# “Reactions to Organizational Change From the Institutional Perspective: The Case of Estonia”


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# SECTION 2 Management in Firms and Organizations

## Reactions to Organizational Change from the Institutional Perspective: The Case of Estonia

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## Abstract

Purpose: This paper is an attempt to find out how different environments in history influence the expectations of employees and their reactions to organizational changes.
Methodology: In 2001 and 2005 structured interviews about the implementation of organizational changes were conducted with members of top management teams from more than 200 Estonian companies.
Findings: There were two waves of organizational change in Estonian companies: first, changes taking place before 2000, during the period of social transience and reinstitutionalization. The second wave of change started from 2000 in the context of more stable institutions. Unexpectedly, during the second wave of changes in the 21st century, when the free market economy had already been established, fear of the unknown and the need to unlearn were even greater. The main conclusion: reactions to change depend on the previous institutional stage.
Research limitations/implications: In future it could be helpful to conduct the similar study in some other country with different history. It could be useful to consider cultural differences as well.
Practical implications: This knowledge about reactions to change obtained from studying Estonian organizations could also be useful to managers and owners of companies in other countries that have experienced a similar radical transformation. It could also assist companies to plan acquisitions in these countries more carefully so they can achieve success more quickly.
Originality/value of paper: The author has put forward institutionalism in order to explain how employees have reacted to organizational changes in Estonian companies. A model is provided, which relates people's expectations with institutional environments.


**Key words:** organizational change, resistance to change, institutionalism.
**JEL Classification:** M.

## Introduction

The author proposes that social phenomena, such as reactions to organizational change, can only be understood in relation to the wider contextual influences that surround them. The post-communist transition period provided settings, very different in character, in which discontinuities were more fundamental and change was less constrained by institutional frameworks that were themselves in the process of being dismantled. During such economic transition, the challenge has been to internalize a new type of organizational behavior in order to operate successfully under unfamiliar conditions.

During the last 15 years, Estonia has moved from the Soviet Union to the European Union – from being an authoritarian, centralized, socialist country to being a democratic country with a free market economy. This type of transition has been described as social transience, in which a complex set of normative and operating principles, embodied in historical structures, systems and practices, becomes replaced by another unknown set, which makes this period very uncertain for all involved (Clark and Soulsby, 1999: 18).

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At the same time, organizational change has been seen as a phenomenon at the level of the individual because it occurs only when the majority of individuals change their behavior or attitudes (Whelan-Berry et al., 2003). Therefore, the focus of the change process has shifted from product innovation and technological change, to behavioral aspects of change and to attitudes about change (Bergquist, 1993). Sahlins (1985) argues that one cannot really understand certain social phenomena without understanding historical events. George, Chattopadhyay, Sitkin and Barden (2006) focused on how environmental shifts influence decision-makers expectations and decisions in the organizational change process.This paper is an attempt to find out how different environments in history influence the expectations of lower level employees and their reactions to organizational changes. Therefore, the research question is how are employee reactions to changes connected to the stage of institutionalization at the societal level.

This paper starts with a brief overview of Estonian history from the institutional perspective. This is followed by a presentation of theories about employee reactions to change. After this theoretical framework, an analysis of the research results in Estonian organizations will be given. Finally, the author provides a model that relates the institutional stage, the type of change and the reaction to change during societal transition.

## Institutionalism and Estonian history from an institutional perspective

Institutionalists have stressed the importance of the institutional environment in understanding the behavior of organizations. Institutions find expression in society through social constructions: formal institutions at the macro level in a market economy include private property and the free market; formal institutions at the micro level are organizations. Individual organizations are under the technical and normative influence of institutionalized environments.

Socio-economic transformation, at both macro and micro levels, could be understood as institutional change, from both the structural and social perspective, embracing both structures and social values. The elements of an institution may lose credibility and need redefining – the processes of *deinstitutionalization* and *reinstitutionalization* take place. During deinstitutionalization, the contingent nature of cultural accounts and rules are revealed, interrogated, contested, opposed, effectively challenged and ultimately overturned. The process may be gradual or sudden and may affect formal institutions and institutional practices at different rates. Deinstitutionalization takes away the certainty associated with institutionalized rules, attacks the meaningfulness of the social world and thereby reduces the level of social support and motivation.

From this institutional view, social transition may be interpreted as the period between the effective demise of one institutional system and the point at which another institutional system has been established and accepted on new cognitive and normative grounds. Such circumstances create acute social and psychological problems for social actors and this period has been called *social transience* (Clark and Soulsby, 1999: 40).

In order to apply an institutional framework to the reactions of Estonian employees to organizational changes, recent Estonian history will be presented from an institutional perspective.

In 1919-1940, during the first period of the independent Estonian state, Western values in terms of a work ethic, individualism and free enterprise were adopted in institutions in the field of economy and education (Barnowe et al., 1992: 180). The creation of institutions followed by a period of stable institutions took place.

The Soviet occupation in 1940 was followed either by the liquidation of all the civilized institutions characteristic of the Western world, or a restructuring of them according to the principles of the occupying country with the aim of using them in the process of extending communism (Taagepera, 1993: 65). It was period of deinstitutionalization and reinstitutionalization.

The period from the 1960s until the 1980s displayed stable institutions, within the logic of the communist world. This has been called stagnation. This time was characterized by highly central-

ized, autocratic elements such as strong price regulation, central control of domestic and foreign trade and enterprise targets that were poorly related to actual demand.

In 1987, Estonia was at the forefront of reforms in the Soviet Union. In spring of 1988 over 600 co-operatives were formed in Estonia representing the highest concentration of such enterprises in the Soviet Union (Palm, 1989). Institutional change started with the creation of additional institutions.

Radical reforms commenced in Estonia in 1987-1988, when a group of theoreticians and practitioners debated the idea of economic autonomy for Estonia — IME (Taaler, 1995). In 1990, an important change occurred in the strategic aim of the reforms in Estonia: economic autonomy was replaced by independent statehood and the restoration of a market economy (Taaler, 1995).

A period of social transience started as Estonia regained its independence in 1991. This included rapid deinstitutionalization, which was followed by reinstitutionalization. By the turn of the millennium, institutions required for the successful functioning of a free market economy had been established and a period of more stable institutions began.

In 1997, Estonia became a candidate to join the European Union and in 2004 Estonia became the full member of the European Union. This gave the country enough time to adjust its institutions to the requirements of the European Union, and this change was gradual rather than radical.

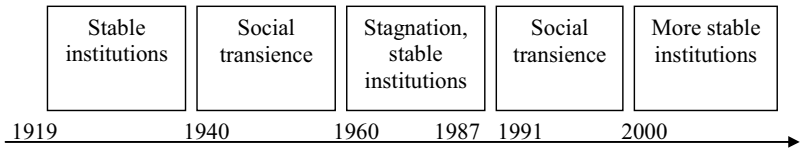


Fig. 1. Main institutional stages in Estonia's recent history

Changes in the environment necessitate that organizations also modify themselves. According to the institutionalist perspective, the functioning of organizations can be described by using the open-system approach, in which the organization may be seen as answering the challenges of a new environment.

## Types of organizational changes and reactions to change

Organization is a complex system that produces outputs in the context of an environment, an available set of resources, and a history (Nadler and Tushman, 1989).

An effective organization meets the expectations of multiple stakeholders including shareholders, employees, suppliers, customers, and the society in which it is located. It also demands the loyalty and commitment of these stakeholders to the long-term survival of the organization and of the social network in which it is embedded (Kochan and Useem, 1992).

There are several classifications of types of change in the literature on this topic. These types have been compared according to initiation and scope. Most theorists divide change into two groups according to scope: change taking place within the given system, and change aiming to alter the system itself. Weick and Quinn (1999) use the phrases ***episodic change*** and ***continuous change***. Episodic change groups together infrequent, discontinuous, and intentional organizational change. This type of change operates as an occasional interruption or divergence from the equilibrium. It is driven externally and emphasizes short-run adaptations. It tends to occur in distinct periods during which shifts are precipitated by changes to technology or changes in key personnel. The change agent focuses on inertia and seeks points of central leverage.

The phrase “continuous change” is used for ongoing, evolving and cumulative organizational change. In this concept change is seen as a pattern of endless modifications to work processes and

social practice. It is driven by organizational instability. Numerous small accommodations cumulate and amplify. This kind of change is a redirection of what is already under way. Change is cyclical, process orientated, has no targeted end-state, and seeks equilibrium. The change agent is a sense maker, who redirects change. Continuous change emphasizes long-run adaptability

If we compare ***evolutionary change*** and ***revolutionary change***, the former is the functional development and growth of an object or system with its core structure remaining essentially intact. It involves incremental modification of the object. Revolutionary change challenges the individual's understanding of objects or systems. This type of change challenges the existing structure and rebuilds a new one (Dirks et al., 1996).

The author argues that in order to describe the changes that have taken place in Estonian companies over the last decades we need more than two types. Ackerman (1986) describes three types of organizational change: (1) developmental change, (2) transitional change, and (3) transformational change. Developmental change improves what already exists through the improvement of skills, methods, or conditions. Transitional change replaces current ways of doing things with something new over a controlled period of time. Transformational change means the emergence of a new state, unknown until it takes shape, out of the remains of the chaotic death of the old state.

No organization can institute change if its employees will not accept the change and will not change themselves (Jick, 1993). Change does not occur unless the individual is motivated and ready to change (Schein, 1986). At the same time, according to previous research results, change will be resisted even when it is necessary (Goodstein and Burke, 1991). Therefore, in order to achieve lasting change, managers need to identify resistance as an obstacle to be overcome, and select a change strategy that will minimize or eliminate resistance (Armenakis and Bedeian, 1999). This is not an easy task.

In order to implement changes successfully, knowledge about the changing nature of resistance is necessary. The approach resistance to change has shifted. Early writings on the subject used the term resistance to change in a manner that implied an irrational and often blind opposition to what, on any other grounds, must be viewed as a desirable innovation. Later work in this field has begun to identify the characteristics of individuals, groups, and organizations that tend consistently to block, retard, or distort change efforts (Miner, 1978).

Isabella (1990) offers an alternative view: resistance can alternatively be viewed as inherent elements of the cognitive transition occurring during the change. Self-interest, mistrust, or preference for the status quo may be concrete manifestations of more subtle cognition: people simply question what the change will mean for them. According to Senge (1997), people do not resist change, they resist being changed.

Reactions to change have been connected with individual traits and with characteristics of organizations.

Certain types of individuals are particularly likely to resist change (Pitts, 1976; Scott, 1973). These are people who rely heavily on their own personal experience in making decisions, who assume that prior conditions will continue to prevail, who take the view that there is always one best way of doing things, and who have little general propensity for taking risks. They tend to be more anxious and worried about their work and to lack confidence in themselves. They have the most to lose from change and are most likely to resist it. But the loss may not be merely a material one, or even a matter of decision-making authority. Resistance may stem from a threat to basic assumptions, personal values, sources of security, and friendship relationships (Miner, 1978).

Although organizations have to adapt to their environment, they tend to feel comfortable operating within the structure, policies and procedures, which have been formulated to deal with the range of present situations. Organizations, like individuals, can become saturated and thereby, be either unwilling or unable to integrate new and deeper changes, even if these are acknowledged as necessary (Jick, 1993).

High formalization, centralization, and stratification built into an organizational structure are often seen as barriers to change (Evers et al., 1976; Hage and Aiken, 1970; Quinn, 1988; Burns and Stalker, 1961). Several studies have indicated that successful change efforts were achieved through the informal rather than the formal organization (Beer et al., 1990; Woodward, 1980).

Inertia in old organizations tends to be stronger than in younger ones. It makes old organizations less likely to undergo major change (Aldrich and Auster, 1986). Old organizations have had time to formalize their organizational rules and to standardize routines (Nelson and Winter, 1982). The term "cumulative inertia" has been used for older organizations to mark their inability to change (Huff et al., 1992). Organizational routines will start to determine behavior in situations of change: acts done during previous changes may be repeated (Levitt and March, 1988).

There are barriers to learning as there is resistance to change. These barriers exist due to the fundamental, conflicting ways in which individuals have been trained to think and act and include organizational barriers to discovering and using solutions to organizational problems (DiBella and Nevis, 1998). Nyström and Starbuck (1984) connect organizational learning with the unlearning of past methods and Senge (1997) stresses the unlearning of the old before the learning of the new. Research in East German companies has indicated that the term 'unlearning' was understood as forgetting and ignoring (Geppert, 2000: 170).

According to the author's opinion, taking into account Estonian history from the institutional perspective and theories about organizational changes in Estonian companies, these changes can be divided into two waves. The first wave involved changes taking place before 2000, in an environment of social transience and reinstitutionalization. The establishment of a free market economy in society also caused transformational changes in organizations. Changes in the context of more stable institutions form the second wave starting from year 2000.

The author hypothesizes, that fear among people and the need to unlearn old habits were greater during the first wave of changes, when people do not know what to expect. The author also assumes that transformational change attracts the most resistance and causes fear.

## Empirical study

In 2001, structured interviews about the implementation of organizational changes were conducted with members of top management teams from Estonian companies (Alas and Sharifi, 2002). In 2005, interviews were again conducted with members of top management teams from 117 Estonian organizations. During both surveys companies were taken on the basis of random selection. There were 5 companies that participated in both surveys. During the second round of interviews, respondents had to concentrate on changes that took place after 2001, so the changes described are different in these two surveys. The interview questions were similar in both interviews, although some questions were added in 2005.

In the following analysis, first the types of changes are analyzed and then the author focuses on questions about employee's reactions to changes. Also, what employees had to learn most often and what managers learned from changes is pointed out.

Content analysis was conducted on the basis of theory for both rounds in order to evaluate the dynamics and to compare results from both rounds of interviews.

## Types of changes

The *first wave* of changes took place in the 90s after the creation of an independent Estonian republic and during social transience. The changes were triggered by the changes in the system of government. The Estonian Republic separated from the Soviet Union and the functions and tasks of state enterprises also changed. The following were the main types of changes: changes initiated by state and changes initiated by owners or managers of privatized companies. The main aim of the changes initiated by the Estonian government was to implement European standards instead of the standards of the Soviet Union in state owned enterprises.

These changes were usually implemented in the following way, as for example, in one state institute: *"By a decision of government a work group was formed from 4 persons. The group was headed by the director of the institute. The group created statutes for enterprise and structure. After that, tasks were assigned to departments and conversations took place with applicants to positions of heads of these departments. Next the list of positions in each department was formed and possible applicants to these positions were listed as well. Then the preparation of all the necessary documents for the movement of people to the new structure followed. It took 1,5 years to change the structure and the standards."* (Interviewee 22).

The second reason for changes in state enterprises was the changing of clients: instead of big state enterprises the clients started to be small private firms with different needs. State orders were replaced by contracts with clients. Enterprises had to learn to follow the financial situation and keep account of their funds. This also changed the communication culture in state enterprises so they became more business like. People's main concern was how salaries will be calculated under the new conditions. The institute had to calculate prices for the services it provided and also salary scales. Principles and procedures for how to implement different tasks were also worked out, and job descriptions were created for all positions.

Because the markets had changed, the Russian market was almost closed to Estonian companies, companies had to seek new markets and to change their products to suit these markets. To do this, companies also had to change from a rigid organization from the old Soviet system to a more effective, flexible and contemporary organization in order to move into the new markets in the European Union. Changes had to be made in order to perceive jobs for employees. This type of change mainly took place in companies that had already been privatized.

*The second wave* of changes already took place in the 21st century, after the free market economy had developed in Estonia. These changes were most often connected to changes in the market situation triggered by the entrance of new competitors. *"The aim of the systemized internal marketing strategy was to create a corporate culture supporting the value of the new brand. The aim was to create the image of the company as an attractive and desirable employer, increase satisfaction and motivation among employees in relation to their employer, be transparent about the company's long-term prospects and strategic directions and supply the necessary information on time. The major objective was to make the employees and agents of the company the executors of the company's marketing function, the so-called "brand delegates-representatives."* (Interviewee 87).

The following example illustrates what was done in order to guarantee the required quality: *"An employee handbook was compiled, which outlined all the procedures and relations between the work of different units and the quality of the final service offered to the client. It emphasized the importance of every person in the process."* (Interviewee 43).

There were more changes initiated from below, triggered by difficulties in performing tasks. In many cases difficulties were connected to the client service.

Compared to the first survey in 2001, when 90% of the changes were transformational, the second survey showed that only 64% of changes were of the deepest variety in terms of scope – involving changes in strategy, mission, leadership style or culture.

***Reactions to change***

Two extreme types of reactions from employees were most visible: some employees totally agreed and welcomed these changes, and the other group worked as much as possible against the changes. For example in 2005, there was a negative reaction in 50% of all changes, and in 45% of the changes a positive reaction was registered. During the first wave of change, people often had to learn English as well as how to use new technology, and after such long period of stagnation they were afraid that they might not manage to obtain these new skills. The main difficulty was connected to salaries. For example: *"The state raised the minimum salary, but did not increase the salary fund for the institute"* (Interviewee 22). It was expected that the work would be reorganized in a more efficient way and less people would be needed. People started to see the changes in a

more positive way after seeing that their knowledge and skills were still needed and their salary had been increased. So, the reasons for the resistance were personal. The usual pattern was that initially employees were against the changes and then later on, after getting more information about how the changes influenced their salaries and jobs, they found the changes useful. *"Emotions were rather different within the company and the confused employees had to go through periods of hesitation, questions and fear. Having seen the positive direction of the changes, the feelings of the employees changed in the direction of satisfaction."* (Interviewee 51).

In some cases the pattern was quite the opposite: people expected changes and were very optimistic and cooperative in the beginning. Later on, if the results did not appear and the process started to drag out, they became more cynical and pessimistic.

The management style was often autocratic and because of this the need for the changes was not explained to the employees.

A passive attitude toward work was common: people did only what was required and because it was required, not because they found it beneficial; or they just stalled for time when fulfilling tasks or postponed them.

The most common causes of resistance and difficulties in implementing change in these two studies of Estonian companies are compared in Table 1.

Table 1

Resistance to change and strategies for overcoming resistance in Estonian organizations

| Resistance to change | 1 | 2 | The most difficult issues | 1 | 2 |
|---|---|---|---|---|---|
| Inertia in people's thinking | 36 | 36 | Unlearning what they had done before | 32 | 49 |
| Fear of the unknown | 23 | 42 | Making employees aware of the necessity of the changes | 24 | 26 |
| Unwillingness to do additional work | 15 | 22 | Finding qualified personnel | 14 | 11 |
| Reaction to overly rapid and unclear changes | 9 | 26 | Merging different cultures | 12 | 6 |

1 – percentage of organizations in the first survey, in 2001, which reported this item.
2 – percentage of organizations in second survey, in 2005, which reported this item.

Managers were asked about the reasons for resistance to change among employees. Compared to 2001, fear of the unknown had increased significantly in 2005, and inertia of thinking, which dominated in 2001, remained at the same level. Also, employees more often complained about changes being unclear, and they refused to do additional work (for the same money). As soon as they got additional money for this work, the resistance disappeared: *"It was explained to every employee, how each employee personally can benefit from this change."* (interviewee 102).

The respondents were also asked about the most difficult issues during implementation of the change. The main difficulties were the same in both surveys. But in 2005, managers reported more difficulties with employees in respect to unlearning than they had done before. Almost the same % found that employees did not realize how necessary the changes were for the company. There were fewer difficulties finding qualified personnel, and there were less difficulties merging different cultures in 2005 because most of the organizations already had organizational cultures suited to achieving the goals. There were no longer any stagnated, Soviet type organizations. One typical example, which illustrates how to merge cultures more successfully: *"During the merger there was a very big barrier between the organizational cultures. In the month after the merger a lot of new employees were hired who had no historical memory about the organizations prior to the merger. This was a favorable factor to the unification because it was relatively easier for these new employees to get used to the new culture. Some of the old employees were unable to get used to the changes even after a couple of years."* (Interviewee 14).

Employee readiness to change during the second wave was much higher, because they already had some experience of how to implement changes. "*Before this change employees had had to implement changes as well, and this got them used to changes, and also they had experienced positive outcomes of those changes for their organization."* (Interviewee 106).

***Learning experience***

The managers were also asked what they would do differently in the future. In 2005, more managers realized the need to behave differently. In 2005, 53% of managers recognized the need for more explanation and 30%, for a more careful, step-by step approach to planning change. In 2001, figures for both of these were 22%. *"We understood that the success of the implementation process was mainly dependent on the middle managers and on how well they could explain the need for the changes to their employees."* (Interviewee 35).

Although during both surveys managers recognized the need to already involve employees at the earlier stages of planning change, at the same time there are some specific features of employee involvement in post socialist countries: before asking employees the manager should present his or her own viewpoint to the employees, otherwise the employees will think the manager incompetent.

The following text from an interview summarizes the lessons learnt, *"More people should be involved in the process of discussion at the beginning stage, and this would make it relatively easier to introduce changes later. The processes should be described and mapped immediately. This would make it possible to approach the changes rather more process centered than function centered. The relationship between core and support services should be described. The company should try to preserve a positive internal climate and create a belief in the employees as part of the results. It is essential that people learn and develop through the changes, and that I talk more to my subordinates, ask for solutions to problems and give them more freedom in their activities. It is necessary to talk to the employees more at different levels in order to avoid the spreading of news in the form of gossip and the probable resulting confusion."* (Interviewee 52).

To mobilize employees and to achieve employee involvement, managers realized that, *"...it was necessary to work out a way to sell the new vision to our employees, and then look further together about how to take this to the clients."* (Interviewee 79).

In some cases, internal marketing was used: "The company decided to value its employees and sales agents as the most invaluable clients (internal clients). Such a novel approach appeared a positive surprise to the employees."

Different mobilizing activities were created: *"The employees were given an example, on the basis of media supplied facts about the activities of competitors, to illustrate how their changes had helped in the improvement of service quality and thereby increased their competitiveness."* (Iinterviewee 23)..

## Discussions and conclusions

To generalize, the changes in post-soviet organizations have been deeper than those typical of a market economy because the new economic order is based on different attitudes and values and attempts to shift the organizational culture toward the new values or beliefs, and this has been considered one of the greatest challenges (Bluedon, 2000).

There were two waves of organizational change in Estonian companies: first, changes taking place before 2000, during the period of social transience and reinstitutionalization. The second wave of change started from 2000 in the context of more stable institutions. The author hypothesized that fear of unknown among employees and the need to unlearn old habits were greater during the first wave of changes when people did not know what to expect.

Two rounds of interviews were conducted in 2001 and 2005 in a country in transition, and these indicated differences in the character of change, and people's reactions to changes until 2000 (first wave of changes) and since 2000 (second round of changes).

The hypothesis did not find support: during the second wave of change fear of the unknown and the need to unlearn what they had done before were even greater. The following is a discussion of the reasons for these unexpected results.

After leaving the centrally planned Soviet Union and losing the Soviet market, Estonian companies had to reorient to the European market. In order to be able to compete in a tight Western market instead of the empty Soviet market, Estonian companies had to introduce Western standards (instead of the standards of the Soviet State) and increase efficiency. In the Soviet period, the state was responsible for guaranteeing work for everyone. Enterprises were internally overstaffed and passive, work places were over-secured and attitudes to work were far from ideal (Liuhto, 1999: 16). The types of changes and reactions to change are connected to the institutional environments in the model provided in Table 2.

Table 2

The types of changes and reactions to changes in connection with institutional environments

| | Social transience and reinstitutionalization (until 2000) | More stable institutions (after 2000) |
|---|---|---|
| Types of changes | Changes triggered by changes in the state system:<br>1. Companies had to implement European standards instead of Soviet standards<br>2. Companies had to change from being rigid organizations from the old Soviet system to more effective, flexible and contemporary organizations in order to enter new markets. | Changes were most often connected with changes in the market situation, triggered by the entrance of new competitors.<br>Employees were seen as more valuable assets than in the previous stage. More attention was turned to human capital. |
| Reactions to change | Change was expected and feared at the same time.<br>Old habits had to be forgotten and new skills learnt. | People started to get tired from the changes. Not all expectations were fulfilled.<br>People did not expect to be in a permanent process of change for decades. |

The management style in the totalitarian society was autocratic and trained employees to fulfill the managers' directives without question. People were not involved in decision-making. In the beginning, only a few people could imagine how companies should work in a market economy, and everyone listened to those who had at least attended one short training course about market mechanisms. So, in the beginning it was not hard to take orders and behave accordingly.

This made the first wave of changes especially hard for the employees: on the one hand, most people just wanted a better life with no shortages of food and basic necessities in the shops. People had heard positive stories about life in the Estonian Republic in the first half of the 20th century and expected to enjoy a similar life again. On the other hand, people had to learn new skills and no one was responsible for providing them with jobs. There was very little security. As Senge (1997) has mentioned, human beings are more complex than we often assume. They both fear and seek change. People don't resist change. They resist being changed.

The policy of the Estonian government at the beginning of 1990s was very straight: no single company was saved with the help of state subsidiaries. Whoever failed to compete in the free market conditions fell into bankruptcy. This taught people that they must change or perish. This also caused fear among those from poor, but relatively safe conditions. It forced people to change; there was no other option.

The increasing fear might indicate that people thought: if we establish our own state then after that we will have a secure life without shortages. The reality was quite different: competition became harder and more intense, entering the European Union created new demands and people started to grow tired.

During the second wave of change, at the beginning of 21st century, the resistance to rapid and unclear changes increased. Now those who were still employed already had the necessary knowledge about how companies in a free market economy should function, and they expected to be involved or at least informed beforehand about the further changes. People were not so excited any more, and they needed time to express their feelings and understand where they stood in the context of the proposed change (Jaffe, Scott and Tobe, 1994). They knew about price formation and knew the real value of their work, and also had some idea about the profits owners could take from their companies. So, people were reluctant to do additional work without additional pay. Generally speaking, people started to get tired of all the changes. At the beginning, people thought that they would change things and then have a high level of welfare for the rest of their lives. They did not expect to be in a permanent state of change for decades. In addition, not all expectations were fulfilled: social differences started to increase rapidly.

During the first wave of changes, it was easier to understand that new skills needed to be learnt, and the attitudes and behaviors of Western people were different. For Estonian people, the first wave of change meant unlearning: people were expected to abandon their old ways of doing things.

During the second wave, in the 21st century, unlearning started to be even more difficult. People did not know that there are different stages of growth in a market economy that depend on the level of competition. The term 'life long learning' started to take on meaning for them. As most companies already had to change, mergers were no longer so difficult, and it became easier to find qualified people, especially those with a management education – this was particularly lacking during the first wave of changes.

Research indicates that the earlier experiences with change had had a significant impact on people's reactions, and this impact was twofold. The previous organizational experience of the members of the organization equally enabled or hindered the 'learning process'. This is consistent with the writings of Salaman and Butler (1999), which state that resistance may be *the outcome of* as well as *the barrier to* learning. On the one hand, people knew how to learn and that they were capable of learning. On the other hand, they realized that the differences between the material wealth of the owners and CEO's on the one hand and the employees at lower levels of the organization on the other hand were increasing.

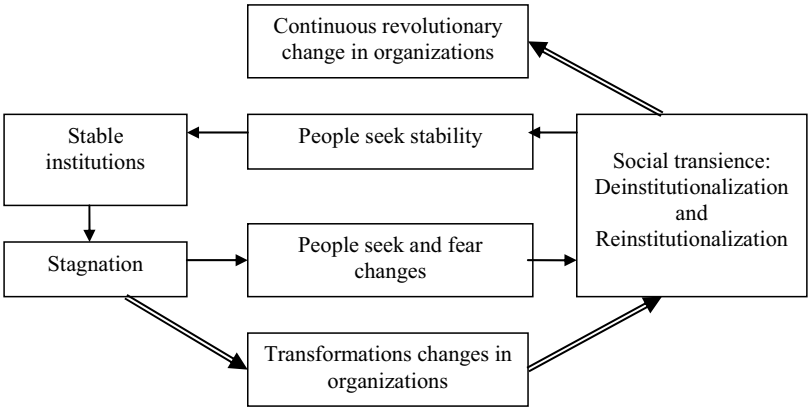


Fig. 2. People's expectations in relation to institutional environments

The middle part of the Figure (with single-line arrows) helps to explain reactions to changes in organizations during both waves of change. The double-line arrows indicate what happened in the organizations – what people actually got. In the case of Estonia people did not get the stability they expected to get after changes were complete. This corresponds with Weisbord's (1988) extension of Lewin's (1989) classic three-step model of organizational change. He pointed out that modern organizations are dynamic and rarely in a steady state as if frozen. This has become a reality in

Estonian organizations. It could be even said that a new type of organizational change evolved: changes which are endless, almost cyclical, but these are not only small accommodations. These changes challenge the existing structure and rebuild as new ones. The author has called it continuous revolutionary change.

To conclude, reactions to change depend not only on previous changes, but also on the previous institutional stage. In Estonia, the long period of stagnation during the Soviet regime created the expectation of radical change. It brought about deinstitutionalization and reinstitutionalization, which together created an environment of social transience. Expectations were high and the changes demanded a lot of energy. This resulted in tiredness and a desire for stability, but instead the changes continued in the form of continuous revolutionary change. This was rather demanding and created a lot of fear and resistance. The success of companies depends on people, and people usually have more skills and abilities than are being utilized by their organizations. If organizations want more from their people, the managers should consider the institutional impact of change on the employees' attitudes toward change.

This knowledge about reactions to change obtained from studying Estonian organizations could also be useful to managers and owners of companies in other countries that have experienced a similar radical transformation. It could also assist companies to plan acquisitions in these countries more carefully so they can achieve success more quickly. In future it could be helpful to conduct the similar study in some other country with different history. It could be useful to consider cultural differences as well.

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