Managing a Cross-Institutional Setting: A Case Study of a Western Firm's Subsidiary in the Ukraine

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Abstract:
This study explores the development of a Western firm’s subsidiary in the Ukraine and sets out to contribute to the theoretical development about the managing of subsidiaries in the Post-Soviet market. The cross-institutional approach to analyse the subsidiary has been adopted to explore influence from the institutional setting of the parent firm and from local institutions. In the theoretical framework, special attention is directed to studies analysing the challenges that Western firms encounter when operating in the Post-Soviet market. Institutional theory therefore serves as a framework for theories on market entries, networks and management transfers.

The empirical study is based on a case study conducted in connection to a training project for local employees of a Western firm’s subsidiary operating in the Ukraine. Besides being a source of inspiration, the training project provided good access to respondents and insights about the challenges that the subsidiary faced.

The analysis shows that the introduction of the Western firm’s management in the subsidiary reflects in the local employees’ forming of identities. A clear pattern is that local employees’ development of identities in line with the Western firm’s norms is supported by socialisation in settings dominated by the Western firm. A setting dominated by conflicts between Western and local norms, in contrast, resulted in developments of conflict identities. The analysis of the subsidiary’s managing of influences from the local institutional setting indicates that this concerned filtering. Striking was that the subsidiary was successful in managing influences when the filtering conditions were characterised by consonance. Looking into aspects making the filtering of external influences difficult, the analysis points out barter trade and local actors’ boundary spanning towards authorities in the Ukrainian society as aspects creating dissonances and vacuum. Thus, influences characterised by dissonance and/or vacuum made it particularly difficult for the subsidiary to manage these influences.

One of the major contributions of this thesis is the cross-institutional approach to analyse developments in a subsidiary in the Post-Soviet market. By applying this approach the study suggests that the managing of a cross-institutional setting concerns both internal and external boundary spanning. Of vital importance for the internal boundary spanning are issues influencing local employees’ forming of a ‘we’ with the Western firm’s representatives. The standpoint is that this concerns local employees’ identity identification, which is a new perspective on management transfers towards a subsidiary in the Post-Soviet market. Concerning the managing of external boundary spanning, the study points towards the importance of observing local actors’ ways of dealing with dissonances and vacuum in local networks.

Key words: Boundary Spanning, Consonance, Cross-Institutional, Dissonance, Filtering, Filtering Conditions, Identity Identification, Institutional Influence, Networks, Norms, Post-Soviet Market, Power, Screening, Socialisation, Vacuum.
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1. THE CROSS-INSTITUTIONAL CHALLENGE

1.1. THE STORY OF A WESTERN FIRM ENTERING THE POST-SOVIET MARKET

1.1.1. The Soviet Legacy

The break-up of the Soviet Union on December 31, 1991 resulted in dramatic changes for local enterprises, as the transition from a planned to a market economy involved the disintegration of the entire economic system. For Western companies the removal of the Soviet system meant that governments in the former Soviet republics began to open their markets and attract foreign investors (see Michailova, 2000). However, although the Soviet Union formally ceased to exist from this date, much of the structures that characterised the Soviet Union remained. In particular this has been apparent in the reforms to transform the market structures, as these reforms have challenged many of the former system’s structures and principles (see Suhomilova, 1999). Thus, there is a legacy from the Soviet system that influences market development, and hence, relations between foreign investors and local actors.

The legacy the reforms have challenged concerns the remains of Soviet institutions like the GOSPLAN. This institution served as a central unit for planning and the setting of production goals and therefore channelled influence from various party committees to the state owned enterprises (Granick, 1960; Sutela, 1984). With the changes the state owned enterprises lost contact with actors that co-ordinated the flow of goods between suppliers and customers at the same time as state subsidies were cut (see Rondinelli & Sloan Black, 2000). Hence, local companies have been forced to adjust to changes in the society’s macro structures and abandon traditional priorities of fulfilling centrally planned production volumes. However, although the changes have been dramatic there are few signs to indicate that the business sector in Post-Soviet society has been restructured in accordance with the reformers’ plans (Akimova, 2000). Unstable legislation and unpredictable economic development characterising the transition process have created an environment where managers in local companies have maintained relationships with the central authorities. Thus,

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1 According to Gleason et al. (1999), writers have used words like breakdown, meltdown, disintegration, crumble and collapse to describe the dissolution of the Soviet Union, while it is difficult to identify any particular date. In their view, the dissolution is rather a series of events starting from the Estonian parliament’s assertion of sovereignty on January 17, 1989 when the parliament also vetoed Soviet laws.

2 GOSPLAN (Gosudarstvennij Planovnij Komitet) was the governmental planning committee in charge of planning and monitoring of Soviet companies’ production results.
institutionalised management practices have survived the reform efforts and created an environment with both continuity and change.

Companies from the Western market institutions entering the Post-Soviet market are therefore likely to encounter a legacy from former structures, which are evident in local management practices and structures controlling business relations. The standpoint is that this constitutes an institutional legacy that influences subsidiaries established by Western firms–this study sets out to explore one such example.

1.1.2. The Challenge of Entering the Post-Soviet Market in brief
Many of the multinational enterprises entering the markets of Central and Eastern Europe chose the strategy of acquisitions and the formation of alliances with local partners (Gleason et al., 1999; Rondinelli & Sloan Black, 2000) when these markets opened for foreign investments during the 1990s (see Djarova, 1999). Within these markets, the privatisation of state owned enterprises and the growing entrepreneurial spirit have been regarded as activities and sources of energy creating wealth in environments traditionally hostile to entrepreneurial activity (Peng & Shekshina, 2001). Recent developments in countries like Poland, the Czech Republic and Hungary provide many examples of progress with measures supporting market dynamics that have attracted foreign investors. In many of the former Soviet Republics3, however, developments have not followed the course anticipated which has delayed the incoming firms' returns on investments. What many of the large international enterprises have discovered in their local subsidiaries is that the management game in these markets follows its own institutionalised rules with strong influence on the development of subsidiaries (see Slater, 1996; Michailova, 2000).

The international enterprises that have entered emerging markets in the former Soviet republics are (in general) large corporations with financial resources and long experience of operating on the international arena (see Gleason et al., 1999). These large corporations have developed technologies, organisational structures and managerial principles which they transfer to the markets they enter (Casson, 1994; Slater, 1996). The transfer of these structures and principles might be problematic, as the incoming enterprises have developed from an institutional setting, which is different from the institutional setting in the local markets (see Casson, 1994; Kostova, 1999; Michailova, 2000). From the perspective of the entering firm, the new units are established in societies where social infrastructures have strong links to the past with new structures under formation.

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3 This does not include the Baltic States.
A further aspect of the changes is that the instability caused by them makes the market development difficult to predict, as there are counteracting forces in the process of change (see Michailova, 2000). Together the changes and the counteracting forces create an environment that cannot be compared to forces on the established Western markets where there is a fundamental understanding of business with established structures to handle firms’ basic needs (see Golubeva, 2001). Managers in incoming firms might therefore encounter processes in the local societies coloured by stability and change, progress and backwardness, which makes management of the operations difficult.

A question for further exploration is whether a Western firm’s organisational structures and managerial principles are applicable to the institutional setting of the Post-Soviet market. At this point, however, it suffices to note that the magnitude of the differences between the incoming firm’s guiding principles and the principles guiding actors in the Post-Soviet market require different measures compared to those used for analyses of market entries in the West (where the economy functions according to market principles). Consequently, the standpoint is that when analysing firms that enter new markets in the West it might be sufficient to analyse some specific market aspects, as the economies and the legal infrastructures in Western societies show similarities and are well anchored in social institutions.

Therefore, given the preconditions for changes on a social level, we need a broader perspective for analyses of firm’s entering the Post-Soviet market (see Newman, 2000). This is also what motivates an analysis of institutional dimensions as the issues in force concern the interplay between legal aspects, ways of handling financial transactions between firms (Meyer, 2001), and aspects guiding business networks and managerial principles at an organisational level. In this sense, like Newman (2000) and Meyer (2001), I find it important to explore how the local institutional setting influences local business networks, as this constitutes the environment in which the subsidiary performs its operations. Thus, what is indicated is that the local setting is likely to have a strong influence on the subsidiary’s development.

To comprehend the problems actors on the Post-Soviet market are facing we must briefly consider the former system’s foundation. Lavigne (1995) identifies three criteria that characterise planned economies. Firstly, in the socialist economic system economic life was under the control of one single party. Secondly, economic institutions were based on collective, or state, ownership over the basic means of production. Thirdly, central planning was the

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4 This argument has also been presented by Eliasson et al. (1994) and Meyer (2001) in their discussion on what motivated an institutional perspective to comprehend the active forces in the Eastern European transition economies.
co-ordinating mechanism by which the party could control economic activities (see Hedlund, 1992; Kornai, 1992). A common standpoint of these researchers is that the collapse of the former system already started in the seventies, i.e. it was not a functioning economic system that collapsed when the Berlin Wall fell in November 1989. Thus, there was no sudden collapse of the planning institutions as suggested by Meyer (2000). Consequently, we cannot view the transition process as being a process between two functioning systems, as this might cause us to underestimate the challenges actors in these markets are facing.

It is of interest to observe, therefore, that the opening of the markets in the former Soviet Union was preceded by a longer period of economic decline (see Lavigne, 1995; Slater, 1996), and when the markets opened, Western firms saw great opportunities in markets that had previously been out of reach (Rutihinda, 1996). The perceived opportunities were based on the Western firms’ advantage in their production technology, high quality products and knowledge of how to market their products. The governments in the former Soviet republics saw, from their side, a need for foreign investments as they were well aware of the local (state owned) enterprises’ competitive disadvantages (McMillan, 1996; Slater, 1996). What later became evident was that local politicians were unaware of the needs of foreign investors who came to face huge challenges in the Post-Soviet market’s complex and unstable business environment (Fuxman, 1997, Michailova, 2000).

Looking into the changes, it is essential to observe that the changes also involve a change of mentality. Seeking to understand aspects behind the need for a change of mentality, McMillan (1996) noted that the propaganda machine during the Soviet era taught the citizens to mistrust the intentions and activities of foreigners. Pointing out this problem, McMillan (1996) indicated that when the Soviet Union acted as a superpower that could show its technological and economic achievements, it was easier to accept foreign business involvement. Once it became apparent that the system was weak and falling apart, this came to nourish nationalist and protectionist opinions among local politicians. This points towards a mental barrier, since while it was apparent that foreign investments were needed not all sectors and actors welcomed such investments.

Clearly, the combination of giving up collective ownership, the control over economic activities and being forced to accept foreign ownership of local companies has revealed subtle (mental) barriers to be overcome in the change process (see McMillan, 1996; Meyer, 2000; Rondinelli & Sloan Black 2000). In addition, as observed by Rondinelli & Sloan Black (2000), the Western MNCs that have attempted to form partnerships or acquire state owned enterprises (or recently privatised enterprises) have faced problems, not only in the usual work
of forging strategic alliances and joint ventures, but also more complex problems concerning privatisation itself.

As the studies mentioned above indicate there are problems in adapting local enterprises to the new conditions. The difficulties of transforming the state owned enterprises has been examined by Suhomilova (1999), who suggested that the challenge for local organisations was not only the change itself, but also the learning how to change. In this stream of studies on the problems of adapting to the new order, the study by Johanson (2001) showed that the forming of new business networks has been a journey into the unknown for local (Russian) firms. The changes brought by the removal of the central planning agencies meant that local managers were forced to abandon their anonymity when establishing relationships and a network identity for their firm. Even though the study by Johanson (2001) did not analyse the involvement of Western firms he highlighted an important aspect by showing that Western firms have entered networks under formation lacking the stability that characterises networks on established markets.

The aim of this study is to build further on these insights by exploring the development of a Western firm’s subsidiary on the Ukrainian market, which has been described by Dean (2000) as Europe’s forgotten economy and one that has failed to attract foreign investments. According to Dean (2000) the country has turned into a command economy with capitalistic characteristics – a consequence of half-hearted and contra-productive reforms by the self-perpetuating interests of reformers. This view finds support in the studies of Fuxman (1997) and Mortikov & Volonkin (1999), which indicate that the transition problems in the Ukraine are of the same character as those in Russia – but worse, due to the lag in the Ukraine in creating an environment that supports domestic as well as foreign investments (Gregory, 1999). Thus, the heritage of former structures is strong. Given these local conditions, it is of interest to explore how the Western firm’s subsidiary manages the pressure from the local setting and introduces the parent firm’s management into the organisation.

1.1.3. The Focus of this Study compared to Earlier Studies
The early studies into institutional dimensions of the processes of change in Central and Eastern Europe have analysed these developments on a social level, while leaving questions of how these changes influence firms (at business level) unexplored. Examples of earlier studies with this aggregated focus are the studies by Chaloupka et al. (1993) and Palankai (1993), who analysed changes in the institutional macro-structures after the removal of the planned economy in Czechoslovakia and Hungary. The transition process’ institutional dimensions have also been targeted by Eliasson et al. (1994) when discussing the institutional frameworks needed to facilitate Eastern Europe’s transition from
planned to market economies. However, like the studies by Chaloupka et al. (1993) and Palankai (1993), the study by Eliasson et al. (1994) never got down to an analysis of the effects that changes in the macro structures had at the business-level, i.e. little was said about the transition’s implications for actors in local business networks.

The later work by Peng & Heath (1996) examined the growth strategies of firms in planned economies in Eastern Europe, the former Soviet Union and China. In their study, they analysed how the scope for manoeuvre for domestic firms was influenced by institutional constraints from the planned economy’s remaining (and active) structures. In this approach, their study compared the institutional settings in these countries with Western countries. The question of how the local constraints influenced Western firms that entered these markets was, however, not included in their study.

Gopalkrishnan (1997) targeted the opportunities at hand for analyses of Marketing Management with the use of institutional economics concepts. A conclusion in his study was that approaches using institutional analyses could handle influences from historical forces guiding actors’ current activities, i.e. aspects that are essential when trying to comprehend why actors act the way they do. However, as in the studies mentioned above, the actors influenced by the institutional forces were left out of the study.

This study’s interest in developments at the business level is, however, not to say that macro-level analyses do not matter, as a description of this development plays an important role in our understanding of the challenges that managers in these regions are facing (see Newman, 2000). As observed by Newman (2000) the institutional upheaval in local markets creates an environment that harms organisations’ learning capabilities, which might inhibit positive effects from new leadership. That macro-level influence is also of importance is illustrated in the study by Meyer (2000). In his study, he examined how local institutions influenced a Western firm’s investments (VW-Skoda) with attention directed towards the establishment of links to local business networks.

This development with increased interest for studies on institutional influence at the business level is, however, incomplete, as there are issues to be explored further at operative levels within the enterprises that have chosen to enter these markets. A step in this direction is the study by Peng & Shekshina (2001), who examined institutional influence on local entrepreneurial activities and foreign investments. As noted earlier, their study pointed out that an environment with a tradition hostile to private ownership creates markets with many legal difficulties making operations difficult.
Earlier studies into Western firms that have entered the markets in Central and Eastern Europe have examined issues concerning choice of market entry strategy (Rutihinda, 1996; Djarova, 1999; Meyer, 2001), the forming of alliances with local partners (McMillan, 1996; Rondinelli & Sloan Black, 2000), first mover benefits (Gleason et al., 1999) and problems of investment decision-making in the turbulent environments of local markets (Borsos-Torstila, 1999; Golubeva, 2001). A common denominator for all these studies is the emphasis on strategic issues, which mainly concern managers at a corporate level in Western parent firms, while little attention is given to the more operative issues inside the subsidiaries. The studies mentioned above can therefore not discuss the operative challenges facing managers after the strategic decision to enter a market has been taken.

One such operative challenge of interest is the establishment of a position in local business networks. The study by Johanson (2001) shows that Russian (Post-Soviet) business networks are searching for a new logic and stability. While the study by Johanson (2001) did not include Western entrants, the studies by Suhomilova (1999) and Peng & Shekshina (2001) explore the problems foreign entrants face when entering local networks. Such problems concern barter trade (see Mortikov & Volonkin, 1999) and the local business ethics (Fuxman, 1997) that, in combination, influence the developments in local business networks. Given the market complexities that these studies show, we may question whether the business network theories of Johanson & Mattson (1985, 1987) and Håkansson & Johanson (1992) are sufficient for analysing the operative challenge of establishing a position in local business networks.

An operative challenge of interest is also the introduction of the parent firms’ management in subsidiaries in the Post-Soviet market setting. The studies by Walck (1995) and Jankowicz (1999), have demonstrated that the heritage from the former system creates conditions that make management transfers from Western parent firms difficult. In particular their studies illustrate the problem of Western management trainers’ lack of understanding of the problems that local managers might face when translating new concepts into their own situations. Concerning the subsidiaries’ situation, the study by Fey & Björkman (2001) showed that HRM practices influenced subsidiaries’ performances, while noting that business performance to a large extent is dependent on macro-factors such as legislation. The studies by Kostova (1999) and Michailova (2000) analysed how cultural and institutional issues created tensions between parent firms and subsidiaries. According to their findings, these tensions were caused by cultural and institutional misfits, which influence the introduction of parent firms’ management in the local subsidiaries. While Michailova (2000) analysed cultural issues and how expatriates’ actions might reduce tensions, Kostova (1999) pointed out the institutional dimension of these interactions.
The standpoint is that a combination of the issues described by the authors mentioned above is important for our comprehension of the operative challenge of introducing the parent firm's management. What their studies lack is a view of the management transfer as a process and that institutional aspects might influence this process. This study sets out to close this gap by analysing management transfer as a process taking place across institutional boundaries. Consequently, attention will be directed towards the expatriate managers and the local employees' statements about the development, as their words may reveal aspects facilitating or inhibiting management transfers.

As noted, at analytical level, the study targets institutional issues which have been touched upon in the studies by Rutihinda (1996), Fuxman (1997), Borsos-Torstila (1999) and Johanson (2001) when discussing the local market traits, while the studies by Casson (1994), Gregory (1999), Kostova (1999) Newman (2000), Golubeva (2001), Meyer (2001) and Peng & Shekshina (2001) point directly to institutional dimensions in their analyses. According to Golubeva (2001), when studying FDIs (Foreign Direct Investments) towards the local markets, we should consider the following:

Turning to the question of FDI in transition economies, it should probably be seen as being under institutional influence from the parent companies and from the local environment. (Golubeva, 2001. p 224)

The quotation above indicates that the unit a Western firm establishes will be under influence from two institutional settings, which makes the position of the subsidiary of a cross-institutional character. The notion on which this study is based is that a better understanding of a subsidiary's operations in this position might provide valuable insights into the challenges that entrant firms encounter in the Post-Soviet market. Figure 1.1 below illustrates the position of the subsidiary in focus of this study.
A setting dominated by Western market institutions. Theories on entry strategies, management transfer, etc. will be presented in chapter four.

Operations in a cross-institutional setting. This study's focus.

A setting with a heritage from the former institutions, which will be presented in chapter three.

Figure 1.1. The Focal Subsidiary's Position

As shown in figure 1.1 of the study's focus, we target the operative work in a subsidiary in the Post-Soviet market, i.e. a market in transition coloured by instability with legal and financial structures under formation. Looking into the study context, it should be noted that the subsidiary in focus had been established to operate in the Ukrainian market, i.e. in the institutional setting of Post-Soviet society. Being a subsidiary to a Western parent firm, the organisation was structured according to the standards developed by the parent organisation – a global corporation with operations around the world. In this sense, the parent firm's organisation constituted an institutional setting with its own structures, norms and values. Its location in the Ukraine implied that its employees, local customers and contacts with local authorities linked it to the local institutional setting, i.e. the subsidiary was under influence from two institutional settings. The study targets the cross-institutional dimensions which earlier studies have touched upon but left unexplored. In this notion, the following research problems have been formulated:

1. What obstacles are there when a Western firm establishes a subsidiary in the Ukraine?
2. How can these obstacles be understood?
3. How does a Western firm manage the challenges that operations in the Ukrainian institutional setting raise?
The research problems above indicate that managers in the subsidiary might be able to tell us something about the challenges they have encountered. The managerial perspective also reflects the empirical study context that has a focus on the experiences of Western expatriate managers, local subordinate managers and employees. The contacts with the respondents were established in connection with a training project in the subsidiary’s organisation. The project took place in 1997 to 1999 and embraced a pilot study, realisation of training seminars and visits to joint ventures. The empirical study ended with a follow-up study, which focused on links between internal processes and external influence. The study, on which the thesis is based, started from an action research approach that gradually developed into research activities of a more traditional character. The approach applied therefore shows similarities to the study by Johanson (2001), who also departed from action research to access data and respondents that would otherwise have been out of reach for a visiting researcher.

It is essential to observe that the applied approach provided opportunities to study a market entry at an operative level by direct contact with the people in charge of implementing the parent firm’s strategy. Thus, the training project has been a key to studying the influence on the subsidiary and is presented as an integrated part of the study – while it is not the study’s focus. Instead, the study targets the introduction of the parent firm’s management (management transfer) and the subsidiary’s development with attention directed towards how development processes were influenced by the local institutional setting. This combination of internal and external dimensions has been chosen because it illustrates the challenges of managing a subsidiary in this setting.

Since statements from respondents in one subsidiary might not be sufficient to describe all aspects of local institutions, I have chosen to draw on insights from the vast number of studies on the Soviet system and the Post-Soviet business environment to which I have added secondary data from organisations like IMF, U.S. Department of State, etc (see chapter 3). In this approach my respondents’ statements about the local market can be examined with regard to the insights that these studies have generated.

1.2. PURPOSE OF THE STUDY

The standpoint is that the field of institutional theory has unexplored potential for the analysis of how a Western firm’s institutionalised management practices function in settings where the host countries’ institutionalised norms and values dominate. In these circumstances, the Western firm’s management meets the
host country’s institutional structures, which means that the subsidiary’s operations take place in a cross-institutional setting. The analytical approach therefore focuses on the cross-institutional dimensions of operating on the Ukrainian market, which is a new approach to analyse the challenges that managers in a subsidiary encounter. The purpose of the study is summarised in the following sentence:

_The study’s purpose is to explore the development of a Western firm’s subsidiary in the Ukraine and, on the basis of this exploration, contribute to the theoretical development about the managing of subsidiaries in the Post-Soviet market._

The analysis of processes in the focal subsidiary will show that operations in a market in transition from a planned to a market economy takes place in an environment that has little in common with the more established (and stable) Western markets. To grasp this specific environment from within the subsidiary’s organisation, the analysis crosses organisational boundaries by examining how managers and employees in the subsidiary perceive influence from external structures controlling the local business networks. The analysis also targets internal development processes with respect to influence from the parent firm and from the local setting. By having this analytical structure with focus on internal processes combined with an analysis of how external forces influence the subsidiary’s development, the study sets out to present an inductively generated theory on the managing of a cross-institutional setting.

### 1.3. OUTLINE OF THE STUDY

The second chapter presents the link between the study’s purpose and the applied research methodology. The aim of this chapter is to explain the choices made during the research process for the reader.

The third chapter conceptualises change processes in the Post-Soviet society (in the Ukraine in particular). The chapter is semi-empirical and draws on insights that earlier studies have generated. On the basis of these insights, the chapter presents a model describing the changes in the Post-Soviet society. The chapter ends with sections that describe how an institutional perspective may facilitate our comprehension of developments in the local setting.

Chapter four presents theories on market entry strategies, business networks, establishment of subsidiaries abroad and management transfers. The chapter explains the operative dimensions of decisions and strategies which are dimensions that are essential for our comprehension of the challenges that a Western firm’s subsidiary might face on the Post-Soviet market. The final
sections describe links to institutional theories by which these challenges will be analysed.

Chapter five to eight present the Mimer case, which is the study’s empirical section. In addition to a presentation of the empirical study the chapters illustrate how the empirical research process developed during the study.

Chapter nine is the first chapter in the analysis section. The chapter analyses how various aspects of the introduction of the parent firm’s management influenced local employees’ identity identification.

Chapter ten analyses how the subsidiary managed the influence from the local environment. The analysis discusses the effects of external influence and the subsidiary’s efforts to filter this influence. On this basis, the analysis identifies filtering conditions that describe the preconditions for managing influence from the local setting.

Chapter eleven is a synthesis of chapter nine and chapter ten and is envisaged to raise the analytical level towards a developed theory. The final sections in this chapter present a developed theory on the managing of a cross-institutional setting.

Chapter twelve is the final chapter which presents conclusions and managerial issues. The chapter ends with proposals for further research.
2. RESEARCH PERSPECTIVE AND METHODOLOGY

The aim of this chapter is to describe the link between the study’s purpose, the research perspective and the applied case methodology. Of interest for the reader is that the chapter highlights the assumptions behind applied approaches and how practical aspects have influenced the study process.

2.1. RESEARCH PERSPECTIVE

Focusing on institutional phenomena in management and business networks it should be noted that institutions are social constructions defined as institutions given that this is what suits the observer’s ambitions and research paradigm. According to Kuhn (1992), it is important that the researcher tries to articulate and understand his view of the world (his paradigm), as this influences the researcher’s search for information about a certain phenomenon. The researcher’s paradigm may therefore guide the selection of a study object, practical study approaches, selection of theories and the final analysis of data. This section presents these relations to clarify how these aspects have influenced the study process.

2.1.1. Processes of Social Constructioning

On the assumption that organisations are not results of natural laws, but organised by man, we can view them as a part of our reality which is constructed by man. According to Berger & Luckmann (1967), through a view of reality as constructed by man, we can view reality as selectively perceived, collectively rearranged and negotiated interpersonally. In their view, this process makes it possible for actors to uncover the underlying code of conduct, choose partners and methods to solve a certain task, etc.

Following the proposals above, it is vital to observe that people in organisations spend a lot of time discussing, i.e. articulating cognitions about reality (see Weick, 1979). In such interaction processes actors construct a common view on the environment, i.e. create an organisational reality. This creation commonly takes place when people in organisations communicate with internal and external actors. In this sense, the social construction is a process of social constructioning as there would be no construction without the constructioning process (see Czarniawska-Joerges, 1993).

The importance of language in this context has been discussed by Berger & Luckmann (1967), who suggested that the common objectification of everyday life is maintained through linguistic significations with which impressions are shared with friends and colleagues. As proposed by Czarniawska-Joerges...
(1993), a perspective of this character focuses on the performative definitions respondents express when constructing reality, i.e. aspects that are important when exploring operative issues with the aim of understanding the underlying forces. According to Sjöstrand et al. (1999), this constructioning can be revealed in small talk when managers institutionalise a certain worldview in their organisations. Thus, managers’ small talk might reveal institutional aspects inside organisations that link management approaches at company level to institutionalised views on management at global level.

The viewpoints presented above describe the way organisations and networks have been defined in the study, as the identification is based on the respondents’ statements about their organisation, what they thought about actors in local business networks, etc. Their words therefore reflect the operative reality and the underlying rationale behind organisational charts and management principles. In this sense, social constructioning also concerns organisational charts, rules, etc. as these issues have been discussed and assessed against an envisaged optimality before being translated into policies and charts (see Sjöstrand et al., 1999).

Essential for the constructioning process is the ability of human beings to express and add meaning to objects. The importance of the language is emphasised, as when saying that reality is viewed as a construction of interlinked systems, it is necessary to define what the links consists of.

Of interest are therefore theories by Mannheim (1960) on the development of knowledge and thinking processes which discuss how these aspects guide collective actions in society. Discussing the social knowledge concept, Mannheim (1960) described a knowledge that is shared, i.e. a knowledge that concerns at least two people. By this definition Mannheim (1960) identified a critical issue as there is no metaphysical entity that can be referred to as a group mind. On the other hand, pointing to the complexity of a language, he showed that there is something that can be described as a group mind. The language is therefore more a language of a group than a language of a single person. According to his proposals, people in a certain group develop a particular way of thinking that is shaped by the context in which they interact. In this notion, he suggested that it is more appropriate to view thinking processes of a single person as processes where individuals think further on what others have thought before them.

Clearly, Mannheim’s (1960) theories point out an important aspect for this study, as interviews with single persons put them in positions where they unconsciously repeat viewpoints developed by the group. Their viewpoints are therefore not entirely their own, but something that they share with their
colleagues. It should also be noted that the language links the visible 'here and now' to the different meanings people attach to objects by the adding future - past dimensions (see Jankowicz, 1994). Bearing the time dimension in mind when listening to respondents' stories, the researcher can obtain a comprehensive understanding of complex phenomena in the way the respondents perceive them. Thus, the respondents’ words reflect processes of social constructioning, by which we can reveal institutionalisation processes within organisations (see Norén, 1995; Sjöstrand et al. 1999).

2.1.2. The Research Perspective and the Aim of Theoretical Development
The perspective on actors is based on a view of actors as subjects that shape and are shaped by the environment. As stated above, of particular interest are the actors’ statements as their words reveal interpretations of relations between actors and the environment. The applied research approach is therefore of a hermeneutical character, which according to Norén (1995), supports researchers’ interpretations of actions, interviews, documents, etc. In the study, such interpretations took place when trying to understand why people acted the way they did, and how their activities co-acted with contextual aspects.

The downside of studies based on the hermeneutical approach is, however, that the findings cannot be generalised in the same way as findings based on a positivistic (deductive) approach. The reader might therefore find a contradiction in the theory development aim and the use of an approach that limits the generalizability of the findings. Given this contradiction it should be noted that even though the aim is theory development, this aim has not been to develop a theory that can be applied to all situations showing similar conditions. Instead the aim has been to develop a theory that enhances our comprehension of the challenges that Western firms are facing in the Post-Soviet market. In other words, the ambition has been to develop a theory that enhances understanding (see Glaser & Strauss, 1967; Lincoln & Guba, 1985).

2.1.3. Defining the Applied Approach
Looking at the study’s theoretical section the reader might get the impression that the selection of theories took place before the start of the empirical study. Knowing that this might be the readers’ impression I find it necessary to state that the search for theories took place after contact with the respondents. Given this sequence of events, there could be no testing of propositions based on earlier findings. The research process has therefore been of an inductive character (see Johansson-Lindfors, 1993), where my interpretation of the respondents’ stories has guided the search for theories.

Given these inductive components it should be noted that the applied approach deviates from the grounded theory approach proposed by Glaser &
This deviation concerns the search for theories, as the further the research process proceeded, and the clearer the ideas about appropriate theoretical aspects became, the more this awareness influenced the search for relevant theories. Somewhat closer is Orton’s (1997) proposal on a grounded theory based on iterations. The iterative approach does not exclude the researcher’s awareness of (and search for) theories that target certain aspects of the phenomenon under investigation.

The reader should also note that the theoretical aim, rather than the theoretical knowledge has guided the search for theories to conceptualise observed action patterns. In this sense, there has been interplay between empirical observations and theoretical studies, which makes the applied approach abductive in its character (see Sköldberg, 1991; Johansson-Lindfors, 1993). However, with the abductive approach follows an assumption that the interplay between empirical studies and the increased theoretical awareness results in propositions to be tested empirically, which was something that never took place. Thus, the increased theoretical awareness influenced the empirical study, but did not result in the forming of propositions. Given these deviations, the applied approach is based on an inductive approach with components corresponding to Orton’s (1997) interactive approach and to the abductive approach described by Sköldberg (1991) and Johansson-Lindfors (1993). With these components I have chosen to label the theory that this study presents as inductively generated.

2.2. DEFINING THE EMPIRICAL STUDY METHODOLOGY

2.2.1. Using a Case Study Methodology
As mentioned in the introduction, this study is based on a case study, which was a methodology that suited the study context. According to Yin (1994), a case study is a preferred methodology when the boundaries between the phenomenon and the context are not clearly evident. For this study, however, it is important to observe that the contextual aspects were important for my understanding of the focal subsidiary’s development. The boundaries of this specific context (the cross-institutional setting) were also early motives to conduct a case study. In particular what was of interest in conducting a study that went beyond the ‘here and now’ was the combination of influences from the Western parent firm and the legacy of the local setting. Thus, behind my choice of study approach lies the ambition to catch aspects that would have been out of reach in a broader quantitative study.

A quantitative study based on a survey followed by statistical analysis might, however, have an advantage when it comes to the assessment of the
study’s quality. To manage quality aspects I have followed the proposal by Gummesson (1988) suggesting that the following nine issues should be considered when presenting a case study in a scientific report:

1. A research project should be presented in a manner which allows the reader to draw his own conclusions.
2. The researcher should present his paradigm.
3. The research should possess credibility.
4. The researcher should have adequate access.
5. A clear statement should be made regarding the general applicability of the research.
6. The research should make a contribution.
7. The research process should be dynamic.
8. The researcher should have commitment and integrity.
9. As an individual, the researcher should satisfy certain requirements which embraces preunderstanding through study and personal experience, candour and honesty.

Noteworthy about the quality criteria mentioned above is that issues regarding paradigm and applicability were presented in section 2.1, while aspects concerning access and preunderstanding will be discussed in coming sections. Like Söderholm (1991), my standpoint is that most of the criteria above refer to the researcher and the research processes rather than the facts presented in the data. For this study this latter aspect is important to consider, as the study is (mainly) based on ‘soft’ qualitative data obtained from interviews and observations during the research process. The ‘soft’ data presented in the study is therefore a result of my subjective interpretations with Gummesson’s (1988) criteria guiding the efforts to secure the quality of the study.

Concerning the assessment of a study’s quality with respect to the differences between ‘hard’ (quantitative) and ‘soft’ data, my opinion is that in spite of the differences between quantitative and qualitative research approaches, there is one common denominator. This common denominator concerns the fact that regardless of the methodological approach it is the reader who makes the final quality assessment.

**2.2.2. Defining the Case**
The case, on which the study is based, started as a co-operational project between Umeå School of Business and Economics and Vaasa University in December 1996. The aim of the project was to develop a training programme in Marketing and Management for managers in a Western firm’s subsidiary in the former Soviet Union.
The case presentation follows the steps in the project and encompasses the initial contacts with the company, the pilot-study and the seminars that followed. The data collection during these sequences formed the foundation for deeper penetration into the questions that emerged during the fieldwork. The end of the seminars therefore marks the start of a more conscious conceptualisation of observations made during the training project. In the case presentation, this sequence is illustrated in the chapter on the two macro-institutional settings to which the focal subsidiary was linked. The final follow-up study then went back to explore how these aspects influenced the subsidiary's development. Figure 2.1 illustrates the sequences in the case.

![Figure 2.1. Sequences in the Case Study](image)

As illustrated in figure 2.1, the study took place between May 1997 and March 1999. During this period I had the opportunity to visit the subsidiary six times. Five of these visits concerned activities that took place in sequences one and two. The third case sequence was conducted without any primary sources, i.e. without any interviews. Instead this sequence focused on issues of a contextual character influencing the subsidiary. The aim of the final follow-up study was to proceed in this direction and examine the respondents' view on issues that influenced the subsidiary’s development. Of importance was that this final visit made it possible to relate observations from the pilot-study and the seminars to aspects of contextual character influencing the operations.

2.2.3. Preunderstanding
According to Gummesson's (1988) quality criteria for case studies (see section 2.2.1) it is important that the researcher reflects on what he knows about the phenomenon before the research process starts. In research based on case studies this takes place when the researcher reflects on what knowledge he possesses
that might be relevant for the research project. A first assessment may therefore enable the researcher to identify his/her own knowledge gaps. On the other hand, as noted by Lincoln & Guba (1985), in the beginning of the research process it is difficult to know what is missing, which in turn makes it difficult to identify the 'real' knowledge gaps. The problem identified by Lincoln & Guba (1985) also became evident once the research process started. To handle this problem I decided to postpone answering this question as premature identification of knowledge gaps would have been no more than wild conjecture.

At later stages when I reflected on these issues, some gaps had become evident and I could start to define what my preunderstanding actually consisted of. In seeking to make sense of this I followed the proposal by Gummesson (1988) suggesting that a researcher's preunderstanding consists of two parts: one based on his/her own experience and a second founded on the experience of others. Together these two knowledge dimensions create a unit, a preunderstanding, which is assessed with regard to the knowledge needed. My experience regarding the study was based on teaching Russian students both in Russia and in Sweden. In the context of my teaching in Russia I had a lot of opportunities to talk to colleagues and get their view on the general conditions for business in their country.

During my graduate studies I studied the Russian language, which made it possible to communicate with local people during my visits. I visited Russia many times when studying the language which provided me with a (fairly) good knowledge of the language as well as helping me understand the Russian way of life. I had, however, never been to the Ukraine before the project started, but I presumed that Ukrainian society was more or less like that in Russian and therefore I would know what to expect.\(^6\)

The more project-oriented issues such as how to structure a training programme for local employees was something that took place in co-operation with my colleagues and the managers in charge of the subsidiary. My knowledge concerning such training was based on experience of management training during my working years (before I entered the university). These experiences provided some insights of what ought to be considered when structuring seminars for practitioners. I do not, however, think that these experiences were relevant since the seminar context was too different. Assessing my theoretical knowledge prior to the study, it became clear that I had considerable development potential, i.e. at the start I had no idea of what would be a relevant theoretical approach. To handle this problem I decided to allow observations during the project to guide the search for relevant theories.

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\(^6\) I have found no reason to reject this assumption during the study.
2.3. DEFINING APPROACHES IN THE CASE SEQUENCES

2.3.1. The Approach in Sequences One and Two
By taking part in the introduction of the parent firm’s management in the Ukrainian subsidiary, the applied approach during the initial sequences (see figure 2.1) had many things in common with action research. An important aspect of action research involves the researcher’s active role in the process under study (see Hult & Lennung, 1978; Gummesson, 1988). However, although I took on an active role in the process under study I am reluctant to call the research activities action research, as I could not follow this approach throughout the study. Given this start and later deviations there are reasons to describe briefly what action research is and in what sense I came to deviate from it.

According to Nilsson & Nilsson (1992), the core of action research refers to problem solving, knowledge development, mutual learning and a holistic view of change processes. The action researcher works with specific cases, which makes it possible to assess how a specific working proposition functions in practice. Reflecting on the outcome of my contacts with the respondents it became clear that I focused more on my own learning than on what the respondents had learned from our interactions. Nor could I find any measures by which to assess the outcome of our efforts, which makes mutual learning an assumed (not defined) outcome. I should also note that there were no ‘real’ working propositions, as I did not have enough experience to develop such propositions. In short, this is why I have chosen not to label the applied approach in terms of action research.

It is important to note, however, that the observations made when interacting with the respondents played an important role in the study. The applied approach therefore resembles the interactive research approach proposed by Lundin & Wirdenius (1990). This research approach maintains that researcher actions are not interesting per se, but a way of capturing changes the interactive aspects bring about. Clearly, this illustrates an important issue since, although the work during the seminars and the work that preceded them are integrated in the case presentation, it is not the study’s focus.

2.3.2. The Approach in Sequence Three
The aim in sequence three was to go further into the contextual aspects of observations made during the first two sequences. To develop my understanding of these issues I decided to make a cross-cut through the institutional settings. In practice this took place by collecting information about the policy guiding the
parent firm, its structural development and by looking at statements in the media by those in charge of the establishment in the Post-Soviet market. In the same manner I collected information from other studies on the Post-Soviet market which included studies by organisations like IMF\textsuperscript{7} and the EBRD\textsuperscript{8}. To this I have added information from the media about the political development and viewpoints from people in the street. In the study, the sum of these observations has been presented in a chapter describing the two macro-institutional settings that constitute the nodes of the cross-institutional setting where the focal subsidiary performed its operations.

2.3.3. The Approach in Sequence Four
The pilot-study and the seminars that preceded the final case section provided good understanding of what was going on in the subsidiary. As previous contacts had provided background information, trust and understanding of my study’s intentions, the respondents’ reflexive and pragmatic common sense interpretations were within reach. Thus, given these preconditions, I had mental access to people and phenomena in focus.

As the final case sequence focused on contextual aspects’ influencing the subsidiary, it was of interest to allow the respondents to talk about issues that influenced their work. These interviews came to address their view on changes, contacts with the parent firm, contacts with local customers, how their own work had developed, etc. Given the focus on influencing aspects, the reflexive content of the respondents’ stories was important, as this revealed what the respondent had done, what s/he was doing, what s/he intended to do and why this was necessary, i.e. information about aspects that guided their actions. According to Argyris et al. (1985) this implies a risk as the researcher cannot take for granted that an actor’s stated reasons for an action are accurate. As pointed out by Argyris et al. (1985), it is important to recognise that there are tacit aspects involved which limit people’s ability to explicitly state many of the rules that they are following.

Aware of this risk, I tried to frame the situations from which the respondents’ stories originated. By putting their words in a wider context, I also found aspects that were in conflict with their statements. By observing the tension between what was said and the issues that influenced the statements I tried to understand how institutional aspects reflected in their viewpoints (see Sjöstrand et al., 1999). Thus, the respondents’ statements opened for an analysis of aspects linking the respondents’ words to influences in the subsidiary’s cross-institutional setting.

\textsuperscript{7} International Monetary Fund.
\textsuperscript{8} European Bank for Reconstruction and Development.
2.4. DATA COLLECTION

2.4.1. Methods Applied
As the study started with an approach that resembles action research I followed the proposals of Hult & Lennung (1978) and Gummesson (1988) on data collection methods. Studying their proposals I found that there are (almost) no limitations for the choice of data collection method. It is important to observe, however, that with this freedom follows a responsibility to describe the methods used and to discuss the content and quality of the data.

In sequences one, two and four, data was collected by interviews and my own observations combined with a collation of the available company documents. The principal method for the interviews was to start with some leading questions and then let the respondents tell their stories which made the interviews unstructured in their character.

In terms of documentation, the interviews were recorded when it was possible to do so. On some occasions I had to rely on my notes and on a couple of occasions also on my ‘good’ memory. When the interviews were held in Russian and documented on tape, I translated them into English during the transcription. This translation may have caused some errors, as I sometimes could find no English words that corresponded to the Russian way of describing the situation. In such cases I based the translation from Russian to English on the meaning of the sentence, which implies that there may be some errors concealed in the translation. The translation therefore implied that there could be no deep analysis of the respondents’ original words. There were, however, clear messages that my respondents came back to when describing the situation, which made it possible to uncover underlying meanings.

The observations from the seminars were fairly easy to document, as I could make quick notes of the participants’ comments and questions. After the seminars we (the supervisors) discussed our impressions to identify key issues to be followed up during the next day, which made it possible to check how my impressions corresponded to my colleagues’ observations. In addition to this, I could meet with the respondents during lunches, dinners and in the evenings, which made it possible to check my interpretation of their statements. This was also the only way I could gain feedback from respondents who only spoke Russian.

The written material from sequences one and two has been shown to and discussed with the executives of the subsidiary during my final visit (the follow-up study). The draft from the follow-up study has been sent for review and feedback, which basically involved the following questions: – have I interpreted
the situation correctly, and – do you agree to let me use the material I have presented to you in my thesis? We could then come to an agreement on anonymity and their approval of my publishing the material I had presented to them.

2.4.2. Selection of Respondents
As the study started with a pilot-study and training seminars, the majority of the interviews originate from the network of contacts developed during this assignment. At later stages of the study (sequence four), some of the interviews came to start spontaneously without any formal arrangement (it was just a matter of having the tape recorder ready). During the study I had great help from the Human Resource Manager, who received a ‘request list’ indicating the people I wanted to meet and the motives for my wanting to meet them. In this sense, I first presented who and why I wanted to meet someone from a certain department and then the HRM helped me to arrange a meeting.

By means of these arrangements I could start from a core group of respondents at top management level and make the circle wider to encompass people at all organisational levels. To check that the respondents’ statements represented a common view in their part of the organisation, I interviewed at least two respondents from each organisational sector.

I have chosen to present the respondents’ positions in the organisation as part of the case presentation as this provides information about the subsidiary’s structure and the respondents’ internal and external contacts. The information obtained from the interviews has been sorted according to the respondents’ positions in the organisation to support the subsequent analysis of the development in their part of the subsidiary.

2.4.3. Presenting the Information
The case presentation follows the order in which the information was collected. The aim has been to present the events in a manner reflecting the development processes under investigation and the research process as such. In the presentation, I have chosen to present quotations (too many some might say) from the respondents’ statements. The reason behind this is my ambition to make the presentation as alive as possible, while being aware that some of the original words and expressions have been lost in translation.

According to Glaser & Strauss (1967), the use of quotations in case presentations may provide a false impression of evidence for later arguments, as the author has been free to choose the quotations that best suited his arguments.

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9 On some occasions the respondents also contacted me, because they wanted to tell me how things had developed in their part of the organisation.
However, as noted by Jaensson (1996), the risk identified by Glaser & Strauss (1967) is undeniable. On the other hand, it concerns the researcher’s integrity to choose quotations in a manner which makes them represent what they are said to represent in the text. Furthermore, given the subjective perspective of the phenomena, the choice to present some quotations while others are left out is part of the interpretation, and hence, a reflection of the research process.

I have chosen to present all quotations from the interviews in the same manner, i.e. as if all the information had been documented on tape. As explained earlier this was not the case, and even though the main part of the quotations is based on recorded material, some interviews were documented by taking notes. While being aware that I would not qualify as a professional stenographer, this was the only way to document these statements. These notes were, however, either checked with the respondents immediately or later when they were transcribed. Some of the original words and expressions might therefore be missing while the meaning remains.

2.5. ANALYSING THE MATERIAL

2.5.1. Structuring Data Collected
The structuring and analysis of the material has taken place in steps starting from a first interpretation of interviews and observations. As I relied upon open unstructured interviews, the interviews embraced an analysis conducted during a split-second while trying to formulate relevant questions to follow up the respondents’ statements. The second analytical step took place during the compilation of the empirical material, as this step included the sorting of the collected information by organisational subunits or spheres, from which it originated. During this sequence, the intuitive sorting and the meanings I attached to the information were intertwined dimensions, where the latter meaning dimension came to dominate the more complete each case section became. For later analytical work, the material was structured as shown in table 2.1, which is an example from the subsidiary’s joint venture sphere.
Table 2.1. Structuring of Data Concerning Internal Development

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<tbody>
<tr>
<td>Operative issues</td>
<td>Changes in the organisational structures</td>
<td>The influence from the local partner. Conflicts</td>
<td>A struggle between ‘old’ and ‘new’.</td>
<td>Local employees development of conflict identities</td>
</tr>
<tr>
<td></td>
<td>Introduction of new management.</td>
<td>The influence from local management.</td>
<td>The introduction of the ‘new’ reinforces the identification with the ‘old’.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Selection and introduction of employees.</td>
<td>A lack of space for testing of new approaches.</td>
<td>An internal - internal norm comparison</td>
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<tr>
<td></td>
<td>Training and skill building.</td>
<td>Introduction problems</td>
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<td>Customer orientation. and quality management.</td>
<td>Conflicts</td>
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<td></td>
<td>Lay-offs</td>
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<tr>
<td>Other observations, documents, charts, etc.</td>
<td>People seem worried. Charts showing sales development</td>
<td></td>
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<td></td>
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</tbody>
</table>

Key issues: The build-up of the organisation takes place from inside an organisation formed by the former system. Problems in confirming the entrant actor’s rationality.

The example in table 2.1 illustrates the path from empirical observations (on the left) to the forming of analytical concepts for an analysis of the introduction of the parent firm’s management in the joint ventures. The dotted lines in table 2.1 are used to illustrate the ‘funnel’ for refinement of concepts in the analytical discussion. The structuring of the material for analysis of influence from the local institutional setting is shown in table 2.2 (below).
### Table 2.2. Structuring of Data Concerning the Managing of External Influence

<table>
<thead>
<tr>
<th>Organisational sphere: JV</th>
<th>Step 1. Guiding statements on:</th>
<th>Step 2. The managing of influence concerns filtering</th>
<th>Step 3. The aspects that facilitated filtering</th>
<th>Step 4. Filtering conditions can be characterised by</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operative issues</td>
<td>Taxation and business regulations</td>
<td>Problems in contacts with the authorities.</td>
<td>The functioning of the relationship filter.</td>
<td>The knowledge of local actors' ways, motivation, skill building, etc.</td>
</tr>
<tr>
<td></td>
<td>Management in local companies.</td>
<td>Decision-making.</td>
<td></td>
<td>Consonance, dissonance, or vacuum.</td>
</tr>
<tr>
<td></td>
<td>Local business networks.</td>
<td>The influence from central authorities.</td>
<td>The functioning of the administr. filter.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Effects of barter trade.</td>
<td>Local customers' weak finances.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Other observations:** Media reports, reports from IMF on the local business environment confirm the respondents' statements. The subsidiary is subject to both direct and indirect influence.

**Ability to manage influence:** Fairly good as long as there are direct contacts between the actors. More difficult when many local actors get involved.

**Key issues:** Dissonance in the resource transfer, there also seems to be a vacuum. Local authorities' use of power makes it difficult to filter the influence.

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As illustrated in the examples in table 2.2, as the analysis of the introduction of the parent firm’s management, the analysis of external influence started from empirical observations that were refined into analytical concepts (on the right in the table).

### 2.5.2. The Analytical Process

The approach used to describe the analytical process draws on the proposals by Pettigrew (1997) on what to consider when conducting research into processes, and hence, the analysis that follows from this. In his view, it is essential to consider the following five aspects:
1. Embeddedness, studying processes across a number of levels of analysis.
2. Temporal interconnectedness, studying processes in past, present and future time.
3. A role in explanation for context and action.
4. A search for holistic rather than linear explanation of process; and
5. A need to link process analysis to the location and explanation of outcomes.

The embeddedness dimension implies that changes and actions observed in organisations should be linked to a higher level of analysis, i.e. to the national and international political and economic context (see Sjöstrand et al., 1999). In the analysis this is where the institutional theory plays an important role, as the observations have been used for defining institutional influence from the parent firm and from the local authorities.

The temporal interconnectedness concerns links to the past, present and future to be analysed, not in terms of the chronological order of events, but as a dimension that is carried in the human consciousness. In particular this concerns how the respondents’ experiences are reflected in their views of ongoing and coming activities. It should, however, be noted that while time dimensions are important, the aim has been to target the ‘now’ dimension of the process under investigation (see Söderholm, 1991).

Like Pettigrew (1997) I believe that a holistic view is essential for the understanding of the phenomena under investigation. Guiding this standpoint is that actions should not be separated from the context where the actions take place, but viewed as inherent dimensions of the context. Looking at the material I found that actors’ actions at one level have determined the rules of the game for actors at other levels, i.e. actions became contextual dimensions and have therefore been analysed as such. In the analysis, such levels are apparent in the discussions on influence from the local setting which keep certain dimensions apart while maintaining a holistic perspective.

The fifth proposal by Pettigrew (1997) concerns the need to link the process analysis to outcome and location. This I have tried to accomplish by examining issues in the processes that have oriented the development in a certain direction, i.e. did it concern the build-up of something ‘new’, or was it characterised by restructuring of something ‘old’ in existing local structures? In the following analysis, I tried to identify key aspects leading development in a certain direction (see table 2.1). Analysing outcome, the stories by managers in charge of change processes have provided information on what has been working fairly well and what has been difficult, which have linked respondents’ stories to the
structures (locations) where the changes took place. Thus, of particular importance for the identification of key aspects guiding outcome were statements pointing towards both positive and negative outcome.

After the identification of key aspects, the aim was to bring these issues up to a higher level of abstraction and, with the aid of new theories, develop an inductively generated theory on the managing of a cross-institutional setting.

To summarise, the standpoint is that by analysing the material according to the outline mentioned above, my case study will fulfil the study’s research objective which is to contribute to the theoretical development about the managing of subsidiaries on the Post-Soviet market.
3. AN INSTITUTIONAL PERSPECTIVE OF CHANGE PROCESSES ON THE LOCAL MARKET

This chapter aims to conceptualise how different sectors in the Ukraine (the Post-Soviet society) have been affected by the removal of the centrally planned system. The chapter highlights the institutional dimensions of these change processes and will attempt to support the reader’s comprehension of why the managing of a subsidiary in this context is a difficult task, and why institutional theory supports our understanding of aspects guiding the local business networks.

3.1. APPROACHING INSTITUTIONAL ISSUES

3.1.1. Institutional Dimensions of Change Processes in the Post-Soviet Society

As proposed by Giddens (1982), a society is a cluster of institutionalised modes of conduct, which occur and recur. In social theory this process of occurrence and recurrence assume a process in which modes of beliefs and behaviour are reproduced. The Western society, and the social activities within it, has been described by Meyer et al. (1994), as highly structured by institutionalised rules which take the form of ideologies and prescriptions of how society works (or ought to work) to attain collective purposes. By using these arguments for a discussion on institutions and institutional development it is explicitly stated that Western society is different from the societies in the former Soviet Union. This is not to say that societies in the former Soviet Union are less structured by institutional rules or fewer ideologies, rather that they have a different structure and different ideologies (see Walck, 1995; Michailova, 2000). In Post-Soviet societies, as well as in Western societies, institutional aspects set guidelines for people and influence their perception of how the society ought to operate, i.e. institutions communicate with its actors. When focusing on institutional influence on a subsidiary with links to institutions in the West and to institutions in the Post-Soviet society, we must bear institutional differences in mind. To approach these issues from a theoretical viewpoint we need to determine what have been identified as institutional dimensions in society.

Looking at such definitions we find that institutions have always been regarded as basic building blocks of social and political life in the field of macro sociology, social history and cultural studies (Powell & DiMaggio, 1991). Consequently, individual preferences and basic categories such as self, the state, citizenship and social action are influenced and shaped by institutional forces (Powell & DiMaggio, 1991; Scott, 1995). A society can therefore by definition
serve as an all-embracing social system, in which institutions and institutional forces influence the actors (Luhmann, 1982). Hence, it is possible to look upon a society as an overall framework for institutions.

As proposed by Scott (1995), institutions consist of regulative, normative and cognitive structures that provide stability and meaning to social behaviour. According to this perspective, institutions influence multiple levels of a society and are carried by cultures, structures and routines. The definition proposed by Scott (1995), therefore represents a broad view on institutions that encompasses cognitive structures and normative rules that both shape and are carried by social behaviour. Pointing towards the link between institutions and behaviour, North (1994) suggests that institutions function as frameworks for human interactions. In these interactions there are processes of institutionalisation where people inter-subjectively approve, internalise and externalise mental constructs (Sjöstrand, 1993, Sjöstrand et al., 1999). Thus, the structures provided by institutions reduce uncertainty by offering a framework for our everyday life that embraces both formal and informal constraints. To describe the local framework the following sections set out to conceptualise the institutional setting where the focal subsidiary performs its operations.

3.2. THE UKRAINE – A POST-SOVIET COUNTRY IN TRANSITION

3.2.1. The Ukraine in brief
The Ukraine declared its independence on August 24, 1991 and in a national referendum on December 1, 1991, the country’s voters with a clear majority ratified the declaration of independence. Within the structure of the Soviet Union, the Ukraine was the second largest country in terms of population and economic power. In terms of size, the Ukrainian republic was the third largest (after Russia and Kazakhstan). The large area of the country, which encompasses 603,700 square kilometres, has a population of 51.7 million (1989), of which three-quarters are ethnic Ukrainians and one-fifth are ethnic Russians.10

The country is known for its fertile ‘black earth’ agricultural land and its coal reserves in the Donetsk region. During the Soviet era, the country's natural resources gave rise to a diversified economy, including a strong agricultural and food processing industry, a large heavy industry sector with a large sector oriented towards military production. Since the Ukraine’s declaration of independence the country has struggled with its transition to a market economy where the large defence sector and energy-intensive heavy industry has made

10 International Monetary Fund, IMF Staff Report, Ukraine No. 99/42
the transition particularly difficult. Besides problems of changing the orientation of heavy industry, the process of moving the economy towards a structure with transactions based on market pricing has disrupted relationships with producers and suppliers in other parts of the former Soviet Union.\textsuperscript{11}

In terms of economic development after independence, we find that output continued to decline in most sectors of the economy. In 1996, there were indications that the rate of contraction had reached bottom and according to the government’s forecasts it was likely that the economy would start to grow again, first in small figures by the end of 1996 and then picking up momentum in the years to follow.\textsuperscript{12} The reports later concluded (see footnotes) that these forecasts were too optimistic, as they were based on assumptions that the words of the politicians also would be followed by action. Looking at what the reports point out as causing this development we find that most of them point towards the absence of a political structure willing and able to act and implement reforms.

3.2.2. The Reformers’ Dilemma
Looking further into the reports they reveal that the country’s first government after independence was accused of not implementing reforms quickly enough. As it seemed, early attempts to reform the economy in 1993 and for most of 1994 were implemented slowly and half-heartedly. As noted above, to Western analysts it seemed as if the government lacked the political will needed to fully implement the market reforms. Ukrainian officials attempted to move gradually towards a mixed economy to avoid a decline in the living standard and the risk of creating social unrest. This gradual approach did, however, imply that they continued to rely on administrative command methods to run the economy. According to analysts this policy made things worse. Pointing out this problem, the reports indicate that the decline in industrial production caused inflation to grow and slowed the privatisation process, which resulted in an overall economic deadlock.\textsuperscript{13} Thus, the dilemma was that reforms were needed (despite their negative outcome), and the more the reformers tried to balance the expected negative outcome, the more the reforms ended up with contra-productive results.

With the election of President Kuchma, who was elected on promises of reforms based on new ideas for the country, the country signalled its determination to go forward with comprehensive market-oriented policies. A number of new policies were also launched in October 1994. These reforms included the unification of the exchange rates, reforms of the tax and banking systems, price liberalisation and the reduction of state subsidies. Measures were

\textsuperscript{11} Ibid.
\textsuperscript{13} Ibid.
also taken to prevent inflation from growing, to reduce control over exports and imports, to accelerate the privatisation process and to reduce the government's budget deficit. A strategic partnership programme was also launched to strengthen the development of the economic community between the Ukraine and Russia and the other states in the CIS (Commonwealth of Independent States). At the same time the President stressed that this partnership should not take place at the expense of the Ukraine’s orientation towards the Western countries. This therefore illustrates another dilemma, as activities oriented to strengthen contacts with the West needed to be balanced against agreements with Russia and the other former Soviet republics.

The relatively tight monetary and fiscal policies succeeded in reducing the budgetary deficit, lowering inflation and increasing foreign reserves. According to the figures presented by IMF, the country, by the introduction of these policies, succeeded in its ambition to break the high inflation trend which peaked at 10,200 percent in 1993. The negative aspects of the strict policy should, however, also be mentioned, as the cutting of state subsidies to companies led to a sharp decline in the economy. The efforts made did result in substantial improvements in the inflation rate, and according to the forecasts for 1996, it was estimated that inflation would be around 40 percent, which was down from 400 percent two years earlier. A mark of the stabilisation was also that the Ukraine, in September 1996, introduced a new currency, the Hryvnia. Ukrainian leaders were, however, frustrated by the continued decline in economic growth that, despite the relative stabilisation, showed a negative development. In other words, the legacy from the past had a strong influence on development.

3.3. THE LEGACY’S INFLUENCE ON COMPANIES

3.3.1. A Brief Overview of the Former System’s Influence on Companies

Looking at the legacy’s influence, it is vital to note that the political system was integrated in all company activities with the achievement of the plan guiding all activities in the companies. According to Hedlund (1992), people in Soviet companies thought in terms of plans and even made jokes about the plans as this was a fundamental part of the society’s structure. The personal well being of managers was also dependent on how the company and the departments within it were able to meet the planned production goals. At the company level it was,

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14 Ibid.
16 Country Reports 1995: Ukraine. US Department of State
17 International Monetary Fund, IMF Staff Report, Ukraine No. 99/42
18 Ibid.
however, possible to observe a contradiction in the system since on one hand it emphasised collectivism and, on the other hand, promoted autocratic leadership over the collective workforce. As observed by Hedlund (1992), the principle of one manager in charge of a company’s operation was central in the administrative system making the chief director solely responsible for the company’s operations. On the company’s chief director rested the responsibility of transforming directives on paper into real production, which made the companies’ chief directors powerful actors. Their power positions developed, as the directors were in possession of resources influencing the achievement of production goals in other companies. A consequence of the system was, however, that it became difficult for government officials to control the companies within their jurisdiction in detail. These problems emerged because the controlling functions were dependent on the accuracy of the information provided by the chief directors. Looking into the accuracy problem, the studies of Granick, (1960), Kornai (1992) and Hedlund (1992) indicate that it was not unheard of for chief directors to change the reports in favour of their own interests.

As noted above, possession of resources was a foundation for power in the system since access to resources constituted a constraint on a company’s growth opportunities. These growth constraints have been described by Hedlund (1992) as one dimension of the differences between companies in a market economy and companies in the centrally planned economy. Explaining the difference, Hedlund (1992) points out that in a market economy restrictions in growth are mainly based on demand restrictions, i.e. what limits a company’s expansion is the market’s demand for its products. In a centrally planned economy, in contrast, restrictions concerned the company’s capacity to find more resources in terms of input material. Given the centrally planned system’s constraints, company functions such as Marketing and Sales had no relevance for the companies’ performance. According to Högborg (1971), marketing activities (in particular activities like advertising) were by tradition considered tools for manipulation of customers, and hence, not something that the socialist system accepted. According to his observations, Soviet trade delegations admitted that they wanted to conduct these activities, but had no knowledge of how this could be done.

Of interest is that Hedlund’s (1992) work demonstrating how the absence of market constraints (and presence of resource constraints) supports Högborg’s (1971) observations, as it was relatively easy to find customers for manufactured products. This, however, does not mean that innovations were absent or that no efforts were made to improve the production system. According to Högborg (1971), the Soviet system allocated large resources to research which resulted in
many innovations, but the step from innovation to commercialisation could not take place as the marketing functions were missing.

Another area influenced by the centrally planned system was the build-up of an infrastructure for financial transactions between the companies. According to Kornai (1992), there were no real money transactions between companies, and as prices were centrally fixed and deliveries scheduled according to the plan, there was no need to develop a financial infrastructure in a Western sense. The absence of financial measures as measures of success also influenced the use of budgets as a tool for controlling business activities (Kornai, 1992). Nor was the risk of bankruptcy a sanction for mismanaged companies and, as the state owned all companies, there were no incentives for transparency in the companies’ accounting systems. The absence of ‘real’ money was also something that influenc ed the relationship between the company and its employees. Studying this relationship, Devlin et al. (1998) point out that the absence of ‘real’ money in the system is revealed in the adage ‘they pretend to pay us and we pretend to work’, which was an adage told by workers in the Soviet Union who were unable to buy any products for the money that they earned.

Looking further into the legacy it is of interest to note that the Soviet system made it difficult to distinguish managers’ roles from those of politicians, technocrats and bureaucrats (Kornai, 1992). Another trait of the Soviet system observed by Oxenstierna (1990) and Hedlund (1992) concerned the Soviet labour market, as there was a shortage of labour at the same time as there were problems in managing the labour force efficiently (Oxenstierna, 1990). It is of interest to note that the study by Oxenstierna (1990) clearly shows that instead of acknowledging that this was a problem created by the system, Soviet politicians put forward the absence of social problems caused by unemployment as something that proved the centrally planned system’s superiority. This argument was possible as the system could avoid fluctuations in the market demand. However, an implication of this policy was that companies in general had a large number of employees (as labour costs did not seem to matter). Thus, it is vital to observe that the lay-offs taking place in the West were considered a serious deficit of the capitalist system, and as noted above, proof of the socialist system’s superiority.

It is, however, wrong to assume that there was no debate on how to use the labour force more efficiently. This is particularly clear in Oxenstierna’s (1990)

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19 It should be noted that the study by Granick (1960) indicates that Soviet companies used budgets and other financial measures to control their operations. My choice to follow the proposals by Hedlund (1992) and Kornai (1992) is based on my Russian colleagues’ verification of their proposals.
study, which points out disagreements among Soviet politicians as to whether there was a real or an artificial labour shortage. Oxenstierna (1990) also notes that some actors explained the problems by addressing the system’s inefficiency and the low working discipline as the real reasons behind the (imagined) labour shortage. The step from these insights to changes of the system was, however, never taken.

Another aspect of importance is that the Soviet companies were restricted in their contacts with foreign companies. In practice this meant that no direct foreign business contacts could be established without an approval at ministry level. Another restriction for international business contacts concerned currency issues which were controlled by the central authorities. To the problems of Soviet companies’ establishing contacts with companies abroad, we should also add the language barrier. Interpreters were available but could in general only be assigned when the foreign trade ministry had approved a foreign business contact (Högberg, 1971). Altogether this meant that Soviet companies’ business relations with foreign firms were in the hands of the foreign trade ministry in terms of both formal and practical matters.

3.3.2. Post-Soviet Companies’ Contacts with Market Institutions in Brief
A brief description of the challenges that Post-Soviet companies are facing involves their problematic financial situation and the need for investments in new production technology. These problems emerged when the former system ceased to function as a co-ordinating structure in the industrial networks. According to Yergin & Gustafson (1993), the Post-Soviet companies’ weak competitiveness became evident when their products met foreign competition at the same time as most of the subsidies from the government disappeared. Observers have also noted that the shock therapy used for the removal of the old system made directors complain about the development. According to Walck (1995), this became apparent as the market came to dictate the rules that the companies had to follow and for the first time in living memory the need to lay-off workers occurred. Studying this development, it is vital to observe that obsolete production technology has made it difficult for companies to adapt their products to the domestic market’s new demands as well as finding new markets abroad. To the list of problems we must also add the unstable legal structure and difficulties in being paid by domestic customers as aspects depressing the investment rate.

In seeking to understand how the legacy has influenced Post-Soviet companies’ adaptation to the market economy, we should consider the role of management education. With the Soviet system’s negative view of market functions, the educational programmes emphasised technical issues that were considered to be more important than control of finances and market positions.
According to Warner et al. (1994), management education during the Soviet period focused on technical training for the majority combined with administrative training for the elite. The administrative training was directed towards the function of central planning, as, in the past, there were no incentives to study business administration in a Western sense (Warner et al., 1994). We should, however, note that the Soviet management system (as opposed to their economic system) might not have functioned as badly as Western business people assume (Luthans et al., 1993). Clearly, the practical difficulties engendered by the system provided a substantial challenge for managers, as the system often made conditions more difficult to manage than in a market economy (Warner et al., 1994). Thus, looking at the problems and shortcomings of Soviet companies, there are indications that these problems were the results of dealing with the constant shortages created by central planning, and hence, not caused by managers’ lack of competence and skills (Hedlund, 1992; Luthans et al., 1993).

To sum up, this section shows that changes have been extensive and came to alter the entire orientation of society, since it concerned the political system, the economy and hence people’s living conditions. To support our comprehension of the Post-Soviet market setting, the following section sets out to conceptualise the changes in a model.

3.3.3. Towards a Model Describing the Changes
Following the discussion in the previous section, it is evident that there have been extensive changes in the direction of the political system influencing communication between the authorities, individuals and companies. Studying changes in society, the work of Svensson (1998) shows that there are few signs indicating that the communication structures between government offices, people and organisations have changed. What is shown is that leadership in the Post-Soviet society is perceived as more uncertain, and hence, less effective than the authorities’ leadership during the former system.

Looking at the changes with respect to individuals (friends and families), it is likely that the uncertainties in society after the removal of the former system have created stronger ties between people.

As highlighted in the previous section, a clear pattern is that communication between companies has been influenced. This is clearly shown since the removal of the centrally planned system meant that the companies lost

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20 According to Warner et al. (1994), almost 90 per cent of Soviet managers were graduate engineers.
21 Supporting this view are statements by my colleagues at Russian universities explaining how they could survive without salaries for long periods during the financial crisis in Russia.
contacts with both their customers and suppliers. Figure 3.1 provides an overview of the institutional setting in the post-Soviet society and identifies how the social sectors have been affected by the changes.

![Diagram of institutional setting in post-Soviet society]

**Figure 3.1. A Conceptual Model of the Changes in Post-Soviet Society**

As illustrated in figure 3.1, the removal of the planned system has affected companies in the business sector most as they have lost most of the infrastructure guiding their operations. It is worthy to note that regardless of the changes in the political system, there are actors at the social level, who seem to communicate with people and organisations at lower levels in the same manner as before the changes. Thus, a clear message in the analysts' reports is that the decision-makers communicate through structures that are similar to those in place before the changes.

Looking at the social sector that the Western firm entered, the reports by the Western analysts point towards the unstable legislation as a break on investments. Supporting this view are the observations of Fuxman (1997) and Gregory (1999), which indicate that politicians in Ukrainian society have not been able to create the structures needed to handle communication in business networks. We also have plenty of examples to illustrate that even though the changes at the macro level have been extensive, the new people in top positions tend to fall into the old ways (see Fuxman, 1997).

In seeking to understand the resistance to changes at company level, Kitov (1993) notes that there have been numerous motives for managers' resistance to enter and work according to structures based on market principles. Pointing
towards key issues explaining this resistance, Kitov (1993) and Walck (1995) suggest that the role and purpose of management was always clear in the former system and as the changes have brought uncertainty, nostalgic feelings about the past are nourished. Supporting this view is the study by Johanson (2001), which indicates that the uncertainty and feeling of having to deal with the unknown among Post-Soviet managers has influenced their propensity to adapt to the changes in society.

To sum up, this section clearly shows that the business sector in Post-Soviet society has been affected most, as it depended on the planned non-financial system to function (see Mortikov & Volonkin, 1999). To support our comprehension of the issues that this section has touched upon, we continue with a presentation of institutional theories that discuss vital aspects of the change process.

3.4. AN INSTITUTIONAL PERSPECTIVE ON CHANGES

This section applies an institutional perspective to support our comprehension of the changes presented in the previous section.

3.4.1. Institutional Aspects of the Market and its Legal and FinancialMechanisms

The fact that institutions such as political and legal institutions influence the activities and performance of economies is hardly a controversial starting point for any discussion in which human interaction is the focus of economic activities (North, 1994). Nor is it controversial to maintain that the way institutions develop over time influence how the economy develops in a certain region. The differences between regions' economic performance can be traced back to how the institutional setting in the regions changes (or remains unchanged). For a description of problems in the local setting we should note that the removal of old structures is dependent on the build-up of new legal and financial infrastructures which are important mechanisms for the functioning of a market (see Eliasson et al., 1994).

In seeking to understand such mechanisms it is vital to observe that many ideas initially of concern to markets have, over the years, been institutionalised and are today more theoretical in conceptualising the market as an institution (Brunsson & Hägg, 1992). According to Hayek (1990), a market can be viewed as an order that has been built on customs and rules. These moral customs and rules have developed alongside the development of modern society in a trial and error mode. In the Soviet society, however, there was no room for an evolutionary process of this kind. Instead, there was a belief that the planning offices could secure a proper allocation of the resources at hand. In the market
Looking further into market mechanisms, it is of interest to pursue an analogy by North (1994) illustrating the arena perspective by comparing a market institution with a competitive team sport. According to his analogy, within the framework of a team sport, players follow formal written rules as well as unwritten rules. In this lies also a distinction between economic organisations (firms) and the market institution, where the firms constitute the players and the market institution writes the rules that the players follow. Thus, the purpose of the market institution is to explain and make the rules clear for the players. The organisational challenge is then to put together a strong team with a combination of skills and strategies that makes the organisation competitive within the market institution. The analogy proposed by North (1994), therefore reveals that the Post-Soviet companies faced a situation with a new game in which competition was allowed. It was, however, unclear by what rules the referees should supervise (which has delayed the start of the game).

The analogy with a competitive game and the idea of treating the economy as a system of social interactions might at first glance look reasonable, or even obvious (Luhmann, 1982). A problem emerges, however, if the problem to be solved by the economic system is not clearly defined. A foundation for Luhmann’s (1982) standpoint is that the economy does not exist naturally but should be viewed as an evolutionary achievement, designed to make the determination of the values of products easier. That is to say that when we describe the value of products, we do so in monetary units that makes the exchange easier to handle compared to a pure exchange of products. Thus, monetary units facilitate transactions between actors.

Another vital dimension of monetary units concerns scarcity. According to Luhmann (1982), this involves the very core of the monetary mechanism that has developed as a response to the problem of dealing with true or imagined scarcity. This perspective on the role of money has also been discussed by Kallinikos (1996) who, like Luhmann, proposed a view of monetary units as representations for collective (cognitive) representations of value and scarcity. A market can therefore, according to Kallinikos (1996), be viewed as a gigantic communication system that informs actors with the aid of the language of numerical equivalence. Thus, the presentation of all the heterogeneous results of human efforts in a homogenous form—in numbers, is a vital mechanism (Kallinikos, 1996).
In seeking further to understand this mechanism, we find that by using monetary units as a cognitive interpretation for value and scarcity it is also possible to postpone need fulfilment in time. The use of money therefore makes it possible for actors in the economic institution to evaluate and compare different needs and to allocate resources to the activities that represent the best alternatives. It is important to observe, however, that what is perceived as the best alternative by the economic institution does not necessarily coincide with the values in other institutions. In society, political institutions may put forward wishes to allocate resources to activities, to which the economic institution can find no rationality. Thus, the mechanism of monetary units helps the economic institution to build its own values, its own goals and rationality criteria (Luhmann, 1982). Furthermore, it is vital that the monetary mechanism facilitates differentiation (rather than independence) from the rest of society, i.e. the economy as an institution has a rather high degree of autonomy from other social sectors in the Western market economy. Given the problems in the transition from a planned to a market economy, the actors in the Ukrainian business sector are likely to have less autonomy from the political sector since the economic infrastructure is under development.

To follow-up on the discussion above, it is of interest to reflect on a question posed by Luhmann (1982), who asked why a society develops means/ends rationality as a decision-making principle and monetary units to handle the problem of scarcity. In answering this question Luhmann (1982) suggested that we should look at the economy not as a system that obeys logical needs, but rather as a system that obeys the need for inherent logic. In practice, this involves rational economic decision-making that seeks consensus in the economic institution, i.e. the decisions need to be supported by assumed consensus. Clearly, this consensus can be obtained in the market epistemology which relies heavily on numerical coding of economic activities (Kallinikos, 1996).

Looking into this coding we find that, in companies, the success of business activities is measured by accounting systems that transform performed activities into numbers. The accounting systems are, in this sense, tools to support decision-making processes within companies which support the internal controlling functions. In situations where accounting practices differ, it is not the numbers as such or the mathematical methods used that raise the most impenetrable obstacles for people’s understanding, but rather the underlying assumptions on which the practices are based. In practice, we have examples

Note that Johanson (2001) describes how actors in Russian business networks have searched for a new logic.

An observation made when discussing a course in Management Accounting with Russian colleagues.
indicating that a new accounting system may need a week for installation in a
company’s computer network, while the time needed for installation of the new
system’s logic in people’s minds is a much slower process needing considerable
time before it is completed.

Reflecting over the market economy’s structures for resource allocation and
the measuring of business activities in monetary units, we find a big difference
compared to the former planned system that did not measure companies’
business success in financial terms. Instead, the scale for measuring was based
on production volumes and how the companies were able to meet the planned
production volumes (Sutela, 1984; Hedlund, 1992). A direct implication of such
measures was that the system excluded the possibility of using monetary units as
a representation for scarcity, and hence the optimising of resources in business
operations. According to Hedlund (1992), some of the problems that occurred in
the centrally planned system were due to the fact that the handling of scarce
resources was resolved by allocation of more resources. In other words, the logic
of the market economy was missing in the former centrally planned system.

To further increase our understanding of the logic of the former system, it is
of interest to note that a guiding idea was that problems concerning resource
allocation would disappear if the calculation methods were improved, while the
logic of the system was assumed to be accurate (Sutela, 1984; Hedlund 1992). What both Sutela (1984) and Hedlund (1992) point out is that the planning and
co-ordination of activities had their limitations and were not always as
successful as presented by the representatives from the offices in charge. The
structural limitations in the planning implied that organisations often failed to
reach the planned goals. These problems emerged because the organisations
were structured to meet optimal efficiency in a specific domain from the
viewpoint of the producers, while the requirements of the users (the customers)
did not receive the same attention which resulted in sub-optimal actions
(Hedlund, 1992). Looking at this problem, it is vital to observe that once such
sub-optimal rationality enters organisations, it can become difficult to
accomplish the things that are considered possible from a purely organisational
point of view (Luhmann, 1982). The discrepancy between strict plans and
practice is, according to Luhmann (1982), based on laws in human interactions
that do not slavishly follow planned programmes.

With regard to market mechanisms it is also of interest to consider the
assumption that firms are created as responses to institutional opportunities in
society, which implicitly point towards institutional aspects serving as
constraints for firms’ development (see Peng & Heath, 1996). The development
of economic activities can therefore be viewed in terms of learning, i.e. a
process, in which new knowledge about how to adapt to the environment takes
place in an organisation's interaction with other organisations (North, 1994). The incentive to acquire new knowledge does not, however, only depend upon monetary rewards or the risk of punishment, but also on a society’s tolerance for the development of new knowledge (North, 1994; Brunsson, 1996). What the arguments above point towards is that the institutional setting is likely to guide the acquisition of knowledge and skills, which in turn constitute a decisive factor for long-term development in local organisational fields (DiMaggio & Powell, 1983). Thus, it is likely that the institutional heritage in Post-Soviet society determines the demand and acceptance of new input presented to local companies, and hence, influences learning and adaptation processes (see Suhomilova, 1999; Kostova, 1999; Michailova, 2000). In this sense, we can comprehend the problems that have occurred in the local setting as originating from various levels influencing both the removal and build-up of new market structures.

3.4.2. Institutional Aspects of Influence from the Political Sector
As this chapter indicates, in looking at influence from the political sector, we might observe both stability and change. This pattern may show that the institutional structures remain unchanged at the same time as politicians change both in terms of people and opinions (see Svensson, 1998). An example that points out this phenomenon is presented in section 3.2, indicating that after the parliamentary elections, the newly elected Prime Minister ran his office through the same structures as his predecessor did.

Reflecting over these issues, it is essential to consider that institutions might persist even when they serve no one's interest and therefore become sources of sub-optimal influence, as institutional inertia may resist the necessary changes (Zucker, 1991). We can therefore not take changes of malfunctioning issues in macro structures for granted just because they are malfunctioning. In addition, as proposed by North (1994), institutions are not necessarily (or even usually) created to be socially efficient, as they often tend to serve the interest of those with bargaining power to set the rules. Therefore, in case there are malfunctioning laws and regulations we need to look upon changes of these issues with respect to institutional inertia and seek an understanding of the underlying assumptions on which the inertia is founded. The assumption is therefore that well-functioning laws and regulations will not be subject to efforts for change. However, in case of such changes it is reasonable to assume that the inertia dimension would be equally influential on the change process.

My motive for discussing the issues mentioned above is to illustrate that the changes in local society require concepts that support our conceptualisation of individuals' rationality and the informal structures that govern decisions. In this context, an institutional perspective facilitates an identification of
frameworks that shape and create power structures at all levels in society— in firms as well as in the political sphere. Supporting my position is the proposal by March & Olsen (1984), which indicates that a weakness in many studies on decision-making processes is the single focus on the outcome-oriented concepts of collective choice. In their view, it is essential that we recognise that much of the pleasure lies in the pleasure of participating in decision-making processes. However, looking at the Post-Soviet context, it is likely that the local authorities’ pleasure in participating in subordinate actors’ decision-making may relate to the safeguarding of their power positions. Thus, given these conditions, an institutional perspective might support our understanding of influences on local actors’ decision-making.

3.4.3. Institutional Aspects of Economic Transactions and Organisations

The earlier sections have pointed out that changes have influenced transactions between companies. Efforts to understand transactions might therefore be supported by the transaction costs theory of Williamson (1975), as this theory identifies economic organisations as arenas for exchange (transactions) with contractual arrangements creating structures for economic organisations. The perspective on these activities and arrangements is that they are conducted with influence from macro structures and take place through the cognitive lens of actors in organisations. Bearing the discussion in the previous section in mind, we find that there is an influence from a society’s macro structures with laws concerning schemes for taxation, accounting systems, licences, etc that might follow institutionalised rationalities. Clearly, this influence, besides governing relations between macro structures and subordinate actors, is an influence guiding relations between subordinate actors.

Looking further into organisations as arenas for economic exchange, we find interesting aspects indicating that economic issues should not only be discussed in terms of financial matters such as costs, but through a perspective that reflects over the effects of incomplete information (North, 1994). In the process of decision-making, it has been recognised that decision-makers are inclined to fall back on assumed rationality when no other ‘facts’ are available. At organisational level, it is recognised that economic rationality may not be the only reason behind actors’ actions. An important aspect is also that when rational reasoning takes place, the rationality becomes rational through actors’ cognition. Contractual arrangements (and transactions) can therefore be understood as organised in a way that reflect actors’ perception of convenience and conventions (Sjöstrand, 1993). The perception of appropriateness and convenience may, however, imply that a solution contradictory to the guiding perception is disregarded regardless of its high potential (North, 1994).
In seeking to understand institutional aspects of organisations, it is of interest to look at the theory by March & Simon (1958). According to their theory, we may view organisations as important social units—simply because people spend so much of their time in them and, as they observed, for most people formal organisations represent the environment. In this sense, it is possible to view organisations as institutions and view internal processes as institutionalisation processes (see Selznick, 1957). We should, however, note that the relationship between the organisation and the environment has been the subject of discussions concerning whether the organisation adapts to—or creates the environment. To highlight these contradictory views, the theory presented by Cyert & March (1963) suggests a view on organisations as problem-solving and decision-making institutions, i.e. as systems with the ability to adapt to the environment. The firm is, in their view, an adaptive institution because it learns from its experiences. Selznick (1957), in contrast, suggests that the organisational environment is not necessarily the ‘weaker’ environment influenced by other social institutions. According to Selznick (1957), organisations might be viewed as structures organised according to rational motives making the organisation a unit with power to shape its environment.

My choice between these somewhat contradictory views is to follow the proposal by Cyert & March (1963), as their perspective allows us to look upon organisations as institutions shaped by the environment. Thus, their discussion of an organisation’s ability to adapt to the environment is an aspect that I believe is important, as the study explores how a Western firm’s subsidiary manages its operations in Post-Soviet society. In this setting, and given the aspects described in this chapter, it seems unreasonable to depart from a viewpoint that the Western firm’s subsidiary is the unit that shapes its environment (and is not shaped by it). The theories by Selznick (1957) are, however, of interest when we set out to conceptualise the process of introducing the parent firm’s management in the subsidiary’s organisation.

3.4.4. Summary
This chapter has discussed how the legacy from the former system affects changes in the Post-Soviet system. An important feature the chapter points out is that although the changes in the Post-Soviet society have been extensive, not all social sectors have changed (or been subject to changes). However, for our comprehension it is vital to observe that the social sector that the Western firm entered is the one that had been most affected. Looking into the aspects influencing changes in this sector, the chapter demonstrates that institutional theory supports our comprehension of these aspects.
4. STRATEGIC DECISIONS AND OPERATIVE CHALLENGES

4.1. ON WESTERN FIRMS ENTERING THE POST-SOVIET MARKET

The theories presented in this section are selected to fit a description of market entry strategies used by Western firms entering markets in the former Soviet Union. The section therefore leaves general theories on strategies by authors like Porter (1986) for a focus on market entry strategies and the operative challenges that follow.

4.1.1. On Market Entry Strategies

The Western firm at the focus of this study is one of the global actors in its industry. The firm has therefore experience from the steps in the incremental stage model (known as the Uppsala-model) proposed by Johanson & Wiedersheim-Paul (1975) when entering new markets abroad. Knowing that the model initially shows potential steps in firms’ internationalisation processes, it also points out strategic issues. The model discusses four steps and shows how firms, from a first step with no regular export activities, enter a second step by export via an independent sales agent. The third step describes establishment of sales subsidiaries that might lead to a fourth step with establishment of manufacturing units to meet the local market’s demands. In this sense, the model fits a description of the Western firm’s establishment on the Ukrainian market, as their operations started from a representative office that expanded gradually and came to encompass the later steps in the model.

However, as observed by Johanson & Wiedersheim-Paul (1975), the development on foreign markets is not always based on conscious strategies, as the exporting parent firm may find itself in a situation where it has to take over representatives or start subsidiaries, through which it gradually acquires experience to market their products. Learning about the local market might thus be an important aspect of an incremental expansion strategy (Johanson & Vahlne, 1977), and hence, important when entering markets where liberalisation and privatisation programmes are in progress. However, although the theories by Johanson & Wiedersheim-Paul (1975) and Johanson & Vahlne (1977) point out the strategic importance of learning about local markets, little is said about the operative process in which learning takes place. This study’s focus on development processes in a subsidiary may therefore deepen our insight into the operative aspects of incremental expansion. The reader should, however, note that learning is viewed as integrated in the processes, and hence, not as an analytical target.
A study that also highlights interesting issues concerning market entries is the study by Doh (2000). According to his findings, markets where privatisation policies and liberalisation are delayed reinforce first mover benefits. As proposed by Doh (2000), a first mover position may create economies of scale and secure a greater market share as the later the followers, the greater the first mover advantage for the pioneering firm. In his study this was illustrated by first mover benefits from collaboration with local enterprises, governments and other stakeholders during the privatisation of the telecommunications sector in Brazil and Mexico. A conclusion from Doh’s (2000) study is that such alliances provide a powerful advantage to early entrants, which is difficult for followers to copy.

In a similar manner the study by Gleason et al. (1999) suggests that Western firms entering Russia and the Ukraine early after the break-up of the Soviet Union had a first mover advantage, while firms that entered during 1993-96 faced much stiffer competition from other Western firms. According to Gleason et al. (1999), the more aggressive Western firms have established themselves in the Post-Soviet market by acquisitions, joint ventures and subsidiaries, while the majority of the MNCs have established sales offices to facilitate exports. Even though the proposals by Doh (2000) and Gleason et al. (1999) on early mover benefits sounds reasonable, there is cause to question whether competition from other Western entrants is a real strategic threat—and not the instability of the local setting.

An example of a study that illustrates the instability of the local setting is the study of Rondinelli and Sloan Black (2000). According to their study, there is a political risk in spite of the privatisation policies and the need for foreign investments. The political risk indicates that some governments in Eastern Europe make it difficult for foreign firms to form alliances and acquire local enterprises. Their study therefore indicates that there are good reasons why Western firms have kept operations on a small scale.

The need for caution is also apparent in the findings by Rutihinda (1996), who described the reasons why Swedish firms have preferred green-field strategies when entering markets in Eastern Europe. According to Rutihinda (1996), the rationale behind such strategies is that this allows the entrant firms to exploit their technological capabilities. The high uncertainty associated with operations in transition economies’ unstable legal and economic conditions seem to have influenced the choice of green-fields as this strategy allowed gradual commitment of resources and an easier exit in case of unfavourable market conditions.
Acquisitions of local enterprises are, according to Rutihinda (1996), more problematic to handle, since the local governments are reluctant to allow complete sales of enterprises to foreign investors. As his study points out, the large firms that entered joint-venture agreements did so to secure a position for future market opportunities. The role of joint ventures in creating strategic links to local business networks is, according to Gleason et al. (1999), an important mean for local expansion. In this study I have followed the development of a large multinational firm’s subsidiary that established joint ventures to gain such links—a question for further analysis is how these links influenced local expansion.

A common denominator for the studies mentioned above is that they discuss the variety of strategic motives behind entry strategies. In this stream, the findings by Borsos-Torstila (1999) show that, at first glance, the initial motives behind MNCs’ FDIs (foreign direct investments) in Eastern Europe do not differ from other FDIs that firms in her study made. According to Borsos-Torstila (1999), the Finnish MNCs were attracted by and wanted to establish presence in expanding markets. Expectations did, however, seem lower, as many of the investors (regardless of industry) knew that the new operations in Eastern Europe needed some years to show positive figures.

It is of interest to observe that the study of Borsos-Torstila (1999) indicates that the more carefully the motives were examined, the more a pattern of prudence emerged which was also reflected in the market entry strategy. Her study therefore indicates that the motives of investments were of a reactive character, i.e. based on a perceived need to follow the market leader, or to gain a first mover advantage. Likewise, the study by Golubeva (2001) points towards this reactive pattern by showing that investments were not always based on aggressive strategies. In her study, she suggests that firms might have two reasons for committing resources. Firstly, resources are allocated in response to perceived opportunities. Secondly, resources are committed to safeguard investments already made. According to Golubeva (2001), in both cases communication and interaction with local actors are important for learning about the local market, and hence, for the allocation of resources.

My criticism of these studies (with the exception of the study by Golubeva) is that they have disregarded the possibility of entrant firms using more than one strategy. In practice this might imply that an entrant firm keeps expanding its sales offices for imports, while simultaneously building local production capacity. The standpoint is that the process of building on several strategies and the dynamics of the entering process suits the incremental stage model by Johanson & Wiedersheim-Paul (1975), while the examples above describe entry strategies in a more static manner. Consequently, like Golubeva (2001), I
believe that entries to markets in the former Soviet Union should be examined as a slow incremental ‘learning-by-doing’ process.

4.1.2. Operative Challenges
A common denominator for the studies presented in the previous section is that they have pointed out operative challenges, while the operative work in the subsidiaries has been left unexplored. In this sense, this study builds further on these studies’ insights, while strategic issues are analysed at operative level. Looking at operative issues, it is of interest to note that the privatisation policies of the Ukrainian government received lukewarm support from the public and met open resistance from trade unions and employee groups. According to Rondinelli & Sloan Black (2000), privatisation policies have faced the scepticism of managers in state owned enterprises concerning both the privatisation and the alliances with foreign MNCs. In a similar manner the study by Gleason et al. (1999) provides valuable insight by describing problems with the local infrastructure, bureaucracy and corruption that, according to Fuxman (1997), raise ethical dilemmas when establishing business contacts with Ukrainian partners.

The abovementioned studies therefore indicate problems that may be difficult to foresee as they may surface only after the market entry has been accomplished. It is also of interest that although there are tales about Western firms being squeezed out of joint ventures and worn down by ever changing laws and regulations, some Western firms have survived. According to Fuxman, 1997), these firms can be divided in two categories: the giant MNCs with financial strength to sit out the economic turmoil, and firms small enough to avoid attention. In this study I examine the developments within a subsidiary with a parent firm belonging to the former category. However, the reader should note that I find the – ‘to sit it out’ category by Fuxman (1997) misleading when describing the operative challenges in surviving local turmoil. In other words, there is a need for a study that furthers our knowledge about operative challenges.

4.2. ENTERING LOCAL BUSINESS NETWORKS
This section builds on the notion that the Ukrainian business networks are heavily influenced by former structures (see chapter three), and hence, different to business networks in the West. Therefore, for our understanding of the operative challenges of entering local business networks there may be aspects that should be added to current business network theories. Besides pointing out such aspects, this section sets out to illuminate the operative challenges.
4.2.1. On Business Networks and Subsidiaries in Foreign Business Networks

In seeking to understand what a business network consists of, I found guidance in the theory of Håkansson & Johanson (1992). According to their theory, a business network, or industrial network, consists of a network of actors, a network of activities and a network of resources. The network of actors concerns actors at several organisational levels that perform and control activities. When performing activities in the network, the actors build and maintain relationships, and hence, access to resources in the network. The network of activities refers to actions where the actors combine, develop, exchange and create resources by utilising other resources. As proposed by Håkansson & Johanson (1992), the transformation and transfer activities require various resources which can be characterised by the actors controlling the resources, i.e. whether the resources are jointly controlled, or controlled by one of the actors. Control over resources may consequently be both direct and indirect and involve issues like knowledge and experience of how to utilise heterogeneous resources. A business network may be local, regional, or international depending on the industrial sectors to which it belongs. Thus, for my study on a subsidiary’s operations on the Ukrainian market, the network theories serve to conceptualise developments in the local market. My standpoint is, however, that the theories above are not fully applicable to the local setting (I will come back to why later).

As stated earlier, this study sets out to explore the operative aspects of entering a foreign market. In seeking to understand challenges facing firms in this process the findings of Havila (1996) point out the subsidiaries’ intermediate role in business triads and the complexity of the subsidiaries’ position. Not surprisingly, a conclusion drawn from Havila’s (1996) study is that the role of the intermediary actor is important in developing and maintaining a position in local networks. While Havila’s (1996) study points towards the complexities of operations in this position, little is said about issues influencing the intermediaries as individuals and how their roles develop in the subsidiary’s organisation.

The cross-institutional approach applied in this study holds that the influence of the parent firm is important. In this sense, the parent firm also constitutes a network to which the subsidiary has links. These links have also been subject to analysis in the studies of Pahlberg (1996) and Andersson & Forsgren (2000). The study by Pahlberg (1996), examines issues of autonomy, influence, cultural differences and control in the relation between subsidiaries and the parent organisations. As suggested by Andersson & Forsgren (2000), to make the network analysis complete we should include both the local network where the subsidiary performs its operations and its relationships with the rest of the MNC. Thus, the subsidiary is dependent on two different networks, which makes its position of cross-institutional character. While the studies of Pahlberg
(1996) and Andersson & Forsgren (2000) have pointed out the importance of links between parent firms and subsidiaries, little attention is directed towards the managerial aspects. In this sense, the internal managerial challenge of establishing links facilitating the subsidiary’s development is left unexplored.

The network theories (here represented by the Uppsala school with examples by Håkansson & Johanson, 1992; Havila, 1996; Pahlberg, 1996 and Andersson & Forsgren, 2000), have presented many interesting examples of the network perspective’s applicability. In spite of this applicability there are aspects that should be added in analysing business networks in the Post-Soviet setting. This view is based on network theories rarely confronting and analysing power aspects, which may be a key to a better comprehension of the challenges firms are facing in the Post-Soviet market. Thus, the standpoint is that aspects concerning power are important, as the active power forces influence local actor networks. In other words, without studying how power aspects influence the development in a local network, we might fail to understand the forces controlling it.

4.2.2. Entering Post-Soviet Business Networks

Given this study’s focus, earlier studies on local business networks provide valuable insights. In this stream of studies the findings of Johanson (2001) showed that Russian business networks have undergone extensive institutional changes with actors leaving the planned system’s stability, hierarchy and anonymity. According to Johanson (2001), it is evident that local networks have moved towards decentralisation. In this process, local actors faced challenges in finding identities and stability in the new structures. However, although Johanson’s (2001) proposals seems reasonable, it is important to observe that there are other studies indicating that former network structures were not so anonymous, and that actors in the former networks continue to control the development in the new structures. An example of a study making such suggestions is the work by Suhomilova (1999). In her study she shows how networks of SOEs (state owned enterprises) formed by the former system serve as co-operative structures helping the network members to survive the challenges imposed by the transition. The aid to the network members takes place through price differentiation where new customers (regardless of ownership) are charged higher prices than old customers. According to Suhomilova (1999) it is also common that local enterprises issue interest free credits to each other.

In this stream, the study of Peng & Shekshina (2001) suggests that privatised firms and foreign entrants urgently need to establish two types of networks to reduce the initial lack of legitimacy. Firstly, there is the network with entrepreneurs and managers in other firms, i.e. with customers and
suppliers, which is useful in any economy. The second network is unique for transition economies and concerns relationships with government officials, as harassment from various government officials remains a constant danger (Peng & Shekshina, 2001). To reduce the risk of such intervention, Peng & Shekshina (2001) suggests that foreign investors should take collective action when discussing legal reforms with local policy-makers. The risk of unwanted consequences of government interference through discriminatory policies might therefore reduce expected returns on investments (Rondinelli & Sloan Black, 2000). Thus, these studies clearly indicate that power issues must be considered when analysing local business networks, while surprisingly little attention has been devoted to the forces involved in local actors’ execution of power. Consequently, my standpoint is that the studies cited above have pointed out the problem, while much of the analysis remains.

4.2.3. Operative Challenges
As noted in the section 4.1, many studies have advocated the formation of joint ventures as a strategy to access actors in local networks. Although practical issues like the solvency of firms in the networks and intervention by local authorities have been discussed in earlier studies, we know little about the consequences that such institutional influence has for a subsidiary’s development. We may also question strategies based on acquisitions of local companies to enter the local networks on the assumption that local networks are functioning like networks in the West. Given the role networks play, the reader should observe that the network perspective is applied to conceptualise the influence on the subsidiary’s development from the Ukrainian market. The standpoint is, however, that an assumption that these networks function like those in the West may be misleading when trying to identify the operative challenges in the managing of influence.

As in the presentation of examples of strategic challenges at operative level I draw on the study by Fuxman (1997) to point towards the operative challenges in Ukrainian networks. Her study clearly indicates that the lack of ethics and the absence of functioning commercial laws make project start-ups by foreign investors difficult ventures. The study by Mortikov & Volonkin (1999) is also interesting by demonstrating that the share of barter deals in the Ukraine is high—especially in the industrial regions (in the Donetsk, Dnepropetrovsk and Zaporozhe Oblasts) where 50 to 60 per cent of deals are performed with barter trade. In this sense, earlier studies have identified problems in local networks, while none of the above studies have examined how a Western subsidiary manages influence of this nature. This study therefore has a gap to close.
4.3. THE MANAGERIAL DIMENSIONS OF ESTABLISHING A LOCAL SUBSIDIARY

4.3.1. On Managerial Aspects of Establishing Subsidiaries Abroad
Earlier studies on the relationship between parent firms and their subsidiaries abroad have generated many important insights about the challenges that follow. Since I can only present a fragment of these insights I have chosen one common theme. This theme concerns the fact that when we approach the managerial dimensions of international operations, we approach an area where mental distance between people might be more difficult to bridge than geographical distance. The study of Johanson & Wiedersheim-Paul (1975) points out this challenge, showing that psychological distance is a decisive dimension in the internationalisation process. In their study, this is illustrated by firms in the British Commonwealth that developed business contacts regardless of the huge distance between countries, while countries that are geographically close like the U.S. and Cuba seem wider apart due to political differences. As observed by Johanson & Wiedersheim-Paul (1975), political differences (of this magnitude) create a psychological distance that constitutes a barrier which is more difficult to overcome than geographical distance. For firms in the international arena this indicates a problem, as the more involved the parent firm becomes in operations abroad, the more important it is to have functioning communication between the parent firm and its subsidiaries.

Looking further into the communication between a parent firm and its foreign subsidiary, we find that Carlson (1974) points out problems in transferring information between the units. In his study he observed the difficulties in gaining knowledge about the local market as such information seemed more problematic to transfer than technological information. Another area that Carlsson (1974) identified as difficult concerned problems of transferring management know-how. In his view, transmission of management know-how requires face-to-face interaction, while more technically oriented information is easier to transmit. According to his study, obstacles in the communication between parent firms and their subsidiaries involved differences with respect to political, administrative and legal issues since these dimensions, combined with cultural and language barriers, made communication difficult. Thus, these authors have identified obstacles in communication between a parent firm and its subsidiaries which are issues of central importance for this study.

Examples of studies that have built further on these insights are the works of Kogut & Zander (1993) and Teagarden & Von Glinow (1997). The study by Kogut & Zander (1993) highlights the problems that may occur in the transfer of social knowledge, as this knowledge is tacit (silent) and as such difficult to
transfer (see Polanyi, 1966). According to Teagarden & Von Glinow (1997) this concerns an important aspect of MNCs’ managing of internal communication, as face-to-face interaction (where differences in social knowledge surface) are vital in holding the disparate pieces of MNCs together.

In this stream, Derick Sohn (1993) points out the importance of social knowledge for understanding the value system and behavioural patterns in the host countries. In his view, by possessing such insight, parent firms can reduce the dependency on ownership to control joint ventures in foreign markets. As observed by Derick Sohn (1993), differences in social knowledge (in joint ventures) are aspects that might make them difficult to manage, as problems due to such differences have two dimensions: firstly, it may be difficult for the parent firm to transfer its own social knowledge. Secondly, differences in social knowledge may be an obstacle for parent firms when trying to understand values guiding local actors. As his study on joint ventures indicated, the identification of differences in social knowledge can be made quite easily, while the challenge is to take the analysis one step further and explore how a subsidiary manages such differences.

Looking into the relationship between a parent firm and its subsidiary, we find that there are power aspects involved. Supporting this view are many studies showing that power aspects surface within organisations. An example of a study that points to these issues is the study of Cyr (1997). According to her findings, there is a need for commitment of the foreign managers (the expatriates) to develop local talents in Eastern European joint ventures, as this builds trust. In her view, this requires establishment of clear objectives for transfer of power to local employees which is important for this process to function. As proposed by Cyr (1997), the discovery of a common understanding between Western managers and employees in an Eastern European joint venture is a process of corporate sense making.

My standpoint is that although the study of Cyr (1997) highlights important issues, a key issue that concerns transfer of power is missing. This shows, as little notice is paid to the fact that power might have been taken away from local managers initially (when the joint ventures were established). This study will, however, not examine internal power transfers, while it is recognised that power issues may create internal tensions. Thus, the reader should note that of particular interest are the issues that create or reduce internal tensions in the relation between the parent firm and the subsidiary.
4.3.2. Management Transfer to Subsidiaries in the Post-Soviet Market

Many of the early studies on management transfers to subsidiaries in Central and Eastern Europe have examined the mental distance to be bridged between the Western parent firms and the local subsidiaries. An example in this stream is the study by O’Connor (1992), who examined how ABB, a Swiss-Swedish electro-technical MNC, approached management upgrading in Eastern Europe. In setting up joint ventures ABB worked with existing managers who were given Western management tools and concepts combined with hands-on coaching by Western managers. According to the quotations presented in O'Connor's (1992) study, it is evident that the manager in charge thought that local employees' technical skills were excellent while management skills (in a Western sense) were lacking. In particular the fields of improvements were Training, Marketing and Finance. Workers had good factory-floor skills but lacked the motivation for quality and efficiency improvements.

As noted in the previous section, this study sets out to go beyond an identification of differences to seek approaches that bridge gaps in management practices. Of particular interest are therefore the proposals by Thach (1996), who argued that training of Russian managers needs to recognise that concepts like teamwork, participative management, empowerment and reengineering may be difficult for participants to translate. For the bridging of such gaps, Thach (1996) emphasises the importance of coaching and clear links to business practice as this, combined with feedback, facilitates the receivers' comprehension of new policies and working methods. Likewise, the study by Fey & Björkman (2001) provides valuable insights into the relationship between human resource management (HRM) and the performance of Western firms' subsidiaries in Russia. Their findings show that management and employee development is dependent on the performance of the operations and that a focus on employee development (including employment security) is likely to be reciprocated with high levels of organisational commitment. In particular Fey & Björkman (2001) advocate extensive use of teamwork and decentralised decision-making combined with reward systems based on group performance as a means of improving the subsidiaries' performance.

In contrast with these studies is the work by Michailova (2000), who presents a local perspective on changes in Russian firms brought by Western owners. Her findings indicate that the Russian managers wanted to preserve most of the structures while the Western managers wanted to change everything ranging from reconstruction of buildings to people's attitudes and values. According to Michailova (2000), Westerners and Russians differ not only in terms of national culture, but also with respect to the economic, political, ideological and social systems in their original societies. Like many earlier studies, the study by Michailova (2000) pointed out differences between
Western and Russian managers, but also to activities that may bridge such differences. The assumption on which this study is based, is that such differences also exist between Ukrainian and Western managers and that institutional theory has an unexplored potential to point out bridges and not only to identify the gaps.

4.3.3. Operative Challenges
As noted in the previous section, the study of Fey & Björkman (2001) has provided valuable insight by illustrating that the introduction of Western firms’ management in local subsidiaries is dependent on the performance of the operations. What we may question is their view of subsidiaries as homogenous units. This is to point out a missing aspect since if the subsidiary is large (with thousands of employees) the subsidiary may show internal heterogeneity. Thus, the position taken is that there may be considerable internal differences in how the parent firm’s management is accepted. These differences are only observable at close range, which is likely to be the reason why none of the studies on the introduction of Western firms’ management in Post-Soviet subsidiaries have reflected on these issues (the study by Michailova is an exception). This study sets out to close this gap by exploring such variations at close range.

Furthermore, like Michailova (2000) I believe that role of the introducing agents, i.e. the expatriates, is important—while their role has received surprisingly little attention. On these managers rests the responsibility of transforming local enterprises (when establishing joint ventures) into units that fit the parent firm’s overall structure. Their assignment may therefore encompass the introduction of delegated decision-making, quality management and customer orientation, but also extensive restructuring of local organisations and decisions to lay off redundant employees. Thus, it is important to observe that even though investments in new production technology are welcomed, those in charge also have to deal with the other effects of rationalisation programmes. In this sense, as in any country, if the rationalisation results in lay-offs this harms employees’ trust in the company and its (local) top managers. As stated earlier, issues creating tensions are of interest and this is one such issue.

The expatriate managers also have the responsibility of identifying knowledge gaps among subordinates and suggesting measures to close such gaps. Training is therefore a mean to facilitate the introduction of norms and values in accordance with the parent firm’s management policies which might be contradictory to established norms and values among local employees (see Michailova, 2000). Thus, my position is that there are institutional aspects at the operative level that need to be examined further.
4.4. INSTITUTIONAL ASPECTS OF STRATEGIC DECISIONS AND OPERATIVE CHALLENGES

4.4.1. Institutional Dimensions of Entering the Ukrainian Market

As noted earlier in this chapter, there is cause to question whether the early movers that entered the markets in Eastern Europe can count on pioneering benefits. Looking into aspects influencing such benefits, Meyer (2001) found that the volatile and inconsistent institutional frameworks increased transaction costs. Addressing aspects involving transactions it is also essential to reflect over the communication dimension of transactions. Clearly, for the subsidiary’s operations on the Ukrainian market this communication dimension is of central importance as the financial transactions and the sending of goods across borders may be distorted by the local market’s institutional structures.

Regarding such influence, it is of interest to observe that Golubeva (2001) points out that while institutional structures in Post-Soviet society influence structures in companies, it is also important to recognise the influence of Western companies. The examples from Golubeva (2001) indicate that Western entrants are active players in influencing local institutions by purposeful political activities to support the local market’s development. Furthermore according to Golubeva (2001), training of local employees and establishment of training centres also influence the local institutional setting. This indicates that such activities transfer the parent firms’ institutionalised norms and values to the participants, and hence, to the local market. However, it is of interest for the reader to observe that Golubeva (2001) and Meyer (2001) examined institutional influence at an aggregated strategic level while the operative level remains unexplored.

Looking at the strategies presented earlier in this chapter, we find that an acquisition of a local enterprise may be perceived as rational by Western managers as a quick entry to the local business network (see Gleason et al., 1999). Thus, looking into a market entry, we find many indications of institutionalised rationalities. Supporting this view are the proposals by Czarniawska-Joerges (1993), who suggested that rationality in an organisation is likely to become a construction, as people tend to exhibit rationality in their attitudes and behaviour, which by itself creates the need and impulse to organise rationally (see also Meyer & Rowan, 1977).

Having this rationality perspective on the market entry project, it is reasonable to assume that when the Western firm established its operations in the Ukraine it followed values and rational assumptions developed by the parent firm. With these rational assumptions followed norms and values embedded in
structures and principles which might have contrasted with the structures and principles of local origin. Thus, when we direct our focus towards influences from institutional sources, we need to consider that we have two sources of origin: one originating from the institutional setting of the parent firm; and one that originates from the institutional setting in Ukrainian society. The standpoint on which this study is based is that this makes the position of the subsidiary of cross-institutional character.

The ways and motives that may guide firms in the parent firm's institutional setting have been presented earlier in this chapter, while the parent firm will be presented in the empirical section. The model in figure 4.1 (below) illustrates the focal subsidiary's position and the aspects of interest for this study.

Figure 4.1. The Cross-Institutional Setting and Influences on the Subsidiary

As shown in figure 4.1, there are two sources of institutional influence on a subsidiary in a cross-institutional setting. This illustrates that it operates in an environment with norms and values that are different compared to those inside the parent firm's organisation. The standpoint is that this makes the managing of a subsidiary in a cross-institutional setting a complex task, as it involves managing influences from local actors (following the local norms and values), at the same time as it maintains the parent firm's principles and objectives. To conceptualise the aspects involved in the managing of the cross-institutional setting we continue by looking further into institutional theories.
4.4.2. On the Links between Institutional Structures and Processes

The focus on institutional phenomena inside the subsidiary's organisation implies that we approach macro-institutional dimensions at organisational level. By tradition, the field of institutional theory has been considered suited to analyses of influence from social developments at a high level of aggregation. The high level of aggregation does, however, have its limitations when we try to identify what the influence resulted in. In other words, the assumption that influence takes place boils down to a study that seeks to understand what the effects are, and how those who are influenced perceive this. To accomplish this, we proceed by presenting some proposals on how we can bridge the conceptual gap between the micro and macro-levels and what the micro-level position might offer.

Looking into this issue Porter (1996) suggests that by a unification of the micro- and macro dimensions we can develop an analytical framework that allows us to comprehend the balance between centralisation and decentralisation. Thus, this is a way to approach issues discussed in chapter three concerning how decisions are made inside and outside organisations. In this sense, by unifying the micro- and macro dimensions, we can analyse how the macro-structures' influence is reflected in the micro-level actors' routines and perceptions of appropriateness.

Reflecting over the consequences of the unification of micro and macro-levels, I find it necessary to admit that this takes place in spite of knowing that I might confuse readers with insights into institutional theory. To clarify my position I draw on the study by Zucker (1991), who suggested that most macro-level institutionalists have focused on the content and the effects of macro institutional pressure (see DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Scott & Meyer, 1983). It is noteworthy that the theories presented by the macro-level institutionalists suggest that institutional isomorphism is an effect of environmental pressure which influences activities in organisations (this will be discussed further in coming sections).

The micro-level institutionalists, in contrast, have directed their focus towards institutionalisation as a process rather than as a state (Zucker, 1991). This process perspective is evident in the theories presented by Selznick (1957), who suggested that an organisation institutionalises a certain leadership with management structures, which is a process that distinguishes the organisation from other organisations in the environment. In this sense, while knowing that organisational level is not a traditional analysis level for institutional theory, I, like Kostova (1999), maintain that institutional theory can be used for intra-organisational studies on MNCs' transfer of management. In the following
sections I present the theories I have borrowed from both of the analytical orientations above.

4.4.3. On the Influence of Institutional Macro Structures on the Subsidiary

Looking at the influence of macro structures, we find that the theories of DiMaggio & Powell (1983) and Scott (1995) support our conceptualisation. In particular this concerns issues indicating regulative influence which uses coercion as a mechanism to secure obedience of laws and regulations. The influence of such sources is often explicit in character (in written form) and takes place through laws, taxation, accounting systems, etc. that govern business life. The perspective in which these issues will be studied, examines how people in the subsidiary’s organisation perceive this influence. Attention will therefore be directed to the respondents’ stories about contacts with managers in the parent firm and with local authorities that establish laws and regulations for the focal subsidiary to follow. In analysing this (regulative) influence we need to consider that these issues are likely to influence local companies in the same way as they influence the subsidiary, which makes the influence consist of direct and indirect dimensions.

Studying the development of institutional rules, Meyer & Rowan (1977) found that these rules are a result of common understanding and myths among actors in a certain environment. However, as observed in chapter three, this does not imply that the rules implemented serve the interests of all actors. Clearly, as noted by Scott and Christensen (1995), one cannot take a common benefit for granted as the established rules often fail to benefit all the actors involved, i.e. need does not by necessity lead to existence. This latter aspect is evident in studies of political institutions and bureaucratic agencies, which have shown that the existing system may promote ideas which preserve and obey existing systems and frameworks. Politicians and bureaucrats may therefore reject new ideas if they are contradictory to existing routines. For this study these proposals are important, since the way in which the governmental agencies in Ukrainian society have handled changes and promoted new ideas influences development in the business sector, and hence, the focal subsidiary (see Fuxman, 1997; Gregory, 1999).

In seeking to understand how politicians influence views on business, I found that the study of Dobbin (1995) illustrates an interesting example. In the study he examined how government decisions shaped strategies in the American and British railway industry. Different government support and policies for pricing had, according to Dobbin (1995), shaped the railway industry in the two countries. By analysing this influence, he showed that the American railway industry was regarded as monopolistic by legislators, while the British legislators viewed the British industry as co-operative. Due to the American
anti-trust laws, the perceived monopoly was something negative (not ideal) that had to be changed through legislation. It was also vital that the monopoly was viewed as anti-democratic (and inefficient), which meant that the legislators could find (public) support for laws aimed at breaking the monopoly.

It is of interest to observe that in the Ukrainian society we have a situation where the state monopoly has been removed. This has resulted in a debate concerning what the ideal market structure is, i.e. a discussion on the issues illustrated by Dobbin (1995), but from the viewpoints of those who want to preserve the state monopoly (see chapter 3). Thus, it is likely that such opinions reflect in activities among actors in Ukrainian society whose positions are threatened by the changes.

When we direct our attention to the business sphere, there is plenty of evidence that government agencies, through laws and regulations, influence the development of entire business sectors. Issues of this nature have been studied by Mezias (1995), who analysed the institutional foundation of financial reports. By describing the development of a public system for the certification of accountants, Mezias’ (1995) study showed how a regulative institution influenced the development of a profession. Furthermore, besides affecting the established accounting principles Mezias (1995) also noted an influence on leadership.

Reflecting on the issues highlighted by Mezias (1995) with respect to the subsidiary’s organisation, we can expect to find people dealing with accounting according to the parent firm’s principles and (also) in accordance with local legislation. The financial reporting between the subsidiary and the parent firm is, in this sense, a means of communication between the institutional settings. It is important to observe that in this context, it is not the controlling system as such that is interesting, but the normative role that financial reporting plays in the cross-institutional setting.

In this study, influence from normative structures concerns perceptions of what can be considered as right or wrong (given a certain situation). We can therefore expect that there is a Western view on what is considered appropriate behaviour brought by the expatriate managers (see Michailova, 2000). We can also expect a normative view on what is appropriate behaviour that originates from managers in local companies, which is likely to show in the respondents’ stories about their contacts with external actors. Thus, the reader should note that issues reflecting the subsidiary’s boundary spanning (see Thompson, 1967; Meyer & Rowan, 1977) are considered as central for our understanding of the subsidiary’s operations in the cross-institutional setting.
Looking further into boundary spanning it is essential to observe that organisations deal with the environment as well as imitating environmental elements in their structure (Meyer & Rowan, 1977). Given the cross-institutional position of the subsidiary, it deals with two highly institutionalised environments with substantial differences. A question for further analysis is how the subsidiary manages boundary spanning between these settings.

4.4.4. On Institutionalisation Processes in the Subsidiary
The introduction of the parent firm’s management in the subsidiary’s organisation is a process of particular interest for this study. To understand this process we need to identify the activities intended to support the introduction of the parent firm’s management. While looking for concepts that reflect this process I found that the proposals by Meyer & Rowan (1977) and DiMaggio & Powell (1983) on filtering and isomorphic processes were of interest. It is essential to note, according to Meyer & Rowan (1977), that the vocabularies of structures are isomorphic in making rules and procedures rational and legitimate. Reflecting over Meyer & Rowan’s (1983) proposal, we find that processes become parts of the structures which in turn make an analysis of processes more a perspective on activities that take place within the structures. Hence, the reasons why a process develops in a certain orientation cannot be understood without considering the structures to which it is linked. Thus, it may be necessary to look at the diffusion mechanisms as these mechanisms might reveal why certain structures change (or remain unchanged).

In studying issues of this character Boons & Strannegard (2000) noted that there is a distinction between the macro-oriented statistical analysis on diffusion mechanisms between groups of organisations initiated by DiMaggio & Powell (1983) and the micro-oriented analysis of sense making in organisations suggested by Weick (1979). As noted earlier, being aware of the existence of the differences between these orientations, I borrow concepts from DiMaggio & Powell’s (1983) theory, while keeping the analysis at the organisational level. Following this orientation we find that there are change processes that make organisations more similar without necessarily making them more efficient (DiMaggio & Powell, 1983). These isomorphic processes are processes of homogenisation among organisations in organisational fields. The mechanisms that guide these processes are: coercive isomorphism, normative isomorphism and mimetic isomorphism.

Processes governed by coercive isomorphism work by exerting formal and informal pressure on organisations. The origin of the coercive mechanism can be based on both laws and cultural expectations in society. In a parent firm –

\[\text{In the analysis I refer to this as screening.}\]
subsidiary context, the subsidiary is compelled to adopt accounting practices, performance evaluation and budgetary plans according to the parent firm’s policy (DiMaggio & Powell, 1983). Processes governed by normative isomorphism work by filtering\textsuperscript{25} personnel into the organisations. This process takes place in the setting of educational standards, in the selective hiring of employees, in training programmes, etc. (see Selznick, 1957). An important dimension of the normative isomorphic process when someone enters an organisation that has (somehow) escaped the initial filtering is, according to Dimaggio & Powell (1983), the socialisation process in which the entrant becomes subject to pervasive on-the-job socialisation. In the socialisation process the entrant learns the working tasks with respect to the normative principles in the organisation (see Mintzberg, 1993). According to DiMaggio & Powell (1983), mimetic isomorphic processes function where uncertainty is present, as actors under pressure from uncertainty tend to imitate successful actors’ way of handling such situations. For my analysis of processes in the focal subsidiary, the isomorphic mechanisms of filtering\textsuperscript{26} and socialisation are of interest. The assumption is that an analysis of these process dimensions might further our knowledge about aspects creating or reducing tensions in the relations between local employees and the Western parent firm.

As mentioned earlier, the introduction of the parent firm’s management in the subsidiary’s organisation is of central interest for this study is. According to Selznick (1957), a process of this character is an institutionalisation process, as managers infuse the organisation with values that go beyond the technical requirements. The institutionalisation is, according Selznick (1957), a result of managers’ efforts to infuse the organisation with values that create a distinct identity, i.e. it brings social integration beyond formal co-ordination and command. Discussing these issues, Selznick (1957) pointed to the role-taking process where the organisation’s normative structure supports the answering of employees’ (unspoken) questions about their roles with respect to the organisation’s objectives.

It is vital for the reader to note that the development and transmission of self-images supporting emotional identification are viewed as essential for our understanding of the introduction of the parent firm’s management in the subsidiary. In this sense, like Kostova (1999), I maintain that the greater the difference between the institutional profiles of the home country and the recipient country, the greater the likelihood that there will be a discrepancy between the transferred practice and the recipient environment. Thus, the reader should note that the discrepancy might result in difficulties or even failure of the transfer. However, like Michailova (2000), Thach (1996) and Fey & Björkman

\textsuperscript{25} Ibid.

\textsuperscript{26} Ibid.
I find it important to search for aspects that might reduce tensions which makes it important to carefully study viewpoints from both the expatriate managers and the local employees.

It is also notable that Selznick (1957) highlights these issues from the perspective of those in charge of infusing the organisation with their values while little is said about the institutionalisation process from the viewpoint of the receivers. It is therefore necessary to add the perspective proposed by Berger & Luckmann (1967) that describes the habitual dimensions of institutionalisation processes. Thus, the proposal by Berger & Luckmann (1967) might facilitate our conceptualisation of the institutional dimensions of the stories told by those who have been adapting to the parent firm’s management principles in the subsidiary.

To further support the conceptualisation of these aspects, I draw on the proposals by Weick (1993), Jose & Thibodeaux (1999) and Feldman (2000). A vital issue that they have pointed out is that it is unlikely that someone in a leadership position can perform leadership if that leadership is not consistent with the norms he feels secure with. Reflecting over their proposals we find that the environment providing a sense of security to managers and employees may be the one in which they feel they belong and do so regardless of opportunities that other environments offer.

To sum up, the institutional perspective discussed in this section is envisaged to serve as an analytical framework to support our understanding of the challenges involved in entering the Post-Soviet market, establishing a subsidiary and starting the management transfer from the parent firm to the new unit. Having this as a conceptual framework it is time to enter the empirical section.
5. THE MIMER CASE
At my respondents’ wishes a pseudonym, Mimer, has been adopted in place of the company’s real name. I have chosen to call the company Mimer after the figure in the Viking saga who guarded the well of wisdom since my attempts to understand developments in the Ukrainian subsidiary have been possible through my respondents’ willingness to share their wisdom with me.

5.1. INTRODUCTION – THE MIMER FIRM
The Mimer firm is one of the world’s leading corporations in its business. The firm began its operations in the eighties as a result of a merger between two Western firms. After the merger the total number of employees reached some 150,000 which, in terms of size, made the company one of the world’s largest in its industry. During a two-year period after the merger the company continued its expansion by acquisitions that made Mimer’s business take on a global character. Alongside globalisation came the work of fitting the new units into Mimer’s worldwide structure based on the ambition to have a global business with strong footholds in each local market.

After the fall of the Berlin Wall Mimer started its expansion in Eastern Europe. By the end of 1992 the Mimer firm had acquired some 30 companies in Eastern Europe and employed more than 20,000 people in the region. During 1993 Mimer continued its expansion in the former Soviet Union and, at the annual press conference in 1996, Mimer’s CEO expressed his positive view on the development and emphasised the need for training thousands of local employees in the new units. To meet training needs in Eastern Europe the Mimer firm established management training centres in Czech Republic, Poland and Russia to support the know-how transfer towards units in the region. Through this strategy Mimer intended to keep a local profile and, at the same time, introduce new management principles to support the integration of the new units.

One of the messages from the press conference in 1996 was that the Mimer firm was able to handle the restructuring of companies from the former planned economies in Central and Eastern Europe. Mimer’s success in its restructuring of the Polish subsidiaries made the Polish operations a platform from which the company built up its presence in other countries in the region.

27 Mimer’s internal Management Newsletter 2/96.
5.2. FIRST PROPOSAL AND FIRST CONTACT

At the request of the Mimer firm’s top management, our project constellation designed a proposal for training Mimer’s local managers. To overcome the obstacles involved in not knowing the Ukrainian subsidiary’s training needs, one of Mimer's representatives arranged a first meeting with managers from the head office in Kiev. At the meeting the Ukrainian subsidiary’s top-management gave a brief description of the company’s development from being a representative office, to becoming an organisation with almost two thousand employees. During our talks, the Country Manager told us that the training needs reflected the organisation’s situation. He also emphasised that all training activities should have a ‘hands on’ approach that reflected the participants’ daily work.

Concerning the restructuring of the joint ventures, the Country Controller presented the areas that were most important to improve during the restructuring process. According to him, the challenge was how to support the ongoing process of change and how to build key skills in the most efficient way. To illustrate this he showed us a diagram (see figure 5.1) illustrating the steps from the initial contacts with a domestic company to its integration in the Mimer worldwide network.

![Diagram of Key Issues at Different Phases of the Integration](image)

Figure 5.1. Key Issues at Different Phases of the Integration

Presenting their position, the County Controller explained that the joint ventures had passed the start-up phase and were now in the middle of the restructuring process. Describing activities in the restructuring, he emphasised that all training programmes should be developed to support the whole restructuring process. Pointing out key issues in this process he stressed the need

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28 In connection with our visit we had a meeting with managers from the company’s training centre in Warsaw which increased our understanding of the Mimer firm’s know-how transfer activities.

29 The Country Controller had been transferred from Russia to take part in the restructuring of the Ukrainian joint ventures. Part of his former assignment in Russia concerned the identification of target areas for management transfers.

30 Mimer’s internal presentation material.
to build the right attitude towards change among local managers. From his work in Russia he knew that it was important that training activities created confidence and reduced feelings of fear among local employees. Judging from the Country Controller’s words this was a balancing act since, at the same time, it was important to create a sense of urgency and encourage initiatives to make the process move forward.

Our first visit to the Ukrainian subsidiary therefore provided valuable information about the subsidiary’s position in the restructuring process, while we had little knowledge of what this meant in practice. To reduce this knowledge gap we suggested a pilot study to find out more about the organisation’s training needs, which also provided an excellent opportunity to learn about the challenges facing the subsidiary.

5.3. THE PILOT STUDY

5.3.1 Mimer Ukraine’s Organisation
The subsidiary had started as a representative office (in 1991) and had been growing rapidly after the country’s declaration of independence. At the time of our visit, the total number of employees reached almost 2,000. Like other Mimer units the Ukrainian organisation was structured according to an outline that co-ordinated operative business functions with geographical locations in a network. As illustrated in figure 5.2, the Ukrainian organisation was organised in a network that reflected a larger international network of the Mimer firm’s structure. These connections were most evident in the product segments (A-C) that marketed the Mimer firm’s products in the country. The product segment managers’ offices (in Kiev) then co-ordinated these activities with the branch offices in four large industrial towns. The local production took place in the joint ventures in Cossack Town and Gogol Town. The figure below illustrates an overview of Mimer Ukraine’s organisation.

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31 When making the proposal we also mentioned our intentions to integrate our work in the project with (later) research activities.
32 The pilot study was conducted during two weeks in May-June 1997.
33 The joint ventures (Major and Minor) had not started their operations.
Organisational functions marked with thick frames were located in Kiev.

As illustrated in figure 5.2, the organisation had many different functions that had been established alongside its growth. On the left of the organizational chart, we find the joint ventures with the local production facilities. In the centre, we find the sales and marketing departments that handle sales and marketing of the Mimer firm’s products from units abroad. On the right, we find the administrative functions established to support the organisation’s operations and contacts with local authorities. There were four expatriates in the organisation: the Swedish Country Manager, the German Country Controller, a Swedish General Manager for the joint venture in Cossack Town and a German Chief Financial Officer in Gogol Town. All other managers and employees were either Ukrainians or Russians.

In our joint planning with the HRM in Kiev we decided to start our investigation of training needs by visiting the joint ventures in Cossack Town and Gogol Town where more than 1,500 people worked. The aim of these visits was to gain a better understanding of the general restructuring process and how this influenced the situation for local managers and employees. To get some idea of what should be examined we had introductory talks with the company’s top-

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34 The grey marked squares on the chart show the respondents’ positions. In all during the pilot-study we interviewed 29 people; 6 in Kiev, 18 in Gogol Town and 5 in Cossack Town.

35 Only one expatriate spoke Russian.
management to get their views on training needs, suitable procedures and on the situation in the joint ventures.

5.3.2. Introductory Talks with People at Top-Management Level
Describing the training procedures in the product segments, the HRM explained that a common procedure was that the newcomer started in a specially designed introductory programme in production units abroad. Some selected managers had also been sent to Warsaw for training at the management training centre. When asking the HRM about the training needs in the joint ventures, she divided my question up in terms of what was most important and what was of secondary importance. What was most important, apart from a general improvement of language skills, concerned the need to improve managers’ knowledge in Business-to-Business Marketing. She also emphasised that training activities in this field had to have a practical approach. This she explained in the following statement:

‘Many of the people working with these issues are young and ought to learn how to plan their everyday activities in strategic terms. A need for improvement of skills in this area is evident as most of the activities in this field are based upon daily (immediate) needs. [...] Today, marketing engineers are in charge of the whole chain from suppliers to customers and due to the complexity of this chain it is important to improve their planning skills’.

In addition to marketing and strategic planning, it was important for managers to know how to present the results of their efforts. Another area that she pointed out concerned an improvement of managers’ business negotiation skills. Of secondary importance was the integration of Mimer Ukraine into Mimer’s worldwide organisation. In her view, this process had to continue and therefore it was essential to integrate Mimer’s corporate culture and working habits into the local organisation. There was also a need to improve local managers’ management skills which involved their ability to set explicit goals for employees and their evaluation of these goals. The ability to coach employees and to work with leadership methods that made this possible was, in her opinion, an essential part of the integration process. According to her, the expansion of the company and the large number of new managers made it necessary to include discussions on the corporate policy in future training programmes.

My second meeting was arranged with a segment manager who had been working at the company from the beginning. According to him, in the beginning it was quite difficult to find candidates with good technical skills combined with good knowledge in English and an understanding of the fundamentals of
Marketing and Sales. The trend was, however, that this was changing for the better. To illustrate this development he told me the following:

'Now when we are interviewing young people they often have very good communication skills with some knowledge of marketing and finance and I think this is a trend and that these topics are quite popular. Everything that is related to financing, services, marketing and trade have become prestigious and popular'.

Describing their training procedures he pointed out examples from Poland. His opinion of the Polish training centre was very positive since it was created especially for the Eastern region on the Polish example. 'One of the most successful examples of Mimer's presence in Eastern Europe', and added:

'I think that it is very good that they have facilities to train young people from Eastern Europe so that they can get experience and management tools to improve their performance. For example Mr. Ivanov, is now participating in a long-term training programme with the Polish training seminars as a part of a programme designed especially for him. Today we have sent some 4-5 of our young managers to Poland for initial training. Apart from that we have also organised a one week seminar that took place in the end of last year. To this seminar we invited almost all of our young employees including the joint ventures.'

As the segment manager recalled, the participants' common opinions had been very positive. In response to my question on what it was most important to include in these kinds of seminars, he indicated the following aspects:

'Here in our office, in our facilities, and in our branch offices we have people with different educational backgrounds and different experiences. Therefore you have to distinguish and maybe you have to organise something for people in middle and senior management on quite substantial bases but I think that there are a lot of training and seminars organised by Mimer in this respect and maybe we have to involve all our people in these activities. But for young people, I think we have to teach them the basics of Marketing and Sales [...] that is, customer focus, how to talk to customers, how to convince customers, how to behave with customers, that is, quality of sales. In short, all of these things should be taught to our young managers'.

He also emphasised the importance of Marketing and Sales when commenting on Mimer's general business activities in the Ukraine as the
development of the operations was based on their success in these activities. Answering my question on what was special about the Ukrainian market and what should be considered when operating in the Ukraine, he mentioned the following:

'We know that the country right now is in a very difficult situation. Therefore we have to be creative and find our mean, and from the first glance we often have to cope with very complicated financial schemes. This we have to do and, at the same time, we have to focus on the customer and his needs and his requirements. The understanding of the customer, the establishment of close relationships with the customer, -because sales in the former USSR rests on this relationship orientation. In order to sell in CIS [Commonwealth of Independent States] you have to know the customer very well.'

Like the HRM, he saw a need to include the corporate policy. In particular this surfaced when he compared the management at the head office in Kiev to the management in the joint ventures. Describing the difference, he pointed out the following issues:

'Here we have management and young people, here we can create an atmosphere supporting marketing and sales activities. This is not so easy in the joint ventures, where we have signs of old management or, should I say, mismanagement with a certain frame of action and thinking. Therefore it is important for us to introduce new management, marketing and sales activities; otherwise I think that we cannot be successful in our joint ventures'.

To find out more about the new management I asked him to describe what he meant by good management and what he thought it was important to include in training Mimer's managers. In his own words, the following should be considered:

'First of all, our people should know their targets and I think that we are quite flexible in this respect and we give them almost unlimited freedom. Because according to what has been prescribed in the guidelines they are quite free to choose what they have to do and what plan they should suggest. I think in this respect, a leading objective is to take initiative and suggest a new idea -maybe an unusual one, and to be strong for others in the work towards these objectives.'
The segment manager also highlighted the importance of making employees believe in themselves, i.e. that they felt that they were able to use the knowledge that they had acquired. It was therefore important that training programmes had a practical orientation providing young managers with the tools needed to improve their performance, and added:

'It is then up to the person how well they can adapt these tools to other circumstances. It is also up to them when they feel ready to use the tools that have worked in other situations and adapt them into their situation'.

5.3.3. Summary of the Initial Meetings
Both managers pointed out Marketing and Sales as areas that needed to be discussed during training programmes and that coming programmes were oriented to practice. Both the HRM and the segment manager also highlighted the need to improve local managers’ ability to plan and evaluate their activities.

The HRM manager emphasised the need to improve managers’ leadership skills and ability to set clear goals for employees in their organisations. Coaching and leadership were, according to her, areas that had to be improved to support integration into the Mimer firm’s worldwide organisation. The need for improvement of coaching and leadership was also emphasised by the segment manager, who expressed this in terms of the need for managers to suggest new ideas, implement them and see to it that they were evaluated. In this sense, they basically meant the same thing but expressed it differently. The HRM talked about this need in more general terms compared to the segment manager who described this need at a more operative level. Having received top-management opinions about the training needs and the situation in the joint ventures we continued with visits to get local people’s views on the situation.

5.4. MIMER, COSSACK TOWN

5.4.1. General Information about the Joint Venture (JV)
The joint venture between Mimer Ukraine and MaschProm (MP) was established in 1994. In terms of ownership, Mimer was in charge of 51% of equity with the Ukrainian State Property Fund owning the remaining 49%. The total equity in the JV was 5.53 MUSD with a pay back time for the investments estimated at 5-6 years.

The total number of employees was 144 (113 men, and 31 women) and, according to forecasts, this number was likely to reach 150 by the end of the year (1997). Most of the employees (95%) had been transferred to the new
organisation when the JV was established. The majority of the employees were working in the workshops or with tasks closely related to production. The plant in Cossack Town produced two types of MP products: oil-type and dry-type. The oil-type accounted for 99% of total sales in 1996 and the latter dry-type had reached a total volume of 17 pieces. Extensive investments in new production equipment had increased efficiency in production lines, but due to the weak domestic market, the plant had not been able to utilise its production capacity.

5.4.2. Market Situation
The expatriate manager told me that Mimer Ukraine had not received as much support as they needed from Mimer’s international organisation. According to him, the main reason behind the lack of support from other Mimer units was that decision-makers in the parent firm did not believe in any improvement in the Ukrainian economy. At this time, most of the Ukrainian companies suffered from lack of financial means which made barter trade the only possible solution to customers’ financial problems. The production capacity in the Cossack Town plant was designed to meet the needs of the domestic and Russian markets. Unfortunately, after the introduction of new trade tariffs between Russia and the Ukraine, the products produced by the plant lost their price advantage which made sales to the Russian market drop far below forecasts made when the joint venture was established. According to the manager of the JV, many of the state owned (customer) enterprises on the domestic market were not interested in investments in new equipment. Nor did they have enough financial resources to make such investments. My respondent described how these problems interacted by making the following statement:

‘When they receive money from the government they have to pay salaries to the workers and after that there is no money left for further investments. Much of the equipment used by these companies is far beyond the state where it can be repaired and used in a way that could be economically acceptable. [...] However, managers in these companies do not seem to fear costs for repairs -and to me, as I have perceived it, the most frightening thing for them would be if they had to start to lay off people. Now all these people are busy due to the extensive service and repairs needed’.

Thus, negative developments on the domestic market could be explained by the financial problems suffered by local enterprises. Another source of problems concerned the joint venture’s access to the Russian market as it was dependent on the partner’s sales channels. The figure below shows how sales were suffering from the declining market.
As illustrated in figure 5.3 a large part of the products produced by the joint venture were assembled into MPX products and sold through MaschProm’s sales channels. The sales volume for this concept showed disastrous development falling from 500 units in 1994 to zero in the end of 1996. A severe problem was also that the JV’s (own) sales to domestic customers and customers in the CIS had dropped from a low position after the start of 1995. Indications of positive developments showed in direct exports and sales through Mimer’s channels outside the Ukraine. The increased sales through these channels could, however, not compensate for the decline on the domestic and Russian markets.

5.4.3. Market Situation and Training Needs
My next respondent was the JV’s export sales manager who admitted that sales through the JV partner’s channels had not been successful. According to him, the plant was using some of its available production capacity for production of parts for XX-products manufactured by other Mimer units in Europe.

Discussing the forecasted sales for 1997, the respondent explained that the major part (72 %) was intended for the Russian and Ukrainian markets. The remaining part (28%) was envisaged for markets in the Middle East and within the former Soviet Republics in Central Asia. They also hoped that openings in Germany, the Baltic States and in the former Yugoslavia would improve their situation.

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36 Commonwealth of Independent States
Judging from the respondent’s words he was rather pessimistic about development on the domestic market. The lack of optimism was based on the market decline and that their price level was higher compared to other domestic producers. Another problem was that those responsible for sales on the domestic market often forgot to emphasise customers’ long-term benefit from buying Mimer’s products. This was also something he recommended that we included in our programme and added:

‘People must be aware of more sales instruments apart from price and they must have more knowledge of how our products benefit our customers. Our salesmen must also get a better idea of financial things’.

We continued to talk about sales activities and what went wrong in salesmen’s contacts with customers. According to him, mistakes were made for various reasons. A common problem was, however, the identification of decision makers in the customers’ organisations, which he pointed out in the following statement:

‘They must also be trained in how to penetrate into organisations, that is, to know if they are talking to the right people when they are talking to somebody because very often we have cases when sales people are sure that they will get an order but in the end you see that everything has been done in vain because people were wasting their resources. They must therefore be able to identify key people from the very beginning. Of course this is difficult to teach - they must be innovative and they must not give up in the very beginning, they have to look for new ways and solutions’.

5.4.4. Trying to Find Out More About the JV’s Situation
After our meeting my respondent guided me around the factory and offices. I was then free to walk around and talk to people in the workshops and offices. The joint venture’s office consisted of islands that were spread out in MP’s office buildings. It was much easier to see what belonged to whom when walking around the factory. In the factory the manager responsible for product quality showed me the production process which, in some sections, was integrated with MP’s production system. During our walk I had the chance to talk to some people at the factory about how they felt about working for Mimer. All of them told me that they were now allowed to make their own decisions within their field of responsibility while when working for the former employer (MP) they had to ask their superior manager about everything. One foreman pointed out the difference by saying: ‘now we are treated as adults’.
Talking to people in the design department the respondents expressed that the main problem was that they were very dependent on MP. One respondent, who had been working for Mimer’s joint venture since the start in 1994, made the following comment on the situation:

‘The management of Mimer need to reconsider our relations with the MP for future expansion of our joint venture – because we need to be more independent. It is very dangerous to sign an important contract without being sure that there are no problems we cannot solve ourselves. But if we were in control of these supplies it would be easier to control the situation’.

One of his concerns was related to quality and quality thinking among the workers in the factory. As he had been working at the plant since 1959, he knew most of the people in the factory. To describe their quality thinking, he told me the following:

‘They are becoming more quality minded. The problem is, however, that they compare the quality of the products that we produce today to those we produced in the past. This makes them think that the present product quality is high and they are therefore satisfied with the result of their work. When we discuss these issues, they say –We have been working with these things for twenty years now, and you should not come here and tell us how to improve our way of working. "Quality for what?" they ask. "Our products have worked very well so far!" And perhaps from a functional point of view they are OK, but as for appearance - they are not so attractive. So we have to try to change the workers way of thinking in this respect. They do not compare their work with our international competitors. On the other hand, how can one expect that from someone who has never seen our competitors’ products’.

We continued our discussions during lunch and talked about methods of making the workers more quality minded. Back in his office I repeated my question if the workers knew who paid their salaries. My respondent then suggested that I should ask them myself because he already knew what their answer would be and described their way of thinking by saying:
'I think that 100% of the employees will inform you that the company pays their salaries and not the customers. And of course we have to change their way of thinking about that and they have to understand that only if customers are satisfied they will come back to us and we can secure our future [...] But then, - even for me this was a new way of thinking and your approach is completely right, but still most of our employees think differently. This is perhaps the difference between us and a Western company, that is, in a Western company the workers understand that it is the customers who pays their salaries, but here it is different because they do not know where we get the money from'.

To learn about the financial situation I had a meeting with the Chief Accountant who spoke about her work in the financial department. According to her, a lot of her time was spent discussing details in invoices with suppliers and customers and in contacts with local authorities that were checking their accounting. They were, as she said, trying to work in a Western style, i.e. with methods used by Western companies, but they also had to keep their records according to Ukrainian law. She preferred the Western accounting system which she thought was easier to handle. To have these two systems meant extra work and from my question about what it was like to handle these two systems, she replied as follows:

'Unfortunately it is almost so that Mimer’s system becomes something extra that we have to do. However, I must say that I like Mimer’s system better because it suits the purpose of our activities, but then again, we have to stick to our laws and our laws tells us that we have to use the Ukrainian system as well, that is, we cannot concentrate on the Mimer system only'.

I then asked her to describe an area she thought was difficult to handle and therefore needed a lot of her attention. She laughed at my question and said:
'Well, in our situation almost everything is difficult, and especially difficult is the fact that nobody has any money. For example, our customers are often short of liquid funds and this means that we often have to wait for payments for our deliveries. And then we have this barter situation which means that we often have to consider payment in products from the customers. Then we have the problem of specifying the value of their products and, most important, trying to find out if there is someone who would like to buy these products. In short, barter transactions mean a lot of extra work. On paper these deals may look simple but in reality there is a lot of work before it is possible to consider a payment as completed. As a result of this situation we often suffer from lack of liquid funds, which then forces us to negotiate terms for payment with our suppliers. All of these issues would not be necessary if the economy in the country worked as it should'.

During my visit, I asked the secretaries to help me collect information on the educational background of the employees. When I started to ask for this material it became evident that they did not keep any such compiled records. Data was available but, as I understood, I was the first to ask for these figures on one sheet.

In the car back to Kiev I had the opportunity to discuss my impressions with two sales managers. They confirmed my impressions that the company was in trouble. There was, however, no doubt that people in the JV did their best to improve the situation. All the people I had met had spoken openly about their view on problems and what they thought caused those problems. To sum up, I could say that I had gained a greater understanding of the JV’s situation.

5.5. MIMER, GOGOL TOWN

5.5.1. General Information and Restructuring Efforts
When we visited the plant in Gogol Town the number of employees was 1,364, which was less than half of the number that had been working in the company during the Soviet period. The HRM gave a brief description of the JV’s development by pointing out the problems they had encountered after the country’s declaration of independence and the removal of the centrally planned system. In his view, the removal of the former system had hit the company from two sides. Firstly, they had lost their formal contacts with their customers. Secondly, the Ukrainian State could not provide the financial resources for investments to replace worn out production equipment.
After the establishment of the Mimer joint venture the company had started a 35 million USD investment programme. At the time of our visit this three-year reconstruction programme had started its second year. At the factory it was evident that restructuring was in progress to fit the new production equipment. Clearly, the company was making extensive investments but, in order to proceed with the remaining reconstruction, there was a need to find customers that could generate income. In short, there was a clearly defined need for revenues during the investment programme.

One implication of the rationalisation programme was that the company was forced to lay people off. According to the HRM after the new production equipment had been installed further steps in this direction had to be taken. In this process there was also a need for an introduction of new management. Talking about new management he showed us the action plan\(^{37}\) for training of personnel and qualification upgrading. The plan for 1997 encompassed 27 training programmes and had a total budget of 60,000 USD. Eight of the programmes focused on technical training at the Mimer firm’s training centre in the Czech Republic. A programme that involved Mimer’s controlling system was planned to take place at the training centre in Poland. The action plan also included language training in England to which they planned to send three managers. There was also a programme entitled ‘training abroad’ that was envisaged for four of their managers.

According to the action plan there was also local training to improve local employees’ language skills. This showed a two-step programme in English envisaged for 100 people in the organisation\(^{38}\). Studying the action plan, we noticed that managers in Gogol Town had arranged two seminars in Marketing and Sales for people at middle management level during the spring of 1997.

My next respondent was the JV’s Chief Financial Officer (CFO), who started work for the joint venture in 1996. In connection with his new appointment, he had participated in financial courses provided by Mimer’s training centre in Warsaw. Presenting his view on the general training needs, he targeted the need to improve managers’ knowledge of marketing. This need was based on the present situation in which they had to be more active in finding new customers. Only by finding customers, could the plant justify the completion of the reconstruction programme. It was evident that he was not satisfied with the marketing department’s way of working, which he indicated in the following statement:

\(^{37}\) After our talks he gave us the slides ‘for studies’.
\(^{38}\) According to our respondent, only five employees spoke good English.
'Today there are 15 people working at the department, but only two of them have direct contact with customers, that is, 13 of them are doing homework and only two are engaged in face to face business contacts. We also need to improve our activities to reach out through Mimer's international sales network and build our future business relations on these contacts. At present, based upon the situation on the Ukrainian market, one can say that we have over-invested and we therefore need to be very active and market our products abroad'.
The next speaker at the meeting was the Production Director who talked about the reconstruction of the production system and the challenges his organisation faced in this work. It was evident that the two directors had not planned to let their subordinates take part in the discussions during the meeting. Our direct questions to the subordinates on what areas in the field of marketing they wanted to learn more about broke the directors’ meeting agenda. For us, however, the answers from the staff at the marketing department provided valuable information by pointing out the following issues:

- How can I collect information about foreign markets?
- How should I work with personal business contacts?
- How can I strengthen and develop business relationships?
- I would like to learn more about how I can identify key people in customer firms.
- How can I learn more about business obstacles, that is, how to overcome them?
- I would like to learn more about industrial commercials.
- The field of my interest concerns delivery issues.
- I would like to learn more about payment terms and business contracts.
- How can I learn more about business negotiations, that is, how to reach business agreements?
- Is it possible to arrange seminars directed towards exchange of business experience with Western companies?
- How do other Mimer companies work on high-risk markets?

The marketing director commented on his subordinates’ statements and said that most of his staff had just started to work for the company. Some of them, as he said, came straight from the institute and had therefore not acquired any practical experience. According to him the question was, ‘how one could train the staff as quickly as possible in these areas?’

For us the meetings provided a good picture of the challenges that the joint venture was facing. From the meeting with people from the marketing department, we concluded that the internal challenge was not only a question of marketing skills, but also a question of management. In particular this latter aspect was indicated by the marketing director’s behaviour after we asked his subordinates about the areas that they wanted to improve.
5.6. COMPILING THE INFORMATION

5.6.1. Educational Level and Language Skills
Since all the people we met during our visits had been very open and provided us with a lot of material there was a need to make sure that we had not come across any confidential information. To ensure this had not happened we showed all the material given to us in both Gogol town and Cossack Town to the HRM in Kiev. After checking she told us that it was acceptable for us to use the material and offered to help us compile data on the educational background of employees in the joint ventures. After some phone calls and faxes from the HRM we could start compiling the information. The following picture then emerged:

Educational Background of Employees in the Joint Ventures

<table>
<thead>
<tr>
<th></th>
<th>Cossack Town</th>
<th>Gogol Town</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Men</td>
<td>Women</td>
<td>Men</td>
</tr>
<tr>
<td>University, Five Year</td>
<td>34</td>
<td>10</td>
<td>176</td>
</tr>
<tr>
<td>College, Special</td>
<td>17</td>
<td>7</td>
<td>120</td>
</tr>
<tr>
<td>College</td>
<td>62</td>
<td>14</td>
<td>576</td>
</tr>
</tbody>
</table>

In total, the white collar employees constituted 20% of the staff in the joint ventures. According to the HRM, with few exceptions, this was the group that had positions at middle management levels and upwards through out the organisation. It was also mainly from this group that we could find candidates for future training programmes. Summarising the managers' assessment of language skills, we found that they were in line with what the HRM had told us during the introductory talks. Having this information we concluded that the training seminars had to be held in Russian or with the help of an interpreter.

5.6.2. Presenting Our Ideas for Future Training Seminars
Discussing our impressions with representatives from the subsidiary’s top management we pointed out that the Mimer firm’s management values had not reached all levels of the joint ventures organisations. It was therefore important that forthcoming training activities for participants from the joint ventures integrated discussions on corporate policy.

Our investigation of the educational background of people in the joint ventures indicated that a majority of the potential participants had a technical education. Thus, it was likely that they were unfamiliar with concepts and theories in marketing and management. However, our observations in the joint ventures showed that local managers were working with marketing issues and
were in the process of building their knowledge on practical experience. Discussing this issue, we agreed that the participants’ educational background was important to consider since new concepts had to be linked to the participants’ experience. For our seminars we suggested a combination of English and Russian that would provide the participants with extra language training. This would then improve their understanding of business concepts that were unlikely to be part of standard language courses.

The question concerning the participants’ background and working tasks became the final subject of our discussions, as we needed more information about the skills and experiences of those who would participate in the seminars. To find out more about these aspects we suggested that a questionnaire be sent to the participants. The HRM supported this idea and promised to arrange for the translation and distribution of the questionnaires.

5.7. SUMMARY

5.7.1. The Project Context and the Normative Dimension of Know-how Transfer

The focal subsidiary with its 2,000 employees was in the process of restructuring its operations in the joint ventures. In the context of the Mimer firm’s know-how transfer our project constellation added an external dimension to Mimer’s know-how transfer regarding the Ukrainian subsidiary.

To illuminate some critical issues in our project’s context it is important to consider the very core of ‘know-how’ transfer strategy. This is to note that the knowledge transfer activities from West to East were called ‘know-how’ transfer by the Mimer firm’s management in Western Europe. The Mimer firm had also appointed a manager who was responsible for the co-ordination of these activities. At the very core this indicates three critical issues: firstly, the units in the West were assumed to have ‘know-how’ that the new units in Central and Eastern Europe lacked. Secondly, it was assumed that the ‘know-how’ transfer concerned a large number of employees – a process that needed support from special management training centres. Thirdly, the newly established subsidiaries in this region were supposed to accept and adapt to the ‘know-how’ to become members of the Mimer firm’s network.

As this chapter has shown the ‘know-how’ transfer involved technical and managerial issues accompanied by language training. It is likely that these three aspects coincided in many of the training programmes arranged by the country organisations and in programmes arranged by the training centres. Thus, this managed ‘know-how’ transfer was embedded in the Mimer firm’s expansion in Central and Eastern Europe and an essential part of the build-up of new units.
5.7.2. The Ukrainian Subsidiary - Formal and Informal Structures

The organisational chart showed how different parts of the subsidiary were linked to each other in a rather complex structure. To handle the organisation’s complexity, i.e. to reduce it, I decided to divide it in terms of spheres by the activities’ orientation. One organisational sphere was in charge of the build-up of the organisation and the introduction of the parent firm’s management. Another sphere focused on sales and marketing, a third was engaged in production and selling of products produced together with a Ukrainian partner etc.

By viewing the Ukrainian organisation in terms of spheres, we can study how far each sphere has come in the process of introducing the new management. Using the sphere definition we find that one organisational sphere shows the restructuring and rationalisation processes in the joint ventures (the joint venture sphere). In another sphere (the product segment sphere), we find salesmen and marketers who seemed to have close contacts with the Mimer firm’s production units abroad. It is therefore likely that they, by these contacts, gained a better understanding of the parent firm’s worldwide business compared to their colleagues in the joint ventures whose contacts were mainly domestic. Furthermore, in the joint ventures the salesmen and marketers were in charge of co-ordination of the whole chain from suppliers to customers which made their working tasks different from the salesmen in the product segments. Figure 5.6 below shows the organisational spheres in question.

![Diagram of organisational spheres](image)

**Figure 5.4. Spheres in Mimer Ukraine’s Organisation**

As illustrated in figure 5.4, the organisational spheres are linked by cross-sections with the top managers acting as the unifying sphere. The top
management sphere included the expatriates (the Country Manager and the Country Controller in Kiev) and the two expatriates who worked in the joint ventures. To this group I included the product segment managers and the HRM in Kiev. All people in this sphere had extensive contacts with the parent firm’s organisations abroad and they all spoke good English. When applying the opposite perspective on language skills, i.e. the ability to speak Russian, another picture emerged, as only one of the expatriates (the CFO in Gogol Town) could speak Russian. In other words, we can identify a language barrier since the other expatriates could not communicate directly with the majority of the people in the organisation. Thus, it is reasonable to assume that these expatriates were limited in their ability to communicate norms and values embedded in the management principles they were introducing.

In the joint-venture sphere, there were two major plants located in Cossack Town and in Gogol Town. In Cossack Town the joint venture employed 135 people and was founded on departments that had been separated from a factory owned by the Ukrainian partner MaschProm (MP). The joint venture in Cossack town was integrated with MP’s production and had planned to sell their products through MP’s sales channels. However, this highly integrated business approach had not been successful. Evidence of the problems that had emerged due to their dependence on the partner’s sales channels was striking. The JV’s total sales volume through these channels had dropped drastically and seemed to be beyond the managers’ control. Another problem mentioned by the people in the design department was that the joint venture could not control the flow of supplies delivered by the partner (MP). In other words, the Mimer firm’s JV in Cossack Town was very much in the hands of the Ukrainian partner. The strategy for the joint venture in Gogol Town was different from the strategy used in Cossack Town. In this set-up, the Mimer firm had better control over activities and had also started a reconstruction programme that concerned all production departments upon which the joint venture was dependent.

The product segment sphere marketed the Mimer firm’s products on the domestic market, i.e. building their activities on imports from abroad. According to the top managers’ statements, people hired for positions in this sphere had early (and extensive) contacts with the exporting units outside the Ukraine.

The administrative sphere in the subsidiary was responsible for contacts with taxation authorities and other local authorities. In the joint venture in Cossack Town it was evident that these functions were also engaged in the solving of problems arising from business with local customers. In particular such problems concerned the local barter trade which created a lot of extra work as it was difficult to determine the value of customers’ payments. A negative
consequence was also that the barter deals created a shortage of liquid funds which made it necessary to renegotiate terms for payment with local suppliers.

5.7.3. The Process of Introducing New Management
This section discusses the underlying assumptions behind the respondents’ views on training needs which reveals the efforts of introducing new management in the subsidiary.

5.7.3.1. The Top Management Sphere (the introducers)
The managers in this sphere were responsible for the entire operation. By analysing their statements concerning what they thought had to be changed we can trace the progress of the introduction of the parent firm’s management. Of particular interest is also the difference in the perspective on why changes were necessary between the expatriates and the local managers in the top management sphere.

Looking into the respondents’ statements we find that this difference is particularly indicated in the words by the HRM and the segment managers, who emphasised that their subordinates ought to learn how to plan, set goals, take the initiative, be leaders, etc. The reason why these skills should be improved was that this could support the integration of the Ukrainian subsidiary into the parent firm’s worldwide network. The expatriates’ perspective concerning training needs seemed more pragmatic and something that they approached to from a normative viewpoint, i.e. employees needed to learn how things ought to be done.

It is of interest to observe, therefore, that the expatriates’ viewpoints indicated that the introduction of new management concerned basic issues and that substantial changes had to take place for the organisation to function according to the parent firm’s standards. The non-expatriates in the top-management sphere, by contrast, emphasised the integration of the subsidiary, and to reach this goal it was important that local managers learned the parent firm’s management principles.

5.7.3.2. The Joint Venture Sphere
In both the joint ventures there were clear signs that new management was about to be introduced. In Cossack town employees in the production departments pointed towards positive examples of increased personal responsibility for their working tasks. In particular this was indicated in the statement by the foreman who said that they now ‘were treated as adults’. In Gogol Town, it was evident that changes in the organisation were underway with the rationalisation programme and the plans to support the process of change by the training of personnel. The picture that emerged from the plan was that technical issues
played an important part in the restructuring. Similarly the plan to allow a large number of people to take part in language training demonstrated that the general plan for restructuring of the joint ventures reflected in the operative plans presented by local managers.

Looking further into what the managers in Cossack Town told about training needs we find that the respondents' statements emphasised the need to improve salesmen's skills. However, in spite of this insight none of the respondent managers stated that they had planned to arrange or send their subordinate managers to such courses.

A difference between the joint ventures was therefore illustrated by JV in Gogol Town's efforts to take control of its restructuring while the smaller JV in Cossack Town seemed to rely on support from the head office in Kiev to handle these issues. Studying the statements by local and expatriate managers in the JVs, we find that none of the managers mentioned integration or what should be done to become a part of the parent firm's network. In terms of the introduction of new management, it was evident that the JVs had started this process and that there was an awareness that things ought to be done differently compared to how these things were managed during the Soviet system.

5.7.3.3. The Product Segment Sphere
As marketing and sales were the primary tasks handled by people in the product segment sphere the training needs reflected these issues. According to the segment manager, there was a general need to improve marketing and sales skills among young salesmen and engineers in the organisations. It was also evident that there were programmes provided by the Mimer firm to which they sent their newly employed sales engineers.

The introductory programme mentioned above also influenced the conditions for the introduction of the parent firm's management. In this sense, we find a striking difference between the product segment sphere and the JV sphere. This difference became apparent since the newcomers in this sphere came in contact with the parent firm's units abroad relatively early after being employed by the Ukrainian subsidiary. Thus, it was evident that the integration of these managers into a larger structure used other resources compared to the resources facilitating the introduction of new management in the JVs. It is vital to observe, therefore, that the parent firm's structures abroad played an active (and dominating) role from the very beginning for the integration of the newcomers in the product segments. The introduction of newcomers in the JVs was, by contrast, dominated by local management principles.

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39 No similar data was collected in Cossack Town.
5.7.3.4. The Administrative Sphere
From the interview with the Chief Accountant it was evident that people in the accounting departments had to learn a new controlling system when they started to work for Mimer. Apart from such training it was difficult to identify other aspects that concerned the introduction of new management. It was also clear from the initial interviews that the administrative sphere would not become involved in the forthcoming training programme.

My standpoint is, however, that the activities by people in this sphere are of interest since the work of this sphere influenced (and were influenced by) the other parts of the subsidiary. Issues of particular interest were illustrated in the statements by the Chief Accountant in Cossack Town describing contacts with local authorities. Thus, the administrative sphere was an interface between the subsidiary and taxation offices and other authorities in Ukrainian society which makes it interesting to pursue how these contacts were managed. This sphere will therefore be studied with respect to the management of contacts with local authorities.
6. THE MIMER CASE: PARTICIPATING IN THE PROCESS OF INTRODUCING NEW MANAGEMENT

This chapter describes the seminar programme and presents critical events during the seminars. Like the previous chapter, this chapter concludes with a summary discussing the aspects influencing local employees’ ability to adapt to the proposed management approaches.

6.1. OUR FIRST 3-DAY SEMINAR

6.1.1. Preconditions and Seminar Content

For our planning of the first seminar we had sent a questionnaire to the HRM in Kiev for translation and further distribution to the participants. Unfortunately for our preparations, we did not receive any response from the participants. As a result we did not know the participants’ background and positions in the organisation. Nor did we know how long they had been working for the subsidiary, or what expectations they had of the seminars. In our proposal to Mimer’s managers in Kiev, we suggested that we should have two kinds of seminars; one at A-level for newcomers and one at B-level for those with longer experience working in Mimer’s organisation. In other words, we had to accept that we lacked this information and proceed in our planning by relying on the information collected during the pilot study.

In the proposal presented to the HRM and the Country Manager we highlighted the need to integrate Mimer’s corporate policy into our seminars. When this general outline was ready we proceeded by writing short papers on some of the topics (team building, communication, conflict solving and setting of goals) included in the seminar. These papers were then sent to Kiev for translation so that the participants could have them when the seminar started. Having these parts ready we could proceed to plan our activities in detail. As our programme took a point of departure from Mimer’s corporate policy, we suggested that Mimer, Ukraine’s top management should play an active part during the first day and present how the corporate policy was reflected in their local operations. They agreed to our proposal for the seminar, which included the following topics:

**Management day**
- Corporate management
- Tools for strategic analysis
- Mimer corporate management.

**Leadership day**
- The manager’s role
- Team building
- Goal orientation

**Communication day**
- Presentation methods
- Communication
- Conflict solving

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The first management day served as an introduction to the following two days that focused on the practical aspects of a manager's work. Our intention with this outline was to begin with lectures providing a general perspective on management followed by an in-depth presentation of Mimer's corporate policy (by the subsidiary's top managers). With this introduction we hoped that the participants could see a connection between their roles as Mimer managers and the more practically oriented discussions that were planned for the following days.

Together with the HRM we had decided that the seminars should be held in English with the help of an interpreter. To avoid misunderstandings during the lectures we met with the interpreter before the seminars started. These meetings made it possible for us to identify the parts of our lectures that contained concepts that he thought might be difficult to translate. He could then present his Russian interpretation of the concepts for us which made it possible to identify where misunderstandings might occur.

6.1.2. The Seminar Participants
When we started the seminar we asked the participants to introduce themselves and tell us about their position in the company. In addition we asked the participants to complete a short questionnaire with eight questions about their present position in the company, in what town their organisation was located, how many training seminars they had participated in and the subjects discussed during these seminars. There were also questions concerning what skills they would like to improve, their expectations and what kind of information they had received about the seminar. From their responses during their presentations (and later when we checked the questionnaires) we found that ten of the participants were working as sales managers, four as marketing managers, two with service issues and one who worked with financial issues in projects. Their answers also revealed that twelve of the participants had taken part in earlier marketing and sales seminars arranged by the Mimer firm. With one exception, all the participants had worked for less than two years in the subsidiary's organisation.

Concerning improvement areas, four participants replied that they wanted to improve their management skills. All the other responses indicated that sales and marketing were the areas in which they wanted to improve their knowledge. All the participants had received our seminar programme in advance, but apart from that, they had received no further information about the seminar contents.

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40 Even though my colleague and I spoke Russian we thought that it was beyond our capacity to have lectures in Russian.
41 See appendix I.
6.1.3. Critical Events

Our first seminar day passed without any direct comments on the programme. The main part of the day was devoted to lectures with one group exercise focusing on analysing a company's business in terms of its strengths and weaknesses, opportunities and threats in a SWOT analysis. Before we started the second day, we asked the participants to think about their impressions from the first day. After a couple of minutes five of them were asked to share their impressions. According to them our previous day had been interesting, 'not directly related to our daily work but interesting anyway', as one of them said.

We continued the second day with lectures on information and the manager's role in an organisation. This section included an exercise that focused on problems they had experienced in their work with attention directed towards how information was distributed in their organisations. One of the participants made a presentation describing what could happen when they received an order from a customer who wanted products with special features. Judging from his presentation there were communication problems within his organisation. During the presentation he made the following statement:

'First we send the information about the order to the departments involved and then we have to make sure that they are following our specification. This is a process of battles that one has to fight to see that the specifications are followed'.

We then suggested that he should explain this situation to his superior managers and suggest that they arranged a meeting with representatives from the departments where these battles took place. According to the respondent, there had been such meetings, but the problems remained. 'Something else has to be changed', as he said. At the end of the day we discussed methods for setting clear goals and these methods in relation to team building activities in their departments. This part of our programme also encompassed an exercise in which we asked the participants to think of a situation in their department to which these methods could be applied and make a short presentation of this particular situation. We could hear from their comments that they were not comfortable with the exercise and one of them also expressed frustration by saying:

'I cannot understand why you have included these exercises in our programme. This is not for us!. Most of us are salesmen and marketers and we are not in these positions today. This is for our managers!'

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42 The participant came from the joint venture in Cossack Town.
43 This participant came from the joint venture in Gogol Town.
We asked the other participants if they shared his opinion and most of them did. We decided to stop the exercise and discuss the very purpose of the training seminar and why they were chosen to participate in the programme. This step was taken because we had to regain their confidence in ourselves and in the whole programme. We therefore started an open discussion on the purpose of the seminars. Most of them said that it would have been better if we had focused on the topics that were closer to their present needs and saved these issues for their managers. From the discussion that followed it became clear that their managers acted in a way that was contradictory to our proposal. However, asking the participants if the methods that we suggested would be acceptable (if applied by their managers), they all answered that they would accept them.

While discussing the purpose of the training programme we emphasised that education of Mimer’s future managers was an important part of the company’s long term planning. There was also a need to stress that someone on top-management level had selected them as potential candidates for higher positions and on their way to these positions they could be offered programmes of this kind. In short, we told them that it was acceptable that they saw no immediate need for the management concepts we had presented, but for future management positions they had to know these things. In the small talk that followed after the seminar it was evident that the participants had not thought about the link between training and their future careers. My colleague and I then spent the rest of the night rescheduling our programme for the last day as it was clear that we had to make adjustments to our scheduled topics.

The last seminar day was devoted to communication and presentation skills. Before starting the final day’s activities, we told the participants that we had made adjustments on the bases of our discussion the day before. It was also evident that they appreciated our efforts to make the exercises fit both their present and future work. After the exercises the participants made comments like: ‘this is something we should think about when we prepare meetings with customers’.

6.1.4. The Participants’ Evaluation of the Seminar

After we finished our programme we asked the participants to complete a short questionnaire with questions about the outline and content of the seminar. What we wanted to know was whether the seminar had increased the participants’ knowledge in the topics discussed during the seminar and if we had succeeded in balancing the theoretical and practical content. It was also of

44 From Mimer’s corporate policy.
45 See appendix II.
interest to know the extent to which the seminar had met their expectations and their overall opinion about the programme. From their answers we had indications that the seminar had been satisfactory and (to some extent) also met their expectations. Summarising their open comments, we could conclude that some participants preferred more practical exercises, while others appreciated the conceptual content. Clearly, this participant group had appreciated the proposed methods for analysing issues occurring in their daily work. We could also conclude that having the seminars in English with the help of a skilled interpreter had functioned better than we expected.

6.2. OUR SECOND 3-DAY SEMINAR

6.2.1 Preconditions and Seminar Content
The preparation for the second part of the programme was considerably easier than for the first part as we came to know the participants and received information about their background during the first seminar. According to the feedback from the seminar, it was evident that the participants preferred more exercises and group discussions, as they were eager to discuss these issues with each other. For us (the supervisors) this meant that we had to be more careful in selecting theories and exercises to bring practice and theory together. There was, however, no need to deviate from the general structure that had worked fairly well during the first seminar.

Talking to the participants during lunches and coffee breaks they often mentioned custom issues as frequent problems in their daily work. In response to this information, we asked the HRM to invite local experts on custom issues and let them explain what caused delays and misunderstandings. From the first seminar we also learned that the participants were travelling from all over the country to come to our weekend seminar. For our planning this meant that group exercises had to be scheduled for the second and third seminar days. We started the first day with lectures on Industrial Marketing followed by a lecture presented by experts on custom issues. Our general seminar programme included the following topics:

<table>
<thead>
<tr>
<th>Industrial Marketing day</th>
<th>Personal Selling</th>
<th>Sales Negotiations</th>
</tr>
</thead>
<tbody>
<tr>
<td>-Core concepts</td>
<td>-Strategies and techniques</td>
<td>-Strategies and techniques</td>
</tr>
<tr>
<td>-Buyer's uncertainties</td>
<td></td>
<td>-Group exercises</td>
</tr>
<tr>
<td>-Custom documentation &amp;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>common mistakes</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

In our planning we decided to make more room for the participants to express their opinions and start discussions immediately when there was enough ‘fuel’ to do so. At the request of the HRM we also included a short lecture on
Environmental Marketing followed by a discussion on how environmental issues were reflected in Mimer’s corporate policy.

6.2.2. Critical Events
After the lecture by the specialists on custom issues we asked the participants what they thought of the information that had been presented to them. Most of them thought that it had been interesting, but a couple of the participants also added:

'It has now become obvious for us how important it is that the presentation is well prepared. It seems like they had forgotten this part and when they made the presentation they also made a lot of mistakes'.

We then started a discussion in which the participants told us what they thought went wrong in the presentation. For us, this meant that the participants had started to reflect on the proposed methods for making presentations that were discussed during our first seminar. Another thing we noted was that these remarks came from the participants who had been most critical during the previous seminar when we introduced these methods.

During the lecture on personal selling and how to approach people involved in a customer’s purchasing decision, we proposed that they should work in small teams. Our suggestion targeted the need for getting more people to understand how purchasing activities took place in the customer’s organisation. Talking about the people that might be involved in the sales team we suggested that they should not only send technical experts. One of the more silent participants then said:

'When Western salesmen come to us it seems as if some of them lack good technical knowledge about their products, often it is only their sales engineer who really knows what he is talking about'.

In the discussion on Ukrainian companies’ purchasing routines that followed the participants clearly pointed out that it was very important to send people with good technical knowledge. Asking them to describe decision-making in local customer companies we concluded that Ukrainian firms were more centralised in terms of organising purchasing activities compared to the examples from Western firms that we presented.

The next critical issue surfaced during the Environmental Marketing case when asking the participants how these issues could be related to the Ukrainian market. Their comments indicated that environmental issues were perhaps
something that could make a difference in the West while Ukrainian companies had to focus on other things. One of the participants described the situation in the following words:

'Even though we have more practical experience of the effects of an environmental catastrophe than any other country, our customers have to think about things other than environmental aspects of the products that we try to sell them. Perhaps the customers that are making money can think about these things but unfortunately the average Ukrainian company has to let other concerns come first'.

In the discussion that followed we proposed that they should broaden their view of the market and include countries that were in the process of implementing environmental standards in their companies. Their answers clearly indicated that they defined their market as either the domestic one or those within other former Soviet republics.

6.2.3. The Participants' Evaluation of the Seminar
We noticed that the participants were interested in discussing issues presented in the seminar with us and with each other. Our impression was also that the atmosphere during the seminar had been very positive and that the participants had accepted us. For evaluation purposes, we used the same questionnaire as for the previous seminar. From their answers we had clear indications that they were more satisfied with the content of the second seminar. Likewise their answers showed that our attempts to make the seminar more oriented to practice had been successful. One mistake was, however, forgetting to hand out questionnaires before the seminar started and therefore not being able to make any clear judgement on how the seminar managed to meet their expectations. Judging from their open comments we could conclude that there were two opinions; one that thought it had been oriented to practice, and one that proposed more practical examples. In the first category we could find comments such as:

'I think that the seminar brings more success to the upcoming work for all the seminar participants, especially because most of the seminar was very practically oriented'.

'I think the seminar was useful for both experienced and inexperienced salesmen. There were enough practical recommendations'.

46 See appendix II.
The second category suggested that we should include more practical examples and exercises. The participants in this category made statements like:

‘My overall impression is good. A lot of information concerning methods of how to conduct negotiations. On the other hand, the characteristics of the Ukrainian market were not discussed enough. As a result, many good theories lacked the touch of real practice’.

‘Interesting enough, but there have to be more practical situations’.

‘More practical exercises’.

The general impression was, however, that the participants’ opinion of our programme was positive. Discussing the outcome with the HRM she also expressed a positive view of how the programme had developed. An indication of this was that she asked us to send copies of our evaluations to her to be used at an HRM meeting at the parent firm.

The seminar assignment from Mimer Ukraine was now completed and the outcome of the programme became the subject of discussions at a meeting (in Umeå). At the meeting, the HRMs told us about their positive experiences and suggested that our constellation should arrange one more seminar during the spring of 1998.

6.3. OUR THIRD 3-DAY SEMINAR

6.3.1. Preconditions and Seminar Content

When planning the seminar we decided to send a home exercise to the participants. Our intention with the home exercise was to encourage the participants write a short paper on a situation in which they used the concepts and methods presented in our earlier seminars. The exercise was based on the participants’ wishes that more Ukrainian reality should be discussed during the seminar. The home exercise was thus a response to their requests.

Presenting the idea about the home exercise to the HRM in Kiev, we explained that the exercise would serve two purposes: Firstly, for the participants to practice their conceptualisation of a situation at work and to express this situation in written form. Secondly, for the participants’ practice in making preparations for presentations and discussions. The exercise was thus intended to support their ability to approach problematic situations by making such situations explicit to others.
The proposal for sending home exercises to the participants also received support from the HRM in Kiev. She doubted, however, that they would find the time and motivation to write a paper and make preparations for a presentation at the seminar. ‘They are not used to making these kinds of reports’, as she said.

A couple of weeks before the seminar started we contacted the HRM in Kiev to make sure that the participants had received and started to work on their home assignments. She could, however, not tell how many of them were actually working on them and estimated that half the group had completed them. Bearing this information in mind, we decided to base the first seminar day on our own lectures and case discussions.

Regarding the seminar content, we knew the participants had appreciated the mixture of lectures and exercises during the previous seminars. For us this meant that we knew how to balance the seminar content and, as we felt comfortable with the general structure, we decided not to deviate from it. The outline of the seminar included the following topics:

<table>
<thead>
<tr>
<th>Quality and Service</th>
<th>After Sales</th>
<th>Cases and Presentations</th>
</tr>
</thead>
<tbody>
<tr>
<td>-Quality and profitability.</td>
<td>-Expectations.</td>
<td>-Case discussion.</td>
</tr>
<tr>
<td>-Industrial service.</td>
<td>-Relationship building.</td>
<td>-Participants’ presentations.</td>
</tr>
<tr>
<td>-Sales Management and personal selling decisions.</td>
<td>-Case discussion.</td>
<td>-Concluding discussions.</td>
</tr>
<tr>
<td>-Case discussion.</td>
<td>-Participants’ presentations.</td>
<td></td>
</tr>
</tbody>
</table>

With few exceptions the participant group consisted of the same people as when we started our seminar programme. This implied that we knew what the participants expected and that they appreciated our listening to their comments and attempts to adapt the programme according to their needs. As a result, they had become more open to discussing problems in their daily work with us. In other words, they knew that we tried to design the programme for their development.

6.3.2. Critical Events
The lectures during the first seminar day were focused on service and quality issues. While presenting proposals on a broader view of quality issues we described quality issues as everybody’s concern and compared our statements to what was stated in Mimer’s policy. In the discussions that followed it became evident that the majority of the participants viewed quality issues as something that only concerned products and people working in the production departments. To illustrate the broader view on quality issues we were suggesting, we asked the participants to describe things that went wrong in their relations with customers. One of the participants immediately commented and said:
'Often it happens that we have agreed to deliver our products exactly according to customer's specification. Then the problems start with the paperwork, and it happens that the paperwork becomes a source of conflicts in our relations with our customers.'

Asking the participants about their view of the paperwork we found that the majority viewed this as a source of problems and hence something that should be improved in their contacts with customers. To illustrate the source of the problem one participant told us the following:

'This is a result of the situation in the Ukraine where we have to accept barter trade and the problems that we are talking about are very much linked to these barter deals'.

When the participants presented their papers it became evident that the HRM had been right when estimating the number of participants who had completed the home exercise. As it turned out six participants were ready to make presentations at the seminar. It was surprising, however, that all of the presentations concerned topics presented during the first seminar. Likewise it was surprising that some of the presentations targeted issues that the participants had described as not relevant to their current work when we presented them. The six presentations concerned the following issues:

1. Communication with managers in other departments: Analysis of conflict sources.
2. Analysis of presentations made at meetings with customers' top management.
3. Analysis of the organisation's structure and the importance of delegated decision-making.
4. Market analysis (SWOT): Should A1 products be manufactured by a local producer?
5. Analysis of head contractor's project presentation. Successes and mistakes.
6. Market analysis: Should Mimer's C2 products be introduced onto the Ukrainian market?

Among these presentations it was especially interesting to listen to how a young manager had handled his communication problems with managers working at different production departments. Analysing the problem he had come to the conclusion that he had to spend more time with the older managers in the production departments and learn both their first and father's names. By taking this small step he could reduce their problems in communicating with someone who was younger and had close contacts with the JV’s top
management. Once the ice was broken, their communication became much easier which reduced the number of conflicts in their relations.  

The participant, who made a presentation on the importance of delegated decision-making had, during an internship in Germany, heard that some of his German colleagues had turned down job offerings from competitor firms. The positions that they had been offered were better paid, but did not provide equal terms of independence and responsibility, which they valued and viewed as important for their future careers. His conclusion was that middle managers in Gogol Town, who were still leading their organisations according to the old style, had to reconsider their leadership methods.

The presentations focusing on an assessment of the Ukrainian market (both) used the SWOT analysis as a tool for discovering strategic compatibility between their products and market opportunities. The final two papers referred to situations in which the speakers had reflected on the importance of making good presentations of their company and their products. From the discussion that followed we could conclude that the participants considered good presentations as something that influenced their customers’ (and their own) decisions, and thus, something that should be carefully prepared.

6.3.3. The Participants’ Evaluation of the Seminar
After the seminar was completed we asked the participants to fill in a questionnaire with the same questions that had been used for evaluations of our previous seminars. Examining their answers we found that the seminar had not reached the same high level as the previous seminar. However, according to their answers, we could conclude that the seminar had met their expectations and that they were satisfied with the overall structure. From their open comments it was evident that those who had commented were the ones who were positive towards the theoretical section. As in the earlier evaluations, however, some of the participants recommended more practical examples.

6.4. SUMMARY
This section discusses observations and reflections from the seminars and the pilot study. The section sets out to put the participants’ organisational positions, our roles and the participants’ relations to authorities in a wider context.

47 According to the traditions of the Russian Orthodox Church a person is given two names when baptised: a first name and a second name after his/her father’s first name. A man named Sergey whose father’s name is Alexander would then be called Sergey Alexandrovich by his colleagues.
48 See appendix II.
49 In all we received 16 answers from the participants since four of the participants had to leave during the second part of the third seminar day.
6.4.1. Our Participants’ Organisational Positions and Target Markets
The selection of participants for the seminars reflected the subsidiary’s needs to develop sales and marketing skills that the subsidiary’s top management had emphasised during the pilot study. Regarding the participants’ organisational positions it was evident that the majority of the participants came from the product segments’ regional offices while only a few came from the JVs.

The sales organisations in the regional offices had close links with the production units abroad which supported their marketing of the Mimer firm’s products to local customers. In this sense their marketing assignments were concentrated to the Ukrainian market. Their contacts with the Mimer firm’s production units abroad concerned imports that were co-ordinated by the product segment managers. Export oriented activities only involved the salesmen and marketers from the JVs who tried to reach the markets abroad through the parent firm’s network. However, like the participants from the product segments, their main targets were customers on the domestic market.

6.4.2. Knowledge Oriented To Practice
One impression from the seminars was that the participants wanted more examples that could be directly related to their working situations. Discussing this issue we told the participants that this, for obvious reasons, was very difficult for foreigners to provide. However, although the seminars lacked such practical dimensions there were, according to the evaluations, clear indications that the participants had acquired new knowledge from the seminars. A question to be asked, however, is how they valued this knowledge and what their managers thought of the introduction of such concepts.

To analyse this question I draw on the observation made at the meeting in Gogol Town where the marketing director started the meeting by saying that he knew that Western marketing methods were not working in the Ukraine. In this sense, from what we had been told about the barter trade and the fact that most of the domestic customers lacked financial resources for investments, his statement could partly be true. Judging from the comments from the participants, the problem was that neither Ukrainian marketing methods nor the Ukrainian market seemed to work as the business networks did not generate any surplus resources. A question to be asked is therefore if other senior managers in the JV shared the marketing director’s opinion on Western marketing methods and how their opinions influenced the participants’ perception of what could be regarded as knowledge oriented to practice. In other words, did these directors’ perception of the market, which in their case mainly referred to the Ukrainian market, also influence what their subordinates considered as knowledge oriented to practice?
Another perspective on this question is whether the participants viewed the concepts that they understood immediately as oriented to practice, while the concepts that needed time to be digested were perceived as theoretical. In this sense, were concepts that fitted their frame of reference referred to as practical, while concepts that were difficult to link to their frame of reference perceived as theoretical? It is, however, also possible that our asking about this issue could be the reason why the participants started to reflect on and discuss whether they could use the concepts presented or not. The reason for us asking this question was the signals we had received from top management concerning the need to have a ‘hands-on approach’ in the seminars. Our wish to design seminars with a fit to practice also became a part of our selling of the seminar programme that was based on the top-managers’ emphasis on this issue during our initial meetings.

6.4.3. The Participants’ View of Authorities
A common observation during our seminars was that the participants had been enthusiastic about the activities in our programme. Our impression was also that we had created an open atmosphere in which the participants dared to tell us their views about how they perceived the proposals we presented to them.

There was, however, no doubt that they also viewed us as authorities in terms of people with knowledge in the fields on which the seminars focused. In particular this surfaced during coffee breaks and lunches when they asked us about possible solutions to problems in their daily work. This might also have been the reason why some of the participants were very open about the problems in their organisations. What this informal talk indicated was that they feared they would lose their jobs if they expressed (and argued for) opinions that were contradictory to their managers’ opinions.

Comparing the seminar evaluations with some of their more critical objections during the seminars, we discussed the possibility that some answers were influenced by the participants’ politeness towards us and other organisers of the programme. Another aspect that may have influenced their answers was that they knew that we were discussing what took place during the seminars with the HRM, i.e. they knew that we had close contacts with authorities in their organisation. They also knew that the HRM had been involved in selecting them as participants, in the structuring of the programme and that she would read the questionnaires they filled in after the seminars.

6.4.4. Our Perspective and Roles with Respect to Managers and Employees
What we learned about the Ukrainian subsidiary and about the Mimer firm, we learned through the cognitive lenses of Westerners (shaped by norms and values
from the market economy). In this sense, we may have perceived aspects that were contradictory to these norms in the same way as the expatriates from Mimer's units in the West, i.e. it was likely that we perceived things through the same cognitive lenses.

The assumption about common perspectives was also revealed in the interviews with the Swedish and German expatriates in the joint ventures. In the interviews it was evident that they assumed we had common norms and values which surfaced when describing how local managers and employees perceived rationalisation processes. The following statements illustrate the assumption of common norms and values:

'Even though we have to send home workers during the rationalisation process, we have to make the remaining people understand that this is done in order to secure the survival of the company, and only if the company survives can their jobs be secured' (The German CFO in Gogol Town).

'However, managers in these companies do not seem to fear costs for repairs - and to me, as I have perceived it, the most frightening thing for them would be if they had to start to lay off people' (The Swedish Director of JV in Cossack Town).

Looking back at the contexts in which the respondents made these statements, it was evident that the respondents viewed me as someone who was likely to agree with them and see things the way they did. In this sense, they assumed a common understanding of what can be viewed as Westerner's norms and values.

As noted in the previous section we also had (at the same time) many contacts with the seminar participants with whom we discussed possible solutions to the problems they were facing. In some cases it was evident that they viewed us as allies by revealing that things did not work as they were supposed to. In particular their view of us as allies was revealed in situations when we asked if they had talked to their managers about the problems. Answering these questions they indicated that such talk could be perceived either as criticism of their managers or that they were unable to handle the situation themselves. Either way it was a bad thing, and their admission of these things to us was thus a sign of trust. In other words, in our roles we became allies to both the expatriate managers and to the seminar participants.
7. THE MIMER CASE: THE INSTITUTIONAL SETTINGS

This chapter makes a crosscut in the two institutional settings influencing the development in the focal subsidiary. It is vital for the reader to observe that the chapter sets out to indicate the contextual aspects of managing operations in a cross-institutional setting.

7.1. THE INSTITUTIONAL SETTINGS—DEFINING THE CROSSCUT

As noted the development in Mimer Ukraine’s organisation takes place in a parent firm - subsidiary relation. The introduction of the parent firm’s management principles in the Ukrainian subsidiary is therefore accounted for as an infusion of institutionalised values from the parent firm’s macro-structures. To support our understanding of the influence from these values, section 7.2-3 describes the parent firm’s management policy and the general development during the period of the study. In figure 7.1 below, we find the focal subsidiary’s position with regard to the two institutional settings.

Figure 7.1. The two Institutional Settings in Focus
As illustrated in figure 7.1, the crosscut focuses on the macro-settings exerting influence. To comprehend the developments in Ukrainian society it is important to consider its background and structures that developed during the Soviet system. Section 7.4 is therefore linked to chapter 3 (which presented the former system’s characteristics), while this section focuses on aspects guiding the developments in the Ukrainian economy at the time of the study.

7.2 THE MIMER FIRM’S MANAGERIAL PRINCIPLES
This section is mainly based on the corporate policy and mission handbook\(^{50}\) which verbalises the management principles by which the Mimer firm’s units around the world are managed.

7.2.1. The Corporate Mission and Communicational Issues
The Mimer firm’s corporate mission describes the importance of being regarded as a provider of dependable equipment to customers, as this assures sustainable growth for the company. By indicating sustainable growth, the mission also highlighted the importance of respecting environmental demands placed on the company and its products. To live up to this mission, the company positioned itself as a provider of equipment that promoted customer efficiency and productivity. Vital for obtaining this position was a continuous base of new products and technical innovations combined with employees’ competence and motivation.

Concerning target markets, the corporate mission stated that the company should have worldwide leadership through its presence as a domestic company in key markets where it could capitalise on its commitment to research and development. The final sentences of the corporate mission also stated that the motivation of the company’s personnel provided a base for enhancing customer value and ensuring long-term benefits for employees and shareholders. In the mission statement the following sentence caught my interest:

*Everyone in Mimer is committed to this mission and the intrinsic values underlying it.*

The policy manual also highlighted the importance of creating corporate unity that, despite its worldwide presence, could exploit its diversity and create a unified organisation greater than the sum of its parts. To attain this goal it was essential to eliminate any ‘we and them’ attitude and for managers to listen carefully and understand the viewpoints of people who may have the same ambitions, but who communicated their ambitions in a different manner. This

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\(^{50}\) The Mimer firm’s corporate mission, values and policies, 1991. This document has also been referred to as the Mimer firm’s policy manual.
latter aspect was described as important when having a corporate language (English) which was a foreign language to the majority of employees. To reduce the risk of misunderstandings the policy document pointed out the need to devote time to communication and the repetition of key messages (and checking that these messages were understood).

Concerning organisational changes (particularly if the changes were to affect employees or local communities adversely), upper level management was responsible for explaining the purpose of the decisions to those affected. The policy document also stated that all restructuring decisions had to be based on a well-documented plan that could show the financial impact of the decision.

7.2.2. Orientation to Customers, Quality and Employees
Describing the company’s customer orientation, the manual clearly pointed out time and total quality management as aspects of central importance. By mastering these two aspects, the manual stated that the Mimer firm should find a way to make every customer contact a source of mutual benefit for the Mimer firm and its customers. To gain such benefits the policy document stressed that all internal organisational complexities had to be reduced, as such complexities limited the organisation’s ability to satisfy its customers. To make such organisational changes, the policy manual described the importance of examining the reasons for orders won and lost, as a better understanding of these aspects would make it possible to avoid repeating these mistakes. The policy manual also emphasised that all employees should understand that they had an impact on the company’s performance towards its customers and that the customers were the Mimer firm’s raison d’être. Given all employees’ impact on performance, the manual highlighted the importance of managing internal contacts with the same care as contacts involving the company’s customers.

To further stress the importance of quality, the manual stated that the name of the company 'Mimer' should be a symbol for quality. According to the quality concept, the company’s products and services should provide superior quality to customers at a competitive cost level. The quality standards were to be defined by customer requirements – and not set by internal quality standards. Given the importance of quality issues, the policy manual clearly stated that quality issues could never be compromised. Quality should therefore be measured continuously as a mean to continuously improve products and services. Time management was linked to quality issues and described methods of achieving quality goals by the prevention of errors at the earliest stage possible. Key factors in reaching this goal were the simplification of work processes, delegation of responsibility and the motivation of employees.
Concerning the relation between the Mimer firm and its employees, the corporate policy stressed that the company's organisational environment should be designed in a manner that provided people with opportunities to use their knowledge both for the benefit of the company and for their own job satisfaction. To create an environment that supported this development, the policy highlighted the need for training and development of employees at all levels by providing opportunities for potential and future growth. A key method in this strategy was to provide on-the-job training for individual and team development. According to the manual, the challenge for the managers in charge was to create an environment that nourished teamwork and supported active participation of all members of the organisation. The manual also stated that competence was the primary selection criteria for professionals and managers to be promoted or hired for positions in the organisation. In all, the goal of these efforts was to make the Mimer firm the employer of choice.

7.2.3. Organisational Structures, Management/Leadership and Delegation

Concerning organisational structures, the manual suggested that organisations should be two-dimensional in their character. The dimensions in question were product segments/business areas and regions. In this sense, the organisational outline made the two dimensions interlinked and interdependent which made it necessary for managers to have (or acquire) good communicational skills. The policy manual also stressed that any conflict that might arise in the interface between the regional and product segment/business areas should be solved as quickly and as constructively as possible. The need for managers to have good conflict solving abilities was described as important in enabling a worldwide organisation (despite its size) to respond quickly and be flexible to market opportunities.

Explaining the underlying rationality of the two dimensional structure, the policy manual indicated the rationality of having an organisation that could capitalise on economies of scale, extensive investments in R&D, while being present in key markets around the world. In terms of managerial responsibility, the organisational structure was founded on a view that favoured decentralisation and stressed the need to solve problems as close to customers as possible. Manager fields of responsibility then depended on which organisational orientation they belonged to. Table 7.1, below illustrates managerial responsibilities in the two organisational dimensions.
Table 7.1. Managerial Responsibility Areas

<table>
<thead>
<tr>
<th>Segment/Business Area Management</th>
<th>Regional Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development of a worldwide strategy</td>
<td>Articulating customer-based regional strategies.</td>
</tr>
<tr>
<td>R &amp; D and product development including international coordination and agreements.</td>
<td>Regional results and profitability</td>
</tr>
<tr>
<td>Internal market allocation schemes and sourcing.</td>
<td>Day-to-day management of individual profit centres.</td>
</tr>
<tr>
<td>Internal price strategy and price coordination between countries.</td>
<td>Human resource development in regional units.</td>
</tr>
<tr>
<td>Acquisitions, divestments, etc.</td>
<td>Building and strengthening relationships with local governments, communities and trade unions.</td>
</tr>
<tr>
<td>Risk management</td>
<td></td>
</tr>
<tr>
<td>Coordination of offers to local customers.</td>
<td></td>
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</tbody>
</table>

As illustrated in table 7.1, the differences between the organisational dimensions involved strategic targets. In general, we find that responsibilities of a more global character have been listed under the segment/business area column while more operational responsibilities have been listed under regional management.

Describing leadership the manual emphasised that managers should perform their tasks with fairness and openness towards colleagues and employees. In this sense, the policy called for them to act according to high ethical standards set by the company. Given the decentralised structure and the two-dimensional organisational outline, the policy also stressed the need for being effective team players with the ability to build consensus and mutual support, i.e. bridging the contradictions that might occur in the organisation. Another area that was emphasised concerned managers’ ability to function as catalysts for continuous communication up, across and down the organisation. Good communicational skills were also important for managing people in worldwide operations, as managers needed an exceptional understanding of different cultures, traditions and environments. Thus, the policy called for managers to develop competence beyond pure technical and managerial efficiency criteria.

To support the development of the organisation, the corporate policy stated that managers should be able to set clear goals for individuals and teams. For
this to function properly there should be clear rewards for employees’ achievements. As the manual suggested that the organisation should be kept as flat as possible, there was no room for ‘sandwich managers’. Instead the policy stressed that upper-level managers should keep close track of the developments in their respective field of responsibility. To keep the organisation functioning according to the two-dimensional outline it was important that leadership was performed directly and not by assistants that could blur responsibility lines.

In considering delegation and orientation to change, the corporate policy described that the overall organisational structure had been (consciously) flattened to allow quick responses (change) by the use of delegated decision-making. The flat, decentralised organisational structure clearly made delegation a key instrument for managers to master. The policy document also described delegation by the establishment of profit centres with individual accountability to each profit centre (and to the manager in charge of it). For this to function it was stated that that managers at all levels should feel empowered to resolve problems as quickly as possible (and not delegate them upwards the organisational hierarchy).

According to the manual, decisions should be implemented as soon as possible and when the decisions concerned changes after mergers and acquisitions these changes should (preferably) be implemented during the first year. In case negative outcome of change could be expected, managers should be aware that these negative consequences were often exaggerated due to the insecurity of not knowing the exact outcome. When implementing change, Mimer managers should act decisively to avoid prolonging and damaging uncertainty. Changes should, however, not be implemented without considering the impact on the company’s employees. When a negative impact could be foreseen, it was important that the changes were presented in a positive manner by emphasising that the rationalisations (cost cutting) were executed to strengthen the company’s competitive position.

7.3. THE MIMER FIRM’S DEVELOPMENT DURING THE STUDY PERIOD

This section is a brief presentation of how the Mimer firm actively used the segment/business area dimensions in its worldwide operations during the period of the study.

7.3.1 Global Operations

The two and a half years during which the study took place was characterised by turbulence on the emerging markets. The turbulence escalated during 1998 when the world market suffered from financial crises in Asia, Latin America and Russia, which meant that some of the projects in which the Mimer firm was
engaged were either delayed or cancelled. The Mimer firm's worldwide operations were, however, able to keep up its revenue level from 1997. Bearing the turmoil situation in the world economy in mind, it was evident that the Mimer firm's top management were able to control the situation and make strategic moves for continued growth. In the annual report for 1998 this was apparent, since all business segments could (with one exception) report higher earnings compared to 1997. The reasons behind this was that these business segments were engaged in projects on markets that stood firm in spite of the turmoil on international financial markets.

The Mimer firm's strategic steps to strengthen its position in businesses with higher knowledge and service content continued with major acquisitions during the first half-year of 1999. A major step in this direction came with the acquisition of the AUTO Company. Likewise this pattern could be seen by the acquisition of a large South American company that specialised on full-service contracts. Some parts of the company portfolio did, however, show the opposite development with considerable divestments.

In August 1998, the Mimer firm announced a new management structure, which involved the dissolving of the regional management dimension. The objective of this change was to strengthen the business segments' operations and to create new synergies. To announce the changes the Mimer firm's CEO made the following statement:

*This is an aggressive move aimed at greater speed and efficiency by further focusing and flattening the organisation. This step is possible now thanks to our strong, decentralised presence in all local and global markets around the world.* (Statement by the Mimer firm's CEO in a press release, August 1998)

According to the press release the reason behind the change in structure was to get more out of the strong decentralised organisation.

### 7.3.2. Operations in Central and Eastern Europe

During 1997 - 1998 the Mimer firm continued to build up its presence on the emerging markets in Central and Eastern Europe. In line with this strategy, the company continued to build up its Polish organisation with the acquisition of two companies in the industrial service sector. According to a press release of October 1997, this was done in response to the rapidly growing market under the Polish privatisation programme. The operations in Poland and the Czech

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51 According to the annual report this concerned operations in the markets in the North Americas, Western Europe and in the Middle East (Saudi Arabia).
52 From the Mimer firm’s annual report 1998
Republic were also able to show increased revenues which made these markets fully comparable to markets in Western Europe. In Russia the company succeeded in signing an agreement for long-term co-operation with a company in the country's most profitable industrial sector. We should note that, in spite of the political turmoil and the depreciation of the Russian rouble in the autumn 1998, the Mimer firm could reach (almost) the same revenue level as in 1997. However, the revenues from the Russian market remained relatively small compared to the established markets in Sweden, Germany, USA, etc.

The build-up of the business in Central and Eastern Europe was therefore headed by the operations in Poland and the Czech Republic which were countries displaying extensive growth. The growth of these markets was also in line with the forecasts made by the Mimer firm's manager in charge of operations in Central and Eastern Europe. According to his forecasts in 1991-1992, he predicted extensive growth on the Central European markets in the coming three to four years and added that in the former Soviet-Union the market turnaround was likely to need a generation.

When we direct our attention to the former Soviet republics we find that, except for Russia, none of these countries were mentioned in the annual report which, if nothing else, gives us an indication of the size of these markets. The weak development of these markets should, however, be seen in the light of the huge problems that these countries were facing in their transition from planned to market economies. Therefore, to support our understanding of the problems that Mimer's Ukrainian subsidiary faced, we continue with a brief overview of the developments in the local society's political and financial sectors.

7.4. AN OVERVIEW OF DEVELOPMENTS IN THE UKRAINE

7.4.1. The Need For Foreign Capital and Investments
After the country's declaration of independence there were many attempts to control the economic situation. In particular, problems surfaced from the continued shortfalls in expected state revenues which meant that the government operated on a 'cash management' basis with wage arrears as a prevalent and growing problem. The role of international financial institutions like the IMF and the World Bank therefore became very significant. To overcome the financial difficulties the Ukrainian government made expanded investment,

53 From a Mimer firm press release, September, 1998
54 The interview was published in Affärsvärlden, 1992.
including foreign investment, a top priority. To support this policy the government addressed many of the problems in the legislative package presented in the autumn of 1996. The efforts made could not, however, attract the large number of foreign investors that policy makers hoped would come to the country. High rates and arbitrary application of taxes, an uncertain legal climate, a jungle of regulations and widespread corruption acted, according to analysts, as a brake on investments and business development. Foreign trade as a percentage of gross domestic product did, however, start to grow slowly and trading patterns shifted somewhat to the Western countries.

Analysing the orientation of foreign trade, we find that Russia retained its position as the Ukraine's dominant trading partner. With the financial crisis that developed in Russia in August 1998 the Ukrainian economy was severely affected. This was due to the significant ties between the Russian and the Ukrainian economies (in August 1998, 40% of Ukrainian exports were oriented to the Russian market). When the financial crisis in Russia started the Deputy Prime Minister stated that he was convinced that the Ukraine's financial market was by far better than Russia's. 'The Ukraine has not given any cause for anyone to question its solvency', he said. At the same time the minister confirmed that the Ukrainian government was working with foreign creditors on a number of mechanisms regarding the restructuring of the country's external debt. He insisted that despite both the world and Russia's financial crises, Ukraine's banking system had rather high liquidity.

The statement by the Deputy Prime Minister should, however, be contrasted with the view of the economy presented by the National Bank of the Ukraine which considered fighting inflation a top priority. This view was based on their awareness of the Ukraine's thin financial base which was a legacy of earlier hyperinflation. The need to control government spending was also a challenge as the Ukraine's relatively large influx of international assistance meant substantial debt repayment obligations. In all, the developments forced Ukrainian officials to cut back on credits to domestic industry and agriculture, since these subsidies had previously resulted in high inflation. Having a need for this income to cover of state expenditure and obligations on the one hand, the so-called unofficial 'shadow' sector of the economy was growing. In 1995 the 'shadow' sector was estimated to be close to 50 percent of the economy which was much higher compared to other countries involved in the transition

56 International Monetary Fund, IMF Staff Report, Ukraine No. 99/42.
58 Ibid.
59 Ukraine Today, August 25, 1998
In other words, there was a situation where the country’s economy had developed beyond the control of the state authorities.

7.4.2. The Privatisation Reforms

Privatisation of Ukrainian enterprises was in the initial phase (92-94), mainly conducted through leasing and buy-outs by employees. As a result, there was little public participation in the privatisation process. During the first years only 1,240 companies were privatised. In December 1994 the President, through a decree, instigated a ‘mass privatisation’ programme which involved the privatisation of 8,000 large and medium size enterprises (the definition of a privatised company was a company that sold at least 70 per cent of its shares). The goal of this programme was to rapidly distribute the shares of the public enterprises and create a foundation for a capital market. This was then envisaged to lead to the establishment of a group of owners that could lead the companies through the restructuring process. It should also be noted that at this stage of the mass privatisation process, the objective was not the creation of revenues for the state, but a fair distribution of state owned enterprises.

Significant progress was made during 1995 in establishing an administrative structure to move forward with the privatisation nationwide. Privatisation auction centres were opened in every region (oblast) to assist the national auction centre in Kiev. Despite these steps, it appeared that only 30 per cent of the government's privatisation target for 1995 was met, as bureaucratic obstacles and parliament (that often proposed solutions in other directions), hindered the process. During the programme the parliamentary opposition tried to impede the process and it was not until 1997-98 that the process re-established momentum. In these later sequences of the privatisation programme, the government changed its policy and tried to raise as much revenue as possible from the certificate auctions through which the companies were sold. According to figures presented by the Ukrainian authorities in the end of 1998 the number of enterprises privatised reached 9,500.

Looking into the problems that the privatised companies faced, we find that the new owner structure often consisted of the companies’ managers and workers who did not have the financial resources to modernise the companies. It should also be noted that when the managers became owners of large parts of the shares they also secured their own positions in the companies. In practice this meant that they could reject any proposals on structural changes that would have endangered their positions. The privatisation of local companies did not

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60 International Monetary Fund, IMF Staff Report, Ukraine No. 99/42.
61 Ibid.
63 International Monetary Fund, IMF Staff Report, Ukraine No. 99/42.
therefore (in general) result in any ‘real’ restructuring. In the media it was frequently reported that malfunctioning taxation laws and other fiscal structures were the underlying reasons for the country’s transition problems. To illustrate the problems the media identified we continue with examples showing the contra productive outcome these efforts resulted in.

7.4.3. Taxes and Fiscal Reforms
The attempts to adopt serious tax reform policies in 1994 -1995 did not provide a functioning taxation system. Instead, the tax system remained confusing and subject to frequent changes and, hence, difficult for local companies to follow. Government regulation of the economy was therefore chaotic which caused many of the growing entrepreneurial activities to remain underground.

Searching for the issues that may have attracted foreign investors we find that the foreign investment law of 1994 granted foreign investors significant tax holidays. These tax holidays were, however, repealed in the 1995 tax reform. Other changes in 1995 involved the modification of the taxation of enterprises which meant a change from taxation based on gross revenues to taxation of profits at a general rate of 30 percent.

The authorities’ problem of what to do with the companies that could not pay their tax debts has been followed by a variety of drastic methods. One example of such methods was the re-privatisation by seizing stocks in enterprises with tax debts and searching for new owners that could bring their financial situation to order. The following quotation illustrates this policy:

*Wherever new owners have shown their inability to develop production and settle the budget and pension fund, the previous decision of the State Property Fund must be reconsidered and new, more effective owners must be found for the enterprises* (Statement by Prime Minister Pustovoitenko)

The Prime Minister used this as a warning to pension fund debtors, saying that if their debts were not cleared, the enterprises’ assets would be confiscated and their companies declared bankrupt. A second drastic method to collect taxes was the calling of executive directors of debtor enterprises for Civil Defence exercises. The authorities used this as a manoeuvre to gather the executive directors in one place and compel them to pay their tax debts to the budget and state funds. Actions like these indicate (if nothing else) that the taxation authorities had failed to create a system that companies were willing and able to follow. From the perspective of local companies, the arbitrary application of the

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65 Ibid.
taxation rules made it difficult not to make mistakes and become the subject of taxation authority investigations. Examining the reasons behind local companies’ unwillingness to pay taxes we must also consider the widespread distrust of the state authorities’ good use of tax income.

**7.4.4. Distrust in Society Towards State Officials**

The problem of tax collection on the one hand, it is also necessary to examine the underlying sources of the general distrust towards government and state officials on the other. During my visits in the country I talked to taxi drivers, people in cafés, restaurants, university people, etc. whose common view of the situation was that ‘it was better before’. This ‘it was better before’ comment was frequent when they referred to how everyday problems had developed. I often heard comments like ‘all people in the government are thieves, who protect each other against the laws that ordinary people must follow’. Many of the old people I talked to were forced to find an extra income as their pension, when paid, could not cover their living expenses. ‘Before, during the Soviet time, at least you could live with some dignity as a pensioner, but now our pensions are stolen’, as some of them told me.

Media reports showed that the comments by pensioners were not without foundation\(^6^6\). The distrust towards the general developments in the country made many young people emigrate, as their hopes of a better future and serious reforms were gone.\(^6^7\) It should also be noted that the failure of the reforms created a foundation for those who wanted the old system back. In reply to my questions to people about how this could be possible, given all the shortcomings of the former system, a frequent answer was that ‘even if most people were against the old system –they will vote against today’s poverty’. When comparing these observations to the ones made by the political analysts I found that, in the political sphere, the ‘back to the Soviet Union’ opinion among candidates in the forthcoming presidential election -99 was growing in popularity.\(^6^8\)

\(^6^6\) An example frequently mentioned involved accusations towards the former Prime Minister. In December 1998 he had been arrested on the French - Swiss border while attempting to enter the country on a Panamanian passport. He was accused of what seemed to be money laundering in Swiss banks where his bank accounts were frozen. This measure by Swiss bank officials was a based on requests from the Ukrainian government. The general procurator of the Ukraine claimed that he had evidence of connections between the theft of two million USD from the Ukrainian state budget and the former Prime Minister. The Ukrainian Weekly, 1998. (The Year in Review).

\(^6^7\) Svenska Dagbladet, 1999, Lördag den 20:e Mars

\(^6^8\) The Economist, 1999, July 10.
7.5. SUMMARY

7.5.1. The Parent Firm and Corporate Policy
This chapter has (briefly) examined the corporate policy manual that gave voice to the values and norms by which organisations in the Mimer firm were managed. In the manual it was clearly stated that everyone in the company should be committed to the corporate mission and the intrinsic values on which this mission rested. Of particular interest is the manual’s description of the importance of removing any ‘we and them’ attitude among employees in acquired companies and the need to replace such attitudes by a unifying spirit in line with the corporate mission. Examining the policy manual with regard to the observations in chapters five and six, it is evident that the policy manual was reflected in the statements by the subsidiary’s top management. Thus, the corporate policy had a strong normative influence by telling managers what was appropriate behaviour and, hence, also what was inappropriate. Other policy issues that might have an immediate impact on the development in the focal subsidiary were the following:

- Changes should be implemented as soon as possible after mergers and acquisitions.

- Rationalisation programmes and other cost cutting efforts should not be delayed because of the difficulties of having to make unpopular decisions. After such decisions were taken it was important that managers stressed that the decisions were taken to strengthen the company’s competitive position.

- Delegation of decisions was a guiding managerial principle that concerned all organisational layers and was regarded as a mean to empower personnel and enhance job satisfaction.

- Impact on result was the criteria by which success was measured.

The issues highlighted above concern policy issues that may not be consistent with the principles that guided the organisations in local Ukrainian companies. In Mimer Ukraine’s organisation this inconsistency may have influenced the joint ventures most, as these organisations had been established and shaped by the values guiding the former system. In the policy document there were also clear instructions stating that managers on site should avoid the delegation of problems upwards in the organisational hierarchy.
Summarising the Mimer firm’s worldwide business operations we find that the segments were able to find projects on markets that were more or less unaffected by the turmoil on the financial markets during 1997-1998. In Central Europe, the build-up of organisations in the Czech Republic and Poland continued and, according to the revenue figures, these markets reached a level that was comparable to other markets in Western Europe. The markets in the former Soviet Union, with Russia as the largest, had not developed in terms of revenues and did not show any sign of a turnaround. In spite of the lack of positive signs the Mimer firm continued to build up its presence in the former Soviet Union, while it is likely that the operations on these markets had low priority compared to countries that showed more stability and growth.

7.5.2. Developments in the Ukraine

This chapter has shown that the implementation of the market reforms in the Ukraine had more or less halted. After an enthusiastic start, the policy reversals had been frequent, which implied that the pace of the reforms had slowed. The progress had been particularly slow in institutional reforms such as governance and enterprise restructuring, in reforms of the financial sector, legal reforms and the development of market-oriented infrastructure with a competition policy. As a result, the Ukrainian market had not been able to attract foreign investments according to ambitions and forecasts made when the reform process started. Summarising the development of the Ukrainian economy we should consider the following aspects:

- Mass privatisation of state owned enterprises: The mass privatisation programme did not result in any 'real' restructuring of the companies as the new owners lacked financial resources to modernise their companies. An aspect that inhibited restructuring was also that when the former managers became the owners, they came into positions from which they could resist any structural changes that threatened their positions.

- Problems with taxation policies, bureaucracy and corruption: The inability of state officials to create a taxation system that it was feasible for companies to follow can explain the growth of the shadow sector of the Ukrainian economy. The problems with bureaucracy and corruption contributed to the negative development of the economy and, hence, inhibited the development of local business networks.

69 European Bank of Reconstruction and Development (EBRD), Transition Report. 1998
It is also vital to observe that the government's problem of covering its (constant) budget deficit was used as an excuse to collect taxes by ad hoc methods\(^7\). The budget deficits also made it difficult for state owned enterprises to finance projects of the kind that could benefit the business of foreign entrants (like the Mimer firm). Clearly, the Ukrainian institutional setting had not developed in a manner that improved the business climate for foreign investors. To follow up the previous case sections, we now go back into the Ukrainian subsidiary to let the people inside the organisation describe the issues influencing their operations.

\(^7\) These methods have embraced the sudden withdrawal of money from corporate bank accounts.
8. THE MIMER CASE: FOLLOW-UP STUDY

This chapter sets out to identify the various aspects influencing the subsidiary’s operations in the cross-institutional setting.

8.1. ORGANISATIONAL SPHERES IN FOCUS

To obtain a picture of the present state of the organisation the follow up study\(^{71}\) started with introductory talks with the country HRM in Kiev. Discussing the present state of the organisation, the HRM gave me a printout of the latest organisational chart which showed no signs of dramatic changes. The organisational chart was, however, rather complex and to reduce this complexity I divided it into the spheres that had been identified when summarising the pilot study. As illustrated in figure 8.1, the organisational spheres were the top management sphere, the joint venture sphere, the product segment sphere and the administrative sphere.

As shown in figure 8.1, the top management sphere intersected with the other three spheres of the subsidiary. The top management sphere included the two expatriates (the Swedish Country Manager and the American Country CFO), the Country HRM, the segment managers and the expatriates in the JVs. Their perspectives on the development are, however, presented with respect to their field of responsibility. It should also be noted that the interviews with the Country HRM mainly concerned the development in the product segment sphere on which earlier training efforts had been focused.

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\(^{71}\) The follow up study took place during two weeks in March 1999. During my visit I interviewed 15 people: 12 in Kiev and 3 in Gogol Town.
8.2. THE TOP MANAGERS' VIEW OF THE DEVELOPMENT

8.2.1. The Country CFO's Perspective on the Development

To learn about the influence of the parent firm, my interview started with questions regarding the subsidiary’s relation to the parent firm in Alfa Town. In this context my respondent told me that they had five to six meetings annually with their managers from Alfa Town. It was not without irritation that he noted that a frequent question from these managers was why they were not meeting the budgeted figures. In his view, there was no problem-solving orientation in these discussions which was something he missed. ‘They are lecturing us,’ he said. On the other hand, he understood that top management in Alfa Town was under pressure from stockholders who wanted to see some results on their investments. In the Ukraine and the Post-Soviet countries, these investments had been going on for 7-10 years without showing any positive figures. The following statement by the respondent illustrates his frustration with the development:

‘The company has made commitments by these investments and now it seems as though they don't know what to do. The short-term view on investments that are used by our company does not fit the situation here’.

I then asked about the Mimer firm’s strategy for the region and about the problems with this strategy. His direct answer was that he could see no clear strategy and said that it was more like a ‘you go there and make money - no matter what attitude’. According to him, the problems in the current situation were the following:
'When you are early it is a problem to make problems visible. Take our competitors, like for instance the AAA Company and the CCC Company. The AAA Company has not entered this market at all. The CCC has entered the Ukrainian market only through sales offices. In our company, nobody thought that it could be like this in the beginning when the decision to enter this market was made. Now we cannot pull out. We have invested too much in the Ukraine, and if we pull out, and if the market should improve it would affect us harder than if we had not entered at all'.

Clearly, the motive to stay in the Ukraine was that if they left, the company would have difficulties getting any future orders from the Ukrainian state owned enterprises. Even though their business had not developed as they had hoped when they entered, the huge market potential was thus still attractive. According to the respondent, their hopes for improved business were based on the (extensive) plans by the European Bank of Reconstruction and Development (EBRD) to support development in the Ukraine. This was, however, something that seemed to have stopped at plans by the EU politicians, while it was evident that Mimer Ukraine had hoped to find contracts in projects financed by the EBRD.

8.2.1.1. View on Political and Economic Development
My respondent was not optimistic when describing the development in the political sector and predicted a development that could take two directions. Either there would be a new revolution and dictatorship or there had to be more Western investments. He could not see, any massive investments in the country, however, as there were no laws supporting the investment climate. Instead, taxation laws destroyed the development of a civilised business sector. According to him, there was also a rather large group who did not want any investments from the West which he illustrated with the following statement:

'They want the Soviet Union back and the Soviet system with it. Now these people set laws that support their own positions. I would say that there are people who are working for an economic collapse and a reunion with Russia. My guess is also that these people have support from Russia, that is, people there who would like the Soviet Union back. Today the Communist party have some 42 % in parliament, which makes them the most powerful political party. Many of these politicians are not interested in any economic development. For them, in the build-up of power positions it would be better if the crisis continues'.

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According to the respondent, the bureaucrats continuously added laws that were making things more difficult. This made costs for overheads grow while income stayed at the same level. In his view, what the bureaucrats did was to sub-optimise the system and it seemed as though the authorities did not know what they wanted. He described them as Soviet people, who were trying to run the country in a Western style. People in general understood that this could not function and saw no reason to work when the result of their efforts did not benefit them.

It was clear that attempts by Western companies to change the laws in favour of a functioning market structure showed poor results. In his view, it appeared as if the Western governments wanted private companies to handle these things. As far as he understood, this was the case with the U.S. government who wanted to see these things solved by companies. From his experiences he doubted that this is was something that could be solved at company (business) level.

8.2.1.2. View of the Situation in the Ukrainian Society
My respondent told me that the lives of ordinary Ukrainians were wealthier 15 years ago. In those days people could develop their interests and take part in the wealth of cultural events. In the current society, by contrast, all efforts were concentrated on survival. Describing the changes he told me that, under the former system, people had money, but no products to buy. Nowadays there were products, but (in general) no money, which had made people depressed. His general opinion of the development for ordinary Ukrainians was that things had developed in a negative direction. According to my respondent, there was a problem making people in the West understand that they had ‘to get down to basics’.

During his years as an expatriate in Russia and the Ukraine, he had seen how the social security system had collapsed fundamentally. The collapse of social security had made relations in the social network very important. There were many examples to indicate that in Ukrainian society you had to be somebody’s friend to survive. According to my respondent, it could happen that when Ukrainian companies started lay-offs, people who did not have a network of friends in the organisation were those who were the first to be sent home. It was also common that people were hired and promoted on the basis of being some influential person’s friend. As far as he knew, Mimer’s organisation was different from most Ukrainian companies in their policy of selecting candidates on the basis of how their skills fit the open position’s requirements.
8.2.1.3. We Have to Educate Them!

Discussing the restructuring of the joint ventures, the respondent told me that their restructuring of JVs were examples that Western companies had tried to follow. The restructuring of the JVs was, in his view, not an easy task, as they operated under extensive pressure. The pressure on the JVs originated from the rationalisation programmes and the weak market that made it necessary to continue the downsizing of operations.

According to my respondent, people in the joint ventures knew that they were dependent on the sales figures reaching a certain level. They also knew that if the sales were lower than this level they could lose their jobs. As a result, their estimations in sales budgets had on some occasions been more 'forecasts' to help them keep their jobs. He also pointed out the 'fulfilling the plan mentality'. This was something that he believed was deeply rooted, as not too long ago he heard salesmen and other managers commenting on their work by saying - 'we have met the planned volumes'. The following statement by the respondent indicated that training had not changed this mentality:

'Unfortunately we have examples when training has resulted in employees who have improved their skills to express a bad result in a way that at first glance may seem acceptable. Once we received a long memo from an employee, which told us that they were meeting the planned sales for the month. The only problem, or what was amazing, was that when we checked it, we saw that we had not planned to have any sales of that product for that month. He met the planned sales volume, but...-how can you say that you have met the planned sales volume, when you were not supposed to sell that product during that month?'

Problems of this nature were the reasons behind his weekly trips to Gogol Town that needed support in the remaining restructuring. To confront problems of this kind it was necessary to speak the local language. In particular this was indicated when my respondent spoke about how he used to walk around and listen to what people in the departments talked about. According to the respondent, he learned more from listening to these small talks than from formal meetings. From his experiences he knew that Western managers only operated on the surface in case they could not communicate with people in their own language.

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72 The Country CFO had been a member of the American chamber of commerce in the Ukraine.
8.2.1.4. The Expatriates’ Situation
Describing the expatriates’ situation, my respondent told me that the weak
development of the subsidiary (the declining revenues) meant that no extra
bonuses could be expected. To further illustrate the expatriates’ situation he told
me the following:

'It is more difficult to work here than in a Western country. As a
result, there are not many expatriates who are willing to work in the
former Soviet Union. And then, when we have meetings with the
managers in Alfa town, we hear that they cannot understand why we
cannot double our sales figures'.

8.2.2. The Swedish Country Manager’s Perspective on the Development
To start the interview I used copies of the organisational charts (one dated May
1997 (see chapter 5) and the latest version (dated March 1999). Comparing the
charts, the Country Manager (CM) admitted that the similarities were striking,
while the present organisation was considerably smaller compared to the
organisation of May 1997 \(^73\). In response to my question regarding the basic
structure of the organisation, the CM gave the following answer:

'Well an organisation is designed either on the basis of how the
country is structured or how the market is structured. You have to
adapt the organisation all the time according to the potential that
exists in the market, and how much money you earn so that you loose
as little as possible. If we take the Ukraine here, the Ukraine has an
enormous potential in the field of engineering business, that is, in the
business that we are in. Our first intention here was to grow -we had
an objective -half officially to reach some five thousand employees, as
this country is, in terms of size, possible to compare with France'.

Thus, it was on the assumption of growth that they had designed the
organisation with a certain amount of people from the start\(^74\). Concerning the
Ukrainian market’s development with respect to the assumptions on which they
had started the operations, the CM told me the following:

\(^73\) At first glance, the country manager (CM) told me that it was difficult to talk about changes
and about a development that he was in the middle of himself. During the interview I also
showed the respondent how I had divided the organisation in terms of spheres. Examining the
figure (see figure 5.1), the CM told me that the figure reflected the subsidiary’s operations.
\(^74\) According to the respondent, the organisational chart of May 1997 was more or less
coherent with this structure and assumption of growth.
The development has not turned in the direction we thought when we started. GNP has been falling all the time. Our business sector has been shrinking all the time, because there is no control of payments for consumption [...]. The ethics for payment of bills for what has been consumed is very low. [...] It is chaos and therefore they have sacked the minister in charge and appointed a new one whose primary task is to get these issues in order.

The immediate consequence of this was that there was no financial strength in the business networks. According to the CM, local companies were only buying equipment that was absolutely necessary and only those things needed to overcome a crisis when something had exploded, or when something had broken down beyond the state of repair. Describing the market decline and how this development influenced the subsidiary, the respondent made the following statement:

'It can, however, become even worse – it can become zero. And what have we done to adapt to the situation? Well, we have reduced the staff in our organisation in accordance with the declining market but that has, however, been done with some time lag'.

Talking about what the subsidiary did to stay in tune with changes in the political sphere, the CM told me that they had been able to establish good contacts with the state officials and that they had contacts with people in government ministries. Judging from the CM’s words, the dialogue with people in these organisations functioned quite well. Describing these contacts, the CM told me that the representatives from the subsidiary were also members of the Foreign Investors' Advisory Council. There were also other working groups that lobbied for improvements of the business climate, in which representatives from the company took part. The build-up of this network had taken them a couple of years. The problem was, according to the CM, the following:

'The big problem here is that they change ministers all the time, not as often as one changes shirt, but almost. In general, people in most top positions change within one year. There is no continuity at all in this. But if we look at lower positions in the ministries, they are quite stable, there we have the same people working with administration and we also have a network of contacts with people at these levels'.

8.2.2.1. The Market Development’s Influence on the Organisational Spheres

Discussing how the market development influenced the spheres in the organisation, the CM pointed at the downsizing of the JVs as a direct negative result of the situation in the business sector. At the time of the interview they
had downsized operations from almost two thousand employees to about five hundreds. He also expected that they had to go further in this direction. Thus, the people working in the joint ventures had been the hardest hit in terms of lay-offs, and as the unemployment rate in the country was very high, it was difficult for them to find new jobs.

When comparing how their organisation had handled the lay-offs to the common procedure in local companies, he explained that it was quite common that people in the Ukraine were sent home without loosing their employment, but with no salary. The Mimer firm had, in his view, done what they could do to give people who were sent home a chance to find other jobs, or to get some money to start their own business.

With the general decline of the economy on the one hand, it was surprising to hear that some parts of the subsidiary’s business were growing. In particular this related to the product segments that handled the import and sales of products from the Mimer firm’s units abroad. To explain this contradiction he told me the following:

‘What has increased in these segments is the selling of installation materials, the high quality installation materials that are actually consumed in the black sector of the economy. Perhaps one should not call it the black sector of the economy, but the unofficial sector. The official GNP lies at some 30-35 billion USD. The unofficial sector of the economy on the other hand, which is not registered, is some 70 % of that size. In this sector of the economy there is a lot of money. The actors that operate in this sector buy material for modernisation of their houses, their datchas75 and renovate their offices, so these segments have expanded. The local production of goods has, however, decreased’.

Explaining their role in these sales he stated that they had two types of sales: they could function as intermediates for other Mimer companies, which was what they had been doing when they entered the Ukrainian market as a representative office. They could also have sales where they wrote the contracts, handled the taxation issues etc. that my respondent referred to as ‘their own selling’. This part of their business had been growing and as a direct consequence so had the administrative sphere’s workload. Thus, the growth of the product segment sphere had caused the administrative tasks to increase, as the sales of imported products resulted in more paperwork.

75 Datcha is the Russian word for summer cottage.
The CM also pointed out changes in behaviour and attitudes among employees in the product segments, as there was a development indicating that salesmen had become more willing to take their own initiatives. This development, i.e. that the salesmen were out in the field and took their own initiatives, was something that top management had pushed for. In his view, their accomplishment of this change had been a process that had changed the individuals’ identities—‘they are nowadays more independent and self-reliant’, he told me.

8.2.3. Summary of the Top Managers’ View of Issues Influencing the Operations

From the interviews, it was evident that the magnitude of the problems that the Ukrainian subsidiary was facing made it difficult to follow the initial growth strategy. Judging from the words by the Country CFO, the subsidiary was under significant pressure from their superior managers in Alfa Town who wanted to see increased revenues from the operations. For the expatriates, however, the question was how to manage and endure the hardships that the declining market caused.

The rationality of enduring these hardships seemed to be based on the negative consequences of a decision to pull out, as this would harm future business with local authorities and the state enterprises under their control. In this sense, the respondent managers were concerned about their image in regard to local authorities. On the other hand, from the answers and comments on the general development in society it was evident that none of the managers believed that projects financed by the Ukrainian government would be realised in the near future.

It is also a matter of interest that both expatriate managers told me about their engagement in organisations that were trying to push the development towards a better business climate. This meant that they, through these organisations, tried to make state authorities aware of the need to introduce more stable regulations, a taxation system that did not change (in some part) every two weeks. By these efforts they had been able to establish relations with the decision-making state offices that influenced their business. The problem was that the flow of new people in these organisations made it difficult to establish more long-term contacts. The troublesome financial situation of the organisations that the state officials represented rendered them (virtually) without the means of purchasing new equipment. Both the expatriate managers mentioned these problems as indirect influence caused by Ukrainian companies’ inability to pay for deliveries from state owned enterprises (that were potential customers for large projects).
With regard to internal development it was evident that the expatriates channelled norms and values from the parent firm to the subsidiary. The normative dimension was evident in the comments of the Country CFO, who was very clear on the need to continue the education of people in the organisation. The normative dimension in this was not so much concerned with employees' acquiring more knowledge or 'better' knowledge, but of learning a new attitude. In this sense, the statements of the Country CFO indicated that there was a conflict between the Mimer firm’s management principles and local managerial practices. The interviews with the CM did, by contrast, indicate that there were many examples with local employees who had adapted to the Mimer firm’s management. In particular this was indicated in the product segments where local employees acted in a more self-reliant way. In this sense, judging from his words, the introduction of the Mimer firm’s management was well under way in some parts of the organisation.

8.3. DEVELOPMENT IN THE JOINT VENTURE SPHERE

8.3.1. Circumstances in the JVs Influencing the Study
At the time of my visit there were severe problems in the joint ventures in Cossack Town and in Gogol Town. The unit in Cossack Town had severe difficulties running operations with a profit margin, or as I was told, even in covering its expenses. The respondents at head office reported that they had been forced to downsize the organisation, measures that had to continue. The number of employees was down to 90 people, 54 fewer than when I visited the plant in May 1997. The plans to expand operations had thus not been feasible. It was also evident that the development in Cossack Town was something that managers in Kiev did not like to talk about which I accepted. My illustration is therefore entirely focused on the development in Gogol Town.

As when I visited Gogol Town in May 1997, the local HRM was my host. My initial intention was to arrange interviews with the four salesmen and marketers who had participated in our seminars. However, as it turned out, all of them had left the company. As my host knew of my wishes to meet them he arranged meetings with people who had been working close to them – a colleague at the marketing department and a secretary, who knew of their work. Together the stories of these respondents provided different perspectives on the difficulties the JV was facing.

76 According to their (former) colleague three of them had found jobs in other companies. One (the youngest) had decided to go back to university for further studies. This was speaking mildly a setback in my plans.
8.3.2. The Local HRM’s View of Issues Influencing the Development

When starting the interview, I asked my respondent to tell me his general view of developments introducing to me the issues that had changed in the organisation since my visit in May 1997. As he saw it, the developments could be divided into both good and bad aspects. The good aspects were that they had been able to start production in the new production facilities. This had made their products more, as he said, ‘exact’ and of higher quality. He was also positive about the operations in the new painting department that had resulted in improved product appearance. He also told me that they had stopped all production of the old products and that they were developing products together with a Mimer company from Germany that they hoped would improve their sales figures.

Describing the negative aspects, my respondent pointed out the plant’s weak financial situation. The sales volume had been falling over recent years and this was, according to my respondent, because of customers’ weak finances. What they (their customers) could offer was barter trade. A problem with these barter deals was that they needed an intermediate to help them convert the products they received as payment into cash, which he illustrated in the following statement:

‘The customers don’t have any money and what they offer us are their products as payment for products from us. We on our side have no use for their products and have to find an intermediate firm that is willing to accept their products and pay us real money, and as you understand, this is a bad way of doing business.’

A majority of their customers were located in the former Soviet Union, i.e. within the CIS. To the day of my visit they had not made any deliveries to customers in Western Europe. There had, however, been a delivery to Vietnam which was something that they had been able to arrange through their contacts in Moscow. In his view, this was a sign of the heritage from the former system when everything exported went through the ministry of foreign trade and, even though the Soviet system had been removed, the contacts developed by the people in Moscow were still important. He also told me that Ukrainians (in general) had not been able to develop these kinds of contacts and therefore relied on people in Moscow. There were, however, signs that this was changing as they had just recently been visited by a delegation from India who were interested in their products.

Later, during a coffee break, my respondent described an illustrative example of being offered bathtubs as payment. Clearly, the barter trade created chain reactions that were difficult to deal with.

Commonwealth of Independent States.
According to my respondent, the legal environment was difficult but manageable. The only example of direct interference from the local authorities was when they had demanded that the department for safety technology should be placed directly under the general director’s control. As they knew the people in the authorities’ offices and how they worked, they could, as he told me, manage these contacts. More difficult was the influence that originated from governmental level as so many people and instances became involved. To manage this complexity they had hired a legal expert and established a legal department, since there was a jungle of regulations to consider, complex contractual arrangements (due to the barter trade), delayed payments, etc

8.3.2.1. Changes in the Organisational Structure
When I visited the plant in May 1997 I received an organisational chart which I asked the HRM to help me compare with their latest version. Explaining the changes, the respondent showed how the negative development of the economy had forced them to lay off more than 800 people in 1998. The HRM also spoke about the despair that this had created among those who were sent home as they knew that it would be very difficult to find new jobs.

Comparing the old organisational structure to the new structure, the respondent explained that most of the internal service departments had become outsourced as the plant could not afford to host all these service functions. According to the HRM, they were now hiring some of these services on an hourly basis. The closing of the service functions alone had reduced the staff by 147 people. Another department that had disappeared was the purchasing department which now sorted under the department for strategic product development. The start-up of the new production lines had made many people redundant in the production departments. According to the HRM they were only running these departments on a two shift schedule. The low stock of orders thus implied that they were far from running production at full capacity while this also made planning difficult for people in the production departments. As he recalled this was never a problem in ‘the old days’, as there was always a certain production volume that allowed them to estimate the input material and working hours required.

8.3.3. The Participants Colleagues’ Perspectives on the Development
My interview with the respondent (the marketer) started with questions about the department’s development. Describing the development my respondent

79 My respondent joked about this by saying that the only way to make money in the Ukraine was to work with an expert on legal issues – or to be an expert on legal issues.
80 See appendix III.
81 They were now running their operations with 420 people in all.
82 These service departments comprised carpenters, plumbers, people in the canteen, etc.
talked about the effects from the reorganisation in January 1997. According to
the respondent, the reorganisation had not resulted in better business. On the
contrary (and regardless of their efforts), their sales volumes had continued to
decline. Explaining the reasons behind their problems, he pointed to the need to
remember that there was a big difference in the sales volume between those who
wanted to buy their products and those who actually could do so.

According to my respondent, their organisation had been changing more
rapidly than other companies. The problem was that regardless of their
advertising efforts, more aggressive sales activities and the reorganisation of the
marketing department, there was no positive outcome. The following statement
illustrates this negative development:

'We have done our reconstruction and our reorganisation, but in
absolute figures our business declines. On the other hand, if we had
not made these changes, the way down would have been much
steeper'.

The way my respondent described developments indicated that he and his
colleagues had not seen any positive results from the efforts made, which caused
them to lose hope of any improvement. The reason for this was that such
improvements had to come from the market with customers starting to make
investments. Clearly, they could not solve this and, hence, the solution to the
problem was not in their hands.

The effects from the market decline were also what my next respondent, a
secretary from the component department, focused on when explaining the
situation. In particular her statements concerned the rumours that the lay-offs
would continue by a hundred more people during the summer. These rumours
had created a negative atmosphere which she explained in the following way:

'All the people are afraid of losing their jobs and they are sure that
the Mimer firm came here to make our plant bankrupt. They think that
the former plant was a strong competitor that the Mimer firm wanted
to shut down. They just don't trust foreigners'.

Explaining the situation further, my respondent’s told me that there had
been trade union meetings in a spirit against the foreigners and against the
Mimer firm. In her view, the foundation of this spirit was that their management
did not recognise the hardship of the people in the organisation. The saying was
that the more foreigners that came, the more changes were likely to start. This
was what had happened since they came and now the people just wanted to work
under stable conditions. To explain the situation, my respondent made the following statement:

'Today most people in the organisation are afraid of losing their jobs, and they are ready to work better for the company, but our managers must organise it. They must show them the model by which they can work. Our people can work and they want to work, because if they loose their job it is their last chance to earn money'.

In her view, it had reached a point where people had become negative towards the new technology and the new machines that took their jobs. Clearly, the problems were overwhelming and, according to my respondent, the Gogol Town was an area where there were no signs of a bright future.

8.3.4. Other Observations
As noted in the previous sections, the rationalisation programme and the weak domestic market (CIS included) had resulted in massive lay-offs and distrust towards the Mimer firm’s intentions. The distrust was also something indicated when the local General Director of the JV discussed the adjustment efforts with the Country CFO during a lunch meeting at which I participated.

My informal talks afterwards with local employees revealed that the process of introducing the changes had been taking place in sequences. In these sequences, the declining market co-acted with the rationalisation of operations which forced local employees to adjust to new production systems at the same time as new management methods were introduced. The local employees also considered the downsizing and lay-offs in the JV as more aggressive (and ruthless) compared to other local companies that kept their staff on the payroll without paying any salaries. As some of my respondents told me, this ‘Ukrainian’ method of handling the financial difficulties was not as definite and preserved a person’s dignity in terms of being a worker and not someone who was unemployed. As they told me, in the former system it was every person’s right to have a job and only those with severe ‘social’ problems were at risk of losing their job. To become unemployed in the former system meant that a person had committed serious mistakes (not once, but many times). When we add this aspect to the fact that there was no functioning social security system to help people who were unfortunate enough to be in this position we start to get an idea of the magnitude of the problem.

83 Apparently, the way they discussed this issue made them forget that I could understand every word they said (to start taking notes would, however, been a bad idea).
8.3.5. Summary
It was evident that the joint venture sphere was suffering from the recession in the Ukrainian economy. As it seemed there was no future for the joint venture in Cossack Town and therefore this organisation is left out of the summary. In Gogol Town, the expatriate managers pushed the restructuring programme through the organisation. In particular this was apparent since remote management of the operations (which the pilot study in May 1997 indicated) had been replaced by ‘on site management’. I also noted that three out of four expatriate managers in the JV spoke Russian, which meant that they were no longer operating on the organisation’s surface. The normative influence from the expatriates did, however, seem difficult to accept for local employees, as there (except from a modern plant) was no positive outcome in terms of increased stability.

Likewise it was evident that the joint venture sphere was under extensive pressure from both internal and external forces. The expatriates’ push for the restructuring of operations, combined with the declining market, seemed to create bad preconditions for the acceptance of new management, as the new management had resulted in conflicts and extensive lay-offs.

In examining the pressure from external forces we find clear indications that the complexity of the business environment had forced the JV in Gogol Town to establish a legal department. According to the HRM, this was due to unstable legislation, delayed payments, the barter business, etc. There was also an example showing the interference of local authorities – an example of direct influence that could be managed. The JVs had no defence, however, against the influence of the declining market.

It was also striking that the restructuring of the JVs resulted in extensive lay-offs (in sequences) at the same time as new management was introduced. In the coming analysis, the observed development will be discussed further in terms of the sequential restructuring that these interviews revealed.

8.4. THE PRODUCT SEGMENT SPHERE
My respondents from the product segment sphere were the HRM, a segment manager and five salesmen who had participated in our seminars. As both the HRM and the segment manager had been involved in the planning of our seminar programme, the topic of our discussion (the development in the focal sphere) became a natural continuation and conclusion of our joint project.

8.4.1. The Segment Manager’s Perspective on the Development
The interview with the segment manager started with some general questions regarding development since our project started. According to my respondent,
there were many examples of positive development, as some product segments had doubled their sales in spite of the country’s economic difficulties. There had also been an increase in the number of segments which, according to the respondent, was a direct result of the parent firm’s new structure (the new line oriented structure). Thus, the changes in the parent firm had started to blend into their organisation, and as a result, new segments and sub-segments developed. Judging from the segment manager’s comments about the new structure, the changes at corporate (strategic) level were likely to influence their organisation more directly.

Talking about the development of their business, my respondent told me that they had become more careful when selecting projects to which they offered their products and services. This was a lesson learned from getting burned (too many times) when preparing offers to projects that, for some reason, never came about. Such preparations involved the time consuming examination of technical details and meetings with the prospective customers. As the hours spent on preparing such offers was work that they could not get paid for, he and other segment managers had pushed for a reduction of this fail rate. Thus, it was clear that even though they had to live with a high degree of uncertainty, this was a part of the uncertainty that could be reduced through internal measures. The segment manager summarised their attempts to reduce the uncertainty and become more focused in the following sentence:

‘We are now trying to give more priority to some more carefully selected projects where we believe that the chances of realisation are quite high. Whereas, in former times, we tried to keep track of each and every business’.

Further statements, like the one quoted above, indicated that they had become more focused on certain target projects, which he referred to as ‘realistic projects’. According to the respondent, these projects could be identified by comparing their products’ relative advantage to their competitors regarding technical and service issues, the amount of money involved, the history of the project etc. Their own ability to create projects and take on strategic initiatives for the realisation were also significant. In the segment manager’s view, the acquisition of experience was a key to this development. To further describe these aspects, the segment manager made the following statement:
'Two years ago, we did many things wrong. At that time we had practically no experience. Today we have gathered a lot of experience, which is good, - I mean to have the necessary experience. Experience necessary to conduct business in both our company and in our country. [...] In these two years the situation has changed, I mean the legislative situation, - the financial situation has changed many, many times. So I believe that we gained experience of how to master and how to adapt to these changes'.

Asking about his subordinates' development and how they managed to set clear goals and objectives for their work, my respondent answered that this development had been a combination of many important aspects. According to the segment manager, the following issues were of particular importance:

'We our people have not only learnt this on paper and through seminars - they have had to handle it in their everyday work. Now they are capable of handling the situation and not just assessing the situation and setting goals. People now have the qualities to handle the situation from the beginning to the end. Because we are in a continuing process, starting with the assessment of the situation, the budgeting process, negotiation, closing of contracts, realising of contracts, seeing to it that our customers are satisfied with the final results of our products. So all this has happened in two years'.

Judging from his words, a key factor was that people had been practising what they had learnt in seminars. In his view, this practical process was far more interesting and rewarding than seminars and other training activities. During the two-year period he had also witnessed how his subordinates had grown as individuals. In particular this development was evident when they started to feel reliant on their skills and could see that what they started was also realised.

8.4.2. The HRM's Perspective on the Development
As in the previous interview, the interview with the HRM started with general questions about development during the two-year period. Looking back at how things had developed she explained that, at that time, most of the staff in question had been working for the company for less than one year, while they now had up to three years experience of working with complicated tasks. Reflecting on their development she told me that the salesmen and marketers were more self-reliant and worked more independently compared to what had been the case two years ago. Commenting on the training of employees in the product segments she made the following statement:

84 This was something that he emphasised in 1997 when we discussed the issues to be considered when planning the seminars.
‘Many of them went through the Delta course and everybody speaks highly of this programme. Right now people are coming to me and asking me to send them to the programme. Before they were very, - some of them were very pessimistic or sceptical. But learning from their colleagues was something that was worth doing. Even the older participants were saying that this opened new horizons and new possibilities’.

The Delta programme had been based in St Petersburg and targeted the development of managers from the former Soviet Union. Thus, the Delta programme had been a continuation of our seminars to which they had sent participants from the product segments. The sending of participants to this programme also had other effects on the planning of training activities which my respondent illustrated in the following words:

‘We decided to change our philosophy and approach to educating our people. Now we are acting only on an individual basis and focusing on individual needs because people are very much promoted on their skills. And we can no longer consider them as a homogeneous group with a certain level of a certain skill.[...] They come to me and they say - I feel that I'm weak, say, in the field of finance. I need to know the basics of finance because I am planning my projects and I need to know how to do it - and we then check how we can organise such training’.

Describing how they handled such requests she explained that the accounting department had spent a lot of time educating their engineers in financial issues, as it was important for the salesmen to know when helping customers calculate project costs. Likewise, to avoid mistakes caused by the frequent changes in legislation, the legal advisor assisted the salesmen with the necessary updates. Another field in which the HRM had seen considerable improvements was in the English language. In her view, this improvement was based on their daily contacts with units abroad which forced them to speak English.

In her view, perhaps the most important aspect for positive development was that they did not have a tough management style. Describing the management style in the product segments (at head office) she expressed that

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85 The people in charge of the programme had decided to close it, however, as the organisation running it lacked finances for continued activities. To me this sounded strange as I was told that the Mimer firm had been one of the largest financial contributors.
their leadership was rather democratic. Asking her how she defined it as democratic she gave the following answer:

'People here are not told what to do on daily basis, they have their goals, they have their tasks, and nobody dictates to them how to do it. This is very important and people appreciate it very much because say for instance, in Beta it was absolutely different. You had to ask at every step. And our people are given a certain range of responsibility, certain obligations, they know within what limits they can make their own decisions. They do not have to ask each time – may I do this?'

According to my respondent there were, however, still some people who expected to be managed. In her view, this could be seen by a lack of individual initiative and in situations when it was evident that they preferred their managers to tell them what to do – and how to do it. She also asked me to reflect on some situations when I had been present myself, as small examples indicating that the change in this attitude was a process with progress and setbacks. The continuation of this process of change was important because they had become too diversified in their product range to control everything and everybody.

Asking her to compare the management in the subsidiary to an average Ukrainian company with respect to delegation, control and democracy, her immediate answer was that local companies kept most of the vital information at top-management level. Except for the top-managers, nobody, or almost nobody outside of the management sphere were allowed to make decisions. This was, in her opinion, based on a management tradition where information meant power, which she described in the following statement:

'So there are no discussions about delegating responsibility, absolutely no way!. In general, the director or the group of directors, they are the owners and information is kept only at this level. They do not feel secure about sharing managerial information'.

Judging from the HRM’s words there was a big difference between the subsidiary’s managerial principles and management at local companies. In this sense, once the salesmen left their office they had to adjust to local structures and management styles.

8.4.3. The Seminar Participants’ Perspective on the Development

8.4.3.1. Changes in the Organisational Structure
When I asked about changes in the organisation, none of the respondents mentioned that the problems in the joint ventures influenced their part of the
organisation. On the contrary, when they talked about changes in the organisation they described the changes in the parent firm's structure and how these changes would influence their operations. According to the respondents, the new line structure was likely to strengthen their ties with the product segments abroad. As they all had contacts with people in the production units they hoped that the changes would reinforce these relations.

8.4.3.2. Changes in Their Work
The respondents' words indicated that they were now working more independently from their managers compared to when they started to work for the company. They all had stories of how they had initiated projects that they had succeeded in realising. In some cases this involved the import of products, where the respondents told me about their negotiations for import licences with the standardisation committee, with the ministry of industrial policy and with some other instances. This was, in one respondent's view, part of the Ukrainian market and thus, a 'part of the game' they had to learn how to play.

8.4.3.3. The Seminar Participants' View on the Market Situation
In all my interviews, developments on the Ukrainian market became a central theme since all the respondents had a lot to say about 'the game' and about those who played it. What they considered as the 'tricky' part was that, at the same time as they worked close to the customers in the regions, they also had to establish relations with the central authorities in Kiev. They all pointed out how the former (USSR) society, with its structures and strict hierarchies, was still the guiding structure. According to my respondents it was still a centralised system. In particular this could be seen in the Beta sector, where people from the national Beta Enterprise could become involved at anytime, concerning anything that had to do with business in the Ukrainian Beta sector. To illustrate the situation one of the respondents told me the following:

'If I have a relationship with a certain client and the interests of my client are nationwide in the Ukraine, they will contact the national Beta Company and ask them whether it is possible to buy from us. In such a case we have to focus on the national Beta Company to be close to our customers and our users, and sometimes when we do not keep this in mind we can lose a client. Yes we have relationships, we can have an interest from our customer's side and we may be close to the moment when we are about to sign the contract and then somebody from the ministry or from the national Beta Enterprise comes and says that we cannot. Forget it, I have my personal friend at CCC and we have to promote that system instead of purchase the one from us'.
Apparently, this implied that the establishment of relations with state officials could be as important for the outcome of their business as their efforts to establish direct business relations with companies in the Beta sector. The importance of these contacts, or as they commented, the importance of having 'friends' among the authorities could also be a source of misunderstanding. In general such misunderstandings occurred when the decision makers did not know how to evaluate different bids. According to the respondents, this was because they often had no knowledge of the latest equipment and therefore asked the salesmen to write down the technical specifications of the equipment needed. One of the respondents told me that this could make it very difficult to explain why a certain function was more important than another, as the decision makers had no 'real' understanding of the proposal from the beginning.

8.4.3.4. Contacts with Local Companies
When I asked about how privatisation had changed local companies, my respondents' answers clearly indicated that it was (almost) of no importance whether the company was privatised or not, since the 'old' structures remained (more or less) unchanged. Describing the aspects that made the structures persist, the respondent told me that people at top management level in general had these positions before the system changed. Regardless of the fact that many of the people in these positions were close to pension age, for them to retire meant that they had to reduce their income level so much that this was no 'real' alternative. As a consequence, they stayed and ran the company in the same way as they had done before. The only people who could enter their part of the organisation were those who would not threaten the present managers' positions. In other words, only their friends could enter. A matter of interest is also that the respondents' statements clearly illustrated that all decisions were made at this level.

Talking about blockages in local companies, my respondents pointed out a barrier preventing young ambitious people being promoted to higher positions. This promotion opportunity had existed in the former system while the present situation (with the top management's unwillingness to retire) had caused this possibility to disappear. A consequence of this development was that young people with fresh university diplomas avoided companies in the industrial sector. However, according to the respondents, the main reason why young people avoided the industrial sector was not the blocked career path, but these companies' problems in paying salaries on regular basis.

A common perception among my respondents was that industrial companies had not become more market oriented, reorganised, or changed in terms of leadership styles. On the contrary, these companies had become 'more Ukrainian' and were relying more on their experiences and on their 'friends'.

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My respondents stressed that for them, this was something that made things more difficult but, on the other hand, something they could manage. A bigger problem for them was when they discovered that their potential customers lacked financial resources to make any purchase. This problem was also something that the managers in the product segments abroad had realised. According to one of my respondents, this was also the reason why they were reluctant to make investments on the Ukrainian market. In his view, the problem was the following:

'Sometimes it seems as if nobody is really interested in business in the Ukraine. Yes we have to provide local existence of the Mimer firm in the Ukraine, but no more. So nobody has any interest in supporting business, because they know the situation, and even a 10% improvement of business of Mimer Ukraine – that is too little to be interesting for Mimer’s global group, because they are waiting for considerable changes in the economic life of the Ukraine and they want an increase by, say, three, four, five times. - Not 10%'.

The conversation that followed from his statement indicated an interesting aspect, as the respondent told me that he knew that his problems were also problems of the business area, and they had to solve them together. The answer to these problems and the hopes for survival on the Ukrainian market came from his (and his colleagues) discovery of market niches where there were customers with buying power. This had also been the key to growth for sales of installation materials and other products where they had found such ‘good’ customer segments.

8.4.3.5. Had Our Seminars Been Useful?
Asking the respondents if they had been able to apply the concepts and methods suggested, one of the respondent told me that that he had used the SWOT-analysis when making the business plan for the product he had started to import. Similarly, one respondent had used the SWOT-analysis when he prepared a business plan during the Delta programme. A common opinion was also that the presentation technique exercises had been useful for their later presentations of product information. What they had all appreciated was the possibility of meeting each other and sharing experiences as this had strengthened their internal relations.

Pointing out the discrepancies it was evident that our seminars had been too theoretical and a bit far from their Ukrainian reality. In particular this was evident in their comments on the management and leadership section which had been difficult to apply to their Ukrainian reality (or even in their organisation). Discussing the differences between the Ukrainian management style and
Western management one respondent told me about his impressions from an internship in Western Europe. During his internship he had witnessed how subordinates criticised their manager’s decisions openly, and how the manager had accepted discussing the issue further with his subordinates. Judging from the respondent’s words, to tell a superior manager that he was wrong was not something that people did in the Ukraine (or in their organisation). Thus, there was a difference in the way managers and subordinates communicated, which was reflected in tiny discrepancies throughout the seminars.

8.4.4. Summary and Other Observations
Judging from the respondents’ statements, there were no indications that the product segment sphere was influenced by the negative development in the joint ventures. On the contrary, their words indicated that they considered themselves to be more integrated in the parent firm’s structures and, hence, separate from the problems in the JVs.

It is also of interest that the search for new market niches had resulted in a broader span of products making the product segments more diversified compared to what had been the case in 1997. This demonstrates that the ties to the parent firm supported the managing of the influence from the local market as these ties offered flexibility to adjust to local demands. The salesmen were, however, aware that those responsible for the segments on the global level were unlikely to devote a lot of attention to the Ukrainian market as long as the investment climate did not improve.

Concerning the introduction of the parent firm’s management it was evident that the daily contacts with expatriates and managers from units abroad supported the integration of local employees. In particular this was indicated when the respondents spoke about delegation and how local employees now worked more independently and acted in a more self-reliant way by taking more initiative. Judging from the words of the HRM there were, however, exceptions as there were still people who expected to be managed since they had not fully adjusted to the demands for initiative and being able to work independently. The managers’ general view of internal development was, however, positive.

Examining the respondents’ statements about relations with local companies, it seems as though the companies in the industrial sector were more blocked in their organisational hierarchies than they were during the Soviet time. The indications that management procedures in local companies have remained unchanged were also interesting. Telling examples of this are the statements indicating that local companies were still contacting the central authorities before making any investment decision. Accordingly, it was important that salesmen established relations with the central authorities at the same time as
they had close contacts with the customer companies. Summarising the respondents' statements, there are clear indications that the product segments' organisation had learned how to handle these relations. More difficult was the fact that their customers from time to time lacked financial resources to go through with their planned purchases.

A general success factor for positive development (pointed out by the managers in charge) was the gathering of practical experience by confronting difficult issues in daily work. Likewise, the daily contacts with units abroad improved language skills among the employees which facilitated their contacts with the people in the Mimer firm's units in the West. Clearly, the product segment sphere provided possibilities for the employees to exchange ideas and experiences with people from outside the Ukraine. In the coming analysis, this sphere will be examined further with respect to the incremental build-up development that the respondents' statements indicated.

8.5. THE ADMINISTRATIVE SPHERE
My respondents from the administrative sphere were the legal advisor for Mimer Ukraine and the chief accountant. My respondents had extensive experience from contacts with the local authorities and represented the departments that managed influence from such actors.

8.5.1. The Legal Advisor's Perspective on the Development
The interview started with general questions about the respondent's position and how the legal environment influenced the subsidiary's operations. Describing his position as the subsidiary's general counsellor, he pointed out the importance of following changes in legislation. The challenge was then to interpret how the changes influenced their operations. To manage this, he participated in a majority of the internal meetings where legal issues were discussed. As he explained, due to the frequent changes in the legislation, all legal aspects had to be carefully examined. From the various examples my respondent described it was evident that he was involved in everything that had to be examined from a legal perspective.

When I asked about his view on the local authorities, my respondent's answer indicated that he was rather critical towards the authorities' attitude. In particular this concerned the authorities' tendency to invent regulations that inhibited the business sector's development. Describing the reasons behind the unstable business regulations, my respondent told me that the entire situation

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In particular this was revealed in the statements describing how salesmen asked for courses on financial issues, as a mean to help customers calculate project costs.

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was new for the decision makers. In his view, it was evident that the people in charge were not used to having any concern for the business environment, ‘they just make the decisions’, as he told me.

Regarding their managing of the influence from the legal environment it was clear that the unstable conditions had an extensive influence on their operations. In this he saw both positive and negative aspects. The positive aspect was that, regardless of the turbulence, they had been able to work according to the laws and regulations. Judging from the respondent’s words they had developed their skills in defending the subsidiary’s position. The negative aspect was that the legal environment created a huge workload, as the laws were constantly changing. This he illustrated in the following statement:

‘When it is changing very often it is difficult to know all about what is changing, especially when it comes to accounting principles and the taxation system. It is a really hard job to be an accountant here, especially to be a chief accountant and to be a lawyer here, because you have to know everything’.

Describing the workload, my respondent pointed to the time needed to learn the new laws and to discuss implications of changes with people in the organisation. As legal issues were a constant concern people in the organisation contacted him for advice. By doing so they avoided many of the mistakes that it would otherwise have been easy to make (and costly to correct).

8.5.2. The Chief Accountant’s Perspective on the Development

The interview with the chief accountant started with general questions about the respondent’s view of Ukrainian accounting regulations
d, and what it meant to be responsible for contacts with local taxation authorities. It was also of interest to know if there had been any changes (improvements) in the local accounting system
. Asking my respondent whether any changes in this direction had been implemented, her immediate answer was that the accounting system was still a ‘mess’ compared to international standards. To illustrate the ‘mess’, she told me the following:

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87 The aim of these questions was to find out whether the chief accountant shared the legal advisor’s opinion about problems with Ukrainian accounting regulations.
88 During my visits I sometimes borrowed a desk in the accountants’ office. Judging from my chats with the accountants there were indications that the Ukrainian accounting system was likely to become more westernised.
'We have a rather complicated system for profit calculation [...] In an international accounting system everything is simpler, if you have expenses, they are expenses. If you get some money, then it is income. Here if you get some money it is income, but if you have some expenses it may not be strictly an expense, sometimes we cannot count it as an expense so artificially we are increasing our profit which forces the company to pay 30% income tax on money we don’t have'.

Explaining the problems with taxation of ‘artificial income’ further, my respondent told me that such problems also occurred when exchange rate fluctuations (from their international transactions) coincided with the effects of Ukrainian inflation. According to her, there had been examples when they had been forced to pay taxes for such ‘artificial income’.

The next issue she described as difficult was value added taxes (VAT). Describing the difficulties, she told me that the Ukrainian state owed them money, but to get any (VAT) money back from the state was not an easy task. In particular, this problem became evident when the company paid more VAT than it received from its sales. A problem was apparently that the difference was not always paid back to the company, which she illustrated in the following words:

’If the state owes you VAT, you have to prove it, you have to fill in plenty of papers and very often they then say, OK next time you pay and then we make the clearing’.

According to the chief accountant, issues concerning VAT were constant subjects of discussion with people from the taxation offices. Summarising my respondent’s statements there were clear indications that the complexity of the local accounting regulations remained.

With regard to contacts with the taxation authorities it was not uncommon that the tax inspectors came to conduct an inspection into, as she put it, ‘whatever they could think of’. It was evident that these inspections irritated people at the department, as they (the tax inspectors) were not always informed of the latest laws and regulations. They were, in her view, using the laws that suited their purposes best, and if this purpose was to make the company pay a fine, then they tried to find a law that suited this purpose. The problem for people at her department was then to prove that they had followed the regulations which was a time consuming process. To further describe the approach used by tax inspectors she explained the following:
'If the tax inspector says that, for example, we have to pay penalties and in such a case sends a payment order to our bank which is irrevocable. Then the bank has to withdraw the money from our account without any agreement from our side and only after that can we go to court, to arbitration, and start to prove that we were right and sometimes it takes months and even years if the deal is big'.

Judging from her statements, an important task at her department was to fight the tax inspectors who, in her view, were frequently wrong. Apparently, this problem was due to the mess in the laws which made it difficult to understand the foundation of the inspectors’ remarks. Describing how this influenced the subsidiary’s operations, she told me that the complexity of these problems made it necessary for them to support the JVs’ handling of taxation issues.

Her statements about the JVs indicated that this was a chapter of its own, as the JVs had been established on promises of tax relief. This relief included VAT and a period of five years free from paying any taxes on their profits. These promises were unfortunately cancelled after only after two or three years. Clearly in her view, this was nothing but a betrayal of foreign investors.

Talking about the problems with laws that came into force retroactively, she told me that this procedure had (almost) become normal practice. Apparently, the reason behind this was the bureaucracy involved in the registration and publishing of new laws. The issue was that a new law was considered to be in force from the day it was first registered while the process of going through all instances before it became public took about 30 days (sometimes even longer). To illustrate the problem, she told me the following:

'A law is published with a delay of 30 days, and sometimes even a quarter. Tremendous changes like import VAT, which was acting retroactively during the whole first quarter -92, -or was it -93. - Anyway, can you imagine retroactive payments of 20 % of the price, Can you imagine, the sales were made, the contracts were signed with the customers and then...Please do not forget about the VAT with one quarter delay'.

From her description of contacts with the taxation authorities I noted that, in spite of everything, the country was step-by-step moving towards international standards. Clearly, the main problem in this development was the government’s view of taxation issues, since it seemed as if policy was only a matter of covering budget deficits. Her statements therefore indicated that there was a way of thinking among people in charge that many taxes (and high tax
rates) would automatically provide high income to the state finances. Thus, for the authorities it was not a question of an optimal amount of taxes and an optimal total tax rate.

Describing her efforts to stay up-to-date with the ever-changing taxation laws, she told me she had to devote a lot of time to reading letters from the taxation authorities with explanations of the new laws. There was, according to her, something new every day which made it important to take the pulse of developments and inform other people in the organisation (immediately) when something came up that was relevant to them.

8.5.3. Summary and Other Observations

The administrative sphere acted as an internal interface for the flow of financial information between the subsidiary and the parent firm (while the expatriates handled communication with the parent firm). Local employees’ working tasks were therefore focused on communication with the local authorities and the compilation of internal financial information. Examining the respondents’ statements, we find that none of them mentioned that the handling of the internal tasks was difficult while the contacts and demands from the local authorities created a huge workload.

It was also striking that the respondents’ statements indicated a negative view of the legislators. In particular this surfaced in statements showing that the authorities changed the conditions for communication in their favour. Other examples that revealed this view could be seen in comments about how the state officials used legislation as a tool for covering budget deficits (without considering how the legislation influenced the companies).

With regard to the complex legislation, some employees even talked about this as a remnant of the Stalinist system where the system was so complicated that everyone either made mistakes or risked doing so. The question for the authorities was then not to prove who had committed an error, but to select which ones should be punished. In this sense, the example of the retroactive taxation laws shows that state officials still created situations in which they could choose whom to punish. Thus, the local authorities’ ways of using their power was a threat to the subsidiary’s operations.

Looking further into the respondents’ statements, there are clear indications that people working with administrative tasks buffered influence from the

89 Employees, whose office I sometimes shared, made these statements.
90 This supports the statements by the legal advisor and the chief accountant, as all three statements confirmed that local legislators had no tradition of taking the situation of local companies into consideration.
complex legal environment. In particular this can be seen in the respondents’ proactive work to avoid mistakes in contacts with the authorities. The need to stay up-to-date also concerned the need for quick diffusion of information to other people in the organisation about the latest developments. In interviews this was illustrated in statements describing that if something went wrong they had to face a time consuming (and costly) legal process. Thus, efforts were worthwhile to avoid this happening.

Summarising the statements by the expatriates and the respondents from the administrative sphere, it was evident they had identified the tasks that needed to be resolved. Accordingly, the growth of the administrative departments was based on a common understanding of the need to adjust to the demands from the local authorities. In the coming analysis, the developments in this sphere will be discussed with regard to the adjustment development, which describe the respondents’ comments about their managing of influence from the local institutional setting.
9. FROM OPERATIVE ISSUES TOWARDS AN ANALYSIS OF IDENTITY IDENTIFICATION PROCESSES

This chapter analyses the subsidiary’s internal development and sets out to identify the identities that local employees developed.

9.1. OUTLINE OF THE ANALYSIS

The analysis of the identity identification processes starts with an examination of operative issues observed in the organisational spheres below top-management level. This implies that the top management sphere is not in primary focus since managers in this sphere influence local employees’ identity identification when introducing the parent firm’s management. Their statements are interesting, however, in providing information about what had been difficult and what had worked well during the introduction. Thus, the standpoint is that an analysis of aspects influencing local employees’ identity identification needs to examine local employees’ operative work with respect to the principles introduced by the parent firm’s representatives.

Concerning local employees’ relations with respect to the Western introducers, the empirical chapters have showed that the subsidiary was heterogeneous in its development. This pattern was clearly indicated as the sequential restructuring in the JV sphere was different from the incremental build-up and adjustments in the other two spheres. To further our insights into local employees’ identity identification, the analysis reflects over salient issues that surfaced in the empirical section. The operative issues to be discussed further are the following:

- Changes in the organisational structures.
- Introduction of new management.
- Selection and introduction of employees.
- Training and skill building.
- Customer orientation and quality management.
- Lay-offs.

The issues mentioned above will be analysed to reveal processes where socialisation (see Berger & Luckmann, 1967; DiMaggio & Powell, 1983; Mintzberg, 1983), or lack of socialisation characterised the introduction of the parent firm’s management. Of particular interest for the analysis is local employees’ identification of us and them, or ‘we and they’ as expressed here, since this identification reveals aspects that facilitated or inhibited the introduction of the parent firm’s management. On the basis of this analysis this
chapter’s final section sets out to define the identities that local employees developed.

9.2. ANALYSING THE SPHERES’ DEVELOPMENT

9.2.1. Sequential Restructuring in the Joint Venture Sphere

Changes in the Organisational Structure
An aspect that influenced the JVs’ organisational structures was that these units had two strong owners. This is to note that the ownership of the Ukrainian partner was significant even though the Mimer firm owned the majority of the shares. Clearly, the influence from the local partner was strong on the JV in Cossack town since operations were dependent on the partner’s production and sales channels. In Gogol Town this influence comprised local management practices while the Mimer firm had better control over production and sales channels.

When examining the changes in the JVs’ organisations a clear pattern emerges indicating that changes were initiated by the Mimer firm’s representatives and involved the removal of former structures and management practices. Judging from the respondents’ statements there were clear indications that the restructuring was a source of conflict which surfaced in the relations between the Mimer firm’s representatives and the local partners. In particular this was evident in the comments by respondents from Gogol Town indicating distrust towards the Mimer firm’s intentions behind the establishment of the JV.

Introduction of New Management
The introduction of new management was influenced by the fact that, from the outset, it was the Mimer firm that entered a structure dominated by local management practices. This was apparent in comments by people at top management level who were troubled by the fact that the restructuring of the JVs showed little progress. The problems the JVs faced seemed to be a source of conflict which was indicated in interviews with both the expatriates and local managers. In particular indications of conflicts were evident in statements describing the need to change former attitudes to improve the performance of the operations.

Examples illustrating the efforts to change local attitudes clearly surfaced in statements by the country CFO about the need to change local employees’ ‘fulfilling the plan’ mentality. According to his statements a promotion practice had also existed, according to which a person could be promoted with the help of friends within the organisation. With the introduction of the Mimer firm’s
management this promotion practice had been replaced by a policy for promotion (or hiring) on the basis of the candidate’s skills.

The opinion that changes were necessary was also evident in statements by a local segment manager from the top management sphere. Like the expatriates, he was not satisfied with how things had developed. This surfaced when comparing the JVs’ development to the part of the organisation he was in charge of. Clearly, the reason for his dissatisfaction was that the ‘old’ leadership practices seemed to persist in spite of the efforts for change.

It is a matter of interest that examples of the JVs’ ‘old’ leadership also became visible to us during a meeting with the marketing director and his staff in Gogol Town. It is worth noting that although this observation (only) concerned the marketing director’s behaviour and statements about his subordinates the segment manager’s remark about ‘old’ management made sense. Thus, it was apparent that the Mimer firm’s management and the local management practices represented conflicting views on relations between managers and subordinate employees.

Furthermore, the material from the seminars clearly indicates two examples of the conflict between the Mimer firm’s management and local management practices. The first example could be seen when we presented proposals on delegation and how to set goals for teams. Judging from the participants’ reactions it was evident that they thought that this was something that their superior managers should learn.

The second example of conflicting management practices indicates the conflict’s subtle dimensions. Like the previous example the participant’s statements illustrate that people at middle management level were still conducting leadership according to the ‘old’ style. However, it is important to note that this had become apparent to him when he compared his situation with colleagues from Germany during an internship. This example suggests that differences between the leadership styles became visible for the respondent when having an opportunity to compare his foreign colleagues’ view of delegated decision making to how managers acted in his organisation. Thus, a visible example by foreign peers was needed for the respondent to reflect on the hidden conflict in the introduction of ‘new’ management at home.

The examples mentioned above demonstrate that the referent in comparison influenced the respondents’ view of whether changes had taken place or not. An

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91 See chapter five (section 5.3.2.).
92 The respondent had written a short paper on the importance of delegated decision-making which he presented during our third seminar (see section 6.3.2).
example in line with this observation was evident in the statement ‘—now we are treated as adults’ by a foreman in Cossack Town. This was said when comparing the new delegation policy to the former management style. A point of interest that these observations highlight is that if former management was the referent in comparison — then things had changed. If the referent in comparison was the management in a Western unit — then much remained to be changed. In this sense, the introduction of new management seemed to be inhibited by the local managers’ (and employees’) lack of experience of what the ‘new’ management meant in practice.

Selection and Introduction of Employees
The restructuring plan shown to us during the initial meeting was a visible indication of the strategy to select the ‘right’ local employees for the ‘right’ positions. Accordingly, the selection was envisaged to identify people whose attitudes suited the managing of the restructuring efforts. Consequently, it was also possible to identify and replace people whose behaviour and former roles may have caused conflicts when confronted with the Mimer firm’s managerial principles. Thus, the selection was a mean for managers in charge to create ‘Mimer units’ from organisations founded during the former system.

In the introduction of new employees, the newcomers entering the marketing and sales departments entered structures dominated by local norms. In particular this was apparent in the JV in Gogol Town where the introduction of the newcomers was influenced by the ‘old’ leadership style.

Training and Skill Building
The importance of training the employees in the JVs’ was evident in the ‘master plan’ that the Country Controller presented during our initial discussions. Comparing his words to the scheduled programmes in Gogol Town, it was evident that the ‘master plan’ reflected the plans for training that the local HRM had made. However, although the plan was consistent with the policy stating that all training efforts should facilitate the restructuring and integration of the new units the plan only seemed to work for technical upgrading.

In seeking to understand the reasons behind this development it is apparent that the ‘old’ leadership style inhibited the development of managerial skills in line with the Western parent firm’s management. A striking impression was also that although there were plans for management training there seemed to be little space for the testing of new management approaches in practice.

93 See section 5.2.
94 Ibid.
Customer Orientation and Quality Management

Looking at the local employees’ development with respect to customer orientation and quality management it should be noted that these issues were described as particularly important by the HRM when presenting their management plan in May 1997. According to the plan, the sales managers’ roles were about to change and embrace responsibility for the whole chain from customer orders to final deliveries.

When examining the examples demonstrating that these changes had been introduced, we find that the salesmen co-ordinated customer contacts with people in the local production units. In particular this was evident in a presentation during a seminar by a sales manager from Cossack Town. Making the presentation he clearly pointed out problems illustrating that this was not an easy task as they were dependent on the local partner’s production system. Judging from the respondent’s words, the new responsibilities meant a battle against ‘old’ management structures running the production lines with little concern about customer orientation.

The problems of introducing customer-oriented approaches were, however, not only caused by the influence from the JV partner. Clearly, this was shown in the remarks of the expatriate manager in Gogol Town indicating internal problems in introducing new responsibilities. Judging from his statements, the people in the marketing and sales department were spending too much time in their offices instead of developing customer contacts.

Statements illustrating the problems of introducing the Mimer firm’s quality management clearly demonstrate that the influence from the former system was strong. The most striking examples of this influence came from the comments of the manager at the design department in Cossack Town when telling us about the problems in motivating the workers to improve quality. Describing their attitude, he pointed out that they could not see why such efforts were necessary. Discussing the reasons behind their attitude towards quality issues, the respondent, in response to the question if they knew who paid their salaries, said that it was unlikely that they would see any connection to the customers. This example therefore illustrates that, among the workers, there was still a ‘way of thinking’ that followed the former system’s view of how companies operate. Thus, what we see is a pattern indicating that the introduction of the Mimer firm’s approach for quality management was a struggle against ‘old’ quality thinking.

95 See a statement in section 6.1.3.
Lay-Offs
When looking at developments in the JVs we find that the downsizing of the organisations had been extensive. As observed, both JVs managed to restructure their production systems and undertake extensive lay-off measures. In this sense, the restructuring process implied drastic changes for those who were influenced and, as noted in the section on changes in the organisational structures, one effect of the restructuring was a growing distrust of the foreign firm’s intentions. The expatriate managers’ push for changes was therefore accompanied by a growing distrust among local employees. Local employees’ distrust can, however, be understood in the light of the changes because their positions either disappeared or changed within the shrinking organisation.

Looking further into the tendency to distrust it is apparent that the lay-off measures were in conflict with the established norm stating that it was everybody’s right to have a job. An indication that this norm still guided local companies was evident in the respondents’ stories about local companies being unable to pay salaries, but not initiating lay-offs due to financial problems. It is interesting to note that the statements in which the conflict was indicated were reported by both Western expatriates and local employees. Their comparison of the JVs’ situation to other Ukrainian companies (that also suffered from financial difficulties) therefore illustrates conflicting ways of handling financial difficulties.

Reflecting on the source of conflict we find that the conflict originated from the Western management norm, according to which a company in financial difficulties must cut costs and start lay-offs. This norm was contradictory to a guiding principle in the former system stating that it was everybody’s right to have a job. The conflict could be seen all the more as the Western norm was practised in the rationalisation and downsizing efforts since this challenged the former principle resulting in an ‘it was better before’ attitude among local employees.

9.2.1.1. Defining the Socialisation Process
As observed, the introduction of new management was a difficult task in the JVs. What is also evident is that the restructuring activities as such could be managed, while the more the activities questioned established norms, the more conflicts emerged. It is striking that the problems were not related to change in the work itself, but to the question of why established practices should be changed.

Accordingly, it is vital to observe that the problems of introducing new management seemed to have two dimensions. This is evident since managers
who were supposed to change to a less autocratic leadership had no experience from management of this kind. Nor did their subordinates know what to expect from the changes. This combination of not knowing what to do (the local managers in the JVs) and not knowing what to expect (their subordinates) is an example of how the institutionalised management practices inhibited the introduction of the parent firm’s management.

The problems the analysis points out indicate that the introduction of new management was a complex task that involved the identity of those who were subject to the changes. In particular this was evident in statements that local employees referred to the parent firm’s representatives as ‘them’. It is notable that such identification was commonly evident in local employees’ comments about the lay-offs, as these measures brought norms and values into contrast with each other. Similarly, the statements by the parent firm’s representatives indicated that ‘they’ (local employees) had to change their attitudes, working practices, etc. to meet the new standards.

Defining the characteristics of the socialisation process we find many aspects that point towards normative differences between the actors inhibiting the socialisation of local employees. Thus, the socialisation process lacked the aspects that might have facilitated local employees’ creation of identities in the new structures. Through these observations, we can view the socialisation process in the JVs as ‘a struggle between old and new’ with the Mimer firm as the actor entering organisations dominated by the local institutional setting.

9.2.2. Incremental Build-up of the Product Segment Sphere

Changes in the Organisational Structure
As noted in the empirical section the changes in the organisational structure were characterised by the incremental growth of the sales and marketing departments. Examining the respondents’ statements about these step-by-step changes we find that such comments only arose among the parent firm’s representatives.

However, although structural changes in the local organisation seemed to be of less significance to the local employees it is of interest look at their statements about changes originating from the parent firm. In particular such statements were apparent in discussions about how the new line-oriented structure would influence their operations. Judging from their remarks, the question is whether the changes would facilitate their relations with the units abroad or if these relations would remain unchanged. Thus, there were clear

96 The implication of this step will be subject to further analysis in chapter 11.
indications that the question of greatest interest to salesmen and marketers was whether the new line structure would make them more integrated in the Mimer firm's worldwide network. It is also a matter of interest that this was something the respondents hoped would happen. The change in the parent firm's (and their internal) organisational structure was, in this sense, not a source of conflict, but a change that the respondents hoped would help them to develop their positions in the local market.

Introduction of New Management
The introduction of new management in the product segment sphere did not share the elements of restructuring and removal of former management that were salient in the JV sphere. Instead, the developments had from the outset followed other preconditions. That is to say that this part of the organisation started from scratch. An important precondition was therefore that local management practices were not predominant and inhibiting for the introduction of the parent firm's management. Thus, local employees (from the outset) entered a setting dominated by the parent firm which facilitated the build-up of a common norm structure.

A common impression was also that the respondents from this sphere appreciated the parent firm's management philosophy. Such indications were evident in the respondents' stories about how delegated decision-making had influenced their work. Similarly the statements by the top managers\textsuperscript{97} indicated that the salesmen in the product segments were working more independently and were allowed to take more responsibility for their work.

There were, however, some indications of norms revealed in employees' avoidance of conflict which deviated from the parent firm's principles. According to the HRM\textsuperscript{98}, this could surface in the behaviour of expecting to be managed and in meetings when subordinates held back their opinions in case they were contradictory to a proposal by a superior manager. The avoidance of conflict might therefore be accounted for as an example of 'the Ukrainian way' which co-existed with the norms introduced by the Western firm's representatives.

What was most striking, however, were the many occasions when the respondents expressed how their organisation differed from other organisations. This shows that they had formed a norm structure in their organisation – a 'we' indicating that people in their organisation were different compared to other companies. The development of this awareness became an asset as the subsidiary needed to understand local customers' ways and to describe their

\textsuperscript{97} See statements by the segment manager in section 8.4.1.

\textsuperscript{98} See section 8.4.2.
responses to the manufacturing units abroad. Therefore, in the product segment sphere we cannot trace any internal conflicts in the build-up of a common norm structure. We can, however, identify that an internal norm structure had developed as the respondents described their own norms by referring to how they differed from other companies.

What is indicated, if we put these observations together, is an integrative effect whereby people in the product segment sphere had become more oriented to the parent firm’s norms. The integrative effect was based on the sphere’s frequent contacts with actors representing the parent firm in the subsidiary and on the formal links to the parent firm’s units outside the Ukraine.

Selection and Introduction of Employees
As noted in the empirical section, the development was characterised by an incremental build-up in which integrative aspects played an important role. Evidence of such integrative aspects was evident in the introductory programme (which included training abroad) for candidates selected for open positions. During this training new employees were introduced, not only to the different technical features of the products they were going to sell and market, but also to other parts of the Mimer firm’s organisation abroad.

A point of interest is that the introductory programmes facilitated the establishment of relations between local employees and managers in the parent firm’s units. In particular this was illustrated in statements revealing that employees in the product segments viewed themselves as parts of the Mimer firm’s international network. Thus, it is interesting that regardless of the contacts mainly involving technical specifications of products to be imported, these contacts facilitated an adaptation to the parent firm’s managerial principles. It is also clear that these contacts resulted in improved language skills as daily phone calls and fax messages forced local employees to improve their English.

Training and Skill Building
The top managers’ initial statements regarding training clearly indicated that all training activities should be oriented to practice. When examining the aspects that facilitated the combination of training and practical skill building it should be noted that the build-up of marketing and sales skills took place simultaneously with the build-up of the organisation. It is also worth noting that there were plenty of indications that the expatriates viewed local employees’ knowledge of the specific traits of the local market as an important asset.

Training and skill building activities did, in this sense, start from a position with the expatriates pointing out the value of local employees’ knowledge. Clearly, this was seen in practices to support local initiatives by allowing local
employees to develop their own projects with resources from Mimer units abroad. Thus, unlike the JV sphere, we find space for practical skill building in the step-by-step development of personnel and the organisation.

Customer Orientation and Quality Management
It is important when analysing customer orientation to consider that, from the very beginning, the product segment sphere had been developed to serve local customers. Clearly, customer oriented principles were a foundation for their operations and not something that was introduced from one day to the next.

It is apparent if we look at quality management that people were influenced by links with the exporting units abroad. This was particularly evident in their concern for the quality of their services to local customers, while the study cannot tell if their work influenced the quality of the physical products.

Lay-Offs
Since the product segment sphere expanded there were no lay-offs. What stands out as important for this development is that if sales declined for a certain product type it was fairly easy to switch to the marketing of another product. Market uncertainties could therefore be counterbalanced by internal flexibility.

9.2.2.1. Defining the Socialisation Process
The incremental build-up of the product segment sphere illustrates a development without the norm conflicts shown in the JV sphere. Of importance for this development were activities integrating local employees into the Mimer firm’s norm structures. In particular the integration was facilitated by the hiring of one or two employees at a time which implied that those who entered adjusted to norms in a setting dominated by the parent firm.

A striking impression is that people in the product segments appreciated the parent firm’s management and that they took part in the manifestation of these norms. The statements demonstrating this opinion pointed to a chain of aspects making them more confident in their work. It is also interesting to note that when the respondents made such comments, they also described how their management norms differed from other Ukrainian companies.

In defining the socialisation process it is important to observe that, as in the JV sphere, there were indications that the developments influenced local employees’ identities. This was shown in statements claiming that the formal________

99 Indications of such switches were evident in the statements by the Country Manager (in section 8.2.2.1.) and by the HRM (in section 8.4.2.).
100 This will be analysed further in chapter 11.
links to the parent firm’s units abroad created a sense of belonging – a ‘we’ embracing actors in the parent firm. Clearly, the development of these relations was supported by the subsidiary’s policies and practices for introduction of newcomers (and later skill building). Thus, there were structures and processes facilitating socialisation of incoming candidates. Consequently, we can view the socialisation process as characterised by local employees’ ‘creation of new identities’.

9.2.3. Adjustments in the Administrative Sphere

Changes in the Organisational Structure
Looking at changes in the organisational structure we find that the administrative sphere had not been subject to changes of the kind evident in the other two spheres. Clearly, the development in this sphere pointed towards moderate changes as the build-up did not challenge local partners, nor link local employees more closely to the parent firm’s units abroad (as in the product segment sphere).

A matter of interest concerning the changes is that the administrative sphere had been growing after the subsidiary started to handle its ‘own sales’. According to the Country Manager, the handling of ‘own sales’ implied that the subsidiary started to handle imports and sales in the local currency. Looking at the new assignments this change brought about we find that the subsidiary became responsible for the negotiations, legal issues, the writing of contracts, invoicing, etc. The effects of being responsible for these tasks was clearly evident in the top managers’ statements. This was particularly illustrated in the words of the country CFO who viewed the growth of the administrative sphere as an unfortunate increase in overhead costs at the same time as he pointed out the importance of the administrative tasks. In his view this was a part of Ukrainian business reality to which they had to adjust. The formal structure in the administrative sphere was therefore created and adjusted to fit both internal and external demands.

Introduction of New Management
What is interesting in the introduction of the parent firm’s management is that none of the statements of the subsidiary’s top managers indicated that it had been difficult to introduce the parent firm’s management practices in this part of the organisation. It is also of interest that signs of new management only became visible when the administrative staff made comparisons between the Mimer firm and their earlier employers. The difference that all respondents’ pointed out was that they were allowed to take on more responsibility when working for
Mimer. Judging from their remarks they appreciated the Mimer firm’s management and viewed this as something that distinguished them from other companies.

In searching for statements that demonstrated the tendency mentioned above we find clear indications that the administrative staff had taken the Western management norms to their hearts. That this was the case was revealed when the respondents expressed their frustration over the Ukrainian taxation authorities and Ukrainian accounting methods by describing these methods and principles by saying: ‘it’s a mess’. Such statements illustrate that those in charge of these issues compared their internal system to the external Ukrainian one which, in their view, was less useful for controlling purposes. A vital matter concerning the administrative staff’s frustration over the local authorities’ ways is that this indicates an identification of the local authorities as ‘they’ – a group of people taking little notice of how their decisions influenced the business environment.

Looking at the build-up of a common norm structure, it is important to consider that the expatriate managers frequently asked for financial information making people in charge of the compilation of this information aware of the expatriates’ view of the developments. Reflecting over my observations from such occasions, I found that the Western managers transferred their norms when explaining how important this information was for their management of the operations. Thus, the development of a common norm structure was based on face-to-face interactions supporting the creation of a common ‘we’.

Selection and Introduction of Employees
A clear pattern is that the selection and introduction of employees in the administrative sphere shared the incremental development characteristics observed in the product segment sphere. It was also striking that the step-by-step growth and selection of new employees was based on managers’ awareness that certain tasks had to be resolved, i.e. the working task was defined before they hired someone. However, although my study clearly indicates that selection and introduction took place the study cannot discuss any specific procedures and programmes for the introduction of new employees.

Training and Skill Building
The training of employees in the administrative sphere was evident in the plans for training presented by the HRM. However, as noted in the previous section, the empirical material cannot discuss the effects from the training activities,

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101 This remark is based on talks with people from the accounting department whose office I sometimes shared.
102 Remark based on observations during my visits.
although it is most likely that these activities were important for local employees' understanding of the Mimer firm's accounting system.

In seeking to understand how skill building influenced operative work it is of interest to note that none of the respondents mentioned any problems in handling the Mimer firm's accounting system. Judging from the respondents' comments they were preoccupied with difficulties caused by changes in the Ukrainian business regulations and their contacts with the taxation authorities. Thus, the need to solve these tasks which, in practice, involved the need to reduce the threat of sanctions, was an important trigger for skill building.

Customer Orientation and Quality Management
Looking at issues concerning customer orientation and quality management we find that both issues were important in contacts with the authorities. Thus, it is possible to draw parallels to the policies of customer-oriented practices and quality management in the other two spheres. This was illustrated in the concern that the administrative staff expressed about contacts with local authorities. Their statements clearly demonstrated that there were quality issues to consider in external contacts because mistakes would be time-consuming (and costly) to correct.

Lay-Offs
As noted in earlier sections, the administrative sphere had been growing to manage the paperwork that the subsidiary’s operations created. Reflecting over their statements it is apparent that the workload made local employees feel that they had no reason to fear for their jobs.

9.2.3.1 Defining the Socialisation Process
The socialisation in the administrative sphere shared many aspects that were salient in the product segment sphere with local candidates entering a setting dominated by the parent firm's norms and values\textsuperscript{103}. Particularly striking was that the working tasks and the organisational proximity to managers representing the parent firm facilitated socialisation. A difference compared with the product segment sphere is, however, that the integration of the administrative staff took place without the same support from the parent firm's units abroad.

Regarding the internal norm structure, there were plenty of examples indicating that people in this sphere had accepted the parent firm’s management principles. This was clearly shown in their statements about their former employers and the management in other Ukrainian companies.

\textsuperscript{103} This will be analysed further in chapter 11.
Defining the socialisation process it is important to consider the indications that the administrative staff's work influenced their view of themselves. This was particularly evident in statements demonstrating that they were parts of a 'we' that differed from external organisations. This, like the product segment sphere, the analysis shows that we might view the internal socialisation process as characterised by local employees' 'creation of new identities'.

9.2.4. Summary –The Analysis Points to Identity Identification Processes

The analysis shows that there were two kinds of socialisation processes shaping local employees' identities. Thus, it is vital to note that the socialisation characterised by 'a struggle between old and new' in the JV sphere is different from the 'creation of new identities' in the other two spheres.

Looking at the orientations of the observed socialisation processes, we find that 'the struggle between old and new' in the JV sphere indicates that the local employees' old identities persisted. It is also worth noting that the struggle has surfaced in situations when the Western parent firm’s management norms have been compared to the norms of the former management (internal – internal comparison). Examining the socialisation processes characterised by the 'creation of new identities', we find that local employees' new identities have become apparent in situations where internal norms have been compared to norms guiding local actors (internal – external comparison).

The above examples therefore point towards an interesting aspect, as the referent in comparison demonstrates local employees' identification of 'we' and, hence, also the actors that were referred to as 'they'. A matter of interest concerning such 'we and they' identifications is that the parent firm's policy manual clearly highlighted the need to eliminate any 'we and they' attitude between local employees and the parent firm's representatives. In this study we have found indications that a 'we and they' attitude exists in the JV sphere. Thus, there are signs indicating that the policy manual underestimates the challenge of eliminating this attitude when the restructuring takes place in a setting dominated by local norms.

The analysis therefore demonstrates that the identification of 'we and they' reveals processes of identity identification among local employees. The standpoint is that by analysing the respondents' identification of 'we and they' we may reveal aspects shaping individuals' self-images. As the analysis has shown, the identification of a specific identity sometimes describes identifications of counterparts, while on other occasions, it denotes the respondents' sense of belonging to a certain group.

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104 This was clearly evident in statements about their contacts with local authorities.
105 See section 7.2.1.
9.3. ANALYSING IDENTITY IDENTIFICATION PROCESSES

9.3.1. The Struggle Between Old and New – The JV Sphere
As the previous section showed, the Western firm’s management norms were compared to the norms of the former management (internal - internal comparison), which nourished an internal identification of ‘we and they’. The following sections analyse how the operative issues reflected such identifications.

Changes in the Organisational Structure
Reviewing the empirical material, there are plenty of (subtle) signs indicating that changes in the organisational structure resulted in an internal identification of ‘we and they’. In particular such signs surfaced in comments about the restructuring efforts where the identification of the ‘we and they’ was dependent on whether the respondent represented the parent firm or those influenced by the changes. This points to an important aspect since the restructuring of the plants and the downsizing of the organisations were accomplished, while the creation of a common identity failed.

As noted in the previous section, the problems in creating a common identity were not only caused by local employees’ hesitation to form a ‘we’ bond with the Western firm’s representatives. This was especially evident in statements by some of the top managers referring to people in the JVs as ‘they’ who were in trouble and followed ‘old’ management principles. Thus, there were clear indications that the identification of ‘we and they’ was mutual and concerned conflicting positions in the relations between the Western entrant firm and employees in the acquired companies.

Introduction of New Management
In seeking to understand how the introduction of new management influenced the identification of ‘we and they’, it is essential to consider that the Western introducers confronted a group identity with which local employees identified. The balance between the introducers and the local group identity was, in these conditions, unevenly weighted in favour of the local group identity.

Given these conditions the local group identity (‘we’) could not be confronted by (and share experience with) a group dominated by the Western parent firm’s identity. In this sense, local employees could not compare their ‘we’ to the ‘we’ of peers in organisations dominated by Western norms.
From the perspective of respondents representing the entrant firm it was apparent that 'old' local management principles had to be replaced by the Western firm's 'new' management. In particular this was indicated in statements that 'they' had to change their mentality (the fulfilling the plan mentality) and promotion practices. Similarly this was revealed when local subordinate managers were confronted with proposals for 'new' management as their statements indicated that 'they' (their superior managers) had to change. Thus, the identification of 'we and they' points towards conflicting management practices as a trigger for identity identification.

Selection and Introduction of Employees
When looking at the entrant firm's selection of local managers with respect to identity identification we find that the selection was envisaged to facilitate the creation of a unifying 'we'. It is vital to observe therefore that these efforts were undertaken to replace people ('they') who may have inhibited the creation of a unifying 'we'.

When taking a closer look at these measures from the local managers' perspective, it seems that by the selection the entrant firm's representatives challenged the local managers' 'we'. This is to note that local managers' referent in comparison concerned the expatriates that started the selection, and hence, threatened to break up the local 'we'. Thus, like the changes in the organisational structures and the introduction of 'new' management, the selection of local managers created conditions for a mutual (internal) identification of 'we and they'.

With regard to the introduction of employees there were clear examples indicating that newcomers in the marketing and sales departments entered structures dominated by local norms. This was particularly evident in the JV in Gogol Town where the introduction of the newcomers was influenced by the 'old' leadership style. The introduction of newcomers therefore supported the build-up of the local group's 'we'.

Training and Skill Building
Identity identification in training and skill building had many things in common with aspects that influenced the introduction of new management. Thus, the identification of 'we and they' was based on tensions in relations between the Western introducers and those who were subject to the changes. It should further be noted that the uneven balance between the introducers and the local group identity limited the scope for testing of new approaches and hence the development of identities corresponding to the Western firm's management.
Customer Orientation and Quality Management

Examining the efforts made by the entrant firm’s managers to change local actors’ ‘quality thinking’ and general view of customers, we find that these efforts point towards an identification of ‘we and they’. This was (clearly) shown in the statements of the Western firm’s representatives about the gap between the present performance and the improvements needed. It was striking that ‘they’ concerned local employees, and as the section above pointed out, those who were supposed to change their behaviour and attitudes.

For local employees’ identification of ‘we’ this implied that ‘they’, by the definition of the Western firm’s representatives, were those who did things wrong and who acted with the incorrect attitude. The identification of ‘we and they’ therefore illustrates a conflict between the present and the preferred state which influenced actors’ identification of themselves and their counterparts.

Lay-Offs
The lay-offs created unstable conditions for those affected which also influenced the staff’s motivation to identify with the Western firm’s representatives (‘they’) whose decisions created these conditions. There was, in other words, a gap or distance between local employees’ (‘we’) and the foreign firm’s representatives (‘they’) that increased with measures causing uncertainty.

Accordingly, the analysis shows that local employees who were subject to changes identified with (former) stable structures. Local employees’ identification of a ‘we’ clearly concerned a preferred state, while ‘they’ (the entrant actor) constituted a threat. In this sense, as in the previous examples, local employees’ identity identification was triggered by a conflict. Thus, it is evident that the ‘old’ management constituted a better alternative compared to the threats that the changes brought.

9.3.1.1. Local Employees’ Identity Identification
As the previous sections demonstrate, the identity identification in terms of ‘we and they’ has a subtle conflict between ‘old’ and ‘new’ beneath the surface. Analysing this conflict it is important to observe that from the perspective of the Western firm’s managers ‘new’ concerned ‘old’ institutionalised Western ways of managing operations. The identification of the introduced concepts as being ‘old’ was, however, something that the Western introducers forgot to acknowledge. Thus, a matter of interest is that the Western concepts have been presented as ‘new’ while it was the setting that was ‘new’ for ‘old’ concepts.

106 The author pleads guilty of contributing to such negative consequences.
107 This also concerns the author.
In the identification of 'old' it should be noted that local employees' perception of being a part of the 'old' was strengthened by the Western managers' identification of local employees as belonging to the 'old'. The problems mentioned above in identifying with 'new' thus co-acted with the Western introducers' identification of local employees.

Clearly, the analysis points to subtle and subconscious aspects of the conflict between two 'old' institutionalised structures. It is vital to observe that these aspects represent the 'soft' side of the conflict while lay-offs and demands for changed attitudes and working practices underline this conflict in a more tangible way. The standpoint is that the sum of the conflict's subtle and tangible aspects influenced local employees' identity identification. Consequently, we can view the identity that local employees developed as created by this conflict.

9.3.2. The Creation of New Identities –The Product Segment Sphere
As noted in section 9.2.4, local employees described their own identity in statements that they differed from external actors which are accounted for as an internal – external comparison of management norms. Thus, the internal 'we' contrasted the external 'they'. Like the previous section, this section sets out to analyse how the operative issues reflected local employees' identification of 'we and they'.

Changes in the Organisational Structure
When we examine local employees' remarks about changes in the organisational structure we find that their statements (mainly) concerned the new line oriented structure, which originated from changes in the parent firm's macro structures. Judging from the respondents' comments, the question was how (and if) the changes would facilitate their contacts with the production units. Accordingly, it is a matter of interest that comments about the changes reveal local employees' sense of being a part of a common 'we' encompassing actors from the parent firm's units outside the Ukraine.

In making sense of the reasons behind local employees' positive attitudes towards the changes, it is evident that the changes were likely to support relations with actors in the Western units. Clearly, measures that facilitated relations with actors in the parent firm's structures reflected in local employees' identification of this corporate 'we'.

108 See section 8.4.3.1.
Introduction of New Management
As noted in section 9.2.2 the introduction of the Western firm’s management showed no signs of the conflicts evident in the JV sphere. Analysing the aspects that made it possible to avoid these conflicts, we find that local employees entered the subsidiary of their own choice. Local employees were therefore committed and motivated to accepting the Western firm’s management and form a common ‘we’ with their new colleagues in the subsidiary. It is also important to consider that from the perspective of the entrant firm, local employees possessed deep insights about local actors’ ways. As this knowledge was important for the establishment of business relations with local actors there was an identification of local employees’ contributions. Thus, there are clear indications that the expatriates’ acknowledging of local employees’ contributions facilitated the build-up of a common ‘we’.

The identification of actors that local employees referred to as ‘they’ illustrates their relations to people in local companies and organisations. It should, however, be noted that the internal ‘we’ was dependent on the relations with the external ‘they’. In particular this was evident in statements that the parent firm would assign more resources if local companies (‘they’) increased their purchase volumes.109

Selection and Introduction of Employees
Among the aspects supporting the forming of a common ‘we’ with colleagues in the subsidiary it is apparent that the initial selection facilitated the discovery of the most suitable candidates. Vital for the formation of a sense of ‘we’ was also the extensive introductory programme that followed since the group identity the incoming candidates faced was dominated by the Western firm’s norms. The balance between the incoming candidates’ identities and the group identity was therefore unevenly balanced, but unlike the JV sphere, in favour of the Western firm.

Examining the top managers’ statements indicating an internal ‘we sense’ we find that such statements described local employees’ positive development. Thus, a matter of interest is that this illustrates the development of a common ‘we’ where the identification of ‘we and they’ might only describe relations in the initial selection sequence.

109 During the study only one respondent from the product segment sphere referred to actors in the parent firm as ‘they’. This was said when explaining why the parent firm seemed to lack interest in the Ukrainian market (see quotation in section 8.4.3.4.).
Training and Skill Building

As noted in the section on introduction of new management, there was a symbiosis between local employees’ existing competence and the managerial principles guiding operations. It is worth noting that training and skill building involved activities supporting the integration of local employees. It is therefore vital to consider that training and introductory programmes abroad strengthened the participants’ sense of belonging and identification of a ‘we’ in a structure extending far beyond local operations.

Examples of the ‘we’ sense also demonstrated in the way the parent firm’s representatives described the activities local employees performed as the expatriates tended to describe this in terms of ‘what we are doing in the Ukraine is’. Statements of this character clearly indicate that skill building from interactions with external actors was something that strengthened relations (the forming of a ‘we’) between local employees and the expatriates.

Customer Orientation and Quality Management

The respondents’ statements on customer orientation and quality management demonstrated that although these activities were targeted at local actors, they also supported relations with the units abroad. In particular this effect surfaced when local employees discussed technical specifications with the manufacturing units abroad. This is to note that discussions with questions like – ‘can we modify this application so that it fits the customer’s equipment?’ supported the forming of a common ‘we’.

A striking tendency is also that customer oriented activities supported local employees’ identification of ‘they’, i.e. actors with whom it was important to establish good relations. Clearly, an aspect supporting this identification was the Western firm’s representatives’ push for customer-oriented activities. Thus, there was a symbiosis between the expatriates’ push for establishment of relations with local customers and local employees’ identification of ‘they’.

Lay-Offs

There were no indications that the lay-offs in the JVs influenced local employees identification of ‘we and they’. Instead the positive outcome (the increased sales) provided stability which facilitated the identification of a ‘we’.

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110 Based on observations when compiling material at the head office. It should be noted that it was easy to follow such conversations as the international phone calls made the respondents speak very loudly.
9.3.2.1. Local Employees' Identity Identification

The analysis shows that there were many aspects facilitating local employees' identification of a 'we' that encompassed actors in the parent firm. The analysis also demonstrates that the actors that local employees described as 'they' (in general) were local customers with whom it was important to develop business relations. The identification of 'we and they' therefore illustrates relations between actors in a positive sense, and thus, not conflicting positions as in the JV sphere.

Reflecting over the aspects that facilitated local employees' identity identification in a setting dominated by the parent firm's norms, we find that local employees' skill building started from existing competence. It is also important to observe that there was scope for local employees to test 'new' approaches. It should, however, be noted that the 'new' approaches in fact were 'old' and well established in the parent firm. The practising and sharing of experiences with actors from the parent firm during introductory programmes therefore involved the 'new' candidates learning 'old' established ways. Thus, it is worth noting that it was the candidate that was 'new' — not the practiced approaches, i.e. the opposite conditions compared to the case in the JV sphere.

It is striking that local employees' identification of identities corresponding to the Western firm's norms was supported by being valued for their knowledge of local actors ways. Not surprisingly, the Western firm's representatives lacked this deep understanding of 'old' local ways, while their acknowledgment of this knowledge as important supported local employees' identification of themselves as contributors. The sense of being important and the sense of belonging that such acknowledgment created are accounted for as aspects enhancing local employees' motivation to take part in the confirmation of the Western firm's 'old' approaches.

With regard to the identity local employees' developed, the analysis clearly points to the development of an identity oriented to the parent firm which was supported by the links to the corporate network abroad. This identity surfaced from the examples demonstrating that local employees had become more integrated in the parent firm's network by their development of business relations with local actors. Thus, the identity illustrates local employees' establishments of relations with actors from the two institutional settings. Consequently, we can view the identity local employees developed as relation-oriented.
9.3.3. The Creation of New Identities – The Administrative Sphere

As in the product segment sphere, the administrative staff’s identification of ‘we and they’ concerned an internal – external comparison of norms. The following sections analyse how the operative issues reflected this identification.

Changes in the Organisational Structure

In seeking to understand how changes in the formal organisational structure influenced the identification of ‘we and they’, it is important to note that the influence originated from the incremental build-up of the administrative organisation. Clearly, the changes were quite moderate in character and related to the subsidiary’s needs to handle the administrative workload. Nor were there any signs to suggest that the parent firm influenced the local administrative structure. It is also a matter of interest that after the subsidiary started to handle its ‘own sales’ it became less dependent on administrative functions in the parent firm’s organisation. The sum of this moderate influence and changes might therefore explain why the administrative staff’s statements about their own organisation did not reflect any internal identification of ‘we and they’.

However, it is vital to observe that the expatriates’ statements clearly indicated that the handling of ‘own sales’ supported the forming of a local ‘we’ with people in the administrative sphere. In this sense, the change in the administrative structures (by becoming less dependent on the parent firm’s administration) describes a change that made the parent firm’s representatives more dependent on local employees.

Introduction of New Management

As in the product segment sphere there was a symbiosis between the parent firm’s management and local employees’ operative assignments. Judging from the respondents’ words this symbiosis facilitated their identification of a ‘we’ that encompassed the expatriates and other top managers at the head office.

Looking at the aspects that facilitated this development, it was apparent that daily contact with the expatriates played an important role in the identification of a common ‘we’. In the same way it was important that local employees (as in the product segment sphere) entered the subsidiary of their own free will. Undoubtedly, people in the administrative sphere were committed to forming a common ‘we’ with their new colleagues when starting to work at the subsidiary. A distinction in comparison to the product segments is, however, that the administrative staff’s ‘we’ did not refer to managers in the parent firm. The administrative sphere’s ‘we’ was, in this sense, more local compared to the corporate-oriented ‘we’ that developed in the product segments.
The administrative staff’s identification of ‘they’ was evident in statements about the local authorities and their former employers. Judging from the respondents’ words, they appreciated the way the subsidiary was managed while they described management practices in local organisations as ‘old fashioned’. It is also important to notice that their statement clearly revealed a negative view of the local authorities which was particularly evident in comments stating that ‘they’ created a mess and, hence, were a source of frustration.

Selection and Introduction of Employees
Reviewing the material on the selection and introduction of new employees we find that, as in the product segment sphere, the group identity the entrant candidates faced was dominated by the parent firm’s norms. A vital aspect is also that the initial selection made it possible to choose the candidates that were likely to fit the ‘we’ that the administrative staff had established.

This study has no information about the introduction of newcomers in this sphere and can therefore not discuss how such programmes and practices influenced local employees’ identification of ‘we and they’.

Training and Skill Building
As noted in section 9.2.3, the subsidiary’s training plans showed training programmes envisaged for the administrative staff. Little can be said, however, about how this influenced the local employees’ identification of ‘we and they’ as my study did not cover these activities.

There are, however, several examples indicating that skill building supported local employees’ identity identification. In particular this surfaced in the skill building developing from contacts (battles) with the local authorities as the frequent changes in the taxation laws made it important to avoid sanctions from the authorities. Thus, the threat of sanctions forced local employees to develop their ways of managing these contacts which simultaneously supported the identification of ‘we and they’. In this sense, the way the identification of ‘they’ took place shows similarities to the identification of ‘they’ in the JVs’, as both cases indicate threats.

In making sense of the threat with respect to the forming of a ‘we’ it is worth observing that the external threat of sanctions increased the workload and secured the positions of those assigned to manage the threat. In this sense, unlike the (internal) threat in the JVs, the external threat facilitated the administrative staff’s identification of an internal ‘we’.
Looking at customer orientation in the administrative sphere we find that administrative tasks were oriented to serving both internal and external customers. Thus, the production of administrative services supported employees’ identification of a ‘we’ in charge of documents, keeping track of changes in the regulations etc. Similarly the quality aspects of these services supported employees’ identification of a ‘we’, which was particularly evident in statements demonstrating that the administrative staff took pride in contributing by managing contacts with the authorities.

Lay-Offs
As in the product segment sphere, there were no indications stating that the lay-offs in the JVs influenced the administrative staff’s identification of ‘we and they’. Instead what stands out as an influencing factor is that the administrative workload facilitated the employees’ identification of a ‘we’.

9.3.3.1. Local Employees’ Identity Identification
The analysis indicates parallels to factors exerting influence in the JV sphere as the local employees’ identity identification was influenced by the conflict between ‘old’ and ‘new’. In particular this was evident in the contacts with local authorities that created a need for ‘new’ skills in contact with ‘old’ structures.

As the analysis points out, local employees took pride in solving administrative tasks. Skill building was, in this sense, supportive of identity identification. Essential for this development was that the Western firm’s representatives acknowledged the importance of local employees’ knowledge about local actors’ ‘old’ ways. Thus, there was an identification of a contribution facilitating local employees’ identification of a ‘we’ that encompassed the parent firm’s representatives.

Clearly, the administrative staff’s identity identification shows many similarities to the identity identification in the product segment sphere. An important difference is, however, that identities in the administrative sphere were task-oriented, while their colleagues in the product segments developed relation-oriented identities. Consequently, we can view the identity that the administrative staff developed as task-oriented.

9.3.4. Summary
The analysis shows that activities and links to the parent firm’s units facilitated local employees’ sense of belonging to the Western firm. This sense of belonging also reflected in local employees’ development of identities corresponding to the parent firm’s norms. It is a matter of interest that this was
particularly evident in the spheres where local employees and the parent firm’s representatives developed a common ‘we’.

The analysis also illustrates how contrary conditions influence local employees’ identity identification. Clearly, this was illustrated when there was a mutual identification of ‘we and they’ in relations between local employees and the parent firm’s representatives. Thus, statements indicating internal ‘we and they’ attitudes revealed both subtle and tangible conflicts which reflected in local employees’ identity identification.

Accordingly, a clear pattern is that relations and positions related to the influencing actors affected local employees’ identity identification. The identities the analysis points out are the following:

- A relation-oriented identity.
- A task-oriented identity.
- An identity created by internal conflicts.

A clear pattern in the relation-oriented identity developed by employees in the product segment sphere was that this identity developed from local employees’ relations with actors outside the focal subsidiary’s cross-institutional setting. Thus, these relations concerned actors in the parent firm and actors in the local institutional setting which illustrates the diversity of norms to be managed in these relations.

The task-oriented identity was particularly developed in the administrative sphere and indicates an identity based on activities and relations within the focal subsidiary’s cross-institutional setting. As noted in the analysis, the identity identification process from which the task-oriented identity developed has many things in common with the relation-oriented identity. What differs is that this identity is more ‘local’ compared to the identity that developed in the product segment sphere.

The identity that developed from internal conflicts was particularly indicated among employees in the JV sphere. It is important to observe that the conflict identity describes mutual relations between local employees and the parent firm’s representatives. This was most striking in statements that parent firm’s representatives demanded that local employees should change their attitudes and working practices to meet required standards. However, most significant for local employees’ identification of a conflict identity were the layoffs as these measures created distrust and uncertainty among people in the JVs.
9.3.5. Issues for Further Analysis

The analysis has illustrated that the heterogeneity in the subsidiary’s organisation created different preconditions for socialisation processes to take place. As shown in this chapter, this reflected in local employees’ identity identification. To further our comprehension of these processes, the analysis in chapter 11 examines screening of local employees’ norms with attention directed at the initial conditions for selecting candidates for positions in the subsidiary.

In seeking to understand the observed developments it is of interest to analyse the institutional dimensions of aspects influencing local employees’ identity identification. Not surprisingly, the sections in which these dimensions will be discussed serve as a foundation for the theory that this study sets out to develop.

With this aim in mind the aspects for further analysis are those reducing or maintaining distance between the actors, which clearly influenced local employees’ identity identification. In chapter 11, these aspects will be discussed in terms of internal boundary spanning. Consequently, issues to be discussed in the theoretical analysis include the following:

- Aspects influencing the screening of norms.
- Institutional influence on local employees’ identity identification.
- Internal boundary spanning.

Finally, this chapter has demonstrated that the relation-oriented identity and the task-oriented identity have many common denominators, while the identity developed from internal conflicts shows different characteristics. The theoretical analysis in chapter 11 will therefore be narrowed down to an analysis of R & T identities (relation and task-oriented identities) and C identities (identities created by internal conflicts).
10. FROM OPERATIVE ISSUES TOWARDS AN ANALYSIS OF FILTERING CONDITIONS

This chapter analyses the subsidiary’s management of influences from the local setting and sets out to identify conditions for the filtering of external influence.

10.1. OUTLINE OF THE ANALYSIS

The previous chapter demonstrated identity identification processes inside the subsidiary that were influenced by actors’ relations and positions with respect to each other. Based on these insights the analysis continues by examining influences from the local setting focusing on content and effects. As the empirical section showed, the uncertainties in the Ukrainian market made interactions with external actors difficult. The interesting aspects of these difficulties are the indications that the interactions took place on different levels, which affected the subsidiary’s ability to handle the influence. In particular this surfaced in the influence from the following issues:

- Taxation and business regulations.
- Management in local companies.
- Local business networks.
- Effects of barter trade.

An important observation is that the influence of the issues mentioned above had both direct and indirect dimensions. This is shown in aspects influencing the operative work without being directed at the subsidiary (which is why I have chosen to integrate such aspects in the analysis). The analysis of external influence is based on the respondents’ stories about their contacts with external actors and their statements about the general situation in the market. To this I have added my own observations and material that describes the local society’s development.

The final sections of the analysis set out to uncover aspects allowing the subsidiary to filter external influence and, hence, also the aspects that made the subsidiary lose its filtering ability. Therefore, the identification of conditions that allowed filtering to take place is of particular interest.
10.2. ANALYSING THE MANAGEMENT OF EXTERNAL INFLUENCE

10.2.1. The JV Sphere's Management of External Influence

Taxation and Business Regulations

If we examine the interviews from the JV in Gogol Town we find clear indications of influence from the local authorities. In particular this is shown in statements claiming that the authorities demanded that people responsible for safety technology should report directly to the JVs' general director. Judging from the respondents' remarks, the JVs were rather successful in managing the contacts with the local authorities in Gogol Town. It is also interesting that the JV in Gogol Town had hired a legal expert and established a legal department to manage complexities in contractual arrangements, the problems with delayed payments and the general unstable legal environment. An example clearly illustrating the problem with the unstable legal environment was the removal of the promised tax relief for foreign investors which affected the JVs' financial situation negatively.

What was striking in the respondents' statements was that complexities in the taxation and business regulations made it important to get advice from legal experts. The local HRM also joked about this by saying that a prerequisite for making money from business in the Ukraine was either to work with a legal expert—or to be a legal expert. Clearly, his words indicated that local companies (without resources to hire such help) became vulnerable to the aggressive taxation policies. Explaining local companies' countermoves, the respondents said that it was common that companies looked at barter trade as an alternative making it possible to protect the companies' resources. Thus, the indirect influence from the taxation and business regulations reflected in the barter trade which was common in the business sectors where the JVs' customers worked.

Management in Local Companies

As noted in chapter nine, the JVs were under extensive internal pressure making local employees compare their current situation to how things used to be in the past. It is also of interest that my respondents tended to come back to describing this relation while leaving out issues concerning influence from business contacts with managers in local companies.

A striking observation was, however, that the expatriates pointed out examples of how 'old' local management norms indirectly influenced the JVs' management.
business. The respondents who described such influence explained that managers in other companies preferred to repair worn out material (and keep the staff) than invest in new production equipment. These examples clearly show that the guiding principle stating that it was everybody’s right to have a job was favoured before potential economic benefits from rationalisation of the operations. Thus, there were interacting aspects making the demand for products manufactured by the JVs decline further from a low level.

The examples above clearly demonstrate that there was an aggregated influence from management in local companies which was reflected in the JVs’ financial situation (due to the weak market demand) and in local employees’ identity identification.

Local Networks
The background of managers in the JVs provided good understanding of the informal rules that guided local actor networks. However, it is worthy to note that there were no indications that this facilitated the JVs’ position and business in the networks. Examining the reasons behind the problems in managing influence from the local networks we find that this involved the management of an aggregated influence that was of an indirect character as it concerned all actors in the networks.

Thus, it is vital to observe that the respondents’ statements clearly pointed towards an indirect influence from the local business networks which originated from the general market decline and the low investment rate. Looking at statements pointing out this problem we find that this particularly indicated in interviews with the Western firm’s representatives. Judging from their comments they had hoped that investments financed by the European Bank for Reconstruction and Development (EBRD) would result in improved business. The negotiations between the Ukrainian state officials and the EBRD’s representatives had, however, not shown any positive results in terms of investments in the sectors where the JVs’ customers worked.

Effects of Barter Trade
The respondents’ comments clearly demonstrated that the barter trade influenced the JVs’ operations negatively by causing a shortage of liquid funds. In particular this concerned the problems in transforming products received as payment into ‘real’ money. Similarly delayed payments from the JVs’ customers resulted in a lot of extra work as the JVs, in their turn, had to renegotiate terms for payment with their suppliers. Thus, it is apparent that the influence of the

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112 See statement in chapter five (section 5.4.2.) by the expatriate manager in Cossack Town.
113 See statement in chapter five (section 5.4.4.) by the chief accountant in Cossack Town.
barter trade, like the influence from local networks, illustrates an influence that became aggregated with the number of actors involved.

10.2.2. The Product Segment Sphere’s Management of External Influence

**Taxation and Business Regulations**

In looking at the interviews from the product segment sphere we find examples revealing the influence of local business regulations. In particular this was evident in the respondents’ reports of negotiations with people from the state ministries to obtain import permission. Judging from the respondents’ statements, these negotiations were difficult and time consuming but part of the game they had to learn how to handle\textsuperscript{114}. In this sense, as in the JV sphere, the interviews from the product segments indicate that when people from the focal subsidiary could communicate directly with the authorities they could be fairly successful.

It is also essential to note that the respondents’ statements demonstrated that the unstable legislative environment made other foreign firms establish relatively small sales and marketing organisations. This is accounted for as an example of indirect influence as the product segments marketed products that were envisaged for foreign investors’ build-up of production units in the Ukraine. Thus, this indirect influence narrowed the range of customers to the local companies.

**Management in Local Companies**

The analysis in chapter nine showed that people in the product segments were assigned to develop business relations with local companies. A matter of interest is that this made them subject to influences from managers in local companies. Judging from the interviews, there are plenty of examples illustrating that this influence was manageable as those in charge of these contacts were well aware of the principles guiding the external actors. Thus, people in the product segment sphere were in intermediate positions and filtered communication between internal and external actors.

It is important to observe that the respondents (in general) described local companies in terms of ‘old fashioned hierarchies’ without any signs of change. Reflecting over their statements it is apparent that their words indicate that local companies continued to retain leadership according to institutionalised standards. According to the respondents, what made this continuation possible was the way enterprises were sold out during the mass privatisation programme. Explaining this continuation my respondents pointed to the fact that, in many cases, the new owners were the former top management and the workers. It is

\textsuperscript{114} See section 8.4.3.2.
also worth noting that some interviews show that the privatised companies were more blocked with regard to new input compared to the situation in the past\textsuperscript{115}.

My respondents’ statements about the influence of management in local companies also illustrates an aggregated influence. This points out that this continuation pattern was evident in a large number of local companies. Further indications of aggregated influence surfaced from descriptions of how the decision-makers in local companies followed recommendations from the central authorities. Judging from the respondents’ reports, this could alter the negotiation conditions completely as the authorities’ advice decided whether the local companies would accept their offers\textsuperscript{116}. Thus, the aggregated influence originating from local companies’ contacts with the authorities is accounted for as a sign of the legacy of former structures.

Checking these observations with media reports and the analyses by organisations like the IMF\textsuperscript{117} it is clear that the Ukrainian policy of supporting private ownership had not facilitated the restructuring of local companies. It is interesting that this conclusion finds support in the respondents’ remarks, which clearly described that the new owners were reluctant to introduce changes that would endanger their positions and cause lay-offs. In this sense, the regulations that were meant to introduce market structures prolonged the ‘lifetime’ and legitimacy of the former management practices.

**Local Networks**

What may seem a strange observation, considering the influence of local networks, is that the respondents never mentioned that a network influenced them. Instead their statements described their customers’ behaviour and routines. It is important to observe that the sum of these observations indicates that their managing of influence from the local business network concerned predictions of how and when managers in local companies contacted local authorities to legitimise their purchasing decisions.

In seeking to understand the respondents’ statements indicative of such contacts we find indications of the former structures being active and influencing activities in the business networks. In direct contacts this fact seemed manageable as the respondents knew how local actors ‘played the game’. There were also examples illustrating that the growing product segments offered equipment for reconstruction of private houses and offices, i.e. not the industrial sector and projects where the Ukrainian state was the purchasing actor.

\textsuperscript{115} See section 8.4.3.4.

\textsuperscript{116} See statement in section 8.4.3.3.

\textsuperscript{117} IMF Staff Country Report No. 99/42
Concerning the actors that controlled local networks, the examples in the previous section clearly show that managers in local companies contacted people in the central ministries before they made their purchases. What is revealed, analysing this behaviour, is that local actors followed an institutionalised way of acting formed by the Soviet system. Thus, the institutional legacy was embedded in both structures and management norms. A striking impression is that this legacy inhibited local companies’ interaction with new actors (including the focal subsidiary), which prevented the creation of independent business networks. Hence, what is indicated is that the subsidiary was subject to an influence that was both aggregated and indirect.

The examples pointing to the subsidiary’s efforts to manage this influence were particularly evident in statements about efforts to establish communication with the actors controlling the local networks. It is worth noting that indications of such efforts mainly surfaced in the expatriates’ statements about the lobby organisation that they had established together with other foreign investors. The problem the lobby organisation encountered concerned the frequent changes within top positions in the ministries which meant difficulties in building lasting relationships with local counterparts.\footnote{See statements by the Country Manager in section 8.2.2.}

A clear pattern that the expatriates’ words demonstrate is that the frequent change of people in the ministries maintained the authorities’ power positions. What may seem strange and obvious at the same time is that the frequent dismissing of ministers disrupted communication between the actors, while power structures founded by the former system were maintained and seemed to benefit from the turbulence. However, it is apparent that the political turbulence prevented the development of structures inclined to pick up signals from the business networks.

Effects of Barter Trade
What stands out when analysing the respondents’ statements, is that the product segment sphere could (in general) avoid sectors where barter trade was frequent. Like the JV sphere, however, there were indications that the frequent barter trade made the product segments’ business suffer as these deals inhibited resource transformation and, hence, also resource accumulation among actors in the local market. In particular, this was evident in the low investment rate making the local market less attractive for other foreign investors. In this sense, the influence of barter trade on the product segments was mainly evident in indirect characteristics.

\footnote{See statements by the Country Manager in section 8.2.2.}
10.2.3. The Administrative Sphere’s Management of External Influence

Taxation and Business Regulations

The interviews with the administrative sphere clearly indicate that the local taxation and business regulations influenced their work by being a constant concern. Reflecting over the respondents’ statements, we find that this influence concerned the accountants’ frequent contacts with the taxation offices. In both the JV sphere and in the administrative sphere there were examples of respondents being frustrated about the Ukrainian taxation laws and the accounting regulations that they had to follow\(^{119}\).

In looking at the administrative staff’s management of this influence it is apparent that the other spheres were dependent on advice from the accountants and legal advisor. Judging from the respondents’ words, this was evident in the internal need for adjustments that had created informal structures for quick diffusion of information. Thus, people working in the administrative sphere took on a filtering function to manage the influence from the local authorities.

It is indicated that, by reviewing the respondents’ statements, the subsidiary’s representatives could manage the direct influence from the authorities as the direct contacts provided a chance to communicate with the influencing actors. An important aspect of the management of this influence was that these contacts (in general) concerned operative issues that offered opportunities to adjust and check with the legislators if they had understood the changes correctly. There were also signs indicating that the regulations were slowly becoming more adjusted to meet the business sector’s needs, while much remained to be done\(^{120}\). It is apparent that, putting these observations together, the communication offered the actors opportunities to understand and adjust to the needs of the counterpart which reduced tension between the actors.

There were, however, examples to indicate that the authorities could change the communication conditions in their favour. In particular, this was evident in the example of the taxation authorities’ withdrawal of money from the company’s bank account. This act (by the taxation authorities) was based on an accusation that the company had broken the (retroactive) law. It was then up to the company’s representatives to prove that they had followed the laws in force (at that time).

An essential observation is therefore that the taxation authorities could create conditions in which the subsidiary was not able to avoid the negative

\(^{119}\) See statements in section 5.4.4, and in section 8.5.2.

\(^{120}\) See a statement by the Chief Accountant in section 8.5.2.
influence. The communication with the decision-makers in the legislating offices also took on different characteristics as the subsidiary could be treated as if it had violated the taxation law. Thus, the authorities’ sanctions (or threat of sanctions) made the management of this influence difficult.

Management in Local Companies

The respondents’ statements about contacts with managers in local firms revealed that these contacts concerned operative issues. There were plenty of examples to indicate that their management of influence from these contacts was facilitated by the administrative staff’s knowledge of the ‘Ukrainian way of doing things’. Clearly, the common cultural background enabled the local staff to understand external actors’ way of thinking and how they approached uncertainties in the business environment. Accordingly, the analysis demonstrates that local employees’ understanding of external actors’ ways served as a filter that facilitated interaction.

Local Networks

Like the respondents in the product segment sphere, none of the respondents in charge of the administrative tasks mentioned that local networks influenced them. A difference compared to the product segment sphere is that the administrative staff’s working tasks were less oriented towards the establishment of relations with actors in the local networks. The task-orientation therefore makes it difficult to analyse their management of the influence from local networks.

Effects of Barter Trade

The statements by people working with administrative tasks suggest that barter trade caused a lot of extra work (and worry) as payments from customers were delayed. It should, however, be noted that except for the JV sphere the subsidiary was fairly successful in avoiding the direct effects of barter trade.

Examining the interviews, we find evidence of an indirect influence of the barter trade. In particular this was evident when the respondents described the characteristics of the local market, as they often pointed this out as a part of the legacy from the former system. It is of interest to note that, from their perspective, barter trade was not something invented with the introduction of the market reforms. However, judging from their statements, what added to the problem was the authorities’ aggressive taxation policies which reduced the local companies’ incentives to convert their products into money that could reach their bank accounts. Thus, the local authorities, through the introduction of aggressive taxation policies, prolonged the rationale of non-financial

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121 See statements by the Legal Advisor and the Chief Accountant in section 8.5.
transactions as physical products were easier to protect than assets in bank accounts.

10.2.4. Summary – The Management of External Influence Involves Filtering

The examples in the previous sections illustrate that the management of the influence from interactions with external actors involved the management of a direct influence. When this influence originated from direct interactions with local authorities, the subsidiary was able to develop structures to meet external demands. In particular this was evident in the administrative sphere where local employees filtered influence from the local authorities. Thus, there was an administrative filter that absorbed and managed direct influence while allowing communication with the authorities. Clearly, the administrative filter was also evident in the product segments, as the salesmen describing negotiations for import licences demonstrated that the subsidiary’s representatives could manage the contacts with the authorities. In this sense, as long as there has been direct communication at the operative level between the subsidiary’s representatives and the authorities the influence was manageable in the administrative filter.

What stands out as essential for managing the direct influence is that the employees in charge of contacts with local actors were either Ukrainians or Russians, which reduced the risk of clashes between the actors’ norms. Therefore, we cannot say that the normative difference between the focal subsidiary and external actors caused any problems that the subsidiary had no readiness to handle, since there were people in intermediate positions who filtered the influence. Thus, what is indicated is a relationship filter absorbing the direct influence from local norms.

However, the analysis also shows that the functioning of these filters was disrupted when the legislators introduced retroactive laws. In such cases, the counterparts’ positions were displaced by legislators’ use of power. Similarly the influence from aspects making the market decline (and contract) caused the administrative and relationship filters to lose their ability to manage external influence.

This brings the analysis to a point where it is possible to state that the less direct, and the more actors involved, the more difficult it was to manage external influence. Clearly, influence from activities at the operative level with direct communication with the influencing actors was manageable, while influence involving many actors with links to the ‘old’ institutionalised structures made communication complex and, hence, more difficult to manage.
Looking closer at the influence, the analysis shows that the influence differed in terms of aggregation and complexity which influenced the subsidiary’s ability to filter the influence. Examining the influence it is possible to distinguish three types: direct influence, direct aggregated influence and indirect aggregated influence.

The direct influence concerned recurrent tasks at operative level following decisions made at other (higher) hierarchical levels. This influence originated from everyday contacts with external actors making it relatively easy to absorb in the subsidiary’s relationship and administrative filters.

Behind the direct influence showing aggregated characteristics, we find an influence originating from decision makers in local companies making the influence more difficult to manage. In particular this aggregation was seen when the decision-making encompassed actors outside the customers’ organisations. Similarly the influence from the widespread barter trade showed aggregated characteristics as a barter deal in one part of the network influenced actors in other parts. When the direct aggregated influence originated from local authorities, the aggregation could be seen in the authorities’ use of power which displaced the communication in their favour. Consequently, the aggregated influence required considerable efforts to be filtered.

Clearly, the indirect aggregated influence seemed most difficult to filter as this influence originated from decisions at governmental level affecting the development in local business networks. What appeared to be most troublesome to deal with in managing this influence was that no actor seemed to have control over the development, i.e. there was a vacuum.

10.3. ANALYSING THE FILTERING OF EXTERNAL INFLUENCE
The previous section showed that the management of external influences involves filtering. This section builds further on these insights and sets out to identify aspects that influenced the subsidiary’s filtering.

10.3.1. The JV Sphere’s Filtering

Taxation and Business Regulations
The filtering of direct influence from taxation and business regulations involved the JVs administrative filter which was based on local employees’ understanding of the local authorities’ ways. It is important to observe that the filtering of direct influence from interactions at operative level was facilitated by the actors’ common cultural background. A vital aspect is also that the Western firm’s representatives (the expatriates) allocated resources for the build-up of
administrative structures to meet the local authorities’ demands. In this sense, the combination of internal efforts and direct communication with the external actors points towards filtering conditions characterised by consonance in the communication between the actors.

The above aspects facilitating filtering at the operative level could not protect the JVs against influences from decisions at governmental level. In particular this was evident by the removal of the promised tax relief which completely altered investment conditions. Judging from the respondents’ comments when describing the problems this removal caused, there are clear indications that the communication between the actors left the operative level. It was also evident that the discussions about the altered investment conditions concerned those in charge for strategic decisions in the subsidiary (the expatriates). Looking at the expatriates’ statements about their contacts with the authorities, we find that their remarks indicated that the communication with the authorities showed dissonance characteristics. Particularly the dissonance was evident in their statements pointing out local authorities’ lack of understanding of the problems that followed from decisions of this kind.

Management in Local Companies
The direct influence of the contacts with managers in local firms concerned the relationship filter where the actors’ common cultural background facilitated filtering. Thus, the filtering was based on local employees’ understanding of the counterparts’ way of thinking which points towards communication characterised by consonance.

It is, however, important to observe that although these conditions were present, there was no indication that this facilitated the JVs’ business. Instead there are signs demonstrating that the local companies’ management contrasted with the entrant firm’s management. In particular this was evident in the local companies lack of intentions to start lay-offs (while the JVs had been subject to extensive lay-off measures). Thus, the influence from local companies created dissonance in the communication between local employees and the entrant firm’s representatives, which was clearly evident in the internal development of C identities (see chapter nine, section 9.3.4.).

Local Networks
As the analysis demonstrates, the influence of local networks involved an aggregated indirect influence that was difficult to absorb in the administrative and relationship filters. It was clear that in spite of local employees’ ambitions to develop business relations with local actors (and their knowledge of local actors’ ways), this did not support the filtering of the influence from the local business networks.
Behind the aggregation was local actors’ lack of financial resources that, combined with the aggressive taxation policy, created an environment that increased pressure on local companies. The influence on the JVs has, in this sense, developed from the institutional setting’s pressure on local companies. Supporting my (institutional pressure) view are the respondents’ statements which clearly indicate that the local authorities did not possess the means to reduce the turbulence and stop the market from declining further. Accordingly, the combination of these aspects indicates a vacuum inhibiting the JVs’ filtering of influences from local business networks.

Effects of Barter Trade
Like the influence from local networks, the influence from the local barter trade showed aggregated characteristics. A difference compared to the influence from local networks was, however, that the barter trade influenced the JVs operations more directly since there were many examples demonstrating that the JVs were engaged in such deals.

In searching for aspects that may have facilitated filtering of this influence we find that people in charge of business contacts with local companies had long experience of the former system’s non-financial transactions (that developed into barter trade). It is also interesting that the filtering was supported by local employees’ knowledge and motivation to handle the problems that the barter trade created. However, like the filtering of influences from local networks, the administrative and relationship filters could not protect the units against the negative influence that the barter trade caused. Particularly, this was evident in resource matching problems and as the barter trade created chain reactions, this involved all actors in local business networks. Clearly, these chain reactions created dissonance in the networks inhibiting the function of the JVs’ administrative and relationship filters.

10.3.2. The Product Segment Sphere’s Filtering

Taxation and Business Regulations
Looking at the influence of taxation and business regulations, we find that this influence originated from decisions at governmental level. What can be seen when examining local employees’ filtering of this influence, is that skill building has played an important role for the filtering. Thus, what stands out as important is that the employees in this sphere had to learn these issues to be successful in negotiations with the authorities for import licences etc. Similarly, there were indications that the salesmen had to know about taxation issues when marketing their products to local customers. As in the JV sphere, the resources that the entrant firm allocated to facilitate communication with the influencing
counterparts supported local employees’ filtering. This is clearly indicated in statements illustrating that they immediately contacted internal experts on taxation and legal issues to handle the issues that occurred\textsuperscript{122}.

Judging from the interviews, the aspects facilitating the filtering of these issues were the understanding of local actors’ ways, the aim of establishing relations, skill building and use of available (internal) administrative resources. Accordingly, the analysis points towards a filtering characterised by consonance in the matching of internal resources with external demands.

Management in Local Companies
Statements about the influence from management in local companies indicates that this was a direct influence that was filtered in the relationship filter. The functioning of the relationship filter was based on local employees’ understanding of external actors’ ways (which was based on a common cultural background). By having this fundamental understanding of the ‘way of thinking’ that guided their counterparts, the subsidiary’s representatives could avoid clashes between internal and external norms. Thus, the relationship filter could absorb signals from the market, at the same time as it kept internal and external norms apart. Of essential importance for the filtering was local employees’ motivation to establish relations with managers in customer companies. The sum of the aspects facilitating filtering therefore points to consonance in the actors’ communication.

However, reflecting on the respondents’ statements we find that the less direct and the more difficulties they described in establishing relations, the more they tended to describe the external actors as ‘old fashioned’. In particular this was indicated in statements that relations were inhibited by the local companies’ contacts with the central authorities in their decision-making. Clearly, the identification of external actors as ‘old fashioned’ illustrates dissonance in the communication with local actors.

Local Networks
As noted in earlier sections, the influence of local networks stands out as an indirect aggregated influence. A clear pattern is that, as in the JVs, the vacuum in local networks inhibited the functioning of the administrative and the relationship filters. The product segments were, however, more flexible in being able to shift to market segments with potential (while the JVs were stuck in certain industrial segments). Thus, what surfaces is that operative flexibility facilitated (later) filtering.

\textsuperscript{122} It should, however, be noted that this was only evident in the statements by the HRM and by people in the administrative sphere who acted as their advisors.
Analysing the expatriates’ statements about the filtering of influences from local networks it is apparent that the vacuum in local networks created a need for flexibility in co-operating with other foreign firms. Particularly, this was evident in the efforts to influence the decision-makers in Ukrainian society by forming a lobby organisation with other foreign investors. These efforts clearly illustrate attempts to develop direct communication with the authorities in charge of the Ukrainian business sector. Judging from the expatriates’ comments, the frequent changes of people in the ministries created a vacuum inhibiting communication (and filtering).

Effects of Barter Trade
Looking at the direct influence of the barter trade, there are indications that the product segment sphere was quite successful in avoiding the market segments where barter trade was frequent. However, it is vital to observe that the respondents’ statements demonstrate that the aggregated influence from barter trade inhibited the growth of the sphere’s business. As in the JV sphere, the respondents’ remarks point to the resource matching problems that the barter trade created. Thus, the barter deals in local business networks created dissonance in resource matching which inhibited filtering.

Concerning the filtering of barter issues that directly influenced the operations we find that local employees’ knowledge of the local actors’ ways of doing business played an important role in avoiding barter deals. Similarly the support from the subsidiary’s internal legal experts helped the salesmen to avoid the pitfalls the barter deals created. This legal support concerned the need to reduce the risk of making administrative mistakes when dealing with physical products as payments.

There were also clear indications that the barter trade influenced the parent firm’s willingness to make further investments in the Ukrainian market. Hence, it is likely that the efforts to avoid barter trade inhibited the development of filtering mechanisms to handle barter deals. This is to note that the respondents’ comments indicate that there was little support from the parent firm for the development of skills in this area.

123 The respondents also asked me if I knew of any ‘good’ Swedish trading company that might be interested in starting trading business on the Ukrainian market.
10.3.3. The Administrative Sphere’s Filtering

Taxation and Business Regulations
The filtering of the influence from taxation and business regulations directly concerned the development of the administrative filter which surfaced in the build-up of the administrative sphere. In particular the filter was evident in the creation of an informal structure for quick diffusion of information and the awareness of the importance of a correct handling of contacts with the authorities. The build-up of the filters was in this sense, part of the internal adjustments facilitating communication with the local authorities. The respondents’ statements with expressions like ‘time-consuming’, ‘a mess’, ‘difficult but manageable’ illustrate the filtering of this influence. It is also worth noting that the administrative filter was especially evident among local employees with T identities (see chapter nine, section 9.3.4.).

A clear pattern, as in other examples showing direct communication with the influencing counterparts, is that knowledge of the counterpart’s ways, skill building, internal flexibility and motivation to manage the influence supported the filtering. Thus, the analysis clearly demonstrates that the direct communication between actors at operative level created conditions for filtering characterised by consonance.

The examples indicating a direct aggregated influence was evident in statements about the local authorities’ use of their power positions to displace communication in their favour. Clearly, this was shown in statements about retroactive laws and withdrawal of money from the subsidiary’s bank account, which illustrate conditions where the administrative filter could not protect the subsidiary. However, although the threat of sanctions from the authorities was a severe problem, it made employees in charge of administrative issues aware of the need for skill building and flexibility. Accordingly, the threat of sanctions in contacts with the authorities made local employees put great effort into avoiding dissonance in their communication.

Management in Local Companies
Looking at the direct influence of managers in local companies we find that this involved administrative issues like invoices etc. Judging from the respondents’ statements there are clear indications that their knowledge of local actors’ ways and motivation to maintain good relations facilitated filtering. It is of interest to note that although these contacts mainly concerned administrative issues, the frequency of contact (with some companies) supported the development of relations. Thus, the frequency of contact added relationship aspects to the administrative filter which caused the filtering to take on consonance characteristics. Reflecting on the filtering it is apparent that the administrative
filtering was activated after a business relation had been established. Given this sequence the administrative filter never dealt with the more indirect influence from management in local companies.

Local Networks
The administrative sphere cannot be analysed with respect to the filtering of the aggregated influence from local networks as this filtering was mainly evident in contacts handled by other spheres.

Effects of Barter Trade
What can be seen, analysing the direct influence of the barter trade, are indications that the subsidiary was quite successful in avoiding the sectors where barter trade was frequent. Concerning the administrative filtering of the influence from barter trade, the respondents’ statements indicate that the barter trade created a need for skill building\textsuperscript{124}. This surfaced especially in the resolution of resource matching problems that the barter trade created. Clearly, this involved the work along the path from a resource dissonance to something that reflected a resource consonance.

It is remarkable that the more the effects of the barter trade were evident through indirect characteristics involving their customer’s customer, the more important it became to monitor developments among actors engaged in these deals. Thus, the administrative filtering concerned the diffusion of information to help the other spheres avoid market sectors that suffered from the dissonance the barter trade caused.

10.3.4. Summary – Filtering External Influence Points to Filtering Conditions
The analysis indicates that the filters could absorb the direct influence when the filtering conditions were characterised by consonance in the communication between the actors. However, the analysis has shown that although this was an important precondition for filtering it was not sufficient. This was illustrated in the JVs’ relationship filter where local employees’ acted without a stable foundation and support from the Western firm’s structures. Clearly, local employees with C identities were less capable of filtering external influence compared to their colleagues in the spheres where R & T identities developed (see chapter nine, section 9.3.4.).

Looking at conditions that made the filtering of external influence more difficult we find that these conditions were characterised by dissonance. Taking

\textsuperscript{124} It should be noted that this was mainly evident in the statements by the Chief Accountant in Cossack Town, while the interviews with the administrative staff at the head office verified her statements.
a closer look at these conditions, it is evident that this concerned the filtering of
direct aggregated influence. Thus, it is important to underline that the direct
aggregated influence indicated communication and resource dissonances.
Primarily, the communication dissonance was evident in statements about the
local authorities using their power positions to displace the communication in
their favour. Concerning the resource dissonance the local barter trade created,
there were signs indicating that the subsidiary’s filtering consisted of efforts to
avoid the sectors where barter trade was frequent. Reflecting on the efforts to
manage this influence, we find that extensive skill building was needed to
manage the aggregated influence, i.e. to uphold consonance in communication.

Examples indicating filtering of indirect aggregated influence originating
from developments in local business networks pointed to filtering conditions
characterised by a vacuum. This made the influence more complex as it
involved all actors in the local networks. Looking at how this affected the
subsidiary’s filtering, it is apparent that the indirect aggregated influence
implied that the filters lost their ability to protect the subsidiary. This effect
became evident because the administrative and the relationship filters were
dependent on communication with a counterpart.

The problems of identifying a counterpart in the vacuum also surfaced in
the expatriates’ comments about the local authorities. In particular this was
revealed in statements illustrating the work by the foreign investors’ lobby
organisation which indicated that there was a vacuum in communication.
Looking at the vacuum, it is clear that the co-operation with other foreign
investors polarized the actors’ positions. The polarization emerged as the lobby
organisation was created to even out the balance of power in negotiations with
the local authorities.

10.4. ANALYSING THE FILTERING CONDITIONS
The analysis in the previous section demonstrates that the filtering of external
influence was dependent on the filtering conditions. The conditions that have
surfaced in the analysis are: consonance, dissonance and vacuum, which this
section sets out to analyse further.

10.4.1. The Consonance Conditions for Filtering
As observed all three spheres were rather successful in managing operative
contacts with local actors as this involved filtering based on local employees’
knowledge and skills. Examining the operative relations we find relations built
on recurrent contacts, where the interactions provided adjustment opportunities
making the interactions smoother the more people got to know each other. It was
also important that most of the contacts with external actors concerned issues
related to decisions made at higher organisational levels.
Reflecting on the consonance conditions, it is evident that these conditions describe managing influences in a context where influence was not something negative, since it concerned business relations the subsidiary wanted to establish and develop. A clear pattern is also that the consonance developed from the entrant firm’s ambition to establish business relations with local actors combined with local actors’ interest in the products marketed by the subsidiary. The consonance conditions were, in this sense, created by the actors’ mutual interest to establish relations which facilitated filtering.

Of vital importance for consonance in communication was that people handling the filtering had the same cultural background as the influencing counterparts. The analysis has shown that the consonance conditions for filtering were based on local employees’ understanding of the ‘old’ local ways which facilitated the filtering of external actors’ practise of ‘old’ local ways. Thus, the consonance conditions for filtering illustrate relations between actors that either had good understanding of the ‘old’, or actors that represented the ‘old’ local structures.

10.4.2. The Dissonance Conditions for Filtering
The filtering conditions indicating dissonance created a need for joint efforts by local employees and the entrant firm’s representatives in the filtering of the influence. It is striking that the dissonance conditions emerge when many actors got involved which made the influence aggregated and complex. It is also interesting that the dissonance particularly surfaced on occasions when the local counterparts fell back into old institutionalised ways and relied on ‘old’ structures in their decision-making.

For the subsidiary’s representatives this decision-making pattern implied that they had to keep track of actors outside the customers’ organisations, as these actors influenced decision-making processes in local companies. Thus, the analysis demonstrates that the influence from ‘old’ structures was maintained in local actors’ dependence on ‘old’ institutionalised structures in their decision-making.

Looking at the influence of the taxation authorities, we find that this influence also indicated dissonance conditions. The subsidiary’s constant monitoring of changes in the taxation legislation is therefore accounted for as an effort to reduce the dissonance in communication with the authorities. Clearly, these efforts were driven by the frequent changes in the legal environment where the challenge was to stay up-to-date and predict how the changes would influence operations.
It is worth noting that, in chapter nine, we observed that efforts like those above influenced local employees' view of external actors. A clear pattern is that the internal – external identification of 'we and they' among those who developed R & T identities reflects filtering conditions characterised by dissonance. Analysing this development, we find that local employees with R & T identities represented the 'new' that was threatened by the 'old' local structures. Thus, it is possible to draw parallels with the conditions creating internal C identities as both cases indicate threats and that 'old' structures are dominating.

What is indicated is that the threat from the 'old' structures concerned the authorities' use of power. Accordingly, examples of dissonance conditions emerged when local authorities used their power in the communication with subordinate actors. This was most striking in the introduction of retroactive laws and in other measures demonstrating that the local authorities altered conditions in their favour.

Also important is the evidence of dissonance in the business sectors where barter trade was frequent. A striking impression is, however, that the subsidiary’s response to this dissonance can be characterised by avoidance – a response that reflected an institutionalised view of the barter trade in the parent firm’s institutional setting.

10.4.3. Vacuum Conditions for Filtering
As the analysis points out the more indirect and aggregated the influence was, the more difficult it was to filter. An implication of the aggregation was that it became difficult for people in the subsidiary to identify where the influence originated from, i.e. there was a vacuum. In particular this pattern illustrates conditions in the local business networks which suffered from a combination of the legal instability and the problems caused by barter trade.

Looking at the measures taken by the government to improve the situation we find contra productive results harming developments in local business networks, and hence, the foreign firms that had entered the Ukrainian market. The foreign investors’ efforts to establish conditions for filtering this macro influence were aimed at changes of ‘old’ local structures. An example indicating the communication problems in such efforts for change was the stranded negotiations between EBRD and the local government. Examining the actors’ positions, it is evident that both parties had the authority to reject proposals from the other side. Thus, filtering conditions characterised by a vacuum describes conditions where distances between actors are maintained and where none of the actors are able to control the development.

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What is indicated is that, analysing the difficulties in the communication between the actors, the Western investors represented ‘old’ institutionalised business traditions that encountered ‘old’ local business structures. In this sense, the vacuum conditions show similarities to the internal conditions where C identities developed. A difference is, however, that the local actors’ had the authority to take up a position representing ‘they should not come here and tell us what to do’.

A matter of interest about the macro development in the local market is that there are no signs indicating that the problems mentioned above were caused by deliberate resistance to positive development. Instead, what we see are interacting aspects making the ‘old’ structures immune to attempts for change harming the formation of independent business networks. Thus, the analysis points to the vacuum as a result of influence from the institutional legacy which affected the (turbulent) formation of business networks. Clearly, the legacy was evident in the actor networks and in the malfunctioning resource transfer infrastructure (the barter trade) which inhibited the development of business networks.

10.4.4. Summary
A striking observation is that the more actors involved, the more difficult it became to filter the external influence. This was shown in the analysis of the filtering conditions where the following three conditions were discussed:

- Filtering conditions characterised by consonance.
- Filtering conditions characterised by dissonance.
- Filtering conditions characterised by a vacuum.

The filtering conditions characterised by consonance illustrate the filtering of direct influence from recurrent tasks at operative level following decisions made at other (higher) hierarchical levels. Important factors for the establishment of consonance conditions included the actors’ mutual interest to establish relationships and direct communication with the influencing actors.

The filtering conditions characterised by dissonance point towards direct aggregated influence in situations where many local actors were involved making the influence more difficult to manage. In particular this was evident in the local customer companies’ decision-making as their decision-making involved actors outside the customers’ organisations. When the dissonance conditions originated from local authorities, this was indicated in statements that the local counterpart had power to alter conditions in his favour.
The filtering conditions characterised by a vacuum were the most difficult to manage as the influence from ‘old’ institutionalised structures increased. The analysis showed that this influence concerned the development in local business networks which suffered from a general market decline and malfunctioning resource transfer structures. Thus, the vacuum illustrates the indirect aggregated influence that originated from the ‘old’ institutionalised macro structures.

10.4.5. Issues for Further Analysis
The analysis of the filtering of external influence demonstrates that although the relationship and administrative filters partly functioned outside the subsidiary, it is wrong to separate them from the internal development. This was indicated in examples showing that the aspects facilitating filtering also reflected in the subsidiary’s internal development.

In terms of the external influence, the chapter has shown that the aggregated influence was difficult to filter. Particularly these difficulties originated from the authorities’ use of power and the malfunctioning resource transfer structures in the local business networks. In this chapter this was clearly demonstrated in the analysis of the filtering conditions which showed that conditions characterised by dissonance and vacuum were especially difficult to manage. Accordingly, it is of interest to further analyse local business networks with respect to the institutional aspects of dissonances and vacuum. Thus, the standpoint is that by looking at the institutional dimensions we deepen our comprehension of the subsidiary’s management of influences from the local market.

A common denominator for the aspects mentioned above is that they describe conditions for external boundary spanning. The forthcoming discussion of boundary spanning is therefore envisaged to make diverse analytical concepts fit an overall structure illustrating the challenges in the managing of a cross-institutional setting. The theoretical analysis that follows will concentrate on the following issues:

- Institutional aspects of dissonances and vacuum in local business networks.
- Conditions for external boundary spanning.

Finally, this chapter has shown that filtering conditions showing consonance conditions have little in common with filtering conditions characterised by dissonance and vacuum. Given the challenges involved in managing the dissonance and vacuum that this chapter has demonstrated, the theoretical analysis in chapter 11 focuses on the **DV-conditions** (dissonance and vacuum conditions).
11. TOWARDS A DEVELOPED THEORY
This chapter is a synthesis of the analyses in the previous chapters and sets out to present a developed theory on managing operations in a cross-institutional setting.

11.1. IDENTITY IDENTIFICATION IN THE CROSS-INSTITUTIONAL SETTING
This section builds further on the insights from chapter nine and analyses aspects that influenced local employees’ identity identification.

11.1.1. Initial Aspects Influencing Local Employees’ Identity Identification
The analysis of local employees’ identity identification in chapter nine showed that local employees developed two kinds of identities: ‘the R & T identity’ and ‘the C identity’. To further examine the development of these identities it is necessary to analyse how the orientation of the initial step activated screening of local employees’ norms (see DiMaggio & Powell, 1983)\(^{125}\). Thus, the standpoint is that a brief analysis of the screening of local norms provides important insights for later theoretical discussions about local employees’ identity identification. Figure 11.1 shows the two orientations of the initial step.

\[\text{Figure 11.1. The Two Orientations of the Initial Step}\]

As illustrated in the figure above, a step by local candidates orientated towards the Western firm was a step towards a structure dominated by the parent firm’s institutionalised norms. In particular this was evident in the product segment sphere and in the administrative sphere where the expatriates’

\(^{125}\) It should be noted that DiMaggio & Powell (1983) described this as a filtering of norms. I have chosen to refer to this in terms of screening, as the readers otherwise might confuse this (internal) filtering with the subsidiary’s filtering of external influence.
management practices reflected the parent firm’s managerial policies. The selection of candidates that preceded their entrance showed screening characteristics (see DiMaggio & Powell, 1983) by allowing entrance only to the best suited candidates. The training and integrating activities that followed socialised (see Berger & Luckmann, 1967; DiMaggio & Powell, 1983; Mintzberg, 1983) the entrants to the Western firm’s management practices which clearly facilitated their identification of R & T identities. It is important to observe that the socialisation of incoming candidates in favour of the parent firm’s norms was facilitated by these norms’ dominance in the product segment and administrative spheres.

Looking further into the initial screening we find that there were differences with respect to local employees’ motivation for forming a ‘we’ with the entrant firm’s representatives. This is to note that those who developed R & T identities entered of their own free will and were therefore committed to adjusting to new roles, whereas employees who developed C identities did not have the same opportunity to choose. Instead, they faced a situation of virtually no choice as the harsh economic situation in the regions where the JVs were located made job-openings in other companies very rare. Given the limited choice, the motivation for development of identities in line with Western firm’s norms started from other preconditions without the same commitment to introduced changes (compared to those who developed R & T identities).

As shown in figure 11.1, the development of C identities was influenced by the fact that the normative screen had to be established from inside ‘old’ structures for sorting people in the organisations. Thus, this study points towards screening conditions where local employees escaped the initial selection before entering the organisation. As observed in chapter nine this created conditions where the dominance of local norms made it difficult for the Western firm’s representatives to establish conditions for socialisation (see Berger & Luckmann, 1967; DiMaggio & Powell, 1983; Mintzberg, 1983) of local employees.

A clear pattern is therefore that the Western firm faced two different positions for screening of local norms. The first position was evident in situations where the Western firm’s norms dominated the setting that the new candidates were about to enter. The second position was revealed when the Western firm tried to establish screening of local norms from inside existing organisations. It is worth noting that the first position describes traditional selection of entrant candidates described by DiMaggio & Powell (1983), while the second example illustrates screening from inside an existing organisation. The screening activities in this position concerned efforts to introduce the Western firm’s management standards which challenged local norms and the
of those who were subject to the changes. What is indicated is thus a position for screening that cannot count on support from socialisation in favour of the entrant actor’s management.

In conclusion, the analysis demonstrates that the initial step sets the conditions for screening of local norms. Based on the observations made during the study it is possible to conclude that a Western firm might be able to socialise local employees in settings dominated by the entrant actor’s norms. In settings dominated by local norms, in contrast, the entrant actor may succeed in selecting local people, while later socialisation is likely to be inhibited by the local norms’ dominance. Thus, the ties to the local institutional setting may be too strong and inhibit local employees’ adaptation to the entrant firm’s management norms.

11.1.2. The Institutional Aspects of Identity Identification

As indicated in the previous section the ties to the institutional setting influence socialisation, and hence, development of identities. According to Czarniawska-Joerges (1997), the link between individuals and institutions concerns a person’s ‘self’, which may be treated as a construction formed from ‘outside in’ as well as from the ‘inside out’. Thus, it is vital to note the reciprocal link between individual’s identity identification and institutions as individuals are both creators of, and shaped by, the institutional setting where they interact. Identity identification therefore concerns both the individual’s self image and other actors’ perceptions of their actions.

An important point that this study illustrates is that the respondents’ constructioning indicated in statements about themselves and about the people with whom they have co-acted. In particular this pattern surfaced among local employees who developed C identities. This development emerged as the Western entrants challenged local employees’ institutionalised stability at the same time as other institutional structures in society were undergoing radical change. The study therefore points to aspects highlighted by Czarniawska-Joerges (1997) who suggested that a person’s ‘self’ is produced, reproduced and maintained in conversations as conversations reflect positioning vis-à-vis other people. Of particular interest is that Czarniawska-Joerges (1997) described this phenomenon analysing how radical institutional changes in the Swedish political sector created conditions reflecting in the disintegration of individuals’ identities. According to her findings, threats directed at individuals’ identities may result in unexpected and unplanned creation of new identities among those who defend the former institutionalised structures against those who attack it. Clearly, this study, like the study by Czarniawska-Joerges (1997), suggests that individuals’ identities are not only shaped by relatively stable institutions, but also by institutions that are in a state of radical change.
Looking at the relations to the former structures, we find that those who developed R & T identities had ties to the former institutionalised structures that were considerably weaker than the ties of those who developed C identities. Like the study by Czarniawska-Joerges (1997) this study shows that actors’ ties to a certain institutional setting influence their ability (and willingness) to form new ties. A difference compared to the study by Czarniawska-Joerges (1997) is, however, that her study mainly described how such ‘old’ ties inhibited changes, while this study also points out that the formation of new ties facilitates changes. A study that has touched upon these issues is the study by Granovetter (1973). According to his findings, the strength of actors’ ties to certain networks influences their ability to form new constellations, i.e. the weaker an actor’s ties, the more likely that this actor can develop new links. Accordingly, as in the study by Granovetter (1973), this study suggests that the relative weakness of the individual candidates’ ties to former institutions facilitated their development of identities in a new institutional setting.

What emerges behind the C identities are multi-dimensional ties to the ‘old’ structures which concerned all organisational levels with memories, traditions, etc. that linked the past to the present. These links to the organisation’s history were communicated to people through the language, which according to Douglas (1987) is an institutional device with an inherent inertia making it immune to rapid changes. Thus, the (rapid) changes that fuelled the C identities co-acted with institutionally founded inertia, which maintained local employees’ identification with the ‘old’. The discussion above on relative strength and weakness of ties to the local institutional structures, when combined with Douglas’ (1987) theory on the role of language, therefore points to an interesting aspect among those who developed R & T identities. Clearly, this category of local employees, by learning to communicate in English, were open to influences facilitating the development of new identities. Accordingly, their learning of the corporate language (English) opened potential for transfer of the parent firm’s institutionalised norms in a manner that seemed difficult to establish towards employees who only spoke the local language (Russian/Ukrainian).

This study, by pointing out these empirical examples, therefore supports the theory by Douglas (1987) that institutions confer identity by providing a cognitive framework to its members. However, it is important to observe that while Douglas (1987) recognised a language’s inertia problem, this study points to how a new language, by opening potential for new contacts with actors from a different institutional setting, reduces the influence from the local language’s inertia. Thus, the forming of a common ‘we’ with actors from a different institutional setting may require that the actors speak a common language in the strict sense of the word.

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As noted in the section on the orientation of the initial step, the development of R & T identities started from the hiring and filling of open positions which implied that there were defined assignments that supported candidates’ role-taking. In this sense, the focal subsidiary provided self-images to the entrants (see Selznick, 1957; Berger & Luckmann, 1967). The identification of C identities, on the other hand, was created by conditions that challenged local employees’ existing self-images. In particular this was evident in the downsizing measures as these measures created conditions supporting the identification of C identities. The study therefore points to role-taking and development of self-images among people at risk of being pushed out of an organisational identity by being referred to as old-fashioned, having the wrong attitude, etc. In this sense, the internal comparison of norms indicated that former self-images were challenged. Reflecting over this observation, we find that this study provides an additional perspective to Selznick’s (1957) theories on the build-up of an organisational identity and self-images by describing the development of identities among employees at risk of losing their organisational identity.

Concerning those at risk of losing their organisational identity, the analysis in chapter nine clearly illustrated that C identities developed among employees threatened by lay-offs. In this sense, as in the study by Walck (1995) this study points to the institutional upheaval with lay-offs challenging former stability. Examining the conflict between the new uncertainties and the former stability, it is apparent that the conflict is based on a clash between institutionalised views on companies’ functions and objectives. This study therefore points to an institutional conflict observed by McKinley et al. (2000). According to their proposal, downsizing is an institutionalised response to financial problems (in the West) that may be viewed as inevitable even if the consequences for the organisation are unclear. Looking at this study’s observations it is apparent that actors who developed C identities encountered an institutionalised response of which they had little experience. It is also worthy to note that this response was questionable due to the uncertainties it created. In particular this was evident in statements demonstrating that local firms reduced or cancelled salary payments, while they kept their staff during times of financial difficulties. As in the findings by McKinley (2000), this study therefore shows that the institutional foundation plays an important role for the acceptance of downsizing measures. In seeking to understand the reasons behind local companies’ hesitation towards such measures, we must consider that there was no readiness in the local society’s institutions to handle the problems that lay-offs might cause.

As indicated in the discussion above, a clear pattern is that the downsizing measures reflected the Western firm’s rationality assumptions which could not
be confirmed by later financial improvements. Employees who developed C identities were, in this sense, confronted by an institutionalised rationality which failed to prove rational because the problems continued. Employees who developed R & T identities, on the other hand, took part in the confirmation of the Western firm’s rationalities which supported their development on an individual level. Clearly, personal growth and the sense of belonging were parts of confirming the Western firm’s management norms. From the perspective of employees that developed C identities, however, the internal pressure was a source of uncertainty that strengthened the C identity. The internal comparison of norms can therefore be viewed as a reaction triggered by the pressure, where the introduction of the parent firm’s management challenged ‘old’ institutionalised structures.

Looking further into the conditions in which C identities developed, we find that the rapidly established relationship between the Western entrant and the local companies may have contributed to this development. A study touching upon these issues is the study by Bresman et al. (1999). According to their findings, rapidly evolving relationships between actors in acquisitions causes communication to follow the hierarchical structure, and hence, create distance between the entrant and the ‘old’ structures. The distance may, however, develop into more reciprocal conditions when a ‘new’ stability has been created. Reflecting on the C identities observed in this study with respect to the proposal by Bresman et al. (1999) it is apparent that such reciprocal conditions never developed after the acquisitions of local companies.

The development of R & T identities, on the other hand, took place under conditions with reciprocity between the actors. In particular this was shown by the expatriates’ acknowledgement of local employees’ contribution and in the delegated decision-making where those who developed R & T identities confirmed the institutionalised rationality assumptions (see Meyer & Rowan, 1977) of the entrant firm. Thus, the development of reciprocal conditions between the Western firm’s representatives and local employees facilitated the development of R & T identities.

What is indicated in the discussion above is that local employees’ identity identification was dependent on whether the Western entrant was able to prove its managerial rationality in creating conditions beneficial for local employees. Clearly, the local employees who developed R & T identities took part in the manifestation and confirmation of the entrant actor’s rationality, while those who developed C identities were challenged by the entrant actor’s rationality. Accordingly, actual outcome constituted the final test that confirmed the entrant actor’s rationality and logic. The study therefore points out positive outcome as facilitating local employees’ identity identification in favour of the entrant actor.
In case of negative outcome, however, the identity identification may work in favour of the ‘old’ local group identity.

11.1.3. Identity Identification in the Cross-Institutional Setting
The previous sections indicate that the communication climate between the Western firm's representatives and the local employees reveals ongoing processes of manifestations and confirmations. These manifestations and confirmations surfaced in statements about actions and responses making the identity identification a reciprocal part of interactions (see Czarniawska-Joerges, 1997) between the Western firm's representatives and the local employees.

Concerning the communication climate, this study, like the study by Smidts et al. (2001), shows that a positive communication climate affects employees' willingness to identify with their organisation. According to the study by Smidts et al. (2001), an open climate in which active participation is appreciated, supports feelings of being a part of an in-group (the self-categorisation by the forming of a common 'we'), whereas the experience of being listened to and taken seriously fulfils self-enhancement needs. However, a difference, when compared to the study by Smidts et al. (2001), is that this study also describes identity identification in a setting where internal tensions between the actors make actors hold on to the established 'we' which was shown in the development of C identities.

In seeking to understand how the context influenced local employees' identity identification, it is of interest to reflect over a study of Hubbert et al. (1999) that examined conditions that resemble the identity identification observed in this study. According to Hubbert et al. (1999), looking at intergroup communication by actors with different cultural/ethnic backgrounds, it is essential to observe how the quality and quantity of the communication influence the identity actors reveal when interacting. Studying these aspects, they analysed the aspect that made respondents base their communication on their personal, social, or cultural/ethnic identity.126 Looking at how their findings correspond to the observations made in this study, it is of particular interest to note that the findings by Hubbert et al. (1999) show that the cultural (or ethnic) identity only becomes activated in situations when the group perceives a threat. In this study this pattern of revealing cultural/ethnic identities was clearly shown in statements indicating conflicts between the Western firm's representatives and the employees who developed C identities.

126 According to Hubbert et al. (1999), the personal identity refers to the views that individuals have of themselves that differentiate them from other members of the in-group. The social identity concerns an identity that individuals assume they share with their in-group, while the cultural/ethnic identity only surface in contacts with actors from other cultures or ethnic groups.
The findings by Hubbert et al. (1999) also show that communication without the involvement of threats made actors (in their case student groups) base their interactions on their social identities, i.e. the identities that individuals assume they share with their in-group. In this study such examples surfaced among local employees with R & T identities who based their interactions with the Western firm’s representatives on the assumption of a common ‘we’. It is important to observe, however, that the study by Hubbert et al. (1999) never touched upon the forming of new identities as the result of the communication climate, while this study suggests that identity identification is essentially involved in communication across cultural/ethnic boundaries. Table 11.1 summarises vital issues for local employees’ identity identification in the cross-institutional setting.
<table>
<thead>
<tr>
<th>Actor entering a dominating institutional structure.</th>
<th>'The C Identities'</th>
<th>'The R &amp; T identities'</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>The Western firm</td>
<td>Individuals applying for open positions.</td>
</tr>
<tr>
<td>Commitment to changes.</td>
<td>Not based on the group's own choice.</td>
<td>Based on individuals' choices.</td>
</tr>
<tr>
<td>Screening position.</td>
<td>Screening created from inside the 'old' structures.</td>
<td>Screening in the selection and training of candidates.</td>
</tr>
<tr>
<td>Ties to the local institutional environment.</td>
<td>Relatively strong</td>
<td>Relatively weak</td>
</tr>
<tr>
<td>Language barrier</td>
<td>Existing and inhibiting transfer of norms between the institutional settings.</td>
<td>Reduced which facilitated transfer of norms between the institutional settings.</td>
</tr>
<tr>
<td>Certainty provided by the new environment.</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Rationality confirmed by outcomes.</td>
<td>Not confirmed</td>
<td>Confirmed</td>
</tr>
<tr>
<td>Institutionalised identities.</td>
<td>Threatened which resulted in conflict identities.</td>
<td>Not threatened and, hence, not blocking the formation of new identities.</td>
</tr>
<tr>
<td>Communication climate.</td>
<td>Revealing the ethnic/cultural identities of employees in the JVs.</td>
<td>Developing social identities corresponding to the Western firm's management.</td>
</tr>
</tbody>
</table>

The issues presented in table 11.1 highlight aspects governing local employees' identity identification which also reflect the conditions for the introduction of the Western firm's management in its Ukrainian subsidiary. In a context of this nature it is, according to Michailova (2000), essential that managers learn to manage communication of verbal signals and actions as settings of this kind make people more sensitive and more careful in observing each other's behaviour and interpreting signals.
However, although this study points towards aspects that resemble the findings by Michailova (2000), it differs by demonstrating the elements that shape local employees’ identities in contacts with Western management practices. It is also important to observe that this study indicates aspects making management transfers possible in spite of cultural differences between actors. This is to note that although cultural differences may constitute a barrier for management transfers, it is not always the cultural differences that inhibit transfers. This therefore highlights the role of the communication climate and the actors’ ability to communicate in a common language which differed between the spheres where R & T identities were developed and the JVs where local employees’ developed C identities.

To summarise, the standpoint is that local employees’ identification of identities in favour of the Western firm’s management practices concerns boundary spanning between the two institutional settings. Clearly, this boundary spanning is dependent on the communication climate as the climate sets the conditions for socialisation, and hence, the formation of new identities. Boundary spanning will therefore serve as a unifying concept to describe the management of the gap between the development of C identities and R & T identities in the subsidiary’s cross-institutional setting.

11.2. MANAGING INFLUENCE IN THE CROSS-INSTITUTIONAL SETTING

This section builds further on the analysis in chapter 10 and sets out to further our insights of the D & V conditions (dissonance and vacuum conditions) which were evident in the aggregated influence from local networks.

11.2.1. Dissonance in Local Networks

The analysis in chapter 10 showed that the subsidiary’s management of external influence involved filtering. The analysis clearly illustrated that the subsidiary’s ability to filter the influence was dependent on the level of aggregation (the number of actors involved) and the level of dissonance in the communication. The analysis therefore points out aspects corresponding to proposals by Festinger (1957). According to Festinger’s (1957) dissonance theory, we may analyse how actors’ behaviour is affected by beliefs or actions by reference groups. A matter of interest in Festinger’s (1957) theory is the standpoint that actors seek to establish relations based on consonance while relations indicating dissonance are eliminated.

In this study, relations indicating dissonance have surfaced in the subsidiary’s contacts with decision-makers in local companies which were striking in statements demonstrating that local managers followed former management practices in spite of the new order. In this sense, as in the study by
Sandell (1969), this study shows that actors under dissonance conditions put great efforts into restoring consonance – preferably by actions that require less effort and fewer changes. Looking at such action patterns Weber & Hansen (1972) suggested that it is important that the performed actions are in line with the actions favoured by the majority, as the majority’s preferences guide the perception of consonance.

However, it is central to observe that although this study points towards similar aspects, it deviates from the studies mentioned above by showing that dissonance aspects also surface at organisational level. This is to note that the approach to analysing dissonance aspects in this study resemble the study on organisational dissonance by Holm (1988). In particular this concerns the viewpoint that dissonance might emerge as a result of changes in the institutional setting while policies and procedures in organisations remain unchanged. However, a difference compared to the study by Holm (1988) concerns the analytical focus. This can be seen, as Holm (1988) mainly examined dissonance with respect to an organisation’s internal development, while this study analyses dissonance in an organisation’s communication with external actors.

Concerning the dissonance that surfaced in the subsidiary’s filtering of external influence, the analysis in chapter 10 clearly indicated that dissonance could emerge as a result of resource matching problems. Particularly, this was evident in the problems caused by the widespread barter trade and the local companies’ weak finances that, when combined, created dissonance in resource transfers within local business networks.

This study has therefore touched upon issues indicating that it might be misleading to analyse Post-Soviet business networks on the assumption that these networks function like business networks in the West (see Golubeva, 2001). Accordingly, this problem may emerge when applying the network approach by Håkansson & Johanson (1992) to local business networks. According to their proposal, industrial networks are founded on a network of actors, a network of activities and a network of resources. However, although this study shows that this framework also fits the local networks, there are reasons to indicate aspects rendering local networks different from networks on established Western markets. To illustrate the difference I start with the basic aspects in the proposal by Håkansson & Johanson (1992) suggesting that resource accumulation and transformation can take place in the network.

Reflecting over these aspects, we find that the difference between established Western networks and the Post-Soviet networks can be seen when isolating local actors’ accumulation of resources to be transformed to other
resources. Clearly, the dissonance problems observed in the local business networks concerned these sequences as these networks lacked the ability to accumulate and transform resources. In particular this was evident in the low investment rate (that requires resource accumulation) and in the problems caused by barter trade (as resources were not transformed). Thus, the problems in the resource transfer infrastructure created dissonance in actors’ resource matching which was evident in the chain reactions that the barter trade created in the business networks. To illustrate the dissonance we can imagine how a payment consisting of 500 bathtubs at one end of the network inhibits investments in another part of the network. This study therefore demonstrates that the barter trade in local networks inhibited resource transfers as physical products (like bathtubs) could be accumulated, while little (if any) resource transformation took place.

Looking at the resource matching problem it is essential to consider the role that the authorities played when introducing aggressive taxation policies. This was revealed as local companies’ assets could be confiscated when the money reached their bank accounts. Clearly, the local networks’ problems in accumulating resources were the results of countermoves in local companies’ to avoid the risk of the taxation authorities confiscating their financial assets.

In conclusion, the analysis shows that the sum of the resource transfer and accumulation problems created dissonance in local networks’ resource transfer infrastructure which acted as a break on investments. At a conceptual level this observation indicates that the basic network infrastructure suggested by Håkansson & Johanson (1992) needs to be adjusted with respect to the dissonances mentioned above to fit analyses of developments in Post-Soviet networks.

11.2.2. Vacuum in Local Networks
The analysis in chapter 10 showed that the indirect aggregated influence from local networks was difficult to deal with as this involved a vacuum that developed after the removal of the former centrally planned economy. Given these observations, this study touches upon issues examined in a study of Åkesson (1997) on the Swedish slaughter and meat industry. In particular the similarities concern the challenges that managers encountered under conditions characterised by extreme uncertainty caused by deregulations and rapid changes.

A matter of central interest is that this study, like the study of Åkesson (1997), points to the vacuum as a result of rapid changes by political decision-makers. The changes analysed by Åkesson (1997) concerned the cutting of

Although the example of bathtubs might seem obscure it is based on an observation made during the empirical study.
subsidies and facilitating of imports which came to shake the institutionalised market setting for the Swedish meat industry. The turbulence caused by the changes created a strategic vacuum coloured by a movement of strong forces with both internal and external dimensions.

In this study we have observed a similar pattern of turbulence caused by deregulations and removal of state subsidies that has shaken the institutional foundation for the Ukrainian industrial sector. Even if the changes in the Ukraine require another scale of measurement compared to the more moderate changes that the Swedish meat industry encountered, the managerial responses show similarities.

With regard to such similarities, the analysis in chapter 10 clearly indicates that local companies' response to the vacuum in local networks reflected in their internal structures. In particular this was evident in statements illustrating that local companies maintained their ‘old’ structures to manage uncertainties in the environment. Given these observations, it is vital to consider how local companies were structured and how these ‘old’ structures have influenced the development of the vacuum. To analyse this development I draw on the proposal by Mintzberg (1993). According to his proposal, managers perceiving market hostility are likely to pull for centralisation and direct supervision of the operations. When this involves companies structured as machine bureaucracies (in times of crisis), it is likely that these companies strive towards a simpler form of bureaucracy.

By considering the ‘old’ role of Soviet companies as mass producers, structured in terms of machine bureaucracies for a market with maximum stability (without any market fluctuations), the market pressure has oriented these companies towards crisis management. The internal development in local companies therefore preserved ‘old’ structures which prevented the formation of structures open to new ideas and new entrants. Thus, looking at how the vacuum developed it is vital to consider the aspects making local companies blocked to new inputs.

Looking at the aggregated influence from the vacuum in local networks it is important to note that the unstable legislation created conditions in which it was important to develop good contacts with local authorities. This study therefore indicates a pattern of managerial responses to the strategic vacuum observed by Åkesson (1997). According to his findings, conditions of a strategic vacuum make actors take priority in being close and visible to important stakeholders. In his study this was illustrated in the Swedish top managers devoting great efforts in trust-building activities to uphold the legitimacy of their positions. Clearly, this pattern also indicated in local managers’ efforts to develop and maintain
good relations with the central authorities to build trust and uphold the legitimacy of their positions. Thus, the vacuum in local networks made it necessary for local managers to establish relations with the authorities to reduce the perceived uncertainties and to uphold their legitimacy (see Meyer & Rowan, 1977).

The importance of being close to certain stakeholders also surfaced in the relations between Western investors and local authorities. Particularly, this was evident in statements indicating that the local authorities had the final word in decisions concerning investment projects in enterprises where the Ukrainian state was the majority owner. The problems in contacts with local authorities were, however, not only founded on state ownership as there were other means of exerting influence. The statements indicating such influence pointed to the need to reduce the risk of intervention by the local authorities. Reflecting over the foreign investors' establishment of communication channels to local decision-makers we find that this response shows similarities to local companies' ways of managing the strategic vacuum.

In conclusion, this section shows that the vacuum in local networks caused actors to put great effort into establishing a relationship consonance to counterbalance aspects indicating dissonances. This study's analysis of the vacuum in local networks therefore resembles the findings by Åkesson (1997), while it also shows that the vacuum might encompass both consonance and dissonance which were omitted from Åkesson's (1997) analysis. The importance of including consonance and dissonance was evident in statements about the need for good personal relations to counterbalance other dissonances. In other words, the analysis indicates that if a vacuum is anticipated in a certain network, then the vacuum needs to be analysed with regard to actors' activities to reduce dissonances in their relations.

11.2.3. Dissonance and Vacuum in the Local Institutional Setting
The previous section showed that the vacuum in local networks caused actors to put great effort into establishing consonance in their relations with local authorities. The analysis therefore indicates the importance of analysing how powerful actors control subordinate actors' relations and alliances, as this may reveal aspects guiding developments in local networks. Given these observations, it is of particular interest to discuss the communication of power in relations between the local authorities and the subordinate actors.

Concerning local authorities' power, the analysis clearly shows that their power was founded on institutionalised structures (based on the legacy) that were maintained in local actors' current experience. Examining these structures, it is essential to observe that the alliances between political institutions and
structures at company level made it difficult to determine the limits of the power structure. Thus, a striking impression is that the observed centralisation of power was a process involving all actors regardless of whether they were close or remote from the centre. The centralisation in local networks was, in this sense, an institutionalised response to dissonances and the vacuum where actors’ relative positions in relation to the centre were of less significance.

Reflecting on the centralisation of power with respect to dissonance and the vacuum in local networks, we find that this particularly involved decision-making where the central authorities influenced local companies’ purchasing decisions. Local companies’ contacts with the central authorities therefore reflect a behavioural pattern originating from former coercive isomorphic processes (see DiMaggio & Powell, 1983) that forced managers to obey the central authorities.

What is indicated taking a closer look at the centralisation of power, is that local subordinate actors’ manifestation of former power structures inhibited the creation of ‘new’ independent actor networks. In seeking to understand the subordinate actors’ manifestation of the authorities’ power, it is vital to consider that communication of power is not necessarily executed in terms of orders (see Petersson, 1987). Nor are the actors in power positions dependent on a foundation of legitimising ideology. According to Dahlström (1987), it is sufficient that those in subordinate positions are underprivileged, fragmented, apathetic, unaware or unknowing, for those in dominating positions to uphold their power positions. This study therefore illustrates aspects that resemble the observations by Dahlström (1987) as there were clear indications that local actors in subordinate positions, by being under extensive pressure, came to match some of Dahlström’s (1987) categories. This was apparent in statements indicating local actors’ fear of becoming underprivileged (if not being a part of an alliance) which strengthened actors in dominant positions. In this sense, the building of alliances (consonance) with authorities made subordinate actors take part in the manifestation of the dominating actors’ power (see Dahlström, 1987).

Regarding local actors’ management of the strategic vacuum, the analysis shows that the frequent changes of personnel in the ministries was part of the problem. What might seem a strange observation is that, although these changes contributed to creating conditions characterised by a vacuum, it also meant that the authorities kept the door open for new actors who wanted to enter the power structures. This is to highlight the fact that subordinate actors’ management of the vacuum in local networks involved the establishment of relations with actors about to enter the power structures. The analysis therefore shows that by allowing entrance for some selected (subordinate) actors, the local power structures remained attractive for a large number of local actors. Accordingly,
this observation demonstrates that the rationality in these alliances revealed local actors’ hidden preferences (see March & Olsen, 1984) which manifested the authorities’ power.

In conclusion, the analysis shows that the authorities’ power was manifested by subordinate actors’ efforts to create consonance in relationships with actors in superior positions. According to Meyer & Rowan (1977), a response pattern illustrating these characteristics is founded on institutionalised rationality that provides legitimacy to the responses – regardless of whether the responses promote efficiency or not. This study therefore points to institutionalised rationality and legitimacy indicated in statements about the motivational aspects involved in the manifestation of local authorities’ power. It is worth noting that such manifestations preserved the ‘old’ structures while it is questionable whether this promoted local companies’ business. Thus, the local companies’ manifestation of the authorities’ power was essentially involved in the creation of the vacuum and, hence, the development of D & V conditions for filtering influences from the local institutional setting.

What is indicated in the discussion above is that dissonance and the vacuum were involved in the subsidiary’s external boundary spanning. Accordingly, boundary spanning will serve as a concept to facilitate our understanding of the subsidiary’s managing of the cross-institutional setting.

11.3. MANAGING A CROSS-INSTITUTIONAL SETTING – A MATTER OF MANAGING BOUNDARY SPANNING

By unifying the internal and the external issues discussed in the previous sections, this section sets out to present an inductively generated theory on managing a cross-institutional setting.

11.3.1. Boundary Spanning in the Cross-Institutional Setting

As the study shows, there were two spans to be managed. The first span needing management concerned the gap between the parent firm’s norms and the norms from the local institutional setting. The second span to be managed concerned the gap that developed from dissonance and the vacuum in contacts with local actors. As the analysis points out, this gap emerged as the influence became aggregated and more complex with the number of actors involved. In this sense, the management of the cross-institutional setting concerns both internal an external boundary spanning. Figure 11.2 illustrates how these gaps relate to the focal subsidiary in the centre.
11.3.2. Internal Boundary Spanning Concerns Local Employees’ Identity Identification

This study demonstrates that the introduction of a Western parent firm’s management principles concerns local employees’ identity identification in an institutional setting formed by the parent firm’s norms and values. The analysis clearly indicates that this process is dependent on socialisation (see Berger & Luckmann, 1967; DiMaggio & Powell, 1983; Mintzberg 1993) of local employees, as socialisation facilitates identity identification corresponding to the parent firm’s norms. In particular this pattern surfaced in spheres where the gaps were reduced by proximity and reciprocity (see Bresman et al., 1999) between the Western firm’s representatives and local employees. Thus, of central importance were conditions creating a homogeneous ‘we’ atmosphere as this facilitated developments of R & T identities. In other words, there is a sharp contrast with respect to the sphere (the JVs) where local norms were dominant. Apparently, this context did not offer the same proximity and reciprocity between the Western firm’s representatives and local employees which inhibited socialisation of local employees. What stands out as important for the
development of C identities was that the changes introduced challenged the local group identity resulting in maintaining the gaps between the actors.

As illustrated earlier, a matter of central importance for the identity identification in favour of a parent firm’s management is the entrance sequence. It was striking that the orientation of the initial step affected the preconditions for the normative screening of local employees (see DiMaggio & Powell, 1983). As this study shows, it is far more difficult to enter an organisation dominated by local norms and values with the ambition of creating identity identification conditions in favour of the entrant actor, than to create such conditions where local people (by their own choice) enter open positions. Thus, the study demonstrates that analyses of transfer of management know-how should consider the receivers’ role and what motivates local employees to bridge the gap to the entrant firm’s management norms.

This study therefore indicates that it is not appropriate to view the introduction of a Western firm’s management in a subsidiary on the Post-Soviet market as unidirectional. This standpoint is based on observations indicating that the introduction of the Western parent firm’s management encompasses a process that works in the opposite direction with local employees’ boundary spanning towards actors in the parent firm. This process embraces role taking (see Selznick, 1957; Berger & Luckmann, 1967) which this study has analysed as identity identification with local employees enacting the Western firm’s institutionalised values. Clearly, for this process to take place it is important that local employees feel secure and ‘at home’ in the subsidiary’s organisation.

Concerning the institutional aspects of local employees’ identity identification, the analysis demonstrates that the ability to communicate in a common language facilitates the parent firm’s transfer of institutionalised norms and values. In particular this was evident among local employees who had learned to speak English, as these language skills exposed them to extensive influence when communicating with people in the parent firm’s units. Their colleagues in the JVs who lacked such skills were, by contrast, cut off from small talk that cause management principles to become institutionalised in organisations (see Sjöstrand et al., 1999).

11.3.3. External Boundary Spanning Concerns the Managing of D & V Conditions

As observed, the focal subsidiary was fairly successful in managing direct influences. Thus, what is indicated is that consonance conditions for filtering external influences developed when there was direct communication between the actors. Clearly, of central importance for the establishment of consonance conditions were recurrent interactions, since everyday contacts concerning
operative issues supported boundary spanning. It should further be noted that the development of consonance conditions was based on actors’ mutual interests to establish relations. This was apparent in statements about the focal subsidiary’s efforts to establish relations with local actors with buying power, i.e. actors with which resource matching could take place.

A matter of interest concerning the subsidiary’s boundary spanning is that the internal links to the parent firm supported the subsidiary’s establishment of consonance conditions for filtering. This pattern (illustrated by an increased number of product segments) is accounted for as adjustments in the subsidiary founded on decisions by managers in the parent firm. The importance of these adjustments is also that the spheres showing this development increased their homogeneity with respect to the parent firm. Thus, the increased number of segments made more local employees engaged in contacts with representatives from the parent firm which increased internal homogeneity.

The analysis therefore points towards aspects that correspond to the proposal by Thompson (1967) suggesting that the more heterogeneous the task environment and the more contingencies an organisation faces, the more its boundary spanning will be segmented. It is also worth noting that Thompson (1967) suggested that an organisation’s ability to cope with uncertainty concerns the creation of special departments specialising in dealing with such challenges. However, although this study illustrates a similar pattern, it deviates by revealing that uncertainties in the environment may be understood as dissonance and vacuum which influence the organisation’s ability to manage boundary spanning activities.

A clear pattern regarding boundary spanning in settings with dissonance is that dissonance surfaced the more the external influence showed aggregated characteristics transforming the conditions for filtering into D & V conditions. The examples presented clearly illustrate that this particularly developed from the tendency of local firms to fall back into old institutional ways (see Petersson, 1987). Hence, the dissonance and vacuum that the aggregated influence encompassed was a result of local actors’ dependence on actor networks to manage uncertainties in the environment. Accordingly, this study demonstrates that local actors put their trust in boundary spanning traditions formed by the former (institutionalised) system.

To comprehend the forces involved I draw on the theories by Meyer & Rowan (1977). According to their proposals, the more highly institutionalised the environment, the more efforts the organisational elite tends to devote to the development of a public image at the costs of the development of co-ordination and boundary spanning activities. The local companies’ boundary spanning
towards central authorities can therefore be understood in the light of the institutionalised environment. Clearly, this caused boundary spanning and co-ordinating activities towards actors outside the central authorities to suffer. Thus, the analysis shows that influences from the institutional legacy make it particularly difficult for new actors to enter local networks.

In conclusion, a central matter that this study demonstrates is that actors in central positions accumulated power from actors in local business networks. What this indicates is boundary spanning triggered by local actors’ identification of the need to reduce the threat of sanctions which simultaneously make them take part of the manifestation of the authorities’ structural power (see Dahlström, 1987). This was also apparent in statements about the rationality behind the subsidiary’s contacts with the central authorities, as good relationships with these actors facilitated boundary spanning towards actors in local networks. Thus, the development of relationships with actors in central positions therefore involved managing dissonances and vacuum influencing the subsidiary’s operations.

11.3.4. Managing the Cross-Institutional Setting
The management of the cross-institutional setting embraces boundary spanning at both micro and macro-level ranging from the (internal) identification of R & T identities (or C identities) at micro-level to the (external) managing of D & V conditions for filtering at macro-level. When unifying the internal and external aspects’ influence on the operations we find that aspects involving consonance and dissonance in relations between actors are of central importance for the orientation of development. Figure 11.3 highlights vital issues for boundary spanning in the cross-institutional setting.
As illustrated in the figure above, the internal boundary spanning involved local employees' identity identification. This study shows that internal boundary spanning in the cross-institutional setting was facilitated by contexts that nourished socialisation and supported local employees' sense of contributing to the entrant actors' operations. A context characterised by threats and conflicts, on the other hand, created conditions in which individuals protected the interests and status of the in-group. Thus, the internal boundary spanning towards local employees in the JVs was severely inhibited by lack of aspects building trust and facilitating socialisation. As in the study by Hutt et al. (2000) on boundary spanning in strategic alliances, this study suggests that structures supporting interpersonal ties and continuing boundary spanning activities helps relationships to develop. According to the findings by Hutt et al. (2000) boundary spanning based on frequent interactions and exchange of information across organisations resolves conflict and builds trust. A distinction with respect to the findings by Hutt et al. (2000) is that this study clearly shows the importance of socialisation for such boundary spanning as this involves local employees' formation of new identities.
Pointing out the links between boundary spanning and local employees' identity identification, this study illustrates aspects in line with the study by Bartel (2001). According to her findings, people working in a low-threat context are more attentive to potential positive outcome and more engaged in creative problem solving. People working in high-threat contexts are, by contrast, more likely to protect the integrity of the self, while the actual threat is avoided. Like the study by Bartel (2001), this study shows that boundary spanning between actors in context characterised by threats is likely to result in comparisons that are conservative in scope. In this study, this was particularly evident in the internal comparisons of norms which surfaced in the internal identification of 'we and they'.

A matter of central importance for internal boundary spanning was the work (and behaviour) of the expatriates and other representatives of the parent firm. This was evident as the identity identification was based on mutual confirmations and manifestations in the socialisation of local employees. Like the study by Thomas (1991), this study describes the expatriates' role in internal boundary spanning within multinational corporations. An important distinction is, however, that although Thomas (1991) clearly pointed to expatriates as internal boundary spanners within MNCs, his study never analysed such activities with respect to local employees and the local context. Clearly, this study provides many examples of the challenges that expatriates encounter in their boundary spanning between a parent firm and local employees.

However, examining the internal boundary spanning further, we find that this concerns the management of internal consonance and dissonance. This is to note that the internal boundary spanning observed in this study concerned the creation of internal consonance – a 'we' that the Western firm’s representatives formed together with local employees. A clear pattern is that structures and activities creating internal consonance facilitated local employees identity identification in favour of the entrant firm, while internal boundary spanning characterised by dissonance resulted in the development of C-identities. Accordingly, internal boundary spanning in the cross-institutional setting is a matter of reducing dissonance between local employees and the entrant firm’s management practices.

Concerning external boundary spanning towards actors on the local market, this study demonstrates that local employees who developed R & T identities were fairly successful in managing external dissonances. In this sense, the internal consonance with respect to the parent firm’s structures supported their management of relations with external actors.
The analysis of the subsidiary’s management of boundary spanning towards actors in the Post-Soviet market indicated that these networks follow institutionalised boundary spanning patterns. In particular this was shown by the vacuum in local networks which was a result of local actors’ tendency of seeking support and legitimacy from actors in central positions. A striking impression is that this caused boundary spanning activities towards actors in local networks to suffer.

A matter of central importance concerning the vacuum in local networks was that the vacuum emerged as a result of local actors’ efforts to establish consonance in their relations with powerful actors. This tendency clearly indicated an influence on boundary spanning from the institutional legacy as former structures continued to influence in spite of the reform efforts. This study therefore points to aspects illustrated in a study by Fennel & Alexander (1987) on boundary spanning by organisations under institutional pressure. According to their proposal, an organisation’s choice of boundary spanning strategies is affected by institutional pressure. However, although this study also indicates examples of institutional pressure on actors in local networks, it differs by demonstrating the aggregated effect that such pressure causes. This study has shown that, to understand the forces involved in this aggregation, we need to reflect over the institutional legacy’s influence on actors who take part in the aggregation.
12. A CONCLUDING DISCUSSION

The first section in this chapter presents a concluding discussion on this study’s approach and findings with respect to earlier studies. The second section presents managerial issues followed by a final section on proposals for further research.

12.1. CONCEPTS AND CONTRIBUTIONS

12.1.1. At Conceptual Level: The Cross-Institutional Concept

This study’s approach to the subsidiary’s setting as cross-institutional has been adopted to analyse developments in a setting where people from a Western firm’s subsidiary communicated over institutional boundaries. Like the studies by Chaloupka (1992), Palankai (1992), Casson (1994), Eliasson et al., (1994), Peng & Heath (1996), Gregory (1999), Newman (2000), Meyer (2000, 2001) and Peng & Shekshina (2001) a guiding thought was that the institutional setting in the former planned economies is different compared to the institutional setting in Western societies. A difference compared to the studies mentioned above is, however, that this study shows the importance of including the influence from a Western parent firm in the analysis of its subsidiary in the Post-Soviet market. The need to include the influence from the Western parent firm is evident as we otherwise might fail to catch vital issues affecting the subsidiary.

The cross-institutional approach to analysing a Western firm’s subsidiary finds support in the proposal by Golubeva (2001). According to her suggestion it is essential to observe that Western firms’ subsidiaries come under the influence of two institutional settings. However, although Golubeva pointed this problem out she never examined the development in the cross-section from the cross-institutional perspective applied in this study. This study has therefore started to fill this gap.

In conclusion, a matter of central importance for analyses of environments where actors from different institutional settings interact is the view of people as institutional carriers that shape and are shaped by their interactions (see Berger & Luckmann, 1967; North, 1990; Sjöstrand, 1992). The challenge is then to balance a focus on interactions between individuals and organisations with the influence from developments at macro levels. This study demonstrates that this balance is manageable and that the approach as such allows the researcher to analyse actors’ interactions with respect to institutional differences. Thus, this study makes a contribution by suggesting a cross-institutional approach for analyses of the challenges that Western firms’ subsidiaries encounter on the Post-Soviet market.
12.1.2. Managing Influence from the Local Institutional Setting

This study has shown that the management of influences from the local institutional setting involves a strategic challenge that particularly surfaces in managers' efforts to deal with influences from the Post-Soviet market setting. This study therefore makes a contribution by providing an additional perspective in terms of strategic focus. This contribution is evident as the studies by Rutihinda (1996), Borsos-Torstila (1999), Golubeva (2001), Rondinelli & Sloan Black (2000) and Meyer (2001) examined strategic challenges in Central and East European markets from the viewpoint of parent firms, while this study shows that it is necessary to get down to the subsidiary's level to understand how managers deal with influences from a market in this region.

Furthermore, the analysis of the operative challenges the subsidiary encountered demonstrates that we may question early-mover and market leader benefits (see Rutihinda 1996; Gleason et al., 1999; Borsos-Torstila 1999) as these benefits are overshadowed by the early-mover challenges. Clearly, this was illustrated by the problems of operating in an environment traditionally hostile to private ownership (see Djarova, 1999; Rondinelli & Sloan Black, 2000) where the legal and taxation infrastructure lacked stability.

It is also vital to observe that although earlier studies on strategies for entries onto markets in Central and Eastern Europe have addressed the influences from former structures on the local market environment (see Casson, 1994: Slater, 1996; McMillan, 1996), and that host countries' institutions influence the market entry mode (see Meyer, 2001), this study has analysed a subsidiary's ability to deal with these influences. Thus, a contribution with respect to the studies mentioned above is the analysis of the post-entry sequence with attention directed towards the subsidiary’s management of the influence of the local setting.

A clear pattern regarding the management of the influences of the local setting was that the turbulence and vacuum (see Åkesson, 1997) placed administrative staff in a central role. In particular this was evident from local employees' filtering of the operative communication with the authorities. Looking at this issue, this study suggests that it is important to observe that as long as the subsidiary’s representatives could uphold direct communication with the local authorities, the influence seemed manageable. In the same manner, local employees in charge of contacts with local companies were fairly successful in filtering of influence as long as they could uphold direct

128 The term 'infrastructure' is chosen to highlight the influence of tax inspectors and other actors assigned to check local companies' obedience of the laws.
communication. The filters, in this sense, reduced tensions and facilitated communication between the institutional settings.

In conclusion, the contribution mentioned above concerns indications that filtering is of central importance for the subsidiary operations. Thus, filtering describes a subsidiary’s management of external influence which is a new approach to analysing operative challenges originating from the Post-Soviet market. The position is that by illustrating that the filtering concept is appropriate to an analysis of a subsidiary’s management of influences from the local institutional setting, the study contributes a new approach to analysing subsidiaries’ management of complex environments. The following section integrates the filtering concept into a discussion of the boundary spanning towards actors in the local networks.

12.1.3. Boundary Spanning Towards Actors in the Local Networks

The analysis of the subsidiary’s management of external influence indicated that the subsidiary’s filtering involved boundary spanning towards actors in local networks. A clear pattern was that the more direct and the more interactive the communication became, the better the chance of maintaining consonance in the relations. Clearly, the subsidiary’s ability to filter external influence was inhibited when the influence became aggregated as the aggregation revealed dissonance (see Holm, 1988) and vacuum (see Åkesson, 1997) making the external influence difficult to filter.

Concerning the filtering of influence from management practices in local companies, this study, like the study by Walck (1995) and Suhomilova (1999), shows that the extensive pressure on local actors made local managers stick to ‘old ways’ and honour former principles. It is worth noting that this was particularly evident in the institutionalised policy of keeping their staff in spite of financial difficulties which indicated that there was no tradition of downsizing (see Walck, 1995; McKinley, 2000). Similarly the tendency of local companies of contacting the central authorities before making purchasing decisions shows that institutionalised decision-making patterns have survived the market reforms. This study therefore shows that the highly institutionalised environment made actors prioritise contacts with the authorities at the cost of other boundary spanning activities (see Meyer & Rowan, 1977) which are issues that earlier studies have touched upon, but never analysed in terms of boundary spanning.

In terms of boundary spanning this study clearly demonstrates that institutionalised structures governing the local market resisted changes by controlling relations between actors. In particular this was evident in local networks where dissonance (see Holm, 1988) and vacuum (see Åkesson, 1997)
influenced communication between the actors while it strengthened actors in control of alliances. Accordingly, this study demonstrates that conditions of institutional upheaval (see Newman, 2000) make it important to examine local actors’ boundary spanning with respect to their efforts to avoid dissonance.

The analysis of dissonance in local networks pointed out local networks’ problems in transforming and accumulating resources in a manner that the traditional network theories presuppose (see Håkansson & Johanson, 1992; Havila, 1996; Pahlberg, 1996; Andersson & Forsgren, 2000; Johanson, 2001). The analysis of local networks also pointed to the negative consequences that the widespread barter trade caused. Concerning barter trade, the study by Meyer (2001) suggested that transaction costs rise in settings where barter trade is frequent. However, although this study indicates that transaction costs (see Williamson, 1975) rise, it also shows that it is necessary to go one step further and analyse transaction benefits in local business networks. Thus, the standpoint is that attention should be directed to what happens to the surplus that transactions generate as this reveals the local networks’ ability to accumulate resources. The study therefore suggests that local business networks’ accumulation of surplus resources is important to consider as this constitutes a decisive factor for future investments and, hence, for foreign firms’ entrance to the local networks.

Like the study by Johanson (2001) this study indicates that actors in Post-Soviet business networks are in the process of discovering a new logic after the dismantling of former structures. One difference compared to the study by Johanson (2001) is that this study clearly indicates that, although former structures have been formally removed, underlying institutionalised structures continue to influence local networks.

This study clearly indicates that these institutionalised structures surfaced in local actors’ management of dissonance (see Holm, 1988) and the vacuum (see Åkesson, 1997) as their actions illustrated dependence on institutionalised actor networks. For the focal subsidiary this was indicated in the importance of managing boundary spanning activities (see Thompson, 1967; Meyer & Rowan, 1977) with actors (local authorities) controlling the business networks. An aspect influencing the subsidiary’s boundary spanning with respect to local authorities was that these actors’ power positions seemed to benefit from turbulence and uncertainties. Clearly, the turbulence in the business sector implied that the relative power of the authorities increased which made it important to establish relationships with actors who indirectly controlled the business sector. The standpoint is that local business networks relied heavily on actor networks while the network of activities suffered from the problems observed in the exchange and transformation structures.
Since the formation of new networks was influenced by the institutional legacy, this study points out the need to analyse local business networks with respect to the networks’ institutional foundations. Consequently, the institutional perspective applied to analysing these aspects has served as an analytical link between the business networks and the political macro-structures. To understand the challenges entrant firms encounter on markets such as that in the Ukraine, this study suggests that this institutional link should be a part of the analytical framework. Thus, this study contributes by highlighting that the institutional perspective facilitates our understanding of local actors’ boundary spanning towards actors controlling the local business networks.

12.1.4. Internal Boundary Spanning and Local Employees’ Identity Identification

Like the studies of Kostova (1999) and Michailova (2000) this study began with the assumption that differences between institutional settings between the Western parent firm and Ukrainian society might make management transfer difficult. Knowing of these differences, the question was how they surfaced and what aspects reduced tensions these differences caused. Accordingly, aspects of interest were those that facilitated, or inhibited the introduction of the parent firm’s management within the Ukrainian subsidiary.

A clear pattern concerning the integration of local employees is that proximity between actors facilitates transfer of the managerial principles’ tacit dimensions (see Polanyi, 1966). This study’s findings are consequently in line with theories by Carlson (1974) who proposed that transfer of management know-how require face-to-face interactions. Similarly this study shows that proximity between actors is needed for diffusion of tacit dimensions in management transfers across borders (see Kogut & Zander, 1993). In particular this was evident as the spheres where local employees and the Western firm’s representatives had daily contacts, were successful in transferring experienced based (tacit) management know-how. Similarly this surfaced in statements about introduction programmes in the parent firm’s units, joint practices and visible peer examples by Western colleagues.

The socialisation (see Berger & Luckmann, 1967; Mintzberg, 1983) that coloured these interactions encompassed screening (see Dimaggio & Powell, 1983). Clearly, the screening of local employees was important as it acknowledged behaviour accepted by the parent firm’s standards while preventing behaviour that did not meet these standards from getting a foothold in the organisation. An important observation is also that the transfer of the parent firm’s management was dependent on the dominance of the Western firm’s norms as the new management was difficult to transfer and introduce in settings where local norms were dominant.

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It was also striking that a positive communication climate allowed for the transfer of management practices across institutional boundaries, while a climate of conflicts and tensions inhibited such transfers. This study has therefore built further on aspects touched upon by Michailova (2000) when discussing issues influencing local employees’ acceptance of new management practices. A distinction compared to the proposals by Michailova (2000) is that this study clearly indicates that adaptation to a Western firm’s management concerns local employees’ formation of new identities.

The standpoint is that this study makes a contribution by showing that the introduction of the Western firm’s management reflects in local employees’ identity identification. This study clearly demonstrates that local employees’ identity identification was dependent on whether the Western firm’s underlying rationalities could be confirmed by any positive outcome. Of importance for this development was the formation of a common ‘we’ between the Western expatriates and the local employees which indicated consonance in internal boundary spanning. This became particularly apparent when comparing this development to the sphere where the local employees’ identity identification reflected internal conflicts. Thus, the dissonance in the internal boundary spanning reflected in local employees’ conflict identities.

As the discussion above points out, a contribution from this study is the suggestion that transfer of management practices in settings where actors have different institutional roots concerns internal boundary spanning between two institutional settings. The standpoint is that this boundary spanning involves local employees’ formation of identities corresponding to the entrant actor’s norms which is a new approach to analysing management transfers towards Post-Soviet subsidiaries.

12.2. MANAGERIAL ISSUES

Although managers in firms operating on the Post-Soviet market are certainly well aware of the aspects influencing their operations, this study may provide new perspectives on the influential aspects. In particular this concerns the findings indicating that local institutional forces influencing the focal subsidiary’s operations involved power alliances controlling resource constellations without facilitating the build-up of resources for investments in the networks.

It is worth noting that such constellations make it possible for local authorities to execute power by threat of sanctions or by intervention, which may put actors in troublesome positions. Furthermore, it is of interest for managers to observe that this study clearly illustrates that it is not sufficient to
establish relations with local customers for entrance into (and boundary-spanning in) local business networks. Clearly, firms that enter the Post-Soviet market should be prepared to manage communication with actors in control of power as these actors control developments in local business networks. Should vacuum and turbulence be observed in the local market, it is important to establish communication with structures that existed before the turbulence and vacuum started as these structures may be strengthened by the turbulence.

A clear pattern regarding aspects facilitating the introduction of a parent firm’s management is that imports from units outside the local market played an important role for integration of local employees into the entrant firm’s organisation. Frequent contact with the parent firm is also important for local employees’ learning to communicate in English. Clearly, a common language (in the strict sense of the word) seems to be required for the transfer of the entrant firm’s norms. Thus, import activities may create important communication channels that, besides handling imports, transfer the parent firm’s values to local employees. The channels developed for export to the local market should therefore not only be valued for the experience they bring to the exporting units’ organisations, but also for the integration of employees in the local market. This advice is based on this study’s findings indicating that the formal links to units outside the local market helped local employees to find new identities through which they could enter new roles in the organisation.

What seems to be a significant factor is the Western entrant’s management being confirmed by a positive outcome. This study demonstrated that if local employees’ sense-making was disrupted by negative outcome (as was the case with the lay-offs in the JV sphere), the rationality behind the negative outcome was called into question. This pattern became apparent in local employees’ development of conflict identities which inhibited the introduction of the Western firm’s management.

A lesson learned from this study is therefore that should local employees not find certainty in the new management, the former management’s certainty becomes the only feasible alternative to deal with the turbulent environment. Clearly, if positive outcome is absent, or difficult to identify for those about to develop identities in the entrant firm’s institutional structures, this implies (at best) that the rationality of the proposed methods cannot be confirmed. At worst, it may imply that the proposed methods are proved to be meaningless or present a threat which inhibits the formation of identities corresponding to the entrant firm’s management.

A striking pattern was also that the bridging of the gap between Western management practices and those established in local companies involved
boundary spanning. This study indicates that in this boundary spanning the expatriates play an important role in influencing local employees’ formation of new identities.

This study has shown that a positive communication climate was of importance for local employees’ boundary spanning towards the Western entrant. Looking at aspects facilitating the development of a positive communication climate it is apparent that the expatriates’ acknowledging of local employees’ contribution played a significant role. In particular this was indicated among local employees who took part in the manifestation of the Western entrant's management practices and formed a ‘we’ with the Western firm’s representatives. Clearly, such boundary spanning conditions could only be created in settings dominated by the Western firm’s norms, while it seemed to be far more difficult to establish such conditions in settings dominated by local management practices.

12.3. PROPOSALS FOR FURTHER RESEARCH

12.3.1. The Nodes of Cross-Institutional Settings – Parent Firms and Local Authorities
This study explored the development in the cross-section where the Western parent firm’s institutional setting met a setting dominated by local institutions. Having examined the cross-section, it is of interest to go further and explore the nodes of the cross-institutional setting. A future study with this focus might therefore provide insights into the differences and similarities between actors controlling structures at macro-level. While being aware that studies on managers at CEO-level in Western parent firms is far from new, a combination that includes (local) leading politicians is likely to provide explanations to the phenomena observed in this study. Clearly, a study on these actors is likely to contribute with interesting insights from people in charge of entrant strategies and those in charge of the unstable fiscal environment influencing the development of business in transition economies.

Thus, a matter of interest is that almost all studies (this study included) describe the problems caused by the unstable legal environment while no study has examined the local authorities’ perspective and compared it to the perspective of the foreign investors. Accordingly, the standpoint is that a study focusing on local authorities and top managers in Western entrant firms might further our insights into aspects guiding the Post-Soviet market’s development.

12.3.2. This Study’s Correspondence to Developments in other Subsidiaries
A shortcoming of the findings in this study is that they do not provide broad empirical evidence for a generalizable theory on the management of a cross-
institutional setting. What this study has achieved is the development of a theory for further testing of a larger number of subsidiaries with operations in the Ukraine (firstly), in Russia (secondly) and other states in the former Soviet Union (thirdly).

In this sense, it would be interesting to test how this study’s findings correspond to local employees’ identity identification in other subsidiaries influenced by Western parent firms and the local institutional setting. Future studies may therefore refine patterns of aspects guiding local employees’ identity identification and aspects telling us more about the subsidiaries’ filtering of external influence. This study has pointed out such aspects, while the testing and verification remains.

12.2.3. The Parent Firms’ Storage (and Diffusion) of Experience
As this study did not include the exporting units or other organisations within the Western parent firm’s organisation, we cannot tell how managers in these organisations stored experience gained from the operations on the Ukrainian market. Subjects for further investigation therefore include if and how experiences are stored and how these insights are diffused among managers in charge of strategic decisions. Accordingly, a question of interest is how the acquired experience is reflected in the parent firms’ strategies for business operations in markets like the Ukrainian market.

Furthermore, this study indicated that the focal subsidiary was dependent on investments by other foreign firms. Therefore, it is of interest to study if and how a Western firm (like the Mimer firm) helps other Western firms to enter markets in the former Soviet Union. Thus, a future study of interest would explore how a Western firm diffuses its experience from the Post-Soviet market.
**APPENDIX I**

### QUESTIONNAIRE/ОПРОСНИК

<table>
<thead>
<tr>
<th>Company, work position/Компания, Должность</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Town/Город</strong></td>
</tr>
<tr>
<td><strong>Number of previous training seminars/Кол-во в учебных семинарах</strong></td>
</tr>
<tr>
<td><strong>Subject of training seminars/Темы учебных семинаров</strong></td>
</tr>
<tr>
<td><strong>I would like to improve my/Мне бы хотелось улучшить</strong></td>
</tr>
<tr>
<td><strong>Expectations of this seminar/Ожидания от настоящего семинара</strong></td>
</tr>
<tr>
<td>Low</td>
</tr>
<tr>
<td>Низкие</td>
</tr>
<tr>
<td>Please describe why you have these expectations/Пожалуйста, прокоментируйте, почему у Вас такие ожидания.</td>
</tr>
<tr>
<td><strong>What kind of information did you receive about this seminar?/Какого рода информация Вы получили об этом семинаре?</strong></td>
</tr>
</tbody>
</table>

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**APPENDIX II**

**QUESTIONNAIRE/ОПРОСНИК**

<table>
<thead>
<tr>
<th>The seminar/Семинар</th>
<th>Did not increase my knowledge at all/Совсем не улучшил мои знания</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased my knowledge a lot/Значительно улучшил мои знания</td>
<td></td>
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</table>

<table>
<thead>
<tr>
<th>The seminar was/Семинар был</th>
<th>very practical-oriented/в высшей степени практической направленности</th>
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</thead>
<tbody>
<tr>
<td>Very theoretical/В высшей степени теоретической направленности</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>To what extent did the seminar meet your expectations/В какой степени семинар удовлетворил ваши ожидания</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>not at all/ни в какой степени</td>
<td>fully/полностью</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Overall evaluation of the course/Общее впечатление от курса</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>bad/плохое</td>
<td>very good/очень хорошее</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Tell by a few words of your impressions of the course/В нескольких словах опишите впечатления от курса</th>
<th></th>
</tr>
</thead>
</table>
Organisational Chart from the Joint Venture in Gogol Town, May –97

Organisational Chart from the Joint Venture in Gogol Town, March 1999
LIST OF REFERENCES


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