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Cultural Influences and Conflict in Organizational Change
in New Entrepreneurial Organizations in Ukraine

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This case study examines a new entrepreneurial business in Kiev, Ukraine. A theory is proposed about the interaction of espoused values and cultural beliefs. The focus in this article is the difference between employees' espoused values and their deep beliefs, which leads to conflict among and within employees. Interviews with staff demonstrated that there was great effort to live out the new espoused values, and also that the cultural values hindered this effort. The role of the leader in modeling the espoused values was found to be crucial for the employees' ability to live up to the new espoused values.

Key words: Ukraine, conflict, entrepreneurial, espoused values, theory-in-use

In 1991 Ukraine gained its independence from the (now former) Soviet Union. In the business world, new entrepreneurial organizations arose to fill in some of the vacuum left by the withdrawal of Soviet services. These organizations tended to be small, and composed of younger people whose values had not been shaped by the experience of working in the Soviet system. The values and practices they espoused were very western, stressing openness, customer-oriented service and organizational agility. Typically new entrepreneurial organizations place much stress on being resourceful, doing more with less (Peng, 2003), that is both a source of pride and stress for employees. At the same time, cultural influences undermined the ability to live up to the espoused values, even though the participants often were unaware of the undermining.

General Context of the Problem

Since the proclamation of independence in 1991, Ukraine has made significant strides toward a market economy. To keep pace with the constantly and rapidly changing business environment and to be competitive in the national market, Ukrainian companies had to change. In a business context, change referred to aspects of business environment: business models, technology, customers, competitors, markets, and social or political issues. Change also referred to internal changes: how the organizations adapted to changes in the business environment or organizational issues (Karp, 2005). Former state organizations tended to change their management patterns the least. Foreign companies began to penetrate the Ukrainian market, bringing state-of-the-art European and American management practices. This period also saw an intense growth of new entrepreneurial organizations: New companies populated with young, ambitious, and career-oriented people emerged. The work environment in these new firms is in sharp contrast with the Soviet-era practices, where employees' "...initiative and ambition had been denigrated for decades by a system that tolerated gray, drab, and conventional people, and excluded those oriented towards personal achievement" (Michailova, 2000, p. 104).

The Old Style of Management

Organizations in the Soviet era were characterized by full employment, central planning outside the firm, and individual obedience. After the break-up of the Soviet system and numerous economic reforms this situation changed. Although a post-communist syndrome (Klicperova, Feierabend, & Hofstetter, 1997) slowed down possible changes, new norms, values, and assumptions underlying economic activity started to develop (Newman, 2000).

Despite phrases like "people are our main asset" that were posted almost in every organization, Soviet management did not care about employees. The former Soviet management approach was based on the Theory X assumptions (McGregor, 1960, cited in Weisbord, 1987).

Theory X assumptions state that the most people are lazy, irresponsible, passive and dependent, and must have their work broken into pieces, tightly controlled and supervised. Management's role is to coerce and control employees because they do not want responsibility, have little or no ambitions and must be controlled, directed, or threatened with punishment in order to achieve the organizational objectives. Leetis (1985, as reported in Argyris, 2004), reviewing the Soviet literature on management style, stated that the fundamental task of Soviet management was to create a system of control in which the non-implementation of adopted decisions is impossible. Unilateral control was a tool for overcoming fear that the employees would not react as required.

The New Entrepreneurial Companies

The new entrepreneurial companies are changing the face of business in Ukraine. These companies espouse that they follow the principles articulated by McGregor in Theory Y (McGregor, 1960, cited in Weisbord, 1987). Theory Y states that most people will take responsibility, care about their jobs, and wish to grow and achieve. Management's role is to develop the potential in employees and help them to release that potential towards common goals. Theory Y is relevant to learning organizations in which knowledge and skills are widely distributed on a basis of mutual trust. However, the familial and societal up-bringing of Ukrainian employees cannot be erased because their companies operate differently. Several decades of operating in the Soviet system resulted in organizations developing certain behaviors and attitudes among employees. Klicperova, Feierabend and Hofstetter (1997) studied recently-freed post-communist countries and called this pattern of attitudes and behaviors a post-communist syndrome that developed as the result of long-lasting oppressive rule. In addition to the post-communist syndrome, the national culture of Ukraine also is reflected in employees' behaviors. Beloshapka (2004) stated that despite the fact that organizations in the Ukraine try to

apply the world's best business know-how through translated books and training programs, the practice of management is still dysfunctional. Like leaders of entrepreneurial start-ups in other emerging nations (Peng, 2003), leaders of new entrepreneurial Ukrainian organizations are not Soviet-style directors. In our experience, they are quite young and have strong communication skills, they create action plans, and they run productive meetings. They received their MBA degrees in the leading business schools in the USA and Western Europe and they try to use new western approaches in managing their employees. The problem is that in many new Ukrainian organizations, with young talented managers and the company's Theory Y espoused values, the management is still conducted on the basis of Theory X assumptions.

The management typically ignores the urgent need to get people to collaborate (Beloshapka, 2004). Therefore, employees work the way they used to work in the Soviet times. If there is no employee involvement and buy-in into organizational changes, it is more likely that the employees will respond to changes negatively.

The Cultural Influence

It makes sense to speculate that cultural influences on employees in new Ukrainian companies are having an effect on the employees' response to new ways of doing business and the conflict that results from the change. Our experience is that resistance to change and conflict denial is not acknowledged or discussed in the new Ukrainian companies, and indeed employees and managers may not be fully conscious of their resistance. We have found theory that supports the belief that resistance would be unacknowledged (Hofstede, 2001), but to date has found no one who has written about the phenomenon in Ukraine.

Although research articles on some aspects of Organization Development in Eastern Europe were published decades ago (McManus, 1979), only recently within the rapidly changing

economic climate of formerly communist countries has the theme of organization learning and development become a focus of special interest, highlighting many of conceptual and practical differences between “East” and “West” (Czegledy, 1996). Existing theories of organizational change and organization development were developed in the context of relatively stable economic systems, and drawn from the Western institutional setting. Uhlenbruck, Meyer and Hitt (2003) used organizational learning and resource-based theories to analyze available management strategies for organizational change in transition economies. However, some authors have failed to include the basic cultural, historical, political, and societal elements that are part of change, especially with regard to the very individual characteristics found in the economies they refer to (Savitt, 2002). Cultural assumptions influence the way people respond to organizational change and conflict. As Ardichvili and Gasparashvili (2001) found in the study of four post-Soviet countries, internal work culture assumptions vary from country to country despite similarities in economic systems and organizational and managerial structures.

Ukrainians experienced a traumatic twentieth century. Two wars, Bolshevik terror and oppression, forceful collectivization which led to famine, Chernobyl nuclear fallout that contaminated an area the size of Alabama, political subjugation, and diminishing of native language, widespread resistance to communism; all these left their marks on the Ukrainian psyche (Richmond, 1995). Jurij Savyckyj (1993), an American psychiatrist who has studied mental health in Ukraine, reported that some of the most resilient and courageous Ukrainians he has met suffered from deep-seated feelings of powerlessness and despair, stemming from years of insecurity and state terror.

Times change, and Ukraine actively imports the world’s latest business and management approaches, changing the face of the Ukrainian business and behaviors of Ukrainian employees.

The pace of the changes is so quick that some authors made an attempt to argue that the national culture in Ukraine is changing faster than social structures (Wynnyckyj, 2005). Despite, or perhaps because of, the fact that organizations in Ukraine implement the best Western business practices, Ukrainian management practices still tend to be dysfunctional (Beloshapka, 2004).

Espoused Values and Theories-in-Use

Argyris (1990) asserted that people have espoused theories and theories-in-use. Espoused theory involves beliefs that someone professes, both to self and to others. Theory-in-use is the underlying belief system that guides the person's actions, sometimes in a manner that is contrary to the person's espoused theory. In organizations employees tend to be unaware of the contradiction, and they believe that they act in accord with their theory-in-use. Collectively such lack of awareness creates organizational defense mechanisms which allow employees to avoid constantly having to wrestle with these inconsistencies.

We believe that in new Ukrainian entrepreneurial companies the employees' espoused theory upholds a new way of working which embraces openness with peers and supervisors, and commitment to the company and to the individual's needs to be creative and whole. At the same time there are elements of contradiction in their behaviors, contradictions of which they may be unaware. The problem is that employees say they embrace the changes in the new entrepreneurial culture, but they do not consistently act in accord with what they say. Having differences between words and behaviors may lead back to "double standards of truth" (Klicperova, Feierabend, & Hofstetter, 1997) that were common in the former totalitarian regime.

Since currently Ukrainian organizations are in process of change, being able to integrate the cultural beliefs with the new espoused values is essential for companies that want to follow

the western way of doing business. The role of the leader in this process is key to successful change.

Theory

The environmental factors in Ukraine after the gaining independence led to the emergence of new type enterprises that embraced new values. The espoused values in new entrepreneurial organizations in Ukraine openly rejected the old Soviet style of management. Rapid economic change and free market economy called for employees with new attitudes and skills. High market competitiveness required customer oriented attitude of employees. Companies hired employees who had a potential to be loyal to the company, open to new ideas and receptive of changes. In order to be a part of a team, employees had to demonstrate skills of collective decision making and teamwork, and had to be creative and use initiative. Collective decision making implied that a team member could challenge the leader when an opportunity of a better idea existed. It is an espoused belief in Ukrainian business environment that with the right leader and new type employees any customer-oriented company has a chance to be competitive and profitable which leads to development of organization in general and each employee in particular.

The employee's theory-in-use, that is the deep beliefs held by the employees, is shaped by cultural assumptions, particularly those formed at the time before age ten (Hofstede, 2001). Lack of initiative, fear of authority, play safe – to the extent that these are present in the deep beliefs of employees, they are in contradiction to the espoused values. The result is lip service to the espoused values, and intrapersonal conflict because of the tension between espoused values and theory-in-use. More mature individuals may be able to identify and resolve the tension.

Others who do not resolve the tension are vulnerable to repression of the tension, resulting in inner conflict or conflict with others. As Argyris (1990) stated, "...in organizations that are concerned with people, individuals find themselves in a dilemma because they espouse values that are difficult to implement in the face of the organizational defense routines and fancy footwork" (p. 61). As a result, the organizations' employees that embrace the espoused value of acceptance of change may be at the same time resistant to change and disloyal to the company. The theory-in-use affects a company's performance through concurrent outcomes that may be high employee turnover, employee burnout, and thus, disloyalty to the company.

The model developed and tested in this case study was called Model Y-X. The concepts reflected in the title tie the model to McGregor's Theory X and Theory Y, of which an overview was presented earlier in this paper. The espoused values in new entrepreneurial organizations are aligned with Theory Y. The espoused values that match Theory Y assumptions contradict the employees' Theory X actual attitudes and behaviors. The Model Y-X was supported by the case study conducted at one Ukrainian entrepreneurial enterprise. The espoused values of Ukrainian employees in entrepreneurial organizations are affected by their theories-in-use that is the deep beliefs shaped by cultural assumptions, particularly those formed at the childhood and the time of the Soviet regime. The employees' theories-in-use can be seen in their actual behaviors and affect the espoused company's performance through concurrent outcomes, namely high employee turnover, employee burnout, and disloyalty to the company.

The theory being proposed is presented graphically in the Figure 1.

Put Figure 1 about here

Statement of the Problem

In general, this study focuses on how cultural beliefs contribute to conflict between espoused values and theories-in-use which, in turn, affects the development of new entrepreneurial companies in Ukraine. To be effective, companies have needed to have employees and managers with new skills, attitudes and behaviors. These employees, in turn, led to more successful business outcomes. However, cultural influences, which may be thought of as being carried by the old theories-in-use, may cause conflicts among employees and/or within their companies. One could think of this as a glacier with two layers, one moving more quickly than the other. As the layer of outward or espoused theories changes the company, at the same time the slower movement of the underlying theories-in-use will impede the change process and lead to intra-personal or interpersonal conflicts which will complicate the development of the new entrepreneurial organizations.

Organizations are bound by national cultures, as well as by theories that explain and direct their functioning. Therefore, cultural differences influence the functioning of organizations and people in them (Hofstede, 2001). Employee's theories-in-use, which were developed over time in earlier institutions, shape the employees' actions, whether or not the employees are aware of this. Therefore, the focus of the study is how employees' espoused theories of working in the new entrepreneurial organization contradict their theory-in-use.

Methodology

An empirical case study, as described by Yin (2003), was chosen as the design for this research. Yin's approach calls for the development of a tentative theory, which serves to provide the focus of the research inquiries. The case study is appropriate for an examination of a complex

problem, and can be used to create analytical generalizations but not statistical generalizations (Yin, 2003). Once the data are collected and analyzed, the theory is revised as necessary to conform to the research findings. Yin (2003) defined case study research as "...an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when boundaries between the phenomenon and context are not clearly evident" (p.13). The boundaries between the phenomenon and the context are not evident which makes Yin's case study approach an appropriate way to conduct this study. In empirical case studies, researchers perform an extensive literature review, from that build a theory, and then test that theory in the field. Lynham (2002) summarized the approach as a "theory-to-research strategy for theory development and verification" (p. 243).

The Research Question

The core research question of this study is: To what extent are employees' theories-in-use undermining the espoused practices of organizations in the new Ukrainian entrepreneurial organizations? Inherent in the question is the fact that cultural assumptions from childhood, which in Ukraine were formed in the old Soviet system, shape employee's theories-in-use, and thus influence their perception of change.

Site for the study

The site chosen for this study is a new entrepreneurial business in Kiev. For the sake of confidentiality its name and the exact nature of its business are not shared. In this article we shall call the business UEE, for Ukrainian Entrepreneurial Enterprise. UEE was founded in 2000 by a young, ambitious Ukrainian with an MBA degree from an American institution. UEE is very flexible and uses western approaches to business. It is a knowledge-based business, with

approximately twenty-five full time employees, and a world wide network of other affiliated employees who periodically provide services for the company.

Data Collection Methods

This study's data collection process included interviews, observation of weekly staff meetings, employees' behaviors and physical artifacts. Nineteen out of twenty five UEE employees were interviewed, and interviews were tape recorded. The nineteen included all senior leaders and functional managers, including the CEO, and other employees who accepted the invitation to be interviewed. Interviews averaged approximately one hour each. Interviews were supplemented by further discussions to clarify our interpretations of what was said, with 11 of the persons interviewed. A weekly staff operational meeting and a leadership strategic planning meeting were observed, with much attention paid to employees' behaviors and interactions during those meetings. Throughout a period of ten days the general operation of the organization was observed.

The demographic profile of the interviewed employees is presented in Table 1. Their positions are not indicated in order to protect their confidentiality. All direct quotes of the participants are presented in italics.

Table 1

Demographic profile of UEE employees

<u>Demographic characteristic</u>	<u># of participants</u>
Gender	
Female	11
Male	8
Age	
20 – 30	9
31 – 40	9

The support of units of analysis of the espoused values described above was easy to document. The employees openly expressed the thoughts and ideas that are part of their espoused theories. Core beliefs and assumptions are not as explicit. Where there were repressed feelings or thoughts, the interviewees themselves could not directly address this fact because they were likely to censor what they were saying. Therefore, there was a need to look for clues in the conversations. These clues could take the form of body language and non-verbal signals, or comments that slipped out without the interviewee being aware of the import of what was said. This could take the form of inconsistencies or assertions that appeared logical, but on reflection were not logical – what Argyris calls *fancy footwork*. Fancy footwork “includes actions that permit individuals to be blind to inconsistencies in their actions or to deny that these inconsistencies even exist” (Argyris, 1990, p. 46).

In gathering the information, textual analysis and pattern matching were used to discover the validity of the above propositions. For case study analysis, Yin claims that pattern matching is one of the most preferred techniques to analyze data. For this study, pattern matching means comparing empirically based patterns with a predicted one. If patterns coincide, the proposition’s internal validity is strengthened; if not, the proposition would need to be questioned (Trochim, 1989, as cited in Yin, 2003).

Findings

Because the focus of this article is on conflict, the findings for the initial units are presented briefly, so more space can be spent on describing the findings that pertain to conflict, and discussion. A summary of the findings per unit are provided in Table 2.

Table 2
Summary of Findings

<u>Units of analysis</u>		<u>Supported</u>	Did Not <u>Support</u>	No <u>Response</u>
Attitude	Belief in leader &/or vision	19	0	0
	Acceptance of new ideas & changes	17	0	2
	Openness to learning	19	0	0
	Customer orientation	19	0	0
New Skills	Collective decision-making	17	0	2
	Teamwork	19	0	0
	Creativity	19	0	0
	Ability to disagree with leaders	10	2	6
New Behaviors	Participation in decision-making	15	0	4
Behaviors	Use of initiative	16	0	3
	Loyalty to company	17	0	2
Company's	Competitive in marketplace	19	0	0

Espoused	Employee satisfaction	16	1	2
Performance	Highly productive workplace	15	0	4
Outcomes				
Core Beliefs	Fear of leader/authority*	14	0	5
& Cultural	Repressed negative emotions*	12	0	7
Assumptions	Leader tells employees that			
	to do*	14	2	3
Actual	Resistance to change*	16	0	3
Behaviors	Intrapersonal conflicts*	11	0	8
	Interpersonal conflicts*	17	0	2
Concurrent	High employee turnover*	19	0	0
Outcomes	Burnout*	11	0	8
	Disloyalty to company*	7	0	12

* indicates theory-in-use units

Conflict between espoused values and theory-in-use

Most organizations have employees with core beliefs that contradict some of their espoused values. In some organizations employees learn to live out their organizations' espoused values. Perhaps this is the essence of a learning organization. At UEE employees gave a series of examples in which there was a difference between espoused value and theory-in-use.

Employees, on the whole, professed to love their work and respect their CEO. At the same time, there were numerous hints of fear for the CEO. When one individual was interviewed, the interviewer identified an interchange that, on reflection, provides a clue to the usually unspoken beliefs at UEE. In the middle of the interview, the person relaxed and was in a talkative mood. Suddenly, the person realized that she had said something “wrong.” The person’s voice level became very low, almost a whisper, and he asked the interviewer, “*Are you going to report this to the CEO?*” The interviewer had to repeat once again that everything that was said would be treated as confidential and only aggregate data or comments that would not identify the person would be used. The person’s tension went down.

The person’s behavior indicated her unconscious fear of the CEO. The person expressed her own opinion and somehow, it seemed to her to be inappropriate. The person wanted to receive reassurance that this particular opinion would not be conveyed to the leader. Two possible causes for the fear are (a) concern that reporting the statement would disappoint the CEO and the interviewee was worried about hurting a beloved leader, or (b) concern that if the CEO knew what was said, the CEO would then somehow retaliate against the interviewee. The tone of voice and the body language of the interviewee were consistent with the second concern, fear of retaliation.

The question is why at UEE, where young employees espouse new values of openness and transparency, there are people still censoring what they are saying. One of reasons could be that the old Model 1 theory-in-use drives the actual behavior of people. According to Argyris (1990), in Model 1 theory-in-use an individual seeks to be in unilateral control, to win, and not to upset people. One of the strategies of Model 1 theory-in-use is saving one’s own and others’ faces (p. 13). In the old Soviet system the tacit rule was not to contradict an authority or leader’s

opinion. An aphorism of that time conveys the essence of the belief that it is misbehavior to disagree with leadership, “I have my own opinion, but I don’t agree with it at all.” This still seems to be the case at UEE.

The old Soviet system fostered people’s ability to repress negative emotions towards authority for the sake of safety. People could not openly disagree with a boss, nor could they show their dissatisfaction. Only two interviewees openly stated that they have to hide their feelings when they disagree with the CEO in order not to start conflict. Twelve interviewees unconsciously gave clues that it is better not to express negative emotions and not to risk retaliation: *“Work at UEE is very intense so that it does not take much time to recognize whether a person fits the value system here. The person either represses feelings or leaves right away.”*

While employees try to hide their negative emotions, the company is immediately aware of the negative emotions of the CEO. Further, almost all employees are aware of the relationship between the CEO’s emotions and the employees’ feelings: *“There are times when everybody is down, like all are in a state of depression because the CEO is angry. And he is angry because competitors approached too close. The employees and the CEO have the same mood. I do not like this.”* Despite the fact that the person does not like the situation described above, she never spoke up. She repressed her negative feelings. In conclusion, we found strong evidence that employees have repressed negative emotions, and that often they are not aware of their repression.

Intrapersonal conflict

Ukrainians are somewhat reserved in expressing their deep feelings with strangers (Richmond, 1994). Only in cases where the interviewer established a good rapport with interviewees were the participants willing to talk about their feelings.

One of the examples of intrapersonal conflict the researcher observed was in a person who has an expertise in a certain area. When she and the CEO have conflicting opinions on issues from the area of her expertise, she usually gives in. Her belief is that the CEO knows better, because “*he is supposed to.*” The CEO is “better educated”, even if he does not have a major in some areas, because he is supposed to be. What is it? A total belief in the leader’s abilities, or lack of confidence in her knowledge and own power? During the interview the interviewer observed how the inner tension inside eventually led the person to devalue herself and to deny her inchoate suspicions that something was wrong with UEE.

There are four strategies of intrapersonal conflict resolution: denial, bolstering, differentiation, and transcendence (Abelson, 1959). Denial consists of a direct inner attack on the elements underlying the conflict situation. Bolstering attempts to swamp the conflict situation with beliefs supporting one or another unbalanced element. Differentiation divides the conflict situation into two dissociated parts, one of which continues to be troublesome. Transcendence seeks a higher order principle to unify the disparate elements of conflict situation. Preferences of individuals to use one of those strategies in resolving intrapersonal conflict depend on their culture group (Miller, 1978). The researchers suspect that the way people resolve intrapersonal conflict depends on their organizational culture. For the employees of UEE the preferred strategies are denial and differentiation. In the previous example, the employee denied her suspicions rather than face the possibility that the CEO, the authority, was not the person in whom she believed. Her belief in the nature of the CEO was shaped by her cultural beliefs about authority.

Interpersonal Conflicts

In 2004 the researchers conducted a study in the Western Ukraine that focused on the perceptions of conflict in the new entrepreneurial organizations that have arisen within the last decade. We found out that Ukrainians perceive conflict only as something negative, as they associate conflict with fight, verbal accusations, or having enemies. The concept of positive constructive conflict, as it is perceived in western social sciences, was alien for Ukrainians (Conbere & Heorhiadi, 2006). At UEE, we noticed the same attitude towards conflict. As long as conflict does not escalate, there is no conflict at workplace. *“I am aware of the fact that there are some underground conflicts in the organization, but we have passed the phase when conflicts escalate. Now conflict does not become external and does not lead the company backwards.”*

The majority of the employees interviewed denied that there was interpersonal conflict at UEE. To our knowledge, the people who were fired were in obvious conflict with the CEO. However, when the researcher asked about people who were fired and whether they were in conflict with the CEO, the response sounded like a mantra, “Their values did not match values of UEE.” It appeared that organizational defensiveness (Argyris, 1990) took the form of conflict denial. Therefore, the questions we ponder are: Do employees deny conflict because of loyalty to the company and the CEO, or because of fear of the CEO? Do they save the CEO’s face, or do they fear retaliation by the CEO? In the old Soviet times there was a saying that “those who are not with us, are against us.” Does this theory in-use still drive the employees’ behaviors? Is it better to go along with the CEO, because disagreeing with the CEO’s opinion may be perceived as contradiction to the UEE values? If so, it is easier to believe the legend that someone’s values do not match values of the organization than to question the CEO’s actions.

The unanimous profession of care for UEE and the evidence of disloyalty to the organization is another example of conflict between espoused values and old cultural beliefs

about how one survives economically. No one employee who actually works currently for UEE would confess to disloyalty to company. Two key persons were fired by the CEO a few months prior to data collection. Two interviewees reported that the people who were fired might have been disloyal to the organization. Since the interviewer personally knew those people as highly professional and experts in their areas, she asked interviewees why they left UEE. There were two versions of the reason of why they were fired. One is that the two persons were “strong personalities” and became a threat to the CEO. They were persons who pursued their own goals and could challenge the CEO’s opinions. Furthermore, their expertise was in the field, which is the CEO’s field of expertise. According to some of the interviewees, the CEO will not tolerate any rivalry with him in this area. When he is challenged, he fires people. If the first version is correct, the CEO was disloyal to the UEE values. He championed transparency, initiative and equality. However, for the CEO to fire someone out of fear for his own ego needs is an act that contradicts to UEE values and thus, is disloyal to the organization. The CEO put his own need over the good of the organization. This is not to claim that he was conscious of acting to protect his ego. We have no knowledge of the CEO’s self-awareness in this area.

The other version, which was supported by the CEO, is that the employees were fired because of an unauthorized project with a company, in which the employees gave the impression that they were representing UEE, but without the CEO’s knowledge, and without any profit going to UEE. In other words, they falsely implied they were doing the work as part of UEE, and they actually worked solely for their own profit. To the extent the second version is correct, then this was an example of disloyalty by employees, who cheated to gain profit. The researchers could not discern the accuracy of the two versions, and suspect that both versions contain some truth. They may be two different perceptions of the same event.

In summary, it appears that interpersonal conflict is not resolved but explained away. Rahim (2002) argued that it is impossible to resolve conflict effectively unless employees confront organizational defensive routines and individual defensive reasoning. There is no questioning about the causes of conflicts when they happen. In the instance of people who were fired, employees appeared to adopt the CEO's explanation, that the people who "left" had values that were no longer in harmony with UEE. Employees did not seem to ask themselves why an employee, who a few days before had been a loyal and hard-working member of UEE, had somehow overnight become a person with different values.

Discussion

Organizations, like people, have espoused values and theories-in-use. To look at the theories-in-use of UEE, the researcher referred to the concepts developed by Argyris (2004). Argyris described two models of theory-in-use. Model I theory-in-use is composed of the following governing variables and values: (a) be in unilateral control over others, (b) strive to win and minimize losing, (c) suppress negative feelings, and (d) act rationally, which leads to the use of defensive reasoning. Evidence of the presence of Model I theory-in-use can be seen within the company. The CEO is in control of everything, even if he is not physically present. The whole organization in general and the individuals in particular, are involved in constant competitive race with the goal to win. The negative feelings are suppressed. Any inconsistencies and contradiction are explained away.

As the result, the Model I theory-in-use has consequences such as misunderstanding, escalating, errors, self-sealing process, and self-fulfilling, counterproductive, and self-fueling process (Argyris, 2004). The theory-in-use does not vary, however actions may vary. In

organizations in which the culture includes Model I theory-in-use beliefs, human beings who have themselves been programmed with Model I theory-in-use develop behaviors which Argyris calls organizational defensive routines.

An example of organizational defensive routines consists of organizational mixed messages. Argyris described mixed messages in this way: (a) communicate a message that is mixed, (b) act as if it is not mixed, (c) make A and B un-discussable, and (d) act as if one is not doing any of the above (Argyris, 2004). We observed the practice of mixed messages at UEE. At times, when the employees experienced burnout they were offered time off to relax. Employees reported that it is possible to take time off, but when they return they are still asked for the result of the work they had been doing. Since they could only obtain a result by not taking time off or by working at home, the encouragement to take time off is a mixed message.

Another example of mixed messages to the employees is the CEO's request to challenge him. When they do so, they face the CEO's displeasure and sometimes even his retaliation. However, the biggest mixed message, in the researcher's opinion, is that at times the CEO does not live up to the espoused values himself. His behavior represents a mixed message that leads his employees to use organizational defensive techniques.

The CEO genuinely believes that his management style will lead to a successful flexible organization and a leadership position in the market. He bases his thinking and his actions upon Model I theory-in-use. Argyris stated that organizational defensive routines prevent learning, whereas developing congruence between theory-in-use and espoused theory results in effectiveness. Changing organizational defensive routines that inhibit learning requires alteration of Model I theory-in-use and implementing double loop learning.

Currently UEE uses single-loop learning. Single-loop learning happens when goals, values, frameworks and, to a significant extent, strategies are taken for granted. The emphasis is on techniques and making them more efficient. Any reflection is directed toward making the strategy more effective. The employees do not question the CEO's actions or strategies. Further, they believe that whatever he does is right because this is the way to be. Double-loop learning, in contrast, involves questioning the role of the framing and learning systems which underlie actual goals and strategies. Double-loop learning actually equals change of values and beliefs. Model II is a theory-in-use that produces and promotes double loop learning.

In order to alter their theory-in-use, people should start asking questions about the foundation of their professional expertise and self-competence related to producing effective action. Altering theory-in-use also means that people have to cease their commitment to organizational defensive routines. The researcher believes that such school as UEE, because of its openness to change, has a potential to become a learning organization. However, some changes have to be made. First, Model I theory-in-use has to be used only dealing with routine issues, in other words in situations where the skills of the Model I make sense. Second, the employees have to have a choice of when to use Models I or II. Third, the organization has to create organizational structures and policies that encourage the double-loop learning in managing performance (Argyris, 2004). So as one can see from the above, the double loop learning requires not only changes in ability to use both theories-in-use, but also changes in organizational culture.

Conflict and Change at UEE

In the literature, it appears that when people write about organizational change they often mean change on the strategic level. Vaill (1996) used the expression "permanent white water" to

describe the complex, turbulent, changing environment in which people operate. UEE employees embrace change. Further, the permanent state of change is one of the reasons that keeps employees working for UEE and makes their work interesting. However, what they perceived as change was new innovative suggestions to create value at UEE, satisfy customers and sustain the leadership position in the market. This type of change has almost become a routine for the organization. These changes are the response of UEE to the changing demands of the Ukrainian market and to the business environment that allow the company to be competitive and attract new customers. Employees accept change at the strategic and tactical levels. However, the employees did not talk about a deeper level of change which includes not the strategies for the company, but the very way the employees do their work. The deep level of change in a learning organization requires the change in theory-in-use, and this is not what most UEE employees mean by change.

Earlier we presented the metaphor of organizational culture as a glacier with layers. The top layers that represent the company's espoused theories move faster than the bottom layers that represent underlying theories-in-use. The changes that occur within the top glacier layer are changes that the UEE employees eagerly embrace. When changes have to do with the bottom layer, the underlying theories-in-use, it resembles a closed zone or a taboo. The employees are not only reluctant to change anything on this level, but also they avoid discussing or challenging the underlying and tacit beliefs of the company. Further, those brave ones who do try to question or challenge the bottom layer of a glacier may get into the CEO's disfavor and be accused in not following the company's values. The old cultural belief of not questioning authority makes it impossible to discuss the undiscussable. The conflict between espoused values and theories-in-

use is not acknowledged or discussed, which leads to interpersonal and intrapersonal conflicts. In the end, there is a closed circle of conflict and denial of conflict.

Conclusion

At UEE, the factor that seemed to work most strongly against the employees' learning to live up to the espoused values was the management style of the CEO. If the CEO had been able to live up to the espoused values himself, we believe that the employees would have had the model that would have helped them to behave in a new way. To be fair to the CEO, the researchers believe that he also had his own core beliefs that made it difficult for him to consistently live up to espoused values and thus model those values. The researchers believe that the CEO truly wanted the espoused values to shape UEE. At the same time, for some reason deep in his psyche, the CEO in the midst of his vision and pressure of responsibility, found the pull of the old core beliefs, from the Soviet times, too difficult to escape. Under pressure people are much more liable to resort to core beliefs than to espoused values.

Implications for Management

The research needs to be replicated before it is possible to generalize the findings. However, the implications for practice can pertain to both Ukrainian and American organizations, despite the fact that the focus of the case study was Ukrainian employees. For US practitioners who are doing business with post-communist countries, awareness of the tension between employees' espoused values and theories-in-use will help to understand the culture and climate of new entrepreneurial organizations in countries of the former communist block.

In US organizations, while there is not likely to be a severe reaction to the past management as with the Ukrainian rejection of the Soviet style management, the tension between

espoused values and theories-in-use also is likely to be an issue. Being aware of the tension as well as its manifestations could be valuable for practitioners in assessing organizational culture and diagnosing organizational problems. The tendency to avoid dealing with the conflict between espoused values and theories-in-use is common in many organizations (Argyris, 2004). Repression of feelings and use of organizational defensive routines and fancy footwork are destructive in both cultures.

A valuable lesson is the importance of modeling the espoused values by the leader in a change effort. For OD practitioners and other change agents, being aware of leaders' behavior and the extent to which it models the espoused values of the organization could be useful for diagnosing when coaching or some other intervention is needed with the leaders. This applies both to the US and Ukraine.

For Ukrainian practitioners it is important to realize the extent of conflict denial in workplace and to start promoting knowledge about managing constructive conflict in organizations. While design and implementation of conflict management systems have not become imperative yet, the researchers predict that the time will come when Ukrainian organizations face a problem of decreasing productivity and effectiveness due to unresolved conflict in organizations. At that point, creating constructive conflict management systems could be very useful.

Limitations of the Study

The limitations of this study pertain to the research design, and to the manner in which the design was implemented. One limitation of the research is that the case study provides a current snapshot of the change-related issues in a relatively young and successful organization in

the capital city of Ukraine. Linz (2002) discussed the fact that in Russia and many other Eastern European countries, capital cities play much more important role than they do in the US or many other Western countries. A disproportionate share of economic activity and cultural life is concentrated in the capital, thus making it substantially different from other cities. Given the large geographical size of Ukraine and existence of different types of companies in the five major regions of the country it is not appropriate to generalize beyond this sample. Also, because the researcher is targeting respondents in the single entrepreneurial organization, which has an extraordinary professional team, the findings should not be generalized beyond the sample. These employees may also be unique in terms of their non-professional characteristics limiting the generalizability of the findings.

Another limitation pertains to the language barrier. The interviews were conducted in Ukrainian, and quotes were cited in English. When interpreting, we tried to be as precise as possible, yet there were situations when it was difficult to find exact linguistic equivalent for some words or meanings. In this case we went for the essence of the message conveyed, rather than exact translation.

Directions for Further Research

This case study was designed to investigate unconscious cultural norms of Ukrainian employees that limit the development of the new entrepreneurial companies. Further research is needed to substantiate and refine what was discovered. To determine the validity of the study's proposed theory, the replication studies with randomly selected groups that represent the Ukrainian employees are needed. The Model Y-X might be also tested in other regions of Ukraine to control for the capital city effect mentioned in the study limitations.

It might be interesting to test Model Y-X in other non-entrepreneurial organizations, to see in what ways the model is supported or challenged in comparison to entrepreneurial organizations. For instance, there are still some organizations in Ukraine that after 15 years of living in the independent country still use the old Soviet style of management. Despite the fact that the market demands customer-oriented business, those organizations did not make a focus on a customer their priority. Thus, it would be interesting to explore what are the espoused values and company performance of these organizations. Are these values in conflict with the old theories-in-use?

Although culturally Ukraine and the USA are different, the researchers believe that it makes sense to test Model Y-X and relationship between espoused values and theory-in-use in American organizations. For instance, to what extent do American employees have fear of their leader, and is this manifested in similar or different ways from Ukrainian employees? Do American employees experience intra-personal conflict when their core beliefs are in conflict with the organizational values, and is this acted out in similar or different ways from Ukrainian employees?

One interesting question for future research is whether the model will be valid in organizations in which the leaders live up to the organizational espoused values. In such cases, the researchers predict that for employees the shift from old to new theories-in-use would take place more smoothly. Thus the conflict between theories-in-use and espoused values would be reduced, and the change would be more easily accepted.

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Figure 1

Model Y-X - Relationship between Espoused Values and Theory-in-Use

