



## PROCESSES OF LOCALIZATION AND INSTITUTIONALIZATION OF LOCAL MANAGERS IN ECONOMIC FUNCTIONS IN DANISH OWNED SUBSIDIARIES IN ESTONIA, LATVIA AND LITHUANIA AROUND THE 21<sup>ST</sup> CENTURY

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**Abstract.** This study identifies interplay between the localization processes and formal as well as informal institutions in a specific context. Particularly the changes over time in institutions and localization processes are in focus.

A longitudinal study of institutional changes in local management has been conducted from 1997 to 2002 among local CEOs, chief accountants and production managers in a Danish SME, using mainly qualitative methods. Data have been compared to primary data from similar companies in Estonia, Latvia and Lithuania.

The study has resulted in establishing a model for comparing interplay between localization processes in SMEs and the formal and informal institutions in different transition and post-transition economies.

**Keywords:** International Human Resource Management, localization, institutions, Baltic states, Danish foreign direct investments, management style, management accounting and accountancy, organizational changes.

### 1. Introduction

This study identifies interplay between the localization processes and formal as well as informal institutions in a specific context. Particularly the changes over time in institutions and localization processes are in focus. Former Soviet countries have undergone tremendous changes in and around the 21<sup>st</sup> century and the transition period is one of the most interesting ones in history, especially in an organizational and institutional management perspective. North has developed an institutional theory of enabling and constraining forces which is found highly applicable in research in the former East European countries (see North 1990; Davis and North 1971; Welter and Smallbone 2003; Xheneti and Smallbone 2008; Heliste *et al.* 2007). The object of this study is to investigate the localization development of a Danish subsidiary in one of the Baltic countries over a five-year period of 1997–2002 as a longitudinal study, using mainly qualitative methods. In 1997 similar Danish subsidiaries in the same geographical area were visited and interviewed.

The two main goals of this study are:

1. To provide a framework for analysing constraints and enabling forces that some relevant institutions can have on localization of people in foreign owned Danish Small and Medium-sized Enterprises (SMEs). This framework and especially the human resource part and the dynamics of it are inspired by research in foreign owned companies in the same geographical area (Heliste *et al.* 2007). The main aim is to compare the outset of development in managing human resources according to the longitudinal study in 1997 with localization in similar Danish subsidiaries in the same geographical area in 1997 and suggest this framework for a retrospective study in the same companies, which all exist today except for one or two of them.
2. To develop the concept of localization in a context of foreign owned SMEs. Literature studies indicate that localizing of people in emerging economies focus on the traditional concept of localization by focusing quantitatively on the number of positions host country nationals have taken over from home country nationals in the foreign owned companies,

or by taking a metatheoretical approach to a dichotomy of standardization vs localization of HRM functions. Furthermore, the concept has often been studied in large companies on a static basis (Worm *et al.* 1999; Selmer 2004; Ervasti 2004). The focus is on possible ways of researching processes and especially changes in management of human resources in SMEs and on changing institutions over time and their influence on particularly one International Human Resource Management issue, i.e. localization of the local managers in economic job functions in a particular organization.

## 2. Research sample and methods applied

An explorative study was done at the end of 1997, using specific ordered printouts from databases of the national Statistical Offices and subsidiary lists from the Danish Embassies. 10 Danish subsidiaries were visited in Estonia, Lithuania and Latvia. Finally one company was selected in a Baltic country, and from 1997 to 2002 Chief Executive Officers (CEOs), chief accountant, supervisor and production manager in the local SME were interviewed (longitudinal study). Ministries, universities and other institutions were interviewed as well as several accountancy subsidiaries in the area.

## 3. Theoretical background

Localization in theory as well as in practice concerns products, profit, production or persons. If the role of accounting, management accounting and budgeting was in focus, the localization of production (or production systems or perhaps even more accurately conceptualized as technology transfer) would be more relevant to use. In this study the focus is on the persons or human part.

In the organizational and institutional change literature on human resource groups with economic work responsibilities in organizations, primarily the role of accounting or management accounting has been analyzed. In this study, it is the specific role of the human resource management within accountancy and management accounting that has been analyzed. Although the environment in the Baltic economies on the macrolevel has been transformed from planned economy to market economy, this human resource group with economic responsibilities has been neglected in research. There is a gap here. According to macroeconomic theory, the localization of managers with economic responsibilities seems to be one of the largest challenges because of two very different economic systems from the outset.

According to literature *localization of management* has only recently been included in International Human Resource Management during the 21<sup>st</sup> century. A considerable part of the research on localization of people (mainly managers) has been done in a Chinese context and an increasing part of the research studies in the Baltic countries are on International HRM issues (Worm *et al.* 1999; Heliste *et al.* 2007; Ervasti 2004; Kazlauskaitė 2007).

The working definition of localization in this study is inspired from a Chinese study by Selmer (2004) and related to the context of SMEs and the different roles the actors in focus have here: *the extent to which job functions, originally the responsibility of expatriates, are filled out by the practices of local actors who are competent to perform the job.*

The original definition from the Chinese study of localization in large companies has been extended with job functions due to this study's focus on SMEs in order to stress that it is not the number of job positions which primarily are of interest. Due to causal relationships, it is recommended to include both an individual and an organizational level in a study of HRM practices, and this approach is used in this study (Kazlauskaitė 2007). Expatriates and local managers' skills, attitudes and behaviour in accountancy, budget making and management accountancy are included as an important part of the study because these three attributes are relevant for the localization processes. Besides, the fourth relevant function is: *Method of learning* (Harry and Collings 2006). Focus is on the managers. According to theory "the staffing of a subsidiary (will) have a significant impact on the nature of the international human resource management policies introduced within the firm which will in turn impact on the final configuration of the management team in subsidiary operations" (Scullion and Linehan 2005). The staffing theory of Perlmutter (1969) was found especially relevant in the study of the top management team in the Danish subsidiaries. The daily organizational practice will be influenced by the management style due to the impact on behaviour and therefore classical theories of management style are found relevant, including specific management styles in a former Soviet system context (Liuhto 1999; Tafel and Alas 2007). In the analysis "Transition in the Baltic States" it was stated in 1996 that: "It is now a generally shared view that the progress of East European economies towards a market economy has not been as smooth as initially expected" (Hood *et al.* 1997). The theory of Davis and North (1971) is found most suitable in such a turbulent economy as the Baltic countries during the years investigated because both

informal and formal institutions are included contrary to many of the other known institutional theories, and both kinds of institutions were under pressure during these years in focus. According to Mygind (1996):

*“The transition is unique in history. It combines a political transition to democracy and a fundamental change of economic system from plan to market. No economic theory has been designed so far which enables us to grasp the complexity of the transition”.*

In the context of such a historic complex development the situation in the organizations can be seen as revolutionary or transformational, as some researchers name a break with the past (Burke and Litwin 1992).

The interplay between the institutions and organizations is the focus of the theory of North (1990) as well as of this study. North’s (1990) institutional theory was consequently chosen as the main theory. Other theories mentioned above on organizational change management are also relevant to the analysis. An interesting claim by Welter and Smallbone (2003) is adapted in this study as a working hypothesis: *“(with) the lack or inadequacy of effective formal and informal institutions appropriate to emerging market conditions, the predominance of “old” (i.e. unchanged) informal rules and incompatible formal and informal institutions assist in explaining certain characteristics of entrepreneurship as well as certain forms of enterprise behaviour in transition economies”.* The localization process is defined in this present study as the development, training and education of local managers within the management functions of management accounting and financial accounting. This accounts for both an individual and an organizational level. In a planned economy the organizations referred to authorities higher up in the system, contrary to a market economy.

Three kinds of information are:

1. Retrospective information – accounting, statistic and techno-operating data.
2. Prospective information – plans, prognoses, etc.
3. Reference information – standards, norms, parameters, etc. (Bailey 1988).

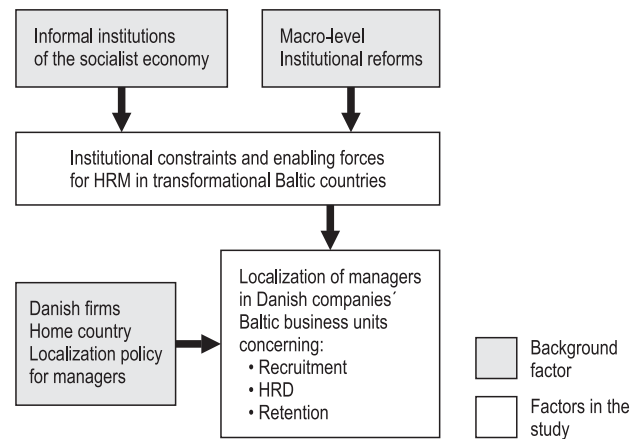
These three kinds of economic information are all contained in Management Information Systems of organisations. Based on these categories, job functions in the focal SME that were found especially relevant are related to accountancy (Retrospective information) and management accounting (all three categories).

Few investigations have systematically performed a longitudinal study of managers in the same geographical area. One study was made in the ’90s in a Finnish company in Estonia (Liuhto 1999). Heliste *et al.*

(2007) used a retrospective approach and examined how North’s (1990) institutional constraints on the HRM policies of Finnish investors change as transition proceeded in Estonia and how the foreign investors responded to these changes.

Management is defined as the specific tasks and authority given by the parent company. Leadership is the way the leader motivates, communicates with employees and points out the direction, etc. in daily practice. Leadership and management combined are in theory dealt with as different leadership styles (Tafel and Alas 2007).

The theoretical model used in the study is presented in Fig. 1.



Source: Inspired by frames of model Davis and North (1971)

Fig. 1. Conceptual model of the study

Focus is on the Institutional constraints and enabling forces for HRM in transformational Baltic countries and on localization of managers in Danish companies’ Baltic business units. Localization concerns the three traditional HRM functions; recruitment, retention and especially Human Resource Development (HRD). These three functions are presented in the study of Worm *et al.* (1999) from 1999 in China.

#### 4. Formal institutions and legal environment

Education is conceptualized as a formal institution. The Baltic education system has been promoted as the main factor for success in the Baltic countries during the ’90s (Mygind 1996). The education of accountants during the Soviet time was mainly a book-keeping education. Subjects such as cost accounting were not part of the curricular. Education of planners and budgeting people took place outside the accounting education and their institutions. This sharp division was also maintained in

education and in the local companies and in daily work practice during the '90s. During 1991–2004 the general development of business law can be described in the following way. In the beginning business law still was influenced by the prevailing Soviet time law. During the years to follow the institutional situation changed dramatically; “13 years ago it was, after all, rather easy to write about business law, since the reforms were just starting and the Soviet time law was still largely prevailing. However, during the years to follow, the parliaments of the Baltic States have become real law factories, giving a feeling that they produce new laws at a rate some factories produce cars” (Tafel and Alas 2007).

At the end of the 1990s the legislation was essentially different but with the political goal to be members of the European Union the process of harmonization to the *acquis* started. At the end of the period, investors from EU countries could more easily relate to and understand the law systems. However, the many law changes also had to be implemented in practice in the companies. The numbers of i.e. new accounting laws during the 1990s exceeded by ten times the normal rate of changes within the accounting community in EU countries.

### 5. The management style and the three different time periods

The different time periods in the analysis follow the changes in top-management in the subsidiary. This is due to important changes in management styles, according to the analysis below. The Danish parent company (Head Quarter, HQ) of the selected organization decided in the early 1990s to establish a local production in one of the Baltic countries. The parent company was well established in the Danish market with a large export, mainly to a few large customers on the German market. The production both in Denmark and in the Baltic country was furniture for the same end consumers. Much of the raw material (logs) came from other Nordic countries and the former Soviet Union. The subsidiary “Eastwood” was established in the Baltic country in 1994. During the next five years, two production sites for furniture were built, a pellet factory and a saw mill in the same area.

In November 1997 the CEO had until recently been a Russian national but during the summer the Head Quarter decided to send a Danish manager to the subsidiary.

How the newly arrived Danish CEO perceived the situation at that time can be illustrated by his statement:

*“There are some existing structures and structures, you experience run around you, when you come over here. It can be that you are promoted as the CEO but in the beginning I felt that I simply stood in the middle of a typhoon and it was quiet because everything went just by me. (It was like) all information just blew right by me”.*

This statement can be analyzed in two ways. Firstly, the structures referred to can immediately be categorized as primarily informal institutions in the organization such as “channels of information”. This is confirmed later in the interview where he is talking about the local employees and managers who might not want to bother the newly arrived Danish manager with what the Danes might consider to be irrelevant information. Instead the locals informed the former local Russian CEO, who had had a very personal and regular contact with his immediate managers in the organization. The Danish CEO said about his management style:

*“The only thing he (the Russian manager) is interested in is to lead people. He uses a lot of time talking with people and the like. He has an unbelievable, flat organization”.*

This kind of leadership has been observed in a similar Danish owned production company in the Baltic with a CEO also of Russian origin. Liutho (1999) called this particular leadership style the “Sovieticus management style” and it will be used here to characterize the management style before 1997 in this particular organization, see Table 1. In the process context this management style could be considered similar to “Transactional management” (Tafel and Alas 2007).

Secondly, another aspect of information is the power. The one having information was the one with the most secure power base in the organization. Information was probably more important in former East European organizations than in Danish-Western organisations, according to researchers in this geographical field. The existing structures could be considered formal institutions *inside and outside* the company. If power is considered during the Soviet time, the only three persons in the organization who could sign a paper to outsiders were the CEO, the Production manager, and the head accountant. This was called the “Troika” (Berliner 1968; Liuhto 1999). This Troika obviously had a great deal of power. Important information about the environment relevant for the organization could be kept inside this Troika. The above analysis could indicate that the Danish CEO was *prohibited* from undertaking activities. On the contrary, being in this position (in the middle of the typhoon) the manager actually could feel *more freedom to act*. Under certain condi-

**Table 1.** Important changes in the institutional framework and localization of management

	Pre-transformational		Transformational		Post-transformational?	
Organ. form	Governmental		Restructuring		Corporational	
Year	1994–1996		1997–1999		2000–2002	
Mgt.style	“Management Sovieticus”		Authoritative		Transformational	
	Institutional framework	HRM Activities	Institutional framework	HRM Activities	Institutional framework	HRM Activities
<b>Recruitment</b>	<b>Formal:</b> Education in a planned economy. <b>Informal:</b> Job requirements.	Soviet network.  Soviet “Troika” team.	<b>Formal:</b> Education inadequate. Language problems. <b>Informal:</b> Lack of cost consciousness.	Job description. Local schools. Job-shoppers. Ethno-strategy; young Danish manager team, new “Troika”.	<b>Formal:</b> – same as in 1997–1999 <b>Informal:</b> Net-working.	Older mgt. team
<b>HRD</b>	<b>Formal:</b> Law in the making “Duty of explanation”. <b>Informal:</b> Resistance.	Close and personal contact to every manager	<b>Formal:</b> Frequent law changes. Cash – accrual. <b>Informal:</b> Informations.	Move of administrative functions. Apprenticeship in administration in HQ. Danes asking questions. Training in HQ. In-company “soft” courses.	<b>Formal:</b> Accounting framework.  <b>Informal:</b> Initiative taking increasing.	Apprenticeship in production: Transfer of management skills in daily practice. ”We-spirit” and team work. ”Going native”. Corporate in house Newsletters.
<b>Retention</b>	<b>Formal:</b> Detailed jobs. <b>Informal:</b> One’s position.	Personal ties.	<b>Formal:</b> Abolition of central wage setting. <b>Informal:</b> Job-hoppers.	Learning company specific.	<b>Formal:</b> Lay off difficult. <b>Informal:</b> Rewarding norms.	Local recruitment.

Source: Inspired by frames of models (Heliste *et al.* 2007; Shanikat 2007)

tions some individuals are permitted or *enabled* to take action (North 1990) as expressed by the CEO:

*”When we move the administration out here we have the possibility to do things the way we want, i.e. create necessary new structures. And if (by doing this) we downgrade some employees, we do downgrade some employees”.*

This situation of vacuum actually gave the Danish CEO the freedom to act. His interpretation of the situation above also illustrates very well the interplay between individuals and structures. With “some employees” the Danish CEO primarily was referring to the old Russian manager and his production manager at the old plant. Besides, the head accountant decided to quit her job. In this way the old “Troika” in the former organisation was eliminated in a very short time by changing the physical location of the administration. The initial re-

placement of local managers with expatriates is in line with the findings in Heliste *et al.* 2007 surveys. With the Danish CEO’s arrival and the initiatives in 1997, the management style changed. At the organizational level, Eastwood had strong similarities with the Soviet organization due to the fact that sales were exclusively the responsibility of the Danish Head Quarter’s Sales Department. In connection with information needs this created a similar situation as in former Soviet times. In theory the Soviet entity “... is confronted with the production problem of determining how best to convert specified material inputs into specified outputs with the given production facilities and manpower. Consequently, the socialist enterprise is orientated to(wards) production possibilities and not (towards) commercial possibilities” (Bailey 1988). As an example, both in 1997 and in 1999 the CEO had focus on reduction of waste in the production, although in 1999 not as

profound as was the case two years earlier. However, production issues were still dominating. In 1999 the CEO had recently introduced a detailed list of tasks for the employees in the production. This is seen as an important tool in the Authoritative management style. Directives and regulations are profound as management tools according to this management style (White and Lippit 1953). Information flow on economic issues with relevance for the management had improved, but the CEO was not satisfied with the implementation of management accounting because the middle managers did not use it in daily practice, and he had to ask for the information regularly. The two production plants had younger Danish production managers. The saw mill had an Estonian national manager because it was not possible to find a qualified Danish manager, according to the CEO. The subsidiary had hired an Estonian national chief accountant the year before (see next chapter on recruitment). In 2000 the former CEO had left for another top job in Eastern Europe. The new CEO was about 10 years older and had former experience from expatriate jobs in economic functions (in Western countries). The production manager at the “old” plant was also replaced by a former expatriate. He had been production manager at another East European plant and was about 20 years older than the former Production manager. The new CEO gave priority to the “old plant” in the future planning contrary to the former CEO who found that the expansion of production should be at the “new plant”. The new Danish CEO was highly in favour of the management style of the Danish production manager, who had a very close eye on every shop manager and had contact with all key persons at the plant practically every day. He had a very direct way of communicating and gave a hand to each of the key persons when he met them in the morning and at shifts. The CEO was certain that the local personnel saw this gesture as a sign of respect for each one at the plant.

Quality improvement systems had been introduced since 1999 and the focus on waste was not as profound as during the earlier CEO.

## 6. Analysis of recruitment

In 1997, after staying in the subsidiary for 6 months, the Danish CEO had the following general comment about recruitment and attitude:

*“Our biggest problem is education. That is education and attitude. This is probably the biggest problem... There are incredibly many people coming here looking for a job. You can see it already when they arrive that they will never fit in here because they do not have the right attitude”.*

General education such as accounting education at a business college can be defined as an institution (North 1990). In general education, the curricula, etc. are formal parts of the institution education. However, during the education the student learns informal parts as the ethical codes of conduct, including the “right” attitudes and certain behavioural patterns related to that education (Larsen 2002). Regarding the accountant job, the CEO had the following comments about accountancy and about the accountant who had just decided to stop at Eastwood the following month: *“She has a book-keeping education. I do not know what it is. ...She has worked before. She is really careful with things. Things have to be correct. No problems there. But the understanding of it being a tool for me and for the other production chiefs lacks. But the local accountancy staff has probably never understood what the figures can give of information. I mean what the figures can give of management responsibility”.* Regarding skills and attitudes of the new accountant, the CEO gave a kind of job requirements for the coming accountant: *“We are now in the process of finding a person with hopefully some different qualifications and attitudes than those of the one I have had so far. But we probably have to find an accountant in (the main capital) and pay for that. This issue is so important for us here”.*

Competences and the “right” attitude seemed to have equal importance in the view of the CEO. Important was also that the organization was ready to pay well for this. At that time it was not uncommon that the organizations paid more for a financial manager than for the CEO. Even the most prestigious schools had a hard time retaining teachers in accounting and economy. The “right” attitude of the accountant is elaborated in the next chapter on “Development”. A new chart of accounts had to be made so that the requirement of the new Danish management could be met. That was the case in all the Danish companies visited in all the Baltic countries. During the Soviet time the same chart of accounts was used in all the companies, meeting the reporting demands of official authorities. This requirement of the authority had been the main one met by the accountants. This situation was pointed out by the CEO in 1999 when sometimes he questioned the recommendations given by the accountant about handling the local authorities. In 1998 a new head accountant was recruited. And in 2002 the same head accountant was interviewed again. See the next chapter.

During the same period one of the four foremen at the new plant was promoted to shop manager, when the right-hand man of the production manager stopped. The main function of the right-hand man since 1997

had been to translate and communicate with the foremen. Due to the improvement in English of the local managers (except for one), and the improvement of the Danish production manager in the local languages this function became less and less important.

## **7. Analysis of HRD activities in Eastwood**

In 1997 the organization had established an education classroom. Speaking a foreign language was a big problem and the employees got a raise if they could speak English. In 1997 the accountant attended a kind of apprenticeship as in-house learning when the financial manager from the parent company visited Eastwood and sat down for hours together with the head accountant. In 2002 managers in production visited the parent company in Denmark. The aim was not only to see the technical solutions in the production in Denmark but also to learn about the “Eastwood spirit”, see below under “Development”. The Danish production manager at the new plant explained what he considered a necessary method of learning during 1997–2000. If a machine did not work well (the waste rate was too high) then he went on the floor showing the employee how the machine should be handled. *“The staff does not learn how things are supposed to work if the boss just wants to walk around in his clean shirt and is afraid of getting oil on his hands”*. In this way the key persons at the plant, i.e. the shop manager and his right-hand man observed the way their closest boss preferred how to practice leadership in the daily organizational life, and the shop manager expressed the same attitude towards the “right” method of learning as the production manager. The shop manager participated together with the production manager in most of the activities as manager: job interviews, negotiations on salaries, planning of next years production, weekly meetings with foremen at the plant. Except for meetings once a week with the CEO. However, according to the Danish production manager at the plant and the local shop manager at the same plant, the main purpose of these weekly meetings between the production managers and the CEO was to provide the CEO with the current production figures in order that he could meet his reporting needs towards the HQ. The CEO reported once a month to the HQ.

### **7.1. Development**

About taking responsibility in the organization and risk taking the CEO said in 1997: *“Had it been up to the (locals) then it had been completely different...Then we had not implemented (the management accounting system) this year because it has to be waterproof and*

*they do not want to take any risks at all. It is seldom, you see (locals) try and make error (learning).*

Related to taking responsibility is showing initiative, and as regards reporting the manager had problems getting the relevant information from his key employees. *“I have to ask for status. You can ask and ask but nothing happens. You need to find information yourself; they do not themselves submit it as in Denmark”*.

In relation to formal institutions it was problematic to empower local managers because of the “duty of explanation” which was formalized as a law in 1993 (Heliste *et al.* 2007). The employee was obliged to explain in writing what went wrong and/or the observers of the event in the organisation. Consequently the employees were reluctant to take initiative, risk to do errors and then have to explain what happened and according to the law perhaps risk a penalty. The duty of explanation is considered a part of an accountability system in a subsidiary-HQ relation. Formal institutions within accounting in the Soviet time were altered during the '90s but informal institutions originating from the old formal ones were still profound in the mid '90s.

The CEO told about how the local managers did conceive situations based on former systems and institutions, which did not exist any longer.

*“We had a situation. We wanted to inform our employees and made some graphics, i.e. where you have the budgeted amount beside the realized sales. One of the shop managers came up and asked if we had delivered everything they had ordered from Denmark. What he meant was comparing the orders, which were a kind of delivery security. They could not understand that you had some sales budgets and you planned to sell so and so much”*.

An example of direct interplay between informal institutions which could be traced back to the former formal institutions and organizational practice was also presented by the accountant during an interview in 1999. During the Soviet time cash payments were widely used and the accountant had to sign these payments. The new accountant was very upset about the fact that in the relation between the parent company (who had the sales) and the subsidiary there were no cash payments. This was not legal, according to the accountant.

This has some relation to the accrual basis of accounting, which had been used in the Soviet time. But after 1997 this rule was not mandatory any more in companies in the Baltic States. The interpretation is therefore that the head accountant was aware that the power ba-

sis of the role of the head accountant was diminished in organisations relatively to the situation during the Soviet time. At a visit in 1997 to a Danish textile subsidiary in Latvia, which was managed in the former Soviet time style, the head accountant there stressed heavily the importance of the head accountant's cash function in the company. Cash withdrawal could only be made if the head accountant had signed the relevant papers. The diminishing need for cash payments between corporate entities therefore meant less power to the head accountant. Furthermore, knowledge of the corporation which the subsidiary company was a part of now, seemed to be insufficient for the head accountant in 1999. She said more than once during the interview that she wanted to study more about the Danish corporate system but that was hard to find the time during the day. A huge amount of new laws in accounting caused this withdrawal to old practices stemming from informal institutions; see the earlier mentioned working hypothesis (Welter and Smallbone 2003).

In the production the most important thing learned by the Danish management was that knowledge of rules was important. One key person was fired because he did not do tasks which were not described in his job files, but which were ordered by the production manager. The court decided that the sacked key person should have several months of pay as compensation. The accountant started with an "us" and "them" attitude towards Denmark in 1999, but in 2002 she expressed a much more "whole" view of the total organization telling about the spirit of Eastwood. She concluded that it was "*learning, learning and learning*". She considered that there was no discrepancy anymore between practice in the HQ and the subsidiary regarding reporting.

## 8. Retention

From 1997 until 2002, the main part of the members of the organization changed, but not in the accounting department and within middle management of production. Job-hopping did not seem so popular for this group. All were from the regional area maybe that was a reason. During the period the shop manager's influence on planning increased and he expressed his satisfaction about this. This confirms the theory mentioned by Worm *et al.* (1999) that retention is a "result" of training and development. See also Heliste *et al.* (2007).

One foreman was fired but after some years he returned to Eastwood. He then became the best foreman they had, according to the production manager.

However, during the whole period the organization experienced huge competition for the best managers and skilled workers, especially among the foreign companies. English speaking people were in high demand as an important skill.

## 9. Conclusions

The results of the study can be summarized to be a model for comparing interplay between localization processes in SMEs and the formal and informal institutions in different transition and post-transition economies (Table 1). The overall findings on the institutional framework are much in line with the Finnish study by Heliste *et al.* (2007), while the HRM on the micro level shows some interesting results not formerly known, especially regarding the HRD activities in SMEs. The apprenticeship model used in "Eastwood" fits well with the local practices in the furniture industry at this transformation period in the Baltic countries during the 1997-2002 and indicates some interesting perspectives in other change processes when the perspective is longitudinal. An important consequence of the Apprenticeship or Master learning method in subsidiaries is that the future local managers are introduced to a more narrow set of methods than if they attended an education with a broader set of leadership behaviours or tools. The organization can tie them to stay (retention high) which can be an important and competitive advantage in the current situation of low unemployment and lack of qualified middle managers. At the individual level the employee can have a harder time finding a new job suitable to the learned leadership way and makes job hopping more difficult.

Other significant changes in the period of the study are that the Soviet Management was replaced by a team of Danish managers. The Danish assumptions of best practice in accounting were not met. The Old Russian top management (Troika) was eliminated. The movement of the administration to the new production site led to a top down management. This fitted well with the former Soviet System of information flow. Key persons in the subsidiary are still today in the subsidiary, local personnel have retained their positions and expanded their functions.

Comparing the results with the 9 other Danish subsidiaries, the local management of these companies experienced the same constrains with formal institutions at the macrolevel within accounting personnel, and at the organizational and institutional level some informal institutions were well known. The education of accounting personnel did not match the needs and assumptions in 8 of the 10 subsidiaries.



A retrospective study of the 10 subsidiaries, which still exist, except one, is highly relevant with the aim of analyzing if there are important similarities and differences between the Eastwood analyses and the model developed in this study. Furthermore the number of Danish subsidiaries could be extended.

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