

Suutari, V. & Riusala, K.

**Managing business operations in Central and Eastern Europe:
Problems faced by Western expatriate managers**

VESA SUUTARI

Associate Professor

Department of Management and Organization

University of Vaasa

P.O. Box 700

FIN-65101 Vaasa, Finland

Tel. +358-6-324 8247

fax +358-6-324 8195

E-mail: vesa.suutari@macpost.uvasa.fi

KIMMO RIUSALA

Assistant

Department of Management and Organization

University of Vaasa

Tel. +358-6-324 8531

E-mail: kiri@uvasa.fi

Abstract

Due to the increasing West European investments in Central and Eastern Europe, more and more West European companies and expatriates had to learn to operate in so-called 'economies in transition'. The present paper introduces findings on the experiences of Finnish expatriate managers in Czech Republic, Hungary and Poland. Furthermore, the findings are compared to the experiences of Finnish expatriates in Russia and Estonia. The study covers both expatriate adjustment problems and company-level management problems which Western expatriates and companies face in Central and Eastern Europe. In the end, recommendations for companies and expatriates starting to operate in this area are offered.

Keywords: Expatriates, adjustment, international management, Central and Eastern Europe

1. INTRODUCTION

The European business environment has been undergoing extensive change due to the increasing integration of European societies and the collapse of Communism in Central and Eastern Europe. Due to such changes and the globalization of business everywhere, the business interaction across European borders has been increasing. As a result, more and more companies and individuals have to learn to operate in foreign markets and to deal with local colleagues and employees who represent different cultural backgrounds.

The common way of managing foreign operations has traditionally been the use of home-country expatriates (see e.g. Mayrhofer and Brewster 1996). The major benefits which such an ethnocentric approach offers are for example the transfer of know-how into foreign operations and the direct control and effective co-ordination of operations (see e.g. Brewster 1991; Torbiörn 1997, 42). Thus, one important part of the international human resource management literature relates to expatriation: cross-border assignments that last a significant period of time (see e.g. Dowling et al. 1994). The use of home-country expatriates has been found to be a common practice in international operations in ex-Communist countries also (see e.g. Bangert and Poór 1993, 828), because the use of local managers is difficult in particular in ex-Communist countries where management obsolescence is largely accepted as one of the major problem areas (Shama 1993, 28; Puffer 1994, 46; Kuras and Hayder 1995, 118).

On the other hand, the adjustment of expatriates has been commonly found to be problematic (see e.g. Black Mendenhall and Oddou 1991). A great deal of the research that has been done on expatriate adjustment has focused on US expatriates in overseas assignments, though some work has been undertaken on expatriation across European borders also (see e.g. Brewster et al. 1993; Suutari 1998b; Suutari and Brewster 1998; Morley, Heraty and Gunnigle 1998). In such studies it has appeared that adjustment problems are faced in many similar contexts as in assignments to more distant areas.

In the early adjustment theories, the expatriate adjustment was treated as a one-dimensional concept, but later it has been assumed to be a multi-dimensional concept (see Black and Stephens 1989; Church 1982, Janssens 1992; Kauppinen, 1994). In other words, some researchers used a single scale to measure general expatriate adjustment, while others used multiple scales to measure different facets of adjustment (Kauppinen 1994). Black et al. (1991) have formed a model in which expatriate adjustment has been divided into three major categories, i.e. adjustment to intercultural interaction, the general non-work environment, and work responsibilities.

Intercultural interaction commonly includes problems due to inadequate language skills and different cultural norms, which both lead to problems in creating contacts with the locals. Adjustment to the non-work environment commonly includes problems related to practical arrangements such as work permits, housing and bank arrangements. The different climate can also be difficult to adjust to and for example security issues may have to be taken carefully into account. When we look at the issue from the expatriate family/spouse point of view (for a more specific discussion see e.g. Black and Gregersen 1991), issues such as schooling and health care of children and spouse work arrangements appear. Adjustment problems related to work responsibilities on the other hand appear commonly in connections such as manager-subordinate interaction, functioning of organisations, communication, and task environment (Suutari and Brewster 1998).

Through adequate expatriate management practice, the adjustment of expatriates can be helped. In addition to expatriate adjustment, prior training is important also because expatriates should be able to manage local employees effectively and transfer the know-how to local operators (e.g. Torbiörn 1997, 43). Expatriates had to be mentors and teachers, but at the same time they have to respect local culture and be careful not to appear too arrogant and patronising (Cyr and Schneider 1996, 210). In the East European context the locals have commonly experienced that this is not often the case among Western expatriates (see e.g. Simon and Davis 1996, 271; Soulby and Clark 1996, 237). Another issue that has caused friction during recent years in Western operations in CEE is the compensation granted to Western expatriates. These expatriates receive compensation packages which can be 4-5 times the salary of local managers (Bangert and Poór 1993, 828-831). On the other hand, other options than the use of expatriates are often difficult to find.

Although adjustment issues have been in the focus of research over a quite long period of time, it can be argued that fairly little is still known about more area-specific adjustment problems which are faced for example in connection with assignments across European borders. The present study aims at a more context-specific interpretation of the adjustment issues faced by expatriates than has been achieved in most earlier expatriate studies. This will be done by focusing on expatriates in one specific area (CEE) and by linking the classifications offered by adjustment theories with the identified characteristics of that area. In addition to personal adjustment issues (including the family), the expatriate managers have to deal with company-level management issues due to the managerial task. In order to get as rich a picture of the issues faced by the expatriate managers in CEE as possible, such company-level management challenges will also be included in the present study. Three countries, the

Czech Republic, Hungary and Poland, were chosen because they are clearly most important trading partners of Finland in CEE. For example in 1997 almost 90% of Finnish export into CEE was received by these three countries and volume grows annually 20-40 % (Tullihallitus 1998).

2. MAJOR CHARACTERISTICS OF BUSINESS ENVIRONMENT IN CEE

Central and East European markets and organisation cultures have been presented as having many characteristics which may not be so easy to deal with by Western expatriate managers. On the other hand, economic growth in CEE is among the fastest in the world, which of course makes the area very interesting for Western investors and companies. The strong Western presence has accelerated the transformation process and in some fields local companies have already reached so called "Western" standards. On the other hand, the influence of the previous command economy can still be seen for example in the leadership behavior of managers (for a recent analysis see e.g. Suutari and Riusala 1998). Differences have been reported to be obvious between different types of companies and for example between generations of people (see e.g. Shama 1993, 31; Veiga et al. 1995, 24; Lang and Wald 1998). This coexistence of old and new values has caused problems for many Western expatriate managers (Shama 1993, 31). Thus, in order to understand the issues faced by the expatriates in CEE, one has to learn 'the rules of the game' which existed during the command economy and the basics of the recent transformation processes, which have already been going on in CEE over many years. Such basic features are briefly discussed next.

Bangert and Poór (1993, 818-820) have divided economic and social transition in CEE into three basic constituents: 1) redefinition of the State's role 2) price and market reform, 3) restructuring and privatisation. Redefinition of the State's role basically means less control over the firms and less bureaucracy, which were distinct features of the State's role during the Communist era (Pearce 1991, 85; Whitley and Czaban 1998, 259). Most decisions made by managers in Western market economies were under Communistic rule made outside the organisation and thus the role of managers was totally different within these two systems. The hierarchical central planning system decided what was supplied, to whom it was supplied, and what were the available resources for the production. Now that this situation has changed, the role of the public authorities has still remained as important (see e.g. Whitley and Czaban 1998 277) since a totally new legal environment for business operations had to be created. Due to the high level of the bureaucracy of public organizations in ex-Communist countries, the required interaction with public authorities is a challenging task for companies (e.g.

Suutari, 1998b). Due to frequent developments in legal environment, the business environment has been very unstable and problematic for Western companies in ex-Communist countries (e.g. Fey 1995; Kossov and Gurkov 1995, 22). When this kind of change is combined for example with new banking systems and trade unions, the institutional environment of enterprises had already greatly changed several years after the collapse of Communism (see Bunce and Csanadi 1993).

Price and market reform on the other hand placed the local organisations into the competitive market situation for the first time. In most sectors the products were not competitive when they faced Western competitors since quality or customer satisfaction had not earlier been important factors. Due to the restructuring and privatisation, the business environment in CEE has been in a constant state of instability. Large state-owned firms have been split into a number of smaller entities, new entrepreneurial firms are being established at an increasing pace and foreign MNC's are making capital investments and assuming ownership of local firms (e.g. Bangert and Poór 1993, 838; Fogel 1994, 77).

The transformation of the political and economic systems of Eastern Europe can be seen as constituting an immense social laboratory for the study of how institutional change affects organisational forms and activities (Whitley and Czaban 1998, 260). During the command economy, organisational structures were typically very uniform, centralised, formalised and bureaucratic in the whole Communist area (see e.g. Bollinger 1994; Fogel 1994, 71; Garrison and Artemyev 1994; Nurmi and Üksväre 1994, 66; Soulsby and Clark 1996, 233; Lang and Wald 1998), and thus the outcomes of the privatisation process have commonly included changes such as decentralisation of decision-making and downsizing (see e.g. Edwards and Lawrence 1994, 109; Markóczy 1994, 17). Although the institutional transformation has been extensive, the adaptation process of companies has not been an easy task. For example, Whitley and Czaban (1998, 276) report on the basis of their findings from Hungary that the radical changes in the organisation's environment had had less effect on their activities and structures than might have been expected. As local staff has often no experience of other kinds of economic systems or enterprises, they have a very limited repertoire of alternative structures and processes to draw upon in devising and implementing radical restructuring of organisations and their market linkages. Furthermore, in an uncertain situation it is easier to make ad hoc adjustment to immediate pressures than to undertake large scale and risky changes in pursuit of longer term objectives (Whitley and Czaban 1998, 278). In line with this, Markóczy (1994, 17) reports that transformation was more rapid at the level of organisational routines such as adopting new technical

solutions and quality standards in production and making efforts to better satisfy the demand of customers than at the level of organisational structures.

In the light of the ongoing transformation, it is easy to understand that the learning requirements for local employees and in particular managers, have been extensive. As was mentioned earlier, during the command economy managers didn't have to care about markets and customers or think about pricing strategies. Thus, the role of managerial initiative was mostly limited to the daily routine (Fogel 1994, 71; Clark and Soulsby 1995, 228; Kuras and Hayder 1995, 110). Concentration on achieving short term quantitative production targets shifted the management's focus away from quality management. Furthermore, the selection of managers was related to connections with the Communist party and thus the managerial capabilities were not as central in the selection process as in market economies (see e.g. Clark and Soulsby 1994, 229-230; Fogel 1994, 70; Markóczy 1994, 13; Koubek and Brewster 1995, 225). Due to this background, the need to develop management skills and systems is among the key challenges in the successful turnaround of companies in ex-Communist countries (see e.g. Hisrich and Jones 1992, 98; Shama 1993, 28; Garrison and Artemyev 1994; Kenny and Trick 1995, 78-80; Kuras and Hayder 1995, 112-113; Puffer 1994, 46). Only by developing local management potentials are Western companies able to reduce the number of expensive foreign expatriates needed.

The leadership style of CEE managers has been described as very authoritarian (see e.g. Clark and Soulsby 1995, 235; Cyr and Schneider 1996, 210; Koubek and Brewster 1995, 244; Kuras and Hayder 1995, 110; Markóczy 1994, 22; Nasierowski 1996, 147; Pearce 1991, 81; Soulsby and Clark 1996, 232). Very little initiative has traditionally been left to employees, and managers have not been used to sharing much information with subordinates (Suutari and Riusala 1998). In the light of this, new leadership models had to be adopted in the whole ex-Communist area (see e.g. Garrison and Artemyev 1994; Kenny and Trick 1995) and changes in this direction in CEE have already been reported (e.g. Suutari and Riusala 1998).

The legacy of the previous system, for example the low level of work-motivation, work performance and initiative at the employee level, still prevails in many of these companies and thus a lot of time and money have to be invested in the development of appropriate HRM practices to overcome these problems. (e.g. Bangert and Poór 1993; Pearce 1991; Sood and Mroczkowski 1994, 61-62). Local companies must take that responsibility themselves since the state does not any longer act as a personnel department of every single firm (Bangert and Poór 1993, 820). That is a big gap to fill when we remember the scope of activities where the State had total control. During the

command economy the value of a person's work was determined by the State and due to the artificial full employment and communistic ideology (egalitarian pay and income structure) wages were quite modest compared with their Western counterparts (Fogel 1994, 70). Weak pressure on performance together with lack of attention to motivating personnel resulted in ineffective compensation systems (Koubek and Brewster 1995, 228). The training function was also extensively influenced by the Party and thus had a low image.

Now that the situation has changed, firms must develop their own training and development functions and create attractive compensation and other motivation methods in order to find and keep qualified local employees. The training of local employees for new systems and practices may not be an easy task. First of all, the success of training programmes depends on an appropriate audit of the training needs of the enterprise and its employees. One has also to make sure that the new skills and knowledge learned will be adopted at the workplace (Bangert and Poór 1993, 834-836). One should also remember that resistance to unlearning and relearning can be explained in terms of individuals' limited capability to cope with them (see e.g. Markóczy 1994, 23) and thus new management skills are necessary for managers (e.g. Kuras and Hayder 1995, 118). One should also notice that although managerial freedom to manage labour relations has clearly increased, in practice it has often been constrained by continued union power within enterprises at the national level (Whitley and Czaban 1998, 277).

On the basis of this brief review it can be concluded that Finnish expatriates can be expected to face difficulties in many areas suggested by adjustment theories, in particular due to the different business environment and organizational cultures compared with the ones they have been used to. Starting from adjustment to the general non-work environment, expatriates can be expected to face issues related to arrangements such as work permits and housing. For example the climate will probably not appear as a problem when operating within Europe. Family- /spouse- related issues have appeared so commonly in all kinds of expatriation studies that such can be expected to appear in CEE as well. Adjustment to social interaction can also be expected to appear quite commonly, in particular due to lack of local language skills. With regard to adjustment to work responsibilities, expatriates can be expected to face difficulties in particular in areas such as manager-subordinate interaction, functioning of organisations, differences in communication and the work environment. In the light of the review, the company-level management problems with which expatriate managers have to deal are expected to appear in particular in human resource management, instability of the local business environment (e.g. legislation), and interaction with the public authorities. After this introductory discussion of the

adjustment theories and the characteristics of business environment in CEE, we will present the research methods applied in the present study. After that, the findings from our data on Finnish business operations in the Czech Republic, Poland and Hungary will be presented.

3. METHOD

In the present study, it was decided to use the interviewing method in the data collection although questionnaire surveys have been commonly used in expatriate studies. Among the major benefits which this method offered were the possibility of more open discussions, which helped the researchers to get a more thorough understanding of the issues which expatriates have faced in Central Eastern Europe. It was also decided to apply a quite unstructured interviewing technique in order to see what kind of adjustment and management issues are regarded as important by the expatriates themselves. Three themes were selected for the interviews: the adjustment of expatriates and their families to the general non-work environment, expatriate adjustment at the workplace, and company-level management problems with which the expatriates have to deal in their managerial work. Social interaction is here discussed in connection with the first two themes because it is something that appears in both cases. The expatriate adjustment theories and the characteristics of the CEE environment are then used in the data analysis phase in order to classify and interpret the reported problems.

Due to the extensive transformation of the local business environment, it was considered essential that all the respondents should be working in Central Eastern Europe during the time of the interviews. Because of this, it was decided to use telephone interviewing because otherwise the data collection would have been very problematic. The suitability of this data collection method had also already been tested in an earlier adjustment study. In the search for Finnish expatriates in CEE, the Finnish commercial secretaries in CEE were contacted, and afterwards these secretaries provided a list of Finnish companies which operated in CEE. An informative fax about the research project was first sent to the selected expatriates (e.g. expatriates who had stayed in CEE for several years and who had provided full contact addresses) and afterwards they were contacted by telephone. All the expatriates who were contacted agreed to participate in the research project, which indicates that they saw the research subject as a relevant one.

The data was collected in 1997 and in total 44 Finnish expatriates who worked in the Czech Republic (n=13), Poland (n=14) or Hungary (n=17) participated in the study. 39

of these were interviewed while 5 preferred to respond to a questionnaire due to difficulties in arranging an interview. The average age of the respondents was 43,8 years and all except one of them were males. Over half of the respondents (55%) had a business education and 39% had a technical education. Nearly all of them (93%) occupied a managerial position, most often as managing directors (61%) or as area managers (16%). The majority of them (59%) had earlier expatriate experience, but in most of the cases (89%) they were on their first assignment to that particular country. In addition, relevant connections to a similar recent study (Suutari, 1998a) on 51 Finnish expatriates' experiences in Russia and Estonia are indicated in order to see whether the experiences of Finnish expatriates are similar in these countries.

4. RESULTS

Next the research findings are reported. The results are presented in the following order: 1) adjustment to the general non-work environment, 2) adjustment at the workplace, and 3) company-level management difficulties with which the expatriates have to deal in their managerial job.

Starting from **the adjustment to the general non-work environment**, *practical arrangements* at the beginning of the assignment had been problematic in many cases for the expatriates in Central Eastern Europe (36%), as was indeed expected. First of all, expatriates have found it difficult to get all the required permissions, such as work permits from the public authorities, due to the high level of bureaucracy. Thus, companies should reserve enough time for preparations and help expatriates with the procedures so that the expatriates themselves could focus on their work from the beginning. If there is no knowledge about such issues in the home organisation or in the headquarters, help from the host company or from local experts would make the situation easier for the expatriates. Equally common were difficulties in finding suitable accommodation. On the other hand, several expatriates commented that the situation has already become much easier for future expatriates than was the case in their own situation.

Supporting the findings on the importance of family issues in successful expatriation experience, *Family / spouse adaptation problems* were quite common (27%) among the respondents. Typical issues in this category were for example finding appropriate schools for the children, the quality of the health care system and inadequate language skills. However, every second married expatriate had not taken his family with him. This seems to be typical with regard to assignments in Central and Eastern Europe, because usually Finnish expatriates take their families with them when getting an

assignment abroad (see e.g. Suutari and Brewster 1998b). Problems related to *social interaction* (18%) were usually caused by inadequate language skills on the part of the expatriate, and thus instruction in the local language is often necessary both for the expatriates and their families. Some expatriates had problems with *security* issues, but still such comments did not appear commonly. The problems were very similar to those reported by expatriates in Russia and Estonia, although for example difficulties with arrangements were faced even more frequently, in particular in Russia (Suutari, 1998b). Secondly, security issues were regarded as problematic more frequently in that area.

Considering **difficulties at the workplace**, it appeared that such were faced most commonly (34%) in connection with manager-subordinate interaction, i.e. with *leadership styles*. First of all, expatriates in all three countries reported that they had to make their style more authoritative. Expatriates commented for example that “local employees expect very detailed orders”, and that “one has to make all the decisions by himself”. Furthermore, managers could not give as much autonomy to their subordinates as they had used to and they were required to supervise the work of subordinates more closely in order to ensure that the work was performed in a satisfactory manner. Expatriates commented for example that “one had to supervise the tasks - otherwise nothing happens”, and that “one had to control the work of subordinates more closely”. This could be expected as the discussion in the literature with regard to management culture in ex-Communist countries indicates (see e.g. Markóczy 1994; Puffer 1994; Suutari 1998b). The need for careful control of employees was seen as necessary by five expatriates also due to the misuse of company property among employees, which can be seen as one of the relics from the Communist era. Furthermore, teamwork was found to be unsuccessful because the locals had not been used to working in teams and did not want to take any responsibility for the work of others. On the other hand, some expatriates commented that group-work is becoming more common at least at the management level.

A similar picture appeared in a study on Finnish expatriate managers in Russia and Estonia, because in that area work-related adjustment problems were most commonly faced with regard to manager-subordinate interaction. The major difficulties were also similar to those reported above, i.e. the need to be very authoritative and to supervise the work of subordinates in a detailed manner. On the other hand, in that study problems were faced even more commonly (79%), in particular in Russia.

Due to the centrality of the manager-subordinate problems, major differences between typical Finnish and local subordinates were discussed. The clearest difference (45%) was commonly stated to be the lack of personal initiative and innovativeness among

local employees, and thus stronger dependence on managerial initiative. Local people are very cautious when they make any decisions; they want to get the approval of their managers for most issues and rather avoid taking any definite responsibility. This has been commonly pointed out as a consequence of the requirements of the Communistic system (e.g. Markóczy 1994, 22; Pearce 1991, 85). Several expatriates (30%) had also experienced that the level of efficiency and work motivation of employees is lower in Central Eastern Europe. The experiences of Finnish expatriates with regard to Russia and Estonia have been found to be very similar. On the other hand, in the present study it is important to notice that eight out of thirteen negative comments regarding work motivation and efficiency were given by expatriates in the Czech Republic. One of the expatriate speculated that this was at least partly related to the fact that the unemployment rate is so low in the Czech Republic and thus there are many jobs available.

On the other hand, expatriates presented also positive comments with regard to local employees. Some of the expatriates (34%) were satisfied with the level of work-motivation and stated for example that “Polish people work already as hard as Finns”, and “Hungarian employees work hard and the quality is also good”. Some expatriates specified further that local employees work hard, but don’t want to do anything on their own initiative or participate in planning, and furthermore are often incapable of focusing on the most relevant issues. Some expatriates (11%) added that technical skills are often at a satisfactory level in these countries by presenting comments such as “there are no clear differences in technical skills between Finland and the Czech Republic”, “technical skills are good in Poland”. One of the expatriates stated that the differences are more evident at the management level than at the employee level, and another stated that the level of performance is clearly lower among the employees with lower education than among young educated people. Varying experiences of this kind indicate that the differences between companies and individuals are very clear and thus stress the importance of careful recruitment. In addition, some expatriates (9%) were satisfied with the flexibility of the employees (e.g. flexibility concerning working-hours, overtime work, and working conditions). Positive experiences were less common among expatriates in Russia or Estonia, although there were two expatriates in Estonia who stated that the difference is not any longer very clear in comparison with the situation in Finland.

Secondly, differences related to the *operation of organisations* had also caused expatriates difficulties, but not so commonly (11% of the respondents). The major reason was the high level of bureaucracy, in particular in the Czech Republic. This finding is in line with the findings from East European contexts, but there the high level

of bureaucracy, the need for clearly defined tasks and the lack of experience in some functions such as marketing among the locals have been reported more commonly (Suutari 1998b).

In addition, different and usually less strict *time perceptions* (e.g. it is not well understood that time is a limited resource, the time-scale is very short among locals for example in planning, and timetables are not followed) were also reported as a problem by a few expatriates (9%). Although time perceptions are not included in adjustment theories, they are commonly discussed in the literature on cross-cultural management (see e.g. Trompenaars 1993). In Russia and Estonia similar problems were faced by a few expatriates also.

Other occasionally mentioned issues included for example a misunderstanding regarding the expatriates' task (i.e. role conflict in the classification discussed by Black et al. 1991). Still, work environment issues of this kind were expected to appear more commonly. Another issue in which a similar picture emerged was communication, because ineffective communication and withholding of information have been described as a typical characteristic of organisations in Central Eastern Europe (see e.g. Pearce 1991, 85; Cyr and Schneider 1996, 218; Suutari and Riusala 1998). Only two expatriates in the present study mentioned such issues and thus this was not regarded as important from the personal adjustment point of view. Communication was also found to be getting more open within organisations and thus the situation was becoming easier for expatriates. There was on the other hand also a warning that one should be careful when giving information within the organisation because it might easily go to the competitors as well. Some comments with regard to more general issues related to culture novelty were also presented. As a conclusion to this presentation, the major adjustment issues faced by the Finnish expatriates are presented in the Table 1.

Table 1. Personal adjustment problems

| Issue | Frequency |
|---|-----------|
| Adjustment to the general non-work environment | |
| practical arrangements | 36% |
| family-spouse adaptation problems | 27% |
| social interaction | 18% |
| security issues | 5% |
| Difficulties at the workplace | |
| leadership styles | 34% |
| functioning of organisations | 11% |

With regard to **company-level management problems** with which the expatriate managers have to deal as part of their managerial job, difficulties were most frequently (50%) reported to be faced regarding *human resource management*. This supported the prior expectations since similar findings concerning the importance of human resource management considerations have been reported in other studies in Central and Eastern European contexts (see e.g. Ivancevich et al. 1992; Frederick and Rodrigues 1994). Companies have had problems in recruiting qualified people, in particular for the management-level, because the local employees did not have the necessary knowledge and skills for tasks within the companies. The lack of people with adequate language skills was also a common problem. Training was reported to require a lot of time and monetary resources. It appeared also that once skilled individuals were found, it was difficult to motivate them so that they would also stay in the company, and that the costs of such people had become excessive. This picture is similar to Finnish expatriates' experiences from Russia and Estonia, because also in that area about 40% of the respondents reported HRM-problems as one of the major company-level management problems.

Troubles were also faced regarding *interaction with the public authorities*, because the bureaucracy of such authorities was commonly (27%) reported to be very high. Expatriates were sometimes frustrated by the great number of written applications required. These often had to be in the local language. For example, the expatriates reported that it was difficult to arrange all the required permissions, to get licences for the products from all the appropriate authorities or to be able to start a new business enterprise. One of the expatriates also complained about the freedom of officials to interpret the various rules as they wished. Similar problems have been reported for example by Hisrich and Jones (1992, 102) in the study of U.S./Hungarian joint ventures. The major message given by the expatriates was that usually the help of local experts is needed to get on successfully with the local authorities. Another closely related problem area which had caused managers a lot of trouble and required a lot of time to keep up with was the frequent *changes in legislation* (25%). In particular, taxation issues were found to be problematic and it was reported that one could get high extra taxes due to mistakes which were made unwittingly. The help of local experts was again often seen as necessary. On the other hand, one expatriate in the Czech Republic commented that local legislation is becoming more similar to the legislation used in the member countries of the European Union. Similar difficulties in interaction with the public authorities and frequent changes in legislation were faced by the expatriates in

Russia and Estonia - and there even more commonly than problems of human resource management.

The three above-mentioned problem areas were clearly the most common sources of difficulties. Still, there were also some expatriates (11%) who reported problems related to *corruption*. For example, one expatriate in the Czech Republic stated that the difference between gifts and bribes is sometimes difficult to define when the use of quite expensive gifts is seen as a natural way of doing business. Similarly, one expatriate in Hungary commented that the company had lost deals because they had refused to accept such practices. In line with these comments, it was reported that the use of bribes is a common practice when companies deal with higher-level officials in Poland. The use of bribes in CEE has also been mentioned elsewhere in the literature (e.g. Markóczy 1994, 20; Nasierowski 1996, 151).

As frequently as difficulties caused by the corruption appeared problems which, according to expatriates, were caused by the *inadequate preparation of companies*. The expatriates saw that one of the major sources of the problems faced by Western companies was inadequate preparation before entering these markets. Thus, expatriates and companies “expect that everything will work in a similar manner as in the home country, which is not a realistic expectation” and “have too high expectations because the competition is already tough in the markets”. Finnish expatriates in Russia and Estonia had also similar experiences.

Table 2. Company-level management problems

| Issue | Frequency |
|-------------------------------------|-----------|
| Human resource management | 50% |
| Interaction with public authorities | 27% |
| Changes in legislation | 25% |
| Corruption | 11% |
| Inadequate preparation of companies | 11% |

Several other issues were also mentioned, but not as frequently. For example, the possibilities of finding suitable office, plant and business premises were found to be slight and thus enough time for arrangements should be reserved. Furthermore, the finding of the right contacts and reliable business partners, and the creation of good relationships with them were found to be troublesome. The importance of good personal relationships in business was stressed. Similarly, some respondents reported that Western expatriates are sometimes too arrogant and do not take the point of view of

local people into consideration. Similar findings have been made for example by Simon and Davies (1996, 271-272), who reported that in Western-Hungarian joint ventures Hungarian managers often resented the attitudes of Western managers and used expressions such as "colonising" and "colonialist attitudes". According to one Finnish expatriate in the Czech Republic, nationalist attitudes are increasing among locals as a response to this kind of approach, and foreign expatriates are not always considered to be necessary in the running of local operations. Similar comments have been presented elsewhere in the literature (see Soulsby and Clark 1996, 237). If attitudes of this kind become more common in ex-Communist countries, it of course makes the situation more difficult for expatriates.

It was also stated that one cannot rely on contracts made with local companies, that one should be prepared for a high level of credit risks and that local sales policy is problematic due to the use of very high discounts, free transportation and so on. Some expatriates discussed also in more general terms the difficulties caused by dissimilar cultures, and difficulties in uniting local culture and the more West European organisational culture. One of the differences in the situation, in Russia in particular, was that no comments on security problems appeared among the present expatriates in the three Central European countries.

5. CONCLUSION AND IMPLICATIONS

All in all, difficulties were faced by Finnish expatriate managers in several areas, but still the CEE was not regarded as particularly difficult by Finnish expatriates. The analysis indicated that the prior classifications of the major issues faced by the expatriates during their foreign assignments were found to be relevant in the light of the present data also (e.g. practical arrangements, family-spouse adaptation, social interaction, manager-subordinate interaction and functioning of organisations). On the other hand, for example security issues and time perception are not commonly included in adjustment theories although they are discussed elsewhere in the literature.

Furthermore, the issues faced by the expatriates fitted well into the picture appearing from the literature on the characteristics of organisations and business environments in CEE or in ex-Communist countries all together. By linking adjustment theories and the literature on the characteristics of the business environment in CEE, it was possible to create clear prior expectations concerning the adjustment issues, and on the basis of the research findings those could also be empirically verified. On the other hand, issues such as adjustment to organisational systems or communication did not appear as commonly as might be expected on the basis of the literature. This probably reflects the

extent of transformation which has already appeared in CEE and which was also pointed out by the expatriates themselves. The local organisation culture was described as undergoing transformation although the differences between the different types of companies and of people representing different levels of education and different ages were pointed out (for similar findings in East European context see e.g. Shama 1993, 31; Veiga et al. 1995, 24). The managerial change was stated by several expatriates to involve a German style of management rather than a more 'soft' and participative Nordic style. Results orientation and efficiency thinking have already clearly increased. Similarly, customer orientation was said to be increasing although it was still considered to be among the central areas of development. On the basis of Finnish experiences, the picture seems to be very similar to that of Estonia, but on the other hand in Russia the transformation is commonly seen to be less rapid (for a recent report see e.g. Suutari 1998b). On the other hand, the issues which were faced by the expatriates still commonly reflected the influence of the previous system, as could be expected on the basis of the literature. Furthermore, the difficulties faced by the expatriates in CEE were mostly very similar to those reported in the Eastern European context, which again supports the view that the influence of the previous system can still be seen in the whole ex-Communist area.

One important factor which has been found to influence the extent of adjustment problems, is pre-departure training and preparations (for reviews see Black and Mendenhall 1990; Brewster and Pickard 1994). Among the practices which are commonly recommended are language training, culture-related training and a prior visit to the organisation. Such practices were not very well organised with regard to the present expatriates and thus at least part of the difficulties could have been taken care of with better preparation. On the other hand, the expatriate pre-departure training has commonly been reported to be even less common in countries such as the UK and the USA than in Finland and other Nordic countries (see Björkman and Gertsen 1993; Suutari and Brewster 1998b). The only support practice that was more frequently offered by the companies was a prior visit to the organisation (90%) and language training (18%). Practices such as work-related training and country- /culture-related training were both offered only to one expatriate. Self-oriented learning was still reported by every third (31%) expatriate, which basically meant reviewing literature and other material concerning the country/area for which they were heading.

38% of the present expatriates considered that their preparation was inadequate and 33% considered that it was adequate. Within this latter group, there were many expatriates who commented that they already had a lot of prior experience and had for example been dealing with local people over a long period of time and had visited the

place many times. The rest of the expatriates (28%) presented less direct responses by commenting that it is difficult to prepare oneself beforehand thoroughly when these countries are going through so extensive a transformation, and that one can never prepare perfectly. The expatriates commonly also commented that personal adjustment problems were not very serious ones in CEE, but one should still remember that the purpose of prior training is not just to help the expatriates themselves to adjust to the local environment, but also to make them more efficient from the beginning. As one of the expatriates put it: “with adequate prior training one can more easily understand the local point of view from the beginning and can avoid making mistakes”.

In line with the expectations, the major company-level management problems were related to human resource management issues. This emphasises the importance of careful recruitment and the need for developing effective HRM-systems. Interaction with public authorities and uncertain legislative framework were also commonly pointed out. Here the need for local help was pointed out. In addition, corruption was reported to be a problem and thus companies should beforehand create policies on how to deal with such issues adequately. On the other hand, the inadequate preparation of Finnish companies before entering these markets was pointed out. Thus, one of the implications is that more resources should be devoted to the planning of business operations in CEE.

Expatriates were themselves furthermore asked to give advice to future expatriate managers starting to operate in Central Eastern Europe. The most common piece of advice (39%) was that one should be patient because everything takes more time than expected. It was commented for example that one should “be prepared that everything takes about two or three times more time than expected” and “be patient and be prepared to explain all issues many times to the locals”. The second piece of advice which was given as frequently (39%) was to try to adapt oneself to the local culture. This does not mean that one should act in the same way as the locals but still one should follow the cultural norms as long as they do not prevent effective working. Usually some kind of behavioural adaptation is needed in order to operate effectively with the local people. The importance of cultural sensitivity in Central and Eastern Europe has been mentioned in several other studies too (e.g. Cyr and Schneider 1996, 220; Villinger 1996, 202). The importance of learning the local language was also stressed by eight expatriates, because one can not manage well with the locals with just the English language.

The fourth piece of advice (16%) was that one shouldn't behave as a “great master” who knows what is right, but one should instead listen to the locals' opinion also.

Without such listening, it becomes difficult to carry out changes within an organisation. Similarly, for example Markóczy (1993, 297; 1994, 26) has stated that from the local point of view Western businessmen may only replace the previous authorities of the command economy. This kind of development does not give local managers a possibility of learning important skills needed in the market economy, which in turn makes the transition period even more difficult from the local point of view. The importance of getting culture-related information and training before the assignment was stressed by several expatriates (16%). It was commented for example that “one had to learn beforehand about the country’s history and culture”, and that “one should get prior information about the characteristics of local organisation culture”. The importance of the right attitudes was also mentioned a few times (11%). Expatriates commented that one should for example “have an open mind” and thus be willing to learn new and different manners. The comments by expatriates in Russia and Estonia were again similar, although a need for being careful concerning security issues appeared more commonly there. This advice for future expatriate managers starting to operate in CEE is summarised in Table 3.

Table 3. Advice to future expatriates

| Issue | Frequency |
|---|-----------|
| Be patient | 39% |
| Try to adapt yourself to the local culture | 39% |
| Learn the local language | 18% |
| Don’t behave like a “great Western master” | 16% |
| Obtain culture-related information and training | 16% |
| Have an open and positive attitude | 11% |

One of the messages sent by the expatriate managers was the importance of careful recruitment. Time and money spent on thorough recruitment will be saved on future training and labour turnover costs. Furthermore, one should try to motivate people so that they will also stay with the company. Here one has to remember that money is not the only way to get people committed to an organisation. One expatriate stressed that “there will always be someone who offers a better salary or a more expensive car”. Increased responsibilities and training for new tasks could be one additional method that would also respond to the need of locals wanting more responsibility for business operations. By developing adequate career planning and training systems for local experts and managers, one could reduce the number of expensive expatriates after an adequate transition period. With regard to problems of interaction with the local authorities, a common experience was that help from local experts is essential in order

to operate successfully and to avoid expensive mistakes. Furthermore, companies should spend more time on preparations before entering these markets so that the expectations become more realistic ones.

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