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CHANGE MANAGEMENT EXPERIENCE IN THE BALTIC STATES

INTRODUCTION

The only constant thing in this world is change. The current situation makes this old expression particularly topical, as this is a moment when the entire world is experiencing considerable changes. The global crisis is often blamed as the cause of all failures. On the other hand, some people consider it an integral part of development and try to learn from it, and thus become stronger by evaluating the experience brought about by the new situation.

The recent economic crisis is a good lesson for many Baltic managers. The last ten years have been a time of rapid growth, and managers have had to perform in constantly developing economic conditions. The current market situation will extend the outlook of managers. However, it is too early to talk of real experience – not enough time has passed, and new success stories are not yet visible.

The past decade has been a time of rapid and continuous growth. If entrepreneurs had more or less wisely and carefully developed their businesses, then success and reasonable profit levels would have been guaranteed. Nevertheless, such factors as the limited business experience of Baltic entrepreneurs, unrestrained access to credit resources and insufficient assessment of the risks for creditors and debtors, orientation on the import and internal market, solvent and not sufficiently demanding markets and a lack of competition have restricted the development of many essential competences which are of great importance in the more severe market conditions that are being experienced now.

Any learning starts with understanding the current condition and reflections from previous experience. In the Baltic states, as well as in other Eastern European countries, managers have not accumulated sufficient experience in change and crisis management. Therefore, the best examples can provide managers with the necessary insight into the various solutions to problems which have been successful in other companies.

THEORETICAL BACKGROUND OF THE RESEARCH

The theoretical background of this study is grounded in a solution-building paradigm that is contrary to the problem-solving approach usually exploited in coaching and consulting practices. The essence of solution-building is exploring the desired future state and comprehending recent successful events in order to elaborate on them and achieve the results that are aspired to. This approach is based on the assumption that each person has inner strengths and resources sufficient to create the reality that they desire. Initially, solution-building was used for the purposes of therapy, but lately it has also become popular as an organizational practice. Within organizations, solution-building implies defining what could be done differently within a given context, searching for recent examples when positive results were achieved, and expanding on these. This is a gradual process of implementing small steps towards major changes instead of rapid and dramatic transformations that often prove to be unsustainable. The motto of solution-building is very simple: "If it works better, do more."[1]

It is possible to distinguish two main directions in the evolution of change management theory. The first is the planned approach, from which three models are derived for research and practice of change management. These are: the Action Research Model, the Three-step Model and the Phases of Planned Change Model. The Action Research Model provides an effective approach to solving an organization's problems with

[1] De Jong, P., Kim Berg, I. "Interviewing for Solutions," Brooks/Cole Cengage Learning, 2008.

rational and systematic analysis. It also states that the change process should become a learning process in which its participants learn by solving certain problems and through cooperation, and the experience of other participants becomes a part of this learning process. The Action Model distinguishes three different groups of employees: organization (represented by one or more high-position managers), subject (people who belong to the organization or the section of the organization where change implementation is necessary), and the change agent (a consultant who might be an internal or external player). All three groups have to come together and search for a solution that is viable and acceptable for everyone. The Action model emphasizes the necessity of a detailed situation analysis which allows identifying all possible alternative solutions and choosing the most appropriate one in a given situation. Although this model has many supporters, it is difficult to implement it in practice, especially in large companies, because gaining involvement and support for the change processes from all parties involved is very difficult and time-consuming.

The Three-step Model is based on the statement that even changes that are initially implemented successfully often turn out to be infeasible, because after some time the organization returns to the old practice. Therefore, it is important to keep the implemented changes on a new development level. This model assumes that a successful change process consists of three main steps: de-freezing of the existing level, movement to the new level and freezing of the new level. Although this model has often been criticized due to its simplicity and linearity, it is still widely applied in change management theory and practice.[2]

The Planned Change approach is, in essence, a further development of the Three-step Model. Many authors have developed more precise steps which the organization undertakes during the process of planned change. Some of the most quoted[3] ones are Bullock's and Batten's change stages: 1) research stage; 2) planning stage; 3) action stage; 4) integration stage.

Although planned change management theories have many supporters because they provide certain and precisely developed instruments for

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[2] Balogun, J., Hailey, V.H. *Exploring Strategic Change*. Prentice Hall, Harlow, 2004.

[3] Burnes, B.A. *Strategic Approach to Organizational Dynamics*. Pitman Publishing, London, 2004.

change management practice, lately organizational theory researchers lean more towards complex and interdisciplinary approaches to the difficulties of change management.[4]

The second main direction in change management theory is the so-called emergent approach. It is more appropriate for changing and unstable business environments and industries in which rapid, unpredictable changes and fierce competition battles take place. This approach emphasizes the unpredictability and sustainability of the change. It emphasizes the change as a process which constantly develops as a result of interaction between several variables. Hence, the analysis of the change context and prehistory becomes very important, making universal recipes and suggestions useless in problematic situations. This approach is not as prescriptive as the planned change approach, but more analytic and more appropriate for the change management practice and problem-solving in complicated business environments. Supporters of the emergent approach claim that it is not possible to give simple and universal recipes for behavior which are based on rational and strong decisions, and that would be applicable in any situation. Unlike the planned change approach, which assumes the implementation of changes "from top to bottom" (change initiation and control is the responsibility of the higher management), the emergent approach emphasizes transition to "from bottom to top" change management. In this case, the main task of the higher management is to ensure the readiness, motivation and skills of subordinates to undertake the change management process themselves.[5]

After looking at the development of these two main theoretical approaches in a chronological way, it can be concluded that the planned change approach emerged during the 1960s and gained great recognition in the following decades, up until the nineties, when theoreticians and practitioners of change management switched to the development of the emergent approaches. This happened because planned change approaches could not solve the problems of organizations in rapidly changing

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[4] Ruddle, K. In Pursuit of Agility: "Reflections on One Practitioner's Journey Undertaking, Researching, and Teaching the Leadership of Change," in Dopson, S., Earl, M., Snow, P. (ed.). *Mapping the Management Journey: Practice, Theory and Context.* Oxford University Press, Oxford, 2008.

[5] Burnes, B.A. *Strategic Approach to Organizational Dynamics.* Pitman Publishing, London, 2004.

business industries. In addition, the bundle of precise and universal suggestions could not be used in considerably different organizational contexts. Currently, the development of change management theory is moving in the direction of complex and adaptive systems' analysis using qualitative methodology in empirical research, which allows the understanding of the unique context of every situation and the interests and motives of all of the involved parties.[6]

RESEARCH METHODOLOGY

The theoretical background of this report is based on the emergent approach and solution-building paradigm, therefore the conclusions are drawn using qualitative research methods, which allow for a thorough analysis of causal relationships and the assessment of their influencing factors' interaction in differing and heterogeneous samples.[7] The empirical part of this research is based on semi-structured interviews with company managers from Latvia, Estonia and Lithuania who were responsible for change implementation in the past. Interviews with CEOs from headquarters in Finland, Sweden, Russia, the USA as well as expatriates managing companies in Baltic states were conducted in order to gain their opinions on the qualities and abilities of Baltic managers. All interview questions were based on recommendations by experts, as well as change and crisis management theory.

The main criterion for selecting research respondents was their involvement in decision-making during the change management process – to what extent it was the responsibility of a certain manager and not of a shareholder or other board member. The interviews were conducted so that the managers would represent as wide a circle of industries as possible in order to be able to generalize and concentrate on the best practices and

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6 Ruddle, K. "In Pursuit of Agility: Reflections on One Practitioner's Journey Undertaking, Researching, and Teaching the Leadership of Change," in Dopson, S., Earl, M., Snow, P. (ed.). *Mapping the Management Journey: Practice, Theory and Context.* Oxford University Press, Oxford, 2008.

7 Miles, M.B., Huberman, A.M. *Qualitative Data Analysis*, Sage Publications, London, 1994.

experiences gained during the change process, and not on specifics of a certain economic sector. Seventeen interviews were conducted in Latvia with high-level managers from the following sectors: banking, the textile industry, food production, retail, printing, security systems and consultancy. In Estonia and Lithuania, fifteen managers from telecommunications, food production, retail and wholesale, wood-processing, transport, media, entertainment, information technology and finance sectors were interviewed. All of them currently hold or held in the past salaried positions in the respective companies during the change process and were reporting to local or foreign company owners or shareholders (in none of the cases was the company manager simultaneously the company owner or the biggest shareholder).

Ten interviews were conducted with CEOs from headquarters in Finland, Sweden, Russia, the USA as well as expatriates managing companies in the Baltics that were operating in the fields of banking and insurance, telecommunications, food production, entertainment and retail.

All interviews with top managers lasted for an hour and a half on average, and there was a range of questions on: the first signals of the necessity for change, steps for the implementation of change, relationships with shareholders, management styles, the decision-making process, the necessity of external and internal communication, success and failure factors, as well as the personal characteristics of change managers. Interview content has been analyzed using axial and open coding methods, as well as qualitative data tabulation and exposition methods.[8] Interviews with CEOs from headquarters were shorter – they lasted from 40 minutes up to an hour, and were aimed at revealing the main strengths and weaknesses of Baltic managers. Questions about education level, communication, leadership styles, and decision-making were asked during these sessions, and peculiarities as well as cross-cultural differences and reasons for hiring expatriates were reported.

[8] Grey, P.S. *The Research Imagination: an Introduction to Qualitative and Quantitative Methods*. Cambrige University Press, New York, 2007.

MAIN FINDINGS

When speaking about change management's necessity in an organization, the role of shareholders and owners should not be neglected in setting the direction of the company's activities. Often, a company's manager is blamed for all of the failures of the company, although he is merely a freelancer realizing the owners' desires. If shareholders of the company are not clear about the vision of the company, it is not possible to implement significant changes in it.

Sometimes owners want to somewhat distance themselves from the management of their company and hire a person who would implement the necessary changes. However, in reality it may happen that they are not capable of loosening their hand from the company's pulse, and continue interfering even in operational decision-making. This is especially common for the owners of local companies who have established the company with their own hands, so-called "self-made" people, primarily those shaped during Soviet times when business education was unavailable; therefore, their opinions can considerably differ from a professional's point of view. A special "sentiment" unites those owners with their companies, and the implementation of any serious changes in such situations usually does not work. Therefore, it is necessary to assess whether the owner has real desire and motivation to provide the change manager with a sufficiently extensive authority and support to perform the realization of change. Disagreement with company owners is one of the most common reasons for the failure of the change management.

A successful change manager has to have a good understanding of psychology in order to be able to recognize shareholders' true change motives, as well as advise the owner to step aside from too close involvement in the daily life of the company if it becomes a problem.

In relationships with foreign shareholders, the problem sometimes comes in the face of mistrust towards local managers by Westerners, and as a consequence they approve their own representative, who controls the processes in the Baltics, although, according to local managers, these representatives often lack experience and competence. In another interview it was stressed that it is the local management that frequently has lower qualifications compared to their foreign colleagues in similar positions.

In the inception of the change management's implementation, it is possible to distinguish three crucial steps:

Evaluation of the existing situation, including the company's strategy and business model analysis, cash flow analysis and communication with the company's employees.

Creation of the change management team. Here, the most important thing is to identify the company's key employees and put effort into keeping them during the change management process. It is equally important to exclude people inappropriate for changes. This should be done immediately, as every month spent in an improper position costs the company considerably more than a timely selection of an appropriate candidate.

Development of the change management instruments – coordinated information infrastructure – makes the change management process much easier. It should be set as one of the primary directions and it is not recommended to try saving resources on its arrangement.

The interviews with the largest Baltic companies' managers revealed that a successful change manager could be a supporter of either an authoritative or consultative management style. Some hold the view that crisis situations require rapid action and a strong leader. On the other hand, supporters of the consultative management style consider involvement of the employees in decision-making as a strategically forward-looking action, which excludes complaints about the difficulties and correctness of decision-making. Nevertheless, irrespective of their management style, change managers should be capable of selling the decisions to their team, which will distribute them further and will supervise the implementation process.

One of the most important issues in change management is to ensure appropriate and efficient communication in the organization. The more frequently the employees are informed about changes in the organization, the calmer and more understanding their attitude is towards the changes. When communicating with employees, the most important thing is not a large amount of precise information, but the confidence of the manager, backed up by trust in his strength and a positive atmosphere. Employees of companies that have been overtaken perceive changes particularly negatively. Besides, the lower the position an employee holds, the more significant stability and clarity is. It is very important not to raise hopes that will not be justified later – in this case, the authority of the manager will be permanently destroyed. Managers who had to deal with firing a large number of employees claim that in organizations where free information flow is present, employees accept staff reductions with much more understanding.

Overall, it can be said that changes in the organization are made more difficult by:

1. Non-existence of a clear goal that would show the differences between the current condition of the company and its desired state. In addition, if the organization has not developed criteria for assessing the achievement of the goal and the contribution of every single employee, positive change management results should not be expected;
2. Mistrust in the employer and the feasibility of the changes, which usually result from a lack of information. This mistrust can arise in both the employees of the company and its shareholders. Therefore, the ability of the manager to sell his decisions to the employees (first of all, the management team, which will move these ideas forward), as well as to the "rich side" or the shareholders of the company, is extremely important;
3. Resistance of people, which lies in the incomprehension of the goal, mistrust, as well as the differing interests of people and their uncertainty about the future.

Human Resources are the most important assets when realizing any changes. When forming a team, the manager often has to make unpopular decisions – he has to be capable of disengaging from change-incapable people "cogently" and in a short period, retaining those who play key roles in the company and do not clash with the new organizational culture. Often the change management process is determined by the finance director's position – he has to be a perfectly reliable person.

A manager's confidence in the necessity and feasibility of the changes is as important as a good team. During the change management process, any manager has to listen to employees stating why the changes are impossible several times a day. The change manager has to move forward despite this resistance wall, not giving up the struggle even when in the minority, and simultaneously maintaining the ability to listen to other opinions that are rational and logical.

All parties involved have to be clear about what has to be achieved as a result of the changes. For this purpose, the current condition of the company has to be defined and the reasons which have facilitated the necessity for changes understood.

The change processes in the organization need to be closely supervised – the manager must control the accomplishment of the plan, compare achievements with the planned actions and take rigorous measures when things do not go according to plan.

BALTIC MANAGERS FROM A WESTERN PERSPECTIVE

Another part of this study was based on interviews with CEOs from Western headquarters operating in the Baltics. The main aim of these interviews was to obtain opinions about change management processes in three Baltic countries from different angles, summarizing the main strengths and weaknesses of local management as well as their future development possibilities. These interviews were highly interesting because, while in some cases they echoed statements already made by local managers, completely new topics were also brought up that had not appeared in previous interviews.

Summing up the main strengths of local managers from Westerners' points of view, it may be stated that Baltic managers are usually very action- and result-oriented. Moreover, they were described as being proactive, eager to try out new things and take risks. One of their strengths that was mentioned was the ability to adapt to changes in comparison to their Western colleagues. However, perhaps this conclusion was due to the fact that it is easier to reduce the workforce in Baltic countries in comparison to Scandinavia, where work unions are serious powers involved in the negotiation process.

There are certain qualities of Baltic managers that were said to be good examples for Scandinavians:

> They [Baltic managers] are much more profit-oriented than Finnish managers. Baltic managers are also more business-minded – Finns and Swedes have something to learn from them. People in the Baltics are more social after work – it is very good. In Finland people can work in the same company for 30 years without ever meeting.
> (Baltic Operations Manager of one of the largest food-producing companies in Scandinavia)

In an interview with a CEO of a large Scandinavian bank, it was emphasized that Baltic managers have more drive compared to their Western colleagues. This might result from their age difference, as the management teams in the Baltics are, on average, about 20 years younger than in Scandinavia. However, even though in the development of new things being young and eager is an advantage, the negative side of this is inexperience and immaturity which may turn out to be the main threat for a top manager of an international bank. Thus, during the first years of their operations in the Baltics, this bank hired expatriates for key positions in branches in Estonia, Lithuania and Latvia, but now all of their CEOs are local managers. In this interview it was stated that gradually Baltic managers have learned many things, and now their competences and abilities are at the same level as in Scandinavia.

Several CEOs from Finland stressed the ability of Estonians to cooperate and become more united in the face of crisis, compared to their Finnish colleagues. In general, top managers from Finnish headquarters find it easier to collaborate with Estonians, as these countries have similar roots, values and history.

The idea of gradual but positive changes in the skills of local top managers was presented in almost all of the interviews. CEOs from Scandinavia who have worked in the Baltic market since the collapse of the USSR, or at least since the late 1990s, have experienced the very strong influence of the Soviet inheritance that is still present in some contexts and situations.

One of the top managers of a Scandinavian corporation operating in the Baltics since the early 1990s recalled that at the beginning, local managers lacked leadership abilities:

> The manager was seen as a very important person. Today the leadership has improved a lot because of education and overall skills.
> (HR Director of one of the world's largest construction companies)

When discussing the education of local managers, we encountered differing opinions. It seems that Western CEOs operating in financial industries are in general satisfied with the level of education in Baltic countries, whereas in such fields as marketing and retail there is still a large gap between the Baltics and countries that are more developed economically.

When asked about communication differences encountered in the Baltics, if any, several respondents pointed out that, especially in previous years, local managers had a tendency to keep important information to themselves. This has improved lately, but sometimes information flow in local branches is still encountered:

> Sometimes managers think that only their closest colleagues are the ones they should share info with.
> (Managing Director of one of the largest food-producing companies in Scandinavia)

Another communication problem that appears to be resolved in recent years is reluctance to present a negative outcome:

> Communication became more transparent. In the beginning managers were afraid to talk about negative things, but now it has become normal.
> (HR Director of one of the world's largest construction companies)

When asked about the main challenges in managing Baltic countries as well as the main areas in which local managers are still lacking certain competence levels, several important things were defined.

To start with, in almost all interviews it was stated that local managers lack long-term planning abilities. Once again this assertion was quantified with the acknowledgment that this ability is increasingly improving, but it is still an area of high concern for Western headquarters:

> The toughest aspect of managing in the Baltics was trying to show the long-term perspective. We started as corporate banking, and it was hard to persuade them that we should develop retail that would be profitable within 10 years. It was difficult to sell the vision that in 10 years it would be one of the largest banks and a serious player. Now gradually it has improved – the long-term view has become longer, but it is still not as long as it is in the North.
> (CEO of one of the largest banks in Scandinavia)

Long-term vision is connected to the ability to see the whole picture and not being "stacked" within the frame of a particular function or business unit. And here, again, Baltic managers are usually criticized by Westerners:

> The local managers want to have everything right away and don't set long-term perspectives; patience and the ability to see the big picture are still lacking a bit.
> (Managing Director of one of the largest food-producing companies in Scandinavia)

It appears that in the Baltics managers have much more apprehension about delivering their direct results, but at the same time lack the ability to view the overall goals of their organization. Another issue related to this is poor cross-functional collaboration between departments. Western managers are sometimes frustrated by the fact that the local staff is concentrated only on their primary functions, denying and even showing hostility towards suggestions or inquiries from other departments. This might be explained by the fact that the matrix type of organizational structure, though widely used in international organizations, is still not common in local and governmental entities, thus making it more complicated to conceive for new members of international organizations. People become confused when they must report to more than one manager, or if their functions seem to overlap with other departments.

Another serious claim about abilities lacked by Baltic managers was a deficiency of work-reviewing skills:

> This skill is not well-developed yet – to reflect on mistakes and admit honestly that something has been screwed up. Maybe it is up to culture – it is not common to review what has been done and improve on it. Here you are not supposed to make mistakes. But I think that if you are not making mistakes, it means that you are not doing anything.
> (Managing Director of one of the leading telecommunications companies in the Baltics)

Reflection on one's own mistakes indicates the maturity of any person. Estonian managers are considered to be more mature in their approach to management in comparison to Latvian and Lithuanian colleagues. Some interviews revealed the opinion that Latvians and Lithuanians are more influenced by their Eastern and Slavic neighbors. This sometimes makes their collaboration with Scandinavian headquarters burdensome.

Another skill presented as poorly developed among Baltic managers was the ability to develop people. At least in the eyes of some Western CEOs, local managers mainly perceive human resources merely as a means to obtain more profit. Thus, human resource development is not done as a determined and planned set of actions, but rather as inconsistent and fragmentary events that do not lead to steady professional progress.

Reporting on cross-cultural comparisons, one should be very careful in addressing national differences, as those might correspond with specific personalities rather than a particular national culture. What stood out from all of the interviews was the fact already mentioned above that for Finnish managers it is certainly easier to get along with Estonians, as they are considered to be similar in their worldviews and values.

Comparing Latvians and Lithuanians, it is possible to state that, in general, the latter are more open-minded and emotional. It takes more time to move Latvians and stir some excitement in them. However, feelings that evolve may last longer and prove to be more sincere at the end of the day.

One interesting comparison was made by the CEO of a large Scandinavian bank operating in the Baltics. He stated that when something does not happen as planned, Estonians usually say something like: “Maybe we are stupid or maybe we misunderstood your idea, but it doesn’t work out in Estonia.” Latvians, on the other hand, will make a lot of excuses to explain their inability to perform. They might blame the competitors or some “force majeure,” and sometimes these excuses are clearly irrelevant. Lithuanians, in contrast, have much more outward confidence compared to their Northern colleagues. In such a situation as described above, they would simply say, “We couldn’t manage it,” without any further comments, excuses or self-accusatory explanations.

When asked why it is necessary to employ expatriates in top management positions, Western CEOs gave several reasons. However, in some interviews it was stated that expatriates were employed only in the initial stage of conducting business in the Baltics. Now only local managers are filling top positions. For those international corporations that are still hiring expatriates nowadays, it is mainly due to trust and integrity issues and not professional capabilities of local managers. Quite often headquarters use a financial director from their own country of origin, as they cannot rely on resident reporting. Another primary explanation for using expatriates is the inability of local managers to see the broader picture grounded in their lack of experience. Nevertheless, as time goes by, this trait is gradually improving, opening up CEO positions to local managers. Strengths and weaknesses of Baltic managers from a Western perspective are summarized in Figure 1.

Strengths	Weaknesses
Action oriented	Lack of long term perspective, ability to see "big picture"
Excellent in delivering results	Missing work review abilities
Proactive, eager to try new things	Lack of cross-functional collaboration
Easily adjusting to changes	Poorly developed ability to develop people
Easier to get rid of people in comparison to Scandinavia	Chaotic in reporting (thus sometimes needed to recruit expatriates as CFO)

Figure 1. Strengths and weaknesses of local managers from the perspective of Western CEOs operating in Baltic countries

CONCLUSION AND IMPLEMENTATION FOR MANAGERS

Overall, after assessing the conducted interviews with change managers, the following can be concluded: as different as managers' profiles, management styles and experience accumulated during crisis situations may be, they are all united by their optimism and positive attitude towards life, which might be the key to success.

This study evaluates change management experience of the largest companies' managers in the Baltic states, highlighting common trends and devoting special attention to the different approaches that made the intended changes good examples of practice. The research findings should not be perceived as unconditional rules that can be applied to any company. The manager who is in charge of the implementation of change, firstly, must assess the context and history of every situation and be ready to question generally accepted truths and familiar theories. This article is merely a summary of interviews, quotes and case studies that allows the reader to make their own conclusions based on personal experience and knowledge accumulated in the sphere of change management. Further studies should be done to track the progress of change management experience in Baltic states and the new lessons that have been learned by Baltic CEOs.

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