

# Snapshots of the transformation in Central and Eastern Europe

*Maaja Vadi*

Maaja Vadi's positions are related to both academic and administrative tasks. She is working as the Professor of Management and Head of School of Economics and Business Administration at University of Tartu in Estonia. Her research and publications cover broad area varying from individual to societal level phenomenon. She has published articles in journals (Technovation, Management International Review, International Journal of Manpower, International Journal of Cross Cultural Management, Journal of Health Organization and Management, Cross Cultural Management: An International Journal etc. ), edited books (i.e. by Emerald (Dis)honesty in Management: Manifestations and Consequences) and special issues of journals. Maaja also led and worked various international projects financed by European Commission and several Estonian institutions. Moreover, she has supervised 15 doctoral dissertations and more than 150 master thesis. The Estonian Academy of Sciences awarded her for research and students have elected her favored faculty member 11 times.

## Background to the study

A period spanning 70 years across the previous century demonstrated the devastating potential of communist ideology. Beginning with the October Revolution in Russia in 1917, it annihilated widely accepted human values and behaviours. The communist ideology set the goal of indoctrinating “soviet man” or *homo sovieticus* (Lat.) for which very different ways of brainwashing were exploited.

The socialist system in the USSR represented an extreme case of government control, where the right to and power of decision-making at organizational level was extremely limited in a typical enterprise. A similar model was also implemented in other CEE countries. Therefore, in order to describe the nature of the organisations and their task environment, it is important to understand the three key characteristics of the Soviet economic and political system (Lazarev & Gregory 2002). First, all capital and natural resources were claimed (owned) by the state to ensure that the economy catered to the interests of the dictator. Second, a central planning apparatus replaced the market to command the allocation of major commodities. Finally, the dictator exerted control over the resource allocation process by issuing universally obeyed orders to subordinates. The liberation of Central and Eastern Europe (CEE) from the occupational yoke in 1989 marked the beginning of a wide-scale transformation on cultural, individual, institutional and societal levels.

The USSR created a ‘laboratory’ with a special ideology, which moulded economic life and social patterns of behaviour within a huge territory of the planet. The historical evidence of the large-scale impact raises the question of whether the behaviour patterns of that time are still active. Mayer and Peng (2015) have addressed this question in their study that formal and informal institutions inter-

act on multi-faceted ways in CEE countries. Hence, changes in formal institutions, such as laws and regulations, do not necessarily trigger behavioural changes because informal institutions, such as norms and values, tend to be more persistent. When answering the question, two contradictory ideas arise. On the one hand, a new generation has grown up by now in former Soviet countries and the focus on transition seems to be an outdated topic; on the other hand, several studies and researchers argue that the communist legacy still impacts life in countries that were under the Soviet ideology. For example, Libman and Obydenkova (2013) show that those Russian regions where Communist Party membership rates were high during the Soviet era (according to data from 1967) still have a high level of corruption nowadays. The latter finding suggests that actual behaviours can be influenced by the communist legacy for more than one generation.

The long-lasting impact of the communist period leads the current paper to introduce studies, which confirm the path-dependent nature of processes around and in organizations. Comparing CEE countries with Western European (WE) countries forms the connective link and rationale across focused studies. The paper merges studies on the differences within national/societal culture, freedom to organize work activities, and organizational innovation. These are selected topics, which compare CEE and WE. The findings from separate studies involving the author constitute the core of the aim of this paper in explaining whether CEE and WE countries perform differently in respect to selected relevant management related aspects. The focus in this is on recent studies, while those from the previous century are not considered for analysis. That said, differences between WE and CEE countries were presented in the 1990s in various respects; however, here the question is the continuity of those differences. The following discussion is organized around three main questions along with related conclusions. This paper does not seek to build arguments on the comprehensive review of existing literature; rather, it combines elements of an essay (Yiannis 2016) and a research paper.

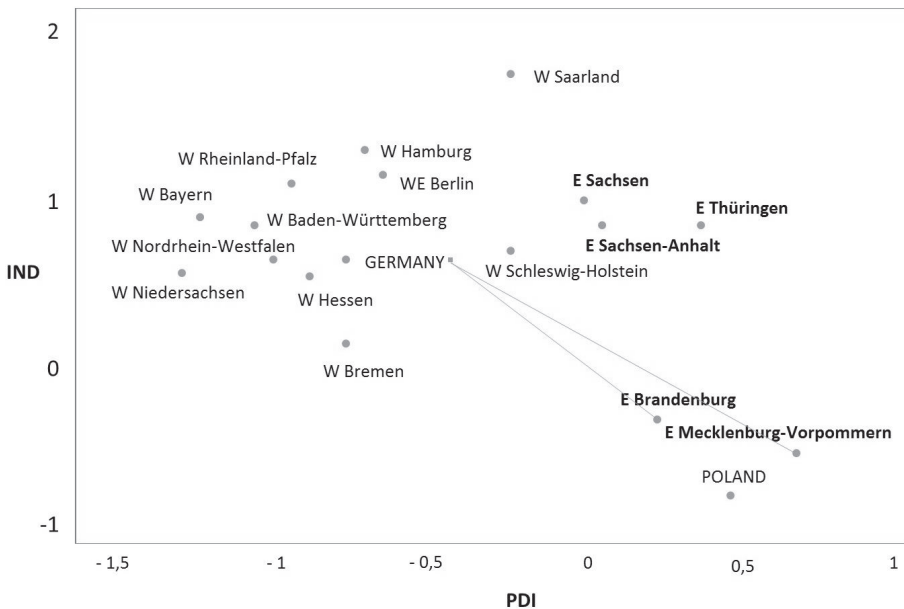
### **First question: has the communist regime induced consequences to societal culture?**

Culture plays an important role in modern approaches to management and business because work performance depends on organizations, which in turn depend on their surroundings. Greif (1994) expresses this as follows: “The effect of organizations is a function of their impact on the rules of the game and the cultural beliefs of the society within which this game is embedded” (p. 944). Culture, especially national culture, is a relatively stable phenomenon, as its development takes generations and it touches a large share of population in a certain area. Peterson (2016) points out, that in business literature, culture primarily means research about societal values and norms, which characterize the patterns of ac-

tions and interactions that are normal in a society, including those, that are overtly expected, and those that are tacitly tolerated (p. 34). Therefore, the relevance of culture in organizational life raises the question of whether the communist period has had an impact on societal culture and as a result modified it.

Comparing national culture before and after the communist regime poses some difficulties in terms of the selection and application of relevant indicators, the construction of a reliable measurement tool, and data collection among other processes. However, political decisions in contemporary history have created a situation that is comparable to a natural experiment, making it possible to describe the impact of the communist regime on societal culture in some countries. In particular, the splitting of Germany into antagonistic regions created a situation where two countries with a similar background ran across different paths from 1949 until 1989; in other words, over two generations.

**Figure 1. Positions of the German regions (NUTS1 level, E denotes the former East Germany and W the former West Germany) across the ESS/EVS-based individualism (IND) and power distance (PDI) dimensions.**

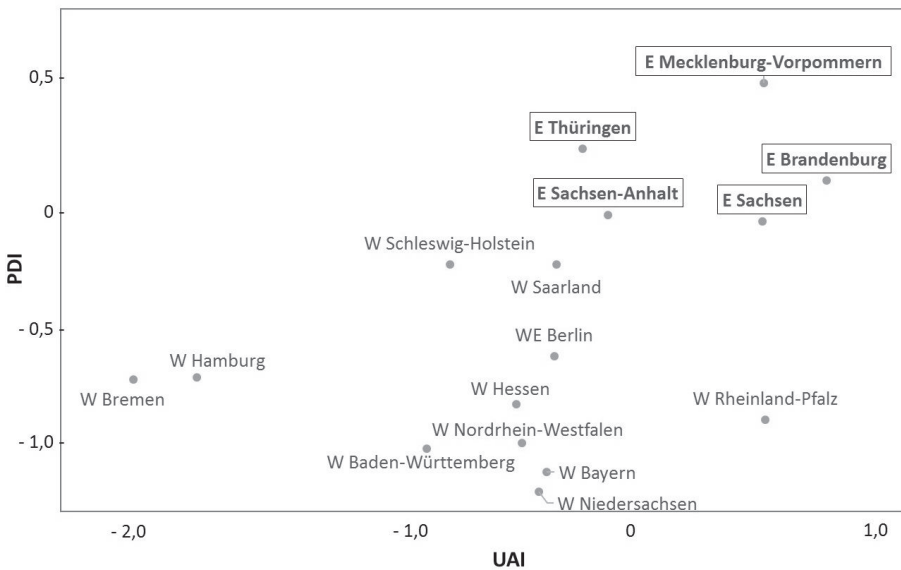


Note: W denotes regions from former Federal Republic of Germany and E from German Democratic Republic

Source: Kaasa, A.; Vadi, M.; Varblane, U. (2014). Regional Cultural Differences Within European Countries: Evidence from Multi-Country Surveys. *Management International Review*, 54 (6), 825–852

Analysis of German societal culture at the regional level provides some evidence of the differences between the former states known as East Germany and West Germany. The study exploits data from the European Social Survey (ESS) and European Value Survey (EVS) and develops indicators for measuring Hofstede’s cultural dimensions (Kaasa et al. 2013, 2014, 2016). Hofstede’s seminal research (2001) differentiates between four cultural dimensions: individualism-collectivism (IDV); uncertainty avoidance (UAI); power distance (PDI), and masculinity-femininity (MAS). Regardless of the criticisms of Hofstede’s framework and related indicators (see for example Mc Sweeney 2002), the approach is widely employed for mapping and comparing cultures over decades. To contrast CEE and WE countries, PDI is an appropriate dimension for two reasons. First, the communist regime functioned based on inequality and second, PDI tells about unequally distributed power in organizations and institutions.

**Figure 2. Positions of the German regions (NUTS1 level, E denotes the former East Germany and W the former West Germany) across the ESS/EVS-based uncertainty avoidance (UAI) and power distance (PDI) dimensions.**



Note: W denotes regions from former Federal Republic of Germany and E from German Democratic Republic

Calculations made for the study: Kaasa, A.; Vadi, M.; Varblane, U. (2014). Regional Cultural Differences Within European Countries: Evidence from Multi-Country Surveys. *Management International Review*, 54 (6), 825–852

One thematic study (see Kaasa et al., 2014) has revealed that PDI reflects the main differences between areas from former German Democratic Republic and Federal Republic of Germany. In other words, two unlike ‘Germanies’ exist in

regard to PDI. In order to illustrate the regional differences, two sets of relevant maps of the regional level (PDI vs IDV and PDI vs UAI) are presented in figures 1 and 2. Two other dimensions (IDV and UAI) accent the specific pattern of PDI in those matrixes.

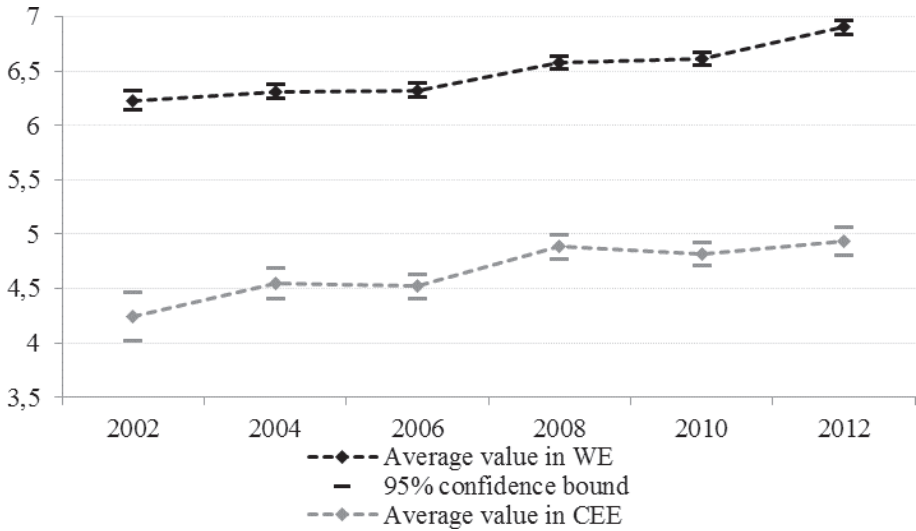
When PDI and MAS are assembled into the matrix, the picture remains the same in regard to the clustered location of East Germany, the regions of which form an apparent bulk on the map. The abovementioned findings declare that differences in the dimensions of societal culture can be attributed to the former political status of regions. The German case points out that PDI has greater relevance in regions that belonged to the German Democratic Republic. The fact that those regions are closer to Poland than to the vast majority of Western regions is also of importance because it confirms that CEE countries may have similarities in regard to PDI. A recent study by Arrak, Kaasa and Varblane (paper under review), conducted at the regional level of Germany with regard to entrepreneurial behaviour, finds that Germany can be divided into groups of Eastern and Western regions when taking both culture and entrepreneurial activity into account, while Berlin with both backgrounds (belonged to former East and West Germany) stays in the middle. Again, the possible role of contemporary history presents itself in the division of Germany into East and West.

## **Second question: has the communist regime induced consequences for organizations?**

PDI stands for hierarchy and distribution of power; therefore, allowing us to raise the next question about the organization of work in the countries under discussion. Power distance provides the basis for opposing organic and mechanistic organizations, the latter implying a high degree of standardization and formalization in work and employment. Under the first question, it emerged that power has an important role in CEE countries, and therefore we can hypothesise that organizations have a mechanistic rather than organic structure. The extensive ESS dataset makes it possible to test whether CEE countries and their WE counterparts differ in relation to the degree of formalization at the organizational level over a long period of time. Sakowski et al. (2015) investigated whether organizational members in Western, Central, and Eastern European Countries differ when estimating (a) their ability to influence the organisation of daily work, and (b) their ability to influence organisational policy decisions. Data for this particular study comes from the European Social Survey 2002–2012. Figures 3 and 4 present findings from six periods of measurement.

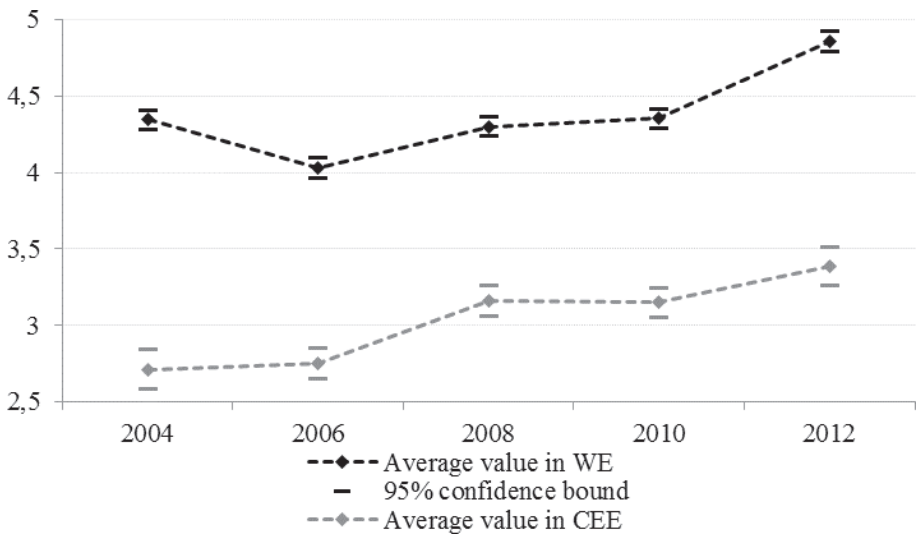
The participants in the survey could state whether they have/had no influence or alternatively have/had complete control over their daily work and policy decisions. The findings of the study show that employees in WE countries could plan their workday and participate in decision-making more than employees in

**Figure 3. Ability to influence daily work of organization: the comparison of CEE and WE countries across period 2002-2012 (based on ESS data).**



Calculations made for the study: K. Sakowski, M. Vadi & J. Meriküll (2015) Formalisation of organisational structure as a subject of path dependency: an example from Central and Eastern Europe, Post-Communist Economies, 27:1, 76-90

**Figure 4. Ability to influence policy decisions of organization: the comparison of CEE and WE countries across period 2002-2012 (based on ESS data).**



Calculations made for the study: K. Sakowski, M. Vadi & J. Meriküll (2015) Formalisation of organisational structure as a subject of path dependency: an example from Central and Eastern Europe, Post-Communist Economies, 27:1, 76-90

CEE countries. It is interesting to point out that the difference in the participant's estimations between CEE and WE countries has constantly been about two points throughout the whole period, which was focused on representing various cycles of economic life. Therefore, the findings allow us to claim there is a strong and heterogeneous impact of Communist legacies on organisations.

The level of freedom in daily work activities and policy decisions in the responses from people living on the former territory known as East Germany clearly contrasts with the people of the former territory known as West Germany (see Sakowski et al. 2015). As in the findings from other CEE countries, the respondents from East Germany have less freedom to influence policy decisions; however, the differences are considerably smaller than in the European sample. Nevertheless, several studies acknowledge that the dominance of regiment over individual decisions still plays a significant role in the organizations located in CEE countries.

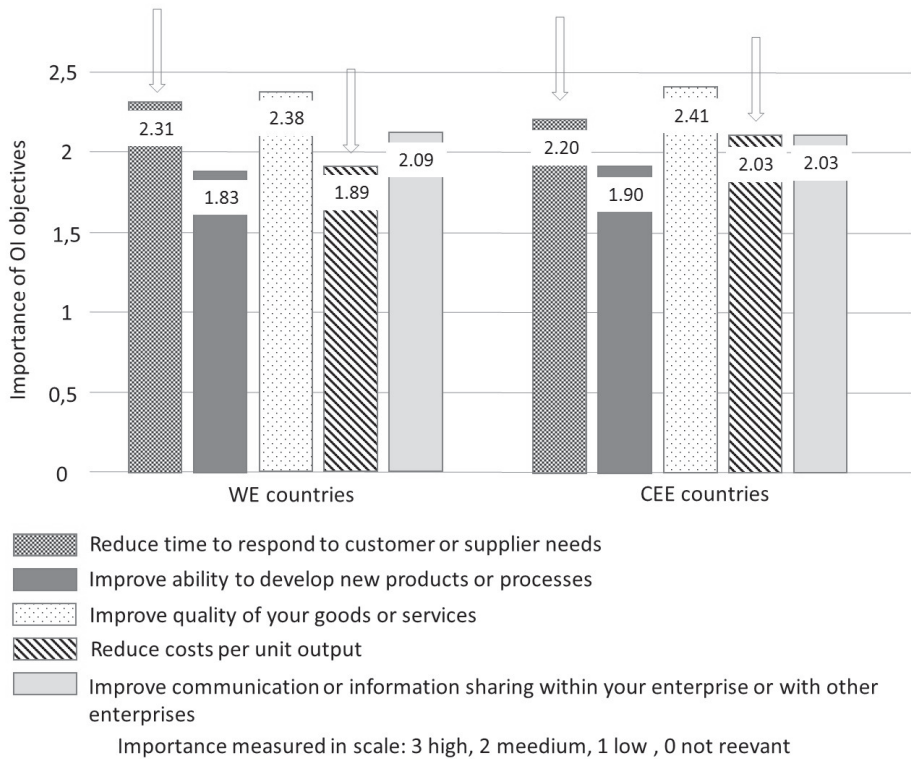
The society moulds the basis for moral decisions. For example, Lenches (1993) expresses the idea that the communist mind-set is based on a constant stream of lies; namely, she says that these lies and broken promises were part and parcel of communist "ethics" (p. 26). According to communist principles, private ownership was not allowed to be exploited for economic reasons. This created the ambivalent situation where people were actually engaged in some entrepreneurial activities but mostly did not declare these and did not pay taxes. Likewise, Osipenko and Kozlov (1989) claim that the Soviet Union was known for its shadow economy and bribes occupied a central place in the code of unwritten behavioural norms for agents of the shadow economy, which existed despite stiff economic sanctions and was usually motivated by profit and personal safety. When comparing private-sector corruption in Denmark (which ranks among the least corrupt countries in the world, WE) and Estonia (ranked 21, Transparency International, 2018, CEE), we see that in the case of Estonia, corruption presents socio-economic path dependency even though Estonia performs relatively well in the corruption perception index (Jaakson et al. 2018). The study claims that formal and informal institutions interact in a multi-faceted way and respondents in the Danish sample deemed the cost of corruption to the firm to be much more likely than their Estonian colleagues do.

### **Third question: do the consequences of the communist regime impact organizational innovation?**

The previous two focus questions of the current article indicate that the task environment for organizations delivers holdovers from the communist era in CEE countries. Organizations receive four types of resources from their environments — human resources, information, technology, and legitimacy (Trice & Beyer 1993), and therefore the question of the impact of the communist regime on cru-

cial resources can be raised. Organizational innovation (OI) is connected to all the above mentioned resources, and for that reason, the comparison of CEE and WE countries may open up some important aspects of organizational life. The study based on Community Innovation Survey (CIS) data (collected from more than 100 thousand firms from 12 countries in 2008, 2010 and 2012 (see Sakowski et al. 2018) compares 7 OI types in CEE and WE countries. OI typology constitutes information about three areas: (a) new business practices for organising procedures, (b) new methods of organising work responsibilities and decision-making and (c) new methods of organising external relations with other firms or public institutions.

**Figure 5. Reasons for organizational innovation.**



Note: arrows indicate on the biggest differences between CEE and WE.

Calculations made concurrently with the study: K. Sakowski, M. Vadi & J. Meriküll (2018): Patterns of organisational innovation: comparison of western and eastern countries in Europe, Innovation: The European Journal of Social Science Research

The findings of the study show the differences between WE and CEE countries (Sakowski et al. 2018). In WE countries, organizations try OI more often than in CEE countries. For example, in WE countries, every third firm introduced at least one type of OI in 2008, but only every fifth firm did so in CEE countries. Furthermore, the study shows that in five out of seven OI combinations there is a statistically significant difference between OI activity in CEE and WE countries, whereby WE organizations engage in more complex types of OI than CEE organizations. The picture remains the same throughout the 12 years under review.

For a more detailed analysis, the motives for introducing OI are figured out in parallel with OI types (concurrent calculations for the study by Sakowski et al. 2018, based on a CIS dataset). Figure 5 presents the comparison of WE and CEE countries in regard to five reasons for OI: (a) reduction of time to respond to customer or supplier needs, (b) improving the ability to develop new products or processes, (c) improving the quality of your goods or services, (d) reduction of costs per unit output, and (e) improving the communication or information sharing within your enterprise or with other enterprises.

Figure 5 exhibits two main differences between the reasoning for the OI activities in CEE and WE countries. Organizations in WE deem a reduction in the time it takes to respond to customer or supplier needs as more important, while for CEE organizations a reduction of cost per unit output is motivating. This finding shows that market, customer and partner orientation can be more common in WE than CEE countries, while productivity issues may prevail in CEE countries when the organizations initiate changes.

Last but not least, it is important to mention the assertion derived from the decomposition exercise that shows whether the difference between Eastern and Western Europe in OI activity is mostly due to differences in the type of firms or due to the fact that the same firms have a different inclination to be active in OI (Sakowski et al. 2018). This manipulation makes it possible to claim that if firms in CEE countries converge with WE firms in terms of firm size, business type and other innovation activities, the gap in the most complicated organisational innovation will be reduced as well (Sakowski et al. 2018, p. 17).

## Concluding remarks

These three main questions formed the skeleton for analysing the transformation of economies and societies in Central and Eastern Europe. To find the answers, CEE and WE countries are contrasted in terms of societal culture, formalization of organizations and organizational innovation. The answers illustrate the differences between the regions and lead to the conclusion that the transformation of Central and Eastern Europe is still in progress. The answers to the questions enable us to agree with Banalieva et al. (2017), that the effect of the communist

footprint is still prevalent in our work life, even decades after the fall of communism.

One more question can be raised from the practical perspective – what do we need this type of analysis for? Here the answer can be borrowed from Peterson (2016), who illustrates in various respects why it is important to understand what happens when government institutions are deliberately designed to reshape existing societal values. He claims that “CEE thus provides an opportunity to use both cultural and neo-institutional theorizing, to consider how local pre-Soviet cultural traditions and institutional practices from societies outside CEE in the 1990s shaped the restructuring of institutions” (Peterson 2016: 37). Understanding what happens in the changing environment is a crucial for organizations. Hannan and Freeman (1977) emphasise that in a rapidly changing environment it is very likely that “What is used today may become excessive tomorrow, and what is excessive today may be crucial tomorrow.”

This essay presents snapshots of transformation, primarily comparing CEE and WE countries. Observations and reflections can highlight several differences between these country groups.

## Limitations

This paper has attempted to compare WE and CEE countries in various respects. It integrates different studies; however, these are selected from a limited pool. In turn, this forms the limitations of the paper because the selection criterion (i.e. the authorship) effects the number and scope of topics under discussion. Therefore, this results in presenting a picture rather about statuses than dynamics, and the paper does not illuminate the process of transformation per se. The latter requires more profound analysis because the process evolves through a broad scope of human and social behaviours.

## Bibliography

- Arrak, K., Kaasa, A., Varblane, U. (in press) Regional Cultural Context as a Determinant of Entrepreneurial Behaviour: the Case of Germany. *Journal of Entrepreneurial Behavior & Research*
- Banalieva, E. R./ Karam, C. M./ Ralston, D. A./ Elenkov, D./ Naoumova, I./ Dabic, M./ Potocan, V./ Starkus, A./ Danis, W./ Wallace, A. (2017): Communist footprint and subordinate influence behavior in post-communist transition economies. *Journal of World Business*, 52 (2), 209–229.
- Burns, T. / Stalker, G. M. (1961): *The Management of Innovation*, Tavistock, London.
- Greif, A. (1994): Cultural beliefs and the organization of society: A historical and theoretical reflection on collectivist and individualist societies. *Journal of Political Economy* 102 (5), 912-950.
- Hannan, M.T/ Freeman, J. (1977): The population ecology of organizations. *American Journal of Sociology*, 82 (5), 929-964.

- Hofstede, G. (2001): *Culture's Consequences: comparing values, behaviors, institutions, and organizations across nations* (2nd ed.). Thousand Oaks, CA: SAGE Publications. ISBN 978-0-8039-7323-7.
- Jaakson, K. Johannsen, L., Pedersen, K., Vadi, M., Ashyrov, G., Reino, A., & Sööt, M.-L. (2018). The role of costs, benefits, and moral judgments in private-to-private corruption. *Crime, Law and Social Change*. <https://doi.org/10.1007/s10611-018-9790-y>.
- Kaasa, A.; Vadi, M.; Varblane, U. (2016) A new dataset of cultural distances for European countries and regions. *Research in International Business and Finance*, 37: 231 – 241.
- Kaasa, A.; Vadi, M.; Varblane, U. (2014) Regional Cultural Differences Within European Countries: Evidence from Multi-Country Surveys. *Management International Review*, 54(6): 825 – 852.
- Kaasa, A.; Vadi, M.; Varblane, U. (2013) European Social Survey as a source of new cultural dimensions estimates for regions. *International Journal of Cross Cultural Management*, 13(2) 137–157.
- Lazarev, V., Gregory, P. R. (2002): The wheels of a command economy: allocating Soviet vehicles. *Economic History Review*, LV, 2, pp. 324-348.
- Lenches, T. E. (1993), “The legacy of communism: poisoned minds and souls”, *International Journal of Social Economics*. Vol. 20 No. 5/6/7, pp. 14-34.
- McSweeney, B. (2002): Hofstede's model of national cultural differences and their consequences: A triumph of faith – a failure of analysis, *Human Relations*, 55 (1), 89-118.
- Meyer, Klaus E. & Peng, Mike W. (2016) Theoretical Foundations of Emerging Economy Research. *Journal of International Business Studies*, 47(1): 3-22
- Osipenko, O.V. Kozlov, I.G. (1989). What Is It That Casts a Shadow? *Problems of Economics*. 32 (7), 29-42.
- Peterson, M. F. (2015): A culture theory commentary on Meyer and Peng's theoretical probe into Central and Eastern Europe. *Journal of International Business Studies* 47 (1), 33–43.
- Sakowski, K./ Vadi, M./ Meriküll, J. (2018): Patterns of organizational innovation: comparison of western and eastern countries in Europe. *Innovation: The European Journal of Social Science Research*, ROI: 10.1080/13511610.2018.1467753.
- Sakowski, K./ Vadi, M./ Meriküll, J. (2015): Formalisation of organisational structure as a subject of path dependency: an example from Central and Eastern Europe. *Post-Communist Economies*, 27 (1), 76–90.10.1080/14631377.2015.992229.
- Transparency International. (2018). *Corruption Perceptions Index 2017*. <https://www.transparency.org/country/EST>. Accessed 29 Sept 2018.
- Trice, H. M., / Beyer, J. M. (1993): *The cultures of work organizations*. Englewood Cliffs, NJ: Prentice Hall.
- Yiannis, G. (2016): The Essay as an Endangered Species: Should We Care? *Journal of Management Studies* 53:2 March 2016.