, early transition and late transition) based on certain discontinuities at their frontiers (the collapse of the Soviet Union and the 1998 financial crisis, respectively¹⁶). The field- and micro-level processes of firm strategies were then studied within each phase, including an examination of how the macro-level context affects them. This analytical strategy has proved to be particularly promising for studies analyzing the mutual influence of actors and their institutional contexts (Langley, 1999; Schneiberg and Clemens, 2006).

In practical terms, the temporal bracketing strategy was operationalized by using the technique of analysis of chronological events, frequently applied in case studies (Yin, 1994). First, the data was arrayed into chronological order, allowing identifying certain time periods marked by important events. In this study, such events were observed in both macro- and industry-level. Macro-level events were, for example, the collapse of the Soviet Union in 1991, and the financial crisis of 1998, which crippled the Russian economy. Among industry-level events, in part resulting from the macro-level changes, were the dissolution of the Soviet centrally managed tourism organizations and the entry of foreign hotel management companies on the St. Petersburg market. Second, after constructing a general chronology of events, the empirical evidence was analyzed more in detail against the conceptual framework of the study, which had already guided the data collection process. The chronological stages, identified in the first phase of the analysis, were described more in-depth by enriching them with company-level practices and structures,

¹⁶ The selection of the borderline between the two first periods is somewhat self-evident: a fundamental change in the institutional context with the collapse of the planning economy. The 1998 financial crisis for its part is generally considered as a turning point in Russian economic development in studies analyzing post-socialist development in Russia (see, for example, Puffer et al. 2000).

and changes in them over time. Finally, in order to allow the analysis of different groups of enterprises addressed in the research questions (foreign managed, former Soviet and new Russian hotels), the interview data from each of the groups was handled separately. The next section will describe in more detail the empirical data of the study, and data analysis methods used to retrieve the relevant information from them.

3.3 Primary data

The primary empirical data of the study consists of 27 thematic interviews with managers of St. Petersburg hotels representing foreign-managed properties, former state-owned hotels, and new start-ups with Russian management. The data collection process started in autumn 1999, when I designed and conducted a pilot interview with the area manager for the Commonwealth of Independent States (CIS)¹⁷ of a global hotel management company in Helsinki. The respondent had extensive experience as a general manager in the company's hotels in the CIS. The purpose of the interview was to test the validity of and further develop a set of interview questions, drafted on the basis of secondary data. The results of the interview both showed that the existing interview questions are of particular relevance, and also brought up new topics to be addressed in the subsequent interviews.

Between 2000 and 2004 the focus on the research work was on the elaboration of the theoretical basis for the study, further refinement of the interview questionnaire, and exploration of alternative ways to undertake the collection of the interview data for the study. Here, a data collection strategy to overcome the particular challenges associated with the collection of interview data in transition economies was elaborated. Such challenges are primarily related to the general reluctance of Russian managers to grant access to foreign researchers (see, e.g. Liuhto and Michailova, 2000; Michailova, 2004) for fear of revealing business secrets. A way of overcoming this barrier is to use a local "gate-opener" to grant access to enterprises (Kosonen, 2002; Liuhto and Michailova, 2000; Michailova, 2004).

¹⁷ The Commonwealth of Independent States (CIS) is the association of 12 former Soviet republics (only the three Baltic republics did not join it) formed at the end of the Soviet Union in December 1991. In practice, it has never served as more than a loose-knit association. (Gregory and Stuart, 1998: 436)

However, although such a person would assist in gaining access, a further challenge is how to “overcome the liability of foreignness”, i.e. to encourage the interviewee to talk openly about his or her perceptions to a foreigner.

An additional challenge associated with this study was that it aimed at collecting interview data retrospectively from the central planning period, which ended already a decade and a half ago. Given the major restructuring on the enterprise and industry levels since then, the task of finding hotels where the same management would have been working over the whole transition period was considered a problematic one. To overcome the challenges related to the collection of interview data with Russian managers, including the identification of respondents with knowledge from both central planning and the transitional period, I decided to employ a local partner to assist in conducting the interviews with Russian respondents, and to conduct the interviews with foreign managers myself. As a result, 26 interviews were conducted between December 2004 and April 2006.

The interviewees represented the three groups of hotels outlined in the research objectives (foreign-managed hotels, former state hotels and new Russian-managed hotels) in St. Petersburg. The hotels included in the study have different profiles regarding, for example, size (from mini-hotels to former Soviet “giants” of almost 1000 rooms), level of service (ranging from budget to 5-star hotels) and level of standardization of the business concept (independent versus chain hotels and restaurants). As noted earlier in this study, the main purpose of the interviews with hotel managers was to depict practices and organizational processes in the enterprises, allowing a comparison on the field level. To ensure that the interviewees would speak as openly as possible also when responding to delicate questions, such as corruption related to relations with the public sector, they were guaranteed anonymity.

The local partner assisting in the collection of interview data was the St. Petersburg office of the Institute for Comparative Social Research (CESSI), one of the leading institutes in Russia specializing in socio-economic field studies. Its wide contact networks and solid reputation in the local market secured access to Russian-managed companies. In addition,

the nature of the research phenomenon supported the use of local interviewers. In particular in the case of former Soviet hotels, one of the aims of the interviews was to gain information on long-term socio-economic developments. Therefore, being a person having first-hand experience of the Soviet economy and the following developments, was considered an asset. It allowed the interviewers to pose additional specifying questions on related concepts. In addition, the language of the interviews with Russian managers was naturally Russian. Although I am fluent in Russian, a native speaker of the language can react more quickly to illogical moments in the interviews and ask for specifications. Moreover, the local resources of the CESSI proved useful also in an unexpected way. One of the interviewees, a senior expatriate manager of a foreign-managed hotel, preferred to be interviewed in his mother tongue, German. Although having a good knowledge in German, I did not find it sufficient to conduct the interview in that language. Hence, the interview was conducted by a native German speaker at the CESSI.

It should be stressed, however, that the role of the CESSI was limited to the technical implementation of the data collection, while I carried the responsibility for the design and guidance of the data collection process. To design and monitor the data collection, I was in frequent telephone and e-mail contact with the manager responsible for the project at CESSI before and during the data collection process. The interview questions were translated into a Russian-language interview manual. The manual consisted of information on the purpose of the interviews and general instructions on how to conduct the interviews. In addition, the list of thematic questions to be covered in the interviews was accompanied by specifications for each question, detailing the information that was sought. An English version of the manual is enclosed as Annex 1. Before organizing the interviews, the CESSI staff read and commented on the manual, and respective specifications and alterations were made after discussing them over the phone and via e-mail. Finally, interviewers were trained to conduct the interviews.

The preliminary selection of hotels to be included in the study was also my responsibility. The list of potential hotels to be contacted was composed according to the principles outlined earlier in this chapter. The hotels were contacted and interviews agreed by the

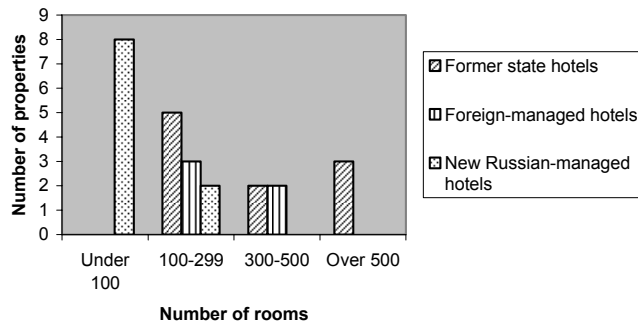
CESSI. The interviewees received the list of thematic questions in advance in order to allow them to accept or refuse the interview, and to prepare for the interview. The interviews were conducted in the respondents' premises. The duration of the interviews ranged from 1 to 2 hours. Each interview was taped and transcribed. In addition to organizing the interviews with Russian managers, the CESSI also contacted the foreign-managed properties in St. Petersburg to identify respondents to be interviewed by me. During this process it was revealed, that the timing of these interviews (December 2004) was not ideal in the sense that one of the foreign-managed properties had recently changed its management company and another was in the process of changing its top management. Therefore, the companies were not in a position to nominate an expatriate manager for the interview but a Russian manager was interviewed instead. As for the foreign-managed hotel represented by a director of the real estate company owning the property, his being interviewed for this study was justified by his position in the hotel. He characterized his role as that of a "master of ceremonies", including managing external relations of the hotel to shareholders, such as the city administration. Moreover, he was able to bring a property owner's viewpoint to the study in addition to being informed about the managing company's views. Furthermore, I contacted the expatriate general managers of these two hotels later on when preparing for conducting other interviews with foreign hotel managers in St. Petersburg in March, 2006. As both of them refused to give an interview, the "backdoor" access gained to the hotel proved valuable. As access to one of the foreign-managed properties that opened after the data collection by CESSI (in November 2004) was denied as well, I eventually interviewed the expatriate managers of two foreign-managed properties in March 2005.

Hotel enterprises included in the study and respondents

The variety of the hotels included in the study gives a representative picture of the St. Petersburg hotel industry as a whole. Figures 3-5 and Table 6 present the main characteristics of the hotel enterprises included in the study, classified according to the three analytical categories of the study (foreign-managed, former state and new Russian-managed hotels). For those hotels managed by a management contract, all indicators

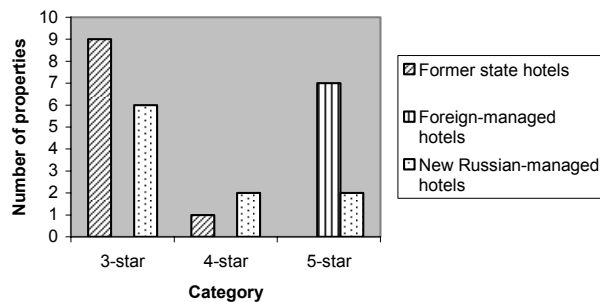
(except property size) are given as during the respective contract. On the contrary, the total number concerning the attribute “size” equals the number of physical properties included in this study, i.e. it is lower than the number of interviews where the same property may occur twice as managed by different management companies.

Figure 3: Size distribution of hotel enterprises included in the study



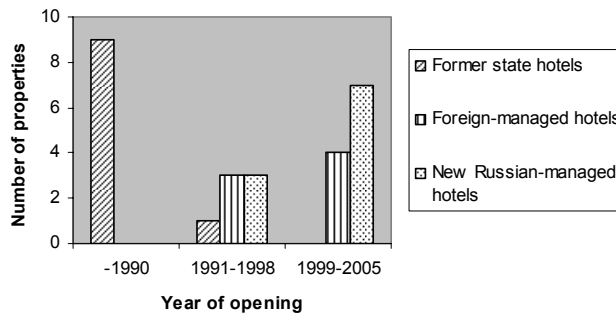
The size distribution of the hotels shows the general tendency of moving from large properties characteristic of the Soviet hotel sector towards smaller and even mini-hotels. The size of the former state hotels varies from 133 to 1200 rooms, whereas new Russian-managed hotels comprise mini-hotels with less than 20 rooms to properties with ca. 150 rooms. The size distribution of the foreign-managed properties is even greater, ranging from 164 to 436 rooms.

Figure 4: Category distribution of hotel enterprises included in the study



The three groups of hotels differ also with regards to category. The majority of the former state hotels represent the 3-star category, whereas all of the foreign-managed hotels are situated in the 5-star segment. The new Russian-managed hotels form a more heterogeneous group in this respect as they are located in all categories.

Figure 5: Age distribution of the hotel enterprises included in the study



The age distribution of the hotels shows clearly the increased activity in the hotel sector during the late transition. Most of the former state hotels were opened in the 1970s, which was a decade of intensive hotel construction in the Soviet Union. Three of the foreign-managed hotels were opened in the early 1990s, whereas the next wave of foreign openings started only in 2001. Most of the new Russian-managed hotels were also opened in the early 2000s, but the sample includes two “pioneers” opened in the early 1990s as well.

Table 6: Ownership and operation mode of the hotel enterprises included in the study

Property ownership and operation mode**	Property with city share, owner-managed	Property with city share, management company	Private property, owner-managed	Private property, management company
Former state hotels	6	-	4	-
Foreign-managed hotels	-	3	-	4
New Russian-managed hotels	-	-	10	-

* For foreign management companies, year in which the management contract was concluded

** The situation at the time of the interview – city sold off its stakes soon afterwards

Three of the foreign-managed hotels were opened in the early 1990s as joint ventures between foreign investors and the city government, whereas four were partnerships between a private property owner and a foreign management company. The former state hotels and new Russian-managed hotels are all owner-managed. One hotel in each group is affiliated with an international hotel consortium. At the time of the interviews, the St. Petersburg city government still held shares in six of the former state hotels whereas new Russian-managed hotels were all in private ownership.

Although the study is of a qualitative nature and does not aim at statistical generalizability, some remarks are in order about how well the group of hotels included in the study represent the total population of hotel enterprises in St. Petersburg. First, according to statistics compiled by the St. Petersburg city government, the total number of accommodation facilities registered as hotels is ca. 135. Therefore, the 25 hotels included in the study comprise almost a fifth of the industry. Second, the study covers the main types of accommodation facilities according to size, category and type of ownership and hence can be viewed as giving a good picture of the industry as a whole. As regards foreign-managed properties, the study gained interview data from five of the total six of them in the city.

The interviewees represent the top management of the hotels, with the majority of them holding the post of general manager. As the interviewees were guaranteed anonymity, a list of interviewed persons cannot be provided. However, a list of “profiles” of the interviewees by attributes, such as position, industry experience and type of employer is provided in Annex 2. The reason for selecting top managers as interviewees was that the aim of the interviews was to gain a comprehensive picture of the operations, including both strategic and operative issues. 23 of the respondents are of Russian nationality, two of them representing a foreign management company and one the Russian owner of a foreign-managed hotel. Four respondents were expatriate managers of international hotel management companies. The interviews with three of these respondents were carried out in English, and one in German at the request of the interviewee. This interview was carried out and transcribed by a native German speaker.

Due to the high turnover of hotel managers in St. Petersburg, the most challenging task appeared to be finding respondents that would be able to answer questions regarding the Soviet period. However, after a lengthy search, CESSI managed to find a number of such persons. Table 7 summarizes the industry experience of the interviewees as regards the time period covered in the study.

Table 7: Industry experience of the interviewees in the study, number of persons

	State socialism (until 1991)	Early transition (1991-1998)	Late transition (1998-2005)
Former state hotels	5	7	10
Foreign-managed hotels	-	3	7
New Russian-managed hotels	1	3	10
Total	6	14	27

As shown in the table, a good half of the respondents were able to describe the early transition period in addition to the current situation. Such persons were found in each category. In addition, there were five former Soviet hotels, managed by persons with management experience from the Soviet period. In four cases the manager had no personal managerial experience from the hotel sector in the Soviet era but was able to talk about it thanks to knowledge gathered in, for example, post-graduate studies. Only in two cases was the interviewed manager of a former Soviet hotel unable to comment on the questions related to the Soviet period due to his young age and short experience in the industry.

Content of the interviews

The interview guide (Annex 1) consists of two sets of thematic questions. The first one was tailored for each of the three groups separately, having a somewhat different emphasis. The second one comprised common questions posed to all three groups. The aim of the interviews was to gain rich descriptions of the hotel industry development over time, comprising first, the “production process” of individual hotels, i.e. different functions such as human resource management, supply and marketing, and the respective organizational structure and second, the hotels’ practices applied in their relations with institutional constituents in their environment, such as the city government and professional

associations. The interview questions touched upon both facts concerning the operations, such as *What is the operation mode of the hotel?* and respondents' perceptions, such as *Have professional associations in your opinion an impact on the industry's development?*

The questions tailored to each of the three groups, addressed the development of operations over time. First, the respondents representing the former state hotels were asked to describe the hotel operations in the Soviet Union, and the changes incurred by the economic transition. The questions regarding the Soviet period dealt with both daily management issues, and the organization of hotel operations in the Soviet planning system. The effects of the economic transition were touched upon both on the strategic and operational levels, dealing with issues such as changes in the ownership mode and changes in the hotel's operational structure, respectively. Second, interviewees at foreign-managed hotels were asked about their entry process to the St. Petersburg market, and the subsequent adaptation of operations to the local context. Third, interviewees at new, Russian-managed hotels were asked to describe the opening process of the hotel, and the organization of operational functions.

The second set of questions, common to all three groups of respondents, addressed the institutional developments of the industry. It comprised mostly questions about the respondents' perceptions of various issues. The topics ranged from general problems of hotel management in today's Russia to the respondents' perceptions of corruption.

Other primary data

In addition to interviews, I benefited from my personal observations of the phenomenon. While staying in several different Russian hotels during her business and private trips to Russia during the research process (i.e. from 1999 to 2006), the researcher utilized the opportunity to make observations from a customer's and industry professional's viewpoint. The frequency of trips was from 2 to 3 per year, i.e. approximately 20 in total. During the hotel stays, notes were made on the condition of the physical premises of the hotels, equipment in the rooms, the quality of the breakfast, organization of front-office functions,

the service attitude and language skills of the staff, and services offered by the hotels. This anecdotal evidence served as additional data to allow tracking, for example, the legacies of the Soviet service style in the hotels.

The primary empirical data was supported by rich documentary evidence consisting mainly of newspaper and journal articles published in Russia. These data are the subject of the following section.

3.4 Secondary data

The documentary evidence used in the study consists of articles in Russian newspapers and professional magazines focusing on the developments in the hotel industry in Russia and in St. Petersburg in particular, as well as of reports composed by industry observers, such as investment agencies and consulting companies. In addition, local industry-level statistics were utilized to gain an overall picture of the development dynamics of the hotel industry.

The bulk of the data, newspaper and journal articles, comprises 238 items published in media, available on the Internet, between 1994 and 2005. The main data sources are listed in the following table.

Table 8: Main documentary data sources

Publication name	Publication type	Language	Period covered
The St. Petersburg Times	Bi-weekly newspaper	English	1994-2005
Turisticheskii Biznes (Tourism Business)	Monthly magazine for tourism industry professionals	Russian	1999-2005
The Moscow Times	5 times a week newspaper	English	1994-2005
Fontanka.ru	Online Internet news from St. Petersburg	Russian	2000-2005

The data was systematically collected during the research process, which started in 1999. In addition to regularly following the media, retrospective data was collected in the publications' searchable database archives. In order not to limit the data too narrowly in advance, a general search word "hotel" was used for the English-language sources. Respectively, in Russian-language sources articles were sought using "gostini*", allowing me to find in the text the words "gostinitsa" (hotel) and its adjective form "gostinichnyi". After retrieving the articles, they were reviewed and if found relevant, printed out, numbered and filed. At the early stages of the research process, also other Internet-based media, such as Russian-language news services, were followed. However, it soon became evident that the coverage of the selected publications of industry developments is rather comprehensive, and other sources provide little additional information. Therefore, it was decided to focus on the selected media and complete the documentary evidence with more focused searches from time to time. In order to gain as comprehensive a picture on the relatively little-researched phenomenon, the material comprises articles on only the St. Petersburg hotel market, but also on country-level developments and the Moscow hotel market. The latter was used as a benchmark in the study, when looking for development patterns specific to St. Petersburg.

The articles were processed following a two-stage approach. First, all the articles were read and numbered. Each article was identified with 2-3 keywords based on the information contained. Second, articles of most relevance for the study, i.e. those focusing on the St. Petersburg hotel industry, and articles addressing industry practices in Russia (e.g. human resource management) as well as developments in the institutional environment (e.g. the introduction of a new rating system), were analyzed in more detail. These articles were organized in an Access database to structure the data and to make subsequent references to it easier. The articles were classified into seven groups, covering different issues relevant to the hotel industry institutional development. The groups and issues addressed under them are summarized in Table 9.

Table 9: Classification of the documentary evidence

Category	Issues covered
Formal industry regulation	Development of legislation City ownership policy, incl. privatization
Ownership structure	Auctions of city shares in properties and respective ownership changes Ownership disputes
Statistical indicators	Performance indicators of hotels Developments in the number of hotels
Investment projects	Planned hotel projects New openings, including foreign entries Problems in hotel development
Business and management practices	Experiences of foreign management companies in the Russian market “Success stories” of Russian hotels
Institutional constituents’ actions	Development of industry standards Functioning of industry associations
Tourism development	Development in tourist flows Obstacles for tourism growth

In sum, the reviewed sources give comprehensive information on the formal and informal institutional development of the St. Petersburg hotel industry. In particular, this includes the development of the field-level institutional pressures, and to some degree organizational responses to them. Moreover, it covers macro-level issues relevant to the hotel industry, such as federal legislation concerning hotel operations.

3.5 Evaluating the research design

After describing the research design and data collection process, this chapter concludes with an evaluation of the reliability and validity of the study. The criteria applicable to descriptive and exploratory case studies¹⁸ includes two measures for validity, and one for reliability (Yin, 1994).

The *construct validity* means establishing correct operational measures for the concepts being studied (Yin, 1994). To increase the construct validity of the study, the three tactics recommended by Yin (1994) were applied. First, multiple sources of evidence were used during data collection. This allowed the researcher to verify the information by triangulating the evidence from different sources. Consequently, the validity of the constructs selected to study the change process was supported during the data collection process, as multiple sources repeatedly pinpointed the same issues relevant to the development of the St. Petersburg hotel industry. Also, after the majority of the interviews were analyzed, a saturation point was identified where new interviews brought little new information. Second, a chain of evidence was maintained to increase the reliability of the information in the study. This was done by presenting the empirical evidence in its original form to the extent as possible, including direct quotations from the interviews. Moreover, citations of the data sources (such as interviews and newspaper articles) were used to allow the reader to follow the derivation of evidence from initial research questions to conclusions (Yin, 1994). Also, specific attention was paid to the construction and maintenance of the database in a proper manner, and the case study protocol was composed in a manner that supports the initial study questions. Finally, the empirical part of the manuscript was read and commented on by a Russian person with insider knowledge on the St. Petersburg hotel industry to verify the chain of evidence.

The *external validity* in case studies measures the generalizability of the research results to other cases. In contrast to some other research methods such as surveys, which aim at statistical generalization, external validity in case studies is of an analytical nature (Yin,

¹⁸ For the other types of case studies (explanatory and causal) there is also the criterion of internal validity to assess the validity of the causal explanation developed in the case.

1994). In analytical generalization, the researcher is striving to generalize a particular set of results to some broader theory (ibid). This study aimed at advancing the institutional view of business strategy in transition economies with the in-depth investigation of a single case on the one hand, and contributing to the development of constructs of institutional organization theory with evidence from a unique empirical context on the other hand. Therefore, the conceptual framework developed for this study can be applied to other sectors in transition economies as well.

Finally, the *reliability* measure aims at minimizing the errors and biases in a study (Yin, 1994). Reliability is achieved by a careful documentation of the procedures followed during the study, which should allow the repetition of the study by another investigator. In this study, the main concerns related to the reliability were associated with the outsourcing of interview data. As mentioned above, the reliability of this study was increased by the training of the interviewees including discussion of the key concepts and purpose of the interviews, and also by the use of a case study database, where all evidence was collected and classified. Another factor to be taken into account when assessing the reliability of the study is the language of the empirical data. As the majority of the data used in the study are in a language foreign to the researcher (English, Russian and German), its interpretation was a potential source of biases. Errors and biases in this respect were minimized by discussing the meaning of concepts and expressions unfamiliar to the researcher with native speakers.

After having presented the data and methodology of the study, the dissertation now moves on to the empirical analysis, which is divided into three chapters. As discussed in Chapter 2, the empirical description is structured by analyzing the nature of institutional change at each level of the analysis (macro-, industry- and enterprise levels) in turn. This is done through temporal bracketing of the data into three distinctive time periods, i.e. central planning until 1991, early transition from 1991 to the 1998 financial crisis, and from the 1998 crisis to 2005. Hence, the empirical description starts with Chapter 4, which illustrates how the formal and informal elements of the macro-level institutional context in Russia changed during the transition from central planning towards a market economy. Next, field-

level institutional pressures in the St. Petersburg hotel industry and changes in them are discussed in Chapter 5 by describing the sources and nature of coercive, mimetic and normative isomorphic pressures in the three time periods under investigation. The description of the empirical data concludes with Chapter 6, which illustrates foreign-managed, former state-owned, and new Russian-managed hotels' strategic responses regarding structure and practices in the different time periods.

4 Macro-level institutional change in Russia: From central planning towards a market economy

Building on North's (1990) conceptualization of a national-level institutional framework, this chapter describes the development of formal and informal institutional constraints in the Russian economy in transition. The starting point is the institutional framework of the command economy, which prevailed until the collapse of the Soviet Union in 1991. Although there were attempts to reform the economy during the Soviet period (Sutela, 1983; Nove, 1986; Petr, 1990) the institutional framework in this period can be considered as relatively stable as it was governed by principles of state socialism and central planning until the disintegration of the Soviet Union in 1991. In contrast, the post-socialist period under investigation in this study (from 1991 to 2005) was characterized by major changes in the macro-level institutional environment. The early years of transition were characterized by a series of market reforms such as the privatization of state property, and a struggle with macroeconomic problems such as high inflation inherited from the socialist period (Sutela, 2003; Boycko et al., 1996; Åslund, 1994). As the transition proceeded, problems in the Russian macro-economy mounted, eventually leading to a major financial crisis in August 1998¹⁹. The crisis can be considered a major watershed in the post-socialist transition in Russia, as after an initial paralysis the Russian economy started to grow rapidly. This was in part due to a devaluation of the ruble, which increased the competitiveness of local producers vis-à-vis imports and also due to a growth in state revenues as a consequence of rising world prices for oil. In contrast to the early transition, when the main focus on the macro-level was on implementing market reforms, the late transition was a period of stabilization and further development of market institutions.

By its nature, the systemic change from a centrally planned to a market economy is a multidimensional phenomenon, where political, economic and social processes are intertwined. The total transformation that took place in Russia and the former socialist countries of Central and Eastern Europe was unique in world history, both in terms of its

¹⁹ For a detailed discussion of the nature and origins of the crisis, see e.g. Rutland, 1999b, Sutela, 1999b.

peaceful nature and its speed (Kornai, 2006). A comprehensive analysis of all dimensions of the transformation in Russia is beyond the scope of this study. Rather, the discussion of institutional elements of post-socialist change focuses on those institutions that have an impact on enterprise strategies, such as the reorganization of ownership. In addition, as economic reforms in Russia are politically rooted, the main political landmarks in Russia' transition towards a market economy will be briefly reviewed.

4.1 The Soviet institutional framework until 1990

As discussed earlier in this study, the primary formal and informal constraints in centrally planned economies include the central planning regime and bureaucratic control, as well as networks and personalized exchange, respectively (Peng, 2000a). The central planning regime asserted an overwhelming effect on firm behavior, strictly defining every aspect of enterprise activity. To monitor and control the execution of the plans, the economic system was ruled by power relations and bureaucratic controls (Peng, 2000a). Hence, the Soviet economy was based on a top-down hierarchy, coordinating plan implementation and the allocation of resources. The planning system, however, was far from perfect, thus creating a need for informal rules such as network contacts that were extensively used to cope with the deficiencies of the planning system (Peng, 1994). Moreover, a key feature of the Soviet Union as a socialist economy was state ownership of enterprises and other factors of production. The next section describes the main elements of the formal institutional framework for enterprise operations in the Soviet Union, which provided the macro-level institutional context for hotel operations as well.

4.1.1 Formal institutions: central planning regime and bureaucratic control

As any economic system, the Soviet economy was a set of organizational arrangements established for the purpose of allocating resources in a particular setting (Gregory and Stuart, 1998: 98). In the Soviet Union, the mechanism for allocating resources was the

central planning regime, combined with state ownership of all factors of production from natural resources to enterprise premises and equipment. Moreover, all land belonged to the state, which allocated state enterprises rights to its usage (Bonneville, 1996).

In order to implement the planning, a complex administrative bureaucracy was needed. It was a nationwide vertical chain of command with the Politburo of the Communist Party of the USSR at the top and individual workers at the bottom (Shekshnia and Puffer, 1996; Sutela, 1983; Gregory and Stuart, 1998). The Communist Party itself was an octopus-like structure with its numerous state-level committees and their departments, and the respective organs at regional and local levels. Below the Politburo, which was responsible for the general direction of the economy and economic policies, there was a vast economic bureaucracy charged with executing and monitoring economic policy (Gregory and Stuart, 1998; Nove, 1986). This bureaucracy included the economic departments of the Communist Party, the state planning apparatus, the industrial ministries, the trusts (which were intermediate between the ministries and the enterprises), and finally the state enterprises. Of the state committees subordinated to the Communist Party, the most important were *Gosplan* (the state planning committee), *Gosbank* (the state bank), *Gossnab* (the state committee for material technical supply), *Gosstro*i (the state committee for price setting, *Minfin* (the ministry of finance), and *TsSU* (the central statistical administration). (Gregory and Stuart, 1998)

The concept of planning in its Soviet context entailed both long-term and short-term planning. The former, the best known of which was the 5-year plan, “translated” the general objectives of the communist leaders into a concrete plan to be fulfilled by a certain date in the future. This plan was operationalized with short-term plans (such as annual and quarterly plans) detailing all outputs and inputs needed to meet the objectives of the long-term plan. Here, the various organs listed above had their own roles: Gosplan was responsible for keeping the overall balances, i.e. ensuring the balance between inputs allocated vis-à-vis production quotas. (Nove, 1986) It determined what products should be produced, in what quantities, and by what enterprises, and sent the plans to industrial ministries who oversaw their execution in enterprises (Shekshnia and Puffer, 1996).

The allocation of resources was a complex procedure, involving Gosplan, Gossnab and ministries. There were *zayavki* (applications for inputs) that were channeled to the resource-allocating organs from enterprises via the respective sectoral ministries. These applications were aggregated and “balanced” to fit the plan, and materials and other inputs (*fondy*) allocated accordingly. In general, the inputs were channeled to enterprises via ministries, but the final decision-making power for the use of resources was with Gosplan and Gossnab. (Nove, 1986) Correspondingly, the realization of the plan was controlled by the state organs against previously defined output targets.

During the Soviet era, the performance indicators for enterprises varied from gross output to gross sales, each being of a quantitative nature, as a consequence of which the quality of goods and services was of secondary importance (Nove, 1986). Furthermore, the low efficiency of production was a problem, which was fought by the Soviet leaders with reforms attempting, for example, to rationalize guidelines for the evaluation of economic performance. These reforms, however, did not provide the planned outcomes and were gradually abandoned. (Sutela, 1983; Nove, 1986; Petr, 1990) Moreover, an important measure intended to improve performance was *sochialisticheskoe sorevnovanie* (socialist competition), which was a system of prizes and social privileges that encouraged all levels of the economy from sectors to individual workers to fulfill plan targets (Marnie, 1986; Kosonen, 2002). Moreover, there was a system of managerial rewards to direct Soviet managers to achieve plan fulfillment. Such bonuses were also paid based on the short-run achievement of output targets. (Gregory and Stuart, 1998).

In addition to material resources, also the supply of labor was centralized in the Soviet Union. The planning system included the determining of enterprises’ labor requirements and wages. Also, the state (i.e. the Soviet Ministry for Education) was responsible for planning the education system in a way serving the national economic objectives. From the very beginning of the socialist regime, the main accent was put on the industrialization of the country and in particular heavy industry. Services and consumer goods production were of less importance. Consequently, the educational system emphasized science, engineering and technical specialties, whereas entry to the humanities was restricted (Gregory and

Stuart, 1998). Moreover, due to socialist ideology, recruitment criteria were not solely based on education and professional qualifications, in particular as regards managerial positions. Party loyalty was a major criterion for promotion to higher managerial positions (Shekshnia and Puffer, 1996) as enterprise managers had also party duties and positions in the local municipal administrations (Melin, 1996). A central feature of the socialist approach to labor was that a variety of social policies were implemented on the enterprise level, including full employment, which guaranteed a job to all citizens (Puffer et al. 1996). Due to the priority given to full employment, losing one's job was in practice highly improbable (Marnie, 1986; Smith, 1998 on the principle of job tenure). Finally, a wide range of social benefits such as housing, daycare and recreational facilities were provided by enterprises (Shekshnia and Puffer, 1996).

The role of enterprises and their managers in the central planning system was to fulfill orders dictated from above. Hence, enterprise managers had no decision-making freedom over strategic questions, such as product mix, pricing, customers, suppliers, distribution, or competition. Furthermore, no cash was exchanged among enterprises to pay for goods or services. Such transactions were taken by the planning bureaucracy. Also, investment decisions were made centrally, therefore enterprises had no decision-making power over the use of the revenues generated by them. (Puffer et al., 2000)

In addition to the national production system, also the foreign economic relations of the Soviet Union were centrally administered. In other words, foreign trade and other economic activity were the monopoly of the Ministry of Foreign Trade and of its foreign trade corporations (Katila, 1985; Nove, 1986: 280). Therefore, foreign enterprises engaged in Soviet trade had no direct contact with Soviet enterprises. In addition, foreign ownership was not allowed in any form in the Soviet Union until 1987, when a law on joint ventures between state enterprises and foreign partners came into force (Geron, 1990). Therefore, foreign enterprises' operations with the Soviet Union were limited to trading goods and projects in, for example, construction. Often, these were arranged in the framework of national-level bilateral trade agreements. Due to the lack of a right to establish a foreign business presence in the Soviet territory, customer services such as hotel business were

excluded from the Soviet-foreign trade system until the legislative reform on joint ventures in 1987. Some foreign-Soviet joint ventures were established after the reform also in the hotel and tourism sector. For example, the Finnish national airlines Finnair entered into a joint venture with Inturist in 1989 to run the Savoy hotel in Moscow²⁰

4.1.2 Informal institutions: networks and personal relations

After having reviewed the basic features of the formal institutional framework of the Soviet economy, the analysis moves to describing its main informal institutional constraints: networks and personalized exchange. Such arrangements were used to complement the shortcomings of the formal institutional framework, i.e. central planning and administrative control. The task faced by the planning organs in the Soviet Union could be called “mission impossible”, due to the complexity of coordinating a nation-wide economic system down to its smallest detail. The major difficulty in the planning system arose from the fact that different elements of the plan failed to cohere, and that when the current plan was amended (which often happened) this was not done systematically (Nove, 1986). For instance, the output plan was changed without analogous changes in the supply, finance, or wages plans. Moreover, the socialist approach to labor including full employment and a low-paying, egalitarian reward system resulted in overstaffing, inefficiency, low motivation, and products of poor quality (Puffer et al. 1996). A standard way of compensating the qualitative and quantitative shortage of labor was “labor hoarding” (Hanson, 1986: 83), i.e. Enterprises retained excess workforce as a reserve for “bad days and moments” (Kosonen, 2002).

The shortcomings in the economic planning resulted in an economy of shortages (Kornai, 1992), where the planning system could not meet the demand for either supplies for enterprises or consumer goods. To cope with this situation, personal networking had a central role (Ledeneva, 1998; Kosonen, 2002; Lonkila, 1999). The Soviet socio-economic system has been characterized as “an economy of favors” (Ledeneva, 1998), where *blat* connections were used to obtain scarce commodities. *Blat* refers to a reciprocal system of

²⁰ See the Finnair group’s history at http://www.finnairgroup.com/group/group_14_3.html.

personally exchanging services and commodities to compensate the shortage of consumer goods and various services (e.g. Berliner, 1968). In addition, *blat* connections were often associated with the recruitment of personnel and managers to prestigious positions. A central feature of *blat* connections was that it provided access to public resources through personal channels. (Ledeneva, 1998; Kosonen, 2002) A central element of the *blat* system in the Soviet economy was that it did not include monetary exchange, which distinguished it from bribery (Ledeneva, 1998). Often, *blat* implied a long chain of connections, composed of series of dyadic relations. Consequently, the person who performed the last favor in the chain did not always know and meet the originator of the request. (Ledeneva, 1998)

In addition to individual purposes, personal *blat* connections were used for “smoothing the work of the enterprise” as well (Berliner 1968: 197). Enterprise managers, who were pushed to meet the output targets, resorted to the informal practice of networks and personal relations to cope with the shortcomings of central planning (Nove, 1986). Here, the *tolkach* was a person whose role was critical: “He was the “pusher”, expediter, unofficial supply agent, who nags, begs, borrows, bribes, to ensure that the needed supplies actually arrive” (Nove, 1986: 95). For example, a Soviet confectionary factory received two-thirds of its sugar through *tolkaches* (Kosonen, 2002). In addition to getting more factors of production, the role of *tolkaches* included bargaining with state authorities to lower output targets (Ledeneva, 1998). Persons carrying out *tolkach* activity were included in the enterprise payroll under formal job descriptions, such as engineers or as employees in the supply department. They were usually compensated for their extra services in the form of prizes and social privileges. (Kosonen, 2002)

In addition to obtaining supplies from the central supply base, Soviet enterprises also resorted to unofficial *barter*. In other words, they exchanged supplies and machinery among themselves beyond the plan. However, although being unofficial, such barter could be done openly by advertising even in the planning organs. (Nove, 1986: 96) In some enterprises it was institutionalized to such a degree that they purportedly devoted part of their excess production for barter purposes (Kosonen, 2002). The open nature of barter

distinguished it from *black market* activity (or the second economy), which flourished beneath the surface of the official planned economy as well. *Black market* transactions were different from *blat* exchange in the sense that they were based on bribery, or monetary or in-kind compensation (Gregory and Stuart, 1998). Both individuals and enterprises participated in such activity. For example, a physician would treat a patient for a fee outside traditional medical channels, or production organizations such as construction enterprises would perform activities for private gain outside the plan. Such activity was motivated by personal gain on the one hand, and by the necessity to resort to the second economy to get needed services that could not be provided by the official economy on the other hand. (Gregory and Stuart, 1998)

An important dimension in Soviet-era *blat* and other exchange relations was that they were highly personalized, i.e. based on friendship or trust developed through a long business association (Salmi, 1995: 88). However, although the exchange of favors and goods initiated and maintained friendship for their part (Ledeneva, 1998), great care was taken in cultivating the friendship by means of little gifts (Berliner, 1968: 192). A strict line was drawn to separate such small gifts from bribes. A box of chocolate or a bouquet of flowers for a person's birthday was considered as a gesture of attention (*znaki vnimaniya*) to invest in keeping up good relations rather than as a means to get immediate gain.

The informal networking practices, such as *blat* connections and the services of *tolkaches* were also applied in the Soviet hotel industry, as is demonstrated in Chapters 5 and 6. Although being informal institutions created and/or maintained by the formal institutional framework of central planning, these practices proved useful in the post-socialist transition as well. The next section discusses the changes brought to the institutional framework in the Russian Federation by the dissolution of the Soviet Union and its central planning regime.

4.2 Institutional framework in the early transition: between plan and market

The dissolution of the Soviet Union in 1991 was the ultimate consequence of a series of major events that swept throughout the former socialist bloc of Central and Eastern Europe in the late 1980s, and led to the rejection of the socialist planning system in these countries. The reform process was triggered by the fall of the Berlin Wall in 1989, which for its part was a consequence of the loosening of the Soviet Union's grip on its former satellites. A central role in this process was played by Mikhail Gorbachev, who became General Secretary of the Communist Party of the Soviet Union in March 1985. Although the need to reform the ill-functioning economic system in the Soviet Union had been a persistent theme in the Soviet political discourse since the Second World War, it was the introduction of Gorbachev's *perestroika* policy that gave a boost to the reforms (Gregory and Stuart, 1998). These macro-level reforms, however, has little effect on enterprise behavior (see, e.g. McCarthy and Puffer, 1996; Kosonen, 2002). This can in part be explained by open resistance and partly by the inertia of old practices (Kosonen, 2002). Ironically, Gorbachev aimed at reforming the economic system within the socialist regime –creating “socialism with a human face”, but at the end his ideas led to the abandonment of the central planning in favor of market economy.

After some years of the *perestroika* policy, the final shift from economic reform to transition towards market economy took place in 1990 when the so-called Presidential Plan with such a goal was introduced by advisors of Gorbachev and Boris Yeltsin, who was at the time President of the Soviet Federative Socialist Republic of Russia (Gregory and Stuart, 1998). The transition was accelerated mid-1991, and Yeltsin gained power also on the national level after the failed coup in August 1991.²¹ The final nail in the coffin of central planning was the dissolution of the Soviet Union on 1.1.1992. Real change on the enterprise level started only then (Kosonen, 2002). The following section presents the main

²¹ The coup was an attempt by a group of Communist Party conservatives to oust Gorbachev. Boris Yeltsin led the resistance, which eventually led to the failure of the coup after 3 days. Although Gorbachev formally kept his position as the Soviet leader, political support had shifted towards Yeltsin. This development eventually led to the official dissolution of the Soviet Union from 1.1.1992, after several of its former republics had declared independence. (Gregory and Stuart, 1998)

institutional reforms associated with the transition from the centrally planned economy to a market-economy-based system in the Russian Federation.

4.2.1 Formal institutions: shock without therapy?

The leaders of newly independent Russia, as well as their counterparts in the former socialist economies of Central and Eastern Europe, had an enormous task ahead as a transition from central management to a market economy had not happened earlier in world history. Therefore, there were no guidelines to follow. Moreover, due to political and social tensions created by the collapse of the old system, it was generally thought that as much change as possible had to be pushed through as fast as possible in order to make the transition irreversible (Sachs, 1990; Blanchard et al., 1994; Fischer, 1994). Otherwise, there would be the risk either of leaving the society in a quandary between two systems or perhaps even returning it to socialism. (Sutela, 2003) Such an approach was called “shock therapy” due to its drastic nature, and later on ironically “shock without therapy” as it did not lead to as quick an adoption of the market economy as it was expected.

A common agreement on a transition agenda for the former socialist countries of Central and Eastern Europe emerged at the very beginning of the 1990s. This reform program was labeled the Washington Consensus due to the location of its main advocates, the IMF, the World Bank and their largest financier, the US Treasury. The consensus was firmly based on a belief in the market economy and the benefits of opening up to foreign competition, stressing the need for liberalization, stabilization and privatization as key elements in transition. (Sutela, 2003) This approach focused heavily on macroeconomic policies, postponing questions of market regulation and institution building to a later date. This was in part justified by the fear that increased state control would allow communist reactionaries to re-impose a state-controlled economy. Moreover, it was assumed that the institutional infrastructure necessary for a market economy was either in place already or could be built quickly either on Western blueprints or by the new Russian elites. (Rutland, 2001a)

Of the three first-generation privatization policies, liberalization and stabilization aimed at reforming the institutional framework of the Russian economy on the macro-level, i.e. providing the basic conditions for a market-based economy to develop. *Liberalization* meant lifting restrictions on business activity, both domestic and international (Rutland, 2001a; Hirvensalo, 1996). This included liberalization of prices, entrepreneurship, trade and payments, i.e. moving from the centralized governance of economic activity to a market-based system, where prices would be determined by the market and entrepreneurs would be free to establish and conduct trade and other economic activities (Sutela, 2003).

Stabilization involved the introduction of a convertible currency and the conquest of inflation, based on the argument that without stable money the price system couldn't work effectively and investment would be severely constrained (Rutland, 2001a; Hirvensalo, 1996). Stabilization had two macro-economic dimensions: First, to abolish the monetary overhang (i.e. monetary supply exceeding demand) inherited from the Soviet era, and to control the money supply. The first problem solved itself by the inflation following the liberalization of prices. To control the money supply and associated budget deficit was a more challenging task. The creation and maintenance of tight fiscal policy to cut budget expenditures was difficult in the post-socialist conditions, as the Russian state had inherited large and diverse social commitments. (Sutela, 2003) At the same time, a taxation system consistent with a market economy had to be created to ensure the revenue side of the budget. Due to the complexity of this task, tax revenues did not cover budget expenditure (Sutela, 2003). As a consequence, high budget deficits and consequently high inflation persisted in Russia for the first half of the 1990s.

Of the three key elements in transition measures, *privatization* had the most direct impact on enterprise operations. As noted in the previous sections, private ownership was practically not allowed in the Soviet Union²². Therefore, in addition to liberalizing entrepreneurship on the policy-level, measures had to be taken to transfer state enterprises to private ownership. This process had gradually started in the late years of perestroika from 1989-1991 as “spontaneous privatization” (Rutland, 2001a; Summanen, 1995). This

²² Exceptions to this were small cooperatives and leasehold enterprises operating mainly in retail and personal services, which were allowed in the late 1980s, and small-scale private farming.

included both the transfer of state property into private hands either free of charge, or at a nominal value, and the use of state property such that the management and/or other levels of the hierarchy retains the residual income for its own use. The roots of such behavior were in the economic liberalization of 1988-1987, after which the state loosened its grip on the enterprises. (Summanen, 1995). As a result, former Soviet *nomenklatura* consisting of the elite members of the Soviet economy, such as the Communist Party and the Communist youth league *Komsomol*, was able to make fortunes and become *oligarchs* with a great deal of control over the economy.

The official privatization in Russia involved both small-scale and large-scale privatization. In small-scale privatization shops and small enterprises were sold as proprietorships for cash, usually by local governments. (Boycko et al., 1996; Kosonen, 2002) The large-scale privatization occurred in three stages. The first stage, so-called voucher privatization, started in 1992 as every Russian citizen received privatization vouchers. The vouchers could be sold, invested in voucher privatization funds or used to buy shares in a company. The distribution of vouchers was started in October 1992. After being turned into joint-stock companies, enterprises could proceed to auction their shares against vouchers. In addition, employees and managers were given an opportunity to acquire ownership shares, often at preferential prices in “closed subscriptions” (Gregory and Stuart, 1998). Finally, in many cases the government maintained significant ownership in privatized enterprises.

The aim of the summer 1992 privatization program was that after voucher privatization the state would auction off, for money, the remaining state-owned shares. They often amounted to 20-30 percent of the total shares of a company. This second phase of large-scale privatization, the sale of equity, was meant to attract major investors into the economy. The budget would also receive much-needed revenue. This part of the program, however, failed due to a lack of potential buyers and insider resistance. The failure of privatization tenders was one reason why the government changed its strategy in late 1995. (Sutela, 2003)

The third stage of privatization took place in 1996, as the government opted for a loans-for-shares scheme whereby the remaining state shares in twelve large natural resource

companies were pledged to private banks against credits. These credits were used to finance both a growing budget deficit and Yeltsin's presidential campaign in June 1996. The expressed intention was that the state would later sell the shares it owned and pay back the credits, so that any profits would be shared with the banks. Everybody probably understood from the beginning that this would never take place. The state never paid back the credits, and the equity of these major companies was now held by the banks. They could proceed to sell them. They were also anxious to sell the equity either to themselves or their owners. This process contributed to the formation of what became known as financial industrial groups (FIGs) including banks, industrial and infrastructure companies, and often also media companies, thereby further strengthening the position of the *oligarchs* in the economy and also in politics. (Puffer et al., 2000; Rutland, 2001b; Sutela, 2003)

Liberalization, stabilization and privatization are often called first-generation transition policies, aimed at providing relatively quickly many of the basic institutions of a market economy. However, from an enterprise viewpoint, much more was needed to replace the Soviet planning system with a functioning market-based system. As summarized by Peng (2000a: 47), the major formal constraints during the economic transition were the lack of a credible legal framework, the lack of a stable political structure, and the lack of strategic factor markets.

A central feature in the formal institutional framework of a market-based economy is a well-defined property-rights-based legal framework. (Peng, 2000a) In the post-socialist context, such a framework had to be created basically from scratch, as the task of defining exchange relationships among economic actors was taken in the planned economy by the state bureaucracy. (ibid) In addition, as virtually everything was owned by the state, there was little need for commercial laws. The legal framework for the Russian market economy was set by the 1993 Russian Constitution, and the Civil Code that was passed in the following year (Gregory and Stuart, 1998). The latter included the basic regulation for business and entrepreneurship, and subsequently a number of more specialized laws addressing particular industries or particular types of business were introduced. Also, it

defined foreign enterprises' equal rights with domestic ones²³, and allowed foreign enterprises to establish fully owned subsidiaries. Hence, the general framework legislation formally established the legal environment for a market economy in Russia. However, the more specific legislation to operationalize the Constitution and the Civil Code did not develop as rapidly. For example, although the Constitution declared private ownership of land to be legal, due to political resistance the legal regulation of land ownership was incomplete, consisting mainly of presidential decrees (Skyner, 2003).

In addition, to implement legal reforms in full, an effective law-enforcement system has to be constructed in addition to the introduction of new legislation. In many transition economies, laws introduced were often a façade without foundation as the institutions ensuring their enforcement were missing. This concerned both formal institutions such as an effective court system, and informal institutions such as the customary practice of enforcing private rights (Murrell, 1996: 34). In Russia, the lack of such institutions was a major problem during the early transition, leading to opportunistic behavior and questionable business practices, which are described in the next section.

Another factor creating ambiguity for the legislative environment in Russia was the Russian administrative system, where part of the legislation is at the federal level and part is delegated to regions²⁴. Characteristic of the early transition period was that laws drafted at the regional level often contradicted the federal ones. This was in part due to the *laissez-faire* approach of President Yeltsin, who delegated a considerable amount of decision-making to the regional level. The governors of the regions took his famous message “take as much autonomy as you can swallow²⁵” in earnest, and as a result, the legislative environment in different regions varied considerably. Moreover, as the administrative structure and procedures of the country were still under construction, the Federal center had little means to control what is going on in the regions.

²³ There were, however, restrictions on foreign involvement in sectors such as banking and natural resource exploitation.

²⁴ The Russian Federation consists of 88 “subjects of the Federation”, often called regions. St. Petersburg is one of them.

²⁵ For a discussion on the development of federalism in Russia see, e.g. Solanko and Tekoniemi, 2005.

The lack of a credible legal framework was accompanied by a lack of a stable political structure. In Russia, the early transition period was characterized by repeated struggles for political power. The major source of political instability was that Boris Yeltsin's election to the presidency of Russia had taken place before the 1991 coup, i.e. within the Soviet political framework. Therefore, his constitutional power vis-à-vis the legislature was questioned. Moreover, there was strong opposition mainly consisting of conservatives representing the Soviet-era political elite to the radical reforms Yeltsin introduced. The open conflict between the president and the legislature culminated in September 1993, as Yeltsin dissolved the Congress of People's Deputies and the Supreme Soviet. His opponents refused to comply, leading to an armed insurrection in October 1993. It, however, failed after Yeltsin ordered the military to shell the parliament building in Moscow. The position of Yeltsin was confirmed in the presidential elections of 1996, where he was elected to a second term. (Gregory and Stuart, 1998).

The political instability of the early and mid-1990s was reflected in the low amount of foreign investment in Russia in comparison to its attractiveness as a market, where the St. Petersburg hotel industry was not an exception. In addition, although the general legislative framework in principle allowed the free establishment of foreign business operations, more specific legislation set forth restrictions (Gregory and Stuart, 1998). For example, foreign enterprises' participation in privatization was limited and there were sectors such as natural-resource industries and the financial sector where a foreign presence was restricted (Boycko et al., 1996). Moreover, privatization acquisitions and joint venture negotiations involved the state as a powerful stakeholder with interests not always corresponding to those of the foreign company.

Finally, the formal institutional framework in the early transition was characterized by a lack of strategic factor markets, such as financial markets that would ensure the proper transfer of ownership (Peng, 2000a, Barney, 1986). In Russia, financial markets could not provide enterprises with reasonably priced capital during the early transition. The newly created banking system was untrustworthy, and interest rates for loans were extremely high (Ledeneva and Seabright, 2000). Therefore, most enterprises could not afford to acquire

working capital and funds for investment from “official” sources (i.e. financial markets) and resorted to unofficial sources instead (Ledeneva and Seabright, 2000). In addition to borrowing from friends, relatives and business acquaintances, enterprises extensively resorted to *barter* transactions to compensate for the lack of monetary resources. It has been estimated that the share of barter in all inter-enterprise transactions was as high as 50 percent (see e.g. Sutela, 1999a; Kosonen and Rautava, 2002) Barter and other informal practices of the early transition are discussed in more detail in the next section.

4.2.2 Informal institutions: clinging to past practices

In addition to the macro-level reforms (liberalization, stabilization and privatization) that were implemented in Russia in the first years of economic transition, it was the abolishment of the central planning bureaucracy that had particularly dramatic effects on the day-to-day functioning of enterprises. The “shock therapy” policy implied that the old structures were to be dismantled rapidly, but failed to acknowledge that a market-based exchange structure would not develop overnight to replace the former system. As a consequence, enterprises were left in a vacuum as regards their relations to other actors of the production system. To cope with the situation, enterprise managers resorted to their past networks and practices of personalized exchange (Peng, 2000a; Kosonen, 2002). In addition, due to the lack of experience in operating under market conditions, the thinking of Russian managers was molded by the principles of the Soviet economy. For example, the ultimate goal for enterprise survival was understood by managers of state enterprises as preserving the workforce (Boeva and Dolgopiatova, 1994). Moreover, the underdeveloped legal system gave grounds for opportunism and illegal activity, such as the spontaneous privatization of state assets and public sector corruption (Peng, 2000a). Also, in the absence of effective law enforcement, businessmen resorted to unorthodox means of contract enforcement (Volkov, 2000; Peng, 2000a).

The use of network relations during the early transition can be roughly divided into two situations. First, network-based, personalized exchange between enterprises as a substitute

for a market-economy type of impersonal, contract-based exchange (Peng, 2003) and second, the use of personal relations in enterprises' relations with public sector actors. The resorting to old relations and personal networks in inter-enterprise relations was caused by the above-described deficiencies in the formal institutional framework. As the Soviet planning system collapsed, enterprises had to transform themselves from parts of the centrally planned system to market-economy type firms that make strategic decisions themselves and co-operate directly with other actors in the production system. In other words, they had to take over functions formerly executed by the planning apparatus. As in the planning system enterprises did not have contacts with each other, in the new situation virtually no information on potential suppliers and customers was available on the market. As a consequence, enterprise managers resorted to their old contacts to organize economic transactions. In addition to the lack of information on potential business partners, the use of personalized exchange relations can be explained by the ineffective legal framework, which could not ensure enterprises that written contracts would be effectively enforced. To put it differently, it was better to do business with friends whom you could trust, than with unknown partners that could disappear overnight and who could not care less about their contractual obligations.

Another phenomenon illustrating the importance of network relations in the early transition was the widespread use of *barter* transactions. Barter transactions in Russia were basically of two types. The first type involved so-called commodity currencies, i.e. physical goods were used in payment for other goods. For example, a shoe manufacturer would pay its leather supplier in shoes. The supplier for its part would then use the shoes as a currency in its transactions with other firms. The second type was more complicated and involved matching demands. In other words, each party in the transaction must not only demand what the other supplies but also supply what the other demands. (Ledeneva and Seabright, 2000) Such activity led to the diversification of enterprises into businesses that at first glance seem to have no relation at all, but given the complex barter exchange relations make perfect sense. Combinations of various businesses formed a chain, which ended in having something at hand that could be sold to consumers for cash (Kosonen, 2002).

The commonness of barter was in part a direct continuation of the Soviet-era practice of non-monetary exchange, and partly caused by several factors of the post-socialist development. Under hyperinflation it was more advantageous to keep assets in physical goods, and as many enterprises could not get working capital from financial markets, barter exchange helped them in “muddling through”. In addition, keeping assets in physical goods was viewed as more reliable than having money in the bank where it would at least lose its value due to inflation if not completely disappear. Moreover, contractual enforcement was easier as the payment was in an “earmarked” form. Finally, barter was also used to avoid taxes, which constituted a major burden for enterprises in the early years of reforms. (Ledeneva and Seabright, 2000; Kosonen, 2002)

In addition to inter-enterprise relations, networks and personal relations were key in enterprise relations with the state. Personal relations were used for several purposes. First, enterprises lobbied authorities to soften budget constraints, i.e. to have more favorable conditions in which to operate (Frye, 2002). When the legislation was in the making, such efforts often paid off in the form of laws “tailor-made” to the enterprise’s purposes. Second, due to the newness of the legislation and rapid introduction of new regulations, public sector officials whose job it was to execute the regulations received incomplete instructions how to interpret them. Consequently, individual officials had considerable decision-making freedom as regards their job descriptions and practices. (Kosonen, 2002)

To ensure that legislation would be interpreted in a way that is favorable to them, enterprises tried to establish and maintain good relations with public sector officials. Here, the Soviet-era tradition of gift giving was utilized. As in the Soviet times, it was separated from bribery, which emerged as a problem in the public sector as well during the early transition. In addition to the ambiguous institutional framework for the functioning of the public sector, a low salary level further fuelled corruption. Often, bribes were camouflaged under inspection fees by various bodies as enterprises were frequently visited by representatives of state agencies, such as the fire department, sanitary control and tax authorities (see, e.g. Kosonen, 2002; Karhunen et al., 2003). Additionally, due to the ambiguity of regulations, inspectors nearly always found something to be fixed, but agreed

to overlook it against cash. Good relations were viewed as a substitute for bribes, following the logic that “I’ve never had to pay bribes, because everybody knows me” (Karhunen et al., 2003; Karhunen, 2007).

Good contacts with public sector officials were also used as a means to acquire information on, for example, legislative changes. Due to the rapidly changing legislation, and partly because of the Soviet-era practice of information hoarding (e.g. Heusala, 2005 on Soviet and post-Soviet administrative culture in Russia), state authorities did not inform enterprises sufficiently about changes in legislation and how they should be interpreted. Moreover, such changes could be taken into force also retrospectively, so enterprises had to be a step ahead of lawmakers. Here, having a reliable informant in, for example, the tax authority or customs office helped considerably to avoid unpleasant surprises related to new regulations (e.g. Kosonen, 2002; Karhunen et al., 2003).

Finally, in addition to the above-reviewed informal practices that can be described as bending the formal rules of the game, the systemic transition also generated phenomena that consciously broke them. These can be divided into two broad categories. The first group includes business practices considered as unethical by Western standards and developed to avoid formal institutional constraints. In particular, evading taxes and other compulsory payments to the state became a widespread practice. For example, it was common to pay part of an employee’s wage “in an envelope” in order to decrease the official wage serving as a basis for social payments. Finally, the bribing of the public sector to, for example, speed up the processing of documents needed for business transactions was frequent.

The second group consists of not only unethical but also clearly criminal activities that the turmoil of the early 1990s enabled. Often, such activity is simply labeled under the common denominator “*mafia*”. The absence of a properly functioning legal system and the lack of police protection in the early years of the transition provided a hotbed for criminal organizations engaged in activities such as drug dealing, prostitution and racketeering. It was fairly common that enterprises had a *krysha* (roof), an organization that was paid for

protection to compensate for the lack of police control in the country (Galeotti, 2000; Volkov, 2000; Radaev, 2000). However, such private protection was rapidly institutionalized, as a law on private protection companies was adopted already in 1992 (Volkov, 2000). Until then, protection and enforcement services were provided illegally by not only criminal organizations but also by the national security organization FSB and the police. The legalization of such activity enabled private protection companies to operate openly on the market. In addition to protection, the product mix of such organizations included also contract enforcement, such as debt recovery. (Volkov, 2000)

The above-described informal practices were confronted also by foreign enterprises that entered Russia during the early transition. As in any market, foreign players had to consider to what degree they would play by the local rules of the game and to what extent follow their internal company norms and principles. Concerning how foreign entrants handled the situation, it can be noted that the division into formal and informal “rules of the game” holds also on this level. Most foreign enterprises took a strict stance towards corruption and interaction with criminal structures. This was the case at least in the official company policies, but on the grass-root level the reality was not always as straightforward. Often, the responsibility to deal with the external stakeholders of the enterprise, in particular the public sector, was delegated to a Russian manager who then solved occurring problems in his or her own way (Karhunen et al., 2003). The foreign headquarters or even the expatriate managers of the Russian operations were not always even willing to know what this involved (Karhunen et al., 2003). In some cases the local manager of foreign companies was even hired from the local administration to maximize the benefits of personal networks and knowledge of local administrative practices (Kosonen, 2002).

4.3 Institutional framework in the late transition: market economy gains a foothold

The last development period illustrated in this chapter began with the financial crisis of August 1998, which temporarily crippled the Russian economy. The causes of the crisis were numerous. First, there were a number of structural problems with the Russian

economy, pinpointing that the adaptive capacity of the economy lagged behind the ambitious reform program (Rutland, 2001b). Second, a series of fiscal policy errors occurred that led directly to the crisis (Rutland, 2001b). Among other things, the persisting state budget deficit was financed by issuing short-term state bonds since 1995 as a part of the Federal government's stabilization policy. In August 1998 the inability of the state to govern its debts led to the devaluation of the ruble and to a consequent drop in the income level of the population. (Sutela, 1999b) Despite the severity of the crisis, the Russian economy recovered fast, due to tighter economic and fiscal policy and also to favorable world prices for oil and oil products. In addition, the devaluation of the ruble gave a boost to local production due to its improved cost advantage vis-à-vis imports.

The economic recovery in the aftermath of the 1998 crisis was accompanied by political stabilization. On New Year's Eve 1999, president Yeltsin unexpectedly announced his resignation and nominated Vladimir Putin as his successor. Despite the fact that the former KGB²⁶ officer Putin was a relatively unknown politician, his selection as Yeltsin's heir was viewed as a signal of continuity with the reforms. Putin's efforts to tighten the Kremlin's control over the nation's economy have been generally viewed as bringing stability to the business environment during his term in power (which was continued as he was elected for the second term in 2004). However, not everyone shared this positive view, as it included measures directed towards decreasing the power of the *oligarchs*.²⁷ Among other things, the legality of the deals by which the *oligarchs* had built their empires was questioned and consequently parts of their property were taken under state control. The best-known case was the destatization of the oil giant Yukos and the conviction of its owner Mikhail Khodorkovsky of tax fraud. Many of his colleagues, such as the media tycoon Boris Berezovsky, did not want to risk sharing Khodorkovsky's destiny but fled from Russia instead.

Finally, during the post-crisis period, the legal framework has been developing along with strategic factor markets. Another sign of strengthening market conditions is that in

²⁶ In the Soviet Union, the State Security Committee KGB (Komitet Gosudarstvennoi Bezopasnosti) was the umbrella organization including security, intelligence and secret police agencies.

²⁷ For a discussion of the role of *oligarchs* in the Russian economy see, e.g. Guriev and Rachinsky (2005)

enterprise relations, contract-based exchange has gradually replaced network-based exchange. However, there was still a certain discrepancy between the formal and informal constraints of the Russian economy, as the following sections illustrate.

4.3.1 Formal institutions: stabilization and strengthening of market institutions

As noted previously, the legal framework gradually improved during the late transition. The increased control from the federal government included measures to bring regional legislation more in line with that of the federal level. Also, a number of legislative measures were taken to improve the business environment and to cut bureaucracy related to enterprise operations, and to protect enterprises from opportunistic authorities. In part, the changes in legislation imply a deregulation of business. For example, the list of business operations requiring licensing was shortened several times since 1998 (Ivanova et al., 2006), and the new law on registration from 2002 was targeted to simplify the registration procedure (CEFIR, 2005). Moreover, a tax reform was initiated in 2001 (Hellevig et al., 2005) including the lowering of the general tax burden and the creation of simplified taxation schemes for small businesses (Ivanova et al., 2006). A major development was also the adoption of the Land Code in 2001, which finally brought into force most provisions of the Civil Code concerning property rights and other material rights to land (Skyner, 2003). Finally, a new law on inspections came into force in 2001, with the aim of decreasing the number of inspections by government agencies of enterprises (CEFIR, 2005). However, the attempts to improve the formal institutional framework did not always bring expected results, as the behavior of public authorities did not change as rapidly (CEFIR, 2005; Heusala, 2005)

In addition to the legal framework and political stability that improved during the late transition, also strategic factor markets developed. The financial crisis of 1998 was accompanied with a banking crisis, which only the fittest of the numerous banks in the country survived (Chowdhury, 2003a). Also, the possibilities of raising capital from financial markets improved, in part due to an increased supply of financing and partly

because of the improved financial situation of enterprises in line with the overall economic recovery. Correspondingly, the amount of barter declined as enterprises gradually shifted to monetary transactions.

In general, enterprises' exchange relations developed towards impersonalized, contract-based exchange. Such development was a result of several developments. First, the increasing availability of information on potential exchange partners and the improved transparency of enterprises made it easier for enterprises to assess the reliability of potential partners. In other words, friendship and personal recommendations were not the only bases for trust as during early transition. Large businesses, which aimed at raising capital from outside investors, started to pay increasing attention to corporate governance. Second, the legal system with its contract enforcement mechanisms gradually improved. Enterprises increasingly started to take their disputes into court, instead of "solving problems" with the assistance of private protection organizations. Finally, the improvement of strategic factor markets included the development of a system for transfer of ownership. In general, as enterprise growth during the early transition had mainly been based on network-based strategies (Peng, 2000a), during the late transition market-type acquisitions started to gain popularity. Furthermore, as during the early transition many acquisitions had involved the state as the selling partner, private-private transactions started to emerge as well.

From the viewpoint of international business, the late transition integrated Russia more tightly into the world economy. In particular, the negotiations of Russia's access to the World Trade Organization (WTO) that gathered speed after the millennium stimulated the harmonization of Russian legislation with WTO requirements. However, there were still obstacles to WTO membership, such as intellectual property protection issues and formal restrictions concerning foreign involvement in, for example, the banking and insurance sector. (Chowdhury, 2003b) On the other hand, the emergence of a secondary real estate market and possibilities to buy enterprises via a normal acquisition procedure diminished the role of the state as a negotiation partner for foreign companies.

4.3.2 Informal institutions: towards market-based practices

However, despite the positive developments in the formal institutional environment described in the previous section, the legislative and regulative environment in the late transition period was still imperfect in many respects. In particular, the gap between formal legislation and its enforcement remained. A Russian manager quoted for a recent study nicely illustrates this: *“The tax system is problematic. Laws don’t work. The economy is entirely gray, salaries are half gray. No slogans will help make the economy white while there is such a tax and legislative system.”* (Ivanova et al., 2006: 157). This resulted in a continuing need for transition-specific informal practices, in particular personal relations with public sector officials. Because of the continuing lack of openly available information on legislative changes, many enterprise managers continue to rely on personal contacts in public administration to gain this information. The practice of showing *znaki vnimaniya* (gestures of attention) to maintain these relations continued.

Moreover, public sector corruption remained a problem. Despite the legislation introduced to decrease the frequency of inspection visits by various authorities, enterprises were still subject to extensive administrative control (CEFIR, 2005; Ivanova et al., 2006). In addition to taking management’s time, such inspections involved often also illegal payments to bureaucrats (Ivanova et al., 2006). In addition, the enforcement of legislative initiatives towards simplification of registration and other administrative procedures was problematic. The ambitious targets to, for example shorten the time needed for company registration were not met on the grass-root level (CEFIR, 2005). Therefore, enterprises willing to speed up the procedure were faced with the old option of paying something extra for “express service” (Karhunen et al., 2003).

In contrast, enterprise transactions were increasingly moving towards impersonalized, contract-based exchange. For example, business ties were increasingly separated from friendship ties (Heliste et al. 2005) and the business was developing in a more “civilized direction: *“There has been a transition from the Wild West to more civilized business. There appeared the notion of reputation, which leads to the development of civilized, long-*

term, partnership-like relations between companies.” (Ivanova et al., 2006: 156). Moreover, the general commercialization and marketization of Russian society has changed the nature of old practices such as *blat* (Michailova and Worm, 2003). The use of *blat* has shifted from acquiring physical resources and assets to information flows and services, in particular from the public sector (Michailova and Worm, 2003).

However, the late transition brought signs that enterprise practices towards the public sector were gradually moving in a more impersonalized direction, i.e. there was no special need for either bribing or keeping up good relations with civil servants if the enterprise was operating transparently and fulfilling all the requirements set in the legislation: *“Why do people pay bribes? Because they are afraid that they [different authorities] would come and close them, arrest them. It is necessary to know the legislation. [...] It is necessary to know why they could come and close or arrest. And the next thing is that of course one needs to work honestly.”* (Ivanova et al. 2006: 158). This change in thinking was in part a result of the emergence of a new generation of Russian managers, who had gained their professional education and working experience in the post-socialist period. Also, new businesses that had been founded after the collapse of the central planning were less influenced by the socialist practices than former state enterprises with resources inherited from the socialist era. In addition, it seems that the practices of Russian enterprises were gradually converging with those of foreign entrants. Furthermore, foreign enterprises faced in Russia a business environment closer to a Western-type one as to its institutional framework. However, some empirical evidence suggests that the situation regarding, for example, public sector corruption rather worsened than improved during the post-crisis period (e.g. Heliste et al., 2005).

4.4 Summary: Macro-level institutional change in Russia

This chapter was devoted to a description of the main features of the macro-level institutional framework in Russia and changes in them following the systemic change from the centrally planned to the market economy. The analysis was structured along the two

dimensions of a national-level institutional framework identified by Douglass North (1990): formal and informal institutional constraints.

The formal institutional constraints of the *central planning period* centered around the central planning system, based on the ideology of state socialism. These included the central planning regime and the respective administrative bureaucracy with a top-down command hierarchy. The role of enterprise managers was to implement orders from above with no decision-making freedom. The planning system did not work perfectly, however, and a range of informal practices were developed to complement and/or substitute for the formal ones. In particular, informal networks such as *blat* connections and *barter*, as well as the central role of *tolkaches* in coping with supply shortages were central. In addition, there was a second economy beneath the surface of the formal system based on the socialist ideology. This consisted of a variety of black market activities often based on the exploitation of state-owned resources for individual gain.

For foreign enterprises, the Soviet Union was a relatively closed market. Foreign business operations with the Soviet economy were limited to trade of goods and project contracts, conducted as a part of centrally planned foreign trade system. The presence of foreign enterprises in the Soviet territory was very limited, as foreign ownership was not allowed until foreign-Russian joint ventures were enabled in the last years of the Soviet regime.

The early transition marked a profound restructuring of the formal institutional framework, as the central planning regime and its administrative bureaucracy were dismantled. A series of macro-level reforms were implemented targeting the creation of framework conditions of a market economy. The first-generation transition policies involved the liberalization of entrepreneurship and prices, macro-economic stabilization and the privatization of state enterprises. In addition, legislation was reformed to meet market economy demands. The reforms were implemented following a “shock therapy” approach, where changes were comprehensive and rapid. However, although macro-level formal institutions could be put in place relatively quickly, the building of market-economy institutions such as legislation and the respective law enforcement structure took more time. Therefore, the early transition

was a kind of “between plan and market” period, where the formal institutional constraints of the central planning were abolished but new, market-economy based ones were not yet sufficiently developed. This resulted in the continuation of informal practices of the previous regime, i.e. resorting to networks and personalized exchange in enterprise transactions. Some of them, such as *barter* transactions, developed further and became a common way of surviving in the transitionary environment. Also, the ill-functioning institutional environment provided for a hotbed of criminal activities, such as racketeering. Interestingly, the private protection was quickly legalized by the state, which brought organizations engaged in such activity into the daylight.

The liberalization policy included also the liberalization of foreign business activities in Russia and the removal of the state monopoly on foreign trade. Foreign enterprises were allowed to establish subsidiaries in Russia and to participate in privatization auctions in the second stage of privatization. However, formal restrictions on foreign involvement still existed regarding certain sectors. In addition, there were informal constraints that were reflected in the entry phase, as the state was a major stakeholder in entry negotiations, and in the subsequent operations where enterprises had to take a standpoint as regards the “local way of doing things”, which often included elements such as corruption, unethical by Western standards.

The early transition ended in the August 1998 financial crisis, which resulted from structural problems of the Russian economy, and fiscal policy errors of the state. However, the economy recovered rapidly from the crisis. *The late transition* was a period of further strengthening of market institutions and of political stabilization. Attempts were made to improve the legislation and its enforcement mechanisms. However, these were not always successful, which resulted in the need for continuing informal practices of the previous period. In particular, the importance of personal relations prevailed as regards the public sector. Personal contacts were used to gain information, and to avoid corruption. However, the opinion that neither personal relations nor bribing is needed if a company is operating transparently and obeying law and regulations also started to gain some popularity.

Transactions between enterprises for their part were increasingly based on impersonalized exchange and written contracts. The business developed a more “civilized” manner, including the recognition of the importance of company reputation. This process was accelerated by the entry of a new generation of managers with a more market-like attitude and less socialist legacy in comparison to the older generation. Finally, the marketization and commercialization of the Russian society changed the nature of old practices such as *blat*, which was no longer more applied to obtain material goods but information and services.

The institutional development during the late transition meant a more stable business environment for foreign businesses, where so-called transition-specific problems were gradually replaced with “normal” business challenges such as finding one's own niche in the increasing competition. A main factor here was a kind of privatization of the entry process as the state was not the only negotiation partner. In addition to the state and city authorities, private real estate developers and private firm owners were potential partners in entry negotiations. Finally, the development of local business culture into a more market-economy direction narrowed the gap between local and foreign business practices.

In sum, it can be concluded that post-socialist change in Russia involved major institutional upheaval, both as regards the formal institutional framework and the associated informal practices complementing and supplementing the formal rules. As the early transition was heavily influenced by the legacy of the central planning, during the late transition market-economy practices started to gain a firmer foothold. The following chapters illustrate how this process took place in the St. Petersburg hotel industry.

5 Field-level institutional processes in the St. Petersburg hotel industry

This chapter focuses on the empirical description of the field-level institutional pressures in the St. Petersburg hotel industry. Before going to a more in-depth analysis of the field-level structures and processes in different time periods, the basic characteristics of the sector are briefly described.

5.1 Basic characteristics of the St. Petersburg hotel industry

The St. Petersburg hotel industry is a part of the accommodation sector of the city, comprising also other facilities providing accommodation such as youth hostels and sanatoriums providing medical treatment. In this study, the St. Petersburg hotel industry is understood as consisting of properties registered as hotels (Rosstat, 2004). The contemporary St. Petersburg hotel industry consists of several types of hotels, from former state-owned hotels to high-level foreign-managed properties and to mini-hotels. Most of the hotel properties have been constructed in the Soviet period, in particular in the 1960s and the 1970s. In part, large hotels were constructed to serve foreign guests at the 1980 Olympic games in Moscow, some events of which took place in Leningrad²⁸. The city's hotel base includes historic hotels, such as the Astoria and Grand Hotel Europe, opened in the late 19th century before the Bolshevik revolution in 1917. The overall number of the city hotels varies according to information source as different administrative bodies provide different figures. However, there is an overall agreement that the city's hotel capacity is insufficient, both in comparison to tourist flows and as compared to other main cities in Europe. St. Petersburg has 7 hotel rooms per 1000 inhabitants, as the corresponding average figure for major European cities is 14 rooms (Vedomosti 12.12.2005). The following table summarizes the capacity of the St. Petersburg hotel industry in 2003 by category, according to the city government's statistics.

²⁸ The city of St. Petersburg was founded by Tsar Peter the Great in 1703, renamed Petrograd in August 1914 and Leningrad in January 1924. The historical name St. Petersburg was reintroduced in 1991.

Table 10: St. Petersburg hotel capacity by category (2003)

Category	Properties		Rooms		Beds	
	No.	%	No.	%	No.	%
Deluxe	6	4.4	1197	8.1	2392	8.1
Mid-range (properties with >100 rooms)	28	20.4	8216	55.8	14720	50.1
Mid-range (properties with <100 rooms)	20	14.6	308	2.1	542	1.8
Budget (properties with >50 rooms)	9	6.6	1347	9.1	2428	8.3
Budget (properties with <50 rooms)	34	24.8	877	6.0	2841	9.7
Hotels affiliated with state institutions	5	3.6	433	2.9	926	3.2
Properties classified as mini-hotels*	3	2.2	386	2.6	1268	4.3
Hotels affiliated with science and education institutions	19	13.9	1559	10.6	3392	11.5
Hotels affiliated with enterprises	13	9.5	411	2.8	879	3.0
Total	137	100	14734	100	29388	100

Source: The St. Petersburg city government's Committee on External Relations

The data presented above reveals several of the basic features of the supply side of the St. Petersburg hotel industry. First, the large middle class hotels, the majority of which are the former state-owned “giants”, comprise approximately half of the city’s accommodation capacity although in terms of properties their share is only 20 percent. The average number of rooms in the first class hotels is also larger than the average for all hotels (200 and 108, respectively). The latter figure reflects the small size of other types of hotels. Second, the comparison of the number of rooms and of beds illustrates that the categories of small economy class hotels and mini-hotels probably comprise Soviet-era dormitory-type facilities, as well as youth hostels with rooms with three or more beds. Finally, a striking figure is that this official data includes only three properties classified as mini-hotels, at the same time as the media writes about a “mini-hotel boom” in the city. According to estimates, in 2003 there would have been ca. 200 mini-hotels in St. Petersburg (The St. Petersburg Times 30.3.2004). While part of them is very likely included in the other categories of small hotels, another explanation is that a large part of the mini-hotels in the city operate in premises registered as apartments (The St. Petersburg Times 30.3.2004) and therefore are not covered by the hotel industry statistics.

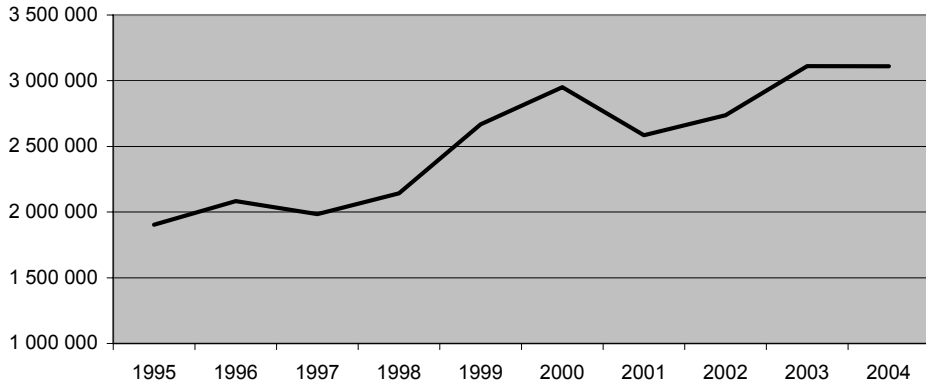
In addition to classification by category, the hotel stock of St. Petersburg can be classified according to ownership and management structure. There were no city-level statistical data

on these indicators available for this study, but based on different sources some basic remarks can be made. First, in 2003 there were four foreign owned and/or managed²⁹ hotels, all of which belonged to the first class category. By the end 2005, their number had increased by three hotels. Second, the city government was still in 2003 a major shareholder in 20 properties (Delovoy Peterburg 13.2.2003), including part of the foreign-managed hotels. As the hotels with partial or full city ownership were among the largest ones, they comprised as late as 1999 three quarters of the city's accommodation capacity (The St. Petersburg Times 30.3.1999). There was a major change in this regard only in 2004-2005, when the city government auctioned off all its shares in hotel properties. Therefore, the absolute majority of the hotel capacity of St. Petersburg was transferred to private hands. In addition to the sale of the city stakes to private investors, new investment projects are as a rule initiated by private developers without city participation (Vedomosti 12.12.2005).

When moving to the demand side of the St. Petersburg hotel industry, the provision of accommodation services is an integral part of the wider sector of the tourism industry. Therefore, the development of the demand side in the St. Petersburg hotel industry is to a large degree dependent on the local tourism sector dynamics, i.e. the growth or decline in the number of foreign and domestic visitors to the city. There is little systematic statistical data available on the overall development of tourist flows to St. Petersburg, which would include both foreign and domestic visitors. Figure 6, which illustrates the development in the number of foreign visitors in the Northwest border district (which St. Petersburg is part of), gives an indication on the overall trend.

²⁹ In the hotel business, property ownership and the management of operations are often separated, i.e. a hotel management company may run a hotel under its brand name without owning the physical property.

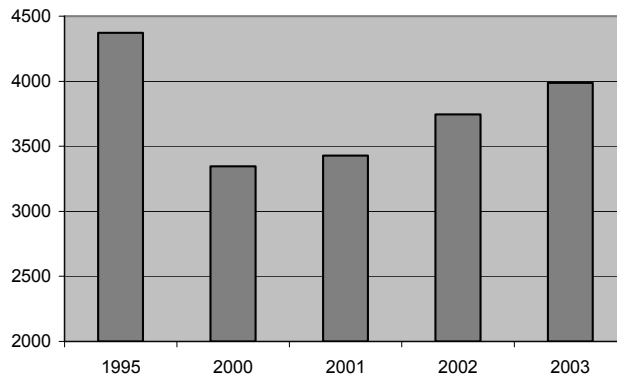
Figure 6: Foreign visitors in the Northwest border district and St. Petersburg (1995-2004)



Source: The St. Petersburg city government's Committee on External Relations

The figure shows that there was a rising tendency in the number of foreign visitors until a decline of ca. 20 percent in 2001. This may in part be explained by the presidential change in Russia, as the political situation is one of the factors affecting a country's attractiveness as a travel destination. As to the pre-1995 development, the political turmoil of the early 1990s had a negative impact on foreign tourism in Russia in general, reflected also in a low number of foreign visitors in St. Petersburg (not shown in the figure). Moreover, the 300-year anniversary of the city in 2003 had a positive impact on tourism in the city, both as to foreign and domestic visitors. This impact was, however short-lived as the tourism growth stagnated in 2004 and even turned negative in 2005 (not shown in the figure) (The St. Petersburg Times 19.8.2005).

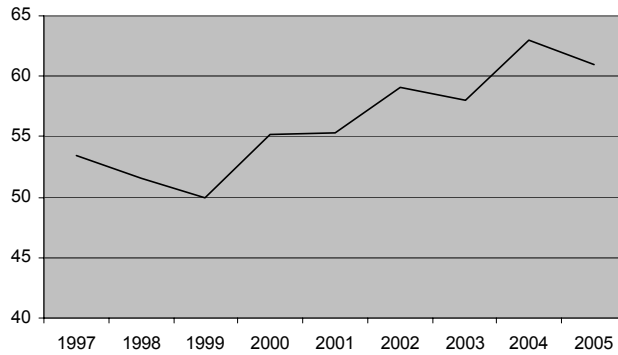
The data presented above includes all visitors, irrespective of where they stay during their visit. In other words, not all foreign visitors use commercial accommodation services. For example, the data includes day visitors from border regions of neighboring countries (such as Finns who travel to Russia to buy cheap gasoline), and persons who stay with friends or relatives. The number of such persons is particularly high among travelers from other parts of the Russian Federation and the CIS. Figure 7 shows the number of nights spent in hotels in St. Petersburg.

Figure 7: Number of nights in St. Petersburg hotels (1995, 2000-2003; in thousands)

Source: Rosstat (2004)

The figure confirms the trend of tourism growth from 2001 onwards. However, the numbers of 1995 were not reached even in the jubilee year 2003. A main reason for this is probably the economic crisis of 1998, which caused a drop in Russians' incomes and therefore cut their ability to travel even within the country. The crisis had negative spillover effects also in the CIS countries. This tentative conclusion is supported by the fact that over half of the guests served by St. Petersburg hotels are Russian and CIS citizens, their combined share in 2003 being 55 percent (Rosstat, 2004).

In addition to the number of customers, two central indicators of the hotel industry are the occupancy rate (i.e. the share of rooms in use of all available rooms), and the average room rate in a given time period. The following figure shows the development in occupancy rates from 1997-2005.

Figure 8: Average occupancy rate in St. Petersburg hotels 1997-2005 (%)

Source: The St. Petersburg city government's Committee on External Relations

The data confirms the 1998 crisis negative effect: it resulted in a temporary drop in the occupancy rate in 1999. However, the recovery from the crisis was fast also in this respect as in the Russian economy as a whole. The 300-year anniversary gave a further boost, which, however, seems to have been short-lived as the occupancies started to decline in 2005. In addition to a decrease in demand, an increase in supply has also contributed to this development. (The St. Petersburg Times 11.5.2004) The above-presented indicators are average figures and thus do not capture the variation within the industry. For occupancy rates, there is first, a considerable seasonal variation as the majority of tourists visit the city in the summer months from May to July. Therefore, the monthly occupancy may vary from over 90 percent in the high season to 20 percent during the quiet winter months. Second, the occupancy varies between hotels of different categories to a certain degree. Traditionally, top-level foreign managed hotels have performed better in comparison to the former state-owned hotels.

The hotel prices in St. Petersburg have also been steadily on the rise. The average room rate climbed from USD 184 in 1999 to USD 200 in 2005 (The St. Petersburg Times 24.11.2000; Hotel Benchmark Survey 2005). This contributed to St. Petersburg becoming an expensive destination by international comparison. The cost of travel was relatively higher also due to the lack of budget airlines flying to the city from abroad and the high cost of visas.

To sum up, a main feature of the St. Petersburg hotel industry has been both a quantitative and a qualitative shortage of accommodation capacity particularly during the high season in summer. In addition to the number of visitors in the summer months exceeding the number of beds, the quality of former Soviet hotels has not satisfied foreign customers. On the other hand, the high seasonality of demand is a particular challenge for hotel enterprises. Thus, not everyone (including many of the respondents of this study) shares the opinion that the city would need more hotels as currently the majority of the capacity stands half-empty during the quiet winter months.

Development perspectives and challenges in the St. Petersburg tourism and hotel industry

As illustrated above, the development of the St. Petersburg hotel industry is closely linked to Russia's national and local tourism development. In general, the city has great tourism potential but also several problems hindering its development. From the viewpoint of hotels, one of the main problem is the high seasonality of demand, which has its roots in the Soviet times when Leningrad was promoted abroad as a summer destination – the city of “white nights”— late autumn and winter months being off-season (Semenov et al., 1985). The interviewees of this study would call for more support from the city to promote itself as destination. In recent years, the city budget for promotion has been drastically cut. To prepare for the 300-year jubilee in 2003, the tourism industry received 35 million rubles, whereas the funding for 2004 was drastically cut to 6 million rubles. (The St. Petersburg Times 21.9.2004) For 2005, the budget equaled zero (Fontanka.ru 9.9.2004). In addition, it was suggested that the city should not only increase its promotion but also alleviate the problem of high seasonality by moving its official meetings and congresses to be held during the low season. *“These people come here to work anyway – they can do it as well in the winter instead of summer when the hotels are overcrowded with tourists.”* (10)³⁰

In addition to the seasonality of demand, the city's tourism infrastructure has been viewed as a main obstacle to tourism growth. The “tourist boom” of 1997 clearly showed the limits

³⁰ Interviews conducted for this study are hereafter referred to with numbers corresponding to the list in Annex 2.

of the city infrastructure. For example, the city port could not accommodate the increased number of cruise boats, and there was a shortage of hotel space, tour buses and professional guides during the high season. (St. Petersburg Times 19-25.1.1998) In addition, the city tourism has suffered from the negative image of St. Petersburg as “the crime capital” of Russia (The St. Petersburg Times 18.1.2000) Part of this reputation has been justified, as street crime in Russia substantially increased as the Soviet-era police control was abolished. (The St. Petersburg Times 5-11.5.1997) As one of the interviewees summarized the situation: *“I think that not a single normal tourist goes to such a dark city, you have to be a lover of extreme sport. Also, our airport is revolting.”* (15) Furthermore, the interviewees called for more effort from the public sector for the maintenance of the city: *“Not only a foreigner but any self-respecting person does not travel to this dirty, stinking city. It’s impossible to raise your head to look at tourist sights. We have to look at our feet to avoid stepping on things that lay there.”* (8)

The tourism and hotel development policy of the city to tackle these problems has been criticized as incoherent, also by the interviewees of this study. The legislative measures targeting hotel development are discussed later in this chapter. The overall tourism development policy of the city evoked the following criticism: *“There is no [tourism] development policy, just chaotic moves in one, in another direction.”* (19). An example of a certain indeterminacy is that the city government’s Committee on Tourism³¹, which had been created in 1994 (Nadirov, 1998) was “swallowed” by the Committee on External Relations in 2000. At the same time, the importance of tourism was high in the official discourse of the city administration.

During the late transition, however, City Hall started to pay attention to the city’s dilapidated tourist infrastructure. In 2005, it announced the development of tourist infrastructure as one of the keystones of its economic program. (The St. Petersburg Times 20.5.2005) In part, measures to improve security were introduced. For example, in summer 2004 the city created a special security council to deal with crimes against foreigners in order to promote the city’s image as being safe. The Council involves the city

³¹ The Committee was transformed in 1996 into the Committee of Tourism and Resorts Development of the St. Petersburg City Administration (Nadirov, 1998).

administration, the police and the tourism industry. (The St. Petersburg Times 21.9.2004) These measures were in part inspired by the tourism development study that the Ministry for Economic Development and Trade of Russia commissioned from the international consulting agency Boston Consulting Group in 2004. The recommendations of the study were applied to draft a tourism development program for 2005-2010, the core of which is a formula “5x5x5”: in five years St. Petersburg is to become one of the five most visited tourism destinations in Europe, receiving 5 million guests annually. (Vedomosti 12.12.2005) This would also require a major increase in the city’s hotel capacity.

5.2 The development in institutional isomorphic forces in the St. Petersburg hotel industry

After the introductory overview of the St. Petersburg tourism and hotel industry, the remaining parts of the chapter focus on describing the field-level institutional context and its development from the centrally planned period via the early transition to the late transition. Following the conceptual framework of the study, the description is structured around the field-level institutional elements as potential sources of institutional isomorphism (Table 11).

Table 11: Main sources of institutional isomorphic change in the hotel industry

Type of isomorphism	Main source
Coercive isomorphism	Industry regulation by state and local authorities
Mimetic isomorphism	Successful independent hotel enterprises in the field Chain-based management structures Tourism and hotel industry associations
Normative isomorphism	Educational and professional background of hotel management and staff Managerial networks and associations

The table summarizes the main sources of institutional isomorphic change adapted to the empirical context of the hotel industry. First, the main source of coercive pressures for

isomorphism is industry regulation, comprising a legislative framework for enterprise operations in general and for hotel enterprises in particular. In addition to state-level legislation, it includes legislative measures of the local authorities considering, for example, hotel investment. Second, the sources of mimetic isomorphic pressures are analyzed via identifying leading enterprises in the field, and also the existence of chain-based management structures with a high level of standardization. In addition, field-level associations are of interest as a source for disseminating “best practices” in the field. Finally, to track down sources of normative isomorphic pressures, the educational and professional background of hotel management and staff is illustrated, as well as the existence and nature of formal and informal managerial networking.

5.2.1 The Soviet hotel industry: an “iron cage” constructed by the regime?

The central planning regime based on the communist ideology had an overwhelming effect on institutional pressures towards isomorphism felt by Soviet hotel enterprises. Administratively, part of the hotel industry was subordinated to the centrally managed tourism sector, the structure of which was based on both ideology and economic preferences of the Soviet economy. Some of the hotels (those not serving tourists) were administered by municipal organs and political organizations. Therefore, all types of isomorphic pressures originated from the central planning system and were channeled on the enterprise level via its administrative bureaucracy.

State regulation: Central planning and administrative bureaucracy in the hotel industry

In the Soviet economy, the central planning and the associated administrative regulation by and large implemented the tasks of legislation in determining various aspects of enterprise activity. To understand the underlying logics of such regulation in the Leningrad hotel industry, it is important to first get an overview on the role of tourism in the Soviet Union.

From the very beginning of the socialist regime, the emphasis of the Soviet economy was on heavy industry, which was reflected in economic planning. Services in general were viewed as a non-productive sector of the economy, resulting in a “residual” budgeting of central planners. In other words, services received resources that remained after securing the needs of manufacturing sectors (Kostecki and Fehérváry, 1996). The role of tourism in the Soviet economy focused mainly on recuperating the workforce (Burns, 1998). Consequently, domestic tourism was seen by the planners as a necessary part of the productive process, as an “input” calculated by Gosplan.

This “socialist approach” to tourism started to develop since the very introduction of the Soviet regime in 1918 (Birzhakov, 1998). This period of early socialism may be labeled the ‘Stalinist’ period, due to the fact that its basic characteristics and dogmas arose from Stalin’s leadership and were echoed in a number of the dimensions of ‘Stalinist’ economic policy. (Hall, 1991) This stage was the era of rapid economic growth based upon heavy industrialization. Services had a minor role to play in economic development, foreigners were regarded with suspicion and centralized state control characterized economic life (Hall, 1991). International tourism was severely constrained. The social dimension of state socialism emphasized the well-being of the working population, and enterprise and trade-union-sponsored facilities were developed for domestic group-orientated tourism and recreation (Hall, 1991).

It was only after Stalin’s death in 1953, when foreign tourism started to develop. However, its emphasis was on the international tourism within the socialist bloc, together with the consolidation and expansion of domestic tourism (Hall, 1991). It was only in the 1970s that the Soviet authorities moved to an emphasis on attracting Western tourists in order to gain hard currency. (Semenov et al. 1985) The developing international tourism had a distinctive ideological flavor. First, inbound international tourism allowed foreigners to see certain aspects of the Soviet Union (mainly Moscow and Leningrad). Secondly, tourism was used to promote the Soviet Union’s image abroad for political reasons. Thirdly, the state organization and total control of tourism served as a framework for monitoring foreigners’ movements and contacts with Soviet citizens. (Burns, 1998)

In practice, tourism in the Soviet Union was organized through three organizations, among which was a strict division of labor. An all-union³² enterprise for international tourism, 'Inturist', was responsible for organizing all functions of both inbound and outbound tourism, the bureau of international youth tourism 'Sputnik' dealt with children and youth tourism, and the Central Soviet for Tourism and Excursions (closely associated with trade unions) organized all kinds of domestic tourism. (Gavrilov 1998: 210) Respectively, each of these organizations had its own hotel stock. In addition, there were so-called *vedomstvennye* (corporate) hotels associated with state enterprises, municipal hotels and hotels of national-level political organizations such as the Communist Youth League *Komsomol* (Kvartal'nov, 1999). In contrast to tourist hotels, they served customers whose purpose of travel was not tourism, rather work or education.

Consequently, the administration of the Soviet tourism sector (including hotels) was split under various bodies. The Ministry of Health and Social Welfare administered trade-union hotels serving domestic tourists (Burns, 1998), whereas Inturist was a state committee directly subordinated to the Communist Party due to its "strategic" role as controlling inbound and outbound travel of the Soviet Union (Gavrilov, 1998).

Sources for mimicry: Inturist hotels as the leaders of the pack

The different types of hotels identified above were found also in Leningrad. The city's hotel industry during the Soviet period can be broadly divided into four categories. The first group was the municipal hotels administered by the hotel administration department (*upravlenie gostinits*) of the Leningrad City Executive Committee³³ (*Lengorispolkom*) (15). This was the biggest group, comprising low-level, dormitory-type accommodation facilities serving mainly Soviet citizens traveling for work and education purposes. The second group, although smaller in the number of hotels but considerable in the number of rooms, was the hotels of Inturist, managed by its local division and serving mainly foreign customers. The third group of hotels, belonging to trade unions, was intended for the

³² As an "all-union" structure, Inturist was directly running from Moscow the activities of its subordinate units within the Soviet republics (cf. Nove, 1986: 5).

³³ The Committee was the main administrative body responsible for issues such as housing and urban planning.

recuperation of the workforce. These accommodation facilities were mainly sanatorium-type facilities providing medical treatment in addition to lodging and restaurant services. Although such hotels were usually located in health resorts, such as the Black Sea coast, there were some of them also in Leningrad. Finally, there were the corporate hotels associated with Soviet enterprises and hotels of other state organizations such as Komsomol. (15)

The administrative and financial management of these hotels was implemented by the local departments of these state organs, such as “the Leningrad union Inturist” (12). These were for their part subordinated to the central, national-level organs. In a way, the state organs operated as hotel chains with their strictly defined standards and procedures. Their work was in turn based on the production plans, which were very detailed, defining everything “*down to the costs of nails, shovels and renovation*” (15). Although hotel managers drafted applications for resources (*zayavki*), they were more “wish lists”, since the actual plan was worked out by the planning departments of the respective organs (18). Moreover, the implementation of the plan was based on the financial resources made available to the local organ, which divided them among the hotels (12). In addition to the supply side, the plan included also occupation rates for the next planning period (15). The hotel managers were instructed with written job descriptions, and in regular meetings where the administrative organs gathered all hotel managers and gave commands concerning material, financial and housekeeping issues and discussed progress in plan fulfillment. (14, 18) Moreover, the Communist Party also kept an eye on the hotel industry, as its representatives were present in the meetings that the local Inturist department had with its hotel managers. (18)

In contrast to market-economy type hotel chains, the performance criteria for the Soviet hotels were not service quality and financial results but plan fulfillment. In addition to targeting uniform structures and behaviors within different groups of hotels, performance measurement included also socialist competition, where hotel enterprises were encouraged to outperform others in terms of meeting targets of the Plan (12, 18). “*The [controlling] commissions worked on a quarterly basis, as there was socialist competition. These commissions inspected everything, the plan fulfillment, and fulfillment of operational*

functions, and renovation, everything possible.” (18) However, due to the specificity of service industries vis-à-vis manufacturing, also other criteria than physical output was applied when assessing the performance of hotels: “There was competition among hotels, in which every hotel was inspected, it was observed how citizens [i.e. guests] are received, how many foreign citizens, Russians there are, how prepared the hotel is for reception, how is the cleanliness, organization, how many complaints, justified or unjustified. There was a certain system that motivated people to work better.” (12)

Despite the egalitarian principles of the socialist economy, there was a certain “pecking order” among the different types of the Leningrad hotels, with Inturist hotels on the top and the municipal hotels on the bottom (15). The trade union-associated hotels serving domestic tourists were somewhere in-between. This order reflected the importance of the various types of hotels to the national economy, i.e. Inturist hotels serving foreign citizens and bringing hard currency revenues into the state budget were prioritized (12). One of the interviewees of the study explained that “. . . planning selected leader hotels to which special attention was given, but to those hotels which were inferior, less attention was given.” (18) For example, as the Soviet authorities wanted to give a positive image of the country to foreign visitors, Inturist hotels were privileged also when competing for resources vis-à-vis hotels serving domestic customers (18). Due to the central planning structure, there was practically no formal interaction between the different types of hotels.

Normative pressures: low level of professionalization

As noted earlier in this study, the central planning considered human resources as one of the factors of production, whose supply was included in the plan. The education system was tailored to the needs of the national economy, and the allocation of managers to state enterprises was often based on political criteria. Due to the low importance of services in the Soviet economy, it is not surprising that there were no state educational institutions providing programs in hotel management. Therefore, hotel managers had varying educational backgrounds, often in technical disciplines. Those respondents of this study, who had worked in management positions in the Soviet hotel industry, were no exception.

Their educational background varied from engineering to fields in the humanities such as education. Moreover, as hotel managers were nominated by the state administrative organs (1, 14), many of them had a background in the Party or even in the state security organ, the KGB (18). In addition, former army officers were often nominated as hotel managers (15).

The educational background and competence of non-managerial staff was reflected in the hierarchy among the different types of hotels. In the planning system, the organization of tourism education and training was mainly delegated to Inturist (foreign tourism) and the trade unions (domestic tourism) (Karpova, 2003). Both had countrywide networks of training institutes (ibid), which provided staff to the hotels of the respective organizations. These institutes provided also seminars for hotel managers (18) In general, Inturist staff were highly educated, often with university education. Working in Inturist hotels was considered as prestigious and therefore jobs in them were desired (12, 19). The criteria for the selection of staff were in part defined by the communist ideology, including verification of employees' background such as whether the person had been in exile, or had relatives abroad (16). Persons with such background were considered to be ideologically and morally susceptible.

In other than tourist hotels, the workforce often had a non-industry educational background, as specialized education was limited to workers of Inturist and trade union hotels. Also, the criteria for selecting staff was less strict, often based on personal connections rather than qualifications (15) Their training was the responsibility of the hotel manager (14) and it was often insufficient. The lack of professional education and training resulted in low service quality: *"Half of the staff was nominated by blat. We know whose wives sat in the blat-based positions [...] They indeed sat — to put it mildly, service was very bad, because occasional people were employed, nobody ever trained them."* (15)

As described above, official contacts between hotel managers were limited to the coordination meetings of the administrative structures. However, there was also unofficial networking among hotel managers: *"Hotel managers took excursions to visit each other, to see who is doing what, how he's renovating the hotel, what ideas he had."* (18) However,

the role of such networking was minor in terms of dissemination of practices as no new ideas could be applied without permission from above (18).

Summary: sources of isomorphic pressures during state socialism

In sum, it can be concluded that the central planning regime of the Soviet Union constructed an “iron cage”, where the administrative bureaucracy controlled every aspect of hotel operations. This control included not only the technical production of hotel services, but also the setting of norms for behavior via measures such as socialist competition. Table 12 summarizes the main sources of institutional isomorphic change during the socialist period.

Table 12: Main sources of institutional isomorphic change in the Leningrad hotel industry

Type of isomorphism	Main source
Coercive isomorphism	State regulation implemented by command hierarchy
Mimetic isomorphism	“Winners of the socialist competition” Local departments of the state tourism administration organizations
Normative isomorphism	Managerial and staff often with political or non-industry background, hired based on personal acquaintance Formal managerial networks as part of the administrative control, informal networks of minor importance

In the Leningrad hotel industry, the coercive pressures for isomorphism originating from state regulation were based on central planning and channeled to the enterprise-level via state hotel administration structures. These structures also served as sources of other types of isomorphism. The state organizations provided standards for hotel enterprises to follow, and controlled their implementation. A part of this was the socialist competition between enterprises. In addition, some of the state organizations were responsible for training employees. Managers were nominated by them as well, often based on ideological criteria. Despite the training system, the majority of hotel employees had other educational background and part of them was hired based on personal contacts rather than

professional qualifications. Moreover, hotel managers met regularly in meetings organized by the administrative organs to discuss questions related to plan implementation. In addition, there was informal networking among managers but it was of less importance as the managers' decision-making power regarding enterprise strategy and structure was virtually nonexistent.

The collapse of the Soviet Union and the dismantling of its central planning bureaucracy liberated hotel enterprises from this cage, as the next section will illustrate. In addition, it opened the doors for foreign hotel management companies to enter the market, thereby changing the pecking order in the field.

5.2.2 The hotel industry during the early transition: from iron cage to jungle

The field-level institutional environment changed radically as the Soviet planning system and its tourism organizations were dissolved. The ideology-based centralized management of hotel industry was replaced with hotel enterprises with independent decision-making freedom. Also, new players such as foreign hotel management companies and new local start-ups entered the market.

State regulation: The dual role of City Hall

The changes in the formal institutional environment on the field-level reflected those on the macro-level. In particular, creating a market-based regulative environment for the hotel business, and the privatization of hotel enterprises were major tasks for the Federal and city governments.

The two main legislative measures to control enterprise activity in the Russian legislation, licensing and certification, concerned also the tourism sector during the early transition. However, licensing concerned only tourist firms, whereas hotel operations in St. Petersburg could be established without a license. From the viewpoint of the hotel industry, an

example of a discrepancy between federal and regional legislation was that a license for hotel operations was required only in Moscow, whereas the federal licensing regulation did not recognize hotel operations among those business activities requiring a license as such (Parad Otelei 2/2005). However, a license was required for hotel construction and some activities performed in hotels, such as the selling of alcohol and organizing transportation for customers (ZAO "VKR Interkom-Audit", 2006). Moreover, the licensing system, while created to regulate the business, did not always work properly. For example, in the tourism sector it was very easy to get a license as a result of which many tourist firms had the approach of getting quick cash and disappearing (The Russia Journal 15-21.6.2001).

In addition, a certification system for hotels was created. A national star rating (i.e. certification) system was introduced already in 1994. It was developed by the Federal certification body Gosstandart. (The Moscow Times 9.12.2003) However, as certification was voluntary, there was no single body responsible for it. Instead, any organization registered in Gosstandart could grant stars (Turisticheskii Biznes 10/1999), as a consequence of which there were hundreds of organizations granting certificates (Turisticheskii Biznes 5/2003). Despite the possibility of getting rated, hotels were not very eager to get certified. Foreign hotel chains had their own systems, and local hotels did not see the added value of the certificate.

From the viewpoint of new entrants, it was not the formal legislation that constrained operations but the role and policy of the city government as property owner. When the Soviet Union collapsed, the ownership of the state-owned hotel properties was rearranged. Hotels previously managed by ministries and state enterprises either remained affiliated with these organizations or were privatized with their management and employees as the new shareholders. The majority of the hotels, however, including those of Inturist, were allocated to local and regional authorities. (Gudbergson, 1996) As a result, the local governments became major players in the industry, especially in the two main cities Moscow and in St. Petersburg. As the privatization of state property started in 1992, it was expected that the hotels would be among the first enterprises to be privatized. However, the city held on tight to its shares of the former Inturist hotels in particular. Although in the

first phase of privatization hotel employees and management were able to acquire shares in these hotels, the city often remained as a shareholder. During the early transition only one open auction of city shares was organized (The St. Petersburg Times 30.3.1999). The plans of the city concerning a further sale of its hotel shares were eventually frozen by the 1998 crisis (The St. Petersburg Times 26.11.1999). Therefore, the former state hotels continued to be at least partly under public ownership and management. The strategic role of the city government in the industry was further strengthened by the transfer of state-owned land and real estate in the city to its ownership (Bonneville, 1996). Hence, the city was in control of not only existing hotels but also of sites and buildings for new construction.

The strategic position of the city allowed it to place informal constraints on new entrants to the hotel market, concerning particularly the operation mode. During the early transition, joint ventures with the city government were in practice the only entry mode available to foreign hoteliers (Lane, 1995). Moreover, the turmoil of the early transition kept foreign investors away from Russia, and there was little local capital available for hotel projects. Although the Russian legislation recognized a management contract as an operation mode and the city officially welcomed foreign hotel management companies to its hotels, in practice the management contract was conditioned by capital investment into the property (Kim, 1997). Another characteristic of these early joint ventures with city ownership was that despite the fact that management was contracted to the foreign company, the city as the property owner participated in the management. For example, there were shared management arrangements where part of the management team was nominated by the foreign company and part by the city. In addition, the city was eager to utilize foreign hoteliers' expertise in preparing its hotels for auction (The St. Petersburg Times 26.11.1999). The offers to manage city-owned properties were, however, turned down by international hoteliers.

New sources of mimicry: foreign entrants, new start-ups, industrial associations

The liberalization of entrepreneurship in the beginning of the 1990s attracted new players in the hotel business. Some hotels with Russian developers and management were opened.

The investors were mainly entrepreneurs exploiting opportunities emerging from the transitional environment rather than professional hotel developers. For example, the opening of new hotels was closely related to the booming construction of business centers, which hotels were parts of. The location of such hotels was not necessarily optimal, as investors had the site first and then viewed a business center as the most prominent business opportunity at that time (6, 9). *“There were representative offices of foreign companies, and filials [branch offices] of Moscow-based companies, which had to rent premises somewhere. There were no business centers that time, seems funny now, but there really weren’t any. To rent an office in the building of an institute, in some administrative building, it was impossible.”* (9) In addition, organizations affiliated with the former state structures entered the hotel business with the same “the site first, then the business” approach. For example, one of the case hotels of this study was opened by the former manager of the city construction trust, whose resources (including the site) were utilized in the hotel project (5).

Moreover, the liberalization of foreign business operations in Russia attracted also foreign hotel management companies to the market. In St. Petersburg, such “early birds” were two joint ventures initiated before the collapse of the Soviet Union (Nevsky Palace and Grand Hotel Europe), as the first post-Soviet entries took place only in 1997. This was the year of a “hotel boom”, which included a number of projects involving the city administration and foreign chains. These comprised negotiations on the management of former Inturist hotels as well as new hotels planned to be constructed. Most of the projects were joint efforts of the city administration and foreign investors. The 1998 crisis, however, cancelled most of these projects and thereby limited the presence of foreign hotel management chains during the early transition.

In general, the St. Petersburg hotel industry had a bi-polar nature during early transition. The previous position of Inturist hotels as the superior ones was taken over by a handful of 5-star foreign-managed properties. These included the flagships of Inturist, i.e. the historical properties Astoria and Grand Hotel Europe, which underwent major reconstruction. These hotels cherry-picked the wealthiest foreign customers, leaving former

state hotels to serve budget-class foreign tourists and domestic customers. The new Russian-managed hotels often had the advantage of being parts of modern business centers, which brought them foreign businessmen as clientele, thereby putting them higher in the hierarchy than former state hotels.

The dissolution of the state tourism administration structures with their standards left a gap in the field, as an absolute majority of former state hotels continued as independent enterprises. The city-owned hotels had, though, for the first years of transition an administrative structure, “Petrotel”, which was to continue the work of the Hotel Administration. It did, however, not live long. (15) The presence of hotel management chains in the sector was limited to the foreign-managed properties. On the one hand, there were no local chains that Russian-managed hotels could have joined and on the other hand their quality was not sufficient to become members of international chains. In addition, as illustrated above when discussing operation modes of foreign hotels during the early transition, the attitudes of hotel owners were against giving up control to an outside hotel management company (Turisticheskii Biznes 7/2003).

In addition to the diversification of types of hotel enterprises, tourism and hotel industry associations started to emerge as well. Typical for the process of institutionalization of field-level associations in post-socialist Russia has been the creation of several competing organizations, varying in their profile and lobbying power (see e.g. Kaipio and Leppänen, 2005). Of the associations relevant in the St. Petersburg hotel industry mentioned by the interviewees for this study, during the early transition the following were founded: the Russian Hotel Association (1997), the Northwest Union of Tourism Industry, and the regional organization of the Russian Association of Tourism Industry (1993). However, there was no hotel industry association on the local level. Furthermore, the city administration and other organizations such as the Chamber of Commerce and Industry had working parties directed at the development of the tourism and hotel industry. The influence of such structures was, however, not assessed very highly by the interviewees of this study, which consequently limited their interest in joining them.

Normative pressures: Expatriate professionals versus local non-professionals

The collapse of the Soviet tourism structures brought changes to the educational profile of management and staff as well. The foreign-managed hotels brought to St. Petersburg a new breed of hotel managers, i.e. senior expatriates with profile education and extensive experience in the hospitality sector. In the international hotel industry, it is common that senior managers have a long career path in the industry and have gradually been rising through the ranks. The lack of professionally qualified Russian managers resulting from the lack of profile education in the Soviet times was reflected in a relatively large number of foreign expatriates needed to run foreign-managed hotels on the one hand, and the continuing practice of hiring non-industry managers by new start-ups on the other.

There was also a lack of qualified staff, resulting from two factors. First, as the training institutes of Inturist and the trade union tourism structures were closed, the system of education of hotel industry professionals had to be created anew. In part, state-owned universities introduced degree programs for tourism, and new professional institutes were opened. However, the Soviet legacy was present in the curricula of these institutions, as their emphasis was on economic and technical subjects (Karpova, 2003) rather than issues related to service quality. Second, staff with experience from the Soviet hotel industry was not in great demand due to its notorious lack of a proper service attitude towards customers: *“They have the attitude towards customers as the lowest category of the peasantry, who come and interrupt their tea-drinking.”* (2) The lack of qualified staff was felt most severely by foreign entrants, as former state hotels rather reduced their staff than hired new personnel (The St. Petersburg Times 15-21.12.1997). As a response, foreign hotels hired personnel from outside the industry with no previous experience but with foreign language skills. Often, the staff was highly educated, such as university teachers and scientists. (0) Their interest in working in the hotel industry was explained by the dramatic drop in income levels in the public sector and relatively good salary levels in foreign enterprises.

The managerial networks in the St. Petersburg hotel industry during the early transition reflected the bi-polar nature of the hotel market at that time. As noted above, the market

was divided into the high-end, consisting of wealthy foreign tourists and businessmen, and the low-end, including mainly Russian and CIS tourists and business travelers. The former group was primarily served by the foreign-managed hotels, and the latter one by former state hotels, whereas the few local start-ups balanced somewhere in between. As a consequence, managerial networking took place mainly within these groups of enterprises. Interestingly, the tradition of personal networking in Russia did not seem to stretch to enterprise relations between competitors, as there was little interaction between managers of former state hotels. Rather, the Soviet practice of information hoarding was prominent, as hotels did not want to share information for fear of revealing business secrets. In post-socialist Russia, the category of business secrets is wider than in the Western market economies, including information such as company turnover and its ownership structure. As a matter of fact, respondents concluded that hotel managers had more communication in the Soviet times, when the central organs regularly gathered them in meetings. (12, 15) Moreover, personnel transfer between various groups of hotels was rather limited. On the one hand, foreign hotels did not want to hire personnel with experience from the Soviet service culture, and on the other hand Russian hotels could not provide competitive conditions for persons with experience from foreign-managed hotels.

Summary: sources of institutional isomorphic change during the early transition

The end of state socialism replaced the organizations of the central planning system as a single source of isomorphic pressures with a variety of emerging forces. Table 13 summarizes the main elements in the field-level institutional context of the St. Petersburg hotel industry during the early transition.

Table 13: Main sources of institutional isomorphic change in the St. Petersburg hotel industry during the early transition

Type of isomorphism	Main source
Coercive isomorphism	Formal regulation by federal and regional legislation being created Informal regulation by the city as property owner
Mimetic isomorphism	Bi-polar market between high-end properties with foreign management chains and low-end Russian owner-managed properties Emergence of tourism and hotel industry associations
Normative isomorphism	Expatriate professionals vis-à-vis local managers with non-industry background Lack of experience from the Soviet hotel industry criterion for new staff Managerial networking of limited nature

It can be concluded that the field-level institutional environment was still in flux during the early transition. The legacy of state socialism was reflected in the dual role of the city government as regulator and actor, and the institutional constituents such as the education system and professional associations were in the making. The role of the state and local authorities was formally limited to providing a regulative environment for the hotel business. However, as most of the city's hotel stock was transferred to the city government's ownership, City Hall was also in a position to regulate the entry of new players to the field. Moreover, there was a new hierarchy among the enterprises of the field. This was no longer based on the socialist ideology and preferences of the national economy but rather on service quality. Here, foreign-managed hotels were superior vis-à-vis the local ones. Their service standards were kept up with a large number of expatriates and by hiring personnel without the legacy of the Soviet service culture. Given the lack of professionally trained managers on the job market, Russian-managed hotels continued to have managers with non-industry backgrounds. There was also little interaction between hotels of different categories. Managerial networking took place more actively among the expatriate managers of the foreign-managed properties, whereas Russian managers were reluctant to interact with each other for fear of revealing business secrets.

Despite the difficult conditions resulting from the collapse of the central planning, the St. Petersburg hotel industry's development looked promising towards the end of the early transition period. 1997 was a record year for Russian tourism and a year of a "hotel boom" in St. Petersburg with the announcement of several new hotel projects, often with foreign involvement. However, the positive development was interrupted for some time by the 1998 crisis.

5.2.3 Hotel industry during late transition: the jungle gets more order

The consequences of the 1998 financial crisis for the Russian economy were manifold and the crisis did not leave the hotel industry untouched. However, its effect was not only negative and not as visible for all hotels. Those hotels serving budget class domestic tourists suffered the most as Russians could not afford to travel. Furthermore, the crisis temporarily paralyzed investment activity in Russia, which was the case also in the hotel industry. In addition to freezing new hotel projects, renovation programs in existing hotels were put on hold (15). On the other hand, hotels serving mainly foreign customers and having their contracts in US dollars benefited from the situation. Also, supplier prices went down. One interviewee of the study viewed the crisis as a positive thing: *"In my opinion, the Russian people would need a default on a regular basis, I think. We here in Russia cannot work, to accomplish anything. If there would be quarterly a default, it would be ideal."* (15)

The institutional context of the hotel industry with its field-level sources towards isomorphism changed during late transition, as market economy structures became more established and the involvement of the city government in the industry diminished.

State regulation: City Hall loosening its grip on the hotel industry

The main aspects of the state regulation in the St. Petersburg hotel industry during late transition consisted of the development of industry legislation, completion of the

privatization of city-owned properties, and the city policy drafted to stimulate new hotel construction.

As described in Chapter 4, the legislative environment in Russia underwent a series of reforms during late transition. The industry legislation was considered “not too bad” by most of the Soviet hotels’ managers, although somewhat ambiguous as it consists of many levels and is some times contradictory (13). Moreover, the emergence of a new type of enterprises, mini-hotels, revealed gaps in the legislation (The St. Petersburg Times 30.3.2004). The concept of a mini-hotel was not defined in the Federal industry norms and standards, which were created for large hotels. For example, the new Federal certification system adopted in 2003 (The Moscow Times 9.12.2003) is based on physical criteria, such as the existence of conference facilities of a certain minimum size, which are impossible to meet by mini-hotels with often less than 20 rooms (1). Moreover, the hotel certification system was viewed as a problem itself. Certification continued to be voluntary and in addition to the official Federal certification, also other bodies could continue to do hotel rating. Comments, such as *“Nowadays anyone can offer beds for overnight stay and claim to have a hotel.”*(5) and *“Stars can be bought for money - you apply for 3 stars because your hotel meets the 3-star criteria and they offer you 4 stars if you pay something extra.”*(6) illustrate the low credibility of certification as a regulative measure.

A major change in the regulative environment of the St. Petersburg hotel industry during the late transition was the city government’s relinquishment of hotel ownership in 2004 and 2005. This was the end result of a kind of “one step forward, two steps back” ownership and privatization policy that City Hall had implemented since 1999 when it announced that it would keep its shares in the city’s hotels until they became more profitable and could command higher privatization bids (The St. Petersburg Times 30.3.1999). Part of this approach was to invite international management companies to help in the process (The St. Petersburg Times 30.3.1999). The idea of the involvement of international management companies was, however, later scrapped in part due to the low interest of foreign hoteliers (The Russia Journal 7-13.3.2002). Instead, in 2004 the city acknowledged that it is not a professional hotel owner and that its involvement hinders investment in the sector.

(Fontanka.ru 6.5.2004) Consequently, the hotel properties with city shares were evaluated by domestic and foreign experts during 2004, and the city shares were auctioned off in 2004-2005. Most of them were acquired by existing shareholders, as well as outside Russian enterprises and investors, but also some foreign hotel companies already operating in Russia strengthened their foothold by acquiring shares in the former state-owned hotels.

In addition to the financial reasons for the incoherent hotel privatization policy of the city, there were also institutional ones. The hotel business is one of the sectors which are considered as particularly lucrative for criminal groups, due to the cash-heavy nature of the business (The Moscow Times 3.2.1998) and to the opportunities that hotel premises offer for complementary businesses. Unlike in Moscow, where there was a wave of suspected contract killings in the hotel industry around 1998 (The Moscow Times 3.2.1998; Business Week 26.1.1998), the battle over ownership in the St. Petersburg hotel industry was conducted in a more civilized manner. For example, tenders of city shares were postponed or cancelled, which industry observers interpreted as an attempt to prohibit a buyer with unclear or even illegal financial resources from getting its hands on the property (The St. Petersburg Times 18.7.2000). In addition, there was an auction that was suspected by the media as being merely symbolic, with the aim of transferring the city property to a private company connected to City Hall and thereby prevent the property from ending up in the hands of criminals (The St. Petersburg Times 18.7.2000). Moreover, the results of another auction won by an investor with a “murky” background were taken to court, which declared them illegal (The St. Petersburg Times 26.11.1999; 11.1.2000; 25.1.2000). Here, the ambiguity of the Russian legislation served the interests of the city administration

During the late transition, the city government also started to draft more concrete policies targeted at new hotel construction. The first step in that direction was taken in spring 2001 as the city investment center founded a department of investment projects in tourism and the hotel business. Moreover, there was a governor decree on investment support measures for the hotel industry, including concessions for payments to the city budget and creating a special committee for supporting investors. (Turisticheskii Biznes 3/2004) In 2001 the governor also issued a resolution covering the allocation of buildings and lots for

construction of hotels at market cost. The goal was to make it easier to get real estate for new hotels to be opened for the 300th anniversary of the city in 2003. (The St. Petersburg Times 30.12.2003) The legislative measures with investment support taken in 2001 did not, however, prove successful and a new hotel industry development plan was introduced in 2004. According to the new plan, the main support instrument is the allocation of sites. Thus, the city government continued to play the role of “gatekeeper” for the hotel industry.

The informal constraints of the early transition concerning operation mode were, however, replaced with those related to the site allocation. First and foremost, attractive buildings in the city center formally on the list of available sites were in practice with “burdens”, i.e. occupied either by communal apartments, state institutions or small businesses that would have to be allocated elsewhere. (Ekspert 13-19.9.2004) *“...we are long looking for a filial for development. The city offered already some years ago 113 locations. Of them, I visited 86, selecting a filial. [...] The majority of them we rejected, because they come with burdens. The city offers properties, but when we start to investigate, it comes out that people did not yet move from there, or there is a burden with the relocation of existing tenants, or there is a burden that does not allow us to rent it yet but only in three years...”*(5) Moreover, interviewees for the study noted that the allocation of sites would not always be based on free competition – *“We asked the city to sell us the empty building opposite our hotel and they refused. Now we see that there is renovation going on, so obviously someone else managed to negotiate it.”*(5) This reflects the importance of informal practices, such as the use of personal relations also during the late transition.

Sources of mimicry: the gap between us and them narrowing down

The bi-polarized nature of the hotel market of the early transition started to change during the late transition, which blurred the boundaries between hotel segments. First, the foreign and local demand started to mix. There were more wealthy Russian customers who stayed in up-scale foreign-managed hotels, and the improved quality of Russian-owned hotels (in part associated with the opening of new small hotels) increased their attractiveness to foreign customers. Second, the new Russian hotels opened included also top-tier properties,

whereas foreign chains started to approach the 4-star market as well in addition to the 5-star segment. Third, due to the “gray” nature of the mini-hotel segment, some legally operating small hotels preferred not to position themselves as mini-hotels on the market.

A completely new phenomenon for the post-socialist era of St. Petersburg was the opening of mini-hotels, some of which have been transformed from *kommunalki*, communal apartments shared by several families in the Soviet times (The St. Petersburg Times 30.3.2004). The founding of such accommodation facilities was fuelled by the city’s 300-year anniversary in 2003, which was expected to bring an inflow of tourists to the city. In addition to such properties registered as accommodation facilities, the fact that the legislation did not recognize mini-hotels as organizations was exploited by entrepreneurial individuals who provided guest accommodation in premises registered as apartments. Therefore, they could avoid being subject to hotel industry legislation. (The St. Petersburg Times 30.3.2004). Such a phenomenon was, of course, not welcomed by managers of those small hotels who had managed to fulfill the legislative requirements concerning safety, hygiene etc. tailored to needs of large hotels. One of the respondents of this study assumed that the city is consciously looking the other way concerning the operations of illegal mini-hotels, since they provide additional accommodation capacity badly needed during high season. Later on, they may gradually disappear from the market as a result of natural selection. (6)

In addition to mini-hotels, new players that entered the industry during the late transition were high-level Russian-owned hotels. An interesting detail concerning the linkage between Russian business culture and hotel business is that luxury hotels seem to have become a status symbol for wealthy businessmen — building a 5-star hotel is “like buying Chelsea”³⁴. Here, the logic behind hotel investment is not necessarily the profitability of the business but rather the prestige associated with the ownership of a high-status property. Another characteristic of the market was that local investment came from firms traditionally not involved in the hotel business including, for example, a fuel shipping

³⁴ The allegory, used by a Moscow-based consultant, Pyotr Medvedev, in The St. Petersburg Times (July 12, 2005), refers to the Chelsea football team that was acquired by the Russian business tycoon Roman Abramovich

holding, a transport company and a home improvement chain. (The St. Petersburg Times 29.1.2002) In many cases, hotels were constructed as parts of larger real estate projects, such as shopping centers and entertainment complexes.

Finally, also foreign involvement in the St. Petersburg hotel industry increased during late transition. The “second hotel boom” of 2003 motivated new foreign players to enter the market. In addition to the three foreign companies that had entered the market by 2005, several projects were still ongoing by the end of the year. In contrast to the early transition period, the hotel construction projects in the late transition period were private-private partnerships, often including a Russian constructor-developer and the foreign management company. In such projects, the foreign management company’s reputation could be used to acquire financing for construction, but the management company itself did not invest its own funds. In addition to new foreign entries, also the ownership and management structure in existing foreign-managed hotels changed. This was in part connected to the withdrawal of the city from hotel ownership. Furthermore, the secondary real estate market started to emerge, as there were two cases where a hotel property changed hands between private owners.

The presence of chain-based management structures was still limited to foreign-managed properties as Russian-managed hotels continued to be independent and owner-managed. However, several plans were announced with the intention of establishing Russian hotel chains. These plans included chains based on ownership as well as management companies targeting the development of a hotel brand (Fontanka.ru 22.9.2004; Gostinitsi Sankt-Peterburga 22.4.2005; The St. Petersburg Times 15.2.2005). As to hotel chains, a peculiarity of the hotel management companies that were actually founded was that they were either owners of their properties or were the owners’ subsidiaries created for that purpose. For example, large holding companies diversified to the hotel business and founded separate structures to manage them.

The development in professional associations followed the development in hotel types during late transition, as the mini-hotels founded their own industry associations.

Characteristically in post-socialist Russia, there were several competing associations of mini-hotels (The St. Petersburg Times 30.3.2004). The associations provide marketing and management support, maintain relations to state authorities, and provide legal and financial consultation. (The St. Petersburg Times 30.3.2004). In contrast, during the late transition there was, however, still no local industry association that would unite the city's hotel enterprises although the Russian Hotel Association was actively promoting the creation of regional branch offices (Parad Otelei 5/2005). About two thirds of the managers interviewed for the study participated in hotel and tourism industry associations dealing with hotel and tourism industry development. Some of the participants, however, shared the opinion of non-participants that the associations have no effect on the operations of the hotels, whereas others viewed industry associations as a way to channel the industry's opinions to City Hall. Moreover, the existing industry associations were considered more as marketing instruments for their participants than as having a real effect on the development and dissemination of industry practices. They were also criticized for not keeping in touch with the reality of practical hotel management: *"The lecturers in their seminars are university people, who are fascinated with their theories – we should have experienced managers instead."*(6)

Normative pressures: professionalization gathering speed

The profile of managers and employees in the St. Petersburg hotel industry started to change towards a more professional direction as the efforts of newly created educational programs and hotels' own training started to bear fruit. However, the local training system was still not developed enough to produce qualified managerial staff to meet the needs of new hotels. There were no branches of foreign schools yet and local programs were not developed enough (The St. Petersburg Times 13.4.2004). Moreover, industry practitioners considered university programs in the tourism sector as too theoretical to meet enterprises' requirements (2; Parad Otelei 2/2006). Thus, the educational background of the interviewed managers of new Russian hotels was as varying as for the former Soviet hotels. Among the respondents only one manager had a profile university degree, whereas the university degrees of the respondents varied from engineering and law to languages and arts.

Moreover, the majority of the respondents were in their first position in the hotel industry. The former professional experience of the respondents included, for example, banking, public administration and university careers. There seemed to be also a new generation growing up, since only one manager of a new hotel had management experience already from the Soviet times. In foreign-managed hotels the training efforts started already to show results, as foreign hotels could increasingly replace expatriates in mid-management positions with young Russians rising through the ranks in the company.

In contrast to managers, the staff of Russian-managed hotels already had predominately industry education, as most hotels took students from professional hotel and restaurant industry institutes into traineeships, and then hired the most promising of them permanently. However, the graduates of professional institutes are considered to be “semi-finished products” (20) and hotels still need to put a considerable emphasis on on-the-job training. There was also some personnel transfer between hotels, but rather between foreign-managed hotels and from Russian owned to foreign-managed, which indicates that the Russian hotels are not on the same level yet. As one expatriate manager of a foreign company illustrated the situation: *“We have gained staff from Russian-managed hotels, but never lost to them. Doesn’t that say something?”* (26) Moreover, personnel transfer was considered as a negative phenomenon to be avoided, rather than as a fact of life. *“Personnel turnover means that either a good hotel did not want to keep a bad specialist, or a bad hotel could not keep a good specialist. From us, at least, nobody escapes.”* (8)

The degree of communication and information exchange between hotel managers in St. Petersburg was still rather low, mainly limited to unofficial communication taking place between managers of hotels of the same category. Here, the foreign-managed hotels still formed a club of their own. More than one respondent mentioned that the business is in general still very closed and managers are reluctant to share their views and information. However, managers of new Russian-managed hotels with little industry experience were more open in this respect and wanted to share their experiences with newcomers: *“I would like that knowledge exchange would be more evident. In seminars, when I talked to those who were opening new hotels, they came to me and asked: “Can we come to you and see*

what kind of contracts you have, how they are juridically completed. Or can we look at how you are working, how you are cleaning?” I said always, of course you can, no problem. I’ll show everything. I’m for us, for Russians. I want to improve things for everyone.” (6)

Summary: Sources of institutional isomorphic change during late transition

The late transition was a period of rapid development in the hotel industry and the stabilization of market conditions. However, the institutional framework was still undergoing change, and different players were seeking their role in the field. Table 14 summarizes the main characteristics of the field-level institutional framework during late socialism.

Table 14: Main sources of institutional isomorphic change in the St. Petersburg hotel industry during late transition

Type of isomorphism	Main source
Coercive isomorphism	Federal and regional legislation developed further but still with gaps The site allocation policy main regulative instrument of the City Hall
Mimetic isomorphism	Enterprise hierarchy based on legitimacy Chain-based management still limited to foreign-managed properties Strengthening of the role of tourism and hotel industry associations
Normative isomorphism	New generation of Russian professional managers growing Formal education and service attitude main criteria for staffing Attitudes towards managerial networking becoming more open

The table shows that the different sources of institutional isomorphism underwent a change as the transition towards a market economy proceeded. First, the market-economy based legal framework was further developed, but still had its shortcomings regarding, for example, the identification of different types of hotels. A major change in the regulative role of the city government was its relinquishment of hotel ownership. However, as the city still controlled the majority of the sites available for hotel construction, its role was still critical for new entrants.

Second, the structure of the field as regards different sub-fields changed again. As foreign and local demand started to mix and Russian-managed hotels improved their performance, the dividing line between “us and them” blurred. Instead, the emergence of mini-hotels exploiting gaps in the legislation made a new division of hotels – into those who operate legally and follow industry norms, and those who don’t. Moreover, chain-based management structures still had a limited influence on the field as the majority of Russian-managed hotels continued to be independent and owner-managed. In contrast, the industry associations’ role in disseminating practices strengthened during late transition.

Third, the normative base in the field started to show signs of professionalization as the training efforts of foreign-managed hotels started to bring results. Some of the expatriate managers could be replaced with Russians trained in the companies. Moreover, the availability of professionally educated staff increased as the education system started to produce them. However, having a service attitude was the main criterion for personnel as the importance of service was already recognized by the former state hotels. Finally, managerial networks were developing as well, as managers of new Russian-managed hotels were more open towards sharing information than their counterparts with experience from the Soviet period.

5.2.4 Summary: Institutional isomorphic forces from socialism to late transition

This chapter described the change process in the field-level institutional environment of the St. Petersburg hotel industry from socialism to the late transition. During *state socialism* part of the sector was subordinated to the state tourism organizations, and part to other administrative organs such as the city and state-level political organizations. The institutional context faced by different types of hotels varied in their importance to the national economy as regards to, for example, access to resources and the level of professionalization of the staff. Hotel managers as a rule were non-industry professionals nominated by the state organs based on ideological criteria. In general, the central planning system controlled all aspects of the hotel enterprises, being a combined source of all kinds

of isomorphic pressures. The central planning system and its administrative bureaucracy substituted for market-industry-type legislation and its enforcement. Moreover, the state organizations in a way played the role of hotel chains and industry associations by imposing standards for hotels to follow and by controlling their performance. Here, socialist competition targeting maximal plan fulfillment was an important measure. In addition, managerial networking was coordinated from above as the administrative organs regularly gathered hotel managers to meetings where orders considering plan implementation were distributed.

The *early transition* changed radically the field-level institutional context as the central planning was abolished. Enterprise activity was liberated and the state involvement in the sector was basically limited to formal regulation. However, as the city government did not hurry to privatize the hotel properties it had inherited from the Soviet Union, it also posed informal constraints regarding entry to the sector. These constraints were faced particularly by foreign enterprises, which in practice had to form joint ventures with City Hall if willing to enter the market. The sources for mimetic and normative pressures changed as well as the state planning was abolished. The field-level hierarchy among enterprises was changed as foreign 5-star chains entered the market and reserved the upper segment of the market, often consisting of foreign customers. Former state hotels were left to serve foreign budget travelers and domestic customers. This split nature of the field reflected also in the staff and managerial background. Former state hotels and the handful of new Russian-managed properties continued to be owner-managed, usually by a manager with a non-industry background. There was little turnover in the staff as former state hotels rather reduced personnel than hired new ones. Foreign-managed properties for their part had large teams of expatriates provided by the chains, who trained staff “unspoilt” by the Soviet hotel industry practices. Industry associations started to emerge as well but their role was not yet significant in the dissemination of practices. Finally, field-level managerial networking was limited, as the foreign expatriates formed their own circle and Russian managers were not eager to share experiences with colleagues.

Finally, the *late transition* brought further changes in the institutional context in the St. Petersburg hotel industry. The different sources of institutional isomorphism underwent a change as the transition towards a market economy proceeded. However, the legal framework did not keep the pace with enterprise sector development. It had shortcomings regarding, for example, the identification of different types of hotels. A major change in the regulative role of the city government was its relinquishment of hotel ownership, which shifted the focus of the city policy towards site allocation. Thereby, it still constrained entry to the sector. Moreover, hierarchy in the field between enterprises changed again. The dividing line between foreign- and Russian-managed hotels started to blur as they entered each other's territories on the market as regards "star" categories and customer structure. Instead, there appeared a new basis for diversity as the emergence of illegal mini-hotels exploiting gaps in the legislation divided hotels into legitimate and illegitimate ones. Moreover, although there were plans to form Russian management chains, the majority of Russian-managed hotels continued to be independent and owner-managed. In contrast, the industry associations took a more active role in disseminating practices during late transition. Finally, the managers and staff in the field started to "professionalize" as the training efforts of educational programs and hotel enterprises started to bring results. Expatriate managers were increasingly replaced with Russians trained in the companies, and young staff with industry education and no Soviet-era experience became available. Managerial networks were emerging also, as managers of new Russian-managed hotels were more willing to share knowledge and experiences than their counterparts with experience from the Soviet period.

6 Strategic and structural adaptation of St. Petersburg hotel enterprises

After describing the development process in the field-level institutional context of the St. Petersburg hotel industry from the socialist period until late transition, the dissertation now moves to illustrate organization-level processes. Consistent with the conceptual framework of the study, this chapter will discuss how hotel enterprises responded to the changes in the macro- and field-level institutional environment. This is done by describing the structure and practices of hotel enterprises in the three time periods under investigation as illustrated in Table 15. In addition, special attention is paid to differences in the strategic behavior of foreign-managed hotels, former state hotels and new Russian-managed hotels during the transition.

Table 15: Elements of strategic and structural adaptation of St. Petersburg hotel enterprises

Structure	Management structure
	Departments and functions
Practices	Relations with the public sector
	Supply strategy
	Personnel policy
	Sales and marketing strategies

Table 15 summarizes the elements of strategic and structural adaptation that are described empirically in this chapter. Enterprise structure comprises first, management structure of the hotel, i.e. how property ownership and the management of operations are implemented and whether a hotel is independent or a member of a chain. Second, the organizational structure of the hotel is illustrated as regards different departments and functions.

Enterprise practices are illustrated by examining how the enterprise manages its relations with the public sector actors regulating the industry, and what its practices are regarding various elements of the production system. Here, supply strategy is understood as consisting of sources of physical supplies and relations with suppliers of them. Personnel policy comprises issues such as recruiting criteria, and training and social benefits provided to the employees. Finally, sales and marketing strategies are illustrated in terms of distribution channels and various components of the marketing mix.

6.1 Central planning until 1990 – structure and practices imposed by the Plan

During central planning, all dimensions of the organizational environment faced by the hotel enterprises of Leningrad were controlled by the state. As described in Chapter 5, due to the central planning system, the state tourism organizations and other administrative bodies were responsible for strategic planning and decision-making, whereas managers of hotel enterprises took care of operational management based on detailed instructions from above. Instead of corporate strategy, it was the solving of daily problems such as supply shortages that took most of the hotel manager's time: *"Daily affairs, to clean, to receive guests, and so on. Draft and submit applications in time for food supplies, materials, for replacing some equipment, for maintenance and so forth. Those were the main tasks of the hotel director."* (12) The planning system also liberated hotel managers from the main challenge faced by hotel management in a market economy: how to ensure occupancy. This was in part due to the centralization of customer supply, and in part a result of a scarcity of hotels in the country, which guaranteed full occupancy to all hotels: *"It was easy for the director to make a plan. Occupancy was practically at a hundred percent, everything was booked in advance. It was known, what kinds of groups were coming for what time, when they would leave."* (11)

6.1.1 Structure of a Soviet hotel: Planning and supply departments dominate

The organizational structure of a Soviet hotel reflected the planning system and its division of labor between the administrative organizations and hotel enterprises. The organizational structure was also defined from above. Perhaps the main difference compared to Western-type hotel enterprises was the separation of accommodation and restaurant functions under the management of two state organs in, for example the municipal hotels where they were subordinated to the Hotel administration and Restaurant administration departments of the *Lengorispolkom*. (15, 19) Moreover, there were departments that do not exist in a hotel operating in a market economy, such as the planning-economic department, which together with the head bookkeeper, who was a key person in the Soviet enterprise, fulfilled the tasks of a financial department. (19) Also, there was a supply department that was responsible for the whole supply function of the hotel. (18) It was the department that had the most problems due to constant supply shortages. Its importance was reflected in the organizational chart, where the department was directly subordinated to the hotel director. (19) On the other hand, hotels did not have sales and marketing departments as the sales function was centralized. Furthermore, the organization of some functions, such as housekeeping, was somewhat peculiar. In the Soviet hotels, each floor had a “key lady” – a floor attendant who cleaned rooms and served as a kind of floor receptionist (11). One of her (these persons were usually females) tasks was obviously to control who entered the floor (see also Kostianen, 2003).

Furthermore, there was a large technical-engineering department, employing even 15% of the staff (15). This was due to maintenance problems resulting from the shortage of funds allocated from the state budget for repairs and maintenance. *“Our engineering department was huge, because due to the inadequate technical condition [of the hotel], there appeared vacancies that shouldn’t be in hotels at all, such as welders. This was because pipes were leaking every day.”* (15) Finally, as hotels were part of the larger tourism management structure, a variety of other tourist services such as the booking of excursions and of tickets to cultural events were offered in hotel premises. The Inturist hotels also had hard currency shops for foreign customers, selling products not available to ordinary Soviet citizens.

Although the Soviet hotel was not an independent enterprise, its organizational structure was rather heavy, including many levels of “directors”. (15, 18, 19) They were called directors, although their role was administrative without decision-making power. There was the hotel director and restaurant director, and a number of vice-directors who were department heads. One of them was the head bookkeeper. (18, 19) Finally, the Soviet hotel could be considered a rather self-sufficient unit in the sense that there were services such as occupational safety and sanitary-epidemiological services that are usually performed by independent organizations. There were also representatives of security organs placed in hotels. (19)

6.1.2 Practices of a Soviet hotel: two parallel “ways of doing things”

It can be summarized that in the Soviet planning system, the hotel enterprise had only one stakeholder group: the state, which defined its course of action. Officially, the detailed plans left little room for individual managerial action. However, due to shortcomings of the planning system, there were a number of informal activities going on beneath the surface. As any other Soviet enterprise manager and citizen, hotel managers and staff were engaged in the informal networking described in Chapter 4. Networks were employed for different purposes, such as to meet the plan targets, to get additional benefits from the system, or for personal gain. The following sections describe the formal and informal practices of hotel enterprises concerning the planning authorities, the supply of resources, personnel and the distribution of hotel services.

Hotel enterprise and the state organizations: formal compliance and informal bargaining

The dual nature of the relationship between the Soviet hotel enterprise and the state tourism organizations consisted of the formal command hierarchy on the one hand, and on the use of personal relations to bend the “rules of the game” on the other. Formally, the planning hierarchy left no decision-making freedom for enterprise managers concerning e.g., the supply of resources, but in practice managers compensated this by extensive bargaining

with the authorities in charge. Furthermore, as described in Chapter 5, hotel managers were often nominated on the basis of other criteria than professional competence and background. *“On the one hand, hotel managers were not professionals: we did not have specialists who could take such positions; on the other hand, circumstances did not allow managing professionally.”* (15) A background in the Party or other state organs provided a manager with a network of relations that were useful in the work as hotel manager. Moreover, in the absence of objective financial indicators for hotel performance, the evaluation of managers was subjective and often based on their personal relations with officials higher in the planning hierarchy (19). The following sections describe in more detail the dual nature of the Soviet planning in the production system of hotel services.

Supply of goods: some more equal than others

Despite the fact that socialist ideology stressed equality, in the hotel industry some hotels were “more equal than others” as regards the supply of resources. Formally, the distribution of resources was based on the applications drafted by hotel managers. As the demand (i.e. occupancy) was also planned in advance, it was relatively easy to define the need for resources in advance. However, as described earlier in this study, the plan often failed to provide enough resources to enterprises, leading to supply shortages, which had to be coped with in an informal manner.

The shortage of foodstuffs and other supplies was a general problem for the hotels serving local customers, whereas the Inturist hotels serving foreign customers had an advantage when competing for supplies. This was due to their strategic importance as bringing hard currency into the Soviet economy: the planning organs allocated more resources to them in order to keep up a good image for tourists. *“Everybody felt the shortage of food supplies. If you take hotels of the highest class (there weren’t yet stars), such as Astoria and Europeiskaya, there weren’t such problems as the state, preferring not to lose face, provided them completely. When it comes to small hotels and dormitory-type hotels, they had to have management with the skills and competence of a “tolkach”, who could “push” everything through and secure the hotel with everything that was needed.”* (11)

However, a common problem for all hotels was the lack of resources allocated to the maintenance of premises of the hotels. As factors of production were distributed from above, revenues from hotel operations were channeled via the respective administrative organs to the state budget, from where part of the funds were allocated back to the lower levels. The practice was a kind of “one for all, all for one”, i.e. the totality of revenues created by different hotels was collected by the administrative organs, and the funds received back from the central government were usually allocated to one hotel at time for renovation purposes. (14) The supply and maintenance problems were solved in different ways. A common function for all of them was the central role of the hotel manager, and his personal relations. He either himself lobbied for more resources in the planning organs, or used the services of *tolkaches*. Here again, it was important to have personal connections in finding such persons. As one of the interviewees put it: *“Of course the tolkaches helped! They run like crazy around the city: one after foodstuffs, the second after wooden boards, the third after tableware and the fourth after nails, and got somewhere something. A lot depended on them, of course.”* (18) The need for nails and boards may sound peculiar when mentioned in the context of hotel services, but it is explained by the nature of the Soviet production system. As in manufacturing enterprises, hotels typically produced everything in-house.

Finally, the low strategic importance of the accommodation sector (with the exception of Inturist) for the natural economy was reflected in the lack of investment goods tailor-made for hotels: *“There were no furniture sets for hotel rooms so everything was bought in parts. For example, a cupboard was bought in Bryansk, and beds were bought in prisons, and that furniture was revolting...”* (15)

Human resources function: extensive social benefits and black market activities

The human resource policy of a Soviet hotel was once again strictly constrained by the plan. The number of staff, their job descriptions and salaries were centrally decided. Moreover, a central feature of the planning system was the provision of a number of social benefits to the staff. These were also coordinated by the tourism planning organs and

included, for example, free or subsidized holidays and medical recuperation at resorts owned by the organs. (12, 13) Also, summer camps for the employees' children were maintained. (13) An additional benefit for the hotel industry was free or subsidized meals, which was appreciated in the period of food shortages. However, they were not available for everyone but directors and kitchen staff. (18) Furthermore, enterprises sometimes offered material help when needed. (14) The managerial staff of Inturist hotels was in a privileged position as they had a possibility to travel abroad in the groups sent by the Inturist central union to study the foreign hotel industry, usually in socialist countries (18).

The official planning system was completed with an informal system also in this respect. Often, staff was allocated *po blatu*: not based on the person's competence but his or her status and personal connections. Moreover, the trips were not automatically granted for every worker, but their availability per enterprise was in part negotiable. Here, the personal relations of the hotel manager with the bodies organizing vacations were important. *"We applied for trips, for example, intended for treating work-related illnesses. It was decided from above which hotel receives what. To a large extent it depended on the relations of the hotel director with the general director [of the local Inturist], with the Party Committee, with the Labor Committee. If you had good relations, you were allocated trips, understanding that you're not asking for yourself but for your people."* (18) Moreover, sometimes employees received benefits organized by the manager via his personal connections: *"In general, there was a sea of connections. The ladies needed boots; hence, boots were brought, even at a nominal price and even not by barter."* (15) In addition, workers in Inturist hotels enjoyed special unofficial benefits. As they were in contact with foreign tourists, they had the possibility to acquire from them Western goods not otherwise available by exchanging them for rubles. Foreign tourists soon learned this and packed their coffers with jeans, pantyhose and other items in demand in the Soviet Union when traveling there³⁵.

³⁵ The general characteristics of foreign tourism in the Soviet Union are beyond the scope of this paper. For more detailed discussion see, for example, Kostianen (2003)

Distribution of hotel services: centralized supply, barter and black market

Officially, the supply side of the hotel industry was controlled by the state tourism organs, which had a centralized sales organization. Also, prices were centrally defined and hotel managers often did not even know them (12). Therefore, in principle it was not possible to sell out rooms directly from the hotel. In practice, however, hotel rooms were used as “currency” in barter transactions between Soviet enterprises. *“We were working on the principles of a natural economy. Somebody told [the hotel director], listen, I’m expecting visitors, have to accommodate 20 people. The director said, if you fix me a couple of radiators, I’ll organize it for you.”* (15) In addition, as almost everything else in the Soviet economy, there was also a black market for hotel rooms. As full occupancy was the normal situation in Soviet hotels, it was common that the sign “mest net” (full occupancy) was posted on the reception although the hotel might have been half empty (10). This created an opportunity for the hotel staff to trade with the rooms: *“You can recall films of the time, when even in empty hotels you had to give a bribe to the receptionist, that she would permit you to check in.”* (6)

6.1.3 Summary: structure and practices during central planning

To sum up, the main feature of the first period analyzed was that Soviet hotels were parts of the central planning system with limited operational freedom. Table 16 illustrates how this was reflected in enterprise structure and practices.

Table 16: Elements of strategic and structural adaptation of Leningrad hotel enterprises

Structure	Hotel enterprises subordinated to state organizations Departments and functions reflect the central planning
Practices	Hotel managers formally obeying commands from above Informal bargaining
	Resources allocated centrally Supply shortages compensated with informal networking
	Recruitment criteria based on ideology and personal relations Extensive social benefits
	Centralized pricing and sales with informal barter and black market

As summarized in the table, the enterprise structure of Soviet hotel enterprises was imposed by the state hotel administrative organizations and reflected the nature of central planning. For example, hotels had planning departments but sales and marketing function was missing due to centralized distribution of hotel services. Regarding enterprise practices, formal practices were accompanied by informal ones. Officially, the hotel managers followed commands from above but unofficially negotiated and bargained with the planning organs. The central allocation of resources often led to supply shortages, which were tackled with personal connections of the hotel manager or with the help of *tolkaches*. Personnel policy was also defined by the planning system, including recruitment criteria often based on ideology and extensive social benefits. In parallel, personal connections played role in the recruitment practices as well, as people were hired *po blatu*. Finally, the sales and marketing function was centralized and hotel managers did not often know the price of their hotel rooms. However, hotel rooms were used as a currency in informal exchange both in barter relations between enterprises and for hotel staff to get personal gain.

As the Soviet Union collapsed, strategic decision-making was shifted from the state planning organs to the enterprise level. The next section describes its consequences for enterprise structure and practices.

6.2 Early transition: 1991-1998

As the Soviet system collapsed, enterprises had to take over functions formerly performed by the administrative bureaucracy, and to transform their structure correspondingly. Moreover, new hotel enterprises that entered the field faced an institutional environment in flux. In part, foreign entrants had to consider to what degree they would adapt their operations, based on global chain standards. This section discusses the changes in hotel enterprises' structure and practices that the transition from the command to a market-based system induced. In general, despite the initial shock caused by the transition, managers of former state hotels viewed the change as positive.

6.2.1 Structural changes: exit planning, entry sales and marketing department

The structural changes resulting from the transition from central planning to market economy included for the former state hotels changes in ownership and organizational charts. However, the operation mode as such did not change, as former state hotels continued to be owner-managed. In other words, ownership and control over operations was not separated as is often the case in the global hotel industry, where management contracts dominate. The contracts of foreign management chains operating in St. Petersburg did not include such a strict division, as the city government as the owner requested foreign chains to invest in the property, and wanted to participate in the management as well.

The role of manager in the former state hotels was drastically changed, as he took over the responsibility for strategic planning and decision-making. The St. Petersburg city government was not characterized as an active owner by interviewees of the study, since

hotel managers had relatively extensive operational freedom: *“Our hotel was privatized as one of the first ones. It was in 1996, but the Union started to dissolve in 1990. Six years the hotel management was the sole patron. In those years the state very weakly administered hotels. What’s a hotel industry in a country? It’s just some percentages; it’s not oil or metallurgy. Everyone was occupied with the dealing and privatization of those sectors, and hotels were left out of sight for a while. It was good to work as a director at that time, there was still state influence, but everything was easy to agree, the doors of Smolny³⁶ were always open.”* (18) On the other hand, already before the official breakup hotel managers started to take more freedom as regards, for example direct contracts with foreign tour operators (Taylor, 1994).

The organizational chart was changed to meet the new conditions. The abolition of the central management organs forced the hotels to take over functions, such as sales and purchase that were previously the responsibility of the central organs. Therefore, hotels opened new departments, most importantly sales and marketing departments. Also, in addition to opening new departments, functions were reorganized. In the Soviet system, the HRM function was strictly regulated. For example, the number of staff and their job descriptions were rigid, depending on the number of rooms and the class of the hotel. In many cases the number of staff was cut, even by two-thirds. (11, 12, 17, 18, 19) This was due to the reorganization of functions (e.g. removing the floor attendants), and to the increased efficiency. In addition, the administrative staff implementing the functions for the planning system was reduced. (16) The purchasing department, which in the Soviet period took care of “hoarding” resources, was cut to a minimum and each department started to take care of its supply function. (15)

Furthermore, the technical-engineering department went through qualitative changes. Basic maintenance staff, such as carpenters and plumbers, was replaced by information technology specialists needed for the introduction of computer-based reservation systems and other modern technologies. (15) The role of the personnel department was also qualitatively changed to cover the whole HRM function, instead of implementing only the personnel-related documentation in the Soviet system (19).

³⁶ The name of the building where the city government is located.

The transition from command to market economy brought along also some changes in the services offered by the hotels included in the study. However, the changes were sometimes only qualitative: *“Basically we offer the same services as in the Soviet times, they are just implemented better.”* (15) The collapse of the Inturist system resulted in the redistribution of its functions among hotels and tourist companies. For example, hotels took over some of the functions previously taken care of by the Inturist system, such as the transportation of customers from and to the airport. Furthermore, some of the services provided in hotels’ premises, such as beauty salons and currency exchange, were contracted to outside entrepreneurs. Some hotels decided also to give the restaurant to an outside firm. (11, 18) In the restaurant services, the abolition of the planning economy was shown on the grass-root level when “rationed” breakfasts³⁷ were replaced by breakfast buffets. (18) Furthermore, business services, such as faxes, photocopying and PC stations, were offered either as an official business center or as additional services. Moreover, services that had previously been available only to foreign customers (such as the hard currency Beryozka shops) were opened up to everyone. In contrast, there were separate room rates for domestic (including the CIS) customers and foreign ones, set out by the federal Ministry of Finance (13) Finally, the hotels updated their technological standards by introducing services such as cable television to the customers.

In contrast to former state hotels that had to reorganize their structure, new entrants such as foreign management companies and a handful of new Russian-managed hotels opened at that time could start from scratch. However, the transitional environment also affected their structure and the range of services offered. First, the underdeveloped market for tourism and business-related services during the early transition affected the service offering of all types of hotels. Representatives of foreign companies entering the Russian market in search of new business opportunities were an important customer group for hotels. Also, local entrepreneurs needed office space. As long as the market for business-related services, such as business centers, was not yet developed, hotels diversified their services to include office space equipped with modern telecommunications and other necessary infrastructure. However, it should be noted that for Soviet hotels, the diversification into business center

³⁷ In the Soviet hotels, each customer was provided a standard breakfast that was readily served at the table.

services was also a means of surviving the drop in occupancy rates caused by the breakdown of the Soviet tourism organizations with centralized sales channels.

Furthermore, with a lack of quality apartments for rent, business people even lived in hotels on a long-term basis. In high-class foreign-managed hotels this “fortress approach”³⁸ included also the supply of extensive leisure and shopping services in-house. As the manager of a Russian-managed hotel (opened in 1993) put it: *“When the customer arrives, we have to provide him everything: transportation, services, excursions, normal working conditions if he’s on a business trip – all that is necessary for him.”* (5) Moreover, due to the cumbersome visa regulation in Russia, hotels provided visa support for foreign travelers.

The second characteristic feature in the structure of foreign-managed hotels in particular was that during the early transition they performed themselves functions that are normally taken care by members of the production system. In particular, this concerned the supply of goods and the education of staff. These factors are discussed in more detail in the following sections.

6.2.2 Practices: the city a major stakeholder

The collapse of the central planning multiplied the number of stakeholders of hotel enterprises. The central planning, which had provided a kind of single institutional and technical environment to hotel enterprises, was replaced with an environment with a number of players performing different functions. The regulative environment and production system were increasingly separated, as the centralized supply of resources and distribution of hotel services was replaced by market-based exchange. However, a market for production resources and distribution channels did not appear overnight, which called for creativity from enterprises. Here, practices of former state hotels vis-à-vis foreign entrants differed. As the former relied on their previous contacts, the latter resorted to their

³⁸ The term “fortress approach” is borrowed from a Moscow-based journalist Robin Munro: “Moscow’s top hotels greet the good times”, *Moscow Times*, Tuesday, May 21, 2002.

global resources. As new Russian-managed start-ups could not resort to any of these strategies, they were most exposed to the conditions of the transitional environment. Due to the turbulent nature of the regulative environment, the practices in dealing with the public sector (which mainly consisted of the city authorities), were often built on personal relations. Finally, due to its dual role as regulator and property owner, the city was also an owner-stakeholder.

Relations to the public sector: personal contacts

As mentioned previously, although the city government did not want to give up ownership and/or management control over its properties, in practice it was a rather passive shareholder. Therefore, the city-owner did not intervene much into the daily management of operations. Paradoxically, the city-regulator intervened more in hotel operations. In general, the main problems caused by the public sector were the unstable regulative framework, such as “*heavy and badly administered taxation*” (4) and frequently changing legislation, as well as practices of public authorities in enforcing the regulations. For example, the inspection visits of various administrative bodies were frequent. A comment of an expatriate manager of a foreign-managed property illustrates well the situation during the early transition: “*Everything has to have a permit, and getting the permit takes a very long time. [...] The local administration harasses us practically weekly, the management and the personnel are blamed for ridiculous things, and threatened with arrests and fines. We are often caught, because we don’t want to play games...*” (0) With “playing games” the interviewee referred to the frequency of corruption in the relations with the public sector. As a rule, foreign-managed hotels took a strict standpoint towards corruption. Nevertheless, it was admitted that “*A certain specificity of Russia has to be taken into account.*” (24) – for example, small gifts to civil servants were considered as appropriate. Also, both foreign- and locally-managed hotels shared the view that personal relations were not without importance during the early transition. Comments such as “*We have never had to give bribes [...], our relations and connections give us security*” (13) and “*One has to have the right partner and to know the right people.*” (24) illustrate this. Moreover, it was stressed that it was important to acquire all the necessary information beforehand when

making new initiatives in order to be able to fulfill all requirements and thereby avoid problems.

In addition to regulating the business, the city affected the operations of the hotels via its tourism development policy. As illustrated in Chapter 5, the city promoted itself as a tourist destination during the early transition, but invested little in the city tourism infrastructure such as transportation. Hence, hotels in part compensated for the inadequate infrastructure of the city by providing transportation for their guests to ensure that they will arrive safely from the airport. Moreover, as tourism was booming towards 1997 and businessmen relied on hotels for accommodation and office space, occupancies were high also during the low season in wintertime. Therefore, the promotion of the city was not among the main problems of the city hotels.

Supply strategies – building networks and relying on own imports

As the socialist planning system was dismantled, old supply channels ceased to exist. Former Soviet hotels had to take over the supply function themselves and build direct supplier relationships. The market for supplies started to develop, although there was still a shortage of quality supplies such as foodstuffs (see also Taylor, 1994). In some cases former Soviet enterprises or parts of them continued functioning in a new form, in other cases new enterprises were founded. *“We often continued to work with the same people as in the Soviet times, only the company changed...”* (19) Hence, supplier relationships were often based on informal contacts from the Soviet period. Moreover, although the formation of new private enterprises in Russia was rapid at the beginning of the 1990s, most early private enterprises were attached to the state enterprises (Kontorovich, 1999). However, in spite of ongoing relationships rooted in the Soviet period, the early 1990s was a period of instability in the supplier field. Many suppliers were not able to meet the requirements of a market economy regarding, for example, the quality of products and delivery times. Hotels coped with this situation by keeping a reserve of alternative suppliers. This gave them security in supplies, since sometimes suppliers could disappear overnight or fail to deliver orders on time. (see also Taylor, 1994)

Foreign-managed hotels with high quality requirements relied on imported supplies such as foodstuffs, and sometimes even imported themselves, in the early years of the transition. Part of the “fortress approach” mentioned above was maintaining huge inventories of supplies (0, 21, 23, 24). The reliance on imports was due to two factors. First, local products either did not exist or were of inferior quality, and second, foreign products were not yet available on the market. In some cases these foreign-managed hotels were later followed to the Russian market by their foreign suppliers, who then started to also serve other, Russian hotels. Investment goods, such as furniture, were also imported from the West for quality reasons.

In addition to the supply of goods for the daily operations, new entrants were also faced with the challenge of finding contractors and suppliers to construct the hotel. Here, again, old contacts were valuable. For example, the director and co-founder of one of the case study’s hotels had a background in the Soviet construction sector, which provided them with a network of contacts. However, as in the Soviet times, also foreign expertise was used both in architectural planning and construction. In particular, furniture and equipment was imported as *“All porcelain, furniture and even illuminating appliances, we imported from Italy. In that time [1994], it's difficult to imagine, but commercial furniture was not manufactured here, it was very difficult to order for this kind of hotel. That's why everything was imported from Italy.”* (5)

Personnel policy: money the main motivator

The transition affected the personnel policy and staffing criteria of hotels as well. In the former state hotels, the number of staff was cut rather radically in addition to qualitative changes in the composition of the personnel described earlier. As for the foreign-managed hotels, the early 1990s were characterized by a large percentage of expatriates among the hotel staff. (0, 21, 23, 24) Foreigners were used to launch the operations and to train the local staff. The Russian staff hired for the operations usually came from outside the industry. Foreign hoteliers did not want to hire staff accustomed to the Soviet type of service but preferred people with higher education and fluency in foreign languages, for

example university teachers. (0) Their interest in working in the hotel industry was mostly dictated by the difficult economic conditions of the country, resulting in drastic cuts in salaries especially in the public sector. Hence, monetary compensation was the main motivating factor for Russian hotel employees (see also Hasselman, 1998; Upchurch et al., 2000). One of the interviewees representing a foreign-managed hotel illustrated the situation as follows: *“Such people work in customer service for money, not because they have a passion for it.”* (0) Professional training of employees was largely the responsibility of hotels, although private institutes and university faculties providing tourism and hospitality education started to emerge.

In the former state hotels, the criteria for personnel started to change and hotel managers started to pay attention to service quality. Therefore, as personnel with industry education were scarcely available, the main criterion was the service attitude. Also, the Soviet-era practice of hiring people based on personal relations continued to some extent. For example, an interviewee illustrated that a Russian manager would hire an incompetent person when recommended by someone whom he or she owed a favor. In addition, mistakes by such persons hired *po blatu* can be overlooked. (22) Moreover, the Soviet legacy was still prominent in the management’s attitudes towards service standards, as was illustrated by one respondent: *“Owing to the bad condition of the pipes in the city, you often get yellow tap water. A foreign manager would be shocked and invest in filters; he could not allow it thinking that otherwise nobody will stay in his hotel. Our Russian manager would think well, the customer won’t drink tap water anyway, if it’s yellow he can let it run for a while...”* (6)

The social benefits offered to the staff changed as well. When the Soviet system collapsed, many social benefits previously provided by the state were transferred to the responsibility of the employer. The enterprises were, however, granted the freedom to decide what services to provide in addition to the basic social package defined in the legislation. As one respondent summarized the change from the socialist benefit system: *“Before, the state cared for the people, and now the director or owner has to. But he prefers not to solve the problem by providing social services but by giving money to the employees. It is then your*

own decision where to get such services. Before something was organized, someone carried the responsibility, but now trade unions don't have any power. The wage determines everything. The worker receives a contribution, but how he uses it, buys a trip or not, it is his business. Along with the small wage that one got before, the state somehow cared for the people, but now, when the wages are much higher, the director does not think about social benefits.“ (18) Most of the case enterprises announced that they limited the benefits to those defined in the working legislation, such as compulsory medical insurance. (11, 17) Moreover, free meals, uniforms, transportation to and from work were often provided. Also, several interviewees mentioned that they offered “*material*” (i.e. financial) help to their staff when needed, for example, in case of a funeral in the family. (0, 15)

However, some of the hotels continued to provide benefits, which were part of the Soviet system, such as holidays, recuperation in sanatoriums, and children's camps. (12, 15, 19) A main difference in providing these benefits was, however, that their availability would be based on the work performance. Some of the hotels provided these trips as rewards, for example when selecting an employee of the year. (15, 19) Interestingly, there was no clear distinction between foreign-managed and former state hotels in this respect, i.e. that former state hotels would offer more Soviet-era benefits. Instead, some state hotels had cut benefits to the bare minimum, whereas some foreign managed hotels (with the city as shareholder) kept up the Soviet-era practices such as children's camps. (21) In some cases, the social benefits provided in Russia by the foreign-managed property were more extensive than in the company's hotels in other countries. This was justified by the bad financial situation of the workers and their families (0).

Sales and marketing strategies: global reservation systems vis-à-vis local partnerships

As described in Chapter 5, the structure of the demand in the St. Petersburg hotel market of the early transition had a bi-polar nature. All foreign-managed hotels of the city were positioned in the 5-star segment and almost exclusively served foreign customers. Former state hotels represented lower price segments and their clientele mainly consisted of Russian and other CIS citizens. The few new Russian-managed hotels balanced in-between.

The market reforms were reflected in the customer structure of the former state hotels as well. While the hotels of different type each had its own clientele, defined from above, now they started to freely compete for customers. The former Inturist hotels started to serve also local customers, and hotels formerly targeting domestic travelers were opened to foreign tourists and businessmen. A major change in the 1990s was a drop in the number of tourists from the former socialist countries of Central and Eastern Europe. This was in part due to the introduction of visas for these countries, and in part due to the reduced transportation connections between these countries and Russia. For example, the so-called Trains of Friendship (*poezd druzhby*) that ran between capitals of the socialist countries of Central and Eastern Europe and St. Petersburg were cancelled (16). Moreover, some hotels managed to raise their level and consequently their clientele changed from “cheap” domestic tourists, such as groups of schoolchildren, to middle class tourists. (15) Moreover, hotels having served party and other state organ officials traveling on business, reoriented to the tourist segment. Also, in some dormitory-type hotels, large groups sent by Soviet enterprises such as *kolkhozes* were replaced by e.g. schoolchildren. Moreover, the seasonality of the business is reflected in the customer structure of almost all the hotels. In the summer most tourists are foreign and in the winter domestic.

The collapse of the Soviet Union negatively affected the demand conditions of especially those former state hotels whose customer flows had been channeled by the Soviet organs dealing with domestic travel. Also, the dissolution of Inturist forced its hotels to search for new ways to ensure demand. The main way was to create internal sales and marketing departments, which contracted with newly emerging travel agencies and tour operators. The centralized sales and distribution channels of the Soviet type gave way to an invasion of small tourist companies as entrepreneurship was liberalized. This was in part due to the low capital-intensity of such business and was partly a result of an increase in outbound tourism as Russians were able to travel freely abroad. Therefore, the majority of tourist firms served outbound tourism, limiting the number of potential sales and marketing partners of hotel enterprises.

In addition to partnerships with tourism firms, the main distribution channels in the global hotel industry are on-line reservation systems, which are maintained by hotel chains and consortiums. In Russia, there were no such systems during the early transition. This was in part due to the fact that the majority of the hotels were independent. Moreover, the introduction of on-line reservation systems was limited by the technological backwardness of Russian hotels and tourist firms. Although two of the leading computer-based reservation systems (CRS) in the global hotel market (Amadeus and Worldspan) had entered the Russian market already in 1995, still in 2000 only 5 percent of Russian tourist firms used CRS (Turisticheskii Biznes 1/2000).

In addition to intensifying sales and marketing efforts, former state hotels also modified their service offering as a response to the drying up of centrally administered customer flows. Some hotel rooms were transformed into business centers to meet the need for office premises in the city and to compensate for the lack of demand for accommodation. In addition, some hotels started to invest in renovation of the room base to gradually raise the quality of the hotel and thereby be able to move into a higher price segment. The lack of funds was, however, an acute problem, due to which the innovative capacity of the hotel manager had a major role in such efforts. Also, the Soviet-era connections and resources were of use here: *"In the very beginning of the transition, I bought from the best hotels in Stockholm and Helsinki second-hand furniture. Bought in general from five-stars, transported them here, quickly made cosmetic repairs, painted and varnished, and put new furniture into rooms. By the way, it was done with our own resources, we had then a large renovation-construction staff..."* (15)

6.2.3 Summary: structure and practices during early transition

It can be concluded that the early transition period was a time of adaptation to market economy conditions for former state hotels, and a time for coping with the lack of quality resources and business networks for foreign-managed hotels. New Russian-managed hotels

were still rare, therefore Table 17 compares the strategic and structural adaptation of different types of hotels by dividing them into Russian- and foreign-managed properties.

Table 17: Elements of strategic and structural adaptation of St. Petersburg hotel enterprises during early transition

	Russian-managed hotels	Foreign-managed hotels
Structure	Owner-managed, independent hotels Former state hotels with city ownership Soviet-era functions shut down, new ones opened New Russian-managed hotels parts of larger complexes such as business centers	“Modified” management contracts between the city government and global management companies “Fortress approach”
Practices	Personal contacts important in public sector relations	Strict policy towards “wheeling and dealing”
	Building of local supplier networks, often based on old relations Number of alternative suppliers	Reliance on imported supplies Hoarding of supplies and a number of alternative suppliers
	Number of staff in former state hotels cut radically New personnel recruited from outside the industry Social benefits reduced to minimum	Personnel recruited from outside the industry, large number of expatriates Social benefits adapted to local conditions
	Development of distribution networks with local players	Reliance on global reservation networks

The table illustrates that during the early transition, the structure and practices of Russian- and foreign-managed hotels differed. Regarding the structure, a major difference was that former state hotels and new Russian-managed hotels were owner-managed, independent hotels. The new owner in the former state hotels was the city government, whereas new Russian-managed hotels were opened in larger complexes such as business centers. Properties with foreign involvement, which also involved city ownership, functioned on management contracts with global chains. However, the investment of foreign management companies into properties and the city government’s participation in the management of

them made the distinction of ownership and management less clear. Also, former state hotels had to adapt their structure to meet the market-economy conditions and the new strategic independency. For example, sales and marketing departments were opened as centralized distribution ceased to exist. New Russian-managed hotels benefited from the great demand for business services, as customers of the business centers such hotels were located in used also accommodation services. Foreign-managed properties took a “fortress approach” by providing a variety of supporting services to their clients.

The practices towards the public sector differed, as Russian-managed hotels relied on personal networking whereas foreign entrants refused to “play games”. Moreover, the strategic adaptation of Russian-managed hotels included the construction of local supplier and distribution networks, often based on old personal contacts. Foreign entrants for their part relied on their global resources, such as imported supplies and global reservation networks. The “fortress approach” also involved keeping a huge inventory of supplies. A practice shared by all groups was to keep simultaneously several supplies in reserve to minimize the damage of one of them disappearing overnight. For the human resource function of former state enterprises, the adaptation to market conditions meant a radical cut in the number of staff and sometimes also in the range of social benefits offered. Foreign hoteliers relied on both expatriates and staff with no experience from the Soviet hotel industry in their personnel policy. Finally, they provided a range of social benefits in order to compensate for the poor social security system in Russia.

6.3 Late transition 1998-2005

The overall effect of the 1998 financial crisis on the hotel industry was not very severe. In addition, it affected different groups of hotels to different degrees. Those hotels that served mainly domestic customers suffered the most. On the other hand, one of the respondents noted that the groups of schoolchildren saved their occupancy that time: *“Parents used their last rubles to pay for the children’s trips thinking “we cannot afford to travel*

*ourselves but let them go and see Piter.*³⁹” (14) Also, the drop in occupancy rates was again compensated by renting out part of the premises: *“Under the difficult conditions we had no other option than to rent out our premises: 40 percent was occupied by hotel rooms and the remaining 60 percent of the hotel space was rented out. Such a situation lasted until 2001.”*

(11) Foreign-managed upper-class hotels oriented to foreign customers did not suffer from the crisis that much, as the 1998 crisis was characterized as a “domestic” one. However, some of the respondents viewed it as having a negative effect on the image of Russia as a destination, resulting in a drop in the number of incoming tourists. One of the foreign-managed hotels solved the problem of decreased demand by shortening the working hours of the staff until the demand started to pick up. (24)

A major development during the late transition was the entry of a number of new players into the sector. In addition to mini-hotels and other Russian-managed hotels, a group of private property developers and owners started to emerge. As the city withdrew from hotel ownership, its dual role was abolished, leaving to the city only the regulation of the sector. The city-owner was replaced with a new breed of owners, professional developers whose business was to construct hotels and then sell them to firms specialized in real estate management.

6.3.1 Structure: withdrawal of City Hall from hotel industry ownership

The main change in St. Petersburg hotels’ structure during the late transition concerned ownership, as the city government was replaced with private owners. However, as the change in ownership occurred at the very end of the period under investigation in this study, it is premature to analyze its effects on the operations of former state hotels. For two of the city’s foreign-managed hotels, the withdrawal of the state meant that their foreign management companies lost their contracts, as the selling of state shares was accompanied by the selling of the rest of the shares as well to a new property owner with its own management structure. (The St. Petersburg Times 18.1.2002; 11.2.2005) Interestingly, a management contract as an operation mode got a stronger foothold in the sector during the

³⁹ The nickname of St. Petersburg used by Russians

late transition. Local hotel developers who often lacked industry experience began to understand the value of a foreign management company, whose reputation helped in negotiations to obtain financing for the project and whose expertise was valuable during the construction and when launching the operations. However, a major part of the city's hotels continued to be owner-managed, in particular smaller ones. A group of its own was formed by the mini-hotels that operated beyond the industry regulation, having been registered as apartments: *"You have your own apartment, you pay for it just rent as for an apartment, you don't have a license for alcohol, don't have a cash register, and work entirely gray without paying any taxes."* (1)

In contrast to ownership changes, there were little changes in the organizational charts of hotels in comparison to the early transition. Former state hotels had undergone a profound restructuring to respond to market conditions during the early transition, and new Russian-managed hotels being opened at an increasing speed already faced a more developed market environment. To some degree hotels returned to their core business during the late transition. The development of tourism and business infrastructure made the foreign hotels' "fortress approach" redundant. When high-quality restaurants, shops and modern office premises are available on the market, there is no need to have extensive services in the hotels. (The Moscow Times 21.5.2002) Also, in line with the adaptation to market conditions, former state hotels have transformed their business centers back into hotel rooms. (11). Interestingly, as the real estate market for rented apartments has developed, the competition in the accommodation market has turned around. While in the early transition, hotels offered long-term accommodation for businessmen, nowadays real estate firms offer short-term apartments and compete with hotel accommodation. (Fontanka.ru 26.6.2001)

In the case of the new Russian-managed hotels, the services offered and their arrangement varied somewhat, mainly according to the size and the class of the hotel. Mini-hotels focus on accommodation, and usually do not have their own restaurant but network arrangements instead, i.e. agreements with restaurants in the neighborhood. (1, 3) Interestingly, some of the new Russian-managed hotels opened during the late transition provide also tourist services via own tourism company in addition to accommodation. (3, 6) These include

basic services such as airport transportation, and program services such as excursions and ticket bookings. The illegal mini-hotels for their part restrict their services to providing a “bed to sleep in”.

As to the customer structure of hotels of different type (i.e. former state hotels, foreign-managed hotels, and new Russian-managed hotels), the division of the market into an international and local one became less drastic during the late transition. Most of the hotels the managers of which were interviewed for this study had a mixed clientele, with the dominance of foreign tourists during the high season vis-à-vis Russian businessmen during wintertime. In most foreign-managed hotels the share of Russian customers has risen since 1998, which is a sign of an improvement in the local purchasing power. Also, the segmentation between foreign and local hotels has become less strict. St. Petersburg already has Russian-owned 5-star hotels and the two recently opened foreign-managed hotels serve the 4-star segment.

6.3.2 Practices: market exchange stabilizes

The main development in the operational practices of hotels during the late transition was the stabilization of market conditions. A market for supplies and distribution was established, and exchange between enterprises became contract-based. In contrast, in the relations to the public sector personal relations still played a role, although a diminishing one.

Public sector: Towards impersonal relations?

As illustrated in Chapters 4 and 5, the legislative and regulative environment stabilized during the late transition. However, respondents of this study still found room for improvement. For example, the respondents in this study still viewed Russian legislation as ambiguous, frequently changing, and even contradictory. *“Our legislation changes so often that when you read about it, your hair rises: today one, tomorrow another, the day after*

tomorrow a third." (14) However, the main problem seems not to be the frequency of changes *per se*, but the way in which the changes are implemented. Given the lack of openly available information on legislative changes, some managers still rely on personal contacts in the city administration to gain this information – *"It's better to be friends with the tax inspectors, the tax police, everybody. Simply, to put it bluntly, to have your own man there. Not for closing their eyes to something, not at all, but to get information in time."* (13) The legislation was considered particularly challenging by new foreign entrants, who even had a lawyer on their payroll to deal with these issues. (25) Moreover, the tradition of keeping up good relations with public sector authorities by giving small gifts continued, although some of the foreign respondents did not see in it anything unique to Russia: *"There is nothing special in hosting a dinner for the chief of the local fire brigade – in Germany we do it as well."* (26)

On the other hand, there were also contradictory signs that this tradition was gradually disappearing, i.e. there would be no special need for keeping up good relations with civil servants if the enterprise were operating transparently and fulfilling all requirements. Comments, such as *"It is not 1991 any more."* (2) and *"Giving small gifts to civil servants... that has been gone for 10 years."* (6) illustrate this. Also, not all respondents view personal relations as a solution to problems: *"No matter how good relations you have – they can disrupt any time and then you are in trouble. Better to do everything by the book."* (5)

In addition to the need for personal relations, the respondents acknowledged that corruption was still a problem in the hotel industry. However, bribery (or demands for bribes) was not viewed as primarily related to daily operations such as inspections by authorities but rather to important decisions such as the allocation of sites for hotel construction. Bribery was primarily associated with illegal hotels, which would have to pay authorities to close their eyes to their ways of operating. *"If I have a hotel that has no chance of being approved by the fire inspection, or sanitary control, I have to pay bribes."* (6) Paradoxically, the formal status of registration as apartments protected illegal hotels from public sector requirements: *"If a state inspector comes to an illegal hotel, to the first question about where's the*

license, where's the certificate, on which basis you accommodate guests, the owner starts to explain: "I have apartments, I'm renting them out to my friends", or simply gives money to get him to leave." (8)

For legally operating hotels, as during the early transition, good relations were viewed as a means of avoiding requests for bribes in daily affairs, but also the importance of operating transparently was stressed. *"It makes no sense to patch up a hole with money – the hole will be there anyway."* (20) Finally, the partnerships with private Russian constructors brought new means for foreign management companies to cope with public sector demands: *"Whenever we face a challenge (I don't say a problem) with the public sector, we ask our partner to take care of it. It's up to him how he deals with it, I'm not asking."* (26)

The city policy for the allocation of sites for hotel construction was not viewed as transparent by the interviewees. However, one interviewee vividly stated that in St. Petersburg the site allocation policy would not be as straightforward as in Moscow, where it would be based on the principle *vzyatki, eto dvigatel progressa*⁴⁰ (bribes are the engine of progress). He cynically noted that in St. Petersburg, *they often take the money but won't give the lot anyway*. (15) Moreover, it seems that the art of bribing is not as simple as it sounds as another interviewee illustrated his attempts to buy a city-owned property to expand his business: *"I've tried everything, even offered to pay a bribe but they did not take it. Maybe I did not know how to give it, but the result was that I'm still without the property."* (8) The site allocation policy of City Hall evoked also broader criticism in 2005, after it was permitted to build a hotel in a protected area. The process was characterized as murky, the presidential administration seemed to have asked the governor to approve the project. In addition, there was no public tender for the site. The action thus violated the law and it has been contested by the residents of the area. (The St. Petersburg Times 22.4.2005)

As part of the city tourism policy, the diminishing allocation of budget funds to the promotion of St. Petersburg as a tourist destination (with the city's 300-year anniversary in 2003 as an exception) resulted in individual hotels putting new emphasis on marketing the city as a tourist destination. For example, a joint initiative, "White Days", was developed

⁴⁰ This quote is from the former mayor of Moscow, Gavriil Popov.

by the city's 5-star hotels and other tourist industry actors such as museums and theatres to promote the city as a winter destination abroad. The city authorities welcomed the effort to the degree that it evoked a bitter comment from an expatriate manager *"After cutting the promotion budget to zero after 2003, the city now wants to piggyback the White Days program."* (26)

In addition to the lack of promotion of St. Petersburg as a tourist destination, the city was criticized for its insufficient attempts to support hotel investment. It was noted that tax concessions would be granted only for foreign firms and that the investment legislation is ambiguous. *"We did not get a tax concession for the property tax as a new investment object due to a gap in the legislation – we appeared to be in a gray area."* (4) However, this example highlighted the importance of personal relations in overcoming such problems – *"We are discussing this problem with the City and will probably come to a solution because we know people there."* (4)

Supply strategy – market conditions stabilize

In the supply function, practically no legacies of the former state planning system were left by the late transition. The local market for foodstuffs and other consumer supplies was developed to the stage where only some luxury items such as specific alcohol brands needed to be imported. Furthermore, tender-based long-term contracts with suppliers had replaced keeping a reserve of suppliers on hold. The supply relations of the new Russian-managed hotels were from the beginning based on long-term contracts with selected suppliers, although one of the respondents criticized that it is not always easy to find reliable suppliers. Therefore, there occurs a kind of "natural selection" of suppliers. Moreover, small hotels have welcomed the emergence of Western-style cash and carry markets, such as Metro and Lenta, to the market. In particular when the food supplies needed are limited to breakfast items only, it is considered more quick and flexible to purchase the items directly from the supermarket. Also, larger hotels use them as a supplementary supply channel in the case of e.g. unexpected large bookings for the restaurant. (11)

The attitudes of the respondents towards the use of local versus foreign contractors and suppliers in the construction stage were bi-polar. Part of the hotels opened during the late transition had used foreign contractors and suppliers of construction materials and interior supplies such as furniture. The foreign construction firms were mainly from former socialist bloc countries, such as Yugoslavia and Estonia. Interestingly, firms from the Baltic States were sometimes considered as domestic. (2) Furniture had been supplied from Western European countries, such as Finland, France, Italy, Germany and Spain. The reasons for selecting foreign contractors and suppliers varied. In one case the constructor was selected by the French partner of the joint venture, which did not trust local firms. (1) Other hotels preferred foreign materials because of a quality guarantee, i.e. security of meeting special requirements set for, for example, hotel textiles. Such textiles are not always available in Russia; as a result, one of the hotels had purchased pillows in Finland. (5) In addition, it was viewed that Russian furniture does not meet 5-star hotels' quality requirements. Moreover, some hotels did not necessarily consider foreign goods better than domestic but viewed them as a part of the hotel's image. For example, Italian and French furniture was selected for this reason. (1)

Another part of the hotels had used Russian contractors and/or materials and furniture. One of the respondents considered that there is no basic difference any more between foreign and Russian firms, so the contractor can be selected based on the price/quality ratio. Also, furniture may be selected on the basis of tender only. (2, 9) On the other hand, some hotels had selected Russian furniture because of its lower price and meeting the local standards and requirements. (3) One of the hotels, founded by former military engineers, had used the services of their former employer institute in the construction of the hotel. In this case, preference was given to local suppliers due to "patriotic" reasons. The company had co-operated with a furniture manufacturer to adapt their products to the hotel industry. Now, the firm is supplying also other hotels with its furniture. (8)

In general, respondents stressed the quality of supplies and equipment, irrespective of their country of origin. Many of them underlined the importance of, for example, bed linen to meet requirements concerning e.g. fire safety and hygiene. Illegal mini-hotels were an

exception here, as their disobedience of norms and requirements stretched also to this sector. *“In hotels it is not allowed to use textiles that are difficult to wash, that are ill-adapted to chemical cleaning. They have bedspreads filled with foam and with ruffles. Who is washing them, how they will look in the future?”* (6)

Personnel policy – the importance of attitude

According to the research carried out for this study, features of the still-ongoing transformation during the late transition were most salient in hotels' personnel policies, found in recruiting practices and managers' views about differences between Russian and foreign management. Staff recruitment practices were very similar in almost all of the hotels under empirical investigation. A majority of the staff were students of hotel- and tourism-related university faculties and colleges further trained by the hotels, and the main criteria for hiring personnel was their having the right service attitude. Recruiting staff from other hotels was rare, since the hotel managers believed training staff without previous experience to be easier than having experienced staff unlearn practices from other hotels. Furthermore, in the managerial functions of foreign-managed hotels the number of expatriates was decreasing, as they were replaced by locals.

The criteria for new employees were rather uniform. Almost all of the hotels underlined that they do not hire people with working experience in the Soviet hotel industry. This, understandably, disqualifies more senior candidates. One of the respondents justified the hiring of young staff for the reception as follows: *“We have a 24-hour job, you have to look good at night. It not a secret, no matter how much you try, if you're over 30 years old, and you're working at night time, it is difficult to look nice.”* (6) Moreover, the same respondent pragmatically noted that young university students are hired because of financial reasons – their wage requests are lower (6). In addition to the age factor, criteria for the staff comprise language skills and most importantly a service attitude. The managers agree that a person with the correct attitude can easily be taught the necessary professional skills. Only one of the hotels, a 5-star one, prefers to hire staff which has experience in the other 5-star hotels of the city. (4)

Several respondents shared the view that it was still difficult to find qualified staff owing to the imperfections of the local education system. Although there are several institutes providing professional education in tourism and hotel industry, their graduates are not competent for management positions. For example, it was noted that finding a qualified restaurant manager is very difficult in the current situation. (5) Moreover, when hotels are competing for qualified staff, foreign-managed hotels have an advantage since they are able to provide higher salaries and better social benefits. In this situation, locally owned hotels motivate their staff to stay with non-material benefits – a good team (*horoshii kollektiv*) was mentioned repeatedly as the most important factor affecting job satisfaction. (11, 20)

The initial training of the new staff and the updating of skills of the old staff are implemented in different ways in the hotels. Most of the hotels rely on their own resources in training, i.e. new employees are familiarized with their job by more experienced staff and the hotel management. This is considered as appropriate policy, when the personnel turnover is low. Some hotels, however, use also outside specialists for training. These include, for example, lecturers from the universities and experienced hotel industry professionals. Furthermore, the hotels associated with international consortia benefit from their training programs. (3, 10) The “illegals” put limited emphasis on personnel training in proper ways of working, such as in following norms for hygiene when handling food. This was in part due to the lack of competence of the owners of these properties: *“The personnel is taken directly from the street, without figuring out how hotel work should be organized, as a matter of fact.”* (2)

However, despite the emergence of competent Russian hotel professionals, the majority of Russian hotel managers still have other than an industry-related education — one of the interviewees referred to a survey giving a number as high as 90%. (10) The Russian participants of this study are no exception: only one of the interviewees had a university degree in tourism. As for the difference between foreign and Russian management, interviewees were not unanimous. Some of them perceived no difference: as one of the Russian managers put it: *“Now, when everyone plays by the same rules, it is not important whether you are foreign or Russian. There are just good or bad managers.”* (2) Others

characterized the foreign managers as more disciplined, patient and requiring the constant maintenance of service standards. The foreign manager was characterized as a “cold professional” whereas the Russian manager would be more emotional. *“You should not judge the business on financial criteria only; it is more important to have good relations with the staff.”* (3)

As in the early transition, the range of social benefits provided varied from basic benefits defined by the law to more comprehensive social packages. The lack of additional social benefits is usually justified by financial reasons, for example the financial burden to pay back the investment credit is so heavy that the company has to save in personnel and other operating costs. (4) However, material benefits are in part compensated by immaterial ones, such as flexibility in working schedules. On the other hand, the benefits provided for the staff are not in all cases justified by the personnel’s well-being but for e.g. sanitary reasons as the following quote illustrates: *“If the personnel cook their own meals God knows when and where [...]. Those smells, cockroaches, it’s against all sanitary and other norms. Therefore, it is cheaper to feed people than clean up after them.”* (2)

In general, the most common benefits, in addition to those prescribed by law, continued to include meals, uniforms, transportation and medical care. Those hotels with a more comprehensive social package also organize parties to celebrate special days such as the New Year, International Women’s Day, organize trips and material help when needed. Moreover, some of the new Russian and foreign-managed hotels supported the tradition of “sotssorevnovanie”: *“At the end of the year, in December we always organize a competition of the best employee of the department, reward the winner with a plaque of honour, a monetary prize, and people are motivated to work better and to compare themselves against others.”* (5) Finally, it was stressed that as the hotel operates transparently by paying full taxes and pension fund contributions, it can be considered as a social benefit as such. (20) The illegally operating hotels break the norms in this sense as well, as paying “gray” salaries is a part of their tax evasion policy.

Distribution – joining consortia

The main change in distribution channels used by St. Petersburg hotels during the late transition was the emergence of local hotel marketing consortia, and Internet-based reservation systems. The leading Russian hotel consortium, Best Eastern, was founded in October 1998 to market hotels in the CIS and the Baltic States. (Turisticheskii Biznes 1/2002) In addition, the first on-line reservation system in Russia was introduced in 1999. (Turisticheskii Biznes 9/1999) Former state hotels started to use them as well in parallel to existing channels, which in part contributed to the increase in the number of foreign guests. The new Russian-managed hotels founded during the late transition, which had the advantage of entering Internet-based reservation systems from the very beginning, can be characterized as “born globals⁴¹” as they targeted the foreign market from the very beginning. In contrast, foreign-managed hotels continued to rely on their global reservation systems.

As for contracts with travel agencies, not all of the respondents were satisfied with their work but criticize that in many cases St. Petersburg tour operators are just agents between the hotel and the customer with no value added. (8) Those hotels that are members of international consortia naturally rely mostly on their joint reservation systems. Members of Best Eastern, for their part, use the services of the chain just as one marketing channel among others. Those hotels that are associated with congress or business centers mainly rely on their clientele having direct contracts with company clients. Moreover, one of the respondents referred to the role of the hotel manager’s personal contacts as a marketing tool. (5) The manager in question has a background in the academic world, and she has used her existing contacts to conclude contracts with universities and other institutional customers.

Legally operating mini-hotels were in a somewhat difficult position with regard to their positioning in the market, as they did not want to associate with the illegal mini-hotels,

⁴¹ The term, referring to companies that have international operations from the very beginning of their existence, challenges the conventional view of internationalization as a gradual process (see, e.g. Gabrielsson and Kirpalani, 2004)

which often used questionable marketing practices (6). *“They do not correctly advertise themselves, often embellish their services, which does not correspond to reality.”* (3) On the other hand, due to the requirements of the state certification system tailored to large properties, small hotels could not be rated according to their service quality. (6)

6.3.3 Summary: Structures and practices during late transition

The diversity of enterprises increased during the late transition as mini-hotels and other new Russian-managed hotels started to increasingly emerge. In addition, new foreign players entered the field. The difference in structure and practices between foreign and Russian-managed properties became smaller. Instead, the Russian-managed segment was divided into enterprises operating legally versus illegally. Table 18 demonstrates this.

Table 18: Elements of strategic and structural adaptation of St. Petersburg hotel enterprises during late transition

	Legitimate hotels	Illegitimate hotels
Structure	Foreign-managed properties private-private partnerships Russian-managed hotels independent and owner-managed Focus on core services	Premises registered as apartments Services limited to offering “place to stay in”
Practices	Importance of personal contacts diminishing	Bribery common
	Long-term supplier contracts Mini-hotels rely on cash and carries	Low quality of supplies and equipment
	New generation of local managers growing up Personnel recruited from profile institutes and trained in-house Statutory social benefits, importance of “horoshii kollektiv” as motivating factor	Personnel unqualified, service standards not followed Part of salary “in envelopes” to avoid social contributions
	Internet-based reservation networks and hotel consortia	Marketing information not based on the quality of the product

The differences between various types of hotels during the late transition regarded both structure and practices. Concerning the structure, the group of legitimate hotels comprised new Russian-managed properties and former state hotels that continued to operate independently without an outside management company. Foreign-managed hotels were transformed from joint ventures with City Hall to partnerships between foreign management chains and private Russian developers. As for the operational structure, legitimate hotels focused more on their core services as the need for providing extensive services such as business centers was reduced with the emergence of them on the market. Illegitimate hotels for their part operated outside the formal regulation of hotel activities as their premises were registered as apartments. Their services limited to providing a “bed and breakfast”.

The practices towards the public sector started to move in an impersonal direction as Russian hotels started to increasingly share the view of foreign hoteliers that one's own transparency and following the regulations is enough to avoid problems. Illegitimate hotels, in contrast, had to often resort to bribing to get the civil servants to overlook the fact that they do not fulfill legal requirements. In the supply strategies, larger hotels relied on long-term contracts with selected suppliers and small ones patronized the cash and carries that had recently appeared. Also, special attention was paid to the quality of supplies and equipment, except by illegitimate hotels, which used supplies of inadequate quality, for example bed linen not meeting requirements as to fire safety and hygiene.

The distribution channels became more standardized as well, as Russian hotels entered international online reservation systems and hotel consortia. Illegitimate hotels' questionable business practices in this regard included marketing arguments that were not based on reality. Finally, recruitment practices and criteria, as well as social benefits converged among the legitimate hotels. The main criterion was service attitude, and personnel was increasingly hired from profile institutes and trained further in the hotels. The illegitimates were an exception here, as their personnel was often unqualified. Russian properties continued to be managed by managers with no industry background, whereas foreign properties had bred a new generation of Russian managers to replace part of the

expatriates. The minimum social benefits offered were those based on the legislation, but many hotels provided extra benefits as well. Transparent operation and payment of all social taxes was considered as a benefit as such, which distinguished legitimate hotels from illegitimate ones that paid “gray” salaries to avoid social taxes.

7 Identifying field-level institutional processes

After the description of the field-level institutional context in the St. Petersburg hotel industry, and enterprises' structures and practices from socialism to late transition, the study now moves on to discuss the institutional processes in the field consistent with the conceptual framework of the study. First, the nature of *institutional isomorphic pressures* and their development during the period of investigation is analyzed. Second, enterprise choices concerning structure and practices are examined as *strategic responses* to these pressures, varying in degree of conformity. Finally, the chapter is concluded with a discussion of variety in enterprise strategies in each time period of the study, and the sources of such variety.

7.1 Institutional isomorphic pressures from socialism to late transition

This section discusses the nature of the three types of institutional isomorphic pressures identified in the conceptual framework of the study: coercive, mimetic and normative pressures (DiMaggio and Powell, 1983). Based on the empirical description in Chapter 5, it first identifies dominant sources of such pressures characteristic for each period under investigation. Second, it analyzes the strength of these pressures towards homogeneity and change in them over time. The main empirical results in this regard are summarized in Table 19.

Table 19: Change in isomorphic pressures from socialism to the late transition

Period	Type of isomorphism	Main source of isomorphism	Mechanism of isomorphism	Strength of isomorphic pressures
State socialism	Coercive	Central planning	Coercion	Strong
	Mimetic	Central planning	Coercion	Strong
	Normative	Socialist ideology	Coercion	Strong
Early transition	Coercive	The state and local authorities	Coercion	Weak
	Mimetic	Other enterprises and industry associations	Employee transfer, industry associations	Weak
	Normative	Professionalization	Filtering of personnel, professional networks	Weak
Late transition	Coercive	The state and local authorities	Coercion	Weak
	Mimetic	Other enterprises and industry associations	Employee transfer, industry associations	Moderate
	Normative	Professionalization	Filtering of personnel, professional networks	Moderate

As shown in the table, the sources of isomorphic pressures, mechanisms for channeling them to enterprises and their strength underwent change during the period of investigation. As in the socialist period both sources and mechanisms of isomorphism reflected the socialist ideology and central planning, the transition towards a market economy altered the situation towards that associated with the concept of institutional isomorphism. The next sections discuss the nature of this change in more detail.

7.1.1 The socialist period: coercive, mimetic and normative pressures from the state

As described in the previous chapters, the state socialist system with its central planning regime and the respective administrative hierarchy had an overwhelming effect on the structure and practices of hotel enterprises both on the field and organizational level. In a well-functioning market economy sources of different types of pressures towards institutional isomorphism are independent and separate. In contrast, in the Soviet economy

the structures and principles of a command economy resulted in an institutional environment where the state was a single source of coercive, mimetic and normative pressures. The overwhelming mechanism of transferring these pressures to the organization level was state coercion. However, in addition to the formal institutional environment, the deficiencies of the socialist system also served as a source of informal institutional pressures, resulting in a number of shared practices among organizations. Such shared "ways of doing things" evolved in a more subtle manner than the official practices imposed by the state apparatus.

To mirror the sources of institutional isomorphic change in the Soviet economy against the classification of DiMaggio and Powell (1983), the central planning regime served, first, as a source of government regulation and thereby *coercive isomorphism*. The central planning system imposed both the structure of hotel enterprises, and practices to implement different functions. Moreover, as the supply of resources was centralized, hotel enterprises were dependent on the state tourism structures, which mediated the state-level institutional pressures to the field-level. As such, the instructions from the planning system replaced the market-economy type legislative framework. As illustrated in the previous chapters, the state ownership principle of socialism made the need for legislation concerning, for example, the transfer of ownership and entrepreneurship redundant. Therefore, the formal regulation of the hotel industry was implemented not in the form of industry-specific legislation with respective enforcement mechanisms, but by instructions and directions detailed in the plan. The control system of the state tourism organizations for its part took care of enforcement, as it monitored the fulfillment of the plan not only as regards plan outputs in a given time period but also on a continuing basis. For example, the monthly meetings of the Leningrad Hotel Administration served this purpose.

Second, the conceptualization of institutional isomorphic pressures implies that organizations respond to uncertainty by *mimicking* models, provided by other organizations or field-level structures such as industry associations. Due to the central planning, the uncertainty faced by enterprises of the Soviet economy was low. As everything down to future demand was planned in advance, in principle there was little uncertainty in the

business environment. Moreover, as hotel managers had practically no decision-making freedom over strategic decisions, there was no need to weigh between alternative organizational models and strategies. However, to a certain degree the system encouraged mimicry and the dissemination of “best practices”. In the global hotel industry, central sources for such processes are hotel chains, which have their detailed standards and procedures to ensure the uniform quality of hotel services throughout the chain’s hotels. The state tourism organizations administering hotels, in particular Inturist, played role of a hotel chain in the sense that it developed standards for its hotels and consequently imposed them. One of the measures was the competition between hotel enterprises described in Chapter 5, where enterprises meeting standards were rewarded. At the same time, others could take these *pobediteli sotssorevnovanii* (winners of the socialist competition) as role models. However, such dissemination of practices took place not between all actors of the field but among hotels subordinated to a particular tourism organ. For example, Inturist hotels formed their own circle with practically no contacts to hotels serving domestic tourists or business travelers. Employee transfer, which is rather central in the global hotel industry in particular when disseminating practices within a chain, was also weak in the Soviet hotel industry. In general, labor mobility in the Soviet Union was low due to restrictions on, for example, moving between cities. Finally, there was little room for professional development and initiative, as the state imposed standards on all hotels. This did not motivate personnel to change jobs.

Moreover, as the planning system left little room for individual action, *normative isomorphism* in the sense as defined by DiMaggio and Powell (1983) did not take place. In other words, professionalization did not take place. This was due to several reasons stemming from the socialist planning system. First, the formal education system in the Soviet Union was tailored along the ideological principles of the country, where services were of minor importance. Therefore, there was no state education system for hotel professionals. The education of personnel for tourist hotels was the responsibility of the state tourism structures, and consequently reflected their ideology and policy. Consequently, professional educational background was not the main recruitment criteria for personnel or hotel management. Their educational and also professional background

varied from humanities and engineering to military and state security careers. In addition, to a certain degree ideology affected recruitment criteria, as a Party background and/or good personnel connections to state tourism organs superseded professional qualifications.

Second, there was little professional networking in the central planning system. On the one hand, there were no professionals in the sense that they would have an industry-specific educational background. On the other hand, the planning system did not have room for professional associations, which would have participated in the development of field-level norms and standards. Although collective action in principle took place in the socialist economies, it was implemented by trade unions, which reflected the socialist ideology. First, all grades, including managers, were covered by a respective branch-level trade union (Nove, 1986: 230). Second, the trade unions were not independent of state or party as in the West. In contrast, their purpose was to organize workers and managers for carrying out of state and party policy (*ibid*). In sum, although informal networking did take place between e.g. hotel managers, it had little impact on the development of institutional norms that were dictated from above.

The above-mentioned types of institutional pressures towards isomorphic change were those stemming from the formal field-level institutional environment. In parallel, there were informal institutional processes at work that also created standard responses. However, as the empirical analysis shows, such institutionalized practices developed to cope with the shortcomings of the central planning were not field-specific but rather shared by individuals and enterprises throughout the Soviet economy. In other words, their source was the macro-level institutional context. The characteristics of the organizational field for their part determined the concrete form the practices took and their relative importance.

To conclude, the Leningrad hotel industry as a part of the Soviet economy had a formal system to impose all kinds of institutional isomorphic pressures on enterprises. It can be said that coercive, mimetic and normative isomorphic pressures were strong, but their sources and nature varied from what the Western institutional theory assumes. The state

planning system and respective administrative bureaucracy were the single source of all pressures, and the dissemination mechanism was usually coercion.

7.1.2 Early transition: sources of isomorphic pressures start to diversify

As the socialist planning regime and its institutions were dismantled, the state lost its monopolistic position as a single source of institutional pressures towards isomorphic change. The state took over the role of regulating the hotel industry, whereas its direct influence on field-level norms and the dissemination of organizational models was reduced. However, it had to take over the task of participating in the building of an education system for the hotel industry, which disappeared with the dissolution of the state tourism structures that had maintained it. Furthermore, new market-economy-based field-level structures, such as professional associations, started to emerge. However, it took time for them to develop into powerful institutional actors. In addition, during the turmoil of the early transition, many hotel enterprises preferred to rely on practices inherited from the Soviet period to cope with environmental uncertainty. Finally, the transition from command to market economy brought to the hotel industry a new group of players, foreign hotel management companies and new Russian-managed hotels.

The legislative and regulative framework that hotel enterprises faced during the early transition was in many senses unstable. The main problem was not the legislation itself, but its enforcement and implementation. In other words, *coercive pressures* exerted from the state were ambiguous and even contradictory. The imposition of such pressures suffered from the lack of administrative tradition of a market economy, due to which individual authorities had a lot of room for maneuver when interpreting the legislation and monitoring the compliance of enterprises. This in turn was a hotbed of public sector corruption. Another characteristic adding complexity to the legislative environment of the early transition was the unclear division of labor between the Federal and regional (here, the St. Petersburg city) authorities. The freedom granted to the regions by president Yeltsin resulted in a legislative environment in which regional legislation sometimes contradicted

the Federal one. Moreover, the dual role of the city government as regulator and actor reflected in the institutional pressures exerted by the state. For example, as a hotel property owner, City Hall set conditions governing the actual allowable range of operation modes defined in the Federal legislation. Although a management contract was a recognized operation mode in the hotel industry already during the early transition, the St. Petersburg city government required prospective management companies also to invest in the physical hotel property.

One of the consequences of the transition from the planned to the market economy was that the level of uncertainty faced by enterprises increased radically. Despite its pitfalls, the central planning had provided an environment where hotel managers did not have to worry about occupancy rates or the profitability of the business. The dismantling of the command hierarchy put hotel managers in charge of strategic planning to ensure enterprise survival. In such a situation, enterprises would be expected to respond in standard ways to reduce uncertainty, and to mimic those organizations that they consider to be legitimate or successful (DiMaggio and Powell, 1983). To some degree such standard responses took place as, for example former state hotels converted part of their room capacity into business centers. However, dissemination mechanisms for *mimetic isomorphism* were ill-developed and such responses were more derived from the competitive environment (i.e. the market situation) than from the institutional constituents.

First, employee transfer as a media for dissemination of organizational models and practices was low. This was in part due to the fact that former state hotels rather reduced their staff than hired new employees, and partly because new entrants preferred to hire staff from outside the industry. However, former state hotels had to find personnel for functions that emerged after the collapse of the central planning (such as marketing). As all former state hotels were “in the same boat” in this regard, personnel for such vacancies was not available within the industry but had to be recruited from outside. Moreover, the bi-polar nature of the market between “foreign” upper class and “local” lower-class segments indicated that Russian-managed hotels were not able to compete for qualified labor with experience from foreign-managed hotels. Finally, employee transfer within the industry

was limited by the fact that under market conditions, nobody wanted to hire a person with experience in the Soviet hotel industry and its notorious service culture. Second, industry associations as a media for practice dissemination only started to emerge with the “natural selection” of the leading associations of the field coming only later. The impact of such associations was also not as strong as in many Western countries. For example, as national hotel rating systems are in many European countries administered by tourism industry associations, in Russia the first steps toward creating such a system was implemented by the state certification committee. Also, the presence of hotel chains in the market was limited as there were no local chains yet and the entry of foreign chains had only begun. The operations of foreign chains in the city were limited to one hotel for each.

In addition to mimetic pressures, also sources and mechanisms of *normative isomorphic pressures* were in flux during the early transition. As regards the education system, the abolition of the state tourism organizations’ training institutes was followed by a vacuum, which was gradually filled by state and private universities and institutes providing tourism and hotel education. However, it took some time before the first results of their work started to show in the form of trained staff with profile education. In addition, the quality of their programs did not often meet the criteria of all hotels. Foreign hotels in particular preferred the knowledge of foreign languages and service attitude to professional educational background as recruitment criteria. In addition to workers, the group of hotel managers with a shared profile education was limited to expatriate managers of foreign hotel companies. Management of Russian-managed hotels continued to represent varying backgrounds from engineering to construction. Russian-managed hotels, in particular the former Soviet ones, however, welcomed the emergence of young people with profile education.

Managerial networks were also weak during the early transition. For former state hotels, the dissolution of the state tourism structures with their weekly meetings of hotel managers meant that interaction between managers became less intensive. Among the reasons was the Soviet-era practice of information hoarding, due to which enterprises were reluctant to share information on their practices with potential competitors for fear of revealing

business secrets. The managers of foreign-managed hotels for their part were more active in informal networking, but as this was limited only to a handful of foreign expatriates, it had practically no effect on the totality of actors in the field.

In sum, the early transition was a period when the sources of institutional pressures towards isomorphism started to diversify towards the direction that the institutional theory assumes. The state had, however, still a wider role than to simply regulate the sector due to the city ownership in hotel properties. The coercive pressures were therefore often ambiguous. Field-level structures that would serve as sources and mechanisms for mimetic and normative isomorphic pressures were also undergoing transition. Old structures had ceased to exist and new ones were not yet established. In addition, the variety of core actors in the field, hotel enterprises, was changing as foreign management companies and new Russian-managed hotels entered the market. However, the former was rather a closed community, whereas the latter was still a marginal group during the early transition. Therefore, the majority of actors were still former state hotels, which tried to adapt to the changing environment. Here, they often resorted to Soviet-era practices as a response to uncertainty rather than to mimicking others that shared the same conditions.

7.1.3 Late transition: sources of isomorphic pressures gradually established

The late transition was a period of stabilization for the macro-level institutional environment on the one hand, and of rapid development on the field-level on the other hand. New players continued to emerge, including novel types of enterprises with their respective field-level associations. Moreover, a major change in the field-level institutional context was the withdrawal of the city government from hotel ownership, due to which its role was limited to industry regulation. However, there was still a certain level of instability in the field-level institutional environment, which was reflected in the strength of pressures towards homogeneity felt by hotel enterprises.

The state regulation as a source of *coercive pressures* underwent some changes during the late transition. In part, the ambiguity of legislation and regulation was decreased as the Federal center held the regional governments on a tighter leash. This process included attempts to harmonize the federal and regional legislation, i.e. regional laws were brought in line with the federal legislation. Furthermore, industry regulation was developed, such as the new hotel certification system that was introduced in 2003. However, due to the rapid development of the field, legislation dragged behind to some extent. For example, the rapid emergence of mini-hotels in the early years of the 2000s revealed gaps in existing industry legislation, which did not recognize such an organization mode. On the other hand, the relinquishment of the city of hotel ownership shifted the focus of City Hall's hotel industry development policy to site allocation. Here, the discrepancy of the formal and informal rules characteristic of post-socialist Russia was still present. Although the city's site allocation policy was rather straightforward and based on transparent procedures such as tenders, in practice its implementation was not as transparent.

The stabilization of the political and economic environment in post-1998-crisis Russia to a certain degree reduced uncertainty in the hotel business. Former state enterprises had undergone major restructuring to adapt to market conditions and had learned how to play by the new rules of the game. In addition, new players such as foreign management companies and new Russian-managed hotels entering the St. Petersburg market during late transition faced a more stable business environment than their counterparts that had entered the market during the early transition. On the other hand, increased competition between enterprises made them pay more attention to technologies and standards ensuring the quality of the service product, thereby creating conditions to increase *mimetic isomorphism*. Here, industry associations started to take a more active role in disseminating industry practices and standards. In addition to the associations created during the early transition, new groups of players such as mini-hotels quickly established their field-level associations. Also, industry associations took a more active role in channeling the opinion of the industry to the public sector decision-makers. For example, field-level actors participated in the development of a new hotel certification system applied in 2003.

In contrast, hotel chains as a media for disseminating and harmonizing practices within the field still lacked influence. Although there were attempts to develop Russian management companies targeted to establishing national hotel chains, their operations were still limited to a handful of hotels. Therefore, an absolute majority of the city's hotels were independent and owner-managed. As for international chains, the late transition was still a period of gaining a foothold in the market. Although the number of foreign-managed hotels in the city increased, a different chain operated each of them. However, towards the very end of the period under investigation, many of the existing foreign players announced plans to open a number of new hotels in the city in the coming years.

Employee transfer as a mechanism of mimetic isomorphism continued to be weak during the late transition, although some development was taking place. The gradual improvement in the service level and financial situation in the former state hotels as well as the emergence of new high-class Russian managed hotels made them more attractive employers. In some cases persons trained by foreign-managed hotels took over managerial positions in the Russian-managed properties. However, the majority of the staff preferred to rise through the ranks of the foreign-managed hotels with superior prospects for career development. Therefore, Russian-managed hotels to a large extent still relied on non-industry professionals when appointing managers. Moreover, foreign-managed hotels started to view previous industry experience as more positive, as a post-socialist generation of hotel workers was growing up. In other words, there was available younger staff that had accumulated their working experience after the collapse of the Soviet planning. However, the Soviet tradition of labor hoarding was still visible to some degree as Russian managers viewed personnel turnover as a negative thing rather than a fact of life as it was for foreign managers.

The education system as a source of *normative isomorphic pressures* strengthened its foothold during the late transition. However, since educational programs were developed mainly by the academic staff of universities and institutes with little involvement from the industry, the main emphasis of such programs was on theory rather than professional skills. Nonetheless, co-operation between the educational system and the industry started to

develop, as the majority of hotels during the late transition provided internships to students to subsequently hire the graduates for permanent positions. Technical skills or a profile education at all were, however, not considered as the main recruitment criteria. Also former state hotels already recognized the importance of the right service attitude. As to management positions, a new generation of professional Russian managers was also growing up but their influence was still to a large extent limited to middle-management positions in foreign-managed hotels. Top-level positions were still held by expatriates or in the Russian-managed hotels by persons with a non-industry background.

The nature of managerial networks changed little during the late transition. As during the early transition, the managers of foreign-managed hotels formed a community of their own, whereas managers of Russian-managed hotels had less informal interaction. However, initial attempts to break the foreign-local division were made as Russian-managed hotels started to enter the 5-star segment previously monopolized by the foreign-managed properties. For example, the White Days initiative to stimulate demand for the quiet winter months was launched by the city's foreign-managed hotels in 2002 but was later joined by Russian-managed top hotels as well. Moreover, the emergence of new Russian-managed hotels seemed to bring changes to the tradition of information hoarding. Managers who had undergone the complex process of hotel opening and gotten its business development into full swing were eager to share their experiences with newcomers and thereby contribute to the industry development.

To sum up, the late transition was a period of stabilization of the field-level institutional context. Forces driving institutional isomorphism started to gain strength, although some of them were still weaker than in developed market economies with a well-established institutional structure. However, there were signs that in the future, such forces would gain even more strength.

7.1.4 Summary: the changing nature of the field-level institutional context

After discussing the types of institutional pressures towards isomorphism, this section concludes with an analysis of the changing nature of the St. Petersburg hotel industry as an organizational field. Here, the degree of structuration of the field and other characteristics predicting a process towards increasing homogeneity are investigated.

The *Soviet hotel industry* of Leningrad can be characterized as a homogeneous field with little variation and diversity in organizational structures and practices. This was due to the central planning system, which served as a single source of resources and provided enterprises with detailed organizational templates. Moreover, the managerial background and personnel recruitment criteria were based on the socialist ideology, thereby increasing uniformity in the field. The overwhelming effect of the system also limited the possibilities for hotels to develop varying responses on the organization level as hotel managers had practically no decision-making freedom. Finally, the subordination of hotel enterprises to the state tourism structure with its hierarchy made the field well structured.

The *early transition* brought dramatic changes to the nature of the St. Petersburg hotel industry, which increased variation and diversity. The collapse of the central planning and its respective administrative bureaucracy removed the monopoly of the state as a single source of isomorphism. Instead, the development of a new institutional environment created a field with somewhat ambiguous and conflicting pressures. The supply of resources became fragmented and their sources were in the making. For example, personnel resources were supplied from varying sources instead of a well-established community of professional institutes and universities as in a developed market economy. Furthermore, distribution channels of hotel services were undergoing transformation and were characterized by a large number of small-sized actors in contrast to the global reservation networks of powerful hotel chains as in the West. The extent of the transactions with agencies of the state was naturally lower than under state planning, but was still rather great. In addition to a complex state bureaucracy with its frequent inspection visits, in

particular foreign hotel management chains had to intensively interact with the state (i.e. the city) as property owner.

Moreover, due to the transitional institutional context, the availability of alternative organization models was more limited than in the West. Although the legislation formally recognized, for example, franchising and management contracts, the former was in practice unavailable given the lack of qualified franchisees. The availability of the latter was in part restricted by the terms posed by the powerful property owner, the city government. Interestingly, the transitional context caused a high degree of uncertainty, which would predict a high degree of isomorphism, but many of the sources and mechanisms for such change were weakly established. For example, the process of professionalization was only beginning as well as the structuration of the field. Hence, there was diversity in the field, caused by the ambiguity of field-level pressures. This diversity was in part explained by organization-level factors such as ownership and management structure, as the Russian-managed hotels formed one sub-field and the foreign-managed properties another.

Finally, during the *late transition* field-level institutional structures and processes started to become more established. The supply and marketing channels started to resemble more those commonly found in the global hotel industry. The supply of personnel was increasingly based on educational institutions providing profile education. In distribution, although hotel chains still had a limited presence, the emergence of local hotel consortia and online reservation systems made distribution channels more centralized. Moreover, interaction with the state changed its form as the city government withdrew from hotel ownership. Instead, unofficial interaction with state authorities, for example, in order to receive information on legislative changes, continued. In addition, the dependence of hotel enterprises from the city as the holder of sites for hotel construction was great.

The operation modes available also started to be more in line with global practice as management contracts between private property owners and management companies became the norm for foreign hotels. However, Russian-managed hotels were still owner-managed. In addition, professionalization in the sector started to gather speed with the

emergence of a new breed of staff and managers with profile education and an increasing willingness to engage in professional networking. Also, industry associations started to gain influence. Nevertheless, there was still diversity within the field, although its nature had somewhat changed. The bi-polar structure of “high-end foreign” and “low-end local” hotel enterprises started to become blurred as both supply and demand started to mix. This process included the entry of a new sub-field, mini-hotels, which did not fit into the existing categories. Hence, diversity was no longer mainly explained by ownership and management structure, but also factors such as size.

7.2 Changing enterprise responses to institutional pressures

After describing the nature of field-level institutional pressures towards homogeneity and their development through the three time periods under investigation, this chapter continues with analyzing the variety of enterprise responses to these pressures. Consistent with the conceptual framework of the study, these responses are analyzed along the typology of Oliver (1991) as varying in the level of compliance versus resistance to institutional pressures. This includes, first, the evaluation of strategic responses along the continuum of acquiescence-compromise-avoidance-defiance-manipulation, where acquiescence represents the lowest and manipulation the highest degree of resistance. Second, the antecedents of such responses typical of each period are analyzed against the questions presented by Oliver (1991) to illustrate the nature of institutional pressures (cause, constituents, content, control and context of the pressures). Table 20 draws together the main findings of the study regarding strategic responses to institutional pressures in the St. Petersburg hotel industry along type of enterprise.

Table 20: Strategic responses of hotel enterprises to institutional pressures from socialism to late transition

Period	Type of enterprise and strategic responses
State socialism	State-owned hotels: formal compliance, informal compromise and defiance
Early transition	Former state hotels and new Russian-managed hotels: compromise and avoidance Foreign-managed hotels: avoidance and compromise
Late transition	Russian-managed large hotels, foreign-managed hotels and “legal” mini-hotels: acquiescence and manipulation Illegal mini-hotels: defiance

The table illustrates that the St. Petersburg hotel industry in the post-socialist period can be divided into subgroups, based on their strategic responses to institutional pressures. In the socialist period, however, such a division was not observable as enterprises were not authorized to take strategic action. However, the homogeneous group had formal and informal dimensions as regards responses to institutional pressures. During the early transition, the division was made between “us and them”, whereas during the late transition the basis for distinguishing hotel groups was the legitimacy of the business strategy. The following sections discuss these questions more in detail.

7.2.1 Strategic responses during state socialism: formal and informal responses

When mirroring the institutional environment of the Leningrad hotel industry against the conceptualization of Oliver (1991) predicting the likelihood of different strategic responses, some basic remarks can be made. First, the centrally planned system implied that formally, there was no room for enterprise-level strategic choice. Hence, blind compliance was the only response available. Due to the command hierarchy, each level of the system was expected to fulfill the orders from its superiors. In addition, all the institutional factors predicting the likelihood of resistance stemmed from the central planning system. As

regards causality, the idea of central planning and its institutions was the fulfillment of the plan, and maximal effort to achieve this purpose provided legitimacy. Efficiency as such was not a primary question for socialist enterprises as understood in the West. Rather efficiency was understood as an effective fulfillment of the plan targets. Therefore, the conformity to institutional pressures evidently enhanced the legitimacy and efficiency of an enterprise as a part of the system. Moreover, as discussed previously, in central planning there was one institutional constituent with importance: the state with its demands. Consequently, enterprises were highly dependent on the state-constituent. Furthermore, as the central planning apparatus set goals for enterprises, they were understandably consistent with institutional norms and requirements. Also, imposed constraints were detailed and left little room for interpretation. Respectively, the control over compliance was exerted by the state bureaucracy. The control apparatus not only controlled what was done but also how it was done, i.e. diffusing norms within the field. Finally, the institutional context was characterized by a high interconnectedness as all enterprises were parts of the larger centrally planned system.

All the above-mentioned factors support the notion that the degree of organizational resistance was low in the socialist hotel industry of Leningrad. The only exception to Oliver's (1991) propositions concerns environmental uncertainty, which was low in the socialist economy due to advance planning. Thus, it can be concluded that formally, hotel enterprises complied with the institutional pressures and there was little variation in the field. Nevertheless, a kind of pecking order existed as Inturist hotels serving foreign customers received preferred treatment as regards the allocation of resources.

Moreover, as discussed repeatedly in this study, the socialist economy had two parallel structures: the formal and informal "ways of doing things". Within the limited freedom granted to enterprise managers, also more active tactics were applied as a response to the institutional pressures. This was done under the surface of formal acquiescence, i.e. compliance to institutional rules and requirements. Such behavior can be located first, under Oliver's (1991) category of *compromise* strategy. In particular, *bargaining* with state authorities to reduce output targets or to increase supplies allocated for production represent

such tactics. Barter transactions between enterprises were also a part of the informal bargaining behavior embedded in the formal central planning. Such tactics were applied in the name of the organization to contribute to its performance. It is important to note that the nature of informal responses was not anti-system. Rather, informal action supported and enabled the functioning of the formal system.

In addition to organizational responses, individuals within the organization had their own ways of coping with the institutional pressures from the state planning system. Managers and employees, while formally working towards the goals set in the formal plan, behind the façade of compliance applied varying tactics to beat the system. This was a sort of *defiance* behavior, where individuals ignored or contested the formal rules by engaging in activities which targeted individual gain. For example, the selling of hotel rooms from under the counter violated the norms set by the socialist ideology on the one hand and by the planning system on the other.

7.2.2 Strategic responses under early transition: enterprise strategic action enabled

When analyzed from the viewpoint of enterprise responses to the institutional context, the main change resulting from the abolition of the central planning structure was that enterprises received the freedom to exercise strategic choice. On the other hand, the institutional context was changing and institutional pressures were ambiguous, which affected the strategic responses of enterprises. In addition, the opening up of the field to new players, such as foreign enterprises and new Russian-managed hotels, brought diversity to the field. Due to their different organizational features, the institutional environment affected foreign, former state-owned and new Russian-managed hotel enterprises to varying degrees, and consequently their strategic responses varied.

Basic changes in the institutional environment predicting resistance caused by the transition can be summarized as follows. First, the underlying cause of institutional pressures changed from the fulfillment of the plan to a variety of motivations from a number of institutional

constituents. When weighing alternative strategic responses, enterprises were faced with the consideration whether compliance would enhance legitimacy and/or economic efficiency. Moreover, as the number of institutional constituents multiplied, the dependence on independent constituents was more limited than in the socialist system where the state was *the* constituent. Furthermore, the new institutional environment of a market economy implied that hotel enterprises were to set their own goals, and consequently weigh whether they were consistent with institutional norms and requirements. In addition, the mechanisms of imposing institutional constraints were only developing, and the legal coercion was thus weak. Also, field-level norms were not well established due to a lack of field-level structures contributing to their development. Finally, the institutional context was characterized by a weaker interconnectedness as in the Soviet times, combined with a high degree of uncertainty.

To sum up, again with the exception of the factor of environmental uncertainty, the characteristics of the factors in the field-level institutional context suggest that organizational resistance was relatively high. However, it is proposed here that the majority of organizational responses are located between the two ends of the continuum. I justify this by arguing that both compliance and active manipulation strategies are expected to take place under conditions of well-defined institutional pressures. Also, there seems to be variety in such responses between enterprises with different organizational characteristics. Therefore, it is justified to analyze the strategic responses of hotel enterprises by group. As the presence of new Russian-managed start-ups was rather marginal during the early transition, they are analyzed jointly with the former state hotels, whereas foreign-managed operations form a group of their own.

Former state hotels and new Russian-managed hotels

During the early transition, the management of former state hotels faced a challenging task. First, they had to learn how to make strategic decisions, and to weigh their alternative consequences. This was a new situation for former state enterprises, which had been directed from above. Second, strategic management was further complicated as the

institutional environment was undergoing a transition. In short, organizational templates of the former regime had lost their significance and new ones did not develop over time. Also, new Russian-managed hotels opened during the early transition faced an environment providing no established templates. Moreover, although some foreign-managed hotels appeared on the market already in the first years of transition, local incumbents lacked the knowledge and resources to mimic their behavior. As Puffer et al. (2000) put it, many actions taken by former state enterprises represented the “muddling through” strategy. Finally, resorting to former informal institutions of the Soviet period in, for example, supply was rather common.

When mirrored against the continuum of strategic responses, actions taken by former state hotels would in part represent the compromise strategy common in the Soviet period, and partly avoidance. First, former state hotels with their inherited networks and resources from the socialist period had to balance between the expectations of multiple stakeholders, such as the state and personnel, which had got used to the Soviet tradition of lifelong employment and extensive social benefits. The practice of bargaining and negotiating with institutional stakeholders, stemming from the Soviet era, continued in particular in relations with the public sector. Second, many of the hotels applied the avoidance strategy as a response to the new institutional context by partly changing their activities. The diversification of activities to business centers is an example of this. On the other hand, being parts of larger complexes such as business centers “buffered” new Russian-managed hotels from the external environment as many functions, such as supply and sales, were common to the complex as a whole.

Foreign-managed hotels

The challenges associated with the strategic management of foreign entrants were in part associated with the entry phase, such as the selection of entry mode, and partly with the organization of activities to meet international company standards for service quality. In the absence of an institutional framework allowing market-based exchange, foreign hotel enterprises operated in relative isolation from the local business environment. Instead of

relying on informal networking to cope with the transitional business environment like local enterprises did, foreign-managed companies relied on their intra-firm resources, such as foreign suppliers, global reservation systems and expatriate managers. However, in their entry and ownership strategy foreign hotel management companies had to establish close ties with the St. Petersburg city government as the major property owner. As the economic and political instability in Russia, accompanied by the lack of functioning financial markets, effectively hindered private investment in the hotel industry, foreign hotel management companies had no choice but to ally with City Hall and often to share management responsibility with it. Some foreign entrants accepted this as the rules of the game, whereas others postponed entry until managing to negotiate a "real" management contract.

The strategic choices concerning the functional strategies of foreign enterprises clearly represent the avoidance strategy of Oliver's (1991) typology, in particular its buffering tactics. The "fortress-like" foreign hotels effectively buffered themselves both from the technical and institutional environments of the St. Petersburg hotel industry. Strategic choices with respect to entry strategy fit also in the avoidance category. Those hotels that decided to postpone entry until an entry with full control was possible escaped the local domain altogether. Other ones, in contrast, preferred to compromise with the demands from the local institutional stakeholders (City Hall in particular) and negotiated a compromise contract accommodating interests of both parties.

7.2.3 Strategic responses during late transition: convergence between "us and them"

The late transition was a period of reducing ambiguity of institutional pressures and uncertainty, as market-economy conditions gradually strengthened. Former state hotels had increasingly learned how to play by the new rules of the game, and the rules themselves were clearer. However, the institutional context was to some degree unstable, for example, allowing for entrepreneurial actors to exploit gaps in the legislation. Therefore, there was still diversity in the strategic choices within the field, but its nature became less

straightforward than the division into “us” and “them” during the early transition. New players, such as new Russian-managed properties, blurred this boundary as they increasingly entered both the high-end segment dominated by foreign entrants, and the mid-class segment represented by former state hotels. Also, the development in the market conditions reduced the divergence between the two dominant enterprise groups of the early transition, as foreign hotels increasingly localized their operations.

The change in the main factors in the institutional environment predicting resistance from early to late transition can be summarized as follows. First, it became easier for enterprises to weigh the consequences of alternative strategic responses to legitimacy and/or economic efficiency, as the formal rules of the game were less ambiguous. Moreover, the development of the field-level institutional context went towards better structuration of the field. However, there were still a large number of institutional constituents, such as industry associations, aiming to get an established status. Furthermore, new interest groups emerged, such as the general public. However, the dependency of hotel enterprises on some important institutional constituents, such as the educational institutions providing profile education, was still rather low. Also, the dependence of hotel enterprises on the state decreased as the city government relinquished its hotel ownership. Furthermore, the de-statization of the hotel business implied that hotel enterprises had more liberty to act according to their own goals, as the need to balance them with the requirements of the city as property owner decreased. Also, the mechanisms of imposing institutional constraints were more developed, as legal enforcement improved to some degree. In addition, field-level norms became better established as field-level structures started to contribute more to their development. Finally, the institutional context was characterized by a higher interconnectedness as in the early transition as tourism industry networks developed. The degree of uncertainty was lower, too.

To sum up, the characteristics of the factors in the field-level institutional context are somewhat contradictory, mainly suggesting that organizational resistance would occur. However, it is proposed that as in the early transition, the majority of organizational responses were located between the two ends of the continuum as institutional pressures

were still somewhat ambiguous. In addition, there was still variety in such responses between enterprises with different organizational characteristics. As the empirical description revealed, the strategies of new, large Russian-managed hotels largely correspond with the strategies of their counterparts in the same price segment. In contrast, mini-hotels form a distinctive group of their own, in part due to the illegal part of it. However, foreign-managed operations had still some basic characteristics, such as operation mode, that distinguished them from their Russian-managed counterparts. Hence, the following analysis is divided into large Russian-managed hotels comprising both former state hotels and new start-ups (other than mini-hotels), foreign-managed hotels, and mini-hotels.

Russian-managed hotels

The new start-ups with Russian owners and management faced a relatively stable institutional context in which to establish business operations during the late transition. In addition, the management of former state hotels had developed capacities to work under market conditions. As to their strategies and practices, former state hotels and new Russian-managed hotels differed relatively little from each other during the late transition. They shared the operation mode of owner-management and management with often other than industry backgr, functional strategies regarding basic issues such as staffing criteria and personnel policy, supplier relationships and distribution channels differed little. There was a kind of a local organizing template emerging. Some of its characteristics were based on the Soviet legacy, such as the use of personal relations with the public sector, but their role seemed to be diminishing. Also, new practices from the foreign-managed sector started to disseminate to locally managed enterprises with personnel transfer.

When mirrored against the continuum of strategic responses, actions taken by Russian-managed hotels during the late transition seemed to move towards increasing acquiescence. The gradual development of a shared “way of doing things” with its norms encouraged habit-like compliance. Furthermore, the view that it is better to obey rules than to negotiate with, for example, the city authorities to bend them, started to dominate over the reliance on

personal relations as in the early transition. Signs of manipulating strategy as “within the system” response were emerging as well. Although some hotel managers were skeptical towards the influence of industry associations, their lobbying power was also increasingly recognized.

Foreign-managed hotels

The increased stability of the institutional context during the late transition, associated with more developed structures of market-based exchange, was reflected also in the strategies of foreign enterprises. First of all, private-private partnerships based on commercial relationships between Russian real estate developers and foreign hotel management chains replaced politically flavored joint ventures with the city government as the dominating mode of operation of foreign-managed hotels. The top management in these hotels remained in expatriate hands, but mid-management positions were already occupied by Russian managers. Here, both early entrants gradually localized their management and new entrants launched their operations with a smaller expatriate team. One driving factor behind this development was the 1998 crisis and devaluation of the ruble, which made foreign staff very expensive as compared to locals. Second, in addition to the supply of staff, also the supply of goods gradually localized as Russian producers of, for example, foodstuffs improved their quality. Also, reliable suppliers of imported goods emerged, which reduced the need for keeping several suppliers in reserve simultaneously. Finally, the still ongoing transition was to some degree visible in the relations with the public sector. First, dealing with the public sector needed more time and resources than in general in the hotel industry. Second, the inconsistent tourism policy of the city created the need for hotels to increasingly invest resources in the promotion of the city as a tourist destination.

As strategic responses derived from Oliver’s (1991) model, actions taken by foreign-managed hotels during the late transition also seemed to move towards increasing acquiescence as the business environment started to be more market-economy based. As the rules of the game started to resemble those of the global hotel industry with the decreasing city involvement, it was easier for foreign companies to comply. In public sector

relations, strict policy to avoid corruption and to do everything by the book was a kind of challenge to the existing norms of negotiation and personal relations. In addition, foreign hotels showed increasing efforts to manipulate and affect the rules “within the system” as they actively lobbied city authorities to, for example, improve the street safety of tourists.

Mini-hotels

The emergence of mini-hotels in St. Petersburg can be viewed in part as a result of increasing demand, and partly due to imperfect legislation allowing entrepreneurial individuals to utilize its loopholes. This was the group where strategic responses differed the most within the group. First, there were “obedient” small hotels, which operated transparently and tried to fulfill the requirements of the industry regulation, although it took from them considerable effort. Although by size they would represent the category of mini-hotels, such hotels consciously avoided promoting themselves as such for image reasons. In general, the functional strategies and operation mode of such hotels were shared with those of other Russian hotels in the field with minor adjustments relative to size. For example, food supplies were purchased from cash and carries instead of from supplier firms due to the small quantity needed. The second group of mini-hotels comprised the “outlaws”, which did not follow the industry regulation. Since they were registered as apartments and not as hotels, they could avoid being subject to the legislation concerning the operation of hotels. Consequently, there was no need to fulfill its requirements regarding, for example, the safety of hotel guests. Moreover, as the industry legislation concerning hotel certification allowed the existence of a number of systems parallel to the official state certification system, it was relatively easy for such “hotels” to get rated against cash without fulfilling the official norms for the respective category.

The split nature of the group of mini-hotels becomes evident also when analyzed against Oliver’s (1991) typology of strategic responses. First, “obedient” mini-hotels aimed at acquiescence, both in terms of formal regulation and shared industry norms and values. Furthermore, they were perhaps the most active of the different types of hotels in manipulating, i.e. aiming to influence the institutional framework such as legislation

concerning the operations of mini-hotels. Second, the “outlaws” deliberately took a defiance strategy, by challenging the existing rules and requirements as defined in the legislation. In addition, they applied dismissal tactics when ignoring norms and values shared by the majority of the enterprises in the hotel industry regarding, for example, reliability and truthfulness in the marketing and protection of customers.

7.2.4 Summary: from imposed acquiescence towards voluntary acquiescence

After detailing the strategic responses of hotel enterprises and changes in them over time, this section concludes with a summary of the diversity of enterprise strategies of various groups, and convergence and divergence in them in the three periods of investigation.

During *state socialism* Leningrad hotels formed a rather homogeneous group, as their operations were determined in the state planning. Minor differences, such as preferred position as regards the supply of resources, were explained by the varying importance of different types of hotel operations in the Soviet economy. Inturist hotels, contributing to hard currency revenues by serving foreign tourists, were first in the pecking order. In contrast, hotels serving the purpose of recuperating the Soviet workforce and providing accommodation to Soviet citizens traveling for work and education purposes were of less importance for the planning authorities. Consequently, fewer resources were allocated to their operations. Due to the nature of the central planning hierarchy, strategic decision-making did not take place on the enterprise level. Therefore, the role of enterprises was to comply with institutional pressures. However, behind the formal façade of acquiescence, there were informal processes going on as a response to shortcomings in the formal rules of the game. These included for example, bargaining and negotiating with state authorities and defying strategies on the managerial and employee levels.

During the *early transition* the relationship between the institutional environment and enterprises changed radically, as former state enterprises were granted autonomy and responsibility for their strategic decision-making. Furthermore, the liberalization of foreign

enterprise operations brought to the hotel industry a new group of players: foreign hotel management companies. All of the sudden, the former Inturist hotels lost their privileged position in the sector and had to start competing for both domestic and foreign customers with other former state hotels. The serving of the upper layer of foreign travelers was taken over by the handful of foreign-managed hotels of the city. The challenges posed by the transitional institutional context to former state hotels and foreign management companies varied. As the former were struggling for survival and transformed their structure and practices to meet the demands of a market economy, foreign--managed hotels were concerned with how to ensure service quality that meets the global standards of the respective chains.

As a consequence, the strategic responses of the two groups of companies varied. Former state hotels were balancing between a multiple set of pressures. The multiplicity was caused by demands from various stakeholders, such as the state and labor. In addition, informal institutions from the past had a strong influence on enterprise behavior, resulting in, for example, bargaining tactics with the city government. Foreign hotels for their part were weighing between the strategic consequences of complying with the demands of the city government as an important stakeholder by entering shared management contracts, or escaping them by postponing entry. As regards functional strategies, a main strategy was avoidance, as operations were buffered from the local institutional environment by relying on imported resources and distribution channels.

In the *late transition* both institutional pressures faced by hotel enterprises and ways to respond to them started to converge. The development of the field-level “rules of the game” was increasingly built on the principles of a market economy. First, the division of labor and relations between enterprises and the public sector became clearer as the state withdrew from hotel ownership and the tradition of keeping up personal relations with small gifts to civil servants started to lose their significance. Second, market-based exchange based on written contracts became the dominant pattern in enterprise relations. Third, Russian-managed hotels received the opportunity to enter reservation and marketing networks as local hotel marketing consortia and online reservation systems developed. This enabled

them to compete more efficiently for foreign customers with foreign-managed hotels utilizing their chain-based global reservation systems. However, the legislative framework still had the features of an ongoing transition. The legislation failed to keep pace with the emergence of new organizational forms in the field, i.e. the mini-hotels.

As strategic responses, both Russian- and foreign-managed hotels moved towards acquiescence of the newly emerging industry norms and values, and also tried to comply with the legislative regulation. Moreover, manipulation as a strategic response to influence the institutional context from within the system started to gain momentum. However, the gaps in the legislation created a group of “renegades” (cf. Kondra and Hinings, 1998) who both contested the existing rules and requirements, and ignored the norms and values shared by the majority of the players in the field. This refers to mini-hotels, which took the opportunity to operate outside the system. Their behavior in part encouraged legally operating mini-hotels to take collective action to change the rules of the game.

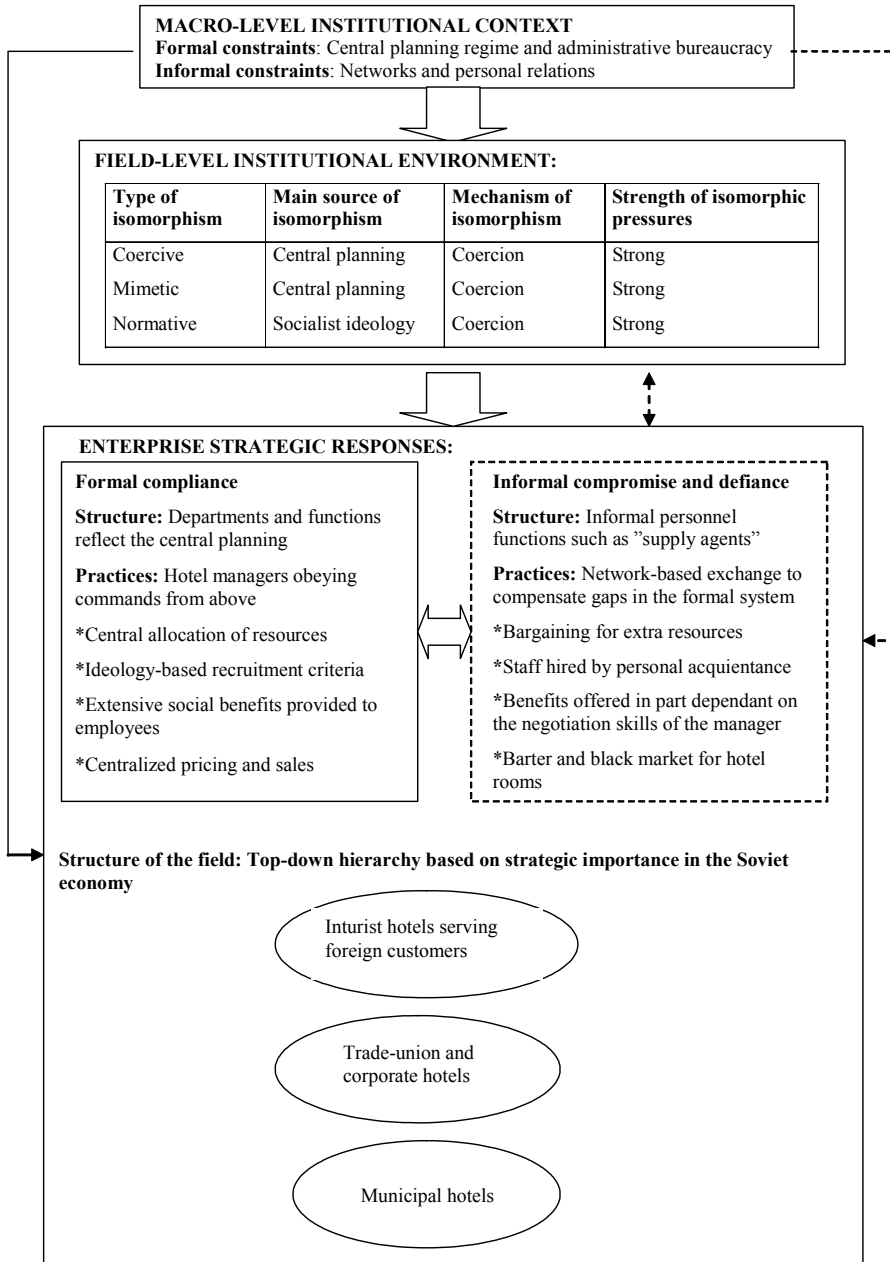
7.3 Evaluating the Conceptual Framework of the Study

This chapter, which discussed the empirical findings of the study against its conceptual framework, concludes with an evaluation of the concepts and underlying assumptions of the analytical tool presented in section 2.8. In brief, the model assumed that macro-level institutional constraints are mediated to the organization (i.e. enterprise) level via field (i.e. industry) level pressures towards homogenization. The strategic responses of different types of enterprises to these pressures then produce strategic and structural homogeneity or diversity in the field. This section assesses the model in light of empirical results for each of the three periods of investigation.

Central planning: macro-level institutions supersede field-level processes

As illustrated in this study, the Leningrad hotel enterprises were on the bottom of the Soviet tourism organization, managed by the socialist ideology and the central planning apparatus. Figure 9 illustrates this.

Figure 9: Leningrad hotel industry during central planning

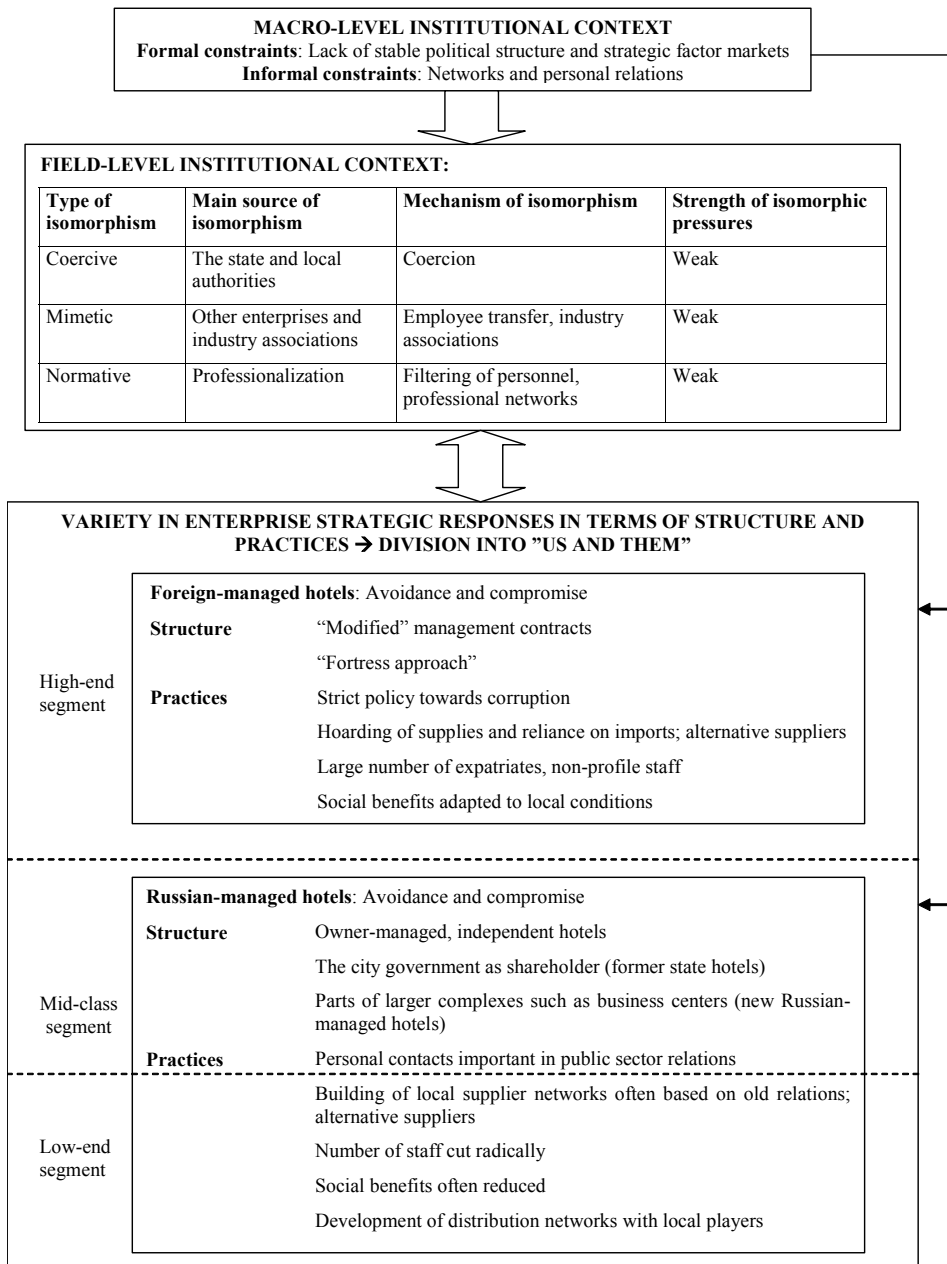


When assessing the conceptual model against the empirical context of the Leningrad hotel industry during central planning, three remarks can be made. First, the totalitarian nature of the macro-level institutional context (i.e. the socialist ideology and central planning) left little freedom of action on the levels of the organizational field and individual organizations. Although there were strong institutional isomorphic pressures towards homogeneity within the field, their source and mechanisms were central planning and its administrative bureaucracy rather than field-level constituents that just “filtered” these pressures. Hence, it can be argued that the macro-level context had a direct impact on the level of enterprises as organizations.

Second, central planning did not formally allow enterprises to take strategic action; rather, the role of enterprise managers was to implement orders from above. However, as the Soviet planning system did not work properly, enterprises were engaged in informal practices. Therefore, they took two parallel kinds of responses; formal and informal. It should be noted, though that as these responses were derived from the central planning system and its hierarchy, they were uniform to all types of Soviet enterprises. Hence, this further undermined the importance of field-level institutional processes.

Finally, the overwhelming effect of the macro-level institutional context on field- and enterprise-level institutional processes is evident also in the structure of the Leningrad hotel industry as an organizational field. In general, the field was rather homogeneous as all enterprises were subordinated to state structures. However, there was a certain hierarchy of hotels, derived from the Soviet economic system. The Inturist hotels as generating currency revenues for the state budget were at the top, being prioritized as regards resource allocation. The trade-union affiliated hotels were next in the pecking order as tourism was viewed as a means of recuperating the workforce in the socialist ideology. On the bottom were municipal hotels, which were often of dormitory-type serving Soviet persons traveling for work and education purposes. It can be said that each of these groups formed a sub-field of its own. The belonging to a group was, however, dictated from above rather than being a consequence of the strategic action of enterprises and perceptions of hotel managers as the institutional theory proposes. The transition changed this situation radically (Figure 10).

Figure 10: St. Petersburg hotel industry during the early transition

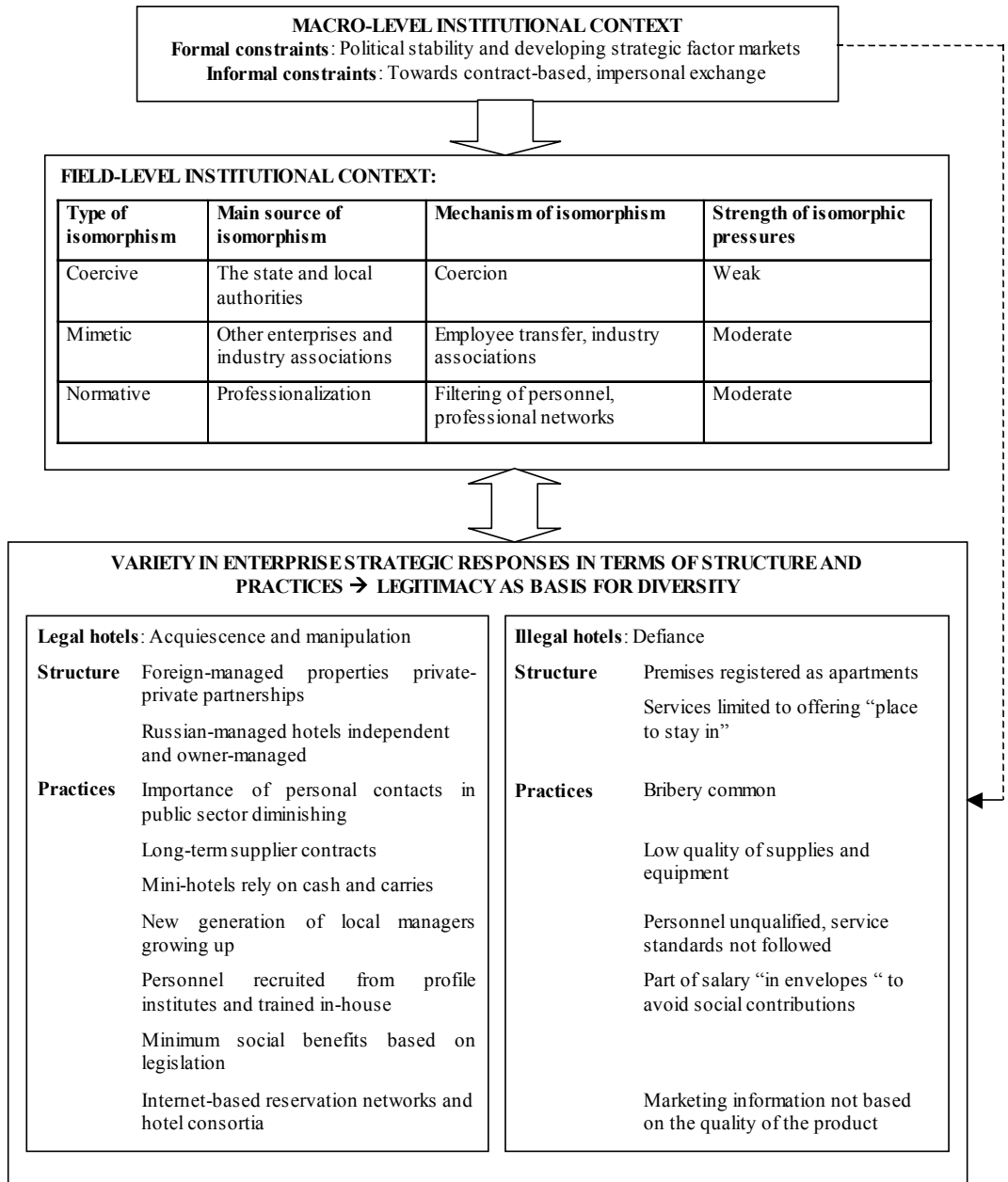


As illustrated in the figure, during the early transition the institutional set-up of the St. Petersburg hotel industry moved in the direction assumed by the institutional theory. As the state planning apparatus was dismantled, the field-level constituents became the source of isomorphic pressures, and the mechanisms started to diversify accordingly. However, as the macro-level institutional change implied also a major restructuring on the field-level, the strength of isomorphic pressures was still weak. Hence, there was diversity in the field as regards structure and practices.

Interestingly, the macro-level institutional context still had a major direct impact on the enterprise level as strategic responses of enterprises were explained by the peculiarities of the transitional operating environment. Here, a key factor accounting for diversity was the ownership and management structure of hotel enterprises, as foreign- and Russian-managed hotel enterprises formed two distinct subfields of their own. Finally, it should be noted that the structure of the hotel industry as a whole changed from an ideology-based hierarchy into a free market with different price and quality segments. This further supported the bipolar nature of the field as foreign-managed properties were located in the high-end segment and Russian-managed hotels occupied the mid- and low-end segments.

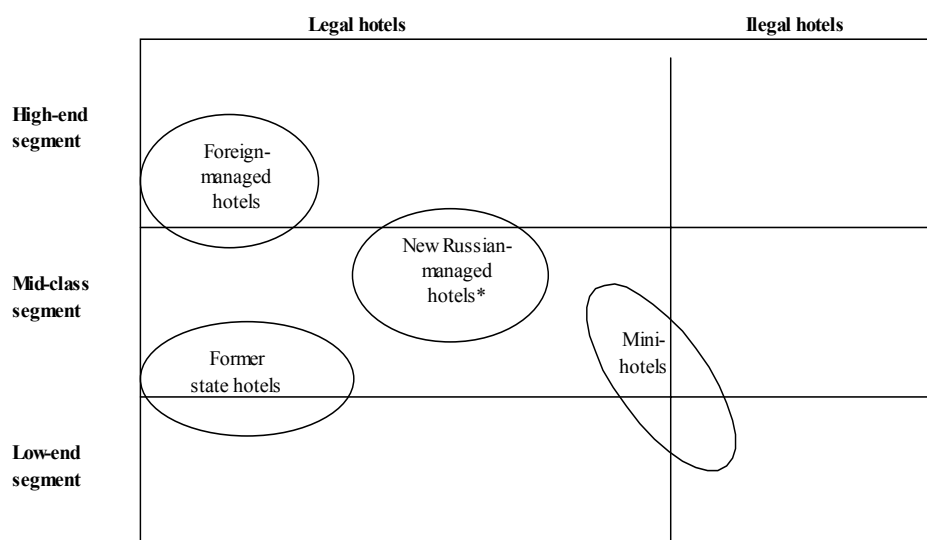
In sum, the early transition was a period of reorganizing the St. Petersburg hotel industry as an organizational field. This process continued also during the late transition but in a more evolutionary manner in comparison to the drastic change from central planning to the early transition. (Figure 11)

Figure 11: St. Petersburg hotel industry during the late transition



As shown in the figure, the major changes brought by the late transition to the St. Petersburg hotel industry were the diminishing effect of the macro-level institutional context on enterprise strategies, and the new structure of the industry as regards sub-fields. The diminishing role of the macro-level institutional context was on the one hand due to its stabilization towards a market-economy one, and on the other hand thanks to the establishment of the field-level institutional constituents and isomorphic processes. However, the macro-level institutional context still had an indirect influence on the structure of the field as gaps in legislation allowed some enterprises to operate illegally. As the development in the institutional environment was accompanied by a narrowing of the gap between foreign-managed and those Russian-managed hotels that wanted to operate by the book, the legitimacy of operations became a new dividing line between two major subfields of the industry. However, within these main subfields diversity still existed, as shown in Figure 12.

Figure 12: Structure of the St. Petersburg hotel industry during the late transition



*other than mini-hotels

As shown in the figure, the St. Petersburg hotel industry became more diversified during the late transition as regards the division of various types of hotels into different price segments. Within the “legal” group of hotels, the clear distinction between foreign-managed properties occupying the high-end segment and Russian-managed properties at the lower end started to blur. This was in part due to the entry of foreign management chains into the upper mid-class segment and to the opening of new Russian-managed hotels in the mid-class and high-end segments. The former state hotels for their part remained in the low-end and mid-class segments, although their service level also gradually improved. Finally, a new group emerged; mini-hotels, part of which comprised the group of the “illegals”. These hotels were of low quality. However, another part of mini-hotels operated according to the industry legislation and thus were located in the “legal” segment. Their profile varied from the low to even the upper mid-class segment.

8 Summary and conclusions

This concluding chapter begins with a summary of the study, recalling the main elements of the research conducted. It is followed by the positioning of the contribution of the study within the existing research, and the limitations of the study. Next, empirical and theoretical conclusions are presented, as well as the managerial implications of the study. Finally, future research directions emerging from the present study are discussed.

8.1 Summary of the study

The key research problem addressed in the study was: *How do enterprises respond to the change in the institutional context from centrally planned to market economy?* Consequently, three *research questions* were put forward:

1. *How does the progress in the transition from centrally-planned to market economy affect the isomorphic pressures towards strategic and structural homogeneity faced by enterprises?*
2. *How do enterprises respond strategically in order to cope with these pressures, and how and why such responses vary over time?*
3. *Do the strategic responses of foreign entrants, local incumbents and new start-ups converge as the transition proceeds?*

To address these questions, the study adopted an institutional perspective on business strategy, which has proved to have a superior explanatory power for firm behavior in transition economies (see e.g. Hoskisson et al., 2000; Peng, 2003; Wright et al., 2005). However, as the review of the existing literature applying an institutional perspective to business strategies in transition economies (in Chapter 4) showed, institutional theory, in particular its stream in organizational analysis, has not been fully exploited in research on enterprise behavior in transition economies. On the other hand, institutional theorists in organization studies have not put enough attention to the importance of the macro-level

institutional context. The major change in the institutional environment taking place in transition economies provides a unique context for further elaborating concepts of institutional organization theory, which have often taken a stable institutional context as given.

To tackle these analytical gaps in the existing research, the study constructed a conceptual framework, integrating theoretical perspectives in the new institutional economics and new institutionalism in organizational analysis. This framework was applied empirically in a processual case study of the St. Petersburg hotel industry, covering three different time periods (central planning, early transition and late transition). On the national level, the move from centrally planned towards market economy was approached by analyzing changes in formal and informal elements of the institutional framework (North, 1990; 1997) of Russia. Field-level processes were approached by assessing the nature and strength of institutional isomorphic pressures towards homogeneity in enterprise structures and practices (DiMaggio and Powell, 1983) and the respective strategic responses that enterprises apply to them (Oliver, 1991). Factors explaining potential diversity in such responses, including the dual institutional pressures faced by foreign-managed hotels as subunits of multinational enterprises (Rosenzweig and Singh, 1991), were then addressed. In practical terms, the strategic responses of hotel enterprises were examined by focusing on the governance of stakeholder relations (Harrison and Enz, 2005; Freeman and McVea, 2001) and the respective organizational design.

The empirical analysis addressed the research questions of the study as follows. First, it was shown that the progress in the transition from centrally-planned towards market economy affects both the nature and strength of institutional isomorphic pressures towards strategic and structural homogeneity (Table 19). During central planning, strong isomorphic pressures were exerted by the socialist ideology and the central planning hierarchy. Here, due to the totalitarian nature of communist ideology and central planning it was the macro-level institutional framework that impacted directly on the enterprise level. In the early transition, the dissolution of the old structures led to an ambiguity and weakening of institutional pressures, as new field-level sources of isomorphic pressures corresponding to

the market economy were in the making. However, the macro-level institutional context of the economic transition continued to have a major impact on enterprises. As the transition proceeded, isomorphic pressures started to gain strength as new field-level institutional structures became more established.

Second, it was demonstrated how and why the strategic responses of enterprises to institutional pressures towards homogeneity varied over time (Table 20). During central planning, strategic responses of hotels as state-owned enterprises were divided into formal and informal ones. The central planning hierarchy left little room for the strategic action of enterprises, thereby coercing them to comply. Interestingly, the formal “way of doing things” paralleled standard informal responses that enterprises applied to cope with the shortcomings of the planning system. These responses thus supported and reinforced the formal institutions.

The economic transition liberated enterprises to take strategic action, and brought foreign enterprises to the industry. During the early transition, a clear division between “us and them” was identified as regards enterprise responses to the turbulent institutional context. Both former state hotels and foreign entrants balanced between different pressures, but applied different tactics. As former state-owned hotels clung to their old practices and contacts, and tried to adapt to the new conditions, foreign entrants isolated their operations from the local environment by relying on their global resources. Hence, the dual institutional pressures faced by foreign entrants as MNE subunits was a main factor explaining diversity in strategic responses during the early transition. As the transition proceeded, however, the division between locals and foreigners became less evident. Former state hotels, and rapidly emerging new start-ups started to increasingly “play by the new rules of the game” based on principles of a market economy. Foreign entrants for their part integrated more into the local environment, which somewhat diminished the role of institutional duality as explaining variety in strategic responses. Instead, the legitimacy of operations became a new dividing line in the industry. There were still gaps in the institutional framework, which allowed the operation of a group of enterprises consciously ignoring and challenging institutional norms and requirements. Hence, the study identified

a converging trend in the strategic responses of foreign entrants, local incumbents and “honest” new start-ups as the transition proceeded.

This chapter provides next a general evaluation of the study, and then moves on to present the conclusions of the study.

8.2 Evaluation of the research contribution

The study aimed at adding to the existing empirical and theoretical knowledge on enterprise adaptation in transition economies. Its empirical objective was to shed light on *how the institutional change from command to market economy is reflected in enterprise strategies*. The theoretical objectives of the study were to, first, advance the institutional perspective on business strategy in transition economies by *introducing the organizational field as an intermediate unit of analysis linking macro- and enterprise-level processes and explaining the diversity of strategic responses among foreign and local enterprises*. Second, the study aimed at *exploring the applicability of key concepts of the new institutionalism in organizational analysis (such as institutional isomorphism and institutional duality) in the unique institutional context of post-socialism, and making suggestions how to use them in further research*. This was done by constructing a conceptual model and applying it in the empirical analysis.

Based on the institutional view of business strategy, the study argued that an approach taking into account the critical role of institutions in determining enterprise strategies is relevant when explaining enterprise adaptation in the economic transition in Russia. Moreover, based on neo-institutional organization theory, it proposed that patterns of adaptation are industry-specific. Finally, the study put forward the assumption building on the theoretical basis of the study that there is variety in strategic responses between different types of enterprises (such as foreign and local), and also over time. The empirical analysis applying the key theoretical concepts of the institutional approach to the change processes in the St. Petersburg hotel industry provided support for these arguments. Based

on a comprehensive, analytical description of institutional processes in an organizational field embedded in a changing macro-level institutional environment, the study showed how institutional factors of different nature and level affect enterprise strategies. In particular, it described how the macro-level institutional context and field-level institutional environment play different roles as sources of isomorphic pressures different time periods. Moreover, it identified variety in strategic responses to field-level institutional processes between foreign and local enterprises, and showed how these responses converge over time. In sum, I consider that the objectives set for the study have been met.

Positioning the research contribution

The study contributes to both the research streams in which it was positioned. First, it advances the institutional perspective of business strategy by bringing in the organizational field, or industry, as an intermediate level of analysis linking macro- and enterprise-level processes. This allows it to add to the contemporary discussion of how the institutional environment in transition economies is faced differently by local incumbents, foreign entrants, and new start-ups. Here, my research results support the view that the institutional challenges and consequent strategic responses vary along type of enterprise during the early transition, but start to converge as the transition proceeds (Peng, 2003). However, the study also elaborates the notion of Kosonen (2002) that it is not only former state enterprises that apply practices rooted in the socialist system during the economic transition. For example, even new hotel enterprises founded during the late transition applied practices, such as *sotssovernovanie* (socialist competition), as a part of their personnel policy. In addition, signs of “labor hoarding” were still observable in both old and new Russian-managed hotels in the late transition as employee transfers were viewed as a negative phenomenon. Finally, there were foreign-managed hotels that had kept Soviet-era social benefits such as children’s camps. Hence, this study proposes that although Russia is moving towards a market economy, some elements of the socialist past are still likely to persist in the near future.

The results of the study can also be mirrored against existing studies focusing on strategic behavior and specific challenges faced by foreign entrants, local incumbents and new start-ups. First, the longitudinal perspective taken in the study allows assessing whether institutional factors affecting foreign entry strategies, identified in earlier studies, are still present. Here, I argue that the transition-specific institutional constraints such as increased transaction costs (Meyer, 2001) and the central role of government as key negotiation partner (Meyer, 2002; Brouthers and Bamossy, 1997; Peng, 2000b) somewhat lose importance as the transition proceeds. In the St. Petersburg hotel industry this was shown, first, as foreign entrants increasingly localized their operations as regards resource supply and, second, as joint ventures with City Hall as the dominant operation mode were replaced with private-private partnerships and a secondary real estate market.

Moreover, the analysis of former state enterprises shows that their strategic adaptation was characterized by less inertia than much of the existing research indicates (Whitley and Czaban, 1998; Spenner et al. 1998; Wright et al., 2002). Here, the nature of the hotel industry as a consumer service sector is one explanatory factor. In contrast to manufacturing enterprises, which can produce goods for storage even without demand, hotel enterprises had to find new ways to ensure demand and the survival of the enterprise. Moreover, the role of barter and network-based exchange in the St. Petersburg hotel industry during the early transition was not as significant as in manufacturing (Batjargal, 2003; Ledeneva and Seabright, 2000), due to the immaterial nature of services and the low share of physical goods as production resources. However, the study further confirmed the notion that personal networks still play a significant role in enterprise relations with the state (Frye, 2002; Kosonen, 2002; Karhunen et al. 2003). Nonetheless, my results also indicate that there is a change underway in this respect, as some Russian managers view personalized exchange with the public sector as something that lost importance years ago.

The study also provides information on the institutional challenges for new business creation. It supports the view that an imperfect formal institutional framework does not impede new business creation as such (Johnson et al., 2000) but encourages some new

businesses to operate in the gray economy. This in turn exerts an informal institutional constraint on transparent new start-ups, which struggle for legitimacy.

Second, the study elaborates concepts of neo-institutional organization theory, developed to explain the interaction between the field-level institutional environment and organizational structures and practices. In contrast to most of the existing research in this domain analyzing field- and organization-level change, which has taken a stable macro-level environment as given, this study illustrates how the change in the macro-level institutional environment from command towards market economy is reflected in field-level institutional processes. It showed that the strength and nature of institutional isomorphic pressures towards homogeneity within an organizational field (DiMaggio and Powell, 1983) are critically influenced by the nature of the macro-level institutional context. Here, the study provided support for Dacin (1997), who demonstrated the power that national-level institutional forces have within organizational fields. The study also provided insights into the nature of the St. Petersburg hotel industry as an organizational field. In particular, it joined the earlier knowledge of organizational fields consisting of subfields (Coser et al., 1982; Bourdieu, 2005). It also supported the notion that such subfields cannot be identified using solely objective criteria, since they are often constructed by managers' subjective perceptions (Lant and Baum, 1995; Coser et al., 1982). For example, some hotels that would, according to size, be classified as mini-hotels, did not want to be identified in that group in order to avoid the negative association with illegal mini-hotels.

The study also provided empirical knowledge on how strategic responses of enterprises vary over time and between enterprise types. It was shown that the economic transition creates a situation where institutional pressures are ambiguous, leading to intra-field strategic diversity (cf. Dobbin and Sutton, 1998). In addition to features of the institutional context, the study also identified organization-specific factors accounting for diversity. While during the early transition they derived from foreign versus local management (cf. Dobbin and Sutton, 1998 on public versus private ownership), during the late transition diversity was induced by the legitimacy of operations. Moreover, as an important factor explaining variety in strategic responses, the study showed how the nature of dual

institutional pressures faced by foreign entrants (Rosenzweig and Singh, 1991) and their ways of balancing with them also vary over time. The early transition required considerable strategic adaptation by foreign-managed hotels in terms of resources that are used to produce standard quality services. The opportunity to resort to a global resource base in the MNE was a major factor accounting for strategic variety between “us and them” in the early transition. Hence, the foreign-managed hotels had their own, shared way of doing things, adapted to the local context (cf. Westney, 1993). As the transition proceeded, the need for local adaptation decreased as the local institutional environment “normalized”.

Finally, in addition to its positioning within the two above-mentioned theoretical perspectives, the study took a position as to how the very nature of post-socialist change should be interpreted. Building on the theoretical assumption that the speed of change in informal institutions is slower and its nature is less predictable than those of formal institutions (North, 1990; 1997), the study supported the transformation view of post-socialist change. However, the empirical analysis allows suggesting that the discrepancy in between formal and informal institutional change in the St. Petersburg hotel industry was not as large as in the Russian economy as a whole. As discussed above, the hotel industry as a consumer service sector adapted more quickly to the institutional change than did the Russian enterprise sector as a whole. Informal practices rooted in the Soviet economy were less important for hotels than for manufacturing enterprises during economic transition, thus narrowing the gap between formal and informal institutions in this sector.

Limitations of the study

The nature of the study was exploratory, which is reflected in the selection of a processual case study as its research methodology. The main emphasis of the study was to provide an overall description of the change process in the St. Petersburg hotel industry instead of focusing on the dissemination of and change in selected organizational structures and practices. Therefore, the study takes only initial steps towards integrating macro-level institutional change into the study of field-level processes in neo-institutional organizational analysis. In further studies, the basis laid in this study can be built upon by,

for example, applying its insights when designing survey instruments to address more specific questions.

The institutional approach taken in this study also has its limitations, as the interface between organizations and environment consisted of both institutional and technical features. This study focused on the institutional features of the organizational environment in explaining enterprise adaptation, and limited the analysis of technical features to the level of addressing them as derived by institutional forces. Also, the study explored strategic responses of enterprises in terms of pressures from the institutional environment. The discussion of company preferences was limited to the general overview of the nature and logics of the global hotel industry. These limitations should be taken into account when interpreting the research results.

The nature of the empirical case, i.e. the hotel industry, somewhat limits the scope for generalization based on an analysis of the results. The hotel industry is a special case in many respects, such as in its dominant operation modes, where ownership and control are separated. Therefore, the results relating to the entry and ownership strategies may not allow generalization to non-service industries operating according to different logics. However, despite these limitations, the results of the study provide insights to be applied more widely in the study of business strategies in transition economies. First, the isolation of business functions from the local context has been observed in manufacturing enterprises operating in Russia as well (see, e.g. Karhunen et al., 2003). For example, firms manufacturing high-tech products targeting global customers, where standard quality is key, often have to rely on imported supplies and invest heavily in training.

8.3 Conclusions

The theoretical conclusions of the study mirror the research questions revisited earlier in this chapter, regarding the interplay of field-level institutional change and enterprise strategies. Hence, the discussion of the theoretical conclusions of the study is structured

according to these questions. In addition to theoretical conclusions, this section addresses the managerial implications of the study. It concludes with providing suggestions for future research.

8.3.1 Field-level processes and enterprise adaptation during economic transition

The study addressed the interplay between institutional processes on different levels of the economy. Its overall conclusion is that *the macro-level institutional environment defines the nature and degree of field-level institutional pressures and the variety of enterprise responses to these pressures.*

First, the study shed light on the impact of macro-level institutional change on field-level institutional forces. It can be concluded that state socialism, with its central planning and associated administrative bureaucracy, had an overwhelming impact on the field-level processes. As a consequence, the sources and mechanisms of institutional isomorphic pressures as recognized in the literature were derived from the centrally planned macro-level environment. In short, the state imposed the structure and practices for enterprises, resulting in homogeneity in the field. Consequently, as the central planning regime was dismantled and formal institutional constraints of the command economy were abolished, the field-level institutional structure started to develop towards a market-economy one with its independent sources of isomorphic pressures, and respective mechanisms for exerting pressures towards increasing homogeneity. However, such field-level restructuring was an evolutionary process, and the weak and ambiguous nature of institutional pressures accounted for heterogeneity during the early transition. As the transition proceeded, the field-level pressures started to grow stronger, hence leading to increasing homogeneity. To conclude, it was shown that understanding the nature of macro-level change is crucial when explaining field-level processes. In other words, a stable macro-level environment cannot be taken as given.

Second, the study identified how strategic responses of enterprises in a field vary over time. This was done by examining them along the continuum of responses varying in their degree of resistance. It was shown that the change in the institutional context from command to market economy was reflected in a pendulum shift in enterprise responses to institutional pressures. In addition, the reasons for the different responses changed. Under the command economy, enterprises formally complied with institutional pressures imposed by the state. The totalitarian nature of the central planning regime resulted in “forced acquiescence” as enterprises did not have the freedom to exert strategic choice. As the Soviet Union collapsed, enterprises gained the freedom to make strategic choices. The ambiguous nature of institutional pressures during the early transition resulted in the application of compromising and avoidance strategies as responses. As the transition proceeded and the field-level “rules of the game” evolved in a market-economy-like direction, enterprises started to increasingly acquiesce to institutional pressures. At the same time, the institutional framework was still imperfect in the sense that it allowed some enterprises to consciously ignore the field-level norms and requirements.

Third, the study was interested in exploring diversity in enterprise responses and identifying reasons for it. During the socialist period, the formal homogeneity of enterprise structures and practices was accompanied by a variety of informal practices, which enterprises applied as responses to shortcomings of the formal system. The need for such responses and the respective heterogeneity in them was explained by the status of the enterprise in the central planning hierarchy. In particular, there was a privileged group of enterprises (the Inturist hotels), which were strategically important for the state since they brought in hard currency revenues. These enterprises avoided to a large extent the problems faced by other enterprises such as supply shortages and respectively their need for informal responses was smaller.

The abolition of the central planning hierarchy and the liberalization of entrepreneurial activity changed this “pecking order” in the field. The sector was divided into two sub-sectors, one of them consisting of former state hotels and the other comprising foreign-managed properties that started to emerge as limitations on foreign involvement in the

Russian economy were abolished. In the early transition, the nature of the pressures faced by these two groups and the respective strategic responses to these pressures differed. Former state enterprises in part clung to their past practices, and in part developed new practices to survive in the new environment based on principles of a market economy. Foreign entrants for their part were driven by the need for balancing between the duality of pressures caused by a discrepancy between the transitional context of the host environment and the global practices of the enterprise. The keeping up of company standards resulted in a high degree of adaptation to the local context. Interestingly, this did not mean applying local “ways of doing things” but isolating the operations from the local environment.

The progress in the transition and the stabilization of market conditions induced again changes in the diversity of enterprise strategic responses. As the gap between foreign and local enterprises’ structures and practices started to narrow down, the sector’s former bipolar nature was replaced by more diversity. The development of the local business environment into a more market-like direction reduced the pressure of institutional duality faced by foreign entrants, as the need for local adaptation decreased. Moreover, the progress in the transition decreased the applicability of Soviet-era practices for former state hotels. The underlying factor for the diversity was no longer the foreign versus the local management, but rather the degree of resistance to the institutional pressures. In broad terms, the sector was divided into “obedient” enterprises and “outlaws”. The first group consisted of foreign and local enterprises which contributed to the development of field-level norms and values, and acquiesced to prevailing institutional pressures. The second group comprised enterprises (the mini-hotels) that exploited loopholes in the industry legislation, thereby ignoring rules and regulations and avoiding the need to comply with institutional pressures.

Finally, the study allows assessing the impact of systemic transition on the nature of institutional change at the field and enterprise levels. It demonstrated how both Soviet-era practices and responses, developed to cope with the turmoil of the early transition, eroded and lost their significance as the market conditions became more established. In other words, the deinstitutionalization of practices is driven by a change in the institutional

context, which the respective practices are developed to conform with. Therefore, the study challenges the view of institutional practices as habit-like in nature and puts more emphasis on the origin of such practices rooted in the institutional context. Consequently, the institutionalization of new practices takes place as an interplay of the development of institutional field-level pressures and enterprises' responses to them. Thereby, the transition involves a gradual process of establishing field-level "ways of doing things" followed by the majority of the players. It is likely that the field will move towards increasing homogeneity and convergence in practices, if and when the regulative framework develops to close the window of opportunity allowing the existence of "outlaw" enterprises.

8.3.2 Managerial implications

In addition to its theoretical contribution discussed above, the study has also managerial implications. These implications center around two issues: the nature of the Russian business environment, and enterprise behavior in it. Although focusing on a specific industry and location, the results allow making some remarks of wider importance. Most importantly, the results challenge a number of myths and stereotypes often occurring in the Western discourse on Russia as a difficult and risky environment for international business.

The study shows that despite problems associated with the transition from command towards market economy, Russia has come a long way in the 15 years following the collapse of the Soviet Union. The business environment still has features associated with the post-socialist transition, such as the malfunctioning of the public sector. However, the data collected for this study indicates that the relative weight of so-called transition-specific problems and challenges faced by foreign enterprises entering and operating in Russia is decreasing. Instead, enterprises have to cope with "normal" challenges associated with doing business in any market, such as how to cope with the seasonality of demand, and how to get ahead of competitors. In short, the study argues that although Russia by no means an easy market for foreign enterprises, it is gradually becoming a challenging market among other challenging markets in the global business environment.

One of the key issues of the institutional view of business strategy is its emphasis on the institutional constraints of business operations. Although such constraints are of particular relevance in countries undergoing economic transition from command to market economy, an understanding of the local institutional context is key when establishing foreign business operations in any country. Despite the process of globalization along with increasing harmonization of business environments in different parts of the world, the power of national culture and other institutional forces accounting for the practices of public and private sector actors should not be underestimated.

In addition to identifying features suggesting normalization in the Russian business environment, this study also illustrated how the behavior of Russian enterprises has changed during the post-socialist period. In particular, it was shown that the “Soviet legacy” is being increasingly replaced with market-economy thinking and practices. Russian enterprises still may lag behind their foreign counterparts in terms of, for example, service standards due to the lack of a hospitality tradition and related know-how. Nonetheless, the gap is constantly narrowing down. Therefore, foreign entrants should increasingly take local companies into account as potential competitors and also as co-operation partners.

In sum, this study stresses the need for foreign enterprises targeting the Russian market to keep an eye on the developments in their sector to avoid relying on stereotypes of the business environment and local enterprises, which are often based on perceptions developed in the early years of the transition. As an interviewee of this study succinctly put it: “It is not 1991 any more”.

8.3.3 Future research

The analysis of field-level institutional processes in the St. Petersburg hotel industry provokes a number of research questions relevant for further research. These relate to the

further investigation of the interaction between macro-level institutions and field-level processes, and the nature of strategic action in transition economies.

First, this study focused on a specific sector and on a specific institutional environment. Therefore, the analysis emphasized features of specific importance to the hotel industry on the one hand, and characteristics of the Russian transition on the other. Hence, in order to gain a more profound understanding of the interplay of macro- and field-level institutional processes, empirical investigation of other sectors with different characteristics should be undertaken. In addition, it would be fruitful to examine the hotel industry in other countries with an institutional profile different from Russia.

Second, due to its theoretical underpinnings, this study focused on the role of the institutional environment in the strategic action of enterprises. Therefore, enterprise preferences were addressed only to the extent that they are institutionally derived. However, it is recognized that strategic enterprise action is driven not only by institutional but also technical pressures from the environment, which shape enterprise preferences. Hence, further analysis would benefit from the combined examination of the relative weight of these pressures.

Finally, the study illustrated how practices developed as a response to a specific institutional situation gradually lose their significance as the institutional context changes from one economic system to another. However, it should be noted that institutional practices and managerial behavior are explained not only by economic ideology but also by national culture. Therefore, the examination of deinstitutionalization versus the persistence of Soviet-era practices should address the question, to what extent such practices are in fact derived from Russian national culture and are therefore likely to persist also in the future.

References

Literature

- Barney, J. (1986) Strategic factor markets: expectations, luck and business strategy. *Management Science*, 32: 1231-1241.
- Batjargal, B. (2003) Social capital and entrepreneurial performance in Russia: a longitudinal study. *Organization Studies*, 24: 535-556.
- Baum, J.A.C. and Ingram, P. (1998) Survival-enhancing learning in the Manhattan hotel industry, 1898-1980. *Management Science* 44, 7: 996-1016.
- Berliner, J.S. (1968) *Factory and managers in the USSR*. Harvard University Press: Cambridge.
- Bevan, A., Estrin, S. and Meyer, K. (2004) Foreign investment location and institutional development in transition economies. *International Business Review*, 13: 43-64.
- Birzhakov, M. (1998) Publications on tourism in Russia. In M. Heikkinen-Rummukainen and A. Peltonen (eds.) *Trends in Russian Research on Tourism*. Proceedings of the International Forum for Tourism Research N:o 3, Savonlinna, Finland, 2-3 June 1997. The Finnish University Network for Tourism Studies: Savonlinna.
- Blanchard, O.J., Froot, K.A. and Sachs, J. D. (1994) *The transition in Eastern Europe*. University of Chicago Press: Chicago, IL.
- Boeva, I. and Dolgopiatova, T. (1994) State enterprises during transition: Forming strategies for survival. In A. Åslund (ed.) *Economic Transformation in Russia*. Pinter Publishers: London, 111-126.
- Bonneville, M. (1996) Real-estate in Russia from socialism to the market economy: The case of St. Petersburg. *European Planning Studies*, 4, 5: 513-527.
- Boorman, S.A. and Levitt, P.R. (1979) The cascade principle for general disequilibrium dynamics. *Harvard-Yale Reprints in Mathematical Sociology*, 15.
- Bourdieu, P. (2005) *The social structures of the economy*. Polity Press: Malden, MA.
- Boycko, M., Shleifer, A. and Vishny, R. (1996) *Privatizing Russia*. The MIT Press: Cambridge, MA.
- Bridgewater, S. (1999) Networks and internationalization: The case of multinational corporations entering Ukraine. *International Business Review*, 8: 99-118.
- Brouthers, K.D. (2002) Institutional, cultural and transaction cost influences on entry mode choice and performance. *Journal of International Business Studies*, 33, 2: 203-21.
- Brouthers, K.D. and Bamossy, G.J. (1997) The role of key stakeholders in international joint venture negotiations: Case studies from Eastern Europe. *Journal of International Business Studies*, 28: 285-308.
- Buchko, A.A. (1990) *Institutional isomorphism and homogeneity of business strategy in organization fields*. Ph.D. dissertation, Michigan State University.
- Burns, P. (1998) Tourism in Russia: background and structure. *Tourism Management*, 19, 6: 555-565.
- CEFIR (2005) *Monitoring the administrative barriers to small business development in Russia: The fifth round*. The Center for Economic and Financial Research: Moscow.

- Cerviño, J. and Bonache, J. (2005) Hotel management in Cuba and the transfer of best practices. *International Journal of Contemporary Hospitality*, 17, 6: 455-468.
- Child, J. (1972) Organizational structure, environment and performance: The role of strategic choice. *Sociology*, 6: 1-22.
- Child, J. and Markóczy, L. (1993) Host-country managerial behavior and learning in Chinese and Hungarian joint ventures. *Journal of Management Studies*, 30: 611-631.
- Child, J. and Smith, C. (1987) The context and process of organizational transformation-Cadbury limited in its sector. *Journal of Management Studies*, 24, 6: 565-593.
- Chowdhury, A. (2003a) *Banking reform in Russia: Winds of change?* BOFIT Online Publications, 5/2003.
- Chowdhury, A. (2003b) *WTO accession: What's in it for Russia?* BOFIT Online Publications, 10/2003.
- Chung, C.C. and Beamish, P.W. (2005) The impact of institutional reforms on characteristics and survival of foreign subsidiaries in emerging economies. *Journal of Management Studies*, 42, 1: 35-62.
- Clemens, B.W. and Douglas, T.J. (2005) Understanding strategic responses to institutional pressures. *Journal of Business Research*, 58: 1205-1213.
- Coase, R.H. (1937) The nature of the firm. *Journal of Law and Economics*, 4: 386-405.
- Coser, L.A., Kadushin, C. and Powell, W.W. (1982) *Books: The Culture and Commerce of Publishing*. Basic Books, Inc.: New York.
- D'Annunzio-Green, N. (2002) An examination of the organizational and cross-cultural challenges facing international hotel managers in Russia. *International Journal of Contemporary Hospitality Management*, 14, 6: 266-273.
- Dacin, M.T. (1997) Isomorphism in context: The power and prescription of institutional norms. *Academy of Management Journal*, 40, 1: 46-81.
- Davis, G.F. and Greve, H.R. (1997) Corporate elite networks and governance changes in the 1980s. *American Journal of Sociology*, 103, 1: 1-37.
- Davis, P.S., Desai, A.B. and Francis, J.D. (2000) Mode of International Entry: An isomorphism perspective. *Journal of International Business Studies*, 31, 2: 239-258.
- Deephouse, D. L. (1996) Does isomorphism legitimate? *Academy of Management Journal*, 39, 4: 1024-1039.
- Delmas, M.A. and Toffel, M.W. (2005) *Institutional pressures and environmental strategies* (December 1, 2005). Center for Responsible Business Working Paper Series, paper 32. Available at <http://repositories.cdlib.org/crb/wps/32>
- DiMaggio, P.J. (1983) State expansion and organizational fields. In R.H. Hall and R.E. Quinn (eds.) *Organizational Theory and Public Policy*. Sage: Beverly Hills, CA. 147-61.
- DiMaggio, P.J., and Powell, W.W. (1983) The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields. *American Sociological Review*, 48: 147-60.
- DiMaggio, P.J., Powell, W.W. (1991) Introduction. In W.W. Powell, P.J. DiMaggio (eds.) *The new institutionalism in organizational analysis*. University of Chicago Press: Chicago, IL, 1-38.
- Djankov, S. and Murrell, P. (2002) Enterprise restructuring in transition: A quantitative survey. *Journal of Economic Literature*, 40, 3: 739-792.

- Dobbin, F. and Sutton, J.R. (1998) The strength of a weak state: The rights revolution and the rise of human resources management divisions. *The American Journal of Sociology*, 104, 2: 441-76.
- Dobrev, S.D. (1999) The dynamics of the Bulgarian newspaper industry in a period of transition: Organizational adaptation, structural inertia and political change. *Industrial and corporate change*, 8, 3: 573-605.
- Drobak, J.N. and Nye, J.V.C. (1997) *The frontiers of the new institutional economics*. Academic Press: San Diego.
- Edeling, T. (1998) Economic and sociological institutionalism in organization theory: Two sides of the same coin? *Journal of Institutional and Theoretical Economics (JITE)*, 154: 728-734.
- Eisenhardt, K. M. (1989) Building theories from case study research. *Academy of Management Review*, 14: 532-550.
- Elenkov, D.S. (1998) Can American management concepts work in Russia? A cross-cultural comparative study. *California Management Review*, 40, 4: 133-156.
- Ensminger, J. (1997) Changing property rights: Reconciling formal and informal rights to land in Africa. In J.N. Drobak and J.V.C. Nye (eds.) *The frontiers of the new institutional economics*. Academic Press: San Diego, 165-196.
- Etherington, L. and Richardson, A. (1994) Institutional pressures on university education in Canada. *Contemporary Accounting Research, Special Education Research Issue*: 141-62.
- Fennell, M.L. (1980) The effects of environmental characteristics on the structure of hospital clusters. *Administrative Science Quarterly*, 25: 484-510.
- Fey, C.F. and Björkman, I. (2001) The effect of human resource management practices on MNC subsidiary performance in Russia. *Journal of International Business Studies*, 32, 1: 59-75.
- Fey, C. F., Engström and P., Björkman, I. (1999) Doing business in Russia: Effective human resource management practices for foreign firms in Russia. *Organizational Dynamics*, 28, 2: 69-80.
- Fischer, S. (1994) Russia and the Soviet Union then and now. In O.J. Blanchard, K.A. Froot and J.D. Sachs (eds.) *The transition in Eastern Europe*. University of Chicago Press: Chicago, IL, 221-257.
- Fligstein, N. (1991) The structural transformation of American industry: An institutional account of the causes of diversification in the largest firms, 1919-1979. In W.W. Powell and P.J. DiMaggio (eds.) *The new institutionalism in organizational analysis*. University of Chicago Press: Chicago, IL, 311-336.
- Freeman, R.E. and McVea, J. (2001) A stakeholder approach to strategic management. In M.A. Hitt, R.E. Freeman and J.S. Harrison (eds.) *The Blackwell Handbook of Strategic Management*. Blackwell Publishers: Oxford, 189-207.
- Frye, T. (2002) Capture or exchange? Business lobbying in Russia. *Europe-Asia Studies*, 54, 7: 1017-1036.
- Gabrielsson, M. and Kirpalani, V.H.M. (2004) Born Globals: How to Reach New Business Space Rapidly. *International Business Review*, 13, 5: 555-571.

- Galaskiewicz, J. (1991) Making corporate actors accountable: Institution-building in Minneapolis-St. Paul. In W.W. Powell, P.J. DiMaggio (eds.) *The new institutionalism in organizational analysis*. University of Chicago Press: Chicago, IL, 293-310.
- Galaskiewicz, J. and Wasserman, S. (1989) Mimetic processes within an interorganizational field: An empirical test. *Administrative Science Quarterly*, 34, 3: 454-479.
- Galeotti, M. (2000) The Russian Mafiya: Economic penetration at home and abroad. In A.V. Ledeneva and M. Kurkchiyan (eds.) *Economic Crime in Russia*. Kluwer Law International: The Hague, 31-42.
- Gavrilov, A. I. (1998) Inturist – 1929-1990 gg. *Turistskie firmy*, 15: 210-214. [Inturist - from 1929 to 1990, in Russian]
- Geron, L. (1990) *Soviet foreign economic policy under perestroika*. Chatham House papers, The Royal Institute of International Affairs. Pinter Publishers: London.
- Ghoshal, S. and Westney, D.E. (1993) *Organization Theory and the Multinational Corporation*. The MacMillan Press Ltd: London.
- Goodrick, E. and Salancik, G.R. (1996) Organizational discretion in responding to institutional practices: Hospitals and Cesarean births. *Administrative Science Quarterly*, 41, 1: 1-28.
- Goodstein, J.D. (1994) Institutional pressures and strategic responsiveness: Employer involvement in work-family issues. *Academy of Management Journal*, 37, 2: 350-382.
- Grachev, M. and Izyumov, A. (2003) Development of business culture in a newly market economy. *Journal of East-West Business*, 9, 2: 7-28.
- Granovetter, M. (1978) Threshold models of collective behavior. *American Journal of Sociology*, 83: 1420-43.
- Granovetter, M. (1985) Economic action and social structure: The problem of embeddedness. *American Journal of Sociology*, 91, 3: 481-510.
- Grapher, G. and Stark, D. (1997) Organizing diversity: Evolutionary theory, network analysis, and post-socialism. In G. Grapher and D. Stark (eds.) *Restructuring networks in Post-Socialism: Legacies, Linkages, and Localities*. Oxford University Press: Oxford, 1-32.
- Greenwood, R. and Hinings, C.R. (1996) Understanding radical organizational change: Bringing together the old and the new institutionalism. *Academy of Management Review*, 21, 4: 1022-1054.
- Gregory, P.R. and Stuart, R.C. (1998) *Russian and Soviet economic performance and structure*, 6th ed. Addison-Wesley: Reading, MA.
- Greif, A. (1997) On the interrelations and economic implications of economic, social, political and normative factors: Reflection from two late medieval societies. In J.N. Drobak and J.V.C. Nye (eds.) *The frontiers of the new institutional economics*. Academic Press: San Diego, 57-94.
- Guriev, S. and Rachinsky, A. (2005) The role of oligarchs in Russian capitalism. *Journal of Economic Perspectives*, 19, 1: 131-150.
- Hall, D. (1991) *Tourism and economic development in Eastern Europe and the Soviet Union*. Belhaven Press: London.

- Hanson, P. (1986) The serendipitous Soviet achievement of full employment: Labour shortage and labour hoarding in the Soviet economy. In Lane, D. (ed.) *Labour and Employment in the USSR*. Wheatsheaf Books Ltd: Brighton, 83-111.
- Harrison, J.S. and Enz, C.A. (2005) *Hospitality Strategic Management: Concepts and Cases*. John Wiley & Sons: Hoboken, New Jersey.
- Hasselman, L. (1998) *Kansallisen kulttuurin vaikutus työ kulttuuriin- Case Hotel Baltshug Kempinski, Moskova*. Master's Thesis, University of Helsinki. [The impact of national culture on work culture: The Case of Hotel Baltshug Kempinski, Moscow, in Finnish]
- Haunschild, P.R. and Miner, A.S. (1997) Modes of interorganizational imitation: The effects of outcome salience and uncertainty. *Administrative Science Quarterly*, 42, 3: 472-500.
- Hawley, E.W. (1966) *The New Deal and the problem of monopoly: A study in economic ambivalence*. Princeton University Press: Princeton.
- Heliste, P., Kosonen, R. and Mashkina, O. (2005) Bridging the Cultural Gap: Comparison of Finnish-Russian Business Norms. In K. Liuhto and Z. Vinze (eds.) *Wider Europe: Jubilee Publication in honor of Urpo Kivikari*. Pan-Europe Institute: Turku, Finland, 255-280.
- Hellevig, J., Usov, A. and Tiisanen, T. (2005) *The Russian tax reform paving way for investments*. Northern Dimension Research Center, Publication 21. Lappeenranta University of Technology: Lappeenranta.
- Henisz, W.J. and Delios, A. (2002) Learning about the institutional environment. In P. Ingram and B.S. Silverman (eds.) *The new institutionalism in strategic management. Advances in strategic management*, 19. Elsevier: Amsterdam, 339-372.
- Heusala, A-L. (2005) *The transitions of local administration culture in Russia*. Kikimora Publications, Series A-12: Helsinki.
- Hirsch, P.M. and Lounsbury, M. (1997) Ending the family quarrel: Toward a reconciliation of "old" and "new" institutionalisms. *The American Behavioral Scientist*, 40, 4: 406-418.
- Hirschman, A.O. (1970) *Exit, voice and loyalty*. Harvard University Press: Cambridge, MA
- Hirvensalo, I. (1996) *Strategic Adaptation of Enterprises to Turbulent Transitional Markets: Operative Strategies of Finnish Firms in Russia and the Baltic States during 1991-95*. Ph.D. Dissertation, Helsinki School of Economics and Business Administration. HSEBA Publications A-120: Helsinki.
- Hitt, M.A., Ahlstrom, D., Dacin, M.T., Levitas, E. and Svobodina, L. (2004) The institutional effects on strategic partner selection in transition economies: China vs. Russia. *Organization Science*, 15, 2: 173-185.
- Hodgson, G.M. (2006) What are institutions? *Journal of Economic Issues*, XL, 1: 1-25.
- Hoffman, A.J. (2001) Linking organizational and field-level analyses: The diffusion of corporate environmental practice. *Organization & Environment*, 14, 2: 133-156.
- Hoskisson, R.E., Eden, L., Lau, C.M. and Wright, M. (2000) Strategy in emerging economies. *Academy of Management Journal*, 43, 3: 249-267.
- Hutchings, K. and Michailova, S. (2004) Facilitating knowledge sharing in Russian and Chinese subsidiaries: The role of personal networks and group membership. *Journal of Knowledge Management*, 8, 2: 84-94.

- Ingram, P. and Baum, J.A.C. (1997) Chain affiliation and the failure of Manhattan hotels, 1898-1980. *Administrative Science Quarterly*, 42, 1: 68-102.
- Ingram, P. and Inman, C. (1996) Institutions, intergroup competition, and the evolution of hotel populations around Niagara Falls. *Administrative Science Quarterly*, 41: 629-658.
- Ingram, P. and Roberts, P.W. (2000) Friendships among competitors in the Sydney hotel industry. *The American Journal of Sociology*, 106, 2: 387-423.
- Ingram, P. and Silverman, B.S. (2002) Introduction: The new institutionalism in strategic management. In P. Ingram and B.S. Silverman (eds.) *The new institutionalism in strategic management. Advances in strategic management*, 19. Elsevier: Amsterdam, 1-30.
- Ingram, P. and Simons, T. (1995) Institutional and resource dependence determinants of responsiveness to work-family issues. *Academy of Management Journal*, 38, 5: 1466-1482.
- Ivanova, O., Kaipio, H., Karhunen, P., Leppänen, S., Mashkina, O., Sharafutdinova, E. and Thorne, J. (2006) *Potential for enterprise cooperation between Southeast Finland and Northwest Russia*. HSE Publications B-69: Helsinki.
- Johanson, M. (2004) Chains, holes, and links: Organisation of activities in supplier relationships in the Russian transition economy. *Journal of Purchasing & Supply Management*, 10 (2004): 233-245.
- Johnson, S., McMillan, J. and Woodruff, C. (2000) Entrepreneurs and the ordering of institutional reform. *Economics of Transition*, 8, 1: 1-36.
- Jyrämä, A. (1999) *Contemporary Art markets: Structure and Practices. A Study on Art Galleries in Finland, Sweden, France, and Great Britain*. Ph.D. Dissertation, Helsinki School of Economics and Business Administration. HSEBA Publications A-160: Helsinki.
- Kaipio, H. and Leppänen, S. (2005) *Distribution Systems of the Food Sector in Russia: The Perspective of Finnish Food Industry*. Helsinki School of Economics Publications B-61: Helsinki.
- Karhunen, P. (2002) International hotel companies in Russia: The choice of entry mode. *Journal of East-West Business*, 8, 3-4: 83-101.
- Karhunen, P. (2007) Managing international business operations in a changing institutional context: The Case of St. Petersburg hotel industry. Forthcoming in *Journal of International Management, Special Issue on International Entrepreneurship, Management and Competitiveness in Transforming and Emerging European Economies*.
- Karhunen, P., Kosonen, R. and Leivonen, A. (2003) *Osaamisen siirtyminen suomalais-venäläisissä tuotantoalliansseissa: Tapaustutkimuksia Pietarista ja Leningradin alueelta*. HSE Publications B-53: Helsinki. [Knowledge flows in Finnish-Russian production cooperation: Case studies from St. Petersburg and the Leningrad region, in Finnish]
- Karpova, G.A. (2003) Kulttuurimatkailun asiantuntijoiden kouluttaminen. *Muuttuva Matkailu*, 4/2003. Joensuun yliopistopaino: Joensuu [On educating specialists for cultural tourism, in Finnish].

- Katila, R. (1985) *Talous- ja ulkomaankauppahallinto Neuvostoliitossa*. WSOY: Porvoo. [The administration of economy and foreign trade in the USSR, in Finnish].
- Kondra, A.Z. and Hinings, C.R. (1998) Organizational diversity and change in institutional theory. *Organization Studies*, 19, 5: 743-767.
- Kontorovich, V. (1999) Has new business creation in Russia come to a halt? *Journal of Business Venturing*, 14: 451-460.
- Kornai, J. (1992) *The socialist system: The political economy of communism*. Clarendon Press: Oxford.
- Kornai, J. (2006) The great transformation of Central Eastern Europe. *Economics of Transition*, 14, 2: 207-44.
- Kosonen, R. (2002) *Governance, the local regulation process, and enterprise adaptation in post-socialism: The case of Vyborg*. PhD Dissertation, Helsinki School of Economics and Business Administration. HSEBA Publications A-199: Helsinki.
- Kosonen, R. and Oinas, P. (1999) Organising chaos? Observations on Grapher & Stark and on contemporary Vyborg. In R. Kosonen and A. Salmi (eds.) *Institutions and post-socialist transition*. HSEBA Publications B-22: Helsinki, 55-80.
- Kosonen, R. and Rautava, J. (2002) Harmaa talous on syvällä venäläisessä yhteiskunnassa. *Idäntutkimus*, 1/2002: 7-14. [Informal economy is deeply rooted in the Russian society, in Finnish]
- Kostecki, M. and Fehérváry, A. (1996) *Services in the Transition Economies: Business Options for Trade and Investment*. Elsevier Science Ltd: Oxford.
- Kostiainen, A. (2003) The Soviet Tourist Industry as seen by the Western Tourists of the Late Soviet Period. In L. Tissot (ed.) *Development of a Tourist Industry in the 19th and 20th Centuries: International Perspectives*. Editions Alphil: Neuchâtel, 269-282.
- Kostova, T. (1996) *Success of the transnational transfer of organizational practices within multinational companies*. Ph.D. dissertation, University of Minnesota: Minneapolis.
- Kostova, T. and Roth, K. (2002) Adoption of an organizational practice by subsidiaries of multinational corporations: Institutional and relational effects. *Academy of Management Journal*, 45, 1: 215-233.
- Kuznetsov, A. and Kuznetsova, O. (2003) Institutions, business and the state in Russia. *Europe-Asia Studies*, 55, 6: 907-922.
- Kvartal'nov, V. A. (1999) *Inostrannyi turizm*. Finansy i statistika: Moscow. [Foreign tourism, in Russian]
- Lane, D. (1986) *Labour and Employment in the USSR*. Wheatsheaf Books Ltd: Brighton.
- Lane, L. (1995) Russian hotels adjust to change. *Hotel & Motel Management*, 210, 20: 26-30.
- Langley, A., (1999) Strategies for theorizing from process data. *Academy of Management Review*, 24, 4: 691-710.
- Lant, T.K. and Baum, J.A.C. (1995) Cognitive sources of socially constructed competitive groups: Examples from the Manhattan hotel industry. In W.R. Scott and S. Christensen (eds.) *The institutional construction of organizations: International and longitudinal studies*. Sage: London, 15-38.
- Larson, M.S. (1977) *The rise of professionalism: A sociological analysis*. University of California Press: Berkeley.

- Leblebici, H., Salancik, G.R., Copay, A. and King, T. (1991) Institutional change and the transformation of interorganizational fields: An organizational history of the U.S. radio broadcasting industry. *Administrative Science Quarterly*, 36: 333-363.
- Ledeneva, A.V. (1998) *Russia's economy of favours. Blat, networking and informal exchange*. Cambridge University Press: Cambridge, New York.
- Ledeneva, A. V. and Kurkchyan M. (eds.) (2000) *Economic Crime in Russia*. Kluwer Law International: The Hague.
- Ledeneva A. and Seabright P. (2000) Barter in Post-Soviet Societies: What does it Look Like and Why does it Matter? In Seabright P. (ed.) *The Vanishing Rouble: Barter Networks and Non-Monetary Transactions in Post-Soviet Societies*. Cambridge University Press: Cambridge, New York, 93-113.
- Lee, K. and Pennings, J.M. (2002) Mimickry and the market: Adoption of a new organizational form. *Academy of Management Journal*, 45, 1: 144-162.
- Liuhto, K. (1999) *The organizational and managerial transformation in turbulent business environments: Managers' view on the transition of their enterprise in some of the European former Soviet republics in the 1990s*. Turku School of Economics and Business Administration Publications, Series A-9: Turku.
- Liuhto, K. and Michailova, S. (2000) Organizational and Management Research in Transition Economies: Towards Improved Research Methodologies. *Journal of East-West Business*, 6, 3: 7-46.
- Lonkila, M. (1999) *Social Networks in Post-Socialist Russia. Continuity and Change in the Everyday Life of St. Petersburg Teachers*. Kikimora Publications, Series A-4: Helsinki.
- Lounsbury, M. (2001) *Institutional sources of practice variation: Staffing college and university recycling programs*. *Administrative Science Quarterly*, 46, 1: 29-56.
- Makhija, M.V. and Stewart, A.C. (2002) The effect of national context on perceptions of risk: A comparison of planned versus free-market managers. *Journal of International Business Studies*, 33, 4: 737-756.
- Marnie, S. (1986) Transition from school to work. Satisfying pupils' aspirations and needs of the economy. In Lane, D. (ed.) *Labour and Employment in the USSR*. Wheatsheaf Books Ltd: Brighton, 209-222.
- Martinez, R.J. and Dacin, M.T. (1999) Efficiency motives and normative forces: Combining transactions costs and institutional logic. *Journal of Management*, 25, 1: 75-96.
- McCarthy, D.J. and Puffer, S.M. (1996) Perestroika at the plant level. In S.M. Puffer and associates, *Business and Management in Russia*. Edward Elgar: Cheltenham, 142-149.
- McCarthy, D.J. and Puffer, S.M. (1997) Strategic investment flexibility for MNE success in Russia: Evolving beyond entry modes. *Journal of World Business*, 32, 4, 293-319.
- McMillan, J. and Woodruff, C. (2002) The central role of entrepreneurs in transition economies. *Journal of Economic Perspectives*, 16, 3: 153-170.
- Melin, H. (1996) *Suunnitelman varjossa*. Ph.D. Dissertation, University of Tampere. Acta Universitatis Tamperensis, Series A-489: Tampere. [In the shadow of the plan, in Finnish]

- Meyer, J. W. and Rowan, B. (1977) Institutionalized Organizations: Formal Structure as Myth and Ceremony. *American Journal of Sociology*, 83, 2: 340-363.
- Meyer, J.W. (1983) Institutionalization and the rationality of formal organizational structure. In J.W. Meyer and W.R. Scott (eds.) *Organizational environments: Ritual and Rationality*. Sage: Beverly Hills, CA, 261-82.
- Meyer, K.E. (2001) Institutions, transaction costs, and entry mode choice in Eastern Europe. *Journal of International Business Studies*, 32, 2: 357-367.
- Meyer, K.E. (2002) Management challenges in privatization acquisitions in transition economies. *Journal of World Business*, 37: 266-276.
- Meyer, K. E. and Nguyen, H. V. (2005) Foreign Investment Strategies and Sub-national Institutions in Emerging Markets: Evidence from Vietnam. *Journal of Management Studies*, 42, 1: 63-93.
- Meyer, K.E. and Peng, M.W. (2005) Probing theoretically into Central and Eastern Europe: Transactions, resources, and institutions. *Journal of International Business Studies*, 36: 600-621.
- Michailova, S. (2000) Contrasts in culture: Russian and Western perspectives on organizational change. *Academy of Management Executive*, 14, 4: 99-112.
- Michailova, S. (2004) Contextualising fieldwork: Reflections on conducting research in Eastern Europe. In R. Marschan-Piekkari and C. Welch (eds.) *Handbook of Qualitative Research Methods for International Business*. Elgar: Cheltenham, 365-383.
- Michailova, S., and Husted, K. (2003) Knowledge-sharing hostility in Russian firms. *California Management Review*, 45, 3: 59-77.
- Michailova, S. and Worm, W. (2003) Personal networking in Russia and China: *Blat* and *Quanxi*. *European Management Journal*, 23: 509-519.
- Mohr, L.B. (1982) *Explaining organizational behavior*. Jossey-Bass: San Francisco.
- Morgan, R.E. and Thorpe, E.R. (2001) Foreign direct investment in transition economies: The Case of Coca-Cola in Russia. *Journal of Euromarketing*, 10, 1: 27-48.
- Murrell, P. (1996) How far has transition progressed? *Journal of Economic Perspectives*, 10, 2: 2-44.
- Nadirov, A. (1998) Role of the city administration as a supporter of tourist industry. In M. Heikkinen-Rummukainen and A. Peltonen (eds.) *Trends in Russian Research on Tourism*. Proceedings of the International Forum for Tourism Research, Savonlinna, Finland, 2-3 June 1997. The Finnish University Network for Tourism Studies: Savonlinna.
- Newman, K.L. (2000) Organizational transformation during institutional upheaval. *Academy of Management Review*, 25, 3: 602-619.
- Nielsen, K., Jessop, B. and Hausner, J. (1995) Institutional change in post-socialism. In J. Hausner, B. Jessop and K. Nielsen (eds.) *Strategic choice and path-dependency in post-socialism: Institutional dynamics in the transformation process*. Edward Elgar: Aldershot, 3-44.
- North, D. C. (1989) Institutional Change and Economic History. *Journal of Institutional and Theoretical Economics*, 145: 238-245.
- North, D.C. (1990) *Institutions, Institutional Change and Economic Performance*. Cambridge University Press: Cambridge, New York.

- North, D.C. (1994) Economic Performance through Time. *The American Economic Review*, 84, 3: 359-368.
- North, D.C. (1997) Understanding Economic Change. In J.M. Nelson, C. Tilly and L. Walker (eds.) *Transforming Post-Communist Political Economies*. National Academy Press: Washington, 13-18.
- North, D.C (2006) *Understanding the process of economic change*. Princeton University Press: Princeton, New Jersey.
- Nove, A. (1986) *The Soviet Economic System*, 3rd. Allen & Unwin, Inc.: Boston.
- Oleinik, A. (2004) A model of network capitalism: Basic ideas and post-Soviet evidence. *Journal of Economic Issues*, 38, 1: 85-111.
- Oliver, C. (1991) Strategic responses to institutional processes. *Academy of Management Review*, 16, 1: 145-179.
- Oliver, C. (1992) The antecedents of deinstitutionalization. *Organization Studies*, 13, 4: 563-588.
- Oliver, C. (1997) Sustainable competitive advantage: Combining institutional and resource-based views. *Strategic Management Journal*, 18: 679-713.
- Orrù, M., Biggart, N.W. and Hamilton, G.G. (1991) Organizational isomorphism in East Asia. In W.W. Powell, P.J. DiMaggio (eds.) *The new institutionalism in organizational analysis*. University of Chicago Press: Chicago, IL, 361-389.
- Peck, M.J. and Richardson, T.J. (eds.) (1992) *What is to be done? Proposals for the Soviet transition to the market*. Yale University Press: New Haven, CT.
- Peng, M.W. (1994) Organizational changes in planned economies in transition: An eclectic model. In S.B. Prasad (ed.), *Advances in International Comparative Management*, 9: 223-251. JAI Press: Greenwich, CT.
- Peng, M.W. (2000a) *Business Strategies in Transition Economies*. Sage Publications, Inc.: Thousand Oaks, CA.
- Peng, M.W. (2000b) Controlling the foreign agent: How governments deal with multinationals in a transition economy. *Management International Review*, 40, 2: 141-165.
- Peng, M.W. (2001) How entrepreneurs create wealth in transition economies. *Academy of Management Executive*, 15, 1: 95-108.
- Peng, M.W. (2002) Towards and institution-based view of business strategy. *Asia-Pacific Journal of Management*, 19, 2, 3: 251-267.
- Peng, M.W. (2003) Institutional transitions and strategic choices. *Academy of Management Review*, 28, 2: 275-296.
- Peng, M. and Heath, P.S. (1996) The growth of the firm in planned economies in transition: Institutions, organizations, and strategic choice. *Academy of Management Review*, 21, 2: 492-528.
- Peng, M.W., Lee, S-H. and Wang, D.Y.L. (2005) What determines the scope of the firm over time? A focus on institutional relatedness. *Academy of Management Review*, 30, 3: 622-633.
- Peng, M.W., Tan, J. and Tong, T.W. (2004) Ownership types and strategic groups in an emerging economy. *Journal of Management Studies*, 41, 7: 1105-1129.
- Petr, J.L. (1990) "New thinking" in the Soviet economy: Lessons for Western political economists. *Journal of Economic Issues*, 24: 981-995.

- Pettigrew, A.M. (1997) What is a Processual Analysis? *Scandinavian Journal of Management*, 13, 4: 337-348.
- Pfeffer, J. and Salancik, G.R. (1978) *The external control of organizations*. Harper & Row: New York.
- Powell, W.W. (1983) *New solutions of perennial problems of bookselling: Whither the local bookstore?* *Daedalus*, 112, 1: 51-64.
- Powell, W.W. (1991) Expanding the scope of institutional analysis. In W.W. Powell and P.J. DiMaggio (eds.) *The new institutionalism in organizational analysis*. University of Chicago Press: Chicago, IL, 183-203.
- Puffer, S.M. and associates (1996) *Business and Management in Russia*. Edward Elgar: Cheltenham.
- Puffer, S., McCarthy, D.J. and Naumov, A.I. (2000) *The Russian capitalist experiment: From state-owned organizations to entrepreneurs*. Edward Elgar: Cheltenham, UK.
- Puffer, S., McCarthy, D.J. and Zhuplev, A.V. (1996) *Meeting of the mindsets in a changing Russia*. *Business Horizons*, November-December: 52-60.
- Radaev, V. (2000) Corruption and violence in Russian business in the late 1990s. In A.V. Ledeneva and M. Kurkchiyan (eds.) *Economic Crime in Russia*. Kluwer Law International: The Hague, 63-82.
- Ralston, D., Holt, D., Terpstra, R. and Yu, K. (1997) The impact of national culture and economic ideology on managerial work values: A study of the United States, Russia, Japan, and China. *Journal of International Business Studies*, 28: 177-207.
- Roberts, P.W. and Greenwood, R. (1997) Integrating transaction cost and institutional theories: Toward a constrained-efficiency framework for understanding organizational design adoption. *Academy of Management Review*, 22, 2: 346-373.
- Rosenzweig, P.M. and Nohria, N. (1994) Influences on human resource management practices in multinational corporations. *Journal of International Business Studies*, 25, 2: 229-251.
- Rosenzweig, P. and Singh, J. (1991) Organisational Environments and the Multinational Enterprise. *Academy of Management Review*, 16, 2: 340-361.
- Rosstat (2004) *Tourism and tourist resources in Russia 2004, Statistical handbook*. Rosstat: Moscow.
- Rutland, P. (2001a) Introduction: Business and the state in Russia. In P. Rutland (ed.) *Business and the state in contemporary Russia*. Westview Press: Boulder, Colorado, 1-32.
- Rutland, P. (2001b) The August 1998 crash: Causes and consequences. In P. Rutland (ed.) *Business and the state in contemporary Russia*. Westview Press: Boulder, Colorado, 173-186.
- Sachs, J. (1990) Eastern Europe's Economies: What is to be done? *Economist*, 21-26. NUMERO
- Salmi, A. (1995) *Institutionally changing business networks*. Ph.D. Dissertation, Helsinki School of Economics and Business Administration. HSEBA Publications, A-106: Helsinki.

- Schneiberg, M. and Clemens, E. (2006) The Typical Tools for the Job: Research Strategies in Institutional Analysis. In W.W. Powell and D.L. Jones (eds.) *How Institutions Change*. University of Chicago Press: Chicago.
- Scott, W.R. (1987a) The adolescence of institutional theory. *Administrative Science Quarterly*, 32: 493-511.
- Scott, W.R. (1987b) *Organizations: Rational, natural and open systems*. 2nd ed. Prentice Hall: Eaglewood Cliffs, NJ.
- Scott, W.R. (1991) Unpacking institutional arguments. In W.W. Powell, P.J. DiMaggio (eds.) *The new institutionalism in organizational analysis*. University of Chicago Press: Chicago, IL, 164-182.
- Scott, W.R. (1995) *Institutions and Organizations*. Sage: Thousand Oaks, CA.
- Scott, W.R. (1998) *Organizations: Rational, Natural and Open Systems*. 4th ed. Prentice Hall: Upper Saddle River, NJ.
- Scott, W.R. and Meyer, J.W. (1991) The organization of societal sectors: Propositions and early evidence. In: W.W. Powell, P.J. DiMaggio (eds.) *The new institutionalism in organizational analysis*. University of Chicago Press: Chicago, IL, 108-140.
- Semenov, V. S., Kaminskii, I. M. and Popova, N. A. (1985) *Gostinichnoe hozyaistvo: spravochnoe posobie*. Stroiizdat: Moscow. [Hotel administration: a handbook, in Russian]
- Shekshnia, S. (1998) Western multinationals' human resource practices in Russia. *European Management Journal*, 16, 4: 460-465.
- Shekshnia, S.M. and Puffer, S. (1996) Note on Russia's history and recent business environment. In S.M. Puffer and associates, *Business and Management in Russia*. Edwards Elgar: Cheltenham, 3-7
- Sherer, P.D. and Lee, K. (2002) Institutional change in large law firms: A resource dependency and institutional perspective. *Academy of Management Journal*, 45, 1: 102-119.
- Skyner, L. (2003) Property as rhetoric: Land ownership and private law in pre-Soviet and post-Soviet Russia. *Europe-Asia Studies*, 55, 6: 889-905.
- Smith, A. (1998) *Reconstructing the regional economy: Industrial transformation and regional development in Slovakia*. *Studies of Communism in transition*. Edward Elgar: Cheltenham.
- Solanko, L. and Tekoniemi, M. (2005) *To recentralise or decentralise – some recent trends in Russian fiscal federalism*, BOFIT Online Publications, 5/2005.
- Spenner, K., Suhomlinova, O., Thore, S., Land, K. and Jones, D. (1998) Strong legacies and weak markets: Bulgarian state-owned enterprises during early transition. *American Sociological Review*, 63: 599-617 .
- Spicer, A., McDermott, G.A. and Kogut, B. (2000) Entrepreneurship and privatization in Central Europe: The tenuous balance between destruction and growth. *Academy of Management Review*, 25, 3: 630-649.
- Stark, D. (1992) From System Identity to Organizational Diversity: Analyzing Social Change in Eastern Europe. (Lead article for a symposium on "The Great Transformation? Social and Political Change in Eastern Europe.") *Contemporary Sociology*, 21, 3: 299-304.

- Stark, D. (1996) Recombinant property in East European capitalism. *American Journal of Sociology*, 101: 993-1027.
- Stark, D. and Nee, V. (1989) Toward an institutional analysis of state socialism. In V. Nee and D. Stark (eds.) *Remaking the economic institutions of socialism: China and Eastern Europe*. Stanford University Press: Stanford, CA, 1-31.
- Summanen, T. (1995) *Privatization in Russia*. Ministry of Trade and Industry Studies and Reports 1994/1995: Helsinki.
- Sutela, P. (1983) *Neuvostotalouden periaatteet*. WSOY: Porvoo, Helsinki, Juva. [The principles of the Soviet economic system, in Finnish]
- Sutela, P. (1999a) Russia's economic system, In R. Kosonen and A. Salmi (eds.) *Institutions and post-socialist transition*. Helsinki School of Economics and Business Administration Publications B-22, 11-31.
- Sutela, P. (1999b) *The financial crisis in Russia*. BOFIT Online Publications, 11/1999.
- Sutela, P. (2003) *The Russian market economy*. Kikimora Publications, Series B-31: Helsinki.
- Taylor, D.W. (1994) Strategic planning, Russian style. *Cornell Hotel and Restaurant Administration Quarterly*, 35, 1: 82-89.
- Thompson, J.D. (1967) *Organizations in action*. McGraw-Hill: New York.
- Tolbert, P.S. (1985) Resource dependence and institutional environments: Sources of administrative structure in institutions of higher education. *Administrative Science Quarterly*, 30: 1-13.
- Törnroos, J.-Å. and Nieminen, J. (eds.) (1999) *Business Entry in Eastern Europe: A Network and learning Approach with Case Studies*. Kikimora Publications: Helsinki.
- Uhlenbruck, K. and De Castro, J. (2000) Foreign acquisitions in Central and Eastern Europe: Outcomes of privatization in transition economies. *Academy of Management Journal*, 43: 381-402.
- Upchurch, R.S., Davies, R. and Sverdlin, O. (2000) Motivation of the Russian worker: an evolutionary process. *Tourism Management*, 21: 509-514.
- Van de Ven, A.H. (1992) Suggestions for studying strategy process: A research note. *Strategic Management Journal*, 13: 169-188.
- Volkov, V. (2000) Organized violence, market building, and state formation in post-communist Russia. In A.V. Ledeneva and M. Kurkchian (eds.) *Economic Crime in Russia*. Kluwer Law International: The Hague, 43-61.
- Weick, 1979. *The social psychology of organizing*. Addison-Wesley: Reading, MA.
- Westney, D. E. (1993) Institutionalization theory and the multinational corporation. In S. Ghoshal and D.E. Westney (eds.) *Organization Theory and the Multinational Corporation*. The MacMillan Press Ltd: London, 53-76.
- Whitley, R. and Czaban, L. (1998) Institutional transformation and enterprise change in an emergent capitalist economy: The case of Hungary. *Organization Studies*, 19: 259-280.
- Williamson, O. E. (1975) *Markets and hierarchies: Analysis and antitrust implications*. Free Press: New York.
- Wright, M., Filatotchev, I., Buck, T. and Bishop, K. (2002) Foreign partners in the former Soviet Union. *Journal of World Business*, 37: 165-179.

- Wright, M., Filatotchev, I., Hoskisson, R.E. and Peng, M.W. (2005) Guest editors' introduction, Strategy research in emerging economies: Challenging the conventional wisdom. *Journal of Management Studies*, 42, 1: 1-33.
- Wright, M. and Suhomlinova, O. (2003) *Enterprise Restructuring in Transition Economies: A Theoretical Assessment of Empirical Research*. Proceedings of the 29th EIBA Conference, December 11-13, 2003, Copenhagen, Denmark.
- Yin, R. K. (1994) Case study research, 2nd ed. Sage: Newbury Park, CA.
- Yiu, D. and Makino, S. (2002) The choice between joint venture and wholly owned subsidiary: An institutional perspective. *Organization Science*, 13, 6: 667-683.
- Zaheer, S. (1995) Overcoming the liability of foreignness. *Academy of Management Journal*, 38, 2: 341-363.
- ZAO "VKR-Interkom-Audit" (2006) Litsensirovanie i sertifikatsiya gostinichnyh uslug (Licensing and certification of hotel services, in Russian) in ZAO "VKR-Interkom-Audit" *Gostinichnye uslugi* (Hotel services): Moscow.
- Zenger, T.R., Lazzarini, S.G. and Poppo, L. (2002) Informal and formal organization in new institutional economics. In P. Ingram and B.S. Silverman (eds.) *The new institutionalism in strategic management. Advances in strategic management*, 19. Elsevier: Amsterdam, 277-305.
- Zhang Qiu, H. and Wu, E. (2004) Human resources issues facing hotel and travel industry in China. *International Journal of Contemporary Hospitality Management*, 16, 1: 45-51.
- Åslund, A. (ed.) (1994) *Economic Transformation in Russia*. Pinter Publishers: London.

Newspaper articles and industry reports

The St. Petersburg Times

1996: July 1-7, White nights tourists bring city a little gold

1997: May 5-11, Welcome to (unforgettable) Russia: Why tourists are staying away in droves; May 19-25, Lack of city support delays tourist center; May 26-June 1, Petersburg kicks off tourism summer; Aug. 4-10, Profitable Nevskij Palace caught in high-stakes shares struggle; Oct. 20-26, 3 more luxury hotels to join city's boom; Dec. 15-21, Hotel Moskva pays debts, declares October profits

1998: Jan. 19-25, Tourism boom nets city \$600M in '97; Feb. 16-22, St. Petersburg: Also lucrative; Apr. 20-26, City hurting itself by stifling tourism growth

1999: Mar. 30, City puts hotel privatizations on hold; May 25, City to reform its own enterprises; Oct. 22, Astoria stake to be auctioned off again; Nov. 2, Hotel in talks for new operator; Nov. 26, Astoria stake sold for \$9.3M

2000: Jan. 11, Astoria case postponed; Jan. 18, Stronger cultural focus could help fill coffers; Jan. 25, Court rules 1999 Astoria stake sale illegal; Feb. 11, Hotel to open; Feb. 18, City takes tourism show on the road; June 9, 60% stake in Rossiya put up for auction; July 18, Rossiya hotel auctioned off for a song; Nov. 24, City's hotel prices 8th in world

2001: May 22, City hall loses out in Astoria share saga; July 17, Is this good-bye for Sheraton?; July 20, Hotel's elite dacha plan almost set in stone; July 24, Checking in; July 24, City hotel market gets 4th major player; Nov. 9, Long-running hotel saga takes latest turn

2002: Jan. 18, City sells Nevskij Palace, sheds \$130M debt bill; Jan. 29, 2003 question looms: Where will they stay?; Jan. 29, Local tourist operators push to boost off-season tourism; June 28, Hotels to be given support by hostels; Oct. 4, City to get refurbished mid-range hotel; Nov. 5, GHE put in private ownership; Dec. 6, Neighbor brings hotel project to a halt

2003: Feb. 14, Audit Chamber chief slams sale of hotel; Feb. 25, Hotels: Expansion, or too little too late?; May 13, Hotels opening too late for Jubilee bash; Oct. 31, City gets fifth five-star hotel; Dec. 9, Novotel, Ibis hotels under construction; Dec. 30, Few hotels finished race to open in May

2004: Jan. 30, Hotels and theaters promote city image; Feb. 17, \$8.5M hotel renovation pays off; March 30, Small hotels provide myriad options for budget travellers; Apr. 13, Hotels rely on own training resources; May 6, Corinthia hotel ban lifted; May 11, New Marriott locale to promote tourism; June 1, Eliseev joins small hotels association; June 8, Marriott officials voice brand expansion plans; July 30, Tourism surging 1 year on; Aug. 3, Worldly hotelier explores Russian hospitality; Aug. 10, City sells hotel shares, industry set to benefit; Sept. 3, EU foots bill for new tourism initiative; Sept. 14, Hotel shortage could be solved by existing plan; Sept. 21, Tourism budget hits low; Sept. 24, Serviced apartments gain appeal; Sept. 28, Economy hotels good for biznes; Dec. 28, Tourism growth halted

2005: Jan. 18, Kempinski buys hotel; Feb. 11, Hotel sold in multi-million dollar deal; Feb. 15, New firm plans chain of 4-star hotels, offices; Feb. 25, Orient to install Russian vision; March 1, High prices a barrier for tourism, firms say; March 4, Moskva sold in \$40M deal; Apr. 1, Sale of Oktyabrskaya hotel stake earns City \$49.6M; Apr. 12, BCG urges re-brand of St. Petersburg image; Apr. 22, Residents protest plan for hotel in garden; May 20, Be informed, hotel investors told; May 24, Fewer tourists forecast; May 27, Hotel says expansion underway; July 12, Experts: City's hotel construction misses the mark; Aug. 2, Accor opens \$30M 4-star hotel in center of city; Aug. 19, Tourist numbers fall 30%; Aug. 23, Police want computer registration; Aug. 26, Police say tourists cared for; Sept. 13, Police vow to protect foreigners; Sept. 23, Budget key to easing tourists' troubles; Oct. 4, Radisson hotel swaps owner; Oct. 14, Multilingual police force on the way; Oct. 21, Ambassador heats up hotel sector competition; Oct. 21, Tour operators start consolidation deals; Nov. 19, The hostel option; Dec. 6, Number of five-star hotels set to double within a year

The Moscow Times

Sept. 25, 1997, ITT Sheraton signs St. Pete agreement
 Nov. 4, 1997, Foreign hoteliers fuel Petersburg luxury boom
 Feb. 3, 1998, Hotels, hulks & homicide
 May 29, 2001, City sets sights high for hotel industry revamp
 Feb. 5, 2002, Updated hotel standards planned; May 21, 2002, (a) British hospitality goes high-tech in Russia, (b) Moscow's top hotels greet the good times
 Dec. 3, 2002, Petersburg hotels brace for a flood of dignitaries
 May, 13, 2003, 3 stars could be heaven for hotel industry
 Nov. 25, 2003, High-end hospitality industry goes native
 Dec. 9, 2003, Hotel rating seeks to end star lottery
 Mar. 30, 2004, Katerina emerges as Russia's first hotel brand

The tourism industry magazine "Turisticheskii Biznes"

7/1999: (a) Gostinichnoe hozyaistvo v otsutstvie otraslevykh normativov, (b) «Oskar» dlya Grand Hotel Europe

9/1999: (a) Best Eastern Hotels aktiviziruetsya na rynke, (b) Novyi ofis Leading Hotels of the World nachal svoju rabotu
 10/1999: Kak reorganizovat sistemu klassifikatsii gostinits
 11/1999: (a) Hostel kak stilnyi obraz puteschestvii, (b) Nedogoroe razmeschenie dlya neprihotlivykh lyudei
 1/2000: Galileo nachinaet nastuplenie,
 6/2000: GAO sozdaet Akademiyu
 7/2000: Svet dalekoi zvezdy
 5/2001: (a) Na sluzhbe korporativnykh interesov, (b) Obnovlennaya « Astoriya »
 7/2001: Novye priobreteniya S.-Peterburga
 13/2001: (a) Kto v dome hozyain?, (b) Uspeh – v kooperatsii
 14/2001: Uchebnyi tsentr otkryvaet gostinitsy
 1/2002: (a) U « Nevskogo Palasa » novyi hozyain, (b) Novye zvezdy rossiiskikh gostinits, (c) Best Eastern Hotels shturmuyut novuyu vysotu
 9/2002: Accor gotovitssya k « pohodu » na Severnuyu stolitsu
 15/2002: Rabota radi otdyha
 5/2003: (a) Rossiiskie oteli poluchat natsionalnye « svezdy », (b) Rezidor SAS-bolschie vidy na Rossiiu
 7/2003: Gostinichniy menedzhment po-russki
 10/2003: Novye oteli
 1/2004: V Peterburge nastupili “Belye dni” – Veduschie oteli goroda initiirovali novuyu marketingovuyu programmu
 3/2004: (a) Yubilei ne pomog, (b) Povod dlya optimizma
 9/2004: Stroiki buduschego
 11/2004: Pervaya rossiiskaya
 12/2004: Kadry reshayut vse
 17/2004: Nezabyvaemye « Belye dni »
 1/2005: Prodazha gostinits nachalas
 5/2005: Shest milliardov evro v rossiiskuyu ekonomiku

The Russia Journal

May, 17, 1999, Financial crises cripples tourism
 August 23, 1999, Late arrival Sheraton plans long stay
 Apr. 25, 2000, City's visitors get information center
 March 20, 2000, Petersburg hotels set to score big in May
 July 4, 2000, Russian tourism shows marked increase
 Nov. 4-10, 2000, Grand hotel parent looks to build two mini-hotels
 June 15-21, 2001, Tourist firms struggle for place in the sun
 March 7-13, 2002, Hotel and restaurant business: (a) Petersburg plays catch-up with Moscow, (b) March Cultivating three-star accommodations
 May 31-June 06, 2002, Hotels and restaurants business: (a) The hotel business: Who will staff Moscow's hotels? (b) Room for hotel expansion in Russia

Internet newspaper Fontanka.ru, news dated

Smolnyi uznal vse pro osobennosti peterburgskogo turizma 18/03/2005; Peterburg prodal svoju chast "Moskvy" 03/03/2005; M.Amosov: stroitelstvo gostinitsy na pl. Ostrovskogo – krupneischaya

gradostroitel'naya oshibka 17/02/2005; Peterburgskie gostinitsy ne popadut na otkrytyi auktsion 31/01/2005; Pynok Zhilya: zastoi obernetsya padeniem 28/12/2004; Peterburg teryaet turistov 21/12/2004; Gostinitsa s romantichnym nazvaniem "Edelveis" okazalas pritonom 08/12/2004; nazvany daty trgov po gostinitsam "Moskva" i "Oktyabrskaya" 17/11/2004; Gospaketi "Pulkovskoi", "Pribaltiiskoi" i "Astorii" otsenili v 1,5 milliarda 17/11/2004; Deputat Belousov predlaet zapretit stroit na Bezymyannom ostrove 04/11/2004; Prodany gorodskie paketi aktsii esche dvuh gostinits 22/09/2004; Turizmu nastupayut na gorlo 09/09/2004; Prodany gostinitsy "pervogo eshelona" 07/09/2004; OAO "Peterburgskie oteli" prodano. Za 70 tysyach rublei 01/09/2004; Na grebne privatizatsii 24/08/2004; Gostinitsy esche ne prodany, a vyruchku uzhe szhitayut 10/08/2004; Schangaiskie kompanii postroyat v Peterburge megakompleks 21/07/2004; Severnaya stolitsa interesuet turistov ne tolko v belye nochi 07/07/2004; Peterburg ozhidaet gostinichnyi bum 06/07/2004; 170 novykh trekhzvedovnykh otelei mozhet poyavitsya v Peterburge 16/06/2004; Auktsion po prodazhe gospaketa Peterburga provedut vo vtoroi polovine iyunya 06/05/2004; Turbiznes prinosit chut menee 10% dohodnoi chasti byudzheta Peterburga 23/04/2004; KUGI Peterburga planiruet prodat vse gospaketi aktsii gorodskih gostinits 26/03/2004; Otel "Evropa" prodali pravilno 17/03/2004; Tarasov otdast Novuyu Gollandiyu pod gostinitsy 04/12/2003; "Sankt-Peterbug" nado snosit, a "Moskvu" remontirovat kapitalno 21/11/2003; Iz Peterburga sdelayut kurort 01/10/2003; V Peterburge poyavitsya dva novykh otelya 11/08/2003; Peterburgskie gostinitsy v yubilei budut pustovat? 03/05/2003; Sud razreshil prodolzhat stroitelstvo gostinitsy na naberezhnoi Moiki 31/03/2003; Emkost gostinits Sankt-Peterburga sostavlyayet 37 tysyach mest 06/03/2003; K yubileyu v gorode na Neveotkroyutsya esche chetyre gostinitsy 04/03/2003; Gorsud priostanovil stroitelstvo gostinitsy na naberezhnoi Moiki, 22 26/11/2002; Gostinitsu v Tavricheskom sadu stroit zapretili 18/10/2002; Dom na uglu naberezhnoi Admirala Makarova i Malogo prospekta v Sankt-Peterburge budet vossozdan v kachestve otelya "Mariott" 11/10/2002; K 300-letiyu Sankt-Peterburga v akvatorii Nevy poyavyatsya pyat plavuchih gostinits 10/10/2002; Vopros razmesheniya turistov vo vremya yubileya Peterburga udastsya reshit 19/07/2002; Proekt zakona o razvitii turizma v Sankt-Peterburge predusmatrivaet pomoshch v stroitelstve gostinits dlya lyudei srednego dostatka 18/06/2002; OAO "Tsentr gumanitarnogo i delovogo sotrudnichestva" rekonstruiet byvschii Dom pisatelya 05/04/2002; Peterburg ustayut ot belykh nochei 27/03/2002; Zdanie gostinitsy "Pribaltiiskaya" i dvizhimoe imuzhestvo, prinadlezhashee kazne Sankt-Peterburga, budut privatizirovany 25/03/2002; V rekonstruktsiyu gostinitsy "Oktyabrskaya" v Sankt-Peterburge bylo investirovano 60 mln rub. 31/01/2002; Spetsialnaya gostevaya kartochka budet bygodna vsem – i turistam, i Piteru 28/01/2002; U "Nevskogo palasa" na 49 let pomenyalsya hozyain 15/01/2002; Otel Radisson SAS Royal privlekaet kleintov Russkim Muzeem 06/12/2001; "Severnaya Korona" nakryla byudzheth 23/11/2001; ZAO "Viking" vlozhit v rekonstruktsiyu otelya "Sankt Peterburg" 10 mln, doll. 16/11/2001; Arbitrazhnyi sud otlozhil na 23 oktyabrya rassmotrenie iska OOO "Vektor" o vvedenii protsedury bankrotstva na OAO "Inter-otel "Petrograd" 07/09/2001; Peterburg ne gotov k turisticheskomu bumu 10/07/2001; Peterburgskie realtory konkuriruyut s gostinitsami 26/06/2001; Okolo Moskovskogo vokzala poyavitsya novyi otel sistemy Marriot 25/06/2001; Peterburg nuzhdaetsya v malyyh otelyah 03/05/2001; Oteli mozžno stroit na lgotnykh usloviyakh 23/04/2001; Gorod razreshil vystavochnomu odedineniyu "Lenekspo" nachat rekonstruktsiyu gostinitsy "Gavan", no chinovniki ne reshili peredat investoru pravo sobstvennosti na objekt 29/03/2001; Gostinitsa "Astoriya" (Sankt-Peterburg) prinyata v mezhdunarodnuyu organizatsiyu "Vedushchie oteli mira" 27/03/2001; V Peterburge skoro poyavitsya prevaya malaya semeinaya gostinitsa 16/01/2001; Novyi Pitserskii otel 10/10/2000

Others

Delovoi Peterburg:

June 21, 2001, Spad gostinichnogo rynka grozit luzhschim

Feb. 13, 2003, (a) Gostinitsy perezhivayut zvezdnuyu bolezni, (b) Massovyi turist zapolnit gorodskie gostinitsy posle yubileya, (c) Novye oteli-mnogo hoteli, no malo uspeli

www.rosbaltnews.com: St. Petersburg's hotel business: We do need tourists, but we need investors even more, May 31, 2002

Idänkauppa: Harmina keskihintaisten hotellien vähyys, 8-9/1998

Business Week: Blood in the suites: The Russian hotel wars, Jan. 26, 1998

Venäjän Aika: Ylellisyyttä, loistoa ja neuvostokauden nostalgia Pietarin hotelleissa: Mennyt maailma kohtaa markkinatalouden, 1/1997

Weekly Internet newspaper "Kompaniya": Pitserskaya kompaniya "BaltONEKSIMkonsalt" poluchila v doveritelnoe upravlenie kontrolnyi paket aktsii pyatizvezdnogo otelya "Scheraton-Nevskii palas" 25.07.2000

Talouselämä: SAS avaa hotellin Pietarissa, 22/2001

Welcome to St. Petersburg: The Nevskij Palace under the new brand, February 2002

Ekspert Severo-Zapad: Osvobozhdenie ot gostinits, No 30-31, Aug. 23-29, 2004; Gostinitsy vne konkurentsii (a), Zakonomernaya klyukva (b) Nestykovka (c) No 34, Sept. 13-19, 2004

Internet newsletter "Gostinitsy Sankt-Peterburga": Biznesmeny i uchastniki konferentsii sostavlyayut menshe 1% turistov, kotorye priezhayut v Peterburg Feb. 3, 2005; Kupiv na vcherashnykh torgakh Fonda imushchestva SPB 60% aktsii gostinitsy Oktyabrskaya, bank "Viking" stale e edinolichnym sobstvennikom April 1, 2005; Po itogam prodazhi gospitalov aktsii odinnadtsati petersburgskikh gostinits v byudzhete Peterburga perechisleno svyshe 4 mlrd rub. April 15, 2005; Petersburgskie predprinimateli sozdalyut gostinichnuyu gruppu, sostoyashchuyu iz nedorogiyh otelei April 22, 2005; OOO "Triton" (vladeet setyu mini-prachechnykh) vvodit novuyu uslugu: obsluzhivanie mini-otelei, rasschitannykh na 10-15 nomerov April 26, 2005; Sankt-Peterburg ischet puti privlecheniya turistov April 27, 2005; Peterburg Vyhodit iz mody May 27, 2005; Vopros sozdaniya spetsializirovannykh stoyanok dlya turistikh avtobusov v tsentre Sankt-Peterburga blizok k zaversheniyu June 16, 2005; Turisticheskii biznes Sankt-Peterburga – gostinichnyi sektor kak dvigatel ekonomicheskogo razvitiya June 21, 2005; Gostinichnaya sfera Peterburga ostaetsya odnoi iz samykh defitsitnykh June 23, 2005; Po neofitsialnym dannym, Sankt-Peterburg naschityvaet okolo 320 otelei July 15, 2005; Klassifikatsiya mini-otelei – problemy i resheniya July 17, 2005

Hotel Benchmark Survey 2004 www.hotelbenchmark.com: Has hotel performance in Russia reached saturation point?

Suomalais-venäläinen kauppakamari, Jäsentiedote: Matkustaminen Venäjälle – edelleen välttämätön yhteydenpidon muoto ja rikastuttavakin kokemus, 4/2000

Vedomosti: Money-growing: Investors suffer fit of cordiality, Dec. 12, 2005

Newsletter of the Russian Hotel Association "Parad otelei": Esche raz o kadrah. Kto prav: oteli ili vuzy? 2/2006; O Malykh otelyah zamolvite slovo 2/2006; Novyi etap razvitiya RGA: sozdanie

filialov v regionah 5/2005; Chem otlichaetsya klassifikatsiya ot sertifikatsii? 2/2005; Est li v Rossii svoi natsionalnye gostiichnye seti? 1/2005

Internet newsletter www.allcafe.info: Rynok gostinits Sankt-Peterburga: obzor tsen, April 26, 2004

Industry reports

Gudbergsen, L. (1996) The Russian Hospitality Industry -A Market Economy Evolves. A report by Arthur Andersen available at http://www.hotel-online.com/Trends/Andersen/TheRussianHospitalityIndustry_Spring1996.html

Hotel Benchmark Survey 2005: Has hotel performance in Russia reached saturation point? Available at <http://www.hotelbenchmark.com>

Kim, A. (1997) Development of the hotel sector in St. Petersburg, Russia. An industry report by the Business Information Service for the Newly Independent States (BISNIS) of the US Commercial Service, dated on May, 26, 1997.

Kansky, A. (2004) Update on hotel development in St. Petersburg, Russia. An industry report by the U.S. Commercial Service, dated on Jan. 15, 2004.

ACADEMIC RESEARCH PROJECT ON CHANGE IN INDUSTRY PRACTICES IN THE ST. PETERSBURG HOTEL INDUSTRY

Manual for interviews with managers of St. Petersburg hotels

General

The purpose of the study is to describe the change process in the St. Petersburg hotel industry from the early years of reforms in the late 1980s until now. The study aims to show how the industry practices have changed and what the role has been of different actors such as local enterprises, foreign enterprises and local governments in this process. The research project will produce a PhD thesis and articles in scientific journals.

The aim of the interviews with hotel managers is to get information on the changes in the operations of individual hotels. The estimated duration of each interview is from 1 to 2 hours. The interviews will be semi-structured, based on a list of topics to be discussed with the interviewee. The aim is to generate qualitative data consisting of descriptions of change processes. Quantitative information, such as business indicators, is to be touched upon only on a general level. The interviews are to be tape recorded and transcribed for subsequent analysis. To obtain rich descriptions, the interviewers are encouraged to use prompts such as “Please explain what you mean”, “please give an example” and “can you recall a problem in which you were involved in this context? What was done to solve the problem?”

After each interview question there is a specification in brackets to support the interviewer. There are two kinds of specifications: 1) sub-questions to be covered under the main question, and 2) examples of potential answers to serve as further explanation of what kind of information is sought.

The interview data will be treated confidentially. The description of the interview material will be done in such a way that individual respondents and/or hotels cannot be recognized. A list of interviewees and hotels will be, however, annexed to the research report. The interviewers should ask all interviewees for their approval to be included in the list.

Categories of Interviewees

The interviewees are the general managers of hotels located in St. Petersburg. In case a hotel is owned and managed by two different companies, the interviewee should represent the managing company. The interviewees are divided into three groups according to the profile of the hotel: 1) Hotels that were established already in the Soviet era and don't have a foreign management company; 2) Hotels managed by foreign companies, or affiliated with foreign hotel chains; and 3) Russian-managed hotels established after the collapse of the Soviet Union. A list of potential hotels to be included in the study is presented in Annex 1. The interview questions are somewhat different for each of the groups. In the case of the

former Soviet hotels, the interviewee may also be a person no longer in charge of the hotel, if he or she has experience in running the hotel under the Soviet system.

Interview protocol Group 1 (Former state hotels)

1. The aim of the interview is to get information on the changes in the St. Petersburg hotel industry and its implications for the operations of your hotel. In particular, we would like to know how the change from command to market economy took place in your hotel.
2. Can you please tell me a little about your own background in the hotel industry [education, previous work experience in the hotel industry, length of time in the company] and your current role in the company [job title, job description, length of time in the current position].
3. Like all other sectors of the economy, the hotel sector was centrally managed in the Soviet Union. My first questions will deal with the organization of the operations of your hotel in the Soviet period:
 - a) Please describe how the management responsibilities were divided between the central authorities and the hotel manager [what kinds of decisions the hotel manager was authorized to make by himself, what kinds of decisions came from above, what kind of “production plan” there was and how its fulfillment was controlled, who defined the prices of hotel rooms and what was the basis for pricing]
 - b) Please describe the operational structure of the hotel in the Soviet period [what kinds of departments and managerial functions there were, what were the services offered by the hotel]
 - c) Please tell me how the sales function was organized [via what channels did the foreign and Soviet customers come to the hotel, were there different prices for foreign and Soviet customers]
 - d) Please tell me a little about the relationship between your hotel and other enterprises [were there any contacts with other hotels, how was the supply of various items, such as food products and toiletries, organized]
 - e) Please tell me about the personnel policy in your hotel in the Soviet period [what kind of education the staff usually had, how long did the workers stay, did they have any career options, did the hotel organize training for them, what kinds of social benefits were offered]
 - f) In general, what do you consider to be the main problems in the hotel management in the Soviet period? What were the ways to solve these problems? [for example, deficit of supplies solved by “tolkatchi”]
3. After discussing the Soviet times, I would like to know how the collapse of the Soviet Union affected your hotel. My next questions deal with the re-organization of your operations.
 - a) Please tell me, how did the ownership and management of the hotel change [who became the new owner of the hotel, was the hotel involved in privatization, is the hotel now managed by the owner of the hotel property or is there a separate managing company, is the hotel a member of a hotel chain or marketing association]

Annex 1

- b) What kinds of changes were made regarding the operational structure of the hotel [for example, opening own sales office, giving the restaurant operations to another company]
 - c) What kinds of changes were there in the pricing of hotel rooms [did the prices change, were there separate prices for CIS and foreign customers]
 - d) Were there changes in services offered [did you start to offer new services, did you stop offering some services that were offered in the Soviet times]
 - e) Did the customer structure change [for example, did the share of foreigners and Russian customers change and how]
 - f) How did the organization of the supply function change [did you continue to obtain, for example, your supply of food products from the same enterprises as in the Soviet times or change to new suppliers]
 - g) What were the main changes in the personnel policy [did the number of employees change, did the criteria for hiring personnel change, did you start to offer training to the personnel, were there changes in social benefits offered to the personnel]
 - h) In general, what were the main problems caused for your hotel by the collapse of the Soviet Union and what were the ways to solve them? [for example, drop in occupancy rate due to the dissolution of Intourist, solved by establishing own marketing channels]
4. The post-Soviet time in Russia is usually divided into the time before and after the 1998 financial crisis. Please tell me how the crisis affected your hotel. [For example, the occupancy rate fell, the hotel had to raise prices]
5. Now I would like to move from the past to today's hotel industry.
- a) In your opinion, what are the main problems of running hotels today? [For example, too high taxation, changing legislation, difficulties in finding competent employees]. What are the best ways to solve these problems [for example, having good relations with the local authorities, providing extra benefits to qualified employees]
 - b) There is a common perception in the West that it is impossible to do honest business in Russia. What is your opinion on this question? [For example, is it necessary to give bribes or at least small gifts to public officials, is there unfair competition in the industry]
 - c) The St. Petersburg city government has sometimes been criticized in the papers about its lack of a proper hotel industry development policy. As a hotel manager, do you think that the impact of the city government is more positive or negative? [For example, is the city government making the life of hoteliers difficult through its regulative policy?]
 - d) Please describe your own involvement in the hotel industry development. For example, are you participating in professional associations and/or industry-level working groups? If you are, do you think that such organizations have an effect on the industry development? [for example, hotel associations can participate in establishing a rating system]
 - e) In addition to former Soviet hotels, there are foreign-managed and totally new Russian hotels in St. Petersburg. In your opinion, are there differences in the way of operating between these three groups of hotels? [what are the main differences?]

- f) In your opinion, are there spill-over effects from the foreign-managed hotels to the local industry [for example, are new practices introduced to local hotels via personnel turnover]
 - g) The number of hotels in St. Petersburg has increased during recent years, which has naturally increased competition. Which hotels do you consider as your main competitors? What is the competitive advantage of your hotel? [for example, large capacity of rooms, low prices, good service]
6. Finally, I would like to ask about your perspective on the future. What kind of development plans do you have for your hotel? [for example, renovating rooms, increasing capacity, offering new services]

Thank you for your time!

Interview protocol Group 2 (Foreign-managed hotels)

1. The aim of the interview is to get information on the development of the St. Petersburg hotel industry and its implications for the operations of your hotel. In particular, we would like to know how a foreign-managed hotel copes with the Russian business environment.
2. Can you please tell me a little about your own background in the hotel industry [education, previous work experience in the hotel industry, length of time in the company] and your current role in the company [job title, job description, length of time in the current position].
3. I would first ask you to describe the entry process of your company in St. Petersburg.
 - a) Why did the company select St. Petersburg as a location? [why did it want to enter Russia in general, what was the advantage of St. Petersburg in comparison to other cities such as Moscow]
 - b) Please tell me, what is the operation mode of the hotel (e.g. management contract, joint venture) and why was it selected [for example, the company wanted / did not want to invest equity in the hotel, the owner of the hotel property insisted on a particular operation mode]
 - c) What was the criteria for selecting the hotel to operate [for example, its ownership structure, location, reputation]
 - d) Please describe the entry negotiations [for example, how long it took to open the hotel, what were the main problems, how were they solved]
4. Now I would like to ask you how the day-to-day business of your hotel has developed since the early years of reforms.
 - a) Does the service offering of your hotel differ from that of other hotels in the international chain and if so, why? [for example, additional services such as visa support are provided because of cumbersome visa procedure]
 - b) Please describe how the business networks have developed since the early 1990s [for example, does the hotel use more domestic supplies such as food products and toiletries than before, has the number of suppliers changed]

Annex 1

- c) Has the customer structure of your hotel changed [for example, the proportion of Russian versus foreign customers and tourists versus business travelers)?
 - d) Please tell me about the personnel policy of your hotel and possible changes in it [for example, do you offer training to the personnel, what is the criteria for hiring new personnel, how has the number of expatriates developed, are there social benefits provided to the staff]
 - e) Have you changed your marketing and pricing strategy during your presence in the St. Petersburg market [for example, have marketing channels changed, has the price level changed, have special offers been developed]
5. The post-Soviet time in Russia is usually divided into the time before and after the 1998 financial crisis. Please tell me how the crisis has affected your hotel. [For example, occupancy rate fell, the hotel had to raise prices]
6. Now I would like to move from the past to today's hotel industry.
- a) In your opinion, what are the main problems of running hotels today? [For example, too high taxation, changing legislation, difficulties in finding competent employees]. What are the best ways to solve these problems [for example, having good relations with the local authorities, providing extra benefits to qualified employees]
 - b) There is a common perception in the West that it is impossible to do honest business in Russia. What is your opinion on this question? [For example, is it necessary to give bribes or at least small gifts to public officials, is there unfair competition in the industry]
 - c) The St. Petersburg city government has sometimes been criticized in the papers about its lack of proper hotel industry development policy. As a hotel manager, do you think that the impact of the city government is more positive or negative? [For example, is the city government making the life of hoteliers difficult through its regulative policy?]
 - a) Please describe your own involvement in the development of the hotel industry. For example, are you participating in professional associations and/or industry-level working groups? If you are, do you think that such organizations have an effect on the industry's development? [for example, hotel associations can participate in establishing a rating system]
 - d) In addition to foreign-managed hotels, there are old Soviet-time hotels and totally new Russian hotels in St. Petersburg. In your opinion, are there differences in the way of operating between these three groups of hotels? [what are the main differences?]
 - e) In your opinion, are there spill-over effects from the foreign-managed hotels to the local industry [for example, are new practices introduced to local hotels via personnel turnover]
 - f) The number of hotels in St. Petersburg has increased during recent years, which has increased competition. Which hotels do you consider as your main competitors? What is the competitive advantage of your hotel? [for example, large capacity of rooms, low prices, good service]

7. Finally, I would like to ask about your perceptions of the future. What kinds of development plans do you have for your hotel? [for example, renovating rooms, increasing capacity, offering new services]

Thank you for your time!

Interview protocol Group 3 (New Russian-managed hotels)

1. The aim of the interview is to get information on the development of the St. Petersburg hotel industry and its implications for the operations of your hotel. In particular, we would like to know how a newly established hotel copes with the local business environment.
2. Can you please tell me a little about your own background in the hotel industry [education, previous work experience in the hotel industry, length of time in the company] and your current role in the company [job title, job description, length of time in the current position].
3. I would first like to ask you some questions related to the background of the hotel.
 - a) What is the operation mode and ownership structure of the hotel [for example, are there different companies owning and managing the hotel, does the management company have shares in the hotel]
 - b) Please tell me about the opening of the hotel [for example, were the contractors and suppliers of e.g. furniture foreign or Russian firms, how was the suitable location found, what was the criteria for selecting the site, what were the main problems associated with the construction / renovation phase and how were they solved]
4. I would now like to ask you about the daily operations of the hotel.
 - a) In addition to hotel rooms, what services does the hotel offer and how are they organized? [for example, are there restaurant or other services provided by other enterprises]
 - b) Is the hotel independent, or a member of a hotel chain or marketing association [for example, Best Eastern]. If the hotel is independent, what kinds of marketing channels does it use?
 - c) How is the customer structure of the hotel [the ratios of domestic versus foreign customers, tourists versus business travelers]
 - d) Please tell me about the personnel policy of your hotel [for example, what kind of education does the personnel usually have, do you offer training to the personnel, what is the criteria for hiring personnel, are there social benefits provided for the staff]
 - e) How is the supply function organized [for example, are there long-term contracts with suppliers for e.g. food products]
5. Now I would like to move from the day-to-day operations to a more general level.
 - a) In your opinion, what are the main problems of running hotels today? [For example, too high taxation, changing legislation, difficulties in finding competent employees]. What are the best ways to solve these problems [for example, having

good relations with the local authorities, providing extra benefits to qualified employees]

- b) There is a common perception in the West that it is impossible to do honest business in Russia. What is your opinion on this question? [For example, is it necessary to give bribes or at least small gifts to public officials, is there unfair competition in the industry]
 - c) The St. Petersburg city government has sometimes been criticized in the papers about its lack of proper hotel industry development policy. As a hotel manager, do you think that the impact of the city government is more positive or negative? [For example, is the city government making the life of hoteliers difficult through its regulative policy?]
 - b) Please describe your own involvement in the development of the hotel industry. For example, are you participating in professional associations and/or industry-level working groups? If you are, do you think that such organizations have an effect on the industry's development? [for example, hotel associations can participate in establishing a rating system]
 - c) In addition to new Russian hotels, there are foreign-managed hotels and old Soviet-time hotels in St. Petersburg. In your opinion, are there differences in the way of operating between these three groups of hotels? [what are the main differences?]
 - d) In your opinion, are there spill-over effects between different hotels [for example, are new practices introduced from foreign-managed to local hotels via personnel turnover]
 - e) The number of hotels in St. Petersburg has increased during recent years, which has increased competition. Which hotels do you consider as your main competitors? What is the competitive advantage of your hotel? [for example, good location, low prices, personal service]
6. Finally, I would like to ask about your perceptions of the future. What kinds of development plans do you have for your hotel? [for example, increasing capacity, offering new services]

Thank you for your time!

Annex 2

Profiles of interviewees

No.	Position	Type of hotel	Industry experience*	Nationality***
0	Area manager	Global hotel management company	10 years**	Foreign
1	Administrative director	Small 3-star hotel, opened 1998	7 years	Russian
2	General manager	Small 4-star hotel, opened 2003	2 years	Russian
3	Director	Mini-hotel, opened 2002	4 years	Russian
4	General manager	5-star Russian-managed hotel, opened in 2003, associated with international consortium	8 years	Russian
5	Hotel manager	Small 3-star hotel, opened 1993	25 years	Russian
6	Hotel manager	Small 3-star hotel, opened in 1994	3 years	Russian
7	Vice-director	5-star Russian-managed hotel, opened in 2003	2 years	Russian
8	Hotel manager	Small 3-star hotel, opened in 2001	5 years	Russian
9	Hotel manager	Small 3-star hotel, opened in 2003	2 years	Russian
10	Hotel manager	4-star Russian-managed hotel, associated with international consortium since 2001	2 years	Russian
11	General manager	3-star former state-owned hotel	6 years	Russian
12	General manager	3-star former state-owned hotel	23 years	Russian
13	General manager	3-star former state-owned hotel	29 years	Russian
14	Director	3-star former state-owned hotel	32 years	Russian
15	General manager	3-star former state-owned hotel	15 years	Russian
16	General manager	3-star former state-owned hotel	3,5 years	Russian
17	General manager	3-star former state-owned hotel	2 months	Russian
18	General manager	3-star former state-owned hotel	22 years	Russian
19	Hotel manager	4-star former state-owned hotel	5 years	Russian
20	Director	3-star former state-owned hotel	7 years	Russian
21	PR manager	5-star foreign-managed property	12 years	Russian
22	CEO of the property owner	5-star foreign-managed property	4 years	Russian
23	Hotel manager	5-star foreign-managed property	5 years	Russian
24	General manager	5-star foreign-managed property	20 years	Foreign
25	Hotel manager	5-star foreign-managed property	24 years	Foreign
26	General manager	5-star foreign-managed property	32 years	Foreign

*at the time of the interview

**in top management

***to protect the anonymity of the respondents, the nationality of expatriate managers is not indicated

A-SARJA: VÄITÖSKIRJOJA - DOCTORAL DISSERTATIONS. ISSN 1237-556X.

- A:248. PEKKA KILLSTRÖM: Strategic Groups and Performance of the Firm - Towards a New Competitive Environment in the Finnish Telecommunications Industry. 2005.
ISBN 951-791-904-2, ISBN 951-791-905-0 (Electronic dissertation).
- A:249. JUHANI YLIKERÄLÄ: Yrityshautomokokemuksen vaikutukset tradenomiopiskelijan yrittäjäjäuran syntyyn ja kehittymiseen. Yrityshautomotoiminta liiketalouden alan ammattikorkeakoulun yrittäjäkoulutuksessa. 2005. ISBN 951-791-910-7.
- A:250. TUURE TUUNANEN: Requirements Elicitation for Wide Audience End-Users. 2005.
ISBN 951-791-911-5, ISBN 951-791-912-3 (Electronic dissertation).
- A:251. SAMULI SKURNIK: Suomalaisen talousmallin murros. Suljetusta sääntelytaloudesta kaksinaapaiseen globaalitalouteen. 2005.
ISBN 951-791-915-8, ISBN 951-791-916-6 (Electronic dissertation).
- A:252. ATSO ANDERSÉN: Essays on Stock Exchange Competition and Pricing. 2005.
ISBN 951-791-917-4, ISBN 951-791-918-2 (Electronic dissertation).
- A:253. PÄIVI J. TOSSAVAINEN: Transformation of Organizational Structures in a Multinational Enterprise. The case of an enterprise resource planning system utilization. 2005.
ISBN 951-791-940-9, ISBN 951-791-941-7 (Electronic dissertation).
- A:254. JOUNI LAINE: Redesign of Transfer Capabilities. Studies in Container Shipping Services. 2005. ISBN 951-791-947-6, ISBN 951-791-948-4 (Electronic dissertation).
- A:255. GILAD SPERLING: Product, Operation and Market Strategies of Technology-Intensive Born Globals. The case of Israeli Telecommunication Born Globals. 2005.
ISBN 951-791-954-9, ISBN 951-791-954-9 (Electronic dissertation).
- A:256. ARLA JUNTUNEN: The Emergence of a New Business Through Collaborative Networks – A Longitudinal Study In The ICT Sector. 2005. ISBN 951-791-957-3.
- A:257. MIRJAMI LEHIKONEN: Kuluttajan suhdemotivaatio päivittäistavaroihin. Miksi äiti liittyy Piltti-piiriin? 2005. ISBN 951-791-925-5, ISBN 951-791-926-3 (Electronic dissertation).
- A:258. JOUKO KINNUNEN: Migration, Imperfect Competition and Structural Adjustment. Essays on the Economy of the Åland Islands. 2005.
ISBN 951-791-931-X, ISBN 951-791-932-8 (Electronic dissertation).
- A:259. KIRSTI KUISMA: Essays in Foreign Aid, Conflicts, and Development. 2005.
ISBN 951-791-933-6, ISBN 951-791-960-3 (Electronic dissertation).
- A:260. SAMI KORTELAINE: Innovating at the Interface. A Comparative Case Study of Innovation Process Dynamics and Outcomes in the Public-private Context. 2005
ISBN 951-791-938-7, ISBN 951-791-939-5 (e-version).

- A:261. TAINA VUORELA: Approaches to a Business Negotiation Case Study: Teamwork, Humour and Teaching. 2005. ISBN 951-791-962-X, ISBN 951-791-963-8 (e-version).
- A:262. HARRI TOIVONEN: Modeling, Valuation and Risk Management of Commodity Derivatives. 2005. ISBN 951-791-964-6, ISBN 951-791-965-4 (e-version).
- A:263. PEKKA SÄÄSKILAHTI: Essays on the Economics of Networks and Social Relations. 2005. ISBN 951-791-966-2, ISBN 951-791-967-0 (e-version).
- A:264. KATARIINA KEMPPAINEN: Priority Scheduling Revisited – Dominant Rules, Open Protocols, and Integrated Order Management. 2005. ISBN 951-791-968-9, ISBN 951-791-969-7 (e-version).
- A:265. KRISTIINA KORHONEN: Foreign Direct Investment in a Changing Political Environment. Finnish Investment Decisions in South Korea. 2005. ISBN 951-791-973-5, ISBN 951-791-974-3 (e-version).
- A:266. MARKETTA HENRIKSSON: Essays on Euro Area Enlargement. 2006. ISBN 951-791-988-3, ISBN 951-791-989-1 (e-version).
- A:267. RAIMO VOUTILAINEN: In Search for the Best Alliance Structure Banks and Insurance Companies. 2006. ISBN 951-791-994-8, ISBN 951-791-995-6 (e-version).
- A:268. ANTERO PUTKIRANTA: Industrial Benchmarks: From World Class to Best in Class. Experiences from Finnish Manufacturing at Plant Level. 2006. ISBN 951-791-996-4, ISBN 951-791-997-2 (e-version).
- A:269. ELINA OKSANEN-YLIKOSKI: Businesswomen, Dabblers, Revivalists, or Conmen? Representation of selling and salespeople within academic, network marketing practitioner and media discourses. 2006. ISBN 951-791-998-0, ISBN 951-791-99-9. (e-version).
- A:270. TUIJA VIRTANEN: Johdon ohjausjärjestelmät muuttuvassa toimintaympäristössä. 2006. ISBN 952-488-000-8, ISBN 952-488-001-6 (e-version).
- A:271. MERJA KARPPINEN: Cultural Patterns of Knowledge Creation. Finns and Japanese as Engineers and Poets. 2006. ISBN-10: 952-488-010-5, ISBN-13: 978-952-488-010. E-version: ISBN-10: 952-488-011-3, ISBN-13: 978-952-488-011-4.
- A:272. AKSELI VIRTANEN: Biopoliittisen talouden kritiikki. 2006. E-version: ISBN-10: 952-488-012-1, ISBN-13: 978-952-488-012-1.
- A:273. MARIA JOUTSENVIRTA: Ympäristökeskustelun yhteiset arvot. Diskurssianalyysi Enson ja Greenpeacen ympäristökirjoituksista. 2006. ISBN-10: 952-488-013-X, ISBN-13: 978-952-488-013-8. E-version: ISBN-10: 952-488-014-8, ISBN-13: 978-952-488-014-5.
- A:274. ELIAS RANTAPUSKA: Essays on Investment Decisions of Individual and Institutional Investors. 2006. ISBN-10: 952-488-029-6, ISBN-13: 978-952-488-029-9. E-version: ISBN-10: 952-488-030-X, ISBN-13: 978-952-488-030-5.
- A:275. MIKKO JALAS: Busy, Wise and Idle Time. A Study of the Temporalities of Consumption in the Environmental Debate. 2006. ISBN-10: 952-488-036-9, ISBN-13: 978-952-488-036-7. E-version: ISBN-10: 952-488-037-7, ISBN-13: 978-952-488-037-4.

- A:276. ANNE ÄYVÄRI: Käsityöyrittäjien verkosto-osaaminen. 2006.
ISBN-10: 952-488-042-3, ISBN-13: 978-952-488-042-8.
- A:277. KRISTIINA MÄKELÄ: Essays On Interpersonal Level Knowledge Sharing Within the Multi-national Corporation. 2006.
ISBN-10: 952-488-045-8, ISBN-13: 978-952-488-045-9.
E-version: ISBN-10: 952-488-050-4, ISBN-13: 978-952-488-050-3.
- A:278. PERTTI PULKKINEN: A Stepwise Refinement Approach to Approximating the Pareto Surface in Nonlinear Multiobjective Optimisation. 2006.
ISBN-10: 952-488-054-7, ISBN-13: 978-952-488-054-1.
- A:279. SINIKKA PESONEN: Luonto liiketoiminnassa ja ekologia elämäntavassa. Kertomuksia muutoksen mahdollisuuksista ja mahdottomuuksista. 2006.
ISBN-10: 952-488-060-1, ISBN-13: 978-952-488-060-2.
E-version: ISBN-10: 952-488-061-X, ISBN-13: 978-952-488-061-9.
- A:280. HANNA KALLA: Integrated Internal Communications in the Multinational Corporation. 2006. ISBN-10: 952-488-063-6, ISBN-13: 978-952-488-063-3.
E-version: ISBN-10: 952-488-064-4, ISBN-13: 978-952-488-064-0.
- A:281. TAISTO KANGAS: Suomen pankkikriisin alueellinen ulottuvuus. Esseitä paikallisista toiminnoista ja toteuttajista. 2006.
ISBN-10: 952-488-065-2, ISBN-13: 978-952-488-065-7.
- A:282. XAVIER CARPENTIER: Essays on the Law and Economics of Intellectual Property. 2006. ISBN-10: 952-488-067-9, ISBN-13: 978-952-488-067-1.
E-version: ISBN-10: 952-488-068-7, ISBN-13: 978-952-488-068-8.
- A:283. OLIVIER IRRMANN: Intercultural Communication and the Integration of Cross-border Acquisitions. 2006. ISBN-10: 952-488-069-5, ISBN-13: 978-952-488-069-5.
- A:284. ERKKI RÄTY: Liiketoiminnan ja informaatiotekniikan strategisen linjakkuuden vaikutus suuryritysten IT:n tehokkuuteen. 2006.
ISBN-10: 952-488-072-5, ISBN-13: 978-952-488-072-5.
- A:285. NIINA MALLAT: Consumer and Merchant Adoption of Mobile Payments. 2006.
ISBN-10: 952-488-077-6, ISBN-13: 978-952-488-078-7.
E-version: ISBN-10: 952-488-078-4, ISBN-13: 978-952-488-078-7.
- A:286. ANU H. BASK: Preconditions of Successful Supply Chain Relationships. Integrated Processes and Differentiated Services. 2006.
ISBN-10: 952-488-079-2, ISBN-13: 978-952-488-079-4.
- A:287. TIMO JÄRVENSIVU: Values-driven management in strategic networks: A case study of the influence of organizational values on cooperation. 2007.
ISBN-10: 952-488-081-4, ISBN-13: 978-952-488-081-7.
- A:288. PETRI HILLI: Riskinhallinta yksityisen sektorin työeläkkeiden rahoituksessa. 2007.
ISBN-10: 952-488-085-7, ISBN-13: 978-952-488-085-5.
E-version: ISBN 978-952-488-110-4.
- A:289. ULLA KRUHSE-LEHTONEN: Empirical Studies on the Returns to Education in Finland. 2007.
ISBN 978-952-488-089-3, E-version ISBN 978-952-488-091-6.

- A:290. IRJA HYVÄRI: Project Management Effectiveness in Different Organizational Conditions. 2007. ISBN 978-952-488-092-3, E-version: 978-952-488-093-0.
- A:291. MIKKO MÄKINEN: Essays on Stock Option Schemes and CEO Compensation. 2007. ISBN 978-952-488-095-4.
- A:292. JAAKKO ASPARA: Emergence and Translations of Management Interests in Corporate Branding in the Finnish Pulp and Paper Corporations. A Study with an Actor-Network Theory Approach. 2007. ISBN 978-952-488-096-1, E-version: 978-952-488-107-4.
- A:293. SAMI J. SARPOLA: Information Systems in Buyer-supplier Collaboration. 2007. ISBN 978-952-488-098-5.
- A:294. SANNA K. LAUKKANEN: On the Integrative Role of Information Systems in Organizations: Observations and a Proposal for Assessment in the Broader Context of Integrative Devices. 2006. ISBN 978-952-488-099-2.
- A:295. CHUNYANG HUANG: Essays on Corporate Governance Issues in China. 2007. ISBN 978-952-488-106-7.
- A:296. ALEKSI HORSTI: Essays on Electronic Business Models and Their Evaluation. 2007. ISBN 978-952-488-117-3, E-version: 978-952-488-118-0.
- A:297. SARI STENFORS: Strategy tools and strategy toys: Management tools in strategy work. 2007. ISBN 978-952-488-120-3.
- A:298. PÄIVI KARHUNEN: Field-Level Change in Institutional Transformation: Strategic Responses to Post-Socialism in St. Petersburg Hotel Enterprises. 2007. ISBN 978-952-488-122-7, E-version: 978-952-488-123-4.

B-SARJA: TUTKIMUKSIA - RESEARCH REPORTS. ISSN 0356-889X.

- B:58. JARMO ERONEN: Central Asia – Development Paths and Geopolitical Imperatives. 2005. ISBN 951-791-906-9.
- B:59. RIITTA KOSONEN – MALLA PAAJANEN – NOORA REITTU: Etelä-Suomi venäläisten turistien länsimatkailussa. 2005. ISBN 951-791-942-5.
- B:60. KARI LILJA (ed.): The National Business System in Finland: Structure, Actors and Change. 2005. ISBN 951-791-952-2.
- B:61. HANNU KAIPIO – SIMO LEPPÄNEN: Distribution Systems of the Food Sector in Russia: The Perspective of Finnish Food Industry. 2005. ISBN 951-791-923-9, ISBN 951-791-924-7 (Electronic research reports).
- B:62. OLLI KOTILA: Strateginen henkilöstöjohtaminen ja yrityksen tuloksellisuus. Cranet-projekti. 2005. ISBN 951-791-934-4, ISBN 951-791-935-2 (Electronic research reports).

- B:63. KATARIINA JUVONEN – HELENA KANGASHARJU – PEKKA PÄLLI (toim.):
Tulevaisuuspuhetta.
2005. ISBN 951-791-936-0, ISBN 951-791-937-9 (Electronic research reports).
- B:64. JOHANNA LOGRÉN – JOAN LÖFGREN: Koukussa yrittäjyyteen. Suomalaisten ja venäläisten
naisyrittäjien motiiveja ja haasteita.
2005. ISBN 951-791-975-1, ISBN 951-791-976-X (e-version).
- B:65. HANS MÄNTYLÄ – PERTTI TIITTULA – MAARET WAGER (TOIM.): Pää hetkeksi pinnan
alle. Akateeminen melontamatka. 2006. ISBN 951-791-982-4.
- B:66. KRISTIINA KORHONEN WITH ERJA KETTUNEN & MERVI LIPPONEN: Development of
Finno-Korean Politico-Economic Relations. 2005.
951-791-984-0, ISBN 951-791-985-9 (e-version).
- B:67. RIITTA KOSONEN – MALLA PAAJANEN – NOORA REITTU: Gateway-matkailu tuottaa
uusia matkailualueita. 2006. ISBN 951-791-986-7, ISBN 951-791-987-5 (e-version).
- B:68. ANU H. BASK – SUSANNA A. SAIRANEN: Helsingin kauppakorkeakoulun tohtorit työelä-
mässä. 2005. ISBN 951-791-991-3, ISBN 951-791-992-1 (e-version).
- B:69. OKSANA IVANOVA – HANNU KAPIO – PÄIVI KARHUNEN – SIMO LEPPÄNEN –
OLGA MASHKINA – ELMIRA SHARAFUTDINOVA – JEREMY THORNE:
Potential for Enterprise Cooperation between Southeast Finland and
Northwest Russia. 2006. ISBN 952-488-007-5.
- B:70. VIRPI SERITA (toim.) – MARIA HOLOPAINEN –
LIISA KOIKKALAINEN – JERE LEPPÄNIEMI – SEPPO MALLENIUS –
KARI NOUSIAINEN – ANU PENTTILÄ – OUTI SMEDLUND: Suomalais-japanilaista
viestintää yrityselämässä. Haastattelututkimus yhteistoiminnan edellytyksistä suomalais-
japanilaisessa liiketoimintaympäristössä. 2006.
ISBN-10: 952-488-015-6, ISBN-13: 978-952-488-015-2.
E-versio: ISBN-10 952-488-016-4, ISBN-13: 978-952-488-016-9.
- B:71. ARTO LINDBLOM: Arvoa tuottava kauppiasyrittäjyys ketjuliiketoiminnassa. 2006.
ISBN-10: 952-488-031-8, ISBN-13: 978-952-488-031-2.
E-versio: 952-488-032-6, ISBN-13: 978-952-488-032-9.
- B:72. Helsingin kauppakorkeakoulun tohtorit 2001-2006. 2006.
ISBN-10: 952-488-034-2, ISBN-13: 978-952-488-034-3.
E-versio: ISBN-10: 952-488-046-6, ISBN-13: 978-952-488-046-6.
- B:73. RIITTA KOSONEN – ALPO TANI: Kohti laajentuvia kotimarkkinoita vai rajallisia kasvukes-
kuksia? Suuret kaupunkiseudut ja suomalaisyritysten kansainvälistyminen Baltiassa. 2006.
ISBN-10: 952-488-038-5, ISBN-13: 978-952-488-038-1.
E-versio: ISBN-10: 952-488-039-3, ISBN-13: 978-952-488-039-8.
- B:74. KRISTIINA KORHONEN – ERJA KETTUNEN: Pohjoismaiset investoinnit Itä-Aasian tiikeri-
talouksissa. Kohdemaina Singapore, Hongkong, Etelä-Korea ja Taiwan. 2006
ISBN-10: 952-488-040-7, ISBN-13: 978-952-488-040-4.
E-versio: 952-488-041-5, ISBN-13: 978-952-488-041-1.

- B:75. SINIKKA VANHALA – MERJA KOLEHMAINEN (eds.): HRM – Between Performance and Employees. Proceedings from the HRM Conference in Helsinki, November 16, 2006. 2006. ISBN-10: 952-488-074-1, ISBN-13: 978-952-488-074-9.
E-version: ISBN-10: 952-488-074-1, ISBN-13: 978-952-488-074-9.
- B:76. TUIJA NIKKO – PEKKA PÄLLI (toim.): Kieli ja teknologia. Talous ja kieli IV. 2006. ISBN-10: 952-488-088-1, ISBN-13: 978-952-488-088-6.
- B:77. MATTI KAUTTO – ARTO LINDBLOM – LASSE MITRONEN: Kaupan liiketoimintaosaaminen. 2007. ISBN 978-952-488-109-8.
- B:78. NIILLO HOME:Kauppiasyrittäjyys. Empiirinen tutkimus K-ruokakauppiaiden yrittäjyysasenteista. Entrepreneurial Orientation of Grocery Retailers – A Summary. ISBN 978-952-488-113-5. E-versio: ISBN 978-952-488-114-2.

E-SARJA: SELVITYKSIÄ - REPORTS AND CATALOGUES. ISSN 1237-5330.

- E:103. Research Catalogue 2002 – 2004. Projects and Publications. 2005. ISBN 951-791-837-2.
- E:104. JUSSI KANERVA – KAIJA-STIINA PALOHEIMO (eds.): New Business Opportunities for Finnish Real Estate and ICT Clusters. 2005. ISBN 951-791-955-7.

N-SARJA: HELSINKI SCHOOL OF ECONOMICS. MIKKELI BUSINESS CAMPUS PUBLICATIONS. ISSN 1458-5383

- N:42. MAARIT UKKONEN – MIKKO SAARIKIVI – ERKKI HÄMÄLÄINEN: Selvitys Uudenmaan yrityshautomoyritysten mentorointitarpeista. 2005. ISBN 951-791-900-X.
- N:43. JOHANNA LOGRÉN: Suomalaiset ja venäläiset naisyrittäjät. Naisyrittäjien yhteistyöohjelmien (vv. 2000-2004) vaikuttavuus. 2005. ISBN 951-791-945-X.
- N:44. VESA KOKKONEN: Yrittäjyyskoulutuksen vaikuttavuus. 2005. ISBN 951-791-971-9.
- N:45. VESA KOKKONEN: mikkelin ammattikorkeakoulun opetushenkilökunnan yrittäjyysasenteet. 2005. ISBN 951-791-972-7.
- N:46. SIRKKU REKOLA: Kaupallinen ystävällisyys - sosiaalinen vuorovaikutus päivittäistavarakaupan lähimyyvälän kilpailuetuna. 2006. ISBN 951-791-990-5.
- N:47. RIIKKA PIISPA – ASKO HÄNNINEN: Etelä-Savo ja näkökulmia e-työn kehittämiseen. Tutkimus e-työn tilasta ja e-työhankkeiden toteutusmahdollisuuksista etelä-savossa. 2006. ISBN 951-791-993-X.
- N:48. VESA KOKKONEN: Vientiohjelmien vaikuttavuus. 2006. ISBN 952-488-002-4.
- N:49. RAMI PIIPPONEN: Helsingin kauppakorkeakoulun opiskelijoiden ja sieltä vuonna 2000 valmistuneiden maistereiden yrittäjyysasenteet vuonna 2004. 2006. ISBN 952-488-004-0.

- N:50. VESA KOKKONEN: Oma yritys – koulutusohjelman vaikuttavuus. 2006. ISBN-10: 952-488-017-2, ISBN-13: 978-952-488-017-6.
- N:51. VESA KOKKONEN: Firma – koulutusohjelman vaikuttavuus. 2006. ISBN-10: 952-488-018-0, ISBN-13: 978-952-488-018-3.
- N:52. VESA KOKKONEN: Asiantuntijayrittäjyyden erikoispiirteet. 2006. ISBN-10: 952-488-019-9, ISBN-13: 978-952-488-019-0.
- N:53. MIKKO SAARIKIVI – VESA KOKKONEN: Pääkaupunkiseudun ja Hämeen ammattikorkeakoulujen alumnien yrittäjyysmotivaatio ja yrittäjyysasenteet vuonna 2005. 2006. ISBN-10: 952-488-024-5, ISBN-13: 978-952-488-024-4.
- N:54. MIKKO SAARIKIVI – VESA KOKKONEN: Yrittäjyysmotivaatio ja yrittäjyysasenteet ammattikorkeakouluissa vuonna 2005. Kansainväliset opiskelijat. 2006. ISBN-10: 952-488-025-3, ISBN-13: 978-952-488-025-1.
- N:55. MIKKO SAARIKIVI – VESA KOKKONEN: Yrittäjyysmotivaatio ja yrittäjyysasenteet pääkaupunkiseudun ja Hämeen ammattikorkeakouluissa vuonna 2005. Suomenkieliset opiskelijat. 2006. ISBN-10: 952-488-026-1, ISBN-13: 978-952-488-026-8.
- N:56. MIKKO SAARIKIVI – VESA KOKKONEN: Pääkaupunkiseudun ja Hämeen ammattikorkeakoulujen opetushenkilökunnan yrittäjyysasenteet. 2006. ISBN-10: 952-488-027-X, ISBN-13: 978-952-488-027-5.
- N:57. MIKKO SAARIKIVI – VESA KOKKONEN: Yrittäjyysmotivaatio ja yrittäjyysasenteet pääkaupunkiseudun ja Hämeen ammattikorkeakouluissa vuonna 2005. Mukana HAMKin sisäinen tutkimus. 2006. ISBN-10: 952-488-028-8, ISBN-13: 978-952-488-028-2.
- N:58. MIRVA NORÉN: PK-yrityksen johtajan rooli sosiaalisen pääoman edistäjänä. 2006. ISBN-10: 952-488-033-4, ISBN-13: 978-952-488-033-6.
- N:59. TOMI HEIMONEN – MARKKU VIRTANEN: Liiketoimintaosaaminen Itä-Suomessa. 2006. ISBN-10: 952-488-044-X, ISBN-13: 978-952-488-044-2.
- N:60. JOHANNA GRANBACKA – VESA KOKKONEN: Yrittäjyys ja innovaatioiden kaupallistaminen. Opintokokonaisuuden vaikuttavuus. 2006. ISBN-10: 952-488-057-1, ISBN-13: 978-952-488-057-2.
- N:61. VESA KOKKONEN: Startti! – Yrittäjänä koulutusohjelman vaikuttavuus. 2006. ISBN-10: 952-488-080-6, ISBN-13: 978-952-488-080-0.
- N:62. SOILE MUSTONEN: Yrittäjyysasenteet korkeakouluissa. Case-tutkimus Mikkelin ammattikorkeakoulun opettajien ja opiskelijoiden yrittäjyysasenteista. 2006. ISBN-10: 952-488-083-0, ISBN-13: 978-952-488-084-8.
- N:63. SOILE MUSTONEN – ANNE GUSTAFSSON-PESONEN: Oppilaitosten yrittäjyyskoulutuksen kehittämishanke 2004–2006 Etelä-Savon alueella. Tavoitteiden, toimenpiteiden ja vaikutavuuden arviointi. 2007. ISBN: 978-952-488-086-2.
- N:64. JOHANNA LOGRÉN – VESA KOKKONEN: Pietarissa toteutettujen yrittäjäkoulutusohjelmien vaikuttavuus. 2007. ISBN 978-952-488-111-1.
- N:65. VESA KOKKONEN: Kehity esimiehenä – koulutusohjelman vaikuttavuus. 2007. ISBN 978-952-488-116-6.

N:66. VESA KOKKONEN – JOHANNA LOGRÉN: Kaupallisten avustajien – koulutusohjelman vaikuttavuus. 2007. ISBN 978-952-488-116-6.

W-SARJA: TYÖPAPEREITA - WORKING PAPERS . ISSN 1235-5674.
ELECTRONIC WORKING PAPERS, ISSN 1795-1828.

W:382. PEKKA MALO – ANTTI KANTO: Evaluating Multivariate GARCH models in the Nordic Electricity Markets. 2005. ISBN 951-791-903-4 (Electronic working paper).

W:383. OSSI LINDSTRÖM – ALMAS HESHMATI: Interacting Demand and Supply Conditions in European Bank Lending. 2005. ISBN 951-791-903-4 (Electronic working paper).

W:384. ANTTI PIRJETÄ – ANTTI RAUTIAINEN: ESO valuation under IFRS 2 – considerations of agency theory, risk aversion and the binomial model. 2005.
ISBN 951-791-920-4 (Electronic working paper).

W:385. MIKA HYÖTYLÄINEN – HANNA ASIKAINEN: Knowledge Management in Designing and Developing ICT Consulting Services. 2005.
ISBN 951-791-921-2 (Electronic working paper).

W:386. PEKKA KORHONEN – LASSE KOSKINEN – RAIMO VOUTILAINEN: A Customer View on the Most Preferred Alliance Structure between Banks and Insurance Companies. 2005.
ISBN 951-791-922-0 (Electronic working paper).

W:387. MIIA ÄKKINEN: Conceptual Foundations of Online Communities. 2005.
ISBN 951-791-959-X (Electronic working paper).

W:388. ANDRIY ANDREEV – ANTTI KANTO – PEKKA MALO: Simple Approach for Distribution Selection in the Pearson System. 2005.
ISBN 951-791-927-1 (Electronic working paper).

W:389. ANDRIY ANDREEV – ANTTI KANTO – PEKKA MALO: On Closed-form Calculation of CVaR. 2005. ISBN 951-791-928-X (Electronic working paper).

W:390. TUIJA VIRTANEN: Konsernijohtaminen parenting-teorian näkökulmasta. 2005
ISBN 951-791-929-8 (Electronic working paper).

W:391. JARI VESANEN: What is Personalization? A Literature Review and Framework. 2005.
ISBN 951-791-970-0 (Electronic working paper).

W:392. ELIAS RANTAPUSKA: Ex-Dividend Day Trading: Who, How, and Why?
2005. ISBN 951-791-978-6 (Electronic working paper).

W:393. ELIAS RANTAPUSKA: Do Investors Reinvest Dividends and Tender Offer Proceeds?
2005. ISBN 951-791-979-4 (Electronic working paper).

W:394. ELIAS RANTAPUSKA: Which Investors are Irrational? Evidence from Rights Issues.
2005. ISBN 951-791-980-8 (Electronic working paper).

W:395. PANU KALMI – ANTTI KAUHANEN: Workplace Innovations and Employee Outcomes: Evidence from a Representative Employee Survey. 2005.
ISBN 951-791-981-6 (Electronic working paper).

- W:396. KATHRIN KLAMROTH – KAISA MIETTINEN: Interactive Approach Utilizing Approximations of the Nondominated Set. 2005. ISBN 951-791-983-2 (Electronic working paper).
- W:397. MIKA HYÖTYLÄINEN – KRISTIAN MÖLLER: Key to Successful Production of Complex ICT Business Services. 2006. ISBN 952-488-003-2 (Electronic working paper).
- W:398. PANU KALMI: The Disappearance of Co-operatives from Economics Textbooks. 2006. ISBN 952-488-005-9 (Electronic working paper).
- W:399. ARTO LAHTI: The New Industrial Organization (IO) Economics of Growth Firms in Small Open Countries like Finland. 2006. ISBN 952-488-006-7 (Electronic working paper).
- W:400. MARKO MERISAVO: The Effects of Digital Marketing Communication on Customer Loyalty: An Integrative Model and Research Propositions. 2006. ISBN-10: 952-488-009-1, ISBN-13: 978-952-488-009-1 (Electronic working paper).
- W:401. MARJUT LOVIO – MIKA KUISMA: Henkilöstöraportointi osana yhteiskuntavastuuraportointia. Yritysten nykykäytäntöjen kehittäminen. 2006. ISBN-10: 952-488-020-2, ISBN-13: 978-952-488-020-6. (Electronic working paper).
- W:402. PEKKA MALO: Multifractality In Nordic Electricity Markets. 2006. ISBN-10: 952-488-048-2, ISBN-13: 978-952-488-048-0. (Electronic working paper).
- W:403. MARI NYRHINEN: IT Infrastructure: Structure, Properties and Processes. 2006. ISBN-10: 952-488-049-0, ISBN-13: 978-952-488-049-7.
- W:404. JUSSI HAKANEN – YOSHIAKI KAWAJIRI – KAISA MIETTINEN – LORENZ T. BIEGLER: Interactive Multi-Objective Optimization of Simulated Moving Bed Processes using IND-NIMBUS and IPOPT. 2006. ISBN-10: 952-488-055-5, ISBN-13: 978-952-488-055-8.
- W:405. JUSSI HAKANEN – PETRI ESKELINEN: Ideas of Using Trade-off Information in Supporting the Decision Maker in Reference Point Based Interactive Multiobjective Optimization. 2006. ISBN-10: 952-488-062-8, ISBN-13: 978-952-488-062-6.
- W:406. OUTI DORSÉN – PIA IKONEN – LAURA – JAKOBSSON – LAURA JOKINEN – JUKKA KAINULAINEN – KLAUS KANGASPUNTA – VISA KOSKINEN – JANNE LEINONEN – MINNA MÄKELÄINEN – HEIKKI RAJALA – JAANA SAVOLAINEN: The Czech Republic from the viewpoint of Finnish companies, expatriates and students. Report of the Special program study trip to Prague in spring 2006. 2006. ISBN-10: 952-488-070-9, ISBN-13: 978-952-488-070-1.
- W:407. KRISTIAN MÖLLER – ARTO RAJALA: Business Nets: Classification and Management Mechanisms. 2006. ISBN-10: 952-488-071-7, ISBN-13: 978-952-488-071-8.
- W:408. MIKA KUISMA – MARJUT LOVIO: EMAS- ja GRI-raportointi osana yhteiskuntavastuullisuutta. Jatkuvan parantamisen toteaminen yritysten raportoinnin avulla. 2006. ISBN-10: 952-488-075-X, ISBN-13: 978-952-488-075-6.
- W:409. HENRI RUOTSALAINEN – EEVA BOMAN – KAISA MIETTINEN – JARI HÄMÄLÄINEN: Interactive Multiobjective Optimization for IMRT. 2006. ISBN-10: 952-488-076-8, ISBN-13: 978-952-488-076-3.

- W:410. MARIANO LUQUE – KAISA MIETTINEN – PETRI ESKELINEN – FRANCISCO RUIZ: Three Different Ways for Incorporating Preference Information in Interactive Reference Point Based Methods. 2006. ISBN-10: 952-488-082-2, ISBN-13: 978-952-488-082-4.
- W:411. TIINA RITVALA – NINA GRANQVIST: Institutional Entrepreneurs and Structural Holes in New Field Emergence. Comparative Case Study of Cholesterol-lowering Functional Foods and Nanotechnology in Finland. 2006. ISBN-10: 952-488-084-9, ISBN-13: 978-952-488-084-8.
- W:412. LOTHAR THIELE – KAISA MIETTINEN – PEKKA J. KORHONEN – JULIAN MOLINA: A Preference-Based Interactive Evolutionary Algorithm for Multiobjective Optimization. 2007. ISBN 978-952-488-094-7.
- W:413. JAN-ERIK ANTIPIN – JANI LUOTO: Are There Asymmetric Price Responses in the Euro Area? 2007. ISBN 978-952-488-097-8.
- W:414. SAMI SARPOLA: Evaluation Framework for VML Systems. 2007. ISBN 978-952-488-097-8.
- W:415. SAMI SARPOLA: Focus of Information Systems in Collaborative Supply Chain Relationships. 2007. ISBN 978-952-488-101-2.
- W:416. SANNA LAUKKANEN: Information Systems as Integrative Infrastructures. Information Integration and the Broader Context of Integrative and Coordinative Devices. 2007. ISBN 978-952-488-102-9.
- W:417. SAMULISKURNIK – DANIEL PASTERNAK: Uusi näkökulma 1900-luvun alun murroskauteen ja talouden murrosvaiheiden dynamiikkaan. Liikemies Moses Skurnik osakesijoittajana ja -välittäjänä. 2007. ISBN 978-952-488-104-3.
- W:418. JOHANNA LOGRÉN – PIIA HELISTE: Kymenlaakson pienten ja keskisuurten yritysten Venäjä-yhteistyöpotentiaali. 2001. ISBN 978-952-488-112-8.
- W:419. SARI STENFORS – LEENA TANNER: Evaluating Strategy Tools through Activity Lens. 2007. ISBN 978-952-488-120-3.
- W:420. Raimo Lovio: Suomalaisten monikansallisten yritysten kotimaisen sidoksen heikkeneminen 2000-luvulla. 2007. ISBN 978-952-488-121-0

Z-SARJA: HELSINKI SCHOOL OF ECONOMICS.

CENTRE FOR INTERNATIONAL BUSINESS RESEARCH. CIBR WORKING PAPERS. ISSN 1235-3931.

- Z:11. MIKA GABRIELSSON – PETER GABRIELSSON – ZUHAIR AL-OBAIDI – MARKKU SALIMÄKI – ANNA SALONEN: Globalization Impact on Firms and their Regeneration Strategies in High-tech and Knowledge Intensive Fields. 2006. ISBN-10: 952-488-021-0, ISBN-13: 978-952-488-021-3.
- Z:12. T.J. VAPOLA – PÄIVI TOSSAVAINEN — MIKA GABRIELSSON: Battleship Strategy: Framework for Co-opetition between MNCS and Born Globals in the High-tech Field. ISBN-10: 952-488-022-9, ISBN-13: 978-952-488-022-0.

- Z:13. V. H. MANEK KIRPALANI – MIKA GABRIELSSON: Further Conceptualization Regarding Born Globals. 2006. ISBN-10: 952-488-023-7, ISBN-13: 978-952-488-023-7.
- Z:14. MIKA GABRIELSSON – V. H. MANEK KIRPALANI: Globalization: What is New; Effective Global Strategies. 2006. ISBN-10: 952-488-059-8, ISBN-13: 978-952-488-059-6.
- Z:15. TOMMI PELKONEN – MIKA GABRIELSSON: Market Expansion and Business Operation Mode Strategies of Born Internationals in the Digital Media Field. 2006. ISBN-10: 952-488-058-X, ISBN-13: 978-952-488-058-9.
- Z:16. PETER GABRIELSSON – MIKA GABRIELSSON: Marketing Strategies for Global Expansion in the ICT Field. 2007. ISBN 978-952-488-105-0.

Kaikkia Helsingin kauppakorkeakoulun julkaisusarjassa ilmestyneitä julkaisuja voi tilata osoitteella:

KY-Palvelu Oy
Kirjakauppa
Runeberginkatu 14-16
00100 Helsinki
Puh. (09) 4313 8310, fax (09) 495 617
Sähköposti: kykirja@ky.hse.fi

Helsingin kauppakorkeakoulu
Julkaisutoimittaja
PL 1210
00101 Helsinki
Puh. (09) 4313 8579, fax (09) 4313 8305
Sähköposti: julkaisu@hse.fi

All the publications can be ordered from

Helsinki School of Economics
Publications officer
P.O.Box 1210
FIN-00101 Helsinki
Phone +358-9-4313 8579, fax +358-9-4313 8305
E-mail: julkaisu@hse.fi