The Transformation of Management Effectiveness in Post-Soviet Enterprises*

*Kari Liuhto***

This study examines the post-Soviet managers' views on the transformation of the management effectiveness in their company in the 1990s. Main emphasis is placed on analysing the relationship between the organisational performance and its impact on change in the management effectiveness. The views of the Baltic enterprise management indicate that the organisational and managerial effectiveness is improving. The data suggest that success increases inertia. The empirical findings do not exclude the argument that poor performance acts as a catalyst to change. The research results seem to be consistent with the views that crises and compulsion are more closely linked with change than previous success.

In dieser Studie werden die Ansichten von Managern der post-sowjetischen Ära über die Transformation der Management-Effektivität ihrer Unternehmen in den 1990er Jahren untersucht. Das Hauptaugenmerk liegt auf der Analyse der Beziehung von organisatorischer Performance und deren Einfluß auf Veränderungen in der Management-Effektivität. Die Ansichten von baltischen Managern weisen darauf hin, das sich die organisatorische Effektivität verbessert. Aus dem Material ist ersichtlich, daß der Erfolg auch die Trägheit erhöht. Die empirischen Ergebnisse können nicht das Argument entkräften, demzufolge schlechte Leistungen als Katalysator für Veränderungen wirken. Die Forschungsergebnisse scheinen mit der Ansicht übereinzustimmen, daß Krisen enger mit Veränderungen verknüpft sind als Erfolge.

* manuscript received: 06.07.98, revised: 26.03.99, accepted: 05.04.99

This research was undertaken with support from the European Commission's Phare ACE programme 1995. The author gratefully acknowledges also the financial support of Foundation for Economic Education (Liikesivistysrahasto) and Vyborg Foundation (Viipurin taloudellinen korkeakouluseura). The author would also like to thank anonymous referees whose comments have been utmost valuable in revising this article.

** **Kari Tapani Liuhto**, born 1967, Ph.D., Professor of the Department of Industrial Engineering and Management at the Lappeenranta University of Technology, major areas of research interest are: management transformation in the East, foreign direct investments in the former Soviet Union, and the Eastern enlargement of the European Union.

1. From the Plan-Determined Efficiency Towards Market-Guided Effectiveness

The efficiency of Soviet enterprises was evaluated on the basis of how the company could fulfil the plans determined by the state. The Soviet enterprises were notorious for their inefficient management practices. One of the main reasons for the inefficiency was the conflict of interest between the state and the enterprise managers. While the state aimed to maximise the efficient use of resources, the managers of Soviet enterprises aimed to maximise their own bonus. Although the bonus was linked with the plan fulfilment there was a contradiction between the goals of the state and the enterprise. The contradiction was created as the Soviet managers were not motivated in exceeding the plan, as it would have led to the plans being raised in the future. As a consequence of this irreconcilable conflict between the macroeconomic plans and the microeconomic behaviour, the majority of the Soviet enterprises operated substantially below the maximal efficiency (Richman, 1965; Conyngham, 1982; Beissinger, 1988).

Due to inefficient organisation and management practices created by the centrally planned economy, the post-Soviet managers who have been liberated from the planned system must improve performance of their enterprise, and hence, must increase management effectiveness in their company to be able to secure enterprise survival in fierce competition (Üksvarav - Nurmi, 1993).

To survive in competition requires that former Soviet managers are able to unlearn the plan-determined efficiency thinking of the Soviet era and learn new performance criteria which is guided by the invisible hand of the market forces, instead of the visible foot of the Soviet planning apparatus. The improvement in the management effectiveness is not essential only for the post-Soviet enterprises, but also for the overall macroeconomic transition, since the macroeconomic transformation does not happen without microeconomic transformation (Kozminski, 1993). Therefore, it is of utmost importance to study how the enterprise management in the former Soviet republics has succeeded in the transformation from the planned-determined efficiency towards market-guided effectiveness[1].

This article examines the transformation of the management effectiveness in almost 500 companies in the Baltic States. The research focuses on the impact of earlier enterprise performance on management effectiveness transformation. The article aims at discovering whether earlier performance either accelerates or

[1] Some scholars distinguish the terms ‘efficiency’ and ‘effectiveness’. According to Carnall (1990, 71), "*efficiency comprises achieving existing objectives with acceptable use of resources. Effectiveness means efficiency plus adaptability. The effective organization is both efficient and able to modify its goals as circumstances change.*"

impedes management transformation. To reach this aim, the article studies the relationship between earlier (good/poor) return on investment and transformation in management effectiveness.

2. A Literature Review on the Relationship Between Organisational Performance and Change

According to Boeker and Goodstein (1991), there are four general arguments concerning earlier organisational performance and change; (1) poor performance exacerbates inertia, and thus, restrains progress; (2) poor performance acts as a catalyst to organisational change; (3) success breeds inertia, and thus, decreases the organisation's change ability; and (4) success encourages change [2].

The first general argument is supported by studies which claim poor performance increases conservatism (Whetten, 1987) and formalisation (Staw et al., 1981). These features are generally believed to decrease the organisation's change probability. A second important link between poor performance and inertia is that the organisation requires certain minimum resources in order to implement change. Unless the company does not possess sufficient resources needed to carry out change, the implementation of change will prove very difficult in practice even if the organisation is able to recognise change pressures (Dutton - Duncan, 1987).

The second general argument is contrary to the previous argument, as it suggests that poor performance adds to the organisation's change probability. Several studies indicate that fear arising from poor performance can result in the change of managerial practices (Kiesler - Sproull, 1982; Lant - Mezias, 1992; Lant et al. 1992; Boeker, 1997). Pressure for change may increase, for instance since poor performance can lead to the dismissal of board members, top managers and other personnel (Bowman, 1982; Coughlan - Schmidt, 1985; Beatty - Zajac, 1987; Boeker - Goodstein, 1991). It may prove easier to change a less successful company, since poor performance makes it easier for managers to overcome resistance to change while providing the owners and management with a chance to do things differently, thereby legitimating actions that might have previously been difficult (Hall, 1976).

The third general argument is that success breeds inertia and apathy. Some scholars suggest that good performance induces managers to believe that they have got it right, which makes them reluctant to change (Lant - Montogomery, 1987; Ginsberg, 1988; Milliken - Lant, 1991; Hambrick et al., 1993). Success may result in fine-tuning, in other words incremental change. The problem of

[2] There exists, at least in theory, the fifth general argument concerning organisational performance and change. The fifth argument would state that there does not exist a relationship between enterprise performance and change.

fine-tuning in the long run may nevertheless be that it gradually makes success less likely (Starbuck - Milliken, 1988). Success may blind the managers to see need for change (Lant et al., 1992). Another noteworthy observation is that successful companies have a tendency to resort to practices previously recognised as well functioning (Miller, 1994). This tradition-based change has been referred to as "old winning formula" (Tushman - Nadler, 1986, 75).

The fourth general argument is that success increases change. A successful company has more financial, technological and human resources to develop its strategies and operations so that it is better prepared for possible changes in the competition milieu (Hambrick - Snow, 1977; Bourgeois, 1981).

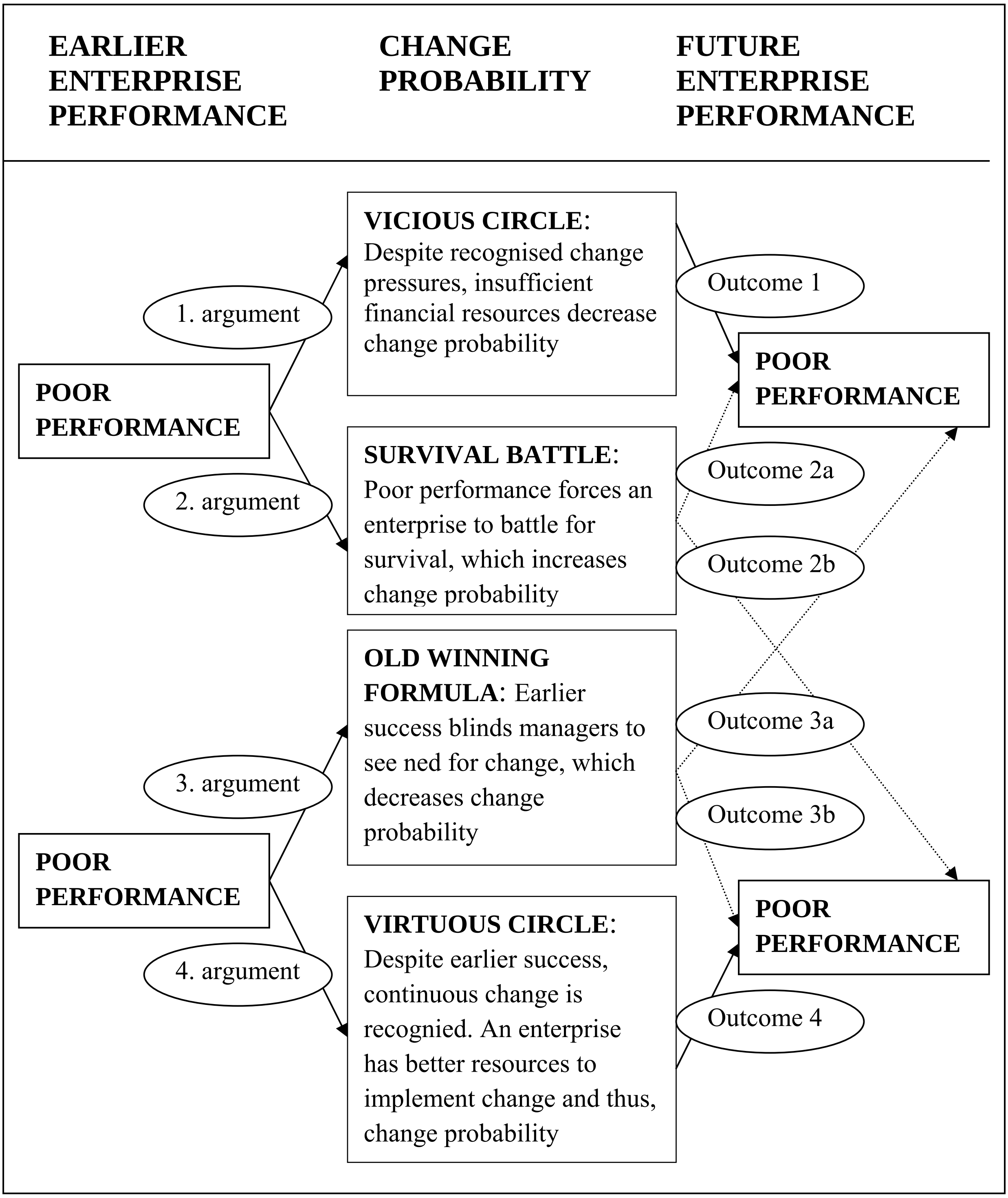
These four general arguments describing the impact of earlier enterprise performance on change probability are summarised in the following figure. In the right side of the figure, possible outcomes of change and future enterprise performance are added. The outcome(s) of each argument take into consideration change probability and how well an enterprise manages to implement change, and hence, links the success of change into future enterprise performance (see Figure 1).

The first argument indicates that poor earlier performance deteriorates financial situation, which may prevent an enterprise to implement change, and thus, increase its management effectiveness. The management is not capable to liberate enterprise from the chains of the vicious circle, and most probably enterprise performance will remain poor also in the future (Outcome1).

The second argument suggests that poor performance forces an enterprise to start change and to attempt increasing its management effectiveness. In this context, it should be underlined that change does not necessarily lead to the improved management effectiveness, but change may also cause negative outcome. Therefore, its is necessary to point out that the survival battle may lead to either poor (Outcome 2a) or good (Outcome 2b) performance in the future.

The third argument states that earlier success may blind the enterprise management to see no need for change, and thus, the management follows the old winning formula and does not improve management effectiveness further. If the development speed of the industry where the enterprise operates is evolutionary, the enterprise may maintain good performance level also in the future (Outcome 3b). However, if the industry is very volatile and managers do not recognise future change pressures, it is likely that the enterprise will get stuck in the success trap and will see its performance deteriorating in the future (Outcome 3a).

Figure 1. The Relationship between Enterprise Performance and Change Probability



The fourth argument suggests that good performance accelerates change by offering enough resources for the management to carry out constant improvements within an enterprise. Continuous improvement strategy creates virtuous circle, which ensures good performance level also in the future (Outcome 4).

In addition to analysing relationship between the enterprise performance and change, it is also necessary to specify the core terms of this relationship: enterprise performance and change. Scholars do not share a common view what is an optimal indicator for enterprise performance [3]. Some researchers argue that profit is a main objective of business organisations and therefore they regard profit as a primary indicator of effective performance (Campbell, 1977; Scott, 1977; Nash, 1984).

Although some academics consider profit as a primary performance indicator for business organisations, the return on investment (ROI) was selected instead of the profitability. The ROI is a more comprehensive performance indicator than the profitability, firstly because the ROI takes into account differences in the total assets of the studied companies[4]. For example, the sample included both service companies, which have started their operations with a minimum capital enacted by the law, and considerable industrial companies, which require significant investment before they can begin their production. Secondly, the ROI was chosen instead of the profitability as the managers participating in the survey were more willing to give their view on the ROI than to reveal exact profit figure (for more detailed explanation, see Section 3.2).

In addition to the discussion about the optimal indicator for enterprise performance, it should be clarified how the term ‘change’ is approached in this research. Change indicates that an object or a phenomenon has become different in some particular. The first important issue to be considered in becoming different is whether change occurs via real re-orientation or via natural development (Lundberg, 1989; Aaltio-Marjosola, 1991; Amburgey - Miner, 1992). The second important issue to be considered is the fact that change does not necessarily lead to improvement but can also cause deterioration (Biggart, 1977; Delacroix - Swaminathan, 1991; Amburgey et al., 1993) [5].

In this research, it was not necessary to separate real change and evolutionary development, and hence, change is explained here by both real re-orientation from the existed trend and natural development. This research makes a distinction between negative change (deterioration) and positive change

[3] Campbell (1976), for instance, has identified thirty distinct criteria for effective organisational performance.

[4] According to Bhattacharya (1995, 139; 152), ”… ROI is the product of two ratios, namely turnover of total assets and operating profit ratio, i.e., Sales/Total assets x Operating profit/Sales = Operating profit/Total assets. … This [ROI] is the most comprehensive ratio to evaluate operating management as it translates financial objectives of a firm into operating terms like selling price, profit margin, and production costs.”

[5] Although some scholars separate the terms ‘change’ and ‘transformation’, in this article they are regarded as synonymous to avoid tautology (e.g. Perkins - Buckley, 1984).

(improvement), as change per se is not the fundamental goal of the economic transformation, but the organisational and managerial improvement. In this article, change is considered to have occurred when particular variable has become different when two periods of time are compared. The methodological operationalisation of the term ‘change’ is explained in more detail in Section 3.2.

3. Methodology

3.1. Objective

The article examines the post-Soviet managers' views on the transformation of the management effectiveness in their company. The main objective of the research is to analyse whether earlier enterprise performance either accelerates or impedes management change. To attain this goal, the relationship between the organisational performance and management change is studied. More specifically, this articles studies the relationship between earlier (poor/good) ROI and the transformation of the management effectiveness.

This relationship is focused as previous studies have indicated that earlier enterprise performance influences significantly management change. Even more important reason for concentrating on studying management transformation is the fact that the management effectiveness affects in turn to the future enterprise performance, and hence, it is a crucial factor in increasing competitiveness of the post-Soviet enterprises.

3.2 The Operationalisation of the Enterprise Performance and Change

As this research analyses the relationship between organisational performance and change, it is necessary to specify how this article approaches these two core terms: (1) enterprise performance and (2) change.

The ROI was selected as it was considered a more comprehensive performance indicator than the profitability. In addition, pragmatic reasons forced to use the ROI as an indicator for the organisational performance, as less than 50% of the managers did reveal exact profit figures (see Table 1). Information on exact profit figures was probably withdrawn because the managers were afraid that this information would end up in the hands of competitors, organised crime or tax authorities. Such withholding of information is not a concern only in this research but similar difficulties can be seen in other empirical organisation and management studies in the former Soviet Union (Malkov, 1992; Birch - Pooley, 1995; Liuhto, 1999).

In the questionnaire, the executive managers were asked to evaluate the state of the ROI and the management effectiveness of their company in three different years. The managers were asked to mark three evaluations on each variable indicating the state of particular variable in 1993, in 1996 and in 1999. The difference between the evaluations for these years signified change in the periods 1993-1996 and 1996-1999 [6].

For example, change between 1993 and 1996 was determined by subtracting the evaluation for 1993 from the evaluation for 1996. As the five-point scale was used in the survey, the maximal value for negative change was – 4 (1 [evaluation in 1996] - 5 [evaluation in 1993]) and correspondingly, the maximal value for positive change was + 4 (5 [evaluation in 1996] - 1 [evaluation in 1993]). Hence, it is possible that change would receive values ranging from – 4 to + 4. Negative values mean negative change, and correspondingly, positive ones positive change. The value 0 signifies that there has not occurred any change between the compared years. The scale is described in more detail in Section 3.4 and the frequencies indicating change in ROI and in management effectiveness are presented in Section 4.1.

If the managers had evaluated change between these years, this method could not have been used to measure where the transformation began in 1993 and what state the companies are expected to reach in 1999. Therefore, the method used in this research may provide a more information on change than the method, which enquires managers' view on change per se [7].

Therefore, studies on transformation should not focus only on relative change (transformation speed) but rather on absolute change (advancement in transformation). For instance, the scale measuring speed of transformation may cause biased results, as fast improvement is not synonym for advanced state of an organisation. Earlier researches indicate that transformation speed is often faster in those companies, which have more to improve rather, than in the advanced companies, which cannot so easily to improve their activities (Michailova - Liuhto, 1999).

A practical example can be taken from high jumping. The world record holder has considerable difficulties to improve the record even by one centimetre, while an amateur can rather easily improve his record by several centimetres but despite amateur's faster improvement amateur is far below the champion.

---

[6] In the analysis of organisational performance attention should also be paid to the time perspective. The organisation can in the short run be effective but in the long run ineffective. Correspondingly, some organisations may sacrifice short-term effectiveness in order to obtain long-term effectiveness. As judgements of effectiveness are made with a certain time frame in mind, so it is important that the time frame be made explicit (Miles - Cameron, 1982).

[7] For example, the bi-polar scale ranging from strong negative change to strong positive change would reveal neither the starting point nor the end of the change process.

Therefore, the transformation speed should not be mixed up with the absolute advancement in the transformation process.

Despite the advantages of the method used in this research, it should be mentioned that the retrospective evaluation of the transformation may produce biased research findings as the ex-post assessment may reflect managers' attitudes to what degree the transformation from socialism towards capitalism is desirable. Similarly, prospective evaluation of future transformation may reflect the direction of transformation rather than its actual pace.

In addition, the method used in this research is not able to measure contrary changes, which have occurred between the studied years. In other words, if the positive change is followed by as strong negative change, the method of the research would indicate that there has not occurred any change during that period, though in reality there has occurred two opposite changes. Therefore, the method of this study compares the states of the phenomenon in two certain years (advancement trend) rather than manages to evaluate non-linear changes between these years.

Despite the methodological limitations concerning the assessment of change, it can be argued that the method used in this survey may be an optimal way to measure the transformation, when the research timetable and funding do not allow the replication of the survey.

3.3 Data Collection

The data were collected through a questionnaire survey in 1997. The questionnaire was translated from English into four languages: Estonian, Latvian, Lithuanian and Russian [8]. The back-translation ensured that the items maintained their original meanings.

The questionnaire was addressed to the top management. The main reason for an élite approach is the crucial role of the top management in implementation of strategic change (McCall - Lombardo, 1978; Tushman - Romanelli, 1985; Marshall - Rossman, 1989).

It should be noted that managers' views of their own company's transformation may contain response error. For example, managers may wish to give a better image of their company's transformation than the situation is in reality (Sekaran - Martin, 1982). However, it is highly unlikely that there would have occurred systematic response error in this research because the accompanying letter with the questionnaires stated that the information about individual companies would not be published. In other words, to consciously exaggerate the success of the transformation would not have promoted the companies involved in the study.

[8] Russian was used as one research language as approximately one fourth of the population in the Baltic States are ethnically Russian.

3.4 Scale

A semantic differential technique was applied in the questionnaire. The ends of the five-point bi-polar scale were ‘poor’ and ‘good’ (Osgood et al., 1957; DeVellis, 1991). The ends of the scale were chosen as the literature points that organisational and managerial behaviour dating from Soviet times must improve in order to be better adjusted to the requirements of a market economy (e.g. Berliner, 1988; Lawrence - Vlachoutsicos, 1990; Puffer - McCarthy, 1993; Liuhto, 1996; Matthews - Yeghaizarian, 1998).

Because the use of the five-point numerical scale might have caused response bias in the former Soviet Union, the numbers were replaced by * symbols. According to Baltic experts, the five-point scale presented in numerical form could be inappropriate in the former Soviet Union because it may remind people of the evaluation scheme used in Soviet educational institutions. The use of such scale could have produced response errors because poor grades (1 and 2) were rarely given in the Soviet Union. In reporting the findings, value 1 indicates 'poor', and correspondingly value 5 is an indication for 'good'.

3.5 Sample and Sampling

The sample consisted of approximately 150 enterprises from each Baltic State. The research concentrates on the Baltic States, which have transformed perhaps most successfully among the post-Soviet republics (EBRD, 1998). The successful transformation of the Baltic States may offer valuable reference to other, less advanced former Soviet republics. However, the pioneer position of the Baltic States does not necessarily mean that the research results could be directly applied to the rest of the ex-Soviet Union.

The companies were selected in a non-random manner as the organisation registers do not offer solid basis for random sampling because the enterprise statistics and the active enterprise sector deviate considerably from one another. This deviation is caused by the fact that only a fraction of the registered enterprises are active. According to the statistics, only half of the registered companies operate on a permanent basis in the Baltic States (SOE, 1997).

The basis for the selection of these companies was that 50 companies would be among the 200 largest companies of their country and the rest 100 would represent, as comprehensively as possible, the entire enterprise sector. All in all, the companies in the sample are considerably larger than the average enterprises in the Baltic States (see Table 1).

Table 1. The Company Characteristics of the Sample

	Whole sample (N=471)	**Estonia (N=154)**	**Latvia (N=153)**	**Lithuania (N=164)**
Field of activity				
Industry	44 %	27%	53%	51%
Trade & services	42 %	43%	39%	45%
Other	12 %	24%	9%	4%
N.A.	2 %	7%	0%	0%
Personnel size (means)				
1993	408 (n.a. = 165)	213 (n.a. = 44)	392 (n.a. = 75)	593 (n.a. = 46)
1996	297 (n.a. = 59)	179 (n.a. = 16)	259 (n.a. = 29)	436 (n.a. = 14)
1999 (estimation)	335 (n.a. = 168)	183 (n.a. = 40)	302 (n.a. = 85)	494 (n.a. = 43)
Turnover - 000 USD (means)				
1993	8,885 (n.a. = 228)	4,041 (n.a. = 60)	8,282 (n.a. = 105)	13,681 (n.a. = 63)
1996	9,116 (n.a. = 149)	6,747 (n.a. = 32)	7,133 (n.a. = 82)	12,448 (n.a. = 35)
1999 (estimation)	14,349 (n.a. = 204)	11,521 (n.a. = 51)	9,530 (n.a. = 102)	19,102 (n.a. = 51)
Profitability (net profit/turnover - means)				
1993	9.6 % (n.a. = 322)	7.8 % (n.a. = 86)	6.0 % (n.a. = 136)	12.4 % (n.a. = 100)
1996	7.6 % (n.a. = 258)	7.0 % (n.a. = 60)	7.4 % (n.a. = 121)	8.4 % (n.a. = 77)
1999 (estimation)	9.3 % (n.a. = 289)	7.8 % (n.a. = 77)	10.5 % (n.a. = 130)	10.4 % (n.a. = 82)
	below 3%	**3-8%**	**8-13%**	**over 13%**
1993	28%	24%	25%	23%
1996	36%	30%	17%	17%
1999 (estimation)	23%	40%	19%	18%

4 Empirical Results

4.1 The Transformation of the Return on Investment and the Management Effectiveness in the Baltic Companies in 1993-1999

Although the Baltic managers view the ROI of their company rather satisfactory in 1993 (mean 2,7), a fifth of the managers consider the ROI to be poor. Approximately a third of these poor performing companies had no foreign trade, which may indicate that the foreign trade has at least somewhat positive impact on the organisational effectiveness. The field of industry or company size did not have such a clear effect in the company performance (see Table 2).

The share of the companies with a poor ROI is diminishing substantially. The Baltic managers anticipate that only 4% of the sample will have a poor ROI at the end of the millennium. In fact, one company in four expects to have achieved a good ROI by 1999. In this context, one should not forget that these assessments are based on the managers' views, which may sometimes exaggerate the transformation pace.

Similarly to the ROI, the data clearly suggest that the management effectiveness has improved between 1993 and 1996. Regardless of the overall improvement, some 15% of the managers consider that the management effectiveness has deteriorated. Approximately one third of these enterprises had no foreign trade. The absence of the contact with the foreign market might be one (although only partial) explanation for the decaying management effectiveness. As this research finding is only a tentative one, further studies on the impact of the foreign trade activity on the organisational change in the former socialist bloc are utmost required.

A very positive feature in the transformation is the decreasing share of the companies where the management effectiveness is regarded as poor. The share of the weak companies has diminished from 20% to less than 10% between 1993 and 1996. All in all, the Baltic managers suggest that the management effectiveness of their company has reached the average level in 1996 (mean 3,0). This positive managerial development can be considered a great achievement as only half a decade earlier the Soviet managers were harnessed to obey the performance criteria determined by the planning apparatus.

Though the positive change in the management effectiveness seems evident, it should be underline that one third of the sample did not change at all. This may partially be explained by the fact that some of the managers (10%) consider that their company has already reached the maximal level of the management effectiveness. Therefore, it was not possible for these companies to improve effectiveness further. However, another explanation to the status quo may be the relatively slow transformation of managerial knowledge and practices.

All in all, the views of the Baltic enterprise management give a clear indication that the organisational and managerial effectiveness is improving.

Table 2. The Baltic Managers' Views on the Transformation of the Return on Investment and Management Effectiveness in Their Company

The state of the ROI and the management effectiveness						**mean**	**n.a.**	**st.dev.**
Return on investment in 1993 (retrospective evaluation)	21%	26%	29%	14%	11%	2,7	181	1,25
Return on investment in 1996 (current evaluation)	14%	14%	43%	23%	6%	2,9	85	1,26
Return on investment in 1999 (prospective evaluation)	4%	5%	30%	39%	23%	3,7	126	1,00
Management effectiveness in 1993 (retrospective evaluation)	20%	30%	33%	11%	6%	2,5	162	1,10
Management effectiveness in 1996 (current evaluation)	8%	17%	45%	24%	6%	3,0	67	0,98
Management effectiveness in 1999 (prospective evaluation)	2%	4%	22%	43%	28%	3,9	110	0,94
Scale: Poor	**1**	**2**	**3**	**4**	**5**	**Good**		

The transformation of the ROI and the management effectiveness										**mean**	**n.a.**	**st.dev.**
Transformation of ROI 1993-1996	1%	1%	5%	12%	41%	26%	11%	2%	1%	0,3	189	1,25
Transformation of ROI 1993-1996 (estimation)	0%	0%	1%	6%	34%	41%	14%	3%	2%	0,8	133	1,01
Transformation of management effectiveness in 1993-1996	1%	1%	3%	8%	33%	38%	12%	3%	0%	0,5	171	1,15
Transformation of management effectiveness in 1996-1999 (estimation)	0%	1%	0%	1%	31%	47%	18%	3%	0%	0,9	116	0,87
Scale: Maximal Negative Change	**-4**	**-3**	**-2**	**-1**	**0**	**1**	**2**	**3**	**4**	**Maximal Positive Change**		

4.2 The Impact of Earlier Enterprise Performance on the Management Transformation in the Baltic Companies

The data do not support the argument that success would encourage change (4. argument) or the argument that poor performance would prevent change (1. argument). It seems that the most appropriate interpretation of the data is that success may create a success trap, which decreases change probability (3. argument). Moreover, the data do not exclude the argument that poor performance forces an enterprise to change, and thus, acts as a catalyst to change (2. argument). However, the support on the second argument is only partial (the arrow showing this relationship is shaded), as the significant relationship appears only when the companies with poor performance are compared with the enterprises with good performance. Therefore, further study should be conducted in order to confirm whether the second argument receives support from other researches.

The empirical results indicate that there does no exist a deterministic relationship between earlier success and future success, or similarly, poor performance in the past and poor performance in the future. To put it differently, poor performing companies are not doomed to the vicious circle, if they have sufficient resources to implement change and competition in a market is not too fierce. Correspondingly, the well-performing enterprises are not necessarily capable to create virtuous circle, if these enterprises do not follow the development speed in their industry or the management cannot anticipate future change pressures in their field (see Table 3 and Figure 2).

All in all, the destination of the post-Soviet companies is not determined by earlier performance, but it is influenced by management actions taken in these companies, the overall development of the industry, and degree of competition in a market. Despite this non-deterministic view, this conclusion should not be interpreted that poor and well-performing companies would have the same probability for future success.

The research findings seem to be consistent with the views that organisational crises (internal compulsion) and fierce competition (external compulsion) are more closely linked with change than earlier success (e.g. Bartunek - Louis, 1988; Shirivastava et al., 1988; Grinyer - McKiernan, 1990) [9].

---

[9] These test results are not biased in that sense that the most successful companies (where ROI is regarded as good) would already have reached the maximal level of the management effectiveness, and therefore, they would be incapable of improving their it any further.

Table 3. The Empirical Results on the Relationship between Managers' Views on the Return on Investment and the Transformation in the Management Effectiveness [10]

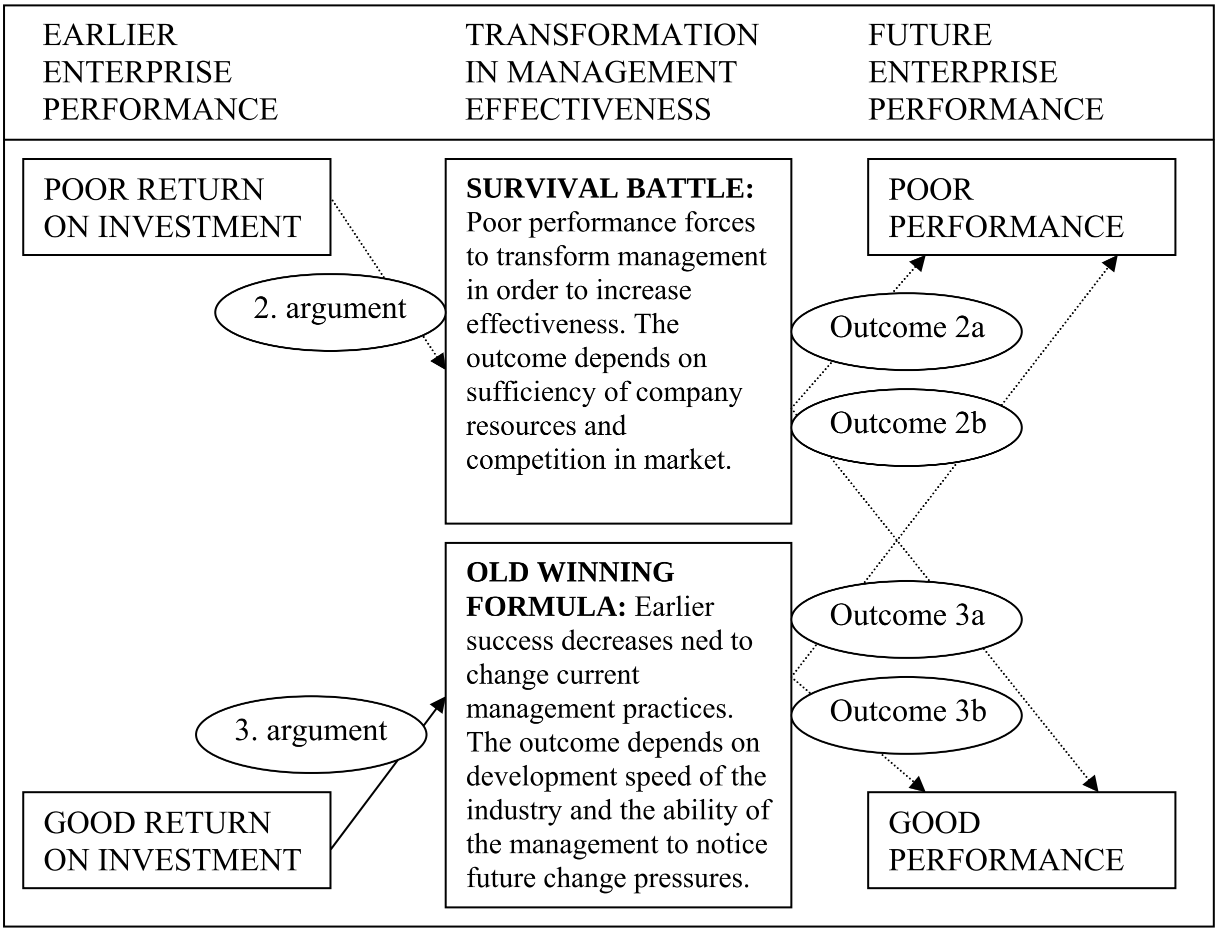
Return on Investment in 1993	**The Transformation in the Management Effectiveness in 1993-1996**				
	Negative Change	**No Change**	**Positive Change**	**Pearson's Test**	**n.a.**
Return on investment (good)	8 (28%)	13 (45%)	8 (28%)	**	197
Return on investment (others)	27 (11%)	77 (31%)	141 (58%)		
Return on investment (poor)	5 (9%)	16 (27%)	38 (64%)	No	197
Return on investment (others)	30 (14%)	74 (34%)	111 (52%)		
Return on investment (good)	8 (28%)	13 (45%)	8 (28%)	**	383
Return on investment (poor)	5 (9%)	16 (27%)	38 (64%)		
Return on Investment in 1993	**The Transformation in the Management Effectiveness in 1996-1999**				
	Negative Change	**No Change**	**Positive Change**	**Pearson's Test**	**n.a.**
Return on investment (good)	1 (5%)	12 (57%)	8 (38%)	**	139
Return on investment (others)	3 (1%)	91 (29%)	217 (70%)		
Return on investment (poor)	1 (2%)	10 (21%)	37 (77%)	No	139
Return on investment (others)	3 (1%)	93 (33%)	188 (66%)		
Return on investment (good)	1 (5%)	12 (57%)	8 (38%)	**	402
Return on investment (poor)	1 (2%)	10 (21%)	37 (77%)		

The research findings of this research should be treated with caution since there is no fully certainty whether the empirical results of the turbulent transition economies can be directly applied to the developed market economies where the transformation pace is more placid and less comprehensive than in the East. The difficulty of applying the empirical data collected from the transition economies stems from the fact that the organisational change in the East resembles more

[10] The following abbreviations are used to indicate the test results: * = 0.05, ** = 0.01, *** = 0.001, and no = non-significant difference. The symbol ¤ indicates that more than 20% of the cells have expected count less than 5.

revolutionary change, whereas the organisational change in the developed market economies is often described as evolutionary adaptation [11].

Figure 2. The Empirical Results on the Relationship between Managers' Views on Return on Investment and the Transformation in the Management Effectiveness



Despite obvious difficulties in applying the organisation change theories developed in the West to the East, and vice versa, difficulties in applying the

[11] The main features of the revolutionary change on the industry level are the emergence, transformation and decline of industries. Correspondingly, the change on the organisation level can be characterised as frame-breaking which can result in discontinuous, non-linear or even chaotic change (e.g. Astley - Van de Ven, 1983; Meyer et al. 1990; Mirvis, 1990; Van de Ven - Poole, 1995; Li - Dev, 1997). The discontinuous, non-linear or even chaotic nature of the revolutionary change makes the research on the organisational and managerial change in the post-planned economies very demanding as it seems to be extremely difficult to produce any prescribed "*transition archetypes*" (Miller - Friesen, 1980, 268), "*tracks*" (Greenwood - Hinings, 1988, 305) or "*pathways*" (Laughlin, 1991, 209).

empirical findings collected in the East to the West, scholars should continue their research attempts to build hypotheses, models or even theories on the organisational change in the transition economies (e.g. Nilakant, 1984; Peng - Heath, 1996). These researches will not only increase understanding about the microeconomic development in the post-socialist economies, but their findings may also contribute to the theoretical discussion on the organisational change. For instance, the studies conducted in the transition economies may accelerate the development of the punctuated equilibrium view (e.g. Gersick, 1991), which some scholars consider to "*dominate current thinking about organisational and environmental change*" (Lawless - Anderson, 1996, 1185).

5. Conclusion

The research data collected from almost 500 companies operating in the Baltic States indicate that the majority of the enterprises have survived from the economic shock caused by the changed performance criteria i.e. the transformation from plan-determined efficiency towards marked-guided effectiveness. The research findings indicate that the organisational and managerial performance has developed considerably since 1993. When every fifth company manager considered performance poor in 1993, six years later only few per cent of the managers estimated performance to have maintained poor.

Moreover, the data indicate that success deteriorates the organisation's change probability. This finding may be interpreted so that successful companies follow the old winning formula i.e. do not change practices which have proved to be efficient. This is logical behaviour in the short-term but on the longer run, earlier success may create a success trap from which enterprises may have difficulties to free themselves. The research findings support to some extent also the argument that poor performance accelerates change. All in all, the research results may indicate that crisis and competition are more closely linked with change than earlier success.

Since it seems that good performance creates inertia and compulsion accelerates change, the policy-makers should take this into consideration when the economic policies are designed. Naturally, the acceleration of change should be accomplished via creating business environment which forces even the best performers to carry on improving their organisational and managerial effectiveness. One of the most far-reaching policy-measures is to create optimal conditions for free competition. It would be of utmost importance to abolish the anti-competition structures impeding free entry and operation of enterprises; such as legal obstacles to establish a domestic or a foreign enterprise in certain field of industry, direct and indirect state subsidies, foreign trade barriers, monopolistic intra-organisational arrangements, or corruption.

Although the Baltic States have advanced faster than the majority of other post-Soviet republics, it have to be stated that competition in the Baltics has not reached the level of the advanced market economies. An indication of less fierce competition in the Baltic States is the fact that the number of active companies per capita is only one third of the EU level (SOE, 1997). Presumably, competition is becoming fiercer when open market niches left by the Soviet planned system has gradually been fulfilled, and enterprises do not expand their activities into several business fields but rather start to build their activities around one focused business idea.

In addition to the domestic competition, the importance of the foreign companies in increasing the level of competition in the Baltic States should not be underestimated. The foreign companies play much more significant role in the Baltics than in many other ex-Soviet republics. A good indication of stronger influence of foreign companies in the Baltic States is the fact that foreign direct investment (FDI) inflow per capita is some 5 times higher than in other former Soviet republics. In 1989-97, cumulative FDI inflow per capita was USD 473 per person in the Baltic States when the corresponding figure in other former Soviet republics was only USD 84 (EBRD, 1998).

The enlargement of the EU to the Baltics in the next decade would most likely increase competition further since the enlargement would open the Baltic market completely to the EU enterprises. In the Baltic States, the EU membership is quite frequently regarded as the ultimate goal of the economic transformation. However, it should be stressed that the EU membership should not be regarded as the final state of the transformation but rather as the reality test for the Baltic enterprises. The full integration of the Baltic States into the EU evaluates how well the Baltic companies have adjusted to new effectiveness criteria and managed to improve their competitiveness. The EU membership measures concretely the advancement of the Baltic companies since it integrates them into the single market completely.

This research has shown that the transformation of the organisational and managerial performance has been quite rapid but despite the considerable progress even the most advanced Baltic enterprises should not get stuck in the success trap but should carry on the improvement of their effectiveness. As earlier success may blind successful Baltic enterprises to see need for further improvement, the policy-makers play crucial role in forcing the enterprises to continue the transformation, for instance by enforcing measures which enhance the development of the free competitive business environment.

References

Aaltio-Marjosola, I. (1991): *Change in a Business Enterprise - Studying a Major Organization Change and Its Impact on Culture,* Helsinki School of Economics and Business Administration, Series A:80, Helsinki.

Amburgey, T. L. - Kelly, D. - Barnett, W. P. (1993): Resetting The Clock: The Dynamics of Organizational Change and Failure, *Administrative Science Quarterly* 38/1, pp. 51-73.

Amburgey, T. L. - Miner, A. S. (1992): Strategic Momentum: The Effects of Repetitive, Positional, and Contextual Momentum on Merger Activity, *Strategic Management Journal* 13, pp. 335-348.

Astley, W. G. - Van de Ven, A. H. (1983): Central Perspectives and Debates in Organization Theory, *Administrative Science Quarterly* 28/2, pp. 245-273.

Bartunek, J. M. - Louis, M. R. (1988): The Interplay of Organization Development and Organizational Transformation, In *Research in Organizational Change and Development,* Vol. 2, Ed. by William A. Pasmore and Richard W. Woodman, JAI Press, Greenwich, CT, pp. 97-134.

Beatty, R. - Zajac, E. (1987): CEO change and firm performance in large corporations: Succession effects and manager effect, *Strategic Management Journal* 8, pp. 305-318.

Beissinger, M. R. (1988): *Scientific Management, Socialist Discipline, and Soviet Power*, Harvard University Press, Cambridge MA.

Berliner, J. S. (1988): *Soviet Industry: from Stalin to Gorbachev – essays on management & innovation*, Edward Edgar Publishing Company Ltd, Aldershot.

Bhattacharya, H. (1995): *Total Management by Ratios – An Integrated Approach*, SAGE, New Delhi

Biggart, N. W. (1977): The creative destructive process of organizational change: The case of the post office, *Administrative Science Quarterly* 22/3, pp. 410-426.

Birch, N. - Pooley, J. (1995): Changes in Russian Quality Management Practices from 1989 to 1992, *Management International Review* 35/3, pp. 219-239.

Boeker, W. (1997): Strategic Change: The Influence of Managerial Characteristics and Organizational Growth, *Academy of Management Journal* 40/1, pp. 152-170.

Boeker, W. - Goodstein, J. (1991): Organizational Performance and Adaptation: Effects of Environment and Performance on Changes in Board Composition, *Academy of Management Journal* 34/4, pp. 805-826.

Bourgeois, L. J. (1981): On the measurement of organizational slack, *Academy of Management Review* 6/1, pp. 29-39.

Bowman, E. H. (1982): Risk seeking by troubled firms, *Sloan Management Review* 23/4, pp. 33-42.

Buckley, K. W. - Perkins, D. (1984): Managing Complexity of Organizational Transformation, In *Transforming Work: A Collection of Organizational Transformation Readings,* Ed. by John D. Adams, Miles River Press, Alexandria, VA.

Campbell, J. P. (1976): Contributions Research Can Make in Understanding Organizational Effectiveness, In *Organizational Effectiveness: Theory - Research - Utilization*, Ed. by S. L. Spray, Kent State University, Kent, pp. 29-45.

Campbell, J. P. (1977): On the Nature of Organizational Effectiveness, In *New Perspectives on Organizational Effectiveness*, Ed. by Paul S. Goodman and Johannes M. Pennings, Jossey-Bass, San Francisco, pp. 13-55.

Carnall, C. A. (1990): *Manage Change in Organizations*, Prentice Hall, New York.

Conyngham, W. J. (1982): *The modernization of Soviet industrial management*, Cambridge University Press, Cambridge.

Coughlan, A. T. - Schmidt, R. M. (1985): Executive compensation, managerial turnover, and firm performance: An empirical investigation, *Journal of Accounting and Economics* 7, pp. 43-66.

Delacroix, J. - Swaminathan, A. (1991): Cosmetic, Speculative, and Adaptive Organizational Change in the Wine Industry: A Longitudinal Study, *Administrative Science Quarterly* 36/4, pp. 631-661.

DeVellis, R. F. (1991): *Scale development: Theory and Applications*, Applied Social Research Methods Series, Vol. 26, SAGE, Newbury Park.

Dutton, J. E. - Duncan, R. B. (1987): The Creation of Momentum for Change Through the Process of Strategic Issue Diagnosis, *Strategic Management Journal* 8/3, pp. 279-295.

EBRD (1998): *Transition report 1998*, European Bank for Reconstruction and Development, London.

Gersick, C. J. G. (1991): Revolutionary Change Theories: A Multilevel Exploration of the Punctuated Equilibrium Paradigm, *Academy of Management Review* 16/1, pp. 10-36.

Ginsberg, A. (1988): Measuring and Modelling Changes in Strategy: Theoretical Foundations and Empirical Directions, *Strategic Management Journal* 9/6, pp. 559-575.

Grancelli, B. (1988): *Soviet Management and Labour Relations*, Allen and Unwin, Boston.

Greenwood, R. - Hinings, C. R. (1988): Organizational Design Types, Tracks and the Dynamics of Strategic Change, *Organization Studies* 9/3, pp. 293-316.

Grinyer, P. - McKiernan, P. (1990): Generating Major Change in Stagnating Companies, *Strategic Management Journal* 11, pp. 131-146.

Hall, R. (1976): A system pathology of organization: The rise and fall of the old Saturday Evening Post, *Administrative Science Quarterly* 21/2, pp. 185-211.

Hambrick, D. C. - Geletkanycz, M. A. - Fredrickson, J. W. (1993): Top Executive Commitment to the Status Quo: Some Tests of its Determinants, *Strategic Management Journal* 14/6, pp. 401-418.

Hambrick, D. C. - Snow, C. C. (1977): A contextual model of strategic decision making in organizations, *Academy of Management Proceedings*, pp. 109-112.

Kiesler, S. - Sproull, L. (1982): Managerial responses to changing environments: Perspectives on problem sensing from social cognition, *Administrative Science Quarterly* 27/4, pp. 548-570.

Kozminski, A. K. (1993): *Catching Up? - Organizational and Management Change in the ex-Socialist Block*, State University of New York Press, Albany.

Lant, T. K. - Mezias, S. J. (1992): An organizational learning model of convergence and reorientation, *Organization Science* 3, pp. 47-71.

Lant, T. K. - Milliken, F. J. - Batra, B. (1992): The role of managerial learning and interpretation in strategic persistence and reorientation, *Strategic Management Journal* 13/8, pp. 585-608.

Lant, Theresa K. - Montgomery, D. B. (1987): Learning from strategic success and failure, *Journal of Business Research* 15, pp. 503-518.

Laughlin, R. C. (1991): Environmental Disturbances and Organizational Transitions and Transformation: Some Alternative Models, *Organization Studies* 12/2, pp. 209-232.

Lawless, M. W. - Anderson, P. C. (1996): Generational Technological Change: Effects of Innovation and Local Rivalry on Performance, *Academy of Management Journal* 39/5, pp. 1185-1217.

Lawrence, P. R. - Vlachoutsicos, C. (1990): *Behind the Factory Walls: Decision Making in Soviet and US Enterprises*, Harvard Business School Press, Cambridge, MA.

Li, M. - Dev, C. (1997): Organization-Environment Relations: A Multidisciplinary Integration and Some Propositions, *International Journal of Management* 14/1, pp. 3-12.

Liuhto, K. (1996): Management Transformation in the former Soviet Union - Estonian managers evaluate past and forthcoming transition, *Journal of East European Management Studies 1/3*, pp. 7-30.

Liuhto, K. (1999): The Impact of Environmental Stability on Strategic Planning: An Estonian Study, *International Journal of Management* 16/1, pp. 98-111.

Lundberg, C. C. (1989): On Organizational Learning: Implications and Opportunities for Expanding Organizational Development, In *Research in Organizational Change and Development*, Ed. by Richard W. Woodman and William A. Pasmore, Vol. 3, Greenwich, CT, pp. 61-82.

Malkov, L. (1992): How Rational is the Behavior of Economic Agents in Russia?, *Comparative Economic Studies* 34/1, pp. 26-40.

Marshall, C. - Rossman, G. B. (1989): *Designing Qualitative Research*, SAGE, Newbury Park.

Matthews, R. - Yeghaizarian, A. (1998): Russian Management Style: A Game Theory Approach to Evaluating Decision Making, *Journal for East European Management Studies* 3/1, pp. 64-84.

McCall, M. W. - Lombardo, M. M. (1978): *Leadership Where Else Can We Go?*, Duke University Press, Durham, North Carolina.

Meyer, A. D. - Brooks, G. R. - Goes, J. B. (1990): Environmental Jolts and Industry Revolutions: Organizational Responses to Discontinuous Change, *Strategic Management Journal* 11/special issue, pp. 93 -110.

Michailova, S. - Liuhto, K. (1999): *Organisation and Management Research in Transition Economies: Towards Improved Research Methodologies*, Working Paper No. 19, Center for East European Studies, Copenhagen Business School, Copenhagen.

Miles, R. H. - Cameron, K. S. (1982): *Coffin Nails and Corporate Strategies*, Prentice-Hall, Englewood Cliffs, NJ.

Miller, D. (1994): What happens after success?, *Journal of Management Studies* 31/3, pp. 325-358.

Miller, D. - Friesen, P. H. (1980b): Archetypes of Organizational Transition, *Administrative Science Quarterly* 25/2, pp. 268-299.

Milliken, F. J. - Lant, T. K. (1991): The impact of an organization's recent performance history on strategic persistence and change, In *Advances in Strategic Management,* Ed. by Paul Shirivastava, Anne Huff and Jane Dutton, Vol. 7, JAI Press, Greenwich, CT, pp. 129-156.

Mirvis, P. H. (1990): Organization Development: Part II - A Revolutionary Perspective, Vol. 4, In *Research in Organizational Change and Development,* Ed. by William A. Pasmore and Richard W. Woodman, JAI Press, Greenwich, CT, pp. 1-66.

Nash, M. (1984): *Managing Organizational Performance*; Jossey-Bass, San Francisco.

Nilakant, V. (1984): *Historical Transformations: A Study in Organizational Change,* Ann Arbor, University of Michigan.

Osgood, C. E. - Suci, G. J. - Tannebaum, P. H. (1957): *The measurement of meaning*, University of Illinois Press, Urbana.

Peng, M. W. - 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, pp. 492-528.

Puffer, S. M. – McCarthy, D. J. (1993): Soviet Managers View Organizational Change in Large State Enterprises, *Journal of Organizational Change Management* 6/3, pp. 6-23.

Richman, B. (1965): *Soviet Management: with Significant American Comparisons*, New Jersey.

Scott, W. (1977): Effectiveness of Organizational Effectiveness Studies, In *New Perspectives on Organizational Effectiveness*, Ed. by Paul S. Goodman and Johannes M. Pennings, Jossey-Bass, San Francisco, pp. 63-95.

Sekaran, U. - Martin, H. J. (1982): An examination of the psychometric properties of some commonly researched individual differences, job and organizational variables in two cultures, *Journal of International Business Studies* 13/1, pp. 51-65.

Shirivastava, P. - Mitroff, I. I. - Miller, D. - Miglani, A. (1988): Understanding Industrial Crises, *Journal of Management Studies* 25/4, pp. 285-303.

SOE (1997): *Estonian Statistics 1997*, Monthly No 2 (62), Statistical Office of Estonia, Tallinn.

Starbuck, W. H. - Milliken, F. J. (1988): Challenger: Fine-tuning the Odds Until Something Breaks, *Journal of Management Studies* 25/4, pp. 319-340.

Staw, B. - Sandelands, L. - Dutton, J. (1981): Threat-rigidity effects in organizational behavior: A multilevel analysis, *Administrative Science Quarterly* 26, pp. 501-524.

Tushman, M. L. - Nadler, D. (1986): Organizing for innovation, *California Management Review* 28/3, pp. 74-92.

Tushman, M. - Romanelli, E. (1985): Organizational evolution; A Metamorphosis model of convergence and reorientation, In *Research in Organizational Behavior,* Ed. by Larry L. Cummings and Barry M. Staw, Vol. 7, JAI Press, Greenwich, CT, pp. 171-232.

Van de Ven, A. H. - Poole, M. S. (1995): Explaining Development and Change in Organizations, *Academy of Management Review* 20/3, pp. 510-540.

Whetten, D. (1987): Organizational growth and decline processes, In *Annual Review of Sociology* 13, Ed. by James Coleman, Palo Alto, pp. 78-101.

Üksvarav, R. - Nurmi, R. (1993): *Estonian Economy and Management in the Early 1990s*, Turku School of Economics and Business Administration, Series A-4, Turku.