



**CENTRE FOR THE STUDY  
OF ECONOMIC & SOCIAL  
CHANGE IN EUROPE**

**SCHOOL OF SLAVONIC & EAST  
EUROPEAN STUDIES**

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The Subjects of Transformation**

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**Working Paper No. 44**

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## THE ESTONIAN ORGANIZATIONS – THE SUBJECTS OF TRANSFORMATION

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### Introduction

Estonia stayed fifty years under the communist regime. Historically the organizations in the former Soviet Union were carefully controlled by the state and served as the tools of controlling individuals and groups. Estonia's transition to a democratic society provides an intriguing context for analyzing how organizations have changed. The goal of this paper is to show what kind of changes took place in Estonian organizations in the framework of transition of the Estonian society. The changes are discussed from the perspective of four organizational elements: people, organizational goal, structure, and technology. This is an exploratory study, which enables detecting several aspects of the business and public sector organizations, whereas the major focus is on human behavior rather than on economic aspects of organizational life.

### The Soviet background of Estonian organizations

The Soviet background of Estonian organizations is discussed in order to understand the scope of transition and this part is followed by the analysis of tendencies which reflect the general changes in organizations. We present some circumstances, which were specific for the communist ideology that formed the command economy.

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According to the constitution, work was the person's obligation in the USSR. Workers' well-being was ideologically correct outcome of an organization. Thus the aspect of job satisfaction was a topic widely studied by social scientists in the former USSR, while the presentation of results was in some degree affected by the ideological prudential. For example, the *Survey of Automatization and Industry Worker* involved workers from six socialist countries, including the USSR, and their counterparts from nine western countries in 1971-1975 (Kitvel 1983). The important conclusion was that the socialist countries had a significant advantage compared with the capitalist countries. It manifests that in the circumstances the automatization forms in the socialist system a new type of worker who is outstanding and active member of society, has high educational level and professional capacity; whereas automatization being a type of technological process, requires educated and active workers regardless of the type of economy (Piore & Sabel, 1984). Work in a soviet organization was a mean which had to inculcate collectivism in workers and devotion to the soviet system. The citation of Lenin's and Marx's works was obligatory part of social studies of those days. The ideological focus is the precondition that we have to consider as an external environment of Estonian organizations before the radical change of the society.

The execution of plans proposed by the government was the goal of the work, where the socialist competition motivated individuals and groups to be performance oriented. The socialist competition was held on different levels starting from organizational and finishing with pan-union level) and the accomplishment of plans and development of comradeship were both important criteria of the assessment of organizations. The planned economy misted the organizational goal and task because it was based on the exaggeration of results and irrational feedback, where the ideological criterion often dominated over economic aspects. One specific

feature could be outlined here – the organizational goals had to be in accordance with the state's goals. Thus it was important that an organization fulfilled goals determined by the state. On the other hand, patriotism was also important in the Soviet organizations. It could be illustrated by the study of the recently from the US and USSR to Israel immigrated scientists (Toren & Grifel 1983). The main difference between these groups was that the “opportunity to contribute to society” was perceived as a social activity and goal by Russians, whereas Americans viewed this aspect as part of professional attitude of work.

Two tendencies can be outlined based on the studies of work behavior in Estonian organizations. Firstly, the importance of interpersonal relationships (comradeship) is always mentioned, and secondly, the rejection of material motives – salary, and the satisfaction with the content of job. The typical result is presented by the Leningrad's (now St. Petersburg) researchers in 1963 - the employees' job satisfaction and workforce turnover were significantly lower in the brigades<sup>1</sup>, where good interpersonal relationships (i.e. high cohesiveness, mutual help) were prevailing (Kuzmin 1967), the later studies confirmed this finding in Russia (Loos 1974, Donskaja, Lintshevski 1979) and Estonia (Üksvärav 1978, Kitvel 1983, Saksakulm 1983). People share emotions and support each other in many respects.

Another example is the investigation of the trade company operating in a rural area and therefore employing predominantly Estonians<sup>2</sup>. The study revealed that the salary and interpersonal

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<sup>1</sup> The terminology for work behavior was influenced by communist ideology. Brigade was the main work unit of several kinds of organizations in the USSR. The collective participation and responsibility for results were the central issues of work organization. This term was a brainchild of the Soviet system and implies the military domain, thus illustrating the underlying philosophy of the Soviet economic system and the prevailing attitude towards employees. It was based on instructions from the top. The Russian term “kadrovaia rabota” (work with staff) is another example, which was used to mark the personnel management. The usage of this term decreased slowly in the nineties in Estonia; however, some managers with Soviet background still exploit it sometimes.

<sup>2</sup> There are representatives of two main subcultures in Estonia- Estonians and non-Estonians. Estonians' group is relatively homogeneous entity which people are living on whole area of country excluding Eastern side of Estonia.

relationships were on the sixth and ninth place, respectively, in the rank of all the reasons of dissatisfaction in 1973, while the displeasure with the profession and emotional stress were among the most important sources of dissatisfaction (Müüjate rahulolu...1975). The latter results and other studies (cf. Jadov, Zdravomõslov 1969, Saksakulm 1983) reveal that the remuneration was not the most important issue for workers.

Two reasons of such an attitude could be emphasized here. Firstly, the remuneration was guaranteed for an employee and the salaries did not depend significantly on operating area, qualification, education, and organizational position (Kitvel 1983). Secondly, there were other kinds of bonuses, which played an important role in the USSR. The welfare (free of charge or discounted prices of some items divided within the organizations, whereas the list of items was impressive: flats, cars, furniture, vacations at sanatoriums, newspapers etc. The improvement of living conditions was considered to be the most preferred kind of bonus and it was followed by the respect of co-workers, and the award of the best professional worker according to the data of the survey of the employees working for construction companies. If an employee had a need for abovementioned means, he or she had to declare it publicly and wait for the time when the trade union, which represented the work organization, collectively decided to segregate the certain good. Doing so, work organizations were taking responsibility for all the spheres of employee's life.

Indeed, in the mid of last century, when the society was simpler than in the eighties, organizations functioned quite well according to the communist rules. Organizations became more complicated and state guided by the communist ideology until it was understood that there

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Non-Estonians are often called Russians but their background varies very much. People from Russia, Belorussia, Moldova, Latvia and other former Soviet Union Republics make up non-Estonians' group which is living

was a need for management training and research. Several institutions were founded in order to foster organizational studies. The Estonian Management Institute and the Mainor Training Centre were some examples of this development (Terk 1997).

We have presented a short overview of historical issues, which have potential impact on the organizational behavior in the context of transformation society. People's mind was influenced by the abovementioned understandings of organizational goals, motivation, work culture, and interpersonal relationships. All these issues had generated the background for the new environment of organizations in Estonia.

### **The Estonian organizations in the process of transformation**

#### *Methodological remarks*

It is clear that the organizational environment changed rapidly in the beginning of the nineties in Estonia and organizations had to react to the new circumstances. This process is usually regarded as the change and it could be defined by using the Jick's expression according to which the change is planned or unplanned response to pressures and forces (Jick 1993). The question is: to what extent did organizations change? It was a transformational change by nature because of the emergence of a new state, however unknown it took shape, and time period was not easily controlled within the changes. The latter characteristics are proposed by Ackerman (1984) as the features of transformational change in organizations. The organizational environment also changed a lot during the transition (see Vadi 2003, Alas 2003, Terk 2000). Although this is a very important aspect, we focus on the organizations in this paper.

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predominantly in the Eastern area of Estonia. From cultural perspective this group is the heterogeneous one.

We analyze transformation of Estonian organizations using the Leavitt's (1964) model of change, which involves four elements – people (performers), task, structure, and technology (tools) (figure 1). This model indicates that change usually has an interactive, dynamic effect on the elements of an organization and thus we believe that it enables to illustrate the variety of transformational issues.

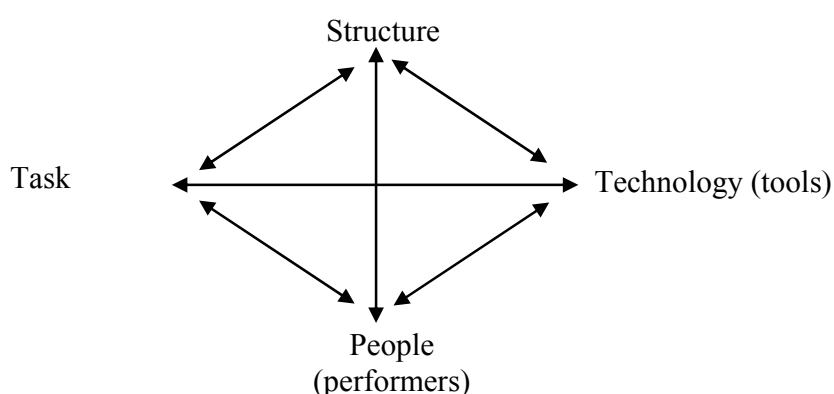


Figure 1. The Leavitt's model of organizational elements

The key word for the article is organisational change. In order to illustrate the structure of the article we would use the so-called Leavitt's Diamond (Figure 1), a model introduced by Harold Leavitt, Stanford University, about 40 years ago. This is certainly a simplified model but it brings together the most important aspects of organisational change we are mostly interested in.

The traditional view of organisations' functioning saw the relative importance of those different aspects somehow like this. The dominating factors are the tasks and technology, these two together determine the structure of the organisation and this one in its turn is the main structuring factor of people's behaviour. The people, the performers, simply have to fit into the structure.

In this article, there is made an attempt to bind together various studies, which may reflect how organizations have changed over the transformation period. The limitation of previous studies derives from the speed of changes, which did not allow the assessment of all aspects. Vadi (2003: 28) wrote as follows: "Too much has happened during this brief period; therefore it is not easy to find the salient events and trends that could serve as a framework for systematization." Secondly, several key researchers of organizations changed their line of activities in favor of business (including training services) and politics when the transition began (see Andrijevskaia, Vadi 2003). Consequently, there were not many research works that were able to reflect the organizational processes in the first half of the past decade in Estonia. We refer to different sources but would like to emphasize one special category of reference composed by the student group, which consisted of 10-15 people from the University of Tartu (Estonia) and Linköping University (Sweden). They studied Estonian firms during one month and the results were published at Linköping University as special issues in 1993, 1994, 1995, 1998, and 1999. It could be considered as a longitudinal study of Estonian organizations.

The environment required change from both: business and governmental organizations. Probably, the change was even deeper in public sector. At the beginning of the 1990s the main tasks of public sector derived from the necessity to establish a new structure corresponding to the tasks of the independent state. Therefore, we tackle to enlighten the developments of organizations in business and public sector.

#### *People (performers)*

Two aspects could be outlined here - the change of mentality and the role of individuals in the transformation of organizations.



The market economy experienced before the World War II was still remembered by the Estonians when the transition began. This is something similar mentioned by Martin: “the starting-points for transformation are defined by experience of both pre-socialist and socialist periods” (Martin, 1999: 2.). He considers that pre-socialist experience would impact transformation because the socialist period represented only slightly more than a generation in many Central and East European countries. Russia is an exception but Estonia also fits into this group of countries. This fact and the feeling of regained independence gave aspiration to the Estonians and empowered their activeness in the society and organizations. It was the driving force of organizations and led to new mentality and the extensive growth of the number of organizations. Jerschina and Górnjak put together different attitudes and found that there was a polarization among the Central and East European countries (1997:105). Estonia was classified as a *Liberal-democracy oriented country together with Czech Republic, Poland, Slovakia, and Hungary*. These societies are less oriented toward leftism, but instead are more oriented toward activism and achievement in economy and politics.

Indeed, the rapid change of mentality characterizes people who had entrepreneurial traits and they brought new ideas to organizations. Usually they had managerial position. For example, Milder, the person who activated the first large-scale privatization of light industry company, described in his interview the logic behind the new approach to selling in 1991 (Vadi 1998). Many cases spotlight how fast and radically some people adopted new thinking (Karu 2002, Vadi 1998). This was discussed in the concluding remarks of the book *Transition in the Baltic States*, where the role of elite in transitional society was presented (Hood *et al.* 1997).

Some organizational members were willing to keep the 'old' understandings as well. The Swedish students were surprised that 'old' mindsets had a strong influence on the work culture in 1993, two years after the time when Estonia regained its independence. They wrote in their report: "Most of the workers in Tartu Flora<sup>3</sup> are women although the work is very hard and dirty. What surprised us when were shown around in the factory was that we saw no workers although we had been told they worked at full capacity. Those who were there did not work very hard, they mostly strolled around. The director said that it is very difficult to change the way the personnel think. "Now people work for themselves, but in the future they will have to work for the company.'" (Andrée et al 1993:133). This vivid example reflects well the atmosphere in several companies, which did not change very fast. Students also carried out a survey in Kreenholm<sup>4</sup> and their impression was that people had a quite vague apprehension of what a mission statement or a business idea really meant in 1995 (Huhtamaa et al 1995).

Altogether, above mentioned ideas lead to conclusion that there was a polarization of mindsets - one group of people coped well with the change of entire society, while the other shared the old approaches to work. They knew from the former times that the workers' salaries were guaranteed for simply being at the workplace.

The similar tendencies were also found in the public sector. Perhaps the greatest problem with the attitudes among the former Soviet civil servants was their selective obedience to law, common for the all so-called Eastern block (Roots, Karotom, 2002:65-66). For example, let us assume that a civil servant, who is responsible for a certain area of decision-making within the limits of his

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<sup>3</sup> Tartu Flora is a chemical company

<sup>4</sup> Kreenholm was one of the largest companies and it dealt with textile

/her positional power, and in accordance with current law and norms, has got a task. He knows exactly how to proceed on the bases of all the rules and regulations. But at the first opportunity, instead of taking the required procedural steps, he tries to find out whether or not some influential persons are involved in this affaire. Then he turns to his/her direct superior and reports that in accordance with legal regulations, there are several steps they should be following, but how shall they act? If the superior says that they solve the case in accordance with the law, then the civil servant shall perform this way. Moreover, he will act quickly and correctly. If the manager says that this question needs time for further consideration, then the civil servant will wait for further instructions. In this case, delay in decision-making occurs not because of any insufficient qualification on the part of the civil servant. On the contrary, he knows very well how to act, but he is still obedient to persons, not rules. Re-training of civil servants provided them with knowledge and skills, but did not significantly modify their existing values and attitudes.

Characterizing the differences between the work attitudes of a public servant and a private sector employee in 1996, the interviewees pointed out that a person engaged in the private sector sets his own aims and is motivated by them, whereas a public servant whose aims of activity are set for him mainly fulfils orders. Where the private sector is governed by the “terror of efficiency”, the risk and the corresponding benefit, the advantage of the public sector is its stability, and the main requirement for a public servant is his loyalty and conscientiousness (Roots, Karotom 1996:55). Interestingly enough, concepts such as public interest, public good, public services and the official as a person who is in the service of citizens, never cropped up in the interviews concerning public service and the civil servant. These concepts had occurred neither to the officials nor to the citizens, being served. The common understanding was that officials were called to dutifully obey the orders given by their superiors, rather than serve the public. On the

other hand, the interviews did not portray the official as a character ruling over fellow citizens – this stereotype had remained in the past because of the turmoil that had shattered the officialdom in the meanwhile. The notion of “good governance” was not widely known yet. The interviewees did not know what the term meant and answers were based on intuition. The pursuit of group interests in government activities, changes of national priorities with every new government, conflicting over-politicized administrative agencies, struggle for power, ruling for the sake of ruling were considered a deviation from “good governance” (Roots, Karotom 1996:49-50).

The large number of people with no previous experience in civil service entered the public sector. They brought about not only positive changes to officials’ value system. Interviewees pointed out the transfer of private sector values and norms to the public sector, no matter how appropriate or inappropriate they were. Former values had been replaced by the principal business value – to make money fast. Public sector professionalism was not valued. *Esprit de corps* and corruption were considered increasing (Roots, Karotom 1996:50). The role of personality and personal power in Estonia’s public administration was remarkable as well. Inter-agency information sharing and co-operation was very much based on personal connections among officials; moreover, top manager’s personal ambitions determined the (factual, informal) boundaries of the jurisdiction of the agency. “The spheres of power are frequently an issue of a person, they are subjective to and dependent on the particular person; spheres of power can be extended or narrowed down at one’s discretion; one may choose what one would like to administer and what not – it depends on interests and being interested, on the pressure of interest groups and lobby work” (Roots, Karotom 1996:53).

Students wrote in their report in 1994: “In *Sangar*<sup>5</sup>, mostly it is one person in the management who does not like changes. The problem is that this person prefers to stick to the old system and refuses to “surrender to the commercial department”. Perhaps the new order is in conflict with the person’s skills and ideology of a person. This is a big problem for *Sangar*, as the general manager has to control what this person is doing all the time.” (Andrén et al 1994: 76) Another example could be *Eesti Telefon*,<sup>6</sup> where people (especially technical, financial, and personnel departments) were against changes because they were afraid of losing their jobs (Andrén et al 1994). One of the consequences of the polarization is that the person and her or his dispositions have significant role in organizational performance. Vadi and Buono (1997) have shown that the Estonians who are likely to play a critical role in transformation of the business sector –are more individualistic than their more traditional counterparts.

People’s attitudes towards organizations and work behavior were influenced by developing democracy and market economy. If continue the already mentioned example of *Eesti Telefon*, then five years later the CEO Jaan Männik, the exile Estonian who got his education and work experience in Sweden, has said in his interview: “it was generally easier to conduct changes in Estonia than in for example Sweden.” (Danell et al 1999: 43). Alas and Vadi (2004) have shown that the extent of how beneficial the change was considered, depended on the understanding of organizational task. It means that the organization members’ attitudes towards change were directly touched by their internalization of organizational task.

### *Task (goals)*

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<sup>5</sup> *Sangar* is one of the largest sewing companies in Estonia, which was privatized in 1993

<sup>6</sup> *Eesti Telefon* supplies Estonia with telecommunication.

The employees' understanding of organizational goal and the corresponding tasks was strongly influenced by the former Soviet ideology in the beginning of the nineties. Liuhto (1991) has compared Estonian and Finnish organizations in the very beginning of the transformation and concluded that Estonian organizations were more production-oriented (vs. market-centered), less cost-conscious, more person-oriented (vs. effectiveness-oriented) and placed less stress on product development compared with Finnish companies. Nurmi and Üksvārav (1994) have noted later that the difference between Estonian and Finnish companies has become smaller since the observations of Liuhto (1991). The introduction of market economy shifted the focus of the goal setting from the state level (in planned economy) to the company level. It involves understanding of organizational goals and resources to achieve goals and accomplishing tasks.

When the changes of a society started, many entrepreneurial people realized numerous emerging opportunities. They wanted to deal with various activities because they believed that it diminished risks and gave possibility to get profits from different markets. Vadi (2003) described an example, where the company's activities involved a large range of potential operation areas: oil-trade, retailing, construction, tourism, transportation, training etc. The enormity of fields of operation, the lack of efficiency and management experience usually resulted in unclear goals and tasks.

Organizational goals and tasks guide employees to the organizational strategy issues, which were underdeveloped in many organizations in the beginning of the nineties. Three reasons could be outlined here. First, environment was unstable. Therefore future perspectives were also indistinct and accordingly it was difficult to design a strategy. Secondly, there was insufficient knowledge of how to draw a strategy. Thirdly, the deficient era devises the illusion that customers are

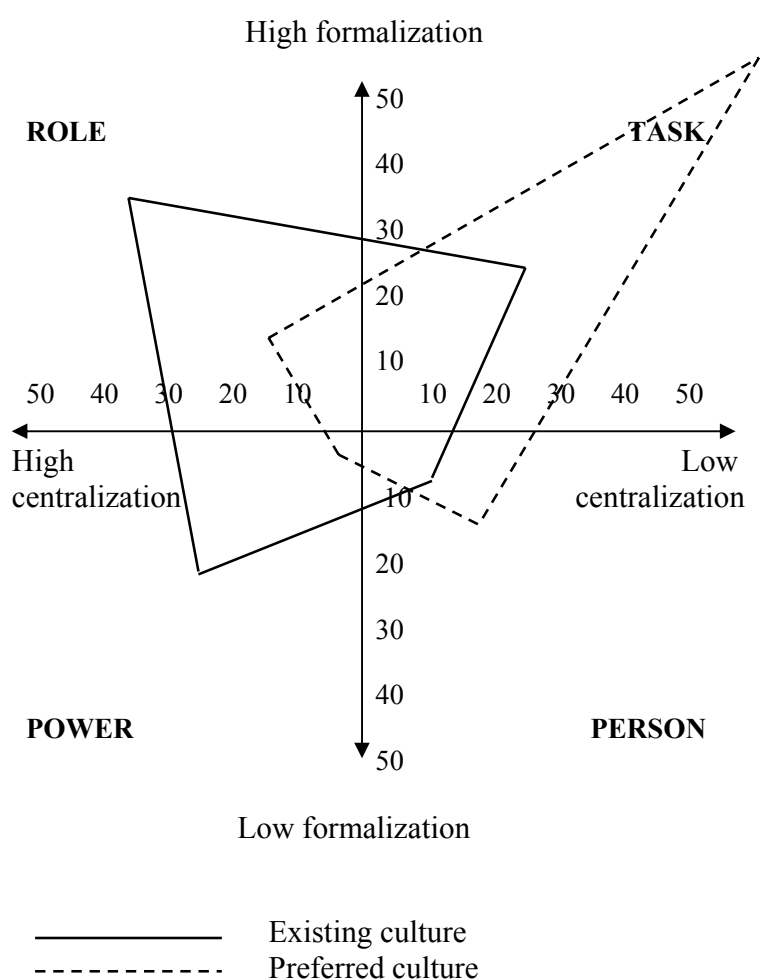
warranted and strategy does not create any value. The latter notion could be illustrated by the case of Eesti Telefon. Students wrote “The company does not need any special strategy to find customers, as the number of interested telephone subscribers is increasing every day” (Andrén et al 1994: 78).

The positive developments in Estonian economy could be illustrated by different indicators. For example, GDP growth was 4.6, -0.6, 7.1, and 5.0 in 1998, 1999, 2000, and 2001, respectively (Statistical Office of Estonia). This growth was triggered by the economic crisis in 1997, which forced to deal with efficiency and consequently, with goals and strategy. Of course, several firms went out of business due to inefficiency. Here the dynamics of the number of commercial banks could serve as an example. According to Sõrg’s data there were 41 operating banks in 1992, 22 in 1993, 24 in 1994, 18 in 1995, 13 in 1996, 11 in 1997, 6 in 1998, while seven banks have been operating since 1999 (Sõrg, 2003). Study of Estonian organizations revealed that organization members’ support to organizational task had increased between 1996 and 1999 (Vadi, Reiljan 2003). There is a reason to think that organizational members respond to the change of environment with increased support to their organizations and organizational tasks.

After regaining independence Estonia had to build up a new sovereign state with a necessary governmental system. The civil service as such was introduced in Estonia in 1996. Before that time the employees in public sector were just “white-collars” without special demands, responsibilities, guarantees and bonuses, typical for the civil service. Effectiveness and efficiency of the public sector was dependent on qualification, motivation and attitudes of people working there. The enforcement of the Public Service Act brought no significant changes to the administrative culture of Estonia’s state agencies. Interviews with a large group of Estonian top

officials, academicians, and representatives of business circles in 1996 proved this (Roots, Karotom 1996:48-58).

Gradually changes emerged in public sector too. At the beginning of the new century the first attempt was made to measure dominating values in management culture using Roger Harrison's questionnaire (Haage 2002; Roots 2003). The method enables treating the understanding of organizational goal.



**Figure 2.** Existing and preferred culture in Estonian public sector in 2003 (n = 125)



Answering the first questions the official is asked to define the main values in his/her organizations: (a) managers' will [power-oriented culture], (b) strict keeping to all rules [role-oriented culture], (c) achievement of goals, excellent task performance [task-oriented culture], (d) workers' interests and satisfaction of their needs [person-oriented culture]. Respondents are also asked to mark their preferences, how the things should be. The results show that public sector has changed quite a lot in Estonia in ten years (Figure 2). Significantly has reduced personal power of managers, which is accompanied by the reduced personal loyalty to a manager. It means that public servant is not valued any more by how he/she offers favors to a manager. Also the results show that the importance of bureaucracy in its "best meaning" has increased. It means that the method of solving problems depended on law, regulations, time-limit, but not on somebody's personal will. The study detected role-oriented culture in Estonian public organizations, in other words keeping to the procedures, had become more important than power-orientation. Task-oriented performance, or one's wish to achieve results in his/her job was nearly equally important. Among the dominating values the people were on last place as they used to be.

So, the existing situation is characterized mainly by role-orientation, "the real bureaucracy" in a good sense. Power-orientation and task-orientation have somewhat weaker positions. However, as shown in the surveys, the most preferred type is task- and achievement-oriented culture. Also the person-orientation should be increased. To the majority of civil servants, one thing that should be done is minimization of superiors' arbitrariness. The emergence of such values and attitudes fills public opinion with optimism about the future trends and developments. It seems that the fear of the "terror of efficiency" expressed by civil servants in 1996 has been overcome. The spread of achievement-oriented values into the public sector should be welcomed, that should lead to efficiency of Estonia's public administration.

Echoing the theme of organizational goal, the clarification of mission is discussed in various respects in our review.

### *Structure*

The first half of the nineties gave several examples of organizations which represented a mix of 'new' and 'old' type organizational structures. Most of the organizations studied by the students had hierarchical structure in 1993 and researchers claim that after the political changes in 1991 possible changes in the organizations had not been addressed. The students' report brings an interesting approach to the organizational structure in Flora. It was company with 75 employees (15 managers and 60 regular workers, the number of employees was 125 in 1991). The director of Flora said "The organization is centralized but in my opinion it is not the ideal structure for Tartu Flora. I would like to have an organization that is partly decentralized to create a sense of responsibility among the staff." When students asked whether there would be a change in the near future or not, he replied "... the structure will not change. There is no need for that" (Andrée et al 1993:130-131). It was not an exception – the same situation was typical to many organizations. The organizational chart was only in the directors' mind nor discussed and written on the paper.

The picture was similar in the public sector. In a very short time there were huge changes in *the structure* of state apparatus. The number of ministries was reduced from 18 to 12 with corresponding consequences for *the people* working there. On the other hand the existing institutions did not fulfill the functions of the state. Every functioning state needs Ministry of Foreign Affairs, Ministry of Defense, Security Police, Board of Border Guard, Tax Board,

Customs Board etc. In these cases Estonia had to start from zero, those institutions needed to be established. This means that quite a number of new civil servants were to be recruited to serve there. Besides that there were remarkable changes in the personnel of those state institutions that continued their existence, such as Ministry of Finance or Ministry of Interior. Over the three years, 1991-1994, 73 per cent of top managers of state agencies, 45 per cent of middle management, 35 per cent of specialists working there were replaced (Table 1). Many former civil servants left for the private sector.

**Table 1.** Estonian civil service in 1994

	Civil servants having academic degrees (per cent)	Civil servants keeping their position	
		less than 3 years (per cent)	less than 1 year (per cent)
Top management	86	73	23
Middle management	85	45	15
Specialists	47	35	13

Source. Roots (2000a:66)

The formalization tactics were very important in order to fulfill the requirements of new type of organizational goals. Personnel selection and training gained the new meaning compared with the Soviet time (see for example in sales, Vadi, Suuroja 2003). Careful selection of employees was needed. Usually plenty of people applied for free positions, partly due to the expectation that new enterprises would be able to survive in the society undergoing reforms. Transition generated unemployment because many old enterprises simply went out of business or they reduced staff in

order to meet efficiency requirements. The President of Board of Estiko<sup>7</sup> said: “in 1991 we employed 1150 workers, now in 1993 only 450. We started firing before other companies. Nobody understood why it was necessary. Naïve belief in the market economy of the USSR was prevailing in community. It was not easy to leave the fellows on the street after 20 years of collaboration.” (Andrée et al 1993:121)

The problem was that the quantity and qualification of civil servants inherited from the former structure was not suitable to fulfill organizational goals. Therefore it was necessary to employ such civil servants and local government official whose qualification, motivation, attitudes and values would correspond to the newly established tasks. Although changes in skills and qualification of civil servants required time and expenditures that question could have been solved without significant difficulties through training and re-training.

Higher education was an obligatory precondition for a managerial position in command economies but had to some extent lost its importance in the first half of the 1990s. In the end of the last decade, higher education regained its high reputation among business people and managers. 86 per cent of top managers, 85 per cent of middle managers and 47 per cent of specialists working in governmental offices had university degrees in 1994 (Table 1). The formal side of the qualification being then not bad however in the actual qualification there were remarkable gaps between “is” and “ought to be”. In 1993 a group of experts from the European Institute of Public Administration made numerous observations of the quality of Estonia’s officialdom and the organization of work in state agencies as a whole (Roots 2000b:53). Among other things it was mentioned that:

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<sup>7</sup> Estiko produced mostly plastic products this time

- Decision-making is excessively centralized; transfer of in-house information is insufficient – medium and lower levels do not know what is going on at the top level; top managers do not delegate obligations, power and responsibility and are overloaded with details; specialists are focused too much on their own narrow field.
- Specialists who have been promoted to managerial positions maintain their specialist-approach in their new office; they fail to understand what management is about, what their new role is; they have no interest in planning, analyzing, developing general policies and strategies; subordinates are left on their own, managers are ignorant of the problems of their subordinates and do not support them when support is required; ministers, in turn, are not interested in the activities and problems of top managers.
- Top and medium level managers have no skills for budgeting; neither ministerial departments nor heads of departments participate in drafting budgets, some are not even interested.

Agencies have difficulties with organizing officials' work and lack the knowledge and skills for routine clerical work. At the same time, training of civil servants started. With the assistance of the EU/Tempus Program, universities opened public administration departments. The Training Centre of the State Chancellery, which mainly provided re-training for the officials for and from local governments, was transformed into the Estonian Institute of Public Administration and started the adaptation courses for the new civil servants and professional courses for top officials. Demand for legal qualification, computer literacy, office management, etc., was very high, but not all the problems could be solved by training. Change of attitudes requires time.

The cross-Estonian conferences of personnel managers started in 1993. This tradition has been lasting up to the present day and it is impossible to underestimate the role of those conferences in the shaping of common sense in the Estonian business society as well as in the public sector and in introducing new methods for HRM activities. Estonia is so small (with less than 1.4 million inhabitants) that certain ideas can be successfully disseminated by this type of events.

### *Technology (tools)*

Swedish students claim that based on their study the technological level was unsatisfactory in Estonia in 1993 and they emphasize the pollution issues as the supporting argument of this (Andrée et al 1993). Indeed, it was one of the acute problems beside other. When transition began, some Estonian companies were technologically quite well equipped, while others - very poorly. The reason for such a variation was in the role of the former USSR. Namely, Estonia was famous for its relatively high standard work culture and thus several so called exemplar enterprises were developed in order to show that the Soviet system was able to create organizations with outstanding technology and work conditions (see for example, Alaküla's 1998 overview about Kirov's kolkhoz<sup>8</sup>). In similar vein, Estiko had a quite good technological level, Tartu Flora had advanced technology for producing pheromones (Andrée et al 1993) as well as Balti ES had machines for making radiography control of products quality and equipment for the Space program (Kase et al 1999).

The other side of the picture is that many small and novice companies had no resources or intent to supply new technology. Here the example could be LMRA, which market share was 30 per

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<sup>8</sup> Kolkhoz was a Soviet-type (mainly agricultural) enterprise, which name derives from the Russian words collective householding

cent of the Estonian total fuel business in 1993 and the company was developing a network of filling-stations but unfortunately, they decided to modify the Soviet type of equipment, which was quite primitive (Vadi 2003). These filling-stations were good enough in the era of deficiency but LMRA failed because as the market economy was introduced, western companies came with modern technology.

The Estonian advantage was that the transformation of technology (more specifically, information technology) started in the world about the same time when it began to develop independent economy and society. It enabled to equip organizations with modern technology without the feeling of losing something very valuable. There were more than 50 owners of mobile phones in the first half of 1991 in Estonia already (Kaubaleht 1991). Eesti Telefon bought most of its new technology from Sweden and from Finland (Andrén et al 1994). The change of technology has been fast in Estonian organizations. Banks were at the forefront in the use of new technologies and they disseminated this attitude to the rest of business society and governmental organizations (Üksvärav 1995). For example, Hansabank has worked out several products, which are very popular among their clients and its Internetipank is used by more than 337, 000 clients (Hansapank 2003). If students conducted profound study of three bakeries in Tartu in 1998, it was concluded that one of the organizations had modern, while the rest (novice and small size) had more handwork based technology (Henning et al 1998).

The new goals and objectives influenced also *the technological side* of the public sector. Internationalization of public activities of state agencies can be considered as a state-building technology. It covers wide use of foreign assistance, experts, and training possibilities abroad. This in its turn strongly influenced *the people* working in those agencies, which were in their

majority computer-illiterate and did not know any foreign languages – the typical heritage of the Soviet period.

To sum up, we agree that the technological level of organizations varied a lot within the country.

## Conclusions

If we accept the view that an organization is in a constant relationship with its environment, it follows that macro-structural changes of economic transition affect the behavior of the organization and its members. In case of Estonia, it can be argued that fifty years of communist ideology and practice have had a marked effect upon organizations and their members, who were unfit to adapt to the current environmental conditions of western corporatism. The design of organizations and their functioning principles varied considerably (figure 3).

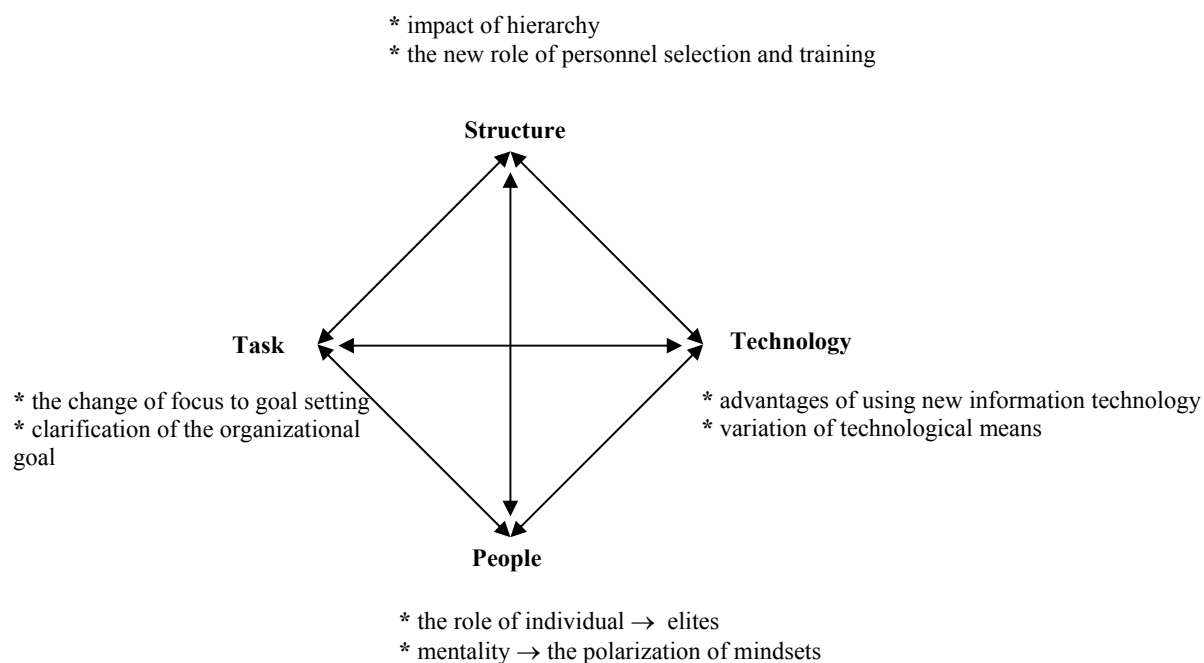


Figure 3. The major aspects of changes in Estonian organizations.



The role of entrepreneurs was very important at the first stage of development, whereas later, when efficiency issues required special attention, managerial competence became a crucial capacity.

Change of the society led to the change of organizations, which had the transformational nature. We have shown that all the elements of the organizations were under the pressure of finding new forms of existence. Indeed, it created tensions for the organizational members on the individual level and there was resistance towards change as well. Organizational goals needed reassessment because of market economy and new functions emerged on the state level if compare those with from the Soviet type of society. Efficiency became an important issue for organizations and they were forced to work out appropriate organizational structure. The hierarchical and rigid structure, which worked well in former society, did not meet the requirements of a new situation. Development in technology had two-fold nature. Information technology firms had an advantage, as they started from the zero, while many companies had to change radically their technology.

Changes in organizations were radical but the speed of changes depended very much on location of an organization within the industry. The most rapid introduction of new structures and management, as well as changes in personnel's behavior took place in organizations, which were established due to the introduction of market economy. Impact of new technologies on organizations varied very much too. Different companies reacted differently to changes in social environment and not all of them could take pace with them.

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