Inherited networks, economic embeddedness and developments in corporate governance: post-communist Czech and Slovak Republics with supporting evidence from Eastern Germany

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Abstract

This doctoral thesis entitled 'Inherited Networks, Economic Embeddedness and Developments in Corporate Governance: Post-Communist Czech and Slovak Republics with supporting evidence from Eastern Germany', aims to assess the issues of organisational change and its management primarily in the first two countries and to a lesser extent in the last.

The area of study is located at the micro-economic level of state enterprises undergoing privatisation based on interviews carried out by the author with management in sixteen firms across the three countries from 1993 to 1994. These case studies are assessed from the point of view of their embeddedness in the macro-level changes which are affecting simultaneously all other sectors of social action in East/Central Europe, especially the economic and political spheres.

The study initially outlines the state socialist system and how this influenced organisational structures and management as compared with market systems. Subsequently the case studies and investigation of macro-economic policies raise questions with regard to the continuing impact of the inherited value systems, organisational patterns and adaptive networking within enterprises undergoing change. Finally the study asserts the important principle of economic embeddedness in a political, cultural and social reality with implications for the evolution of corporate governance systems in these respective countries.

Keywords: inherited networks, economic embeddedness, corporate governance, Czech, Slovak, Eastern Germany.
Inherited Networks, Economic Embeddedness and Developments in Corporate Governance: Post-Communist Czech and Slovak Republics with supporting evidence from Eastern Germany.

by

Siobhan Carolyn Bygate

Doctoral Thesis

Submitted in partial fulfilment of the requirements for the award of

Doctor of Business Studies of Loughborough University

26/5/98

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However research is not purely a lineal literary experience. It involves much lateral and imaginative thinking which challenges accepted codes of knowledge and interaction. In addition any activity is impossible without practical, moral and emotional support. As a consequence of the above two considerations, I wish to thank relations, friends and colleagues for all their theoretical, practical and moral support over the time of period of this research. Firstly, and most significantly I wish to thank my husband and daughter, Marek Lubelski and Mairi Lubelska as well as my parents and parents-in-law, Joan and Harry Bygate and Christina Sheppard and Jan Lubelski. For excellent, reliable and loving childcare I wish to thank Shanaz Akhtar and Paula Grenya. For particularly useful and insightful comments I am deeply indebted to Dr. Beth Kewell, of Imperial College, London. Mr. Mike Geppert of Humboldt University, Berlin and Mr. Raff Carmen of Manchester University were also very helpful in drawing my attention to certain works and authors I would otherwise have overlooked. For technical assistance, effort and moral support I would like to thank Ruth Matthews, Shirley Smith and Andrew Gieswein of the Computer Department, and the staff of the library at Buckinghamshire and Chilterns University College, especially Louise Voakes and Roland Scales. In addition the staff of Chesham Town library deserve my thanks for their speedy handling of all my requests.

Siobhan Bygate, 26th of May, 1998. Loughborough University
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<td>APR</td>
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<td><strong>ČKD</strong></td>
<td>Czechoslovak engineering combine</td>
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<td><strong>CMEA or Comecon</strong></td>
<td>Community for Mutual Economic Assistance</td>
</tr>
<tr>
<td><strong>DUS</strong></td>
<td>Democratic Union of Slovakia</td>
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<tr>
<td><strong>EBRD</strong></td>
<td>European Bank for Reconstruction and Development</td>
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<td><strong>GDP</strong></td>
<td>Gross Domestic Product</td>
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<tr>
<td><strong>GNP</strong></td>
<td>Gross National Product</td>
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<td><strong>HN</strong></td>
<td>Economic Newspaper (Czechoslovak economic weekly and government daily from 1991).</td>
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<td><strong>IMF</strong></td>
<td>International Monetary Fund</td>
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<td><strong>Kčs</strong></td>
<td>Koruny československé</td>
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<td><strong>LN</strong></td>
<td>Lidové noviny</td>
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<td><strong>LMBO</strong></td>
<td>Leveraged Management Buy-Out Management buy-out</td>
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<td><strong>MBO</strong></td>
<td>Movement for a Democratic Slovakia or HZDS</td>
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<td><strong>MDS</strong></td>
<td>National Economy (a Czechoslovak economic monthly)</td>
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<td><strong>NH</strong></td>
<td>NationalPropertyFund (Czechoslovak and later separate Czech and Slovak state property holding agencies)</td>
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<td><strong>NPF</strong></td>
<td>Civic or Citizens Democratic Alliance</td>
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<tr>
<td><strong>ODA</strong></td>
<td>Občanská demokratická aliance</td>
</tr>
<tr>
<td><strong>ODS</strong></td>
<td>Občanská demokratická strana</td>
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<td><strong>OECD</strong></td>
<td>Organisation for Economic Cooperation and Development</td>
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<td><strong>OF</strong></td>
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<td><strong>PE</strong></td>
<td>Politická ekonomie</td>
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<td><strong>Rudé Právo</strong></td>
<td>Red Truth, Czech Daily</td>
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<td><strong>RSS</strong></td>
<td>Slovak Peasant Party</td>
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<td><strong>Škoda Plzeň</strong></td>
<td>giant Czechoslovakian heavy engineering combine</td>
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<td><strong>SNP</strong></td>
<td>Slovak National Party</td>
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<tr>
<td><strong>SP</strong></td>
<td>Statistical Survey, Czechoslovak statistical monthly.</td>
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<tr>
<td><strong>StB</strong></td>
<td>Czechoslovak secret police</td>
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THA
USSR
ZRS

VHJ  Výrobní hospodářská jednotka  Czech form of the economic productive unit
     Výrobní hospodářské jednotky  Plural form

VHJ  Výrobohospodárska jednotka  Slovak form of the above.
     Výrobohospodárske jednotky  Plural form

Notes:

billion refers to the American billion or the British thousand million.
Part I
Chapter One  
Freedom, Economic Systems and Enterprise Management

Siebenjähriger
In jeder Hand hält er einen Revolver, vor der Brust hat er eine Spielzeugmaschinenpistole hängen.
,,Was sagt denn deine Mutter zu diesen Waffen?"
,,Die hat sie mir doch gekauft."
,,Und wozu?"
,,Gegen die Bösen."
,,Und wer ist gut?"
,,Lenin."
,,Lenin? Wer ist das?"
Er denkt angestrengt nach, weiß aber nicht zu antworten.
"Du weisst nicht, wer Lenin ist?"
,,Der Hauptmann."
Reiner Kunze. "Die Wunderbaren Jahre".

The Seven Wonders of Czechoslovakia
Everybody has a job.
Although everybody has a job, nobody works.
Although nobody works the plan is fulfilled up to 105 percent.
Although the plan is fulfilled up to 105 percent, there’s nothing in the shops.
Although there’s nothing in the shops, we’ve got enough of everything.
Although we’ve got enough of everything, everybody steals.
Although everybody steals, nothing ever goes missing anywhere.
And the Eighth Wonder of the World is that it has been working for forty-one years.
Slogan recorded by Bernard Wheaton in Brno on November the 28th, 1989.
Management of organisational change in East/Central Europe is functioning under severe economic, political and social pressures. Changes in people's behaviour are necessary for a successful adaptation to the new situation. However adaptation does not mean striking out the old completely and heralding in the new 'western' ways. To effect real change requires acceptance of the inherited conditions and adapting with this inheritance in mind. The Czech philosopher, Ladislav Hejdánek emphasised the importance of accepting inherited realities when he said:

"any attempt to solve the situation in Central and Eastern Europe is an attempt to find its.. solution in a pan-European framework."3

Why is freedom so important to understand in this context? What does freedom have to do with management? The concept of freedom held by a society influences the value systems which permeate that society and the organisation and people at work within them. Freedom became a rallying cry throughout the area of East/Central Europe leading up to and during the transformations of 19894. It echoed around Western Europe also, carefully contained, however, within a critique of the former communist bloc and its projected rejuvenated future. The political and economic interpretations of the term 'freedom' have informed the debate within the area under discussion and amongst its Western advisors. The role for managers within the context of economic transformation and organisational change must be assessed within the context of inherited concepts and value systems from the
command economy and contemporaneously evolving ones. What was the concept of freedom within the previously prevailing socio-economic and political culture, a rationale in which economic organisations were embedded for the past 40 years in East/Central Europe? How do these inherited value systems continue to impact upon present day attempts at economic transformation and organisational culture and change?

Freedom has been the basic currency of the Cold War. It is a coinage much publicised in one form by the likes of the Free Voice of America and Radio Free Europe which broadcast into East/Central Europe and the old Soviet Union from the safety of Western Europe. A different interpretation of freedom has been proclaimed by the varying official interpretations and practical applications of Marxism/Leninism in the states of Eastern Europe, the USSR, Cuba and China. This is an indication of the two sets of official value systems which permeated societies and which competed with each other for the greater part of this century. It is within this context that the peoples of the post-communist states of East/Central Europe and the Commonwealth of Independent States locate the changes in everyday life and in the personal and the working spheres. Jíří Dienstbier, Foreign Minister of the Czech and Slovak Federal Republic, stated in August 1991,

"The changes in Central and Eastern Europe, intensified by the recent dramatic events in the USSR, represent a challenge of freedom, not only for this region but also for the West, and thus for the European Community, as a pole of economic prosperity and political stability."
Chapter Outline

This chapter aims to highlight one of the most important factors in the political culture of the old Eastern Europe, which influenced its economic system and thus also its organisational culture: freedom. The chapter will then aim to examine the resulting value systems inherited from the past regime and outline its effects on enterprise and managerial culture under the old regime, and to note the important role this plays in contemporary organisational change.

Freedom and Priorities

The general outlook, value systems and expectations of the populations and the policy-makers of East/Central Europe have all been strongly influenced by the experience of the last 40 years. This experience has been dominated by variations on the classic centrally planned economy (CPE) and an authoritarian state system. Whether this combined influence can be seen as benign or not, the interpretation of freedom that has prevailed until recently in Eastern Europe is one embedded in the official interpretation of ideology and its practical application to the functioning of 'state socialism'.

In comparing 'Eastern' and 'Western' Europe, two sets of freedom priorities can be identified. Both sets are the results of the adoption of different philosophical interpretations of freedom and different assessments of their values. It is necessary to point out here that neither system produced a complete homogeneity of values across all countries contained within them for cultural and historical reasons which are not within the scope of this work. Thus the command economic systems were
not blanket, monotone systems but ranged in type over time and country. The totalitarian systems of the 1950s in Eastern Europe gave way to national adaptations of so-called ‘state socialism’ or ‘state capitalism’. Kornai distinguishes between three prototypes in the ‘socialist’ system: 1. The revolutionary-transitional model, 2. the classical system and 3. the reform system. The ‘reform system’ is indicative of the periods when each country ventured, within the limited framework of the command economy and monopoly party control, into the application of its own variants. Sometimes this resulted in Soviet-led intervention, when it was felt it had gone too far as in Hungary 1956 or it was allowed to continue for example in economic areas because of ideological guarantees of loyalty, for instance in Hungary under the economic reforms of Kadar from 1968 onwards. Having noted the fluctuations of political and economic freedom within the confines of the command economy the following discussion will centre on a discussion of freedom generally in the command economic system and political system of centralised state socialism and thus some general statements can be made with regard to the inherited value systems in the Czech and Slovak Republics and in eastern Germany.

The Theory

When talking of ‘freedom’ as when we talk of ‘democracy’, we must ask ourselves what type of freedom and what type of democracy? The concept of freedom is the very basis to the differentiation of communist-socialist and classical liberal thought. Society is organised both politically and economically according to priorities ascribed to and interpretations of freedom. It is important to note here the
discrepancy between proclaimed freedom priorities and actually achieved freedoms in any society.

Kant (1798) first identified two types of freedom which have formed the pivot of later political and economic debates ever since: negative freedom (freedom from) and positive freedom (freedom to)\(^9\). *Freedom from* external danger and curtailment and *freedom to* develop and project out into the world. Definitions of what constitutes an humane and fair society and ideas as to the achievement of such a society differ depending on the interpretation and importance given to these two aspects of freedom.

*Negative versus Positive Freedom*

Kant's Moral Theory identifies freedom as being synonymous with autonomy. One is free when one judges and acts in both the positive and negative senses of freedom. Sullivan interprets Kant's 'negative freedom' as:

"our ability to act in complete independence of any prior or concurrent causes other than our own will or practical reasoning, our "power to restrain and overcome inclinations by reason" ",

and his 'positive freedom' as:

"the power of absolute causal self-determination, enabling us to judge and act autonomously, only on the basis of our own reasoning."\(^{10}\)
There is also an important moral component to Kant's definition of freedom which does not concern the discussion in hand here but without mention of it any description of Kant's Moral theory would be incomplete. It is these two definitions of positive and negative freedoms and their moral component which influenced Kant's political theory and in turn political theory after him.

Political Theory and Negative Freedom

Kant's own political theory is in keeping with the "classical" liberal political tradition. The classical liberal tradition is:

'individualist, in that it asserts the moral primacy of the person against the claims of any social collectivity; egalitarian, inasmuch as it confers on all men the same moral status...universalist, affirming the moral unity of the human species and according a secondary importance to specific historic associations and cultural forms; and meliorist in its affirmation of the corrigibility and improvability of all social institutions and political arrangements.'

It is within this tradition that Kant sees the state's role as that of ensuring 'negative freedom', that is limiting government intervention into the private sphere so that individuals may act autonomously as they see fit. Political authority may act through legal coercion to prevent one individual's pursuit of happiness from limiting another individual's pursuit. In this definition of political authority
happiness and self-realisation are highly subjective and the state cannot be concerned with the individual’s striving for either, but with creating a framework of justice for such pursuit. Kant finally, for our purposes, sees a welfare state as encouraging 'tutelage' to a paternalistic model of government so that citizens act

'like immature children unable to distinguish between what is truly useful or harmful to them.'\(^{13}\)

Kant does make one exception to this line of argument on ethical grounds, taxing citizens for the looking after of the needy and orphans, but does not allow this to develop into a political system of 'welfare state'. Thus Kant's

'limited-government political theory emphasises both political liberty and the contractual consent of citizens regarded as free, equal, and autonomous individuals, and it restricts civil laws to either universal negative principles of justice or laws compatible with such principles.'\(^{14}\)

This is the view shared largely by other classical liberals such as Hobbes, Locke and Hume. Negative freedom is described by the Encyclopaedia of the Social Sciences as social freedom. It links to political and religious freedom with respect to the government, state or church. The emphasis is on legal restraints allowing the individual freedom from outside control and power. Locke claimed, 'where there is no law there is no freedom'. Later political theorists such as Voltaire, John Stuart
Mill and Jeremy Bentham revised the classical form of liberalism, basing their views on utilitarianism, arguing for more state intervention policies, as in the modern welfare state\textsuperscript{15}. It has been adapted theoretically again in a more classical sense in more contemporary works by Hajek, Friedmann and von Mises to the present political and economic debate\textsuperscript{16}. An example of a recent political embodiment of the revived classical liberal ideas can be seen in the form of 'Thatcherism' in Britain. In this philosophy the emphasis is placed upon social freedom. Freedom from state interference, freedom from external danger and threat. Freedom from curtailment of free speech, writing, political and/or religious association. Hence in Britain the legal changes were made requiring trade union members to choose either to pay the political fee as part of their union dues to the Labour Party or to another party, rather than it being an unchangeable statement of block union political affiliation.

Both thatcherism and the philosophies of Hayek and Friedman hold a special fascination for many East/Central European politicians and also by the left in these countries\textsuperscript{17}.

\textit{Political Theory and Positive Freedom}

Kant' definition of positive freedom has already been given as the 'absolute causal self-determination'. Other definitions, as Sullivan points out, are the humanist theories of Abraham Maslow, Carl Rogers and Lawrence Kohlberg. Here positive freedom is defined as the 'psychological ideal of a mature- a "self-actualising" or "fully functioning"-person'\textsuperscript{18}. Erich Fromm also explored this definition of freedom
when arguing that human nature sometimes has a preference for authoritarian states due to fear of complete autonomous self-determination.\textsuperscript{19}

In political theory positive freedom has been identified at different times and by different theorists as economic freedom and economic democracy as well as self-determination and fulfilling personal potential in the social sphere. Positive freedom or 'freedom to' in its economic sense was seen by Marx in his critique of capitalism as the most important aspect of freedom. Other writers from the centre to the left of the political spectrum also see this type of positive freedom as an important ingredient of complete freedom with a greater or lesser emphasis given to negative freedom.

Positive freedom in Marxian terms is defined as economic freedom. Freedom to extend and develop oneself and project oneself onto the world is only seen as possible with democratic economic control of the means of production. Marx's view of a fully communist society, in which "the free development of each is the condition for the free development of all", valued positive freedom above the negative freedoms enshrined in western European and the North American constitutions or political arrangements.

Marx's works are often contradictory and can be variously interpreted as carrying democratic and antidemocratic tendencies.\textsuperscript{20} In his description of the contribution of each person's unalienated labour to the development of a free and equal society, he is democratic, and this can be seen especially in his earlier work. He also describes state authority as withering away under communism. Mouzelis writes:
"What Marx had envisaged was the transcendence of capitalism by means of establishing a highly decentralised social system, major features of which were the end of alienation and the withering away of a state authority. From this point of view it would be more justified to criticise Marx for anarchic and libertarian tendencies than for authoritarianism". 21

However an antidemocratic tendency can be seen in his critique of parliamentary and democratic (i.e. competing parties and direct electoral representation of diverse interests) political structures. Marx criticises these structures as bourgeois control of capitalist production relations. The superstructure according to Marx, is determined by the dominant mode of production. This dominant mode depends on the stage that that particular human society has reached in its development. Change occurs as a result of growing contradictions which automatically force the collapse of the old order and transition to a new one. Thus slow incremental change through a parliamentary system never really changes class divisions and production relations as it is determined by a very positivistic brand of historic materialism. Again contradictions can be found to this view in other writings of Marx, but generally it can be said that Marx viewed parliamentary (democratic) political systems as reflective of economic divisions. He questions the value of this type of political democracy, as opposed to a dictatorship of the proletariat, if there is no economic democracy.

Social Democracy also sees positive freedom, in terms of economic power, as important. However the emphasis is on wealth distribution and incremental reforms
through continued democratic parliamentary representation rather than revolution restructuring the political representation arrangements and complete ownership of the means of production by the proletariat. In order for everyone to enjoy the opportunity to exercise their freedoms to the full, it is necessary for a general level of economic wealth including access to health care, welfare services and education to be available. Beatrice and Sidney Webb stated:

'Personal freedom means, in fact, the power of the individual to buy sufficient food, shelter and clothing'.

However economic freedom or the satisfaction of basic needs is not always sufficient in ensuring 'free development'. Social democracy values both positive and negative freedoms or rights as ingredients in true freedom. Thus, in this view, democratic political structures (i.e. competing parties and full electoral suffrage) are not opposed to social justice. Generally those who value 'positive freedom' or 'rights', in whatever context, see 'negative freedom' or 'right' as not sufficient alone to ensure full freedom for all. Thus it is not adequate to have a law protecting one's rights, for example as a woman or ethnic minority, in the workplace, if economically and socially one is so disadvantaged as to be effectively barred from certain jobs. In this instance one's right to legal protection cannot be exercised not because protection does not exist but because one is not in a position to use it. Thus the idea of positive discrimination, of providing support for the unfairly disadvantaged links into the
idea of positive freedom. However once one is sufficiently free from economic restraints and social disadvantage as to exercise one's rights fully the idea of positive freedom or 'freedom to' broadens to include self-realisation through effective interaction with the world outside. Harold Laski went further than the Webbs's definition and in an article on liberty in 1933 when he argued that "'Freedom' becomes a synonym for 'self-realization' " and later that, 'Liberty may be defined as the affirmation by an individual or group of his or its own essence.' This links to the humanist theories mentioned at the beginning of this section on Political Theory and Positive Freedom.

**Theory and Practice in East/Central Europe**

*Political Theory and Political and Economic Structures*

Thus those convinced of the importance of positive rights (positive freedom) develop a view of state and society organised accordingly. The introduction after the second world war of the Welfare State in Britain acknowledged the relevance of the positive aspect of freedom to people, especially the working classes and poor. The fact that the parliamentary system remained intact is indicative of the influence of social democracy and the value given to 'negative rights' or 'negative freedom'. Sweden has attempted to embody and develop further the ideals of the welfare state within a market economy framework. The states of Eastern Europe and the Soviet Union attempted to embody this same principle (of positive freedom) in their own vision of its form- the centrally planned economy and the one party state, that is without parliamentary political structure of competing parties and free elections and
universal suffrage. Taking the Marxist-Leninist view that a parliamentary or similarly defined political democracy is part of the superstructure, representative only of those owning the forces of production, these states justified a one party system in terms of proletarian dictatorship which would cede eventually to fully democratic Communist society based on economic democracy. Competing parties would not be necessary as the full economic democracy would wipe away all class antagonisms. The aim for an free and fair society would in theory appear to be the same and yet the practical roads taken differ vastly.

Economic and Political Freedom (Positive and Negative Rights)

It is important to note here the difference between proclaimed priorities and actually achieved priorities. The ability of the states of Eastern Europe and the Soviet Union in achieving greater economic and political freedoms for their populations than the 'capitalist' West has been disproved but the principle used to legitimise their political and economic systems was the idea of providing 'freedom to' at least on an economic level. Thus in the constitution of the GDR, Artikel 2, 3 states:

'Die Ausbeutung des Menschen durch den Menschen ist für immer beseitigt. Was des Volkes Hände schaffen ist des Volkes Eigen. Das sozialistische Prinzip "Jeder nach seinen Fähigkeiten, jedem nach seiner Leistung" wird verwirklicht.'
Therefore in its practical application in Eastern Europe 'freedom' was confined to the economic sphere and political freedoms (negative rights) were limited to the definition given by the state. Thus freedom from state interference was limited if the state so wished and successive central committees alternately widened and reduced the limits negative rights or freedom. Until Stalin's death in 1953 the limits for negative political freedoms were very narrow, conforming closely to Arendt's classification of totalitarian state\textsuperscript{24}. With the assumption of power by Khrushchev after Stalin's death and until 1964 and the ensuing 'Thaw' events such as the Hungarian Uprising (1956) and the Prague Spring (1968) occurred\textsuperscript{25}. The direct implication of this type of centralised political system was that 'autonomy' was controlled by the state and guided by a relatively static ideology. Personal 'autonomy' as Kant defined it or 'positive freedom' as humanist theories defined it, e.g. Fromm, was compromised. Freedom to project out onto the world independently and as wished from a secure economic base was made effectively impossible.

Kant's personal autonomy could not be exercised and Kant's political theory of a social contract entered into by both the citizen and the state was therefore also rejected. As Jones points out, citizens in a centrally planned economy entered into 'an obligatory social contract', one in which the state attempted to satisfy positive rights and on the basis of this function felt legitimised in rejecting the citizens claims to negative rights from the system\textsuperscript{26}. A strong and secure economic base cannot be underestimated in providing people with the 'freedom to' develop, but if they have limited 'negative freedom' or
'freedom from' then they cannot act independently in a political sense. They are then curtailed in their full expression of their 'freedom to'.

The example of the situation of women in the GDR and Czechoslovakia under the old regime serves as useful example of this. Under the old regime the socialist rhetoric of gender equality was supported by the state and government in terms of legislation in both the political and economic fields. The social policy was formulated with all working women in mind, providing kindergartens for every child and the 'baby year', where women were allowed to take a year out of work on full pay after the birth of a child. In the GDR and Czechoslovakia abortion existed on demand and the health service was free. Women were encouraged in education and enjoyed positive discrimination in the political process and in the workplace. However the state and party hierarchies were predominantly male dominated. In the GDR from 1950 to 1980 only four women reached candidate membership of the politbüro of the SED, Elli Schmidt, Edith Baumann, Margrete Müller and Ingeburg Lange. In 1980 only three women were heads of the forty-three departments of the Central Committee and none were in high profile departments. It is important to note that in the lower echelons of public life, such as the legislative assemblies at state, county and city levels, over a third of East German deputies and city commissioners were women. These was a similar situation for mayors and judges. (Shaffer compares this with only 7% to 9% in the former West Germany). However real power due to the highly centralised nature of the system resided in the male dominated higher echelons of both spheres. The small proportion of women
in these higher positions in the GDR differs little from the rest of Europe, market or command system.

Due to the authoritarian nature of these political systems and their claims to have swept aside class differences and social antagonisms, no independent political interest groups were tolerated. Thus no (independent) feminist movement developed in Eastern Europe and the Soviet Union.

The idea of freedom under the old regimes of Eastern Europe and the Soviet Union was defined primarily as an economic problem and its resolution as achievable through equal and fair distribution of the fruits of production through state ownership of the means of production. As already discussed, state ownership was seen theoretically as a stepping stone on the road to a fully communist society when the state, according to Marx, would wither away. However this was never achieved and Communist Party led states progressively described themselves as dictatorships of the proletariat, socialist societies and advanced socialist societies or developed socialism (razvitoy or zrely sotsializm), in order, some would argue, to overcome the problem of explaining away unresolved problems without questioning the legitimacy of the system in place. In this way the term 'developed socialism' was used to describe a society based on Marxist-Leninist theory which had not yet achieved full communism. 'Developed socialism' expanded the basic four basic components of the Soviet ideology of socialism without challenging their essential meaning or application to Soviet society. Lane outlines these four basic components as follows:
1. that the class relations to the means of production have been socialised following the seizure of power by the Bolsheviks and the nationalisation of the means of production;

2. that state planning has replaced the bourgeois market as a method of coordination of the economy and allocation of resources; competition between capitals has been superseded and labour has lost its character as a commodity;

3. that, following the major socialist industrialisation process (during the first Five-Year Plan in Russia) the level of productive forces was sufficient to define the economy as being at the socialist stage;

4. that, given the hegemony of the Communist Party and its control of the major institutional systems (ideology, science, education), the superstructure is socialist and the remaining incongruities or 'leftovers' (religious views, personality cults, petty crime) from other modes of production will gradually disappear with the maturation of Soviet society.\textsuperscript{30}

Although this interpretation of Marxism-Leninism very much represents Russian experience it is one which was initially imposed on Eastern European states during the 1950s under Stalinism especially and in later 'extensions' influenced significantly the official ideology framework of all the Communist states of Eastern Europe.

Due to this ideological mind set the study of sociology in Western terms generally did not exist (there are the exceptions of course, most notably the example of
Elemér Hankiss in Hungary). Society was a product of a class system based on the primary role of capital. Advanced socialism had destroyed the class system and only had some 'non-antagonistic contradictions' left, which were on the way to being resolved.

*Political Freedoms and Regime Legitimisation*

However apart from the economic argument the political wisdom of the respective regimes pre-1989 also defined freedom for their populations in terms of political propaganda or at very least in terms of the interpretation of history according to historic materialism. Marx had described societies as moving from one social form, e.g. feudalism, through other forms, e.g. capitalism, until it reached communism. He envisaged England and Germany as the two most likely candidates for this latter and final transformation through a proletarian revolution and dictatorship of the proletarian. However it proved to be Russia - a predominantly rural and tradition bound empire, only recently born from the womb of feudalism, which first completed a successful revolution31. The states of Central and eastern Europe followed after the Second World War. It therefore became very necessary for the regimes to justify their mono-party systems by means relevant to that nation. It was necessary to appropriate an ideology developed by a German for advanced capitalist societies and put into practise by an underdeveloped empire to vastly different national cultures and stages of socio-economic and political development. This caused a tension never really resolved until the 1980s when Gorbachev dismantled the influence and control exerted by the Soviet Union over the states of Eastern
Europe. Until this point the regimes of the former GDR, the Czech and Slovak republics had to balance two most important requirements for their survival. Firstly, that of *national regime legitimisation*, which involved retaining political and social control, and maintaining the popular support necessary for effective functioning of the economic system thus justifying the prevalent mono-party system. This in turn legitimised the regime. Secondly, the national regimes were required to maintain *perceived ideological integrity and loyalty to the Soviet Union*. This involved maintaining links with the Soviet Union as the ideological motherland and as the power system that had liberated the various countries and put the eastern European leaders into their present positions. It was also necessary to pacify any fears the Soviet Union may have had of loss of buffer zone or ideological empire. The GDR, Czech and Slovak republics did this in different ways according to the respective national requirements and situations.

*The Case of Czechoslovakia*

The crushing of the Prague Spring of 1968 in Czechoslovakia was never described as an invasion but as a united Warsaw Pact attempt to protect the gains of socialism. The reform movement was a Communist Party led reform aimed at achieving greater freedom of expression in both political and social spheres as well as reforming the economic system in order to attempt to improve efficiency. Although it was a movement supported by both the Czechs and Slovaks, indeed the leader of the reforms was a Slovak named Alexander Dubček, the main power centre was
Prague. It has been criticised as an intellectual and youth movement, unsupported by "workers", but the Prague Spring did not run long enough to test this criticism. It was a national movement which the Soviet Union felt threatened by and which received full support from the indigenous population when Warsaw Pact tanks began the invasion.

It was in the wake of this invasion that the new head of the Czechoslovakian Communist Party, Husák, attempted to regain legitimisation through a process of 'normalisation'. Part of the strategy was to satisfy long called for Slovak demands for increased autonomy within the federation. This provided the regime with some leverage power by isolating the reform elites in Prague.

Soviet-led intervention in both Hungary in 1956 and in Czechoslovakia in 1968 came about for a number of reasons, the most important probably being the potential loss of buffer zone in both ideological and physical terms for the Soviet Union. After re-establishing its power base through force and control it is clear that the national leaderships which took power after both these events within an unchanged and top-heavy power structure had to find new ways of reinventing justification for its existence. Ramet suggests that it was the regimes failure to do this effectively in the 1980s that resulted in the events of 1989. The political legitimisation of the regimes through effective economic management and political integrity or the relevance of regime ideology and policy to society was discovered to be irredeemably bankrupt.
The Case of the German Democratic Republic

In the GDR, as in Czechoslovakia, the people were liberated by the Red Army at the end of the Second World War ('die Befreiung') but suffered at the hands of the Western Allies.

A common utterance of the same piece of folk wisdom from people of all (private) political persuasions in the GDR up to 1989 was as follows;

'Die Russen haben uns befreit, aber die Engländer und Amerikaner haben Dresden bombardiert.'

Although the horror of the bombings of refugees in Dresden by the 'western' Allies during the war was openly discussed, no mention was ever allowed of the mass rapes of about 2 million German women in the first few weeks of the 'liberation' by the Red Army. As Timothy Garton Ash points out, although the Nazi atrocities were fully explored in the GDR, the responsibility of the German people of the time was never discussed. The Third Reich was considered to be the ultimate political expression of the bourgeoisie capitalist class and therefore far removed from the GDR and its workers' state of the day. Indeed the prelude to the GDR constitution defines its existence as a state on exactly this basis:

'In Fortsetzung der revolutionären Traditionen der deutschen Arbeiterklasse und gestützt auf die Befreiung vom Faschismus hat das Volk der Deutschen
Demokratischen Republik in Übereinstimmung mit den Prozessen der geschichtlichen Entwicklung unserer Epoche sein Recht auf sozial-ökonomische, staatliche und nationale Selbstbestimmung verwirklicht und gestaltet die entwickelte sozialistische Gesellschaft.  

Wolf Biermann, GDR citizen, singer, left-wing commentator of the GDR was eventually expelled from the GDR on the 17th of November 1976 after giving a concert in Köln at the invitation of IG Metall, the West German union. The decision was taken, amidst much outrage amongst the writers community of the GDR, on the basis of 'feindseliges Auftreten' against the GDR and for displaying a lack of loyalty to the state.

An example of his wide repertoire are the following lines, which highlight the way in which the GDR defined its existence:

'Die DDR, mein Vaterland, ist sauber immerhin. Die Nazizeit ist absolut nicht drin. So gründlich haben wir geschrubbt mit Stalin's hartem Besen, dass rotverschrammt der Hintern ist, der vorher braun gewesen.'

Summary of Freedoms in the Centrally Planned Economies

So the term 'freedom' was defined and described by the state in order to justify the relevance of its chosen political ideology. As already discussed the central theme to this ideology was Marx's dictum 'Jeder nach seinen Fähigkeiten, jedem nach seiner Leistung' and this became the leitmotif for the society in which people found
themselves living. When this ideology was inappropriate to the practical situation or actual decisions taken the definition was based on sometimes crass political propaganda. And yet it was people brought up and socialised in the above system who were ultimately involved in the 'refolutions' which were aimed at bringing about freedom from an oppressive state and consequently heralded in a transition to a democratic political system and also to a market economy.

Transformation and Organisational Change in East/Central Europe

Something about the pre-1989 state definition of 'freedom' did not ring true and provoked action. To what extent, however, were aspects of the above definition of freedom accepted by the populations in principle, but rejected in the form expressed by the state? Neues Forum, a GDR reform movement of '89, for one called for a realignment to the socialist ideal at the same time as rejecting the totalitarian system they were forced to live under. Events overtook such organisations but the situation since 1989 suggests that reunification has not brought about a total identification with the values of the Bundesrepublik. Forty years of a different value system in the GDR and Czechoslovakia have inculcated certain behaviour and expectations in its citizens which cannot be swept away overnight but rather needs to be worked through and adapted by those who have inherited it to the new conditions. The old institutions may have been demolished but the political, social and in general organisational culture takes longer to be modified. Adler J. Mortimer reports a Hungarian entrepreneur, Imre, saying
'Under the Soviet system, no one gets rich. To us, that is stupid. Under American capitalism, some get very rich, but others remain very poor. We don't think this is fair. But in Finland and Sweden, everybody gets rich. Now, to Eastern Europeans, that sounds smart and fair!' 38

The question which is really being asked here is: how are the new political and ultimately social cultures developing and how does this affect the workplace culture? How do these people view 'freedom'? Which concepts of freedom do they still hold as important and which do they now feel hold greater relevance to their working lives? Do they feel the new political and economic organisation of their countries as being freer than before or do they see some freedoms being satisfied at the expense of others held dear? Do they perceive a trade-off occurring between freedom of speech and freedom to earn a wage? How does their view affect their commitment to the new system and the new workplace organisation?

Power has begun, nominally at least, to shift from the state to private ownership, from a political system of centralised party power monopoly to a parliamentary system with competing political parties and interest groups. Whether this transformation has actually been fully achieved throughout East/Central Europe is questionable, however the institutions and systems are potentially open to change and innovation. The transition carries with it implications for the operation of enterprises in the economy and the actors within the enterprise itself. In order to assess the impact upon management the roles in and priorities of the enterprise/company East and West need to be assessed. As already discussed, the
previous system was not purely one of state ownership of production. It also assumed other duties, such as welfare, housing, holiday provision, providing full and stable employment. Regardless of whether these responsibilities were carried out efficiently or not, they were perceived as the state's responsibility. A type of stakeholder model was in place, at least nominally.

Table 1:1 presents Prokopenko's description of the priorities of East European managers versus West European managers. This 'bureaucratic' stakeholder model suggests that the economic system of state socialism was both unsuccessful in a practical sense of supplying goods to the market as opposed to a capitalist system and also, in its bureaucratic nature, failed to legitimise the political systems of the Communist era. Prokopenko's stakeholder model can only be seen as a very general indicator of the value systems in enterprises in state socialist countries.

Table 1:1  Prokopenko's East/ West Economic Stakeholder Comparison

<table>
<thead>
<tr>
<th>Priority</th>
<th>Bureaucratic (East)</th>
<th>Entrepreneur (West)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Managers themselves</td>
<td>Customers</td>
</tr>
<tr>
<td>2</td>
<td>Employees</td>
<td>Shareholders</td>
</tr>
<tr>
<td>3</td>
<td>Shareholders</td>
<td>Employees</td>
</tr>
<tr>
<td>4</td>
<td>Customers</td>
<td>Management themselves</td>
</tr>
</tbody>
</table>

It is inappropriate in that it does not cater for a completely different socio-economic system, but rather judges the stakeholder model from a position of using the West
European entrepreneurial system or more precisely, as closer analysis reveals later in this thesis, an Anglo-saxon stakeholder model as the norm, against which to measure all other systems. It does not allow for different European cultural interpretations of the market system, i.e. the German social market model, nor does it allow for the differing developments in forms of managerial capitalism and hierarchies within the firms as discussed by Chandler (1992) in his comparison of managerial capitalism in the United States of America, the United Kingdom and Germany. The above stakeholder model also emerges as rather oversimplified if applied to both the subtleties of internal workings of enterprises and the numerous firms both East and West which do not conform to these patterns of priorities. The current criticism of management of the newly privatised public utilities in the 1990s in the United Kingdom has pointed to the priority of satisfying first of all the interests of managers themselves via share distribution, higher wage packages and golden handshakes, to the direct detriment of other shareholders, customers and even the company itself. These phenomena turn the above model on its head. This model is also questionable in its ability to cope with the complexities of the economic embeddedness situation of East/ Central Europe and civil society. Rather a more complex system of conflicting and converging stakeholder interests can be drawn. Chapters Ten and Eleven elaborate on this theme. However, an initial alternative comparative model of external and internal stakeholders in market versus command economies can be draw based on the author's first round of interviews with managers in the Czech and Slovak Republics and the former GDR, in Spring and Autumn 1993 (See Table 1:2 Stakeholder
Power and Actual Influence: An East/West Comparison. This enables a view of the impact of the past political system and political players on enterprise/company operation.

Inherited Influences from the State Socialist Value System and Organisational Arrangements

For the last 40 years the perception of the role of the enterprise in East/Central Europe has differed vastly from that perception now required and current in Western Europe. In the past meeting the planned production targets and thereby satisfying the population's requirements was central to the legitimisation of the leading role of the Communist Party. This took precedence over all other considerations of financial profitability, reinvestment, health and safety and working conditions or environmental damage. Jones (1993) reports:

'The state therefore sought to legitimise itself through the welfare system, and through government monopoly of production, distribution and exchange, creating a system of organised dependence.'

The highly centralised state set the political and economic agenda and passed down its instructions to the enterprises to be fulfilled. Diagram 1 below displays this action in the context of the German Democratic Republic. This affected both the scope of activity of the enterprises and their mission as perceived by all those
Table 1:2 Stakeholder Power and Actual Influence: An East/ West Comparison

<table>
<thead>
<tr>
<th>Command System</th>
<th>Market System</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Political System on Enterprise</strong></td>
<td><strong>Political System on Firm:</strong> Medium Power/ Low Influence: Depending on state sector and state influence in economy. No direct involvement outside state sector on functioning of firm.</td>
</tr>
<tr>
<td>High Power/Low Influence: High Influence-monopoly control of all production and political power. Sets plans at Party Plenums. Planning Commissions and Ministries carry out plans.</td>
<td></td>
</tr>
<tr>
<td>Low Influence-trapped by own interpretation of ideological tenets and need to retain control. Therefore unable or unwilling to address problems of shortage economy. High level political power cannot improve an inherently deficient system through threat and tinkering with system.</td>
<td></td>
</tr>
<tr>
<td><strong>Private Owners (predominantly)</strong></td>
<td></td>
</tr>
<tr>
<td>Variety of Power and influence levels dependent on national and specific organisational culture and owners. Shareholders generally interested in return on investment. Board of Directors concerned with monitoring company activity and success. Most power for day to day running devolved to management.</td>
<td></td>
</tr>
<tr>
<td><strong>Managers</strong></td>
<td><strong>Managers</strong> Medium Power/High Influence</td>
</tr>
<tr>
<td>Medium Power/Low Influence: tight hierarchical structure, overcentralised decisions (Planning Commission/Ministry located). No latitude for innovative decision-making at lower levels, i.e. from General Director to lower management levels. No incentive lower down for effective management in terms of salary or promotion (Party Cadre most important criterion).</td>
<td>See above. Usually held for professionally responsible for company's success or failure.</td>
</tr>
<tr>
<td><strong>Customers</strong></td>
<td><strong>Customers</strong> Low Power/High Influence</td>
</tr>
<tr>
<td>Low Power/Low Influence</td>
<td></td>
</tr>
<tr>
<td>Shortage economy, little choice. Access to goods determined by supply irrespective of ability to pay. (Excluding black market economy).</td>
<td></td>
</tr>
<tr>
<td><strong>Interest Groups</strong></td>
<td><strong>Interest Groups</strong> External: Low Power/Medium Influence. May/may not have institutional power base. Level of influence dependent on company's sensitivity to issues and cultural weighting given, e.g. consumer groups may carry more weight than environmental groups and environmental pressure groups may carry more weight in Germany than in Britain. Internal: Power and Influence dependent on national legislation and culture and specific organisational arrangements and culture, e.g. trade unions.</td>
</tr>
<tr>
<td>External: Low Power/Low Influence. Groups outside Communist Party organisation or actual power orbit non-existent.</td>
<td></td>
</tr>
<tr>
<td>Internal (politically linked organisations) High power in enterprise functioning, on political control and general organisation culture.</td>
<td></td>
</tr>
<tr>
<td><strong>Financial System/Investors</strong></td>
<td><strong>Financial System/Investors</strong> Credit Sources, Tax System, Accounting and Audit: Medium Power/High Influence</td>
</tr>
<tr>
<td>Credit Sources, Tax System, Accounting and Audit: Low Influence- internalised by state system. &quot;Soft budget constraint&quot; means subsidies given in order to secure production regardless of financial loss-making activities or wastage.</td>
<td>Company's main internal and external success criterion is profitability. Company's activities may not be directly controlled by the above systems but is strongly influenced by them.</td>
</tr>
</tbody>
</table>

Table: Original S. Bygate 1993.

Note: It is important to note here that some direct parallel comparisons cannot be made due to radically different organisation of systems.
employed there. The working roles allocated to managers were especially shaped by this aspect in comparison to alternative systems. Lastly this arrangement affected the value system internalised by each employee in terms of both 'official' values voluntarily internalised, and 'compensatory' private value systems and related actions.

**The Role of the Enterprise in the Command Economy**

Professor Teichman of Warsaw University makes the point that enterprises under the old regimes of command economy had additional and sometimes more important functions to the apparent primary function of manufacturing and thereby fulfilling demand. She lists these functions in order of priority as:

1. the political function
2. the social security function
3. the manufacturing function

Slanský (1951) also referred to these functions in his speeches of November 1948 to early 1949, and Myant also mentions these priorities. The reason for this declining order of priorities was that fulfilling demand was a political and economic imperative. Where manufacturing fell short of fulfilling demand due to structural inadequacies, the political and social security functions bridged the gap between demand and supply. The centrally planned economy has been described as one of
'shortage' and due to the ideological straitjacket little could be done to reform the 'shortage' system and put manufacturing at the top of the priority list of functions fulfilling demand. The official interpretation of the chosen ideology of the time predetermined the functions and nature of enterprises to a degree unimaginable in the West. When the state did attempt reform it appeared sometimes to be operating on a seesaw principle: sometimes rejecting necessary changes to the system because it did not conform to its ideology and sometimes bending the official 'rules', or reinterpreting ideology, in order to bring about certain limited changes necessary to retain effective control and apparent legitimisation. Kornai has described this as 'The Constant and Variable Elements in the Official Ideology'. The varying national interpretations and applications of ideology do not fall within the scope of this doctorate, however a discussion of the effect of these national differences on the form of privatisation undertaken since 1989 will be dealt with in chapter two. Generally, however, it is true to say that once the above system became established the State and party's identification with the bureaucratic structure and the political investment in its functioning usually reduced reforms to basic tinkering with the machine rather than overhauling it.
Simplified Diagram of Management Structure of Industry in the GDR 1977

Council of Ministers or Ministerrat

State Planning Commission

11 Ministries of Industry

Ministry for District Managed and Foodstuffs Industries

Other central organs of state (*)

Directly subordinate 'Kombinats'

VWB Vereinigung Volkseigener Betrieb

Area (Bezirk) Planning Commission

Area Economic Council

Area Council

Volkseigener Betrieb or Kombinat (z)

Managing enterprise of product group

Area Public Utilities Supply Activity

Local Utilities enterprises

Trade

VB or Kombinat (b)

District Planning Commission

Council of Districts (or of cities and communities)

VEB Volkseigener Betrieb or Kombinat (z)

V = centrally controlled enterprises
b = area controlled enterprises
direct subordinate relationship =
other type of relationship (cooperation, agreement etc.) =
product group type =
* = Ministries for foreign trade; sales and supplies; finance; sciences and technology; state secretariat for work and wages; training and education; office for prizes; office for standardisation, weights and measures; inventions and patents; industrial design.

The Political Function

When asked about the annual loss made by 'his' enterprise under the previous regime, a manager in a small town in Northern Slovakia shrugged his shoulders with a smile,

"Who knows, no-one counted, it didn't matter, the state always bailed you out!"

And now?

"We have had to search for our own markets. Before that it was the state's responsibility. Now we know our debts."

An ex-Meister previously employed at a steel fitting factory in the former GDR recalled how those who did work were usually promoted, as she was after further training to Meister, but then came under pressure as part of the 'elite' to join the Communist Party in order to set an example to the 'workers'. A curious idea as the party was described as the Peasants and Workers Party and yet attracted more career minded personalities. However payment was not commensurate with increased responsibility. It was only after years of sacrifice that an individual reached a position such as Managing Director from which they could reap the personal rewards of connections.
Connections enabled individuals to supplement their lifestyle needs materially or in the sphere of increased choices which remained unfulfilled by the command economy. From these examples it is clear that the state was concerned primarily with production as a tool of political legitimisation from the bottom up and political control from the top down, not as a process of production in line with cost effectiveness and profitability and efficient allocation.

The Social Security Function

The same Meister recalls how as a highly trained part of the workforce with supervisory functions she was often required to spend her mornings rounding up the 'Asozialen', that is recently released criminals and alcoholics allocated to the factory and/or the workshy, and drive them to work. She reports that it was a farcical situation as little work was achieved and most of these types of employees only waited for the end of the month pay packet in order to be able to disappear into certain alcoholic haze. The politically defined social order detracted from efficient functioning within the economic sphere.

Generally the enterprises also provided certain welfare functions such as accommodation and kindergarten facilities. One personnel manager in eastern Bohemia in the Czech Republic noted that the company still had problems now as it awaited privatisation in trying to rationalise its accommodation responsibilities towards employees inherited from the past. Another company in eastern Slovakia had changed its kindergarten into a showroom as immediate pressure to be profitable, and therefore to survive, outweighed the social costs, and yet was in the
process of retraining 16 middle managers most of whom were surplus to requirements. Under the previous system and as part of the 'Výrobnohospodárska jednotka'\textsuperscript{39} (or 'Economic Production Unit') for furniture production, these two branches had employed 3500 shop-floor employees and 150 in management. The firm employed, together with a sister branch in a neighbouring village, approximately 800 people on the shop-floor and 50 managers: this level already represented a drastic cut in personnel. In an informal discussion with 14 of the 16 young middle managers, attending an on-site retraining seminar organised by a Swiss firm, the managers themselves voiced an awareness of their still top heavy structure. This example displays the dilemma of many enterprises who recognise the need to restructure but whose continuing attachments to old value systems inform for better or for worse attempts to do so. Madhavan and Fogel (1992) report from their own experience, and with reference to Allen, Miller and Nath, that:

\textquote{the ties between individuals and the organisations have moral components in collectivist societies. Extremes of this value, in Romania and the former Soviet Union, will prohibit rapid change to a market economy.}\textsuperscript{31}

Although the conception of the social security role of the enterprise is not preventing change to a market economy in the Czech and Slovak Republics and in the GDR it has influenced the process, speed and perception of the transition.
Manufacturing Function and Working Roles

As for managerial roles, certain functions carried greater importance than others. Material procurement in shortage economies were more important than marketing for instance which was completely unnecessary as the state organised distribution and there was no competition. Under the restitution law the original owners of a small brewery south of Leipzig in eastern Germany regained control of a family business which had passed into state hands in the 1970s. As with many other businesses in 'eastern' Germany they had absolutely no experience of marketing nor the functioning of a market economy. As a result they had to buy in external marketing advice from 'western' Germany in order to fill the information and experience gap. Naturally this is a large outlay for such a small firm but at least there is greater access to these skills in Germany than in the Czech and Slovak Republics. Indeed the imbalance of skills is quoted by Prokopenko (1992) as one of the advantages of Joint ventures undertaken between 'east' and 'west', in that such an arrangement can capitalise on 'western' marketing and sales skills and the 'eastern' skills of material procurement.

The political, social and economic roles of the enterprise practised in the command economy, as outlined above, suggest a general outline of enterprise character, portfolio and success indicators which diverges from the usual model found in a market economy. The table below attempts to show these major differences.

From these examples it is clear that management always involves functioning in a society which has certain values and an accepted framework of practices. It is during the present transitions to different practical frameworks that the societies of
'eastern' Germany and the Czech and Slovak Republics are in the process of reaffirming or rejecting certain values inherited from the past political, economic and social arrangements. Management involves dealing with people both in the market place and as owners, creditors and employees. What people think and feel about the mission of the enterprise or company they work for, their roles within this mission as well as the external environment all affects their functioning and the choices they make. There is a clear ambivalence evident in this transition process from one set of values to another. Madhavan and Fogel (1992) have noted that:

'Hungarian managers are feeling constant pressure to both reduce workforces yet preserve the values and benefits of full employment. Managers are identifying a need to absorb unique managerial skills to cope with the job stress created by this pressure coupled with the pressures of radically shifting economic and political structures.'

However the very skills that are appreciated as essential are ones emanating from a society whose values for so long have been both ideologically and culturally different from the indigenous ones of East/Central Europe and the former Soviet Union. The above two authors concluded that although 'managers are enamoured with American management practices' they are also 'simultaneously being critical of its effects in American society or its relevance to the "local situation"'.

37
<table>
<thead>
<tr>
<th>CHARACTER/PORTFOLIO AND SUCCESS INDICATORS</th>
<th>GENERAL CRITERIA</th>
<th>COMMAND SYSTEM</th>
<th>MARKET SYSTEM</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Main Success Criteria</td>
<td>Fulfilling Plan: command driven. Set in the GDR by the Staatliche Planungskommission (State Planning Commission) and by a corresponding body in Czechoslovakia.</td>
<td>Profitability: market driven.</td>
<td></td>
</tr>
<tr>
<td>2. Location of Success</td>
<td>External</td>
<td>Internal</td>
<td>Largely private shareholders, individual or corporate. Limited state sector, varying in size and function according to country and form of market economy, e.g. social market economy of the Federal Republic of Germany, the Japanese model or the Anglo-Saxon model of the United Kingdom and the United States of America.</td>
</tr>
<tr>
<td>3. Ownership Forms</td>
<td>GDR, largely state: Volkseigener Betrieb(VEB) or Nationalized Enterprise, Volkseigener Kombinat (VVK) or Nationalized Farm, Vereinigung Volkseigner Betrieb(VVB) or Association of Nationalized Enterprises, Landwirtschaftliche Produktionsgenossenschaft (LPG) or Agricultural Production Cooperative. Few private entities. Czechoslovakia, largely state: státní podnik or People’s Enterprise (which became státní podnik or state enterprises after 1988/89). Some sectors, especially in agriculture, jednotné zemědělské družstvo (Standard Farming Cooperatives). Few private entities.</td>
<td>Responsibility of firm to organize internal finances and external support when required.</td>
<td></td>
</tr>
<tr>
<td>4. Finance</td>
<td>Capital investment determined by central authority of firm to organise internal planning authorities, sometimes taking and finances and external support when required. When state subsidies freely available, the soft budget constraint not channelled to restructuring.</td>
<td>By market and company with little government intervention.</td>
<td></td>
</tr>
<tr>
<td>5. Prices</td>
<td>Set completely by state according firstly to political criteria, e.g. cheap bread, housing etc. Then set to cover basic running costs only.</td>
<td>Set by market and company with little government intervention.</td>
<td></td>
</tr>
<tr>
<td>6. Labour</td>
<td>Production process labour driven. Quantity and basic quality (training in production process skills encouraged) required. Stockpiling of labour for storming (pluta in production) and as compensation for low technology base. Management prestige when presiding over large workforce.</td>
<td>Quality the main criteria.</td>
<td></td>
</tr>
<tr>
<td>7. Technology</td>
<td>Low technology level (often outdated and inefficient) due to low capital investment priority. Reliance on labour. This due to investment function being located within Ministry (or Kombinat/VHK). Prices set at insufficiently low levels and administration not structured to redistribute profits accurately.</td>
<td>Production process technologically driven. High technology available depending on company’s priorities and ability to pay. No overt structural impediments.</td>
<td></td>
</tr>
<tr>
<td>8. Marketing and Distribution</td>
<td>Marketing non-existent. State guarantees state. Due to nature of the command economy or the so-called ‘shortage’ economy: monopoly production, no competition, captive customers. Distribution a responsibility of the state at both company level (Ministry) and at infrastructure level (State). Distribution in some sectors (especially consumer goods and services) slow and patchy.</td>
<td>Marketing highly important. Distribution networks responsibility of firm. These networks reliant on infrastructure planned and paid for in most cases by the state as distinct from the company. Industry may lobby state or attempt to influence state decisions which affect it.</td>
<td></td>
</tr>
</tbody>
</table>

Table 1.3 Enterprise Comparison: Command Versus Market Systems

Character/Portfolio and Success Indicators

Table: Original S. Bygate 1993.
A Rough Outline of the Inherited Influences of the State Socialist Value System
at the Functional Level

Formal Education and the Centrally Planned Economy and Certain Organisational
Aspects

The two quotes at the beginning of this chapter emphasise the authoritarian
influence of the official ideology and the inefficient organisational functioning
dominant until 1989 in Eastern Europe in both the past and present. The transition
which was heralded in almost overnight for many countries, including the German
Democratic Republic and Czechoslovakia marks the start of a long process of
change towards a democratic system and the accompanying introduction of some
sort of market economy. The adaptation of a radically different personal value
system and social currency to fit the demands of a new social order is not an
overnight transformation but rather a slow and sometimes painful process. This can
be seen even on a practical level of the formal education system.

The received formal education of the present adult population, including of course
present day managers, was tailored to the propagation of the legitimising ideology
and to servicing the centralised command economy. Thus the education system was
ideologically based on Marxism-Leninsm, or as Reiner Kunze describes this
Weltanschauung was indoctrinated throughout the years of formal education into
children and young adults to a degree that removed any critical thinking and
produced knee jerk responses. Randlesome notes with respect to Anweiler (1990)55,
that this aspect was a conscious aim of the education system as well as that of
providing a firm practical preparation for slotting into the economic system
'The state also claimed the unity of education and the economy, and this led *inter alia* to a system of ideological homogenisation in all schools, colleges and universities:...\textsuperscript{56}

*The Effect on Managers*

The effect on managers as recipients of such an education system is twofold. Firstly they have been ideologically educated 'against' the market economy and secondly their basic and higher education under the old regime has not equipped them practically for functioning within this type of economic system. A group of managers on an in-house management training scheme in Eastern Slovakia visited by the author in Spring 1993, had difficulty in understanding that market economies may function differently in different countries. Their conception of capitalism was one still influenced by a strict interpretation of Marxist historic-materialism, where capitalism is a stage in the inevitable development of each country and is not differentiated according to culture, political system or national economic priorities and arrangements. CBI News noted in 1993 that:

'Up until three years ago "sales" did not exist as a profession, except in the sense of black marketing. Any western company that now buys a production facility in the Czech or Slovak Republics, has to set up a sales team from first principles.'\textsuperscript{57}
The same report also notes the behavioural effects of a technocratic education system as encouraging categorical skills, "everything is measured and in boxes".58

'As a result Czechs and Slovaks can typically describe a product well, but are less good at selling the benefits.'59

Hence the influx of management training schemes from western Europe and America into present day East/Central. However, a mistake of many of these training schemes has been to ignore both the indigenous skills and knowledge and the socio-economic cultures peculiar to enterprises in a reforming command economy. In many respects the process of transformation has been underestimated by the West. In order to be able to properly assess the degree of influence of the indigenous culture on present day management and organisation, an accurate picture of the previous command economy must be gained. What exactly was the old system under the centrally planned economies for which managers were previously educated?

Certain Organisational Aspects

Certain organisational aspects were characteristically different in East/Central European organisations when compared with 'western' Europe, including organisational responsibility, concepts of equity, status, motivation, collective spirit and control. In command economic systems, with Marxism-Leninism as the defining ideology, the right to economic well-being through such principles of job
allocation, cheap housing, or on site kindergartens, etc., were incorporated into organisational responsibility of the firm, to the detriment of "negative" rights such as non-interference by the state in political choices. Economic organisations in many instances were expected to provide many of these conditions for its work-force. As concerns ideas of equity and status in East/Central European organisation had their own patterns. Ideas of equity were considered more important than encouraging individual achievements. This is reflective in the wage scales where there was little significant difference between a shop floor worker income and lower level management income. The former GDR Meister referred to above commented that people laughed at those who spent years studying engineering at university as once they set to work in an enterprise they were rarely earning more than skilled shop-floor workers. Their economic status was low although their potential to move up the ranks was arguably higher if they played the political game long enough. By her estimation it could take 15 years of political manoeuvring to ensure general management status.

Issues of motivation, the 'collective spirit' and control strongly influenced organisational operation. Achievements were to be completed through collective efforts and appeals to Marxist-Leninist spirit. Thus the Parteitags and Czech and Slovak party plenums appealed to the masses for increased efforts to fulfil the 5 year plan. Motivation was politically fuelled in two ways, firstly through the extrinsic self-congratulatory method of ideological correctness and secondly through the intrinsic method of Machiavellian use of party and state contacts for personal benefit. The former Czechoslovakia and GDR conferred various titles on its well
performing workers, such as 'shock worker' in Czechoslovakia, as defined by the
Trade Union Congress in December 1949 and the Hero of Labour, Banner of
Labour for Individual, Meritous Activist, Activist of Socialist Labour in the former
GDR. However it became clear to all that unless ideological allegiance was
displayed by an individual any improvement in production levels would result in
little personal reward.

Issues of political legitimisation of the regime and of political control of society
shaped job security along with economic issues. Each individual had the legally
enshrined right to a job (as stated in the constitutions of the respective countries)
and since the workplace was the only channel of socialisation after full-time
education, the state had no intention of losing this as a means of control. Constant
labour shortages due to insecure and patchy supplies of raw materials and old and
inefficient machinery led to hoarding of employees also, regardless of their
effectiveness. They were necessary as extra employees when ‘storming’ was
necessary.

Influence of the Issues on the Present

These problems and many others are still facing companies in the Czech and Slovak
republics. Motivation was cited in many interviews with company directors as one
of the biggest problems and is linked not only to the internal motivation
arrangements of the past and/or the transition period but also to outdated
interpretations of the role of production in society.
In the Czech and Slovak republics state enterprises, or enterprises still in the process of privatisation, were for the initial years of this study still legally bound to operate under the government set wage bands. Consequently the scope for improving employee efficiency was limited. One company in northern Bohemia in September 1993 cited this issue as the reason for the difficulty in recruiting and retaining high quality personnel. Newly set up private companies were not bound by old legislation and therefore were plagued to a lesser extent by inadequate personnel calibre. In a number of breweries in eastern Germany managers reported difficulty in "getting employees to pay attention". In one such brewery in Saxony in 1993 a whole consignment of bottled beer had to be disposed of as the installation of new machinery in another section of the brewery had diverted attention from the labelling process resulting in serious mislabelling. Employees, still rooted in the shortage economy were unable to appreciate that the beer could now no longer be sold.

**Conclusion**

This chapter has attempted to describe the different value systems of Eastern Europe as opposed to Western Europe. The role of the enterprise in the old system has been shown to have a fundamentally different role. This role was reflective of the political and economic arrangements of the states of the time, which is in turn reflective of their ideological world view. The success indicators of the enterprise and the emphasis given to different enterprise activities are a direct result of these different ideological stances or interpretations of freedom.
The present day effects on management and management functions will be dealt with in greater detail in a later chapters. Finally the chapter has attempted to outline the relevance of this inheritance to the present and is best summed up by Jones (1993):

'...it is certainly not sufficient to abolish the old institutions and introduce icons of capitalism, such as stock exchanges, chambers of commerce, or MacDonalds: these are the external manifestations of the phenomenon, not the phenomenon itself. The debates about ‘shock therapy’ versus gradualism, or of reform sequencing, are at least about tangible phenomena: the problem of changing values, attitudes and behaviour patterns is far more difficult.'


ibid.


SULLIVAN (1989) *op cit.*

SULLIVAN, ROGER J. (1989) *op cit.*


18 SULLIVAN (1989) op cit.


21 ibid.

22 ibid.

23 'VERFASSUNG DER DEUTSCHEN DEMOKRATISCHEN REPUBLIK' von 6 April 1968, Berlin


25 The political "thaw" of the time in the Soviet Union and Eastern Europe takes its name from a play written by the Russian author Ilya Ehrenberg in 1954.


29 LANE, DAVID (1985) op cit.

30 ibid.

31 The statutes ensuring the freeing of the serfs were signed as late as 1861. For a more detailed discussion of this period see SETON-WATSON, HUGH (1990) The Russian Empire 1801-1917. Oxford University Press, Oxford. First published 1967.

32 Noted by the author during an academic year spent at Rostock University in the then GDR, 1985-86.

33 A recent film made in 1991/92 by HELKE SANDER entitled Befreier und Befreite. Krieg-Vergewaltigung-Kinder has investigated this well kept secret for the first time due to the greater freedoms of the new political situation.

34 GARTON ASH, TIMOTHY (1981) Und willst Du nicht mein Bruder sein: die DDR heute. Spiegel, FRG.


36 GARTON ASH, TIMOTHY (1982) op cit.
GARTON ASH, TIMOTHY (1990) *We The People. The Revolution of '89. Witnessed in Warsaw, Budapest, Berlin and Prague*. Granta Books 1990. Ash refers to Hungary and Poland changing through a mixture of reform and revolution and denotes these as 'refolutions'. The states led by Honecker (German Democratic Republic), Husák (Czechoslovakia) and Ceaușescu (Romania) held their iron grip until forced to let go in changes more reminiscent of revolutions. RAMET (1991) refers to all the revolutions and refolutions taking place in East/Central Europe in 1989 as 'transformations'.


TEICHMANN, PROFESSOR. Visiting Lecturer, Buckinghamshire College, Business School, Brunel University. Summer 1993.


SPRAGUE, LINDA (8/12/93) Guest lecture at Buckinghamshire College Business School, Brunel University. Similar tinkering with the system prior to the recent more radical reforms, in agriculture especially, could also be observed in China.


Authors interviews in enterprises.

*ibid.*
The Vyrobni hospodarska jednotka (Czech) or V'robnohospodarska jednotka (Slovak) structures were formed after 1958. For a description of the Vhj structure and functioning see Chapter 7, especially pp.11-13 or for a more detailed description see RYCHETNIK, LUDEK (1981) 'The Industrial Enterprise in Czechoslovakia' in JEFFRIES, IAN (ed.) The Industrial Enterprise in Eastern Europe, Praeger, Eastbourne.


PROKOPENKO, JOSEPH (1992) op cit.


ibid.


ibid.

ibid.

Interviews carried out by the author in the Czech Republic, Firm Dřevodělný.

Interviews carried out by the author in eastern Germany.

MYANT, MARTIN (1989) op cit.


JONES, ROBERT (1993) op cit.
Chapter Two
Methodology

Nature of Research

The nature of this research can be described briefly as a longitudinal qualitative study based primarily on case study interviews carried out over two consecutive years with management in enterprises undergoing, or being prepared for, privatisation, supplemented by a smaller questionnaire sample for each firm. The firms were predominantly chosen from the brewing and furniture-making industries across three countries in order to maintain sample cohesiveness and cross-country comparisons.

The particular field of study was problematic because the whole geographical area was undergoing rapid and unexpected change. Thus there was no historical precedent for transition from a state socialist or command economy to a market economy and therefore no established body of literature on the subject of this type of economic transition or transformation. The nature of the change also meant that it was not always a stable process especially as it affected all sectors of society and all types of social, political and economic activity simultaneously. Thus, although this study was initially (at the end of 1992) conceived of as a two-country study of Czechoslovakia and East Germany, it became a three-country study on the 1st January 1993 when the Czech and Slovak Republics split, and thus the emphasis is primarily in the latter two, with a more summary analysis of East Germany for comparative purposes.
Despite the difficulties all research must be carried out under real conditions, however unsuited they are to 'pure' methodological deliberations. Essentially all social science research is driven by snapshots, but to ensure greater validity, supporting evidence must be found from other similar studies and sources of knowledge. Thus the aim of this research is to build a picture based on its own snapshots derived from the case studies and corroborated by other contemporary and significant studies of issues in transition and generally by information on the unfolding events and problems in the area.

As already pointed out, background literature on the nature of transition from a state socialist economy to a market driven one was non-existent prior to 1989. However, important and valuable background literature does exist on the nature of state socialism and of previous practices and issues in the field of economy (including organisational issues), society and politics. For example, Komárek's criticisms of the Czechoslovak economic problems in the 1980s highlight aspects of continuing concern during transition. This study refers to these sources as they provide a secure basis from which a logical estimate can be made of present issues.

The Case Study Interviews

The choice of case study was selected as a research method because it best enables the researcher to understand 'the dynamics present within single settings' and allows both study of multiple cases and numerous levels of analysis (Yin 1984), and a combination of data collection, in this instance interviews, questionnaires and other literature and observations (Eisenhardt 1989). Case studies have been used in
this case to generate theory (as with Gersick [1988] and Harris and Sutton [1986], as opposed to providing description as in Kidder [1982] or testing theory as in Pinfield [1986], Anderson [1983]), that is, that in organisational restructuring ownership change has little importance if not combined with a view of inherited networks, economic embeddedness and forms of corporate governance.

The interviews were initially aimed at the brewing and furniture industries but due to difficulties in access also included one computer programming firm and one heavyengineering firm with a specific brewing machinery construction department and brewery attached. The first round of interviews with enterprise management took place in 1993 and the second throughout 1994. The first interviews were unstructured ones usually lasting at least two hours and often much more and required of management to reflect on their working roles generally and the changes they and their organisation had encountered since 1989. Management was left to identify and concentrate on the areas it deemed as important. The second round of interviews were semi-structured, in that certain areas had been highlighted by the researcher as being most important to management and as the most salient points in the researcher's analysis of the existing data.

The table below displays the names, country and characteristics of each firm interviewed. The firms were guaranteed anonymity and have consequently been given pseudonyms.

The two case studies described in Chapters Seven and Eight and those more generally referred to in the East German chapter, Chapter Nine were chosen from the above selection. These particular case studies were chosen because it was felt
that they best displayed the issues and problems typically being faced by management and organisations.

It is important to remember that the firms were initially chosen for the purposes of studying national phenomena of economic transition at organisational level and thus enterprises with indigenous management and ownership were preferred. However, due to the rapidly changing nature of the economic situations in the countries under discussion it has not always been possible to maintain this exclusivity of the sample. For the Czech and Slovak Republics most case studies, especially the two described in detail later, were of the indigenous type, although some with foreign ownership and/or management were included in the sample. In the case of East Germany the very nature of the transition made study of firms with 'foreign', that is usually West German, ownership and management inevitable and this was built into the study from the beginning.

Despite these qualifications, it is interesting to note that those interviews with firms which do possess a foreign element in their ownership or management pattern actually reinforce the findings of the study on the salient issues of organisational change and its management in indigenous firms. They did this by highlighting similar problems or their means (almost always unavailable to domestic ownership/management teams) to overcome these difficulties.
<table>
<thead>
<tr>
<th>Name of Enterprise</th>
<th>Activity</th>
<th>Size (prior to 1989)</th>
<th>Ownership</th>
<th>Interviewees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Czech Republic</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Firm Děvadělný</td>
<td>furniture manufacturer</td>
<td>medium 360 employees, reduced in 1993 to 156</td>
<td>indigenous strategic IPF, NPF (National Property Fund), newspapers, individual shareholders, later strategic interest bought by private Czech entrepreneur</td>
<td>Managing Director, Finance Manager, External Management Advisor</td>
</tr>
<tr>
<td>Firm Věd</td>
<td>computers</td>
<td>large 4000 employees reduced by 1993 to 3200</td>
<td>indigenous mostly IPFs, NPF, individual shareholders</td>
<td>Managing Director, Personnel Manager</td>
</tr>
<tr>
<td>Firm Hrad</td>
<td>brewery and brewery engineering</td>
<td>large 3500 employees</td>
<td>indigenous NPF, individual shareholders</td>
<td>Personnel Manager</td>
</tr>
<tr>
<td>Firm Pivo</td>
<td>brewery</td>
<td>medium 1200, later reduced</td>
<td>foreign strategic owners, indigenous IPFs, banks, individual shareholders</td>
<td>Country Director</td>
</tr>
<tr>
<td>Firm Ribi</td>
<td>brewing research</td>
<td>not available (part of old Vhj)</td>
<td>indigenous Ministry of Agriculture and 51% individual shareholders</td>
<td>Managing Director</td>
</tr>
<tr>
<td>Slovak Republic</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Firm Kreslo</td>
<td>furniture manufacturer</td>
<td>medium 760 employees, later reduced</td>
<td>indigenous (Slovak) NPF, later Management Buy-Out</td>
<td>Managing Director, Technical Manager, Economics Manager, Production Manager, Marketing Manager and Deputy, Personnel (also Accounts Manager), Legal Advisor</td>
</tr>
<tr>
<td>Firm</td>
<td>Industry</td>
<td>Size</td>
<td>Description</td>
<td>Key Positions</td>
</tr>
<tr>
<td>-------</td>
<td>----------</td>
<td>------</td>
<td>-------------</td>
<td>---------------</td>
</tr>
<tr>
<td>Nábytok</td>
<td>Furniture manufacturer</td>
<td>medium</td>
<td>850 employees</td>
<td>Managing Director, Economics Manager, Marketing Manager and later Marketing Director</td>
</tr>
<tr>
<td>Hasra</td>
<td>Furniture export</td>
<td>not available</td>
<td>(part of old Vhj)</td>
<td>Import Manager</td>
</tr>
<tr>
<td>Spas</td>
<td>Furniture manufacturer</td>
<td>medium</td>
<td>indigenous (Slovak) NPF</td>
<td>Managing Director and Personnel Manager</td>
</tr>
<tr>
<td>Kaps</td>
<td>Furniture manufacturer and sellers of printers and copiers</td>
<td>small</td>
<td>33 employees</td>
<td>President (also part-owner and legal advisor) and Technical Manager (and also part-owner)</td>
</tr>
<tr>
<td>Rassoc</td>
<td>Brewery</td>
<td>medium</td>
<td>135 employees</td>
<td>Commercial Director</td>
</tr>
<tr>
<td>East Germany</td>
<td></td>
<td></td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Flasche</td>
<td>Brewery</td>
<td>small</td>
<td>85 employees (1992, 20 emp.)</td>
<td>the two owners-partners (also managing directors)</td>
</tr>
<tr>
<td>Dunkles</td>
<td>Brewery</td>
<td>small</td>
<td>40 employees, later reduced to 11</td>
<td>part-owner (also Manager of Commercial, Accounts and Administrative Departments)</td>
</tr>
<tr>
<td>Brauer</td>
<td>Brewery</td>
<td>medium</td>
<td>450 employees (1993-120 emp.)</td>
<td>Marketing Manager and Sales Manager</td>
</tr>
<tr>
<td>Lichtbrun</td>
<td>Furniture manufacturer and interiors</td>
<td>medium</td>
<td>900 employees (1993-150 emp.)</td>
<td>Managing Director (also part-owner)</td>
</tr>
<tr>
<td>Sessel</td>
<td>Furniture manufacturer</td>
<td>medium</td>
<td>410 employees later reduced to 80 emp.</td>
<td>Managing Director (also Marketing Manager) and Manager of Personnel (also Accounts and Purchasing)</td>
</tr>
</tbody>
</table>
Corroborative Interviews

Many other interviews were also carried out with academics, business people, both native and Western, shopfloor workers, representatives of international organisations etc, all of whom were independent of the firms interviewed but provided important corroborative information and analysis of the general picture being constructed as a result of the research. Not all these people can be mentioned but a selection are as follows: in the Czech Republic conversations with the head of the Faculty of Economics, VSST (Technical University) of Liberec, Prof. Dytrt; the Life President of the Czech Society for Quality Control, Mrs Zaludová Mr. and Mrs. Avieser Tucker, lecturer in philosophy at Oloumoc University and Publishing Executive respectively; Czech representative of the Moore-Stephens management consulting company, Prague; in Slovakia, meetings were held with Mr. Stefán Vratny (Slovak management consultant for an independent Swedish run management consultancy firm in Košice); head of the Bratislava, Economics and Business Departments, Bratislava University; Mr. Bill Denne, PHARE representative to Slovakia; director of the Chamber of Commerce in Košice, and a Green Party representative in Bratislava. In Germany supplementary interviews were held with Mr. A.-Frederick Freiherr von Dörnberg, managing director of Felix Schöller in Osnabrück (dealing in speciality papers and with subsidiary offices throughout East/Central Europe and the former Soviet Union), Dr. Hans Gernert, Economics Professor, Berlin and Frau Christina Heyder, unemployed Meister in Dresden and Mr. Mike Geppert, PhD student at the Humboldt University, Berlin in industrial sociology.
Analysis of Case Study Interviews

Codification

The codification process carried out by the author is similar to the Glaser and Strauss (1967) approach. The codes for the case study analysis were developed by studying the unstructured interview notes in depth and identifying 12 general areas of concern highlighted by managers. These findings influenced the questions in the second semi-structured round of interviews. The codes were then adjusted to include new categories or reinforced the validity of categories already chosen. The codes were then noted against contributions in each interview, and areas of intersection and interrelationship were then noted by means of a flow chart where each contribution was designated a coded box and links were made to related boxes. Hutchinson (1986) describes this clustering of codes into categories and their comparison with each other as a means to 'ensure that they are mutually exclusive and cover the behavioral variations'. Thus through this distillation process the major recurrent themes underlying the areas highlighted were identified, these being mostly issues of control (extent and nature of and legitimacy of) and the pertinent process of ownership change through privatisation and the effect or lack of effect of both on organisational restructuring. Baker, Wuest and Stern (1992), referring to Stern and Pyles (1986), call this the formation of a 'tentative conceptual framework'. Thus the highly relevant and related issues of inherited networks, economic embeddedness and corporate governance emerged as the 'core process' which 'is the guiding principle underlying what is occurring in the situation and
dominates the analysis because it links most of the other processes involved in an explanatory network.

**Questionnaires**

An in-depth questionnaire survey was also carried out between July 1994 and completed by Spring 1995 among managers and also other employees, including shop-floor employees at all the firms originally interviewed. The findings support the interpretation elicited from the analysis of the case studies. A copy of the questionnaire in both Czech and Slovak, as well as German, can be found in the appendices (See appendices 3, 4, 5). The questionnaires were translated by linguists in the respective languages, usually native speakers and checked by organisational specialists with language knowledge.

Forty questionnaires were delivered to firms in each country. Completed responses received back were as follows: from the Czech Republic 35, from Slovakia 28 and from East Germany 14. This level of response was surprising given that questionnaires are generally viewed with suspicion in East/Central Europe and that the response levels were expected to be higher for East Germany than for the Czech and Slovak Republics due to the influence from West Germany and West German owners.

The analysis of the data from questionnaires confirms the overall interview findings and thus were incorporated *thematically* into the respective data in the case study chapters and elsewhere in the analysis, rather than discussed independently in detail.

The design of the questionnaire was perhaps overly ambitious, given the already
detailed scope of data produced by the case study interviews. Thus, while it was very relevant and useful as a means of triangulation for the case studies, some more detailed findings which emerged from it could not be pursued. Thus an interesting detail relating to ownership change and control of organisational change emerged from the questionnaire survey. Employees reported no improvement in terms of management quality (or even the change in the way management operated) with a change to private domestic ownership at any level (that is at general or departmental levels, etc.), except for an improvement in the quality of supervisors or Meister on the shop floor. It is not within the scope of this study to investigate all the detailed phenomena which arose from the questionnaires but this could suggest an interesting point of departure for other research.

Observation

Although this was not a major part of the methodology used, a degree of observation was carried out on all occasions with tours around the factories and brief encounters between management and employees noted as they arose. Inevitably, however, researcher observation plays a subtler role in data collection and analysis, as described below with reference to grounded theory.

Advantages and Disadvantages of Methodological Tools Chosen

Qualitative Techniques and Grounded Theory

This author takes the view that qualitative research is of greater value in revealing what is going on within a certain area of study as opposed to quantitative or
hypothesis-testing research which pre-defines the area of study and the issues deemed important to it. Furthermore the interview relationship and process are conceived of in this research as an interactive process in which the interviewer is a 'subject-creating interview context' and the interviewee as 'subject-complying with or resisting definition of the situation' as opposed to the positivist approach where the interviewer is 'object-following research protocol' and interviewee as 'object-revealing items relevant to the research protocol'. Bryman (1989) also reports on the strong emphasis in case study research on context which distinguishes it from purely quantitative research (although quantitative research may be one of the methods used in case study research).

Thus hypothesis testing or positivist methodology, relying on 'random samples, standard questions, tabulations', is only useful as a tool which aids further analysis once issues have been established from analysing fieldwork material. The grounded theory approach of producing a map of the context and its dynamics is longer, more time consuming, but ultimately more challenging in terms of this research project. It also produces more useful and applicable knowledge to the field.

Stern and Pyles (1986) describe this validity thus:

'To be credible, the core variables, or theory must be well integrated, easy to understand, relevant to the empirical world, and must explain the major variation in the process or phenomenon studied.'
In other words, as Glaser and Strauss (1967) describe it, the theory must 'fit', 'grab' and 'work'. However it could be argued that while qualitative techniques and, in particular grounded theory, allow us 'to discover what is going on', it also carries the potential of not generating appropriate information for conclusions. Indeed Glassner and Loughlin (1987), in their study of American adolescents and their perception and use of drugs, claim that qualitative research is 'unconcerned with standardising interpretation of data', but aims for a rather deeper approach;

'developing this complex cataloguing and retrieval system has been to retain good access to the words of the subjects, without relying upon the memory of interviewers or data analysts.'

(Despite this, Glassner and Loughlin claim that their own research does also fit conventional criteria of methodological reliability and validity). This weakness of insufficient conclusions does not apply in the case of this research. The use of grounded theory here first of all allows for examination of processes and dynamics of situations rather than individually expressed experience. This is particularly appropriate to the field of study due to the unprecedented nature of change and therefore the lack of any immediate comparative event and background literature on the transition from a state socialist economy to the market.
Problem of Management Bias

In the interview process, it is necessary to be aware of any discrepancies between what managers say and the reality of the situation, or the 'objective truth'. However, the author is of the view taken by Glassner and Loughlin (1987) and Baruch (1993). That is that interviews carry factual information and culturally defined narratives, or as Baruch defines it, information of Membership Category. It is highly important to identify this Membership Category, not only in terms of roles, such as management as opposed to employees, shareholders, local government and central management, but also in terms of history such as old incumbent managers as opposed to newly promoted middle management to top management, or administratively appointed management. Lastly the quality of Membership Category, needs to be kept in mind, such as the desire purely to own, or to restructure, or to asset strip, etc. Ultimately, therefore, management pronouncements were viewed as truthful of their individual position and were only taken as indicative of the general picture when reinforced by the codification process and comparison with other companies.

Case Study Research

Case study research may centre on one case study or on numerous ones as with studies by Yin (1979) who used nineteen cases and Sutton (1987) who used eight. Multiple case studies mitigate the problem of generalising from one case study alone, which may only produce anomalies. In this study a similar attempt has been made researching multiple case studies across three countries. Mitchell (1983) and
Yin (1984) both argue that case studies are valuable in terms of the quality of theoretical inferences they produce. Thus, in Bryman's words:

"the aim is not to infer the findings from a sample to a population, but to engender patterns and linkages of theoretical importance." 19

All the findings from the case study interviews carried out in this research raise similar questions and the linkages identified by the analysis of the findings display the validity of this approach in this situation. Similarly, the longitudinal nature of the study over two years could have produced a picture without any unifying features due to the rapidly changing nature of the field. In fact, in this research, although certain concerns changed over time, the underlying mechanics of the situation were the same. Where different concerns were expressed over time, this was indicative of the process of change being experienced and it was the job of this research to chart this change and unify the different elements into an overall picture for the complete period studied. Indeed Bryman also notes that process models of organisations, that is: 'models which chart sequences of elements' 20, almost uniquely came from case study research, for example Burgelman (1983) and Sutton (1987). 21

The Questionnaire Tool

A third leg of the research (after the two rounds of interviews) was the questionnaire survey which was not an attempt at statistical validity but rather a
means of triangulation. One of the problems with asking highly structured questions, as already outlined under the positivist approach, is that it assumes prior knowledge of areas of importance. However impressive the resulting statistics, they only prove or disprove the hypotheses with which the researcher initiated the study. In other words the field of research does not impose upon the researcher who then attempts to make sense out of it but rather it conforms to the researcher's value assessment of the field.

By contrast the questionnaire survey in this research did not form the point of departure for exploration but rather acted as a third level of 'interview' after the unstructured and semi-structured face-to-face interviews. The questionnaires were constructed on the basis of the findings of the first two interview rounds and formed a highly structured and anonymous data collection system. It provided triangulation, both in this sense and in the sense that it was distributed randomly and anonymously to management (at all levels) and employees alike in all firms already interviewed and the questions were mostly aimed at checking the validity of the data given previously. However the questionnaire did also explore to a lesser extent potential new areas arising out of the two rounds of interviews, which are in fact outwith the scope of this thesis.

The Comparative Element

In the study of organisations across countries, no units are completely comparative. In a sense, to attempt to form a picture purely from an analysis of comparative units, is impossible without reference to the respective contexts. It is this
contextualisation which organises the comparative units into meaningful data. It does this by highlighting differences and similarities in the environment in addition to those at the level of organisational comparisons. Thus each country's data on organisational change must initially be assessed within its own country conditions and only then compared. Subsequently the appropriateness of certain theories to transition can be challenged when seen within the context of different national, social, cultural and historical and political and economic paradigms. Hofstede's work displays not only the difficulty of assessing comparative data across a number of countries but also the richness of individual pictures which result from comparisons.

Language

The interviews were conducted by the author in English or German and occasionally with a translator of Czech or Slovak, if and when required. The English and German questionnaires were written initially by the author and the German subsequently checked by a native speaker. The Czech and Slovak questionnaires were translated by Czech and Slovak translators respectively.

Conclusion

Thus the complete process of research carried out in this study, including distillation of codes arising from the interviews, the questionnaire survey of companies and the study of the findings of related literature, conforms to Stern's (1980) definition of grounded theory as being one in which:
'developing theory is expanded and densified by reduction [of the data],
selective sampling of the literature and further selective sampling of the
data.'²⁴

Finally no piece of research is ever completed or foolproof. If it appears to fit the
preconceptions of the researcher completely, questions of an overly positivist
approach are posed. Equally unsatisfactory is research which raises only more
unanswered questions without synthesising the data to reveal an analysis of the
present picture, which provides at the very minimum a working model which can
later be questioned or used as a comparison of other original research. Ideally the
choice of methodology and the resulting analysis add important knowledge to a field
which requires further exploration.


4 EISENHARDT, KATHLEEN (1989) op cit.


17 SILVERMAN, DAVID (1993) op cit., p.91.


GLASSNER, BARRY and LOUGHLIN, JULIA (1987) *op cit.*


Part II
Chapter Three
Czechoslovakia: a brief exploration of political and socio-economic inheritance in the 20th Century

Introduction

Czechoslovakia, unlike many other East/Central European countries, already had a relatively developed industrial sector, as well as a strong tradition of entrepreneurial activity, particularly in the Czech Republic, prior to the Second World War. In the 1930s Czechoslovakia was ranked as one of the fifteen most developed countries and by 1948, having escaped most of the wide scale damage of Second World War, had recovered the income level of the pre-war decade. Agnes Zaludová, Life President of the Czech Society for Quality, records her amazement on arrival in the Czech part of Czechoslovakia in 1946. Mrs Zaludová, after graduating in Physics and Mathematics from Glasgow University, began work at the Czechoslovakian Engineering Research Institute, which had been a part of Škoda Plzeň before this date. She discovered that the technical level and expertise rivalled if not exceeded the level in Great Britain at that time. Unfortunately this technical advantage did not survive the next forty years, as this technical know-how was not fostered and encouraged in industry and enterprises under the command economy.

In many respects the centrally planned economy 'deindustrialised' the Czech region in terms of spread of more advanced industrial activity, while ensuring industrialisation in Slovakia for the first time in its history. Thus both the pre- and post-war inheritance need to be surveyed in order to understand present and diverging development in the two, now independent, countries.
Chapter Outline

This chapter will briefly look at the economic inheritance from the first republic, and from post-World War Two Czechoslovakia and from state socialism, looking especially at the process of normalisation in the 70s and 80s and the resultant stagnation as antecedents of the present day situation. In this respect pertinent economic critiques of the planned economy during the last two decades of its existence are referred to. Subsequently the general socio-economic inheritance will be touched upon.

Socio-Economic Inheritance from the Austro-Hungarian Empire, the First Republic and the Post-war Government (until 1947)

Under the Hapsburg Empire Bohemia and Moravia which nowadays constitute the Czech Republic were ruled from Vienna, and Slovakia was ruled from Hungary. Okey (1986) describes the German speaking Alpine provinces of Austria and the mixed German-Slav lands of the Czech crown as being of the most advanced sectors with certain relatively industrialised parts of Poland and Hungary coming third and fourth. Czechs were allowed to be active in business, although for either socio-economic reasons or because of conservative institutionalism, business remained largely the preserve of German speakers and thus the country developed a good level of industrialisation, also benefiting from proximity to Western markets. The revival of the Czech language in the early 1800s was encouraged by the Bohemian German speaking gentry who were opposed to Viennese centralised control. The Slovaks, however, had to wait until the 1840s for recognition of Slovak
as a distinct language from Czech. This was due to the completely Magyar speaking gentry, in whose interests was the continued centralised Hungarian control.

Thus the Czech Republic became one of the powerhouses of the empire and Slovaks, by contrast, were only allowed to be active professionally in religious life or in agriculture. In Slovakia, business activity was reserved for Germans and/or those of Jewish extraction. Added to this Slovakia by 1918 still had a predominantly agrarian economy in some respects almost feudal. Industry was limited and social integration into new economic forms was also barely initiated.

In addition, the older inheritance of political and socio-economic behaviour and practices, which in turn influence the legal, educational and industrial organisation norms, stems from both the Austro-Hungarian Empire and inter-war period (the last experience of an established market system). The experience of the Austro-Hungarian Empire, as discussed earlier, was one of a powerful state with a good degree of independent business activity in the middle classes of the Czech Republic only. The Czech Republic was considered the industrial power house of the Empire. In the inter-war period, the lack of an omniscient state allowed the independence in the economic sphere to flourish into a politically tolerant and democratic inter-war government. The strong social welfare concern in society in general has been commented on, albeit negatively by Tomaš Bata, the Czech shoemaking millionaire in terms of interfering with the efficiency of the individual within the economic organisation because it blocked the link between personal toil and personal gain. Bata saw this tradition in Czechoslovakia as being the result of a residue of the Slavonic law or commune (mir) system, whereby all fruits of labour were shared out by village
elders according to conscience and need. By contrast Polanyi in discussing the influence of various institutional, arrangements on economic systems refers to the democratic nature of the South Slav zadruga as opposed to the despotism of the Roman familia. The development of managerial culture as a result of these different traditions has been remarked upon by Rychetnik (1996), as being in pre-war Czechoslovakia, a highly influential form of scientific management, 'although there has also been a stream of strong paternalistic, culture-focused management (combined with Fordism) in Bata's tradition.'

This concern for social welfare was also reflected in the first post-war market economic programme before Communist Party hegemony was secured after the elections in 1947. Thus strong state bureaucracy, institutional control, a degree of independent entrepreneurship combined with social awareness all play important roles in the inherited culture of the country.

The Creation of the Federal Republic and Its Demise

The Czech and Slovak Republics both emerged from Communist control in late 1989 still as part of a federal state made up of two republics, known as Czechoslovakia. Since its creation in 1918 (the independence of the new Czechoslovakia was established on October 28, 1918 and joint coexistence with the Czechs was declared two days later in Slovakia at Turčiansky Sv. Martin) out of the remnants of the old Austro-Hungarian Empire, this marriage of convenience between the two republics has experienced numerous tensions. Notable events were the initial disappointment on the Slovak part with the arrangement met in 1918 and later the differing Czech and
Slovak allegiances during the Second World War. It was during the latter episode that on March 14, 1939 that the first independent Slovak state emerged in over 1000 years under churchman and nationalist President Jozef Tiso. Tiso became an ally of Germany for the duration of the war and until the liberation of Czechoslovakia on May 9, 1945. Meanwhile the Czech wartime experience began with the cession of the Sudeten Lands to Germany on September 30, 1938 and ultimately of German occupation on March 15, 1939 until liberation.

Moves towards federalisation began during the Prague Spring and in fact the only major concession of the post 1968 'normalisation' process, instigated by the new pro-Soviet Communist regime, was to allow this one reform of the Prague Spring to survive. The concession to Slovak nationalism was made in order to allow the new regime to gain some kind of legitimacy in their enforced control over the country.

The Czech Lands and Slovakia became two separate sovereign republics on January 1st 1993. Even so the Czech Republic retained a great deal of the physical and institutional infrastructure associated with centralised control of Czechoslovakia, in terms of the geographical concentration of the most important and advanced economic activity and also as the locus of sovereign bodies of political and economic institutions superior to the individual republics institutions.
The Economic Inheritance from the First Republic, Post-War Czechoslovakia and State Socialism

First Republic and Post-war Czechoslovakia

Czechoslovakia was, by the beginning of the Second World War a relatively advanced industrialised country with consumer and light industry sectors, a high level of technology and skills base. Its economic structure was close to other advanced nations. In the 1930s, 30% were active in agriculture, 45% in mining and manufacturing, while in Poland and Hungary respectively 67% and 54% were employed in agriculture and 18% and 22% in industry. In 1938 national income per head of population was 75% of that of France (but slower growth rates meant that in the 1980s it was still at the same level), the absolute national income per head in the inter-war period was 60% above Hungary and 70% above Poland. However, the Second World War had caused a loss of labour and immense damage to the economy. The Communist Party victory at the polls in 1946 (38% of the vote) and its dominant place in a broad alliance of political parties is often quoted as the heralding in the political and economic decline of Czechoslovakia, but in fact it was only slowly after the establishment of monopoly Communist Party power on February the 25th, 1948, and even then only really from the early 1950s onwards that this decline began to take effect. From 1945-48, political plurality was revived after the Nazi occupation (in the Czech Lands) and control (in Slovakia) of the war years and a limited planning system coexisted with private enterprise. The first two year plan, 1947-48, designed to correct the losses and deficiencies caused by the war was actually successful in achieving pre-war levels of industrial output. At the same time 61% of industry was
nationalised, alongside a still flourishing private sector. This was the Czechoslovak road to socialism agreed by Czechoslovak Communist Party leader, Klement Gottwald, and the USSR's Stalin in 1946. Whether this political situation and economic freedom would have continued or not is debatable, in any case the seeds of the Cold War were being sown and international developments along with the influence of Stalin's exclusive interpretation of Marxism-Leninism combined to impose the Soviet planning system on a country far in advance of its neighbours.

*State Socialism*

The Czechoslovakian Communist Party influenced by Marxist ideology and the Soviet example began to increase centralisation and planning. After February 1948, 95% of industry (in terms of employment) was in the state sector, but international contacts and trade were still maintained. Myant (1989) refers to the Swedish Keynesian influence in Czechoslovakia in the thirties. The Czechoslovakian proponents of this approach in the 1940s pointed to the inability of the planning system to solve all of national economic problems and imbalances. However the Communist Party General Secretary, Rudolf Slansky supported the principle of planning but with the proviso of building on Czechoslovakian advanced economic sectors, including the existing heavy industry and electrical engineering sectors and thereby not endanger the other lighter sectors of the economy. Slansky saw the Czechoslovakian economy integrating into East/Central European economic development and industrial policy, rather than attempting national economic self-sufficiency in all areas with an emphasis on heavy industry, as pursued in and
advocated by the Soviet Union for all the states of East/Central Europe. At the first meeting of the CMEA (Council for Mutual Economic Assistance), Slansky called for the regional integration of the economies, allowing Czechoslovakia to find a market for its light industry goods and thereby facilitating the importation of much needed wheat and raw materials into the country. However, the principle that each nation's sovereignty would be respected within the CMEA was already being repressed, as Stalin began to show his distrust of individual roads to socialism and the central tenet of the CMEA of independent national decision-making. In fact such was the mounting pressure exerted by the Soviet Union to follow its prescribed course that it became clear that it was purely in the interests of Soviet economic as well as political aspirations. Machová (1962) claimed that this approach was designed in order that the authorities profit from:

'... the maximum use of what Czechoslovakia's industrial potential could contribute to the renewal, development and consolidation of the economy of the USSR.'

Slansky had incorporated his initial economic design into the first five year plan (1949), but under the Soviet pressure and lack of agreement to anything else by the other East/Central European countries this had to be revised. By 1953 socialist countries share of foreign trade with Czechoslovakia had reached a peak of 78% as compared with 40% in 1948.
Ultimately a Soviet style centrally planned economy with an emphasis on heavy industry was then introduced, which was quite inappropriate to the advanced state of the country. After the Stalin purges of the 1950s which hit Czechoslovakia perhaps more severely than any other East European country, one of the more famous victims being Slanský himself, came the political and economic reforms leading up to the Prague Spring of 1968. The economic discussions centred on the debate as to whether the problems with central planning were a result of system or structures. These discussions were stopped by the Soviet invasion and only resurfaced again in the 80s. Subsequently throughout the period of 'normalisation' under Gustav Husák, (First Secretary of the Communist Party after Alexander Dubček's removal until his own resignation on December the 10th 1989), few major changes were made, and certainly no radical structural changes. Consequently the economy continued to produce a comparatively high standard of living but with growing inefficiency, stagnation and ultimately threatening those very same living standards.

Normalisation and Stagnation; the 1970s and 1980s

Komárek, economist and secretary of the Dubček's government's Economic Council in 1968, had criticised since the 1960s the sectoral structure of Czechoslovakia. By the 1970s, Komárek had reappeared on the political scene as head of a research institute and was later encouraged in his arguments for a readjustment of the sectoral structure of the economy by Gorbachev's calls for 'restructuring' in the economy. Komárek based some of his analysis on international comparisons to support the argument that the sectoral structure of the Czechoslovakian economy at the time was
indicative of a less advanced country. He pointed to the fact that in 1984 industry accounted for 46% of employment, services for 40% and agriculture for 14%. In the Federal Republic of Germany the comparable figures are 41%, 53% and 6%\textsuperscript{19}. The FRG was considered a useful comparison as its economic structure was similar in composition.

Komárek was particularly critical of the emphasis on the heavy industrial sector manufacturing, such as steel and suggested redirecting investment into modernising other sectors of the economy with greater scope for profitability. Indeed the statistical yearbooks of ČSSR testify to this imbalance in production and investment. As late as 1988, in millions of Czechoslovak crowns, the mechanical engineering (247, 481), energy (216, 172), fuel (143, 754), chemicals (139, 769), and iron smelting (137, 536) branches could be ranked the top five out of 18 categories for investment, far outstripping other more consumer oriented sectors, except for foodstuffs (94, 832)\textsuperscript{20}. This level of investment had been increasing steadily up to that year. Figures for gross industrial production for the year 1988 show the highest levels for four of the above sectors (fuel excluded), and foodstuffs coming in fifth\textsuperscript{21}. Consumption of electricity according to selected industrial sectors shows the chemical/rubber/asbestos making industries as consuming almost 9 thousand million kilowatt hours in 1987, followed by the energy industries (over 8 thousand million), iron smelting (8 thousand million), fuel industry (over 5.5 thousand million), machine tool industry (almost 5 thousand million) and finally the consumer goods industry consuming only just over 3 thousand million\textsuperscript{22}. Again these figures had been steadily increasing through the 1980s with no hint of restructuring.
Standard of Living

The standard of living in Czechoslovakia was, leading up to 1980 and indeed throughout the 1980s, relatively good by East European and indeed world standards. The statistical yearbook of the ČSSR 1987 and 1989 both show a slow rise in consumption of basic foodstuffs although a dip occurs around the early 1980s. Myant (1989) also notes this temporary dip in 1981, but describes a longer term shortage in consumer durables, especially televisions, freezers and furniture. The statistical yearbooks also depict the national income as continually growing but increasingly slowly throughout the 1980s and consumption of most basic foodstuffs as having increased steadily since 1936, apart from the temporary downturn again in the early 1980s. Naturally the figures may not be completely accurate but compared to UN sources and the figures quoted by Janaček above, the same stagnation with comparatively good living standards can be observed.

Productivity

However, during the 1970s and 1980s a decline in productivity had begun. Janaček notes that average annual growth rates in national income and total factor productivity declined from 4.4 in the period 1961-70 to 1.5 in the period 1981-84 (see below Table 3:1). Myant (1989), using Toms and Hajék (1982) and Klacek and Nešporová (1982) as sources, assesses individual factor productivity in Czechoslovakia 1961-1980 as below (Table 3:2),
Table 3.1  Average Annual Growth Rates in National Income and Total Factor Productivity in CMEA countries, 1961-1984

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>ČSSR</td>
<td>4.4</td>
<td>5.7</td>
<td>3.6</td>
<td>1.5</td>
</tr>
<tr>
<td>TFP</td>
<td>1.1</td>
<td>1.5</td>
<td>0.6</td>
<td>0.0</td>
</tr>
<tr>
<td>Hungary</td>
<td>5.4</td>
<td>6.2</td>
<td>2.8</td>
<td>2.1</td>
</tr>
<tr>
<td>TFP</td>
<td>1.4</td>
<td>1.6</td>
<td>0.4</td>
<td>0.3</td>
</tr>
<tr>
<td>GDR</td>
<td>4.4</td>
<td>5.4</td>
<td>4.1</td>
<td>4.3</td>
</tr>
<tr>
<td>TFP</td>
<td>1.1</td>
<td>1.3</td>
<td>0.7</td>
<td>1.0</td>
</tr>
<tr>
<td>European</td>
<td>---</td>
<td>6.4</td>
<td>4.1</td>
<td>3.1</td>
</tr>
</tbody>
</table>

Note: --- Not available in source.

Source: Janaček (1986) and Myant (1989). 28

Table 3.2  Individual Factor Productivities in Czechoslovakia 1961-1980

<table>
<thead>
<tr>
<th>Period</th>
<th>Total Productivity</th>
<th>Productivity of labour</th>
<th>Prod. of fixed assets</th>
<th>Prod. of all materials</th>
<th>non-energy</th>
<th>energy</th>
</tr>
</thead>
<tbody>
<tr>
<td>1961-65</td>
<td>0.20</td>
<td>3.30</td>
<td>-1.20</td>
<td>-1.30</td>
<td>-1.10</td>
<td>-0.30</td>
</tr>
<tr>
<td>1966-70</td>
<td>2.00</td>
<td>5.60</td>
<td>2.20</td>
<td>0.10</td>
<td>-0.20</td>
<td>5.40</td>
</tr>
<tr>
<td>1971-75</td>
<td>1.50</td>
<td>5.30</td>
<td>0.00</td>
<td>0.10</td>
<td>-0.10</td>
<td>3.40</td>
</tr>
<tr>
<td>1976-80</td>
<td>0.60</td>
<td>3.20</td>
<td>-2.30</td>
<td>0.20</td>
<td>0.00</td>
<td>1.80</td>
</tr>
</tbody>
</table>

These difficulties were reinforced by the hard currency crisis of 1989. Thus, this drop in productivity and the slowing of economic growth and of improvement in living standards combined with the inability and unwillingness to redirect investments, as advised by Komárek, to more profitable, newer sectors resulted in stagnation which became a downward spiral and which could have resulted in an eventual *depreciation* of living standards had not the transformations of 1989 occurred.

Notwithstanding this accurate assessment by Komárek, Myant (1989) to the weakness in his argument in the 1980s, which was to emphasise the problems of economic structure rather than process as highlighted by other Czechoslovak commentators, such as Janáček (1986, 1987). Indeed, as Myant points out, restructuring under the past regime could not be seen as a purely economic issue, due to its overt link firstly to the ideological support of central planning and secondly to the elite and sectoral interests in preserving the status quo. The difficulty of restructuring is therefore linked to the problems of system of management.

'... the system has steadily deviated from the abstract model of a 'command' economy towards one in which orders are set after bargaining with lower levels. Although it is impossible to organise outright opposition to the authorities, experience confirms that it is possible for any existing enterprise or sector to use every legal organisation- including party, local government, trade union and several other bodies- as a means of pressing its sectional interests. The system creates no objective criteria for assessing demands for
investment of other resources, so that these decisions have to depend on political pressure. The consequences for the economic system must be a lack of flexibility. Only in the unique atmosphere of the early 1950s, when whole sectors were effectively deprived of a political voice, was rapid structural change possible.\(^{30}\)

*External Debt*

Czechoslovakia by 1985 had reduced its net indebtedness to 2.7 billion dollars from 3 in 1981\(^ {31}\). However the hard currency crisis of 1987 revealed the extent of the decline in productivity and the potentially serious economic problems which had to be addressed\(^ {32}\). The plan to reduce the hard currency debt would inevitably have affected living standards had there been time for the necessary measures to be taken. In the event, however, Czechoslovakia was left with a comparatively low external debt when compared with other countries of the region.

*Slovakian Economic Situation within the Austro-Hungarian Empire and the First Republic of Czechoslovakia*

Slovakia did not have the same industrial and commercial history of the Czech Lands leading up to the founding of the state of Czechoslovakia. It had until that point been a tightly controlled rural backwater of the Austro-Hungarian Empire ruled from Budapest, rather than from Vienna. It lacked entrepreneurial know-how as well as domestic capital and adequately educated and skilled workforce for a developed economy. One of the major success of the planning system in Czechoslovakia was to
develop industry in the republic. The increase in industrial production soared from about 700% in 1964 to well over 3 150% in 1988, while comparative figures for the Czech Republic are just over 350% in 1964 to slightly over 1050 in 198833. This level of growth at last increased the living standards of the Slovaks to the level existent in the Czech Lands. Slovakia only achieved equalised living standards to the Czech Republic by 1983. Myant (1989) records consumer spending in the Slovak republic as standing at 63% of Czech consumer spending in 1953 and at 93% only by 1983. However, the cost of such a high investment into the industrial development of the area has been the emphasis on the priority heavy industries of the time, such as steel, chemicals and most notably armaments. This has returned to haunt Slovakia since 1989, as these are the sectors which are no longer in demand and cannot compete on the international market. With whole communities dependent on any one such industry, the implications for the process and speed of economic transition are manifold.

The relationship between the two republics finally came to a close on the first of January 1993 only three years after the 1989 revolution but it is with this general and specific inheritance in mind that Czechoslovakia emerged from 1989 and started out on the path towards privatisation and a market economy.

**Socio-Economic Inheritance from State Socialism**

The immediate inheritance from the socialist regime is one of information and power networks of interest groups at firm, locality and central levels, bargaining for influence within an overall system of a highly centralised planned economic structure.
This was particularly true for Czechoslovakia as compared with Hungary. The situation which gave rise to such bargaining groups and social networks within the system have been referred to already. The effect of such inherited networks on transition or transformation and on organisational change within this process will be elaborated upon in subsequent chapters. However, it is important to note the inter-reliance of the social, political and economic spheres. The 'Vhj' (Výrobní hospodářská jednotka in the Czech, or Výrobnohospodárska jednotka in the Slovak), or 'economic productive unit', structure in Czechoslovakia incorporated an unofficial but institutionalised bargaining system comparable to the East German unofficial 'Planerfüllungspakt', except that in Czechoslovakia, locality contacts were more important against central state control, particularly in Slovakia as a result of the intense post-war industrialisation.

Most of these arguments are also valid for Slovakia with some reservations and a slightly different emphasis. The experience of greater autocratic and severe control by Hungary rather than Vienna in the old empire resulted in a mainly agrarian economy, with little industrialisation and almost no indigenous entrepreneurial class or culture of its own until industrialisation under state socialism. As a result of this local economic units and contacts held important political as well as economic sway in Slovakia, more so than in the Czech Republic, as they were often the sole centres of economic activity outside agriculture in any one area. Paradoxically in regional versus central government, Slovakia's localities were more reliant at the same time on the centre for co-ordinating directives in economic development and processes\textsuperscript{34}. 

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Conclusion

All these elements produce an organisational and economic culture which must be taken into account when designing a transformation process and related policies. The internalised behaviour of the past both at the macro-level of political and socio-economic practices and at the micro-level of entrepreneurial and organisational activity and development cannot be either cancelled out by the imposition of another, culturally alien model onto this inheritance at the macro-level, nor reformed without specific policies designed for the micro-level.

ZALUDOVÁ, AGNES, Life President of the Czech Society for Quality interviewed by author, Prague 20/11/94.


ibid.


MACHOVÁ, D. (1962) ČSSR v socialistické mezinárodní dění praxe. SNTL, Prague. 'Projevoval se v tom počátek základní koncepce uplatňované Sovětským svazem v dovozu z Československa, totiž zásady maximálního využití toho, čím průmyslový potenciál a vyspělá delnická třída ČSSR mohly přispět k obnově, rozvoji a upevňení hospodářství SSSR a celé socialistické světové soutěže.' p.106.


20 STATISTICKÁ ROČENKA ČESKOSLOVENSKÉ SOCIALISTICKÉ REPUBLIKY (1989) Section 8, Investiční výstavba a základní prostředky. Table 21 'Základní prostředky v průmyslu podle odvětví', p.239. [Investment Structure and Basic Surveys. Table 21 Basic survey of industry according to sector.]. SNTL, Prague.


26 JANÁČEK, K. et. al. (1986) 'Hlavní tendence reprodukčního procesu československé ekonomiky a základní rysy strategie hospodářského rozvoje ČSSR' in Ekonomický ústav ČSAV(Československá akademie věd or Czechoslovak Academy of Sciences), Prague. pp.82-3.


Chapter Four
Privatisation, Economic Transition and Economic Embeddedness

Introduction
The privatisation process in East/Central Europe has, since 1989, been the main focus of political activity in the transition from a command to a market economy. It has also received attention from abroad as the most important factor in achieving an irrevocable shift to a Western style market economy. Managers also constantly referred to the major role preparations for privatisation played in the working life of the firm. Consideration of the potential impact of privatisation was also of concern to them. Whether the privatisation undertaken has actually achieved a shift to such an economic model is highly questionable. Rather it would appear that some transient model has been achieved, not only in terms of economic functioning of enterprises according to market criteria but also in terms of the ownership/management relationship as a central plank (implicit) of corporate governance. This chapter aims to discuss the privatisation process, its effect on economic functioning and practice, since this is the context within which managers and with which managers must operate. The chapter will also begin to explore the conditions of the privatisation process in various East/Central European countries and its relationship to the newly developing stakeholder model of corporate governance.
**Chapter Outline**
First the privatisation process will be discussed in general in East/Central Europe since 1989, in terms of its aims, cultural specificity and success. Secondly the relationship between the privatisation process and the Czech and Slovak Republics’ political agendas will be discussed. It should be noted here that the main focus for this chapter will be the period 1990-1/1/93, when Czechoslovakia split into two sovereign countries, the Czech Republic and Slovakia. A short space will be dedicated to viewing the situation in the year and a half since the split in Slovakia in Chapter Five. The time of writing of this chapter is September 1994.

**Aims of Privatisation: Effective Management, Organisational Restructuring and Improved Performance**
The aim of the privatisation process in East/Central Europe is initially to divest the state of a dangerous over concentration of power and secondly, as elsewhere, to improve performance through greater competition, effective management (by means of monitoring by the new private owners), and appropriate organisational restructuring. In practice the actual rate of privatisation and its successful implementation, while varying greatly from country to country in the area, has generally been slower than expected in the heady days after 1989. In addition the positive effects of privatisation on management and effective reorganisation have yet to be appropriately assessed, while the potential and in some cases actual negative social effects cause concern.

The role of private ownership versus state ownership and consequent arguments for and against privatisation and nationalisation have raged in Western Europe and
other market economies long before the East/Central European revolutions of 1989. The argument is seen as being of key importance due to the view that ownership patterns affect both managerial effectiveness and firm efficiency.

It is not the purpose of this research to explore these arguments in Western Europe and America in great detail, but an acquaintance with the issues does put into context the decisions taken by many newly fledged East/Central European governments, often under the influence of the debate continuing in already established and mature market economies.

The Neo-classicist and the Property Rights School

Some authors, politicians and economists, such as Leipold (1983, 1988) Pejovich (1983, 1987, 1989, 1990), Milton Friedman and Margaret Thatcher, appraise private ownership as the factor affecting management and organisation efficiency most of all. They assess private ownership as also automatically ensuring efficient production and appropriate distribution and preventing abuses of ownership. Van Brabant (1992) describes this approach as the neo-Austrian school. Privatisation is also viewed as a means of raising the private capital market which in turn will enable future development (Hemming & Mansoor [1988]). Parker (1993:1) notes that this is especially referred to in the case of developing economies. However Parker (1993:2) questions the power of this one measure to improve firm efficiency and commercial success as do among others Helm and Yarrow (1988) and Kay & Thompson (1986). According to this latter point of view, ownership change does
not automatically produce improvement in firm performance unless accompanied by competition and an adequate regulatory environment. Thus private as well as public ownership may produce inefficiency if operating within a monopoly situation. In other words, private ownership alone does not produce competitive behaviour or a state of competition (Vickers and Yarrow [1988]). In addition, managerial behaviour and firm efficiency depend on the type of private ownership and ability of any particular type to monitor the situation.

The Agent-Principal School and a more Organisational Approach

Estrin and Perotin (1991), Yarrow (1986), Kay and Thompson (1986) have all approached organisational change from the point of view of changing the agent-principal relationship through privatisation, with an emphasis on contracts between ownership and management, linking, for example, payment to the value of company stock and the importance of the risk of external takeover to management, etc. However, Parker (1993:1) cites this agent-principal relationship as only one of the three changes required in producing an incentive environment for managers, thereby improving performance, the first being the structure of product markets, that is the existence or otherwise of monopolies, and thirdly internal structure and management. Parker notes that for a change in management to occur, Johnson's (1987) organisational paradigm change is necessary. He cites 'new management, new organisational structures, a new market oriented mission and goals, and management and staff training programmes', as possibly being required. In other
words organisational change is an interactive *process* rather than the result of a change in macro-economic property rights interest, or even a singular reform of the agent-principal relationship. If this is true of organisational change in a relatively stable market economy, how much more so in East/Central Europe, where not only the new market and ownership structures are in embryonic form but also the very entrepreneurial culture and management experience is missing. In this case the very culture which predominates across the country or countries must be changed by, or at least with the aid of those very citizens imbued with that culture. The embeddedness of the economic system in a social and cultural context is the starting point of any change achieved through political policies, eventually affecting the economy and its operation.

**Economic Activity and Economic Embeddedness**

The model of effective business practise (or firm functioning), managerial responsibility and legal and regulatory environment must be placed in context. The legal framework reflects any society's cultural norms and accepted socio-economic practices. It may at times be inadequate or require reform, or even be used as an instrument for forcing a shift in accepted legal practices. This has in fact been the criticism of 'Thatcherism' in Britain, where 'law' replaced the sphere of 'community', or accepted socio-economic practices and cultural norms. The vision of society and business practise is in accordance with the views of Friedrich Hayek.
and von Mises who describe strictly minimalist interpretations of liberal principles\textsuperscript{11}. According to this view the state should be completely excluded from economic and social practices and limited purely to protecting the individual from external unsolicited influences. Thus it was argued under 'Thatcherism' and by 'The New Right' in Britain, that the legal system with an emphasis on negative rights or 'freedom from' (as discussed in Chapter One), should become increasingly the only legitimate intrusion of the state into the sphere of civil society\textsuperscript{12}. Thus the legal system was used as an instrument of shifting society from 'welfare culture' to the minimally regulated 'free market economy'. The sphere of 'market forces' were separated from 'business ethics' or the previously accepted socio-economic practices. Thus Margaret Thatcher was able to proclaim that there was no such thing as society, only individuals. Granovetter, developing Polanyi's (1947) thesis of economic embeddedness, describes this approach as 'under-socialized', in that it perceives individuals as acting purely in accordance with self interest in strictly economic terms, regardless of social relations\textsuperscript{13}. The 'over-socialized' account perceives individuals as having internalised behavioural patterns to such an extent that ongoing social relations have little impact on their behaviour. Granovetter argues the case of embeddedness of economic behaviour, that is that ongoing social relations influence behaviour and institutions to such an extent that any exploration of the area without taking this into account is extremely deficient. He criticises both the over- and under-socialised accounts as being deficient because they do not take this latter factor into account.
It is from Granovetter's general perspective that the privatisation process and its effect economic transition and activity and thus ultimately on corporate governance, and firm efficiency, in the Czech and Slovak Republics and Eastern Germany needs to be examined (See Chapters Ten and Eleven). If privatisation alone in a mature market economy cannot automatically improve firm efficiency for the reasons noted in the previous section, then when applied to an East/Central European context and socio-economic inheritance it appears substantially insufficient. Parker (1993), speaking from a Czecho-Slovak point of view, and van Brabant (1992) in a general East/Central European context, support this argument as does the research carried out in the Czech and Slovak Republics and eastern Germany by this author in the case studies interviewed. The areas which must be studied in tandem with the whole privatisation process are issues of economic activity and economic embeddedness and corporate culture. Thus the role of corporate governance as a means of improving both productivity and welfare becomes important, a fact also recognised ultimately by Estrin (1991).

Theories of Ownership, Control and Enterprise Restructuring: application to East/Central Europe

The possibility of organisational restructuring must rest ultimately on the two broad schools of thought represented by the neo-classical and the property rights schools on the one hand and by the schools of thought which accept a role for the theory of the firm (or organisational theory), that is they endorse the separation between
ownership and control in a modern market economy. The property rights school is represented more generally in applied terms by Lipton (World Institute for Development Economic Research), and Sachs (Harvard University professor and influential advisor for Poland's shock therapy reform and to the Russian government), 1990 (2), and the IMF packages to Czechoslovakia. Those that accept the role of the theory of the firm or for organisational theory, especially in an East European context, are represented by writers such as Andreff (1996), Estrin (1991), McDermott (1994), Myant (1993), Parker (1993), Pearce (1991), van Brabant (1992) etc. Within this group there are differences over the weight given to different factors: the role of capital market institutions and availability of foreign and domestic private investment capital figure as most important in Estrin (1991); the combination of institutional economic factors and organisational arrangements in Parker (1993); the importance of these factors in combination with role and influence of vested firm interests and networks in Myant (1993), Pearce (1991,1992), and McDermott (1994); and lastly the role and relative strength or weakness of evolving corporate governance systems in van Brabant (1991) and Andreff (1996) 17.

The Property Rights Application to East/Central Europe

In the context of East/Central Europe the property rights school initially attracted greater interest. The reliance on ownership change as a singular method of organisational change was informed by many neo-liberal theorists proclaiming the
benefits of privatisation in Western Europe, as referred to previously. This approach also required a certain interpretation of the previous regime, as provided by the Hungarian economist Janos Kornai. Kornai's early emphasis in his analysis of state socialism was that the state-owned enterprise was inefficient purely due to a soft budget constraint, that is investment hunger on the part of the firm and a state which generally acquiesced in order to ensure the meeting of production targets. This approach underestimates the role of political control by central government and the bargaining nature of the relationship, firm to state organ, as highlighted by Myant (1993). Kornai's interpretation would suggest that once ownership type has changed, so the problems of soft budget constraint and firm inadaptability would be resolved, as private entrepreneurship and a free market would step into the breach. Thus firm inefficiency would be eliminated.

Sachs (1993) also assumes that 'markets spring up as soon as central planning bureaucrats vacate the field'. Much of this hypothesis of the functioning of a market model rests on Hajek's interpretation in The Road to Serfdom, which inspires Kornai's title, The Road To A Free Economy.

The shortcomings of Hajek's model, developed in the 1930s have been highlighted by many writers including Myant (1993). These critiques generally question the ability of a free market, unencumbered by state regulation and intervention to adjust and temper its own activity and thus ensure its own continued and optimal functioning. Schumpeter (1953, 1954) argues that the advantages of a division of management and ownership and the role of shares is to provide easy access to credit
which frees up entrepreneurial energies\textsuperscript{22}. Myant (1993) points out that in the ideal free market and limited institutional structure, only the career manager would have the long-term interests of the firm at heart. Therefore in a situation of a newly established market, where the quality of management skill is low or even non-existent, this type of 'self-interested' or firm-oriented entrepreneurial behaviour cannot be expected. Indeed Begg and Portes (1993) list conditions required to be met before capital and equity markets can properly act as a disciplining agent on management (\textit{See Chapter Ten}). They doubt the ability of East/Central Europe and the former states of the Soviet Union to meet such conditions.

\textbf{Privatisation}

With regards to privatisation, in the East/Central European context van Brabant (1992) notes the advantages of widespread distribution of shares and ownership but also the potential difficulties for effective corporate governance. Widespread ownership may result in less effective monitoring especially in the countries of East/Central Europe, where managerial ability and entrepreneurial experience has not been encouraged over the last 40 years and is therefore usually inadequate for the operation in a market economy and privatisation policies agreed upon by government that will primarily affect ownership patterns. Van Brabant (1992) points to the lack of consideration of these issues by writers such as Feige (1990), Hemming and Mansoor (1988), Leipold (1983,1988), Pejovich (1990a, b) and Schroeder (1988), 'in the zealous advocacy of privatisation'\textsuperscript{23}. Van Brabant also
points to the possibilities of management abusing its power over important firm
specific information, as well as the possibility of new owners not necessarily
allocating 'their services more efficiently than will state appointed officials'.

Indeed, at the organisational level, in interviews with this author, managers were
equally concerned about other areas affecting the efficiency of their firm, in
addition to the issues of ownership and control. This suggests that at the grassroots
level managers in these countries perceived the issues of market environment,
including economic institutions and their behaviour, as being as crucial to enterprise
efficiency and often survival, as ownership change.

However, the privatisation process took precedence at that time in terms of
managerial attention, due to the fact it was the first area to be radically reformed by
the government with its macro-economic emphasis. Thus, as will be highlighted
later, managers were encouraged to incorporate ownership change into strategies for
enterprise restructuring, with various results.

Indeed East/Central European writers such as Kornai, originally so enthusiastic
regarding the benefits of ownership change, began to revise this support in the light
of Hungarian economic experience post 1989. Even the archetypal advisors of the
neo-classical economic shock therapy, Lipton and Sachs, claim that a transferral of
property rights alone, is not adequate to provide effective control and corporate
governance in societies lacking economic institutions. However, despite this
admission, the neo-classical solutions of 'macro-economic stabilisation,
liberalisation of economic activity, and privatisation', are the only options given for
economic transformation\textsuperscript{27}. Suggested strategies for achieving effective corporate governance are flimsy and ignore completely the inheritance in former state socialist societies, especially at local level. The advocated model rests on the principle of distribution of free shares combined with a role for intermediary financial institutions such as mutual and pension funds to avoid dispersed ownership and for appointing representatives to the boards of directors in firms in which they hold shares\textsuperscript{28}. In fact, Lipton and Sachs's (1990) model mirrors almost exactly that carried out by the Czechoslovakian and later Czech governments. In fact, none of these revised views adequately take into account the inheritance of established firm, inter-firm, firm-bank and firm-local government-state networks, as does, for example, Grabher's (1994) argument\textsuperscript{29}.

**Economic Transition and Privatisation**

*Scale*

The sheer scale of privatisation required to make the transition from command to market economy in East/Central Europe is reflected in Table 4:1. The size alone could be seen as problematic but it is also coupled with the absence of a stable political and economic framework with mature legislative, judicial, institutional and civil society elements. In addition a generally accepted business culture and code of practice was non-existent and is still developing. Therefore while trying to manage an economic transition, representatives of the populace are attempting to secure political reforms and to developing support mechanisms required for the efficient
and regulated operation of a market economy. The exception to this is eastern Germany, which after unification became a fully integrated part of the Federal Laender of Germany. Thus, despite a short interim period from 1989, when the Berlin Wall collapsed to monetary and economic unification in July 1990 and political unification in October 1990, eastern Germany accepted the legislative, judicial, and administrative systems of the former Bundesrepublik or Western Germany. In other words the political and economic systems were transplanted into the new Laender. Adaptations and changes had to be made, but in general the East German populace was not left with a tabula rasa. This will be discussed in greater detail in the section on privatisation in eastern Germany.

The Neo-Classical School and the Role of Privatisation in Economic Transition

The historical novelty of the transitions has caused numerous theories of how and to whom to privatise being proffered by Western experts and academics. Borenzstein and Kumar (1990) note six different distributive plans being flagged at that time: citizen shares (Feige); vouchers (Romania); financial intermediaries (Frydman/Rapaczynski); financial intermediaries (Lipton/Sachs); privatisation agencies (Blanchard); and self-management. Fischer (1992) points out that in the
Table 4.1  East/West Comparison: Share of State Sector in Value Added

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>YEAR</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Czechoslovakia</td>
<td>1989</td>
<td>97.0</td>
</tr>
<tr>
<td>East Germany</td>
<td>1982</td>
<td>96.5</td>
</tr>
<tr>
<td>USSR</td>
<td>1985</td>
<td>96.0</td>
</tr>
<tr>
<td>Poland</td>
<td>1985</td>
<td>81.5</td>
</tr>
<tr>
<td>China</td>
<td>1984</td>
<td>73.6</td>
</tr>
<tr>
<td>Hungary</td>
<td>1984</td>
<td>65.2</td>
</tr>
<tr>
<td>France</td>
<td>1982</td>
<td>16.5</td>
</tr>
<tr>
<td>Italy</td>
<td>1982</td>
<td>14.0</td>
</tr>
<tr>
<td>West Germany</td>
<td>1982</td>
<td>10.7</td>
</tr>
<tr>
<td>U.K.</td>
<td>1983</td>
<td>10.7</td>
</tr>
<tr>
<td>U.S.</td>
<td>1983</td>
<td>1.3</td>
</tr>
</tbody>
</table>


In light of the experience leading up to 1992 this list would have to be revised to include the programs passed by the Czechoslovak and Polish parliaments, which do not fit neatly into any category. The reasons for rejecting or accepting any particular model reside not only in pure economic criteria but also in political considerations. Additionally, questions arise concerning the aim of privatisation; to increase firm efficiency?; to divest the state of a politically dangerous, over-centralized control of resources?; to distribute shares democratically and thus to bolster political support amongst the populace for reforms?
It is interesting to note that Walkers, an advocate of privatisation on the Thatcher model, also notes the inappropriateness of introducing wholesale any 'foreign' package for two reasons; firstly in Britain prior to privatisation, 'the reform of the nationalised corporation was carried through while it was still in the public sector' and the old Eastern European states intend to allow the new owners to restructure; and secondly that it would be too slow. Walters quotes Marton Tardos, leader of the Free Democratic Party in Hungary as estimating that at the pace of the Thatcherite reforms, Hungary would take 100 years to privatise its economy. Walters quotes legal, political and administrative factors as being the determinants of Thatcher reforms in Britain. While noting that only general economic guidance to the countries of East/Central Europe may be appropriate rather than specific Western privatisation models, Walters fails to note the necessary requisites of a free market economy and private ownership as being the very ingredients that constrained Thatcher's privatisation: legal, political and administrative factors.

Here it is necessary to return to Granovetter's point of social embeddedness of any economic activity or system. State socialism, despite its authoritarian and highly centralised command system assumed a different form in each country. Thus Poland retained a large sector of agriculture under peasant ownership, while Czechoslovakia, Russia and the former GDR, for example, experienced collectivisation of agriculture. Eastern Germany and Czechoslovakia emerged from state socialist ownership with a high degree of production in state hands, while Poland and Hungary due to the more gradual reforms which had started much
earlier, emerged in 1989 with more private property. The differences are a result of amongst other things of social, political, economic and even geographic factors (i.e. Romania's pact with China to keep its Russian neighbour at bay).

Van Brabant looking at privatisation from a East/Central European perspective notes the importance of the above two factors of speed and appropriateness of Western models. Furthermore van Brabant also questions the wisdom of privatisation as a guarantor of firm efficiency even in a Western European context, without the fulfilment of certain other criteria as noted earlier in this chapter. It is within this context that he quotes Comisso (1989) on the establishment of property rights and applies this to divestment of state capital in formerly command economic systems. According to this view property rights can only be securely established if three conditions are fulfilled.

Firstly the rights must be in 'the hands of actors with purely economic responsibilities'. Secondly these rights must be 'enforced by a neutral party based on an effective judicial system and modern civil and commercial codes', and thirdly the 'policy-making authority, including the ability to prescribe what kind of activities the bearer of property rights can engage in, must be entrusted to institutions that themselves neither exercise nor enforce property rights.'

In other words a fully functioning market structure and an independent democratic political and institutional framework must be operational for privatisation, i.e. transfer of ownership, to improve firm performance.
Table 4.2 Economic Indicators

<table>
<thead>
<tr>
<th></th>
<th>Bulgaria</th>
<th>CSFR</th>
<th>Hungary</th>
<th>Poland</th>
<th>Romania</th>
<th>CEECs</th>
<th>USSR</th>
<th>OECD (f)</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP ($ billion) (a) (PPP, 1989)</td>
<td>51</td>
<td>124</td>
<td>65</td>
<td>173</td>
<td>103</td>
<td>516</td>
<td>1,858</td>
<td>12,942</td>
</tr>
<tr>
<td>commercial exchange rate (1989)</td>
<td>20</td>
<td>50</td>
<td>29</td>
<td>68</td>
<td>54</td>
<td>221</td>
<td>566</td>
<td>14,459</td>
</tr>
<tr>
<td>GDP per capita (a) ($PPP)</td>
<td>5,719</td>
<td>7,878</td>
<td>6,188</td>
<td>4,505</td>
<td>3,445</td>
<td>5,536</td>
<td>6,700</td>
<td>15,565</td>
</tr>
<tr>
<td>($ commercial exchange rate, 1989)</td>
<td>2,251</td>
<td>3,214</td>
<td>2,750</td>
<td>1,807</td>
<td>2,311</td>
<td>2,302</td>
<td>1,981</td>
<td>17,390</td>
</tr>
<tr>
<td>Export share as % of GDP (1989)</td>
<td>31</td>
<td>35</td>
<td>33</td>
<td>19</td>
<td>21</td>
<td>25</td>
<td>7</td>
<td>18</td>
</tr>
<tr>
<td>Investment share (b) as % of GDP (1987)</td>
<td>27</td>
<td>26</td>
<td>25</td>
<td>29</td>
<td>30</td>
<td>28</td>
<td>34</td>
<td>20</td>
</tr>
<tr>
<td>Sectoral shares in total employment (%) (1989) (c)</td>
<td>17</td>
<td>12</td>
<td>18</td>
<td>27</td>
<td>28</td>
<td>23</td>
<td>19</td>
<td>8</td>
</tr>
<tr>
<td>Agriculture</td>
<td>49</td>
<td>46</td>
<td>39</td>
<td>37</td>
<td>45</td>
<td>42</td>
<td>39</td>
<td>30</td>
</tr>
<tr>
<td>Industry</td>
<td>49</td>
<td>46</td>
<td>39</td>
<td>37</td>
<td>45</td>
<td>42</td>
<td>39</td>
<td>30</td>
</tr>
<tr>
<td>Services</td>
<td>34</td>
<td>42</td>
<td>43</td>
<td>36</td>
<td>27</td>
<td>35</td>
<td>42</td>
<td>62</td>
</tr>
<tr>
<td>Energy use per unit of output, relative to OECD (1988) (d)</td>
<td>2.2</td>
<td>1.9</td>
<td>1.3</td>
<td>1.9</td>
<td>2.5</td>
<td>2.5</td>
<td>2.7</td>
<td>1</td>
</tr>
<tr>
<td>Share of private enterprises as a % of NMP/GDP (mid-1980s)</td>
<td>3</td>
<td>3</td>
<td>15</td>
<td>15</td>
<td>9</td>
<td>9</td>
<td>3</td>
<td>70-80</td>
</tr>
</tbody>
</table>

(a) CIA estimates from Euromonitor, September 14, 1990, for PPP-based GDP figures. World Bank and OECD estimates for commercial exchange-rate based GDP figures. For USSR, the initial value of the commercial rate established in 1990 is used.
(b) National Statistics
(c) National statistics and OECD estimates
(d) OECD Economic Outlook 48, December 1990.
(e) OECD Economic Outlook 47, June 1990.
(f) OECD data are from OECD data bases.

Source: van Brabant, Table 1.1 Economic Indicators, p.7 in Poznanski (ed.) (1992)
This is clearly lacking, especially in the Commonwealth of Independent States (CIS) but was also lacking in East/Central Europe in the early 1990s and is still not fully operational even in 1994. At the beginning of the privatisation process in most East/Central European countries the legal and institutional frameworks had only just been set up or were being drawn up at the same time as the privatisation scheme.

David Parker claims that successful privatisation needs a mix of macro-economic and micro-economic reforms, as follows:

- competitive product markets, requiring (a) the removal of preferences for state industries, (b) a reduction in tariff levels to fashion a more open and competitive economy and (c) competition law to prevent monopoly practices;
- a free capital market;
- a macro-economic environment conducive to private investment, including stable prices so that inflation does not distort market signals, and low taxes and low interest rates to encourage enterprise and investment;
- the legal and administrative framework for private property rights to flourish, including clearly defined property and contract laws;
- laws to set standards for corporate governance and investor protection;
- recognised standards of business ethics;
- agreed accounting systems and conventions so that accounts are meaningful and assets can be reliably valued;
- a stock market and commercial banking sector;
• trained accountants, bankers and lawyers;
• employment and welfare legislation to prevent the introduction of the worst excesses of capitalism, which might lead to a political backlash against the market economy.35

As Parker notes although reforms have been introduced since 1990 to bring about such a framework, an acceptable and fully operational code of "business behaviour" or business culture can only develop over time and cannot be ushered in, in line with new legislation. All types of social interaction whether within the personal, business or economic or political spheres depend both on resources available and the institutional-legal framework (van Brabant, 1992; Ickes, 1990; Kanel, 1974; Moser, 1989)36. Additionally the passing of legislation does not mean that it is then effectively implemented. (See discussion regarding bankruptcy and bureaucracy in Chapter Five). It is with these aspects in mind that David Stark has produced an analysis of the differing privatisation models among the Czech and Slovak Republics, eastern Germany, Poland and Hungary based on these factors37.

Gradual Transition versus Shock Therapy

Experts divide East/Central Europe into countries which have pursued fast economic transition or shock therapy and gradualism. Countries generally classified as shock therapy are eastern Germany, Czechoslovakia (1990-92), and the Czech Republic post 1/1/93, Estonia, initially Russia (1992-1993), Poland (1990-93).
Those pursuing a more gradualist approach are usually classified as Hungary (1990-94), Romania, Bulgaria, Yugoslavia, Albania and various members of the Commonwealth of Independent States (CIS), as well as Slovakia since 1/1/9338. However the different dates above display the fluctuations of policy within each country. In addition the actual policies pursued can often not be categorised in their totality into one section or another. Thus the Czech Republic pursues a so-called shock therapy policy and yet cultivates certain economic policies which have a more long-term and gradual objective. Similarly, Slovakia is generally described as a country of a more gradualist approach. Round two of the privatisation plan since independence has been delayed and yet Slovakia cannot be compared to Romania or Russia as a gradualist approach country. Rather it belongs to a separate category again.

Slay also points to these discrepancies in the accepted analysis of shock therapy versus gradualism while claiming that, with the exception of Russia, all countries pursuing a form of shock therapy have fared better than those undergoing gradualism. This argument, however, excludes the economic, political and social inheritance of each of these countries, which influences the policies which can be ventured upon. It would appear that the very failure of shock therapy in Russia supports the view that for any particular approach to be successful requires certain conditions to be present initially.

It is perhaps, therefore, also no surprise when looking at shock therapy that the country which has been the most successful in this type of transition has been the
Czech Republic. This country inherited limited external debts despite a high proportion of state ownership, a relatively strong civil society, a high level of education and a pre-war inheritance of technological know-how and economic power which rivalled the West in the 1930s. However, even in the Czech Republic shock therapy has not been applied as undilutedly as claimed, as will be discussed in the next chapter.

Thus shock therapy may be a more effective form of transition in narrow economic terms but no country in East/Central Europe, apart from perhaps Eastern Germany, follows a purely monetarist or shock therapy approach\textsuperscript{39}. Usually certain monetary policies are combined with longer term, more gradual strategy. In addition these countries embarking on the shock therapy approach may have done so due to a comparably more favourable starting point. This is not to ignore the value of individual personalities and skills of politicians and political parties and movements in the decision-making process.

The following comparison of privatisation schemes in the countries of Czechoslovakia (1990-93), Poland, eastern Germany and Hungary displays further this complex interplay of present transitional economic policies and social, economic and political inheritance and present day situations.
A Comparative Analysis of Privatisation: Czechoslovakia, Eastern Germany, Poland and Hungary

The above discussion displays the fact that the actual functional process of privatisation is socially embedded, as much as entrepreneurial activity, which will be discussed in a later chapter. Stark supports the above argument in that he notes the influence of the inheritance from the old system of different social stratification and political-economic groupings on the method of privatisation of state enterprises. Stark argues the point of 'positional property' as important in this process. He acknowledges the problem of the old state bureaucracy and bureaucrats using their political power to gain economic capital in the privatisation process but rather emphasises the potential of economic position in property, e.g. managers and salaried employees as against other claimants of property. Jones however, emphasises and discusses in greater detail the problem of inheriting an old bureaucracy and old personnel with outdated values. Jones argues that the actual value systems bred within these institutions run contrary to any successful transition. As discussed later, Civic Forum found after carrying out a purge of Communist Party members within the movement, pulled back from a purge of the bureaucracy due to the lack of skilled employees to take their place. This would support Jones's view that while political changes have been immense, administrative inertia has not helped the process of transition. The problem of bureaucratic inertia and potential positional property or positional advantage of managers combined with weak corporate governance carry important implications for the success of the
privatisation process in producing improved firm performance. This particular relationship to the management-control relationship, as a central theme of corporate governance, and firm efficiency will be discussed in chapter three with respect to the Czech and Slovak Republics. Before tackling this issue however it is necessary to understand the context that the privatisation process has created for economic activity, how and why this occurred.

While the problem of outdated administrative value systems and resultant bureaucratic inertia appears to be an intractable problem at the moment, governments do have the ability to model property distribution through the design of the privatisation process. If governments accept that privatisation is the best way of improving the economy and bestowing wealth on new individual owners, who do they bestow this wealth upon? Should they attempt to satisfy the new democratic aspirations of their populations only recently endowed with full civil rights, or should they attempt to effect improved economic performance in the hope of attaining middle to long-term support from the population. Alternatively does the population need to be convinced of the benefits of a market economy?

Granovetter points to the importance of a combination of inherited behavioural paradigms, independent rational behaviour based on purely economic criteria and ongoing social relations in providing the context to ant economic activity. As already argued the strong existence of economic embeddedness (in all these aspects mentioned above), in East/Central Europe is critical to the understanding of, and indeed in the ultimate success of economic transition to a market economy,
including improved managerial and firm performance. The introduction to this research and chapter one have discussed in greater detail at the 'value' level the issues of 'non-economic' criteria, such as culture, political practice and social relations influence economic decision-making. Sztompka, a Polish sociologist, also outlines the interplay of all these aspects in the concept of social progress in the twentieth century. Stark concentrates on the influence of the political and social inheritance of East/Central European countries in choosing their respective privatisation processes.

What are these influences? What do they mean in practice and what are the implications for the choice and predicted success of privatisation strategies in East/Central Europe?

Stark admirably assesses the structure and aims of privatisation strategies in four countries; Czechoslovakia, Germany, Poland and Hungary. Although writing at an early stage of the privatisation process, in the winter of 1991-92, Stark correctly identifies the different emphasis of the strategies in different countries and finally searches for and analyses the reasons for these variations in the economic embeddedness of privatisation in each country.
Table 4:3  Provisional Typologies of Privatisation Strategies in East/Central Europe

*Potential Applicants for Property Rights*

<table>
<thead>
<tr>
<th>Resources for the Acquisition of Ownership Rights</th>
<th>Corporate Body (enterprise)</th>
<th>Citizens</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>a a a a</td>
<td>m m m m m</td>
</tr>
<tr>
<td>financial means</td>
<td>GERMANY a</td>
<td>CZECHO- m m m</td>
</tr>
<tr>
<td></td>
<td>a a a a</td>
<td>SLOVAKIA m m m</td>
</tr>
<tr>
<td></td>
<td>a a a a</td>
<td>m m m m m</td>
</tr>
<tr>
<td>position</td>
<td>n n n n</td>
<td>n n n n n n n</td>
</tr>
<tr>
<td></td>
<td>HUNGARY n</td>
<td>POLAND n n n</td>
</tr>
<tr>
<td></td>
<td>n n n n</td>
<td>n n n n n n n</td>
</tr>
</tbody>
</table>

a= administratively  m= through the market  n= through negotiation

*Evaluation of the Enterprise*

*Source: Stark (1991-92)*

Stark's diagram attempts to display the different approaches to privatisation of Germany, Czechoslovakia, Hungary and Poland. Taking Stark's analysis country by country, the three elements which have influenced the forms taken are as follows:
the process and type of liberation from Communist Party control in 1989

the corresponding inherited differences in social structure, political organisations

the influences of the above two factors on the present political institutions and the way in which interests are shared out between the spheres of state and society

It is interesting to note that Stark identifies the political and social organisation of pre- and post- 1989 East/Central Europe as being the most important factors in their economic transition. The economic inheritance, i.e. external debt (Poland) versus no debt (Czechoslovakia) have also influenced the process but as discussed in chapter one these respective economic situations were perhaps more the result of political decisions in an attempt to accommodate social pressures without challenging the Centrally Planned Economy and one party system, than they were of pure economic criteria. Political legitimisation of the system stemmed from economic planning and control according primarily to social need (See Chapter One). Therefore the political and social criteria were the driving force under the old system and thus need to be looked at now.

The Former German Democratic Republic

According to Stark's analysis, the former GDR, achieved liberation from state socialism through 'unification' into a united Germany, resulting in all political
institutions being taken over by the Bundesrepublik (Federal or West Germany). Thus the political leadership did not have to cope with the remains of old personnel and completely entrusted the now new federal states or 'neue Bundeslaender' to a market economy.

The old Bundeslaender from its own post-war experience had no reason to distrust either the market or the state. The one remnant of the old system where a complete change of personnel was impossible and no new all encompassing structure could be introduced was in GDR society. After 40 years of Communism certain value systems and patterns of behaviour had been built up, as in other East/Central European countries, which could not be changed overnight (See Chapter One for a discussion of value systems). Stark, in common with East German psychotherapist Maaz and East German writer Helga Koenigsdorf, in common with the findings of this study lists the inheritance of the last forty years as being personality structures, habits, tendencies, expectations and generally the way of thinking\textsuperscript{45}. Stark observes the West German leadership as believing that these attributes must be changed in East Germany before they can be entrusted to operate adequately in the new structures. Since 1992 to the present day, numerous German television programmes, opinion polls (See Chapter Nine), and most famously West German disgruntlement at the continuing high level of taxes required to maintain the East German recovery would support this view.

These attitudes have resulted in a privatisation process which is essentially administrative in nature, organised through the Treuhandanstalt, set up by the
German government as an independent custodian and privatiser of former GDR state enterprises, with financial criteria as the 'only' criteria to distinguish buyers. The different aspects of this will be discussed in greater detail in Chapter Nine on eastern Germany.

However the case studies undertaken by the author and discussed in the following chapters, indicate that West German potential managers, even before they have raised the necessary capital from banks, often prove more successful in acquiring companies than either former managers or work collectives or even the original owners when East German. The case studies are not statistically valid but do provide models for the effect of privatisation on ownership and management which are supported by data and other academic arguments. Thus Stark notes that by May 1991 the Treuhand had privatised 1670 of the total 7000 firms of the former GDR and 90% of these were sold West German enterprises, 5% on foreign enterprises and 5% to former managers of the enterprises in question.

Stark predicts (1991-92) that as the privatisation process slows with former East German state enterprises becoming less competitive and therefore less valuable the only option for the Treuhand organisation will be left with a large number of firms that must be either restructured and subsidised or sell to the former managers. The final option may involve protracted transactions as to the real value of the enterprises. This has in fact happened with the Treuhandanstalt planned for dissolution into management units to carry out restructuring of the remaining firms by the end of 1994. Therefore, although the privatisation process was the fastest
and most successful in narrow economic terms of all the East/Central European countries, it did bring about some dire results for the East German population. Unemployment at the end of August 1991 reached over one million and short-time workers, one and a half million\(^4\). Today unemployment stands at 40% of the total East German population and local economies have in some areas has collapsed completely due to the closure of some key enterprises and the sale and subsequent closure of others. The privatisation process has been effective in that it has privatised, by 1994, 13 500 firms and sold them to owners within a relatively stable and mature economic and political system\(^5\). Management know-how from the West has also proved an invaluable resource. However at the same time the unpopularity of the Treuhand agency amongst the general populace, also noted in interviews with both eastern and western German management carried out by the author on site, combined with the 1994 narrow electoral victory for Kohl and an increase in the Reformed Communist Party, the PDS (the reformed communist party), such as social dislocation and alienation not experienced quite so severely elsewhere in East/Central Europe, exception perhaps in the former Soviet Union\(^6\). Thus the \textit{administrative} approach to privatisation in eastern Germany resulted from a strong \textit{trust in the state and market} and a \textit{distrust of society}.

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Czechoslovakia

This process contrasts markedly with Czechoslovakia but is similar in one respect: belief in the *power of the market* as adequate means to regulate the process. A (free) market was not only the aim of the Czechoslovakian government in 1990-1/1/93 but a market was also decided as the main means by which to carry out privatisation and thus to build a (free) market.

Czechoslovakia emerged from 1989 with an alienated and splintered population. Gustav Husák became first secretary of the Czechoslovakian Communist Party and successor to Dubček at the end of the Prague Spring when he was appointed as a loyal servant by the invading Soviet forces. He had kept tight control on the political elites and the political opposition so that dissidents existed in often uncoordinated groups with weak roots in the alienated society and little innovation within the elites could occur. This was called the 'normalisation' process. An example of the effect on civil society is the famous Charter 77 which was active on human rights issues but was not a large-scale, cohesive political movement enjoying vocal support across the social spectrum as Solidarność did in Poland. Change had not been initiated successfully in Czechoslovakia by a broad based opposition but rather change was forced from the government in response to the Polish and Hungarian liberations as well as Gorbachev's relaxed control. The obvious vacuum of support in all areas of Czechoslovak society for Husák's government was the primary uniting force in the country. Stark describes the transformation in 1989 in Czechoslovakia as coming about through *'capitulation'*⁴⁹ Thus the new government
did not have to deal with any substantial grouping of politicians left over from the previous regime as Russia, Hungary and Poland did.

The new government made up of Civic Forum members and instated after 1989, enjoyed considerable support but not from any one particular power base. The old political elites had collapsed completely leaving a void filled by former dissidents with wide ranging views. Some, such as Ramet, consider this to have left a power vacuum at the level of civil society and in fact the importance or otherwise of this factor is still being discussed in the political arena. Most recently the same debate emerged between President Havel, who sees it as essential in a fully operational democracy and Prime Minister Klaus, who from a neo-liberal political standpoint sees representative elections as the only necessity in a democratic system. Similar ideological differences, but on an economic level, are discussed in the next chapter.

The factors affecting the privatisation process and its design by the government were then as follows:

♦ the state was relatively weak and still finding its feet

♦ support for the old political, economic and administrative elites was minimal in a country that had been effectively emasculated of its own creative, national road to socialism in 1969

♦ the opposition was splintered and not cohesively organised around a set of specific aims as in Poland
Thus the government needed to privatise, as in all East/Central European countries, to divest, in this case, the old administrative personnel any foothold in the power process. The government did not have to acknowledge any particular opposition group in society that had aided the transition. Thus the process of large scale privatisation chosen was coupon privatisation, by which process each citizen over the age of 18 had the right to purchase coupons for investment in state enterprise of their choice for 1000 Crowns. Stark claims that by charging 1000 Crowns (approximately a quarter of the average monthly income for an industrial worker) for the coupons, the state was not attempting any egalitarian strategy as in Poland where a free distribution of shares was carried out. However, given that the price was within reach of most people, the cost can only be seen as a token attempt to imbue monetary value into the coupon purchase. In fact the price only really covered the government's administrative costs of coupon distribution. However, government practice of not disclosing important information about firms to everyday citizens an yet making the same information available from the ministries to journalists for a sum, would suggest that different perceptions existed at both government and society level as to who was to benefit from voucher distribution. What can be said for certain, however, is that the Czechoslovakian government was attempting to establish an anglo-american form of investment with, due to the form of distribution, a wide distribution of shareholders. Stark, writing at the beginning of 1992, notes that this implies a great deal of trust in management ability and equally a lack of concern about the effects of widespread ownership. Both these
elements are mentioned by van Brabant as being unsupportive in the move towards privatisation. Kenway and the author of this study have found that despite this attempt the corporate governance model has developed a more hybrid form due to elements of the intended anglo-american financial model mixing with a spontaneous formation of Investment Privatisation Funds (IPFs) and traditional roots in the insider or German model. This odd structure combined with a lack of management and shareholder, especially IPF expertise has caused organisational difficulties. This, however, is the subject matter for chapter three but is important to mention here due to Stark's neglect of this area.

Thus due to Czechoslovakia's trust in the market and lack of strong social movements, the chosen process was over the market.

By comparison to the former GDR and Czechoslovakian experience Hungary and Poland's choice of privatisation process defines the respective priorities as being quite different and peculiar to their own situations and societies.

**Hungary**

Hungary achieved liberation through elections, thus retaining a large number of the former political elites. This perhaps accounts for the mistrust of the market which Stark mentions. The legitimacy achieved however by elections does not mean that there was a wholesale endorsement of government strategies. The fact that elections took place during the 'old regime' has meant that few alternative political options other than those of the already established parties had developed by the beginning of
1992. This created a *statist elite*. The lack of widespread social support for these parties or perhaps the lack of opportunity to measure the extent of any support (few intermediary organisations existed), other than the elections meant that the government was unaware to what extent society would support its reforms, or in other words a *lack of social trust in government*. Stark describes this as the lack of clarity over the extent to which society was willing to trust the government or the governmental process\(^{57}\).

In addition the liberal political and economic atmosphere was part of a slow transitional process leading up to 1989. Significantly elements of a market economy had been introduced over a number of years under the centrally planned economic framework. This meant that managers were in a particularly strong position by 1989, having secured a limited amount of independence from the state. This in turn meant that the government had greater difficulties than other countries in trying to control the managers of enterprises. The privatisation process chosen, therefore, was not administrative, neither through the market as in the two previous cases. Instead 'relational contracting' was used, or a privatisation of the privatisation process, as a means of assessing the value of firms\(^ {58}\). The State Property Agency (SPA), tendered out to the consultancy firms or international investment banks the rights to privatise a particular company based upon the proposals put forward the above firms. These proposals included an assessment of value, management of finances and finding a buyer. This practice of relational contracting between the SPA and the consultants elicits more information useful to both parties than could
ever be raised through market transactions as in Czechoslovakia. In addition, management of state enterprises often form limited companies and joint stock companies out of parts of the state enterprises in order to avoid debts, bankruptcy, take-overs or state supervision. The actual holders of the shares of these daughter companies are in fact held by the state enterprises so ownership of other shares are often in leading or middle grade positions of employment or are other joint stock companies or alternatively banks. Thus ownership over the period leading up to 1992 became a complex mixture of types most generally described as institutionalised control brought about by a decentralised reorganisation of ownership by government with government enacting some control over the institutional control of shares and ownership. Thus management has the opportunity to use their strong position to acquire the form of a limited or joint stock company ownership.

It is also necessary to point out the role of foreign investment in Hungary which Stark neglects to discuss. Hungary has received the highest levels of foreign direct investment of all of the East/Central European countries. According to Mr. Hamori, Commercial Counsellor at the Hungarian Embassy, London, Hungary contains 2% of the region's (East/Central Europe) population and has attracted 50% of the foreign direct investment to the area. Thus the Hungarian choice of relational contracting was due to the existence of a statist elite, a lack of trust in the market and a lack of social trust in government and resulted in institutional control of ownership. This is in direct contrast to Poland, except for the aspect of lack of trust
in the market, where society and opposition moulded into one under Solidarność which was the primary shaper of the new government and political system.

Poland

Poland used coupon distribution as the form for large scale privatisation as in Czechoslovakia but in a different form and for different reasons. Unlike Czechoslovakia, Poland distributed the vouchers free of charge to all its citizens, who were then obliged to place these vouchers or shares with an asset manager. The citizen could not cash in her or his shares as in Czechoslovakia, nor could they change property administrator. Thus the Polish government was trying to create responsible owners of property who could only receive a dividend for their investment. In addition workers and salaried employees of the privatised state enterprise were entitled to 10% of the shares in their own enterprise free. The asset managing holdings of large ex-state enterprises were held separate from pension and investment funds, so that no indirect influence could take place. Instead it was envisaged that these holdings would take an active role in the politics and strategy of the enterprises. Contrary to the Czechoslovakian example it would appear that the Polish government was attempting to design the ownership system along the insider type of the German model and was indeed concerned with the effects of widespread share ownership. Thus the Czechoslovak approach was to use coupon privatisation as a means of creating a market and the Polish approach appears to be
means of creating social support for the market\textsuperscript{52}. What accounts for this difference in approach?

Poland escaped from Communist Party control by compromise\textsuperscript{63}. The growing power of Solidarność and the unworkability by the Communist Party of government over society forced an election which resulted in a disappointment for the Communists. Poland was the first East European country to achieve liberation from monolithic Communist Party control, with Hungary following a close second. In order to govern in the wake of these elections compromises were forced which inevitably left intact a part of the old elite. In addition the change had been brought about by the struggles and sacrifices of the united and strong social movement, Solidarność, which had deep roots throughout society. Having started of life as a workers movement under Walesa's direction, it became a movement representing all sectors of society, especially in the wake of the support of the KOR (Committee for the Defence of Workers), intellectual activists for the workers during the strikes begun in 1976. Thus any incumbent government would have to take its base support into account and to satisfy its desires least it lose its support and therefore its power base. Furthermore the Polish population distrusts foreign capital, especially German and therefore, unlike Hungary the government could not rely on this source of capital, especially as little foreign capital was forthcoming directly after the first elections and Mazowiecki's call for help from abroad. The 'nomenklatura-capitalism' of the period directly after the first elections and throughout 1989 resulted in calls for a privatisation strategy which would not favour
the *old but still existent elites*. Social mistrust of the market can only be overcome by entrusting the population with shares rather than selling off to the highest or best placed bidder.

**Implications of the privatisation process for corporate governance and organisations in transition**

Privatisation in narrow economic terms does not improve firm performance. Various other legal and institutional arrangements need also to be satisfied, i.e. adequate competition, effective management, adequate monitoring by owners and shareholders, not to mention the ethical consideration of accepted practice in any society. In addition to this the aspect of economic embeddedness in any social system also affects the operation of the market and ultimately managers and organisations in society. Economic embeddedness can be analysed as three factors; internalised behavioural pattern, independent economic activity and on-going social relations. In a country undergoing change and especially in the countries of East/Central Europe undergoing such radical and complete systems and value changes the whole argument of social embeddedness illuminates the decisions made and the visions adhered to in the chosen privatisation processes. Some privatisation processes chosen, for example in eastern Germany and in the Czech and Slovak Republics, may have been successful in terms of divestment of property from the state, but their success as the single most important factor in achieving improved firm performance is more questionable. The eastern German economy has benefited
from the grafting of stable, mature market institutions and legal framework, as well as experienced personnel in the spheres of politics, administration and in business from West Germany. Indeed, most old East German firms have been sold by the Treuhandanstalt to West German owners. However the social costs and the effect on local economies in eastern Germany has been immense. Some blame the Treuhandanstalt as having created an economic backwater out of the five new Bundesländer from which they can not recover. The rise of support for fascism in this area, especially amongst the youth suggests that social dislocation has been serious.

In the Czech and Slovak republics the chosen privatisation process has failed to improve firm performance essentially due to it as complete failure in introducing effective corporate governance in companies. The strong trust in the market to regulate both privatisation and firm performance has been ill founded. The result has been a liquidity crisis and ineffective monitoring of management by owners and economic institutions, resulting in little organisational change.

The historical context and inherited practices need to be dealt with in order to retain both support from the populace and credibility for government’s policies. Equally in the design of "capitalism", reliance on market mechanisms alone cannot produce automatically an appropriate model for management and organisations in the social, economic, cultural and political contexts within which managers and the rest of the population must operate.
Conclusion on Privatisation

This chapter has argued that any economic policy must take into consideration specifics of economic embeddedness before it can succeed in creating improved firm performance in East/Central Europe. The relationship between privatisation (ownership transfer from the public to the private sector) and improvement in firm performance has been discussed and found wanting when carried out in narrow economic terms without due consideration given to legal, institutional arrangements and on-going social relations. This is an important area to be considered in the study of change in management and organisations in transitional economies as it provides the economic and business practice environment for any economic activity.

Various theories, developed in mature market economies, of the effect of privatisation have been explored and the success or failures of the application of these or similar theories in the East/Central economies undergoing transition have been discussed. A comparative analysis of the privatisation processes in a number of East/Central European countries has been carried out giving due regard to aspects of social embeddedness of economic behaviour.

Finally it has been argued that privatisation can effect a change in these economies, in terms of firm performance only if it is carried out within a clear, stable regulatory environment and with due regard to the inheritance from the past, in this case in the spheres of human capital and expertise, economic and social practices.

The next chapter aims to establish firstly the effectiveness of this new regulatory
environment and the privatisation process and secondly their effect on the ownership-control relationship in corporate governance within the context of a centre-locality dichotomy and thus potential firm efficiency in the Czech and Slovak Republics.


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Chapter Five
Economic Transition in the Czech and Slovak Republics: Neo-classical stabilisation and the lack of micro-economic restructuring

Introduction

The chapter will argue that the macro-economic policy in Czechoslovakia from the beginning of 1990 until 1993 and subsequently in the Czech Republic was primarily a mixture of an exaggerated monetarist approach (inspired by neo-classical Western economic advisors such as Sachs, Friedman and the International Monetary Fund), with some more interventionist policies. These limited interventionist policies were designed to retain political control rather than to consciously influence the market system model resulting from macro-economic stabilisation and rapid mass privatisation. The limited and patchy industrial policy, enacted by the government as a result of pressure from below and from powerful figures in opposing political camps, reinforces a divergent firm level model growing organically in response to past inheritance, present changing market conditions and on-going socio-economic behaviour. The analysis of this firm led economic model will be dealt with here in terms of outstanding inter-enterprise and bank debt, two aspects which exert a strong influence on the management of organisational change in the transitional economies of the Czech and Slovak Republics. An overview of organisational change and firm actor behaviour will be developed in subsequent chapters.

It must be emphasised that this chapter is not designed to give a detailed and comprehensive economic analysis of the Czechoslovakian situation and the subsequent situation in the Czech Republic. Indeed the economic issues discussed
here are too wide ranging to deal with at any length in one chapter. Instead this chapter has been designed to provide a political economic backdrop to the case studies in the following two chapters. The period 1990 to mid-1994 covers the most important period of economic transition which provided the base to changes at enterprise level. However, many subsequent events through 1994, 1995 and 1996 support the argument made here and will therefore be referred to where appropriate. An adjoining short chapter will deal with the Slovak Republic since 1993.

**Chapter Outline**

The chapter will be divided into two main parts. The first part will deal with a brief outline of the political situation of Czechoslovakia from the beginning of the transition in 1989/90 and the debate surrounding the economic transition plan of the reforming government (post 1989). Thereafter, the second part will contain an examination of the effect of those economic policy choices mainly during 1990 to mid-1994 relating to: privatisation and achievements of privatisation; competition and demonopolisation; price liberalisation, inflation and currency conversion; wages and employment; changes in GDP; banking, bankruptcy and inter-firm indebtedness; bankruptcy and the lack of an industrial policy. The conclusion relates as a whole the discussion of these different areas to the government's lack of an integrated industrial policy. The experience of the Czech Republic post-1994 is included where it is significant to the argument posed here.
Political Evolution and Economic Policy

Political Evolution

For reasons of political control, economic decentralisation of state property was an imperative which could not be ignored. Control of all economic activity had been one of the two central keys to Communist hegemony, the other being authoritarian political control. In the heady, unstable days immediately after 1989, there was immense political insistence in turning the tide irreversibly towards a market economy and a liberal-democratic political order.

However there were varying beliefs as to how this was to be achieved. Václav Havel had been elected into office as President of Czechoslovakia on December 29th 1989. The anti-communist alliance he represented, Civic Forum² (in the Czech Republic), and Public Against Violence (the Slovak republic's sister organisation), were active in a coalition government of Civic Forum (CF) and the Communist Party of Czechoslovakia (CPC) from mid-December onwards. Very soon Civic Forum came to dominate the government after the resignation of a number of CPC MPs and ministers. The first parliamentary elections in over forty years took place on 27 June 1990, in which CF was elected to government, not as a political party, but as a political movement and thus encompassed a wide variety of views and beliefs. The movement contained under its umbrella a variety of political persuasions including the reformist communist views of those who during the Prague Spring had sought for the 'third way' or 'socialism with a human face' as proclaimed by Ota Šik in 1968³. These reformists had later become dissidents. Also included were dissidents opposed to state socialism but with a social concern, such
as playwright Václav Havel, as well as a later generation of those whose beliefs were overtly neo-liberal. This latter, younger generation had often not been actively involved in dissident activity under the old regime but had operated within the old institutional framework, often carrying Communist Party cards for career reasons, while holding opposing beliefs. This was a typical example of 'internal exile' exhibited in many former COMECON countries but particularly prevalent in Czechoslovakia following the disillusionment of 1968 and the ensuing highly authoritarian policy of 'normalisation' under Gustav Husák.

Four clear political groups began to emerge from March 1991 onwards, the Civic Democratic Party (the right or radicals), led by Václav Klaus with a larger degree of popular support, and the Citizen's Movement (CM), represented most notably by the President Václav Havel which was better represented in the Federal and Czech governments. The rest of the MPs supporting Civic Forum, divided themselves between the re-established Social Democratic Party (Valtr Komárek), the neo-liberal Civic Democratic Alliance (Vladimír Dlouhý) and other smaller groupings. The Civic Democratic Alliance was closer to Klaus, but less anti-Communist in tone, although later more minor differences would emerge.

Economic Policy

It appeared to be along the lines of these different experiences and attitudes that opposing political views on the economic transition split into 'gradualist' and 'radical' camps.
The old reformists and active dissidents, including President Havel and groupings close to him as well as certain research institutes, while supporting a shift to a free market economy, queried firstly the speed of, as well as the rationale behind, the privatisation plan proposed by Finance Minister, Václav Klaus and secondly the process and sequential order of economic reforms introduced to support this transition. Thirdly this group was particularly concerned with the social impact of the economic transition. Central to these criticisms was their concern at the lack of a well thought out industrial policy and the supposed ability of the privatisation schemes to encourage entrepreneurial behaviour and restructuring and increased investment automatically. The group's main proponents in the economic sphere were Valtr Komárek, Deputy Prime Minister (and also Member of Parliament, member of Civic Forum and director of the Institute of Economic Forecasting), and Jan Vrba, the Czech Minister of Industry. The 'reformers/dissidents' then, proposed a 'modified Keynesianism' while the new 'radical generation', represented by Václav Klaus and Vladimír Dlouhý, Minister for Planning, argued for a monetarist approach.

Ultimately, the economic package chosen in 1990 was informed predominantly by neo-classical economic theory and resulted in important differences of approach in macro- and micro-economic policy decisions. Even Dlouhý, at the time active in the State Planning Commission in the reforming Civic Forum coalition government in early 1990 and a staunch supporter of Klaus as Minister of Finance, hoped for a limited plan to protect a degree of economic functioning, while insisting on the importance of radical systematic change. Dlouhý also advocated an eventual
development of a more integrated industrial policy which soon became forgotten in
the enthusiasm for quick, market induced transformation. The fact that there were
very real differences in the concept of transition, is also shown by the resignation of
Komárek as Deputy Prime Minister in April 1990. His criticisms will be outlined
later.

Klaus pursued the rapid privatisation policy supported by both the International
Monetary Fund and by western spokespeople, regarded as authorities on the matter.
Most notably Milton Friedman visited Prague in September 1990 during
parliamentary debates regarding economic transition and declared support for Klaus
and his vision of a free market economy as opposed to the alternative social-market
economy. Jeffrey Sachs, Harvard economist and a prominent advisor to the Polish
government, also argued the case for 'shock therapy'. He was greatly involved in
the summer 1989 debate in Poland on the fast versus slow economic policies for
transition, setting a precedent for the whole region as it began to emerge from
Communist control.

However, as the government's position solidified, two divergent economic models
became apparent at macro- and micro-economic levels. The different concepts of
transition held by central government figures were reflected at a local enterprise
level, where economic actors were able to adapt policies as they were implemented.
This was made possible by a number of factors, including the lack of an adequate
industrial policy, the lack of restructuring and the consequent survival of
functioning socio-economic networks from the past. Indeed, while entrenched elites
in the industrial-financial bureaucratic complex were left almost untouched by
Klaus, the political sphere was purged under the lustration (lustrace) campaign (January 1991), which was deemed particularly necessary to the success of economic transition.

Those few party members of the industrial-financial bureaucratic elites who were removed were those heavily implicated in the excesses of the past regime. Their present positions in key posts (such as management) were compromised by past highly unpopular and conspicuously inappropriate activities. Thus while in some of the case studies interviewed senior management (as opposed to middle management, and especially those with purely technical expertise) had been removed prior to privatisation, in many of the cases personnel had remained more or less in place. Thus removal of key enterprise management figures was by no means a widespread phenomenon and no systematic behavioural change in organisational culture was encouraged by these individual changes.

The development of two divergent economic models was evident from the micro-economic level from 1993 onwards, the results of which only began to filter back through to the macro-economic level in 1996. This will be discussed in the last section.

**Economic Plan and Effects January 1990 to mid-1994**

Opinion as to the nature of the government's economic transition plan and its actual effect on the economy vary. The plan as proposed initially by Finance Minister Václav Klaus (Finance Minister until July 1991, when he became Prime Minister)
and Head of the State Planning Commission, Vladimír Dlouhý (from 1 July, 1991, Federal Minister for the Economy) had four essential ingredients:

1. liberalisation of prices
2. liberalisation of the economy
3. privatisation
4. demonopolisation

The primary emphasis appeared to be on a restrictive monetary policy by the Czechoslovak government, as opposed to institutional change. The restrictive monetary approach began on 1 January 1991, when, as already mentioned, anti-inflationary measures of price liberalisation and internal convertibility of the korunna were introduced. In addition to these policies, direct credit limits and wage control were also established. The combination of these policies with the major importance given to privatisation by the 'market', (as established in Chapter Four), combined to affect the economy in some important and unexpected ways. The lack of an integrated industrial policy to deal with issues of enterprise restructuring and outstanding debt (inter-enterprise and debt to banks), and the lack of institutional change and an adequate regulatory policy to support new ownership control patterns reinforced these problems. This in turn had an effect at the micro-economic level.
Privatisation and its Achievements

Auctions, Restitution and Voucher Privatisation

The actual contents of Klaus's privatisation plan were criticised by the dissident movement, involving the major figures of Havel and Komárek as well as groups outside the movements such as trade unions. The three elements of the plan were small scale privatisation, generally through auctions, large-scale privatisation through the voucher scheme, and lastly and to a lesser extent privatisation through restitution.

Auctions or small scale privatisation legislation pertaining to the sale of the service sector and small enterprises was passed on October 1990 (Law No. 427/90). It was criticised as providing money laundering opportunities for the old elites and nomenklatura and the illegal street traders who had flourished under the previous regime since no consideration was given to the source of finance and employee claims. Václav Klaus, however, firmly refused to allow any investigation into money sources, claiming that the task of distinguishing between clean and dirty money might be too complicated. The Privatisation Minister Tomáš Ježek was quoted as saying:

'We cannot ask people where they got their money from. Certainly there is dirty money here, but the best way to clean it is to put it to work.'

The restitution law passed on 22 February 1991, only allows for the restitution of property going back to 1948. In actual fact much property had been nationalised
previous to that date. Thus many claimants, particularly Jews and Sudeten Germans, were excluded from claiming under this law. This issue is still to be resolved. President Václav Havel has been pressurising Václav Klaus, the Prime Minister for some time for the situation to be reconsidered by the Czech parliament, as has the German government and Sudeten German groups¹¹.

The gradualist or 'modified Keynesian' approach to Voucher or Large-scale Privatisation concentrated on two criticisms of Klaus's plan as enunciated by the Institute of Economic Forecasting which submitted its own programme on September the 10th, 1990 to Parliament¹². The major criticism was that privatisation did not achieve its aim; that of the creation of an entrepreneurial spirit amongst owners who would in turn have a positive affect on the economy via the enterprises. Instead, it was claimed, privatisation spread ownership over too wide a number of shareholders who would have little control over managers and enterprises. An immediate criticism at the time in Czechoslovakia was raised by Miloš Zeman, also of the Institute for Economic Forecasting, who criticised the free purchase of shares as reducing an appreciation of their real value and thus, claimed the Institute, would encourage further sales of shares soon after privatisation in order to buy consumer goods¹³. The lack of an entrepreneurial spirit amongst the population was also quoted as a contributory factor¹⁴.

However, despite these criticisms, Klaus's large-scale or voucher privatisation was made law on February the 26th, 1991¹⁵. Management, employees and other interested outsiders were eligible to put forward privatisation plans by 20 January 1992¹⁶. There are some important points to be made here, not only from a political
point of view but also with regard to privatisation and its effect on the development of entrepreneurial resources and management behaviour seen from the later perspective of 1993 and 1994, when the author's case study interviews were carried out.

Achievements of Privatisation

Privatisation, as enacted in Czechoslovakia leading up to the split in January 1993, was initially a joint programme. Since partition each country has proceeded down similar paths but at very different speeds and with very different political agendas. The nature of the privatisation process in Czechoslovakia, its aims and its critics have already been discussed in the previous chapter. The Czechoslovak experiences from 1990-94 and beyond support these initial theoretical criticisms.

What privatisation did achieve, however, was a change in ownership of enterprises. The figures regarding the amount of state property privatised vary. During the first wave, Meistik and Burger (1993) summarise, from figures from the Czech Republic Ministry for the Administration of State Property and its Privatisation, the number as being 943 joint stock companies privatised in the Czech Republic, 487 in the Slovak Republic and 62 Federal enterprises, a total of 1,492. The total net value of property designated for the first wave of voucher privatisation was Kčs 201 billion (US$ 7 billion). This accounts for Kčs 902.1 billion in total output across the two republics. Takla cites a similar figure of 1,471 companies across Czechoslovakia, while Frydman, Rapaczynski and Earle et. al. quote 1,048 projects in the Czech Republic relating to 2,154 business units. Myant assesses the numbers as being
1,436 Czech and 573 Slovak enterprises accounting for 12% of Czech and 10% of Slovak fixed assets listed for the first wave\textsuperscript{20}. Figures for those enterprises fully sold again vary with Takla quoting 291 and Myant quoting 48\textsuperscript{21}. Finally, by 1995 after two privatisation waves the EBRD (1995) reports the private sector as accounting for 70\% of GDP in the Czech Republic\textsuperscript{22}. This definition of private includes anything that is not completely state-owned. This was achieved over a first wave in a united Czechoslovakia during 1992 (of which there were a number of rounds, that is bidding for shares in enterprises) and in a subsequent second wave in the Czech Republic alone, planned for October 1993, but actually carried out in 1994. In Slovakia after 1993, the privatisation process faltered and this will be dealt with in a subsequent chapter. As a general indication, however, the first wave of privatisation in Slovakia sold roughly half the number of enterprises than the same wave in the Czech Republic and accounted for Kčs 196.3 billion in total output as opposed to Kčs 592.9 billion in the Czech Republic. The remaining Kčs12.9 billion (of the original figure for total output for a unified Czechoslovakia of 902.1 given above), represented the total Federal output\textsuperscript{23}.

**Economic Liberalisation**

Komárek representing the 'gradualist approach' warned of a Polish malaise if privatisation was brought in too quickly along with free prices, claiming that unemployment and social dislocation would reach unexpected proportions\textsuperscript{24}. He advocated a series of economic reforms alongside a more gradual privatisation plan. There was a belief that a contemporaneous development of institutions and
practices essential to the effective and regulated operation of a market economy could be introduced. Klaus, holding the opposite view, believed that privatisation along with price liberalisation, would guarantee successful economic change. He was firmly of the opinion that a change to a market system could not be orchestrated but would occur naturally with private ownership and reforms brought in as quickly as possible with little regard to an overall plan.

*Competition and Demonopolisation*

Hrnčíř (1993) describes the Czechoslovakian economic situation as one of an imperfect competitive environment, in which it is unrealistic to suppose that the market will act as the unique catalyst to change. He quotes three issues which were set to constrain recovery of growth in 1993. Firstly, the low level of economic activity due to depressed domestic demand and incomes; secondly, the fact that large-scale privatisation was proceeding more slowly than expected and was relied upon as the 'main driving force for restructuring'; and thirdly, that the opening of the economy resulted in limitations being placed on domestic expansionary policies. Hrnčíř cites the lessons to be learned from the Latin American experience of an IMF inspired model being imposed in conditions of imperfect competition as described by Dornbusch (1990). Hrnčíř concludes that the 'profitable development of individual firms' depends on 'parallel behaviour of other investors', and that expectations towards investment and production can only be changed through expansionary policies which will increase domestic demand. However, any
expansionary policies are only possible through matching this with a corresponding growth in exports. This critique highlights the inadequacies of the Czechoslovakian economic programme post 1989. Czechoslovakian export onto the world market fell drastically between 1989 and 1991. Hrnčíř quotes Statistical Office data as recording a fall in trade flows in 1991 as against 1990 in exports in value terms by 9% and in imports by 25%. Where the export level has been maintained is in the areas of lower value-added goods. Indeed this was reported by many managers in the wood-working industries interviewed by the author, as foreign companies demanded value added goods at lower prices and increasingly raw materials in the form of unworked wood. Hrnčíř summarises:

'The declining share of Czechoslovak exports on the world markets, experienced in the long run, was coupled with increasing substitution of higher value-added exports by lower value-added ones, such as raw materials, intermediate products and standard consumer goods (while the "standard" process of specialisation in the course of development obviously implies just the opposite trend). In trade with developed market economies the CSFR therefore experienced "regressive" specialisation.'

This is supported by findings in the data on 1991, which reveal that surprisingly, the industries suffering most from the recession were those where Czechoslovakia was presumed to possess a competitive advantage. Thus the manufacturing
industries as opposed to the heavy industries experienced substantial reductions, while heavy industries in the short-term found markets due to cost and price competitiveness and a substantially depreciated exchange rate.

This situation was completely unexpected by the government, which in accordance with IMF conditions had devalued the korunna excessively. The government, in a letter to the IMF, had confidently declared it would eliminate inflation after an initial rise in prices of 75%, and cancel a fall in national income of 5% by economic recovery in mid-1990\textsuperscript{32}.

As regards demonopolisation, the lack of institutional structures and monitoring ability has been described by many commentators. This fact combined with the extent of monopoly suppliers, lack of credit flow, inadequate structural changes and institutional restructuring, has contributed to a situation of continuing monoplies. This carries implications for organisational change. The effect of this imbalance became particularly apparent in 1994 when combined with the failure of privatisation to restructure and increase productivity. As inflationary pressures mounted for the korunna to be revalued upwards, fears increased that this would undermine the competitiveness of Czech exports. As little restructuring had taken place, there was no scope for competitiveness in higher quality goods\textsuperscript{33}. By 1996, some claimed the opposite problem of a too highly valued korunna and increasing technology imports caused the Czech Republic to run a dangerous deficit, with the same lack of restructuring impeding a resolution of the problem\textsuperscript{34}. Whether devaluing the korunna alone would help in this situation is questionable, as the low competitiveness may have caused the deficit, reflecting the previously low level of

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technology imports\textsuperscript{35}. Indeed, the case studies in this thesis display the problem of enterprises which lack funds for appropriate investment.

Finally, it is important to note that the opening up of the domestic market did bring benefits from tourism, foreign investment and the opportunities for Czechs to work abroad, which compensated for some of the negative effects in terms of balance of payments. By the end of 1991 the trade deficit was \$450 million but the balance of payments was in surplus by \$360 million. Although the currency was supported by loans from the IMF and other international organisations, debt servicing in 1991 accounted for only 18.4\% of hard currency earned through export\textsuperscript{36}.

\textit{Price Liberalisation and Inflation and Currency Conversion}

Komárek criticised the proposed policy of Klaus to free prices in early 1990 before demonopolisation of state industry. He claimed that this would lead to racing inflation, presumably as inefficient industries increased prices to cover costs without restructuring, and to a downturn in consumer spending which would already have been affected by rising unemployment\textsuperscript{37}. In place of this Komárek suggested a more gradual transition:

'We anticipated a market motivation in conjunction with a selective economic policy of the state that would remove certain areas of the economy and support others while utilising and continuously strengthening the market mechanism.'\textsuperscript{38}
This view primarily involved the restructuring of industry and enterprises while continuing with tariffs and subsidies and controlled prices to protect those same enterprises from destruction through their inability to compete on the free international market.

The radicals, however, believed that this would involve recourse to the central planning administrative machine which was slowly falling apart, and therefore could not be relied upon to carry out such a function. More significantly, they believed that no administrative machine could predict prices of goods accurately enough for the banking system to be able to allocate investment and loans efficiently according to successful entrepreneurial activity. Only the market mechanism, the radicals argued, based on the principle of supply and demand could be relied upon to gauge prices and thereby encourage increased productivity. The continuation of administratively set prices would encourage the policy of state subsidies unabated thus straining the budget and adding to inflationary pressures. The emphasis on eliminating the inflationary overhang (inherited from the old regime when prices were kept artificially low, subsidies were high and foreign debt accumulating), relied on monetarist measures which in turn, it was hoped, would ensure long-term growth from 1990 onwards.

The radicals also pointed to the fact that in order to carry out any economic transition, the country was reliant on help from key international economic organisations and Western states, who would only support radical change. In addition, the radicals felt that to continue with administratively set prices would
prevent inefficient enterprises being weeded out from increasingly efficient ones. With these considerations in mind, Dlouhý countered with the argument...

'... the only criterion for the selection (of industries and enterprises to be supported) is an appropriate price system that can only be achieved through the liberalisation of prices and foreign competition... The idea to first create competition, improve the productivity and competitiveness of our economy, and only then liberalise prices and the exchange rate is a fiction and would lead us straight back to centralised planning.'

and emphasising the political conditions relating to economic transition, Klaus claimed that:

'When considering whether to liberalise prices first and afterwards to demonopolise, we decided in favour of the liberalisation of prices because of changing external conditions. At a time when the whole of Europe is changing over to a market economy and to payment in hard currency, we cannot lag behind. There is no time for us to demonopolize the economy first.'

Klaus felt that external competition would increase Czechoslovak industrial competitiveness only if exchange rates reflected true, that is market set, pricing within the country and demonopolisation would follow automatically. The law on
the liberalisation of prices was introduced in January 1990, with the government still regulating a selection of prices due to the potential for very large monopolies in those areas to abuse their position. Klaus claimed that this would support the liberalisation of the market rather than be opposed to it. On the 1 January, 1991, the government liberalised 85% of all retail prices and internal convertibility for the Czechoslovak korunna was set at Kčs28 to $1. It was calculated that after an initial upswing in prices (while monopolies raised prices to cover increased costs and to compensate for the levelling of the turnover tax rates into four categories as of 1 January, 1991), new competitors to the market, attracted no doubt by the potential profits, would force prices down, after a short period of stockpiling. Dyba (1991) referred to this raising of prices by monopolies as 'naive market behaviour' which would create competitive opportunities for newcomers, and, the director of the Price Department in the Federal Ministry of Finance, Emanuel Šíp, declared that this increased competition would produce adaptation or the creative destruction of persistently inefficient enterprises, thus further encouraging 'demonopolisation'. Indeed Šíp pronounced in January 1991 the partial achievement of this and forecast the elimination of unproductive enterprises through the resultant competition.

It soon became evident, however, as predicted by Komárek, that the limited demonopolisation measures were not adequate enough to ensure the competition necessary to allow prices to function as a magnet for new market entries. Domestic production was protected by the exchange rate and a 20% import surcharge. Anti-monopoly agencies and the power of those agencies were inadequate to the task. Neither did they produce a reduction in price rises. Reduction of prices
occurred only for perishable goods. Adaptation and creative destruction did not occur in the form expected. Instead, as highlighted by Myant in parallel with the Polish experience, enterprises stockpiled goods and reduced production thus allowing scarcity, once more, to operate as an economic tool. In this case to achieve higher prices for those products, without carrying out any restructuring and improvement of efficiency.

Table 5.1 Retail Price Index (month-to-month per cent change).

<table>
<thead>
<tr>
<th></th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>June</th>
<th>Jul</th>
<th>Aug</th>
<th>Sept</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
</tr>
</thead>
<tbody>
<tr>
<td>'91</td>
<td>25.8</td>
<td>6.9</td>
<td>5</td>
<td>1.8</td>
<td>2</td>
<td>1.8</td>
<td>0.1</td>
<td>0.1</td>
<td>0.2</td>
<td>-0.1</td>
<td>1.5</td>
<td>1.2</td>
</tr>
<tr>
<td>'92</td>
<td>1</td>
<td>0.5</td>
<td>0.4</td>
<td>0.5</td>
<td>0.5</td>
<td>0.5</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: PlanEcon.

Frydman, Rapaczynski and Earle et al. (1993) assess the retail price index as stabilising by April 1991, but that the overall percentage rise for the year was as high as 58.9\%\(^48\). Regardless of the fact that different calculations of this figure exist, (Myant [1993] quotes the annual increase as being 53.6\% based on various issues of Statistické přehledy\(^49\) and Hrnčíř [1993] as 57,9\% , the overall figure was much higher than expected by the government\(^50\).

Ultimately Šíp (1992) reflected that the final phase of price reductions had indeed only occurred for perishable goods, but not for others resulting in galloping inflation as enterprises stockpiled products and raised prices\(^51\).

However, as the above table indicates, price rises did begin to stabilise by April 1991 and Hrnčíř (1993) calculates inflation as increasing by less than 1\% on a
monthly basis since May 1991\textsuperscript{52}. Also currency conversion developed better than expected\textsuperscript{53}.

\textit{Wages and Employment}

Although initial figures for unemployment and inflation in joint Czechoslovakia were higher than expected they soon settled back down, never having reached the dimensions of the Polish experience. The Federal Ministry of Finance forecast for 1991 unemployment reaching a maximum of 300,000 to 400,000 people (3 to 4\%)\textsuperscript{54}. Wheaton and Kavan (1992) argue that this was over optimistic given that unemployment increased 100\% in the first two months\textsuperscript{55}. By December 1992, the Czech Republic’s unemployment rate had increased to 5\%, although by Western standards this was quite low.

Fogel (1994) quotes estimated over-employment rates in 1990 as being 15\% of total employment\textsuperscript{56}. Thus although unemployment was rising to a higher level than expected, it is significant that it is still relatively low. Slovakia was the exception, experiencing at the same time leading up to the separation of the two republics (1993, January), an 11\% unemployment rate\textsuperscript{57}. Table 5.2 shows the unemployment rates in the Federal Republics of Czechoslovakia in 1991/2 and Table 5.3 breaks down these figures by republic.
Table 5.2 Unemployment rate (as percent of labour force) in the Federal Republic 1991-1992

<table>
<thead>
<tr>
<th>Year</th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
<th>Jul</th>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
</tr>
</thead>
<tbody>
<tr>
<td>'91</td>
<td>1.5</td>
<td>1.9</td>
<td>2.3</td>
<td>2.8</td>
<td>3.2</td>
<td>3.8</td>
<td>4.6</td>
<td>5.1</td>
<td>5.6</td>
<td>6</td>
<td>6.3</td>
<td>6.6</td>
</tr>
<tr>
<td>'92</td>
<td>7.1</td>
<td>6.9</td>
<td>6.5</td>
<td>6</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: PlanEcon.

Table 5.3 Breakdown of Recent Unemployment Rates according to Republics

<table>
<thead>
<tr>
<th>Year 1992</th>
<th>Czechoslovakia</th>
<th>Czech Republic</th>
<th>Slovak Republic</th>
</tr>
</thead>
<tbody>
<tr>
<td>April 30</td>
<td>6.0</td>
<td>3.2</td>
<td>11.8</td>
</tr>
<tr>
<td>May 31</td>
<td>5.6</td>
<td>2.9</td>
<td>11.3</td>
</tr>
<tr>
<td>June 30</td>
<td>5.5</td>
<td>2.7</td>
<td>11.3</td>
</tr>
<tr>
<td>July 31</td>
<td>5.4</td>
<td>2.7</td>
<td>11.1</td>
</tr>
</tbody>
</table>

Source: Ministry of Industry and Trade.

The government's approach to wage and employment policy is perhaps a good example of state intervention in the market by a government which depicts itself as a proponent of the monetarist 'free market'. The government wage-capping policy in the state sector continued through 1994. The wage-capping policy was an attempt to keep wage costs low and therefore prevent firstly spiralling wage claims in the fight against inflation and secondly bankruptcies. The government has also led an active employment policy. Burda (1994) cites the Czech Republic, as following active labour market policies to keep unemployment down. Staffing new organisations dealing with the unemployed involved hiring more people than were
unemployed and at one stage half the budget was spent on infrastructure and job benefits. Burda notes that despite a strict implementation of unemployment benefit, resulting in a lower registration than shows in unemployment surveys, the government subsidises youth entry into employment (rather than emphasising training).

Slay (1994) has referred to problems of 'creative destruction' and bankruptcy reform issues as figuring large in the Polish and Hungarian transition but not in the Czech Republic due to the above policy. Slay quotes real industrial wages increasing in Hungary and Poland from 1990 to 1993 by approximately 25.1% and 17.4% respectively. Whereas in the Czech Republic during the same period they fell by 17.4%. Slay's point can hardly be credited given the problems in banking and debt. A more modest claim, perhaps, is tenable: while lack of unemployment in the Czech Republic has aided old cadre managers to gain legitimacy in the firm, as described by Soulsby and Clark, it has also maintained the social peace.

However, by December 1994, reports of labour unrest began in response to the planned reductions of social security benefits. It is questionable given the economic developments emerging over 1996, that the social peace can be maintained.

**Changes in GDP**

The fall in domestic demand and its effect on GDP were not calculated by the government as noted by both Myant and Hrnčíř. Hrnčíř (1993), quoting the

Table: 5.4 Basic indicators of macroeconomic development in 1990 and 1991.

<table>
<thead>
<tr>
<th>Year</th>
<th>1990</th>
<th>1991</th>
</tr>
</thead>
<tbody>
<tr>
<td>% change from previous year</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross Domestic Product</td>
<td>-3.50</td>
<td>-15.90</td>
</tr>
<tr>
<td>Gross Industrial Production</td>
<td>-3.70</td>
<td>-21.20</td>
</tr>
<tr>
<td>Real Wages</td>
<td>-5.60</td>
<td>-24.00</td>
</tr>
<tr>
<td>Consumer prices*</td>
<td>10.00</td>
<td>57.90</td>
</tr>
</tbody>
</table>

*Average for 1991 as against 1990. If compared to the end of December 1990, consumer prices increased in 1991 by 53.6%

Source: Hrněff, p.134. Table 1.

Myant also sources industrial output as having fallen by 21.2% over 1991, and although he records figures for the drop in industrial output over 1992, as 10%, he argues that the level was in fact rising after December 199167.

Retail turnover, as noted by the chairman of the state bank declined by 23%68. In a similar way the budget deficit experienced by republic and federal governments by the end of 1991, displayed the unexpectedly low level of revenues from enterprises due to economic depression and continued government spending despite cuts. In fact, as with the the relationship between the job creation schemes and lower wages, the government had prevented the budget deficit from leading to higher prices and
therefore to inflation, by continuing subsidies on certain basics such as electricity and public transport. Myant quotes Kupka (1992) deputy minister in the Czech government, as saying that the budget deficit was 'an acceptable price' to pay for the maintenance of social peace in the wake of economic transformation and to keep Slovakia within the federation. In the event this last aim was not achieved for exactly these reasons which included falling living standards and high unemployment.

This interpretation is supported by figures cited in Dédek (1996), where a comparison of the GDP annual growth rate is carried out between East/Central European countries over 1990 to 1992. In 1992 Czech GDP fell by -6.4, and Slovakian GDP by -6.1, compared to -4.3 for Hungary and, surprisingly +2.6 for Poland. Gerloch, at the Charles University, Prague, notes this decline as being surprisingly steep and sees the causes rooted in low domestic demand. He interprets the reasons for this as being due to a decrease in real wages after price liberalisation and the loss of interest in state-owned enterprise managements in making long-term investments (linked to the privatisation process). Gerloch calls this a 'unique depression of an economy in transition' rather than a 'standard economic recession'.

Slay would appear to agree with the former interpretation. He reports that during 1993, GDP in the Czech Republic was unchanged, although it fell by 6% in the first half of 1993 and inflation rates were moderate during 1993 at 20% (up 11% on 1992). He claims that despite this low growth, macro-economic performance was more solid than elsewhere in the region. On closer inspection, however, this
recovery is described as export led, particularly exports to OECD countries, which grew by 13-16% in 1993. Slay points to the fact that the surplus in merchandise trade of $268 million by the end of September offset a decline in industrial production. He also points to a surge in tourist receipts (an increase of 36% for 1992). This combined to create a $380 million hard currency current account surplus by mid-year.

On this evidence Slay states that the low growth rates do not reflect the pace of economic activity. Although he reports the effect of maintaining high employment rates as being a lack of industrial restructuring, Slay does not assess the implications of a low growth rate for domestic productivity and ultimately does not link this to the lack of industrial (and enterprise organisation) restructuring.

Myant, however, takes the latter view of 'standard recession' when he refers to comments made by Bijan Aghevli (head of the IMF mission to Czechoslovakia) in Hospodářské noviny (3 May 1991). He argues that the IMF were convinced that the recession was evidence of the success of financial monetarist policies carried out, which of themselves would bring about economic transition and recovery. To compensate for these low growth rates in domestic production, it would appear that the Czechoslovakian, and later Czech government, relied upon an export led recovery (in turn dependent on a devalued korunna) in basic goods. This resulted in little attention being paid to the lack of restructuring at industrial enterprise level. More recent changes in Kornai's view as expressed in Highways and Byways (1995) would also now appear to support this view. Furthermore the evidence of the economic situation in 1996 would tend to support this assessment.
Inter-firm Indebtedness, Banking and Bankruptcy

One of the primary problems in the economic transition was that of inter-firm indebtedness which was not adequately dealt with within the government's economic plan. A prime aspect of the government's anti-inflationary policy was direct credit limits. Myant notes that many of the supporters of the anti-inflationary approach, such as Vit (1992), were aware that the policy of direct credit limits was in conflict with the tenets of free market principles, in that it depressed wages and therefore aggregate demand76. However, other effects were less well appreciated by the same proponents. In the event the policy of higher interest rates and restriction on credit also increased costs and, dangerously, inter-firm indebtedness.

Inter-firm Indebtedness

Many enterprises had inherited debts from the past as well as the practice of enterprises issuing credits to each other. As discussed in first chapter, by the end of the 1980s the former planned economy had begun to run up debts, due in part to unpaid exports and credits to former CMEA and developing countries. In addition, Myant points to a change in the early 1980s which reduced the turnover fund from enterprises and instead allowed enterprises credits without set repayment dates and with very low interest rates in order to fund short-term stock-holding77. As a consequence, in the late 1980s, some enterprises were left with stocks of unsaleable goods and debts but this did not cause any crisis due to the nature of the economic environment. However after January 1991, past debts were suddenly hit by an interest rate of 24% as opposed to the previous 8%. The problem of inter-enterprise
debt had existed in the 1980s whenever a tighter monetary policy was introduced. These debts were then traced back to a small number of large enterprises, but threatened other smaller suppliers, whose bills, in turn, were not met.\textsuperscript{78} Vesely (1992), however, notes that by December 1989, inter-enterprise payment arrears were at their lowest, standing at 6.6 thousand million Czechoslovak korunna.\textsuperscript{79} After this date there was a steady and sharp rise. Vesely (1992) assesses the volume of overall debt as growing to Kčs 47.1 billion in December 1990 and Kčs 147.2 billion in September 1991 and possibly surpassing Kčs 300 billion before the end of 1992. This affected over 43\% of economic units. Vesely estimates Kčs 36 billion of this was due to primary insolvency, Kčs 29 billion to unpaid debts by foreign debtors and the rest due to inter-firm indebtedness.\textsuperscript{80} The reasons for this growth in inter-firm indebtedness are two and are best presented by in Vesely's analysis of the form and type of payment arrears in Czechoslovakia.

Forms of payment arrears may be inter-enterprise 'overdue credit vows' (závazky po lhůtě splatnosti) and 'outstanding bank credits' (úvery nesplacene ve lhůtě). Of the first form there are again two types; 'primary payment inability' (prvotní platební neschopnost) and 'secondary payment inability' (druhotná platební neschopnost). Whilst accepting that primary insolvency (bankruptcy) serves as an important exit trigger in both natural market development and in mature market economies when a company does not develop appropriate adaptive strategy, Vesely notes in the Czechoslovakian context primary payment arrears can also be a result of a lack of liquid capital in the financial environment of a firm, regardless of its actual success as a productive unit. Vesely concludes that the macro-economic policy of the
Czechoslovakian state was not orientated to solving the problem of primary payment inabilities, which were exclusively a result of behaviour at the level of the micro-sphere, where, amongst other causes, firms stock-piled goods in anticipation of price liberalisation and did not adapt sufficiently to changing conditions. Conditions which exacerbated the problem of primary payment inability were those relating to the existing institutional network; amongst other things under-developed connections between banks and an underdeveloped financial market generally. However, Veselý accepts primary payment inability generally as a necessary and permanent phenomenon in a market economy. By contrast Veselý categorically describes secondary payment inability as arising solely out of primary payment inabilities and thus are of a temporary, technical and 'manufactured' nature. The ultimate cause of the phenomenon of secondary payment inability (arising out of primary payment inabilities and inter-frim indebtedness), he describes as follows:

'Secondary payment inability is a temporary phenomenon which occurs quite often and which is caused by underdeveloped institutional market networks (or frameworks) in a transforming economic system (inefficient payment relations in banks, loan policies do not reflect the real situation, which is caused by distortions of their balance sheets, underdeveloped, or non-existence of exchange flows).'

The possible solutions he itemises as follows;
- more flexible credit policy of banks
- a set of institutional network precautions
- widening of variety of ways to pay credit
- reciprocal agreements regarding non-payment ability between creditor and debtor
- bankruptcy of companies.  

Banking

A similar situation of inter-enterprise debt inherited from state socialist planning is also described by Estrin, Hare and Suranyi (1992) for Hungary in the 1980s and especially from 1987 onwards, due to the introduction of a two-tiered banking system and large-scale enterprise debts emanating primarily from a few large enterprises. The new banking system had been designed to alleviate these problems by a degree of bank commercialisation. Similarly in Czechoslovakia, in the post 1989 period, the reforming government decided to reform firstly the banking system along market lines, that is by commercialising state banks and opening up to new smaller private banks, and secondly macro-economic policy in order to encourage change at the micro-level.

Unfortunately the problem of debt was unaffected by the new restrictive monetary policy in terms of structure. It had been assumed that with the advent of liberalisation of the market and these monetary policies, banks would take over unhonoured debts, by granting loans to companies and enterprises which were able to restructure. Banks, however, acted in their own interests once freed from the
constraints of the state, and not in the interests of industry. This initial reluctance on the part of the banks to make loans was reported by every company interviewed by the author in 1993 regardless of its ownership status, that is whether it was a former state enterprise or a newly established private firm. Begg and Portes (1992) also cite a tightening credit situation, especially for newly established enterprises due to over-extension of credit from banks to former state enterprises and due to high interest rates\(^8\). Webster (1992), surveying Poland, Hungary and Czechoslovakia, finds similar problems of credit for new firms. In Czechoslovakia 80% of newly established firms had loans, but 40% of these had been made in association with restitution claims or for the purchase of businesses under the Small Privatisation Law\(^8\). Again the Hungarian banking system displayed similar characteristics after 1990\(^6\). Thus in terms of enterprise profitability, the above policies, unsupported as they were by any strategic state industrial policy of selective application to firms, threatened the very survival of the majority of firms. The situation became progressively worse. By early 1991 the previous 8% interest rate on these inherited loans jumped to 24\(^\%\)^\(^8\). As a result inter-enterprise debt began to grow, as firms were unable to secure loans from banks or tried to avoid their high interest rates on credits. Begg and Portes (1992) note this growth as being a symptom of credit problems rather than a cause and this reinforces Veselý’s interpretation. Dyba and Svejnar (1992) report that inter-enterprise debt more than tripled from Kčs 44.9 billion at the end of 1990 to Kčs 145.5 billion by the end of 1991 and by the end of the second quarter of 1992 still stood at 123.7 billion. By comparison loans from banks to state enterprises increased only from Kčs 529.8
billion at the end of 1990 to Kčs 575.3 billion in 1991 and Kčs 564.9 billion by the end of the second quarter in 1992. Figures for the rise of overall outstanding debt (i.e. both inter-enterprise debt and bank loans), for both republics are quoted by Hrnčíř (1993) as being 250% in 1991 and 100% in 1992. This situation threatened a latent 'domino bankruptcy' effect. Indeed Veselý (1992) refers to this spreading (rozšířování) and chain (řetězení) effect on payment inabilities as a whole.

In the woodworking industries in March 1990 he reports the number of organisations involved as being 10 and the amount as being 0.1 billion Czechoslovak korunna, which rose to 141 affected organisations and 2.8 billion Czechoslovak korunna in September 1991. Similarly for the food and drink industry numbers of enterprises affected rose from 25 in 1990 and 0.1 korunny to 141 enterprises and 3.6 billion koruny. Across Czechoslovakia as a whole numbers increased from 594 affected enterprises in March 1990 and 11 billion korunna to 3960 enterprises and 147.2 koruny in September 1991.

This state of affairs influenced the number of requests for bankruptcy proceedings from both creditor firms and banks. Although levels of debt were rising it was not necessarily to the advantage of the creditor to push for bankruptcy.

Bankruptcy

There are three factors which must be borne in mind when attempting an analysis of the reasons for the growth of inter-enterprise and bank debts and the reluctance on the part of all actors to enforce bankruptcy proceedings.
Firstly, the enterprises were aware that to take out bankruptcy proceedings against a debtor firm was a slow and difficult process due to the nature of the law. This law divided bankruptcies into primary and secondary insolvencies, the former being the only one which could cause liquidation in order to pay debts. Also the process of bankruptcy proceedings had to pass through the Ministry of Industry, who could delay proceedings for a year. In addition, a further disadvantage for the creditor was the fact that to carry out proceedings against a long-term supplier or customer could damage production, research and development and sales, because of the inter-linked nature of the former economy (close links between suppliers and customers and the integrated nature of the former Vhjs or combines), and the lack of demonopolisation since the change in regime.

An example of the continuing inter-linked nature of units previously attached to the old combine structure can be seen in the brewing industry. The Research and Development section for most of the brewing industry throughout the Czech Republic and to a lesser extent in the Slovak Republic, was located in Prague. Thus, under the new economic conditions, the failure of this institute would effectively deprive all breweries, but especially the small breweries, of the research and development function which many could not duplicate quickly within their individual units. The existence of this type of dependency, in multiple and various forms between suppliers and producers throughout industry, resulted in economic units continuing to write credits to other firms and wait for their own creditors to eventually honour debts, as this made more practical sense.
A second factor which contributed to the situation was that banks also lacked the incentive to initiate bankruptcy proceedings. McDermott (1994) notes that there were 7 main banks across both republics, which accounted for 99.5% of total loans in Czechoslovakia in December 1990, and 80.1% in July 1992\(^9\), despite the fact that there were 44 new banks by the end of 1992\(^9\). Indeed by July 1992, these 7 banks held 92.8% of all deposits in Czechoslovakia, 74% of which were household savings. Although the setting up of the Consolidation Bank to take over some of the long-standing loans, accounts for the difference in total debt held by banks in 1990 and 1992, by early 1993, 97% of Komercni banka’s loans and 55% of Investicni banka’s loans were to state firms (In June 1993 loans to the private sector stood at only 13% of total loans in the system)\(^9\). Thus the uneven structure of the banking system and the source of its funding (household savings) had important implications for its future development and that of the industrial firm in general.

As almost all bank capital was invested in industrial firms, the collapse of an entire sector, due to the potential domino effect of bankruptcy proceedings against one or more firms, meant that the existence of the banks themselves were in question. As noted above household savings were the main source of finance for bank credits. Indeed, Begg (1991) reports that in Czechoslovakia, two thirds of enterprise debt in 1990 was effectively owed to householders via deposits in the savings bank, which had lent to commercial banks. These commercial banks had in turn made loans to enterprises\(^9\). The aspect of citizens savings has also been quoted in the argument against debt cancellation, along with the fact that any such action would also eliminate the assets of the state banking system\(^9\). This fact made the government
unwilling to cancel firm debt. In addition banks remained reliant on only two sources of income; savings deposits and interest repayments on loans from firms. In other words the problem of bank recapitalisation had not been resolved and therefore behaviour had not been changed. It was within the banks' interests to continue to make out loans at high rates without insisting on restructuring of enterprises. Indeed in 1994, the Czech Minister for Trade and Industry, Vladimír Dlouhý berated domestic commercial banks for failing to provide affordable loans to firms and thus causing a market sluggishness. Thus McDermott (1994) notes:

'banks enjoy a 7 point spread between credit and debit rates, giving them a prime source of financing to strengthen their capital base. As the government increasingly stepped in to guarantee short-term bail out loans for the most insolvent firms in 1991-92, banks could simply sit on their loans and tally expected profits. Given their dependency on the survival of industrial firms and their guaranteed high rates of return, banks substantially increased short-term loans with only marginal increases in medium- and long-term loans."

A less important point, but still a factor until reform in March 1991, was the way the banking policy of requiring banks to honour all enterprise debts presented to it. This policy actually stimulated the growth of inter-enterprise debt. Queuing for allocation from insufficient funds became the practice, as in Hungary.
A third major contributory factor was the threat of social unrest at large-scale closures which caused the government to intervene in a piecemeal fashion to bail out individual enterprises. Indeed Myant cites protests from enterprises as being one of the main factors in preventing the problem of bankruptcies from becoming worse, quoting the examples of the Zetor tractor factory in Brno in December 1990 and the events of mid-February 1991 at the ČKD engineering combine in Prague. In these examples the enterprises and workforce outrage persuaded, firstly, the Ministry of Finance to intervene and, ultimately, Klaus to establish the new Consolidation Bank in 1991. The Bank would offer 8 year loans at 13% interest to finance stockholding\textsuperscript{101}. In addition the Bank was enabled to acquire either equity in, or, to cancel outstanding debts in some companies. This latter process was supported by the National Property Fund which committed Kčs 10 billion to this activity at the bank in February 1993\textsuperscript{102}.

By Spring 1992, the bankruptcy law, drafted originally in July 1991 (Act 328), was suspended for a year to allow the government time to reform it. It was eventually amended on 23 March 1993, and became effective from 22 April 1993 in order to relieve the above situation, allowing promising companies to break out of the cycle of debt and to prevent new companies from failing as a result of these same circumstances. Indeed one of the newly established and highly promising companies, interviewed by the author in Western Slovakia, which initially seemed to flourish had failed due to bad debts by the second year of interviews (1993).
Bankruptcy and the Lack of an Industrial Policy

It is notable that the government had assumed that the banks, once freed from state monopoly would automatically act in a commercial sense, interpreting 'commercial sense' as meaning supporting industry. Instead banks operated according to the competitive logic of self-interest. The same has been reported for Hungary during transition\textsuperscript{103}. Thus the government, relying on a restrictive monetary macro-economic policy and privatisation as the only other approaches to their economic transition policy, was reduced to trying to manage crisis situations by intervening in individual cases and trying to prevent industrial collapse by weak enforcement of the bankruptcy law and the subsequent amendments and adaptations. This process is described by Takla as:

'government intervention in an ad-hoc manner, in response to financial crisis or political pressure, as a result of ex-ante negligence.'\textsuperscript{104}

Managers of small- and medium-sized enterprises, interviewed by the author, also reported with annoyance the fact that while most joint stock companies had to accept the debts from the past, large-scale or important industrial or manufacturing sectors were exempt due to fear of adverse employee reaction. Takla (1994) also points to the 'piecemeal application of the bankruptcy law' which appears as a series of 'concessions which are a function of economic or political pressures', usually in the area of very large-scale enterprises in heavy industry, for example Škoda Plzeň and steelworks etc. Both of these elements testify to the mixed government
approach, supposedly neo-liberal, but actually mixed with government intervention.

Thus importance of an integrated industrial or micro-economic strategy in reforming an economic system and enterprise behaviour would therefore seem imperative.

What other options were open to government regarding debt? Debt cancellation is one. There are many arguments for and against this approach. The main disadvantage is the fact that cancellation does not reform the old structure of corporate governance within the firm, and thus loss making can continue. In Czechoslovakia two further difficulties were the effect of any such action on citizens savings and the assets of the state banking system which would be eliminated.

The other option in these circumstances is the buying back of debt by the state in the form of long-term bonds, as occurred in Chile in 1982. However, as Tanzi (1992) points out this causes the government's fiscal position to deteriorate. The other alternative, is of course to do the same through the banking system:

>'By being made through the banking system, they do not swell the fiscal deficit and, thus, distort the fiscal accounts giving an inaccurate view of the tightness of the country's fiscal policy.'

The government's decision, however, to set up the Konsolidiční banka (Consolidation Bank) to alleviate the problem of unhonoured debts only fulfils this approach partially. As stated above, despite the existence of this system, debt to
state enterprises still grew with the other large banks. Begg and Portes (1992) suggest further approaches were necessary in their financial restructuring plan for economic transformation. Although no reference is made by Begg and Portes to problems of cross-ownership in enterprise restructuring (to be discussed in the next chapter), an interesting attempt is made to counteract the problems of indebtedness which afflicts attempts to restructure. Privatisation on its own, it is argued, cannot guarantee the end of future bailouts for a former state enterprise given the degree and structure of indebtedness. In order for privatisation to fully take effect in this sense:

'credibility and transparency are needed, so that the prospect of future bailouts does not impede alteration of current behaviour.'

This would involve a constructive policy of selective credit controls rather than wider margins, fiscal subsidies, cash limits and the recapitalisation of banks. Begg and Portes argue that selective credit controls should only apply to commercial banks in the state sector and would specify a minimum share of bank lending to private firms. This quota if not used up could be transferred to other private firms at cheaper rates. This would encourage entry and exit, rather than wider margins in the banking system which would inhibit new firms. This aspect of their proposed approach would only survive as long as banks were in the state sector, slowly disappearing as more and more banks were privatised. Fiscal subsidies and cash limits would allow the government to openly admit to bailing out companies it
cannot afford to let close, and yet, impose some sort of restructuring influence over them. This would involve the government having an explicit policy of fiscal subsidy to enterprises it wished to support rather than:

'conniving in open-ended rescheduling of credit and capitalisation of interest arrears.'

Thus the lack of credible rules and structures in Czechoslovakia can be directly traced back to the lack of a thought-out and integrated micro-economic policy. The initial reliance on privatisation alone to restructure enterprises began to founder quite soon resulting in the setting up of the Consolidation Bank, limited banking reforms, a piecemeal system of bail-outs and the recall of the bankruptcy law and, ultimately, a drop in GNP.

Indeed within Czechoslovakia the government calls for a more constructive industrial policy, rather than a reactive and disorganised protectionism were heard. The Czech Ministry of Industry, headed by Jan Vrba wanted a more selective approach to bankruptcies and the Union of Industry of the Czech Republic supported this. However, Klaus's Federal Ministry of Finance and Klaus opposed such moves.

What is interesting is the emphasis placed by the government on a limited form of restructuring in the companies where they did intervene. Takla also cites examples of the government intervening in major companies to prevent collapse due to bad debt, in particular the example of Škoda Plzeň (the giant heavy engineering combine
or Vhj) which received Kčs 915 million in the form of a bond issue from the government to cover its debts. This was eventually bought by Komerční banka and Investiční banka. However, the Ministry of Finance only allowed the money to be transferred once it was sure that restructuring of the unit into 25 separate entities had been achieved. Takla notes that the government carried out a similar policy with ČKD (the giant engineering combine or Vhj), breaking it up along product lines and not marketing lines. The problem with this approach, however, was that all the new independent units remained tied together firstly, because of their dependency on the head office for sales, especially in the areas of exports and contracts, and secondly because of the interdependent nature of their product programmes. This, McDermott, refers to as a high degree of synergy.

Thus while insisting on restructuring in companies where it had intervened, albeit inappropriately, the government did not see fit to carry this process out in other enterprises but rather to rely on the banking system and new ownership patterns to carry out the same. Takla (1994) makes the point that:

'Bankruptcy procedures are not solely about the problem of enterprise debt. They also hinge on questions of asset restructuring. The conundrum to be solved is whether to reorganise or liquidate. Questions linked with liquidation are concerned with determining the point at which one can judge enterprise performance sufficiently to justify closure and thus opt for definite closure against restructuring.'
Thus Begg and Portes (1992) call for a long-term view to be taken with micro-economic changes to support the macro-economic transition. Costs of monetary austerity, without a realistic policy on credit control, they suggest, would impinge 'severely and asymmetrically' \(^{113}\).

However, international agencies such as the IMF, World Bank and the EBRD, impose their own conditions on economic policy in debtor nations. Myant point to the fact that the Czechoslovakian government in correspondence with the IMF guaranteed tight monetary policy as well as devaluation of the korunna\(^{114}\). Dědek et al. (1996) also refers to the Memorandum on the Economic Policy, drafted by the Federal government for presentation to the IMF in December 1990, which omitted completely structural policy as an economic reform tool\(^{115}\). Myant also refers to the IMF's use of the euphemism 'payment arrears'\(^{116}\), suggesting that no consideration was given to the inherited debt situation, a major omission considering the above discussion and the resulting effects on corporate governance and restructuring which will be referred to in the subsequent chapters. Begg and Portes (1992) argue that the approach they outline for financial restructuring along with privatisation would enable international agencies to relax their calls for the achievement of budget deficit targets. This would be possible as the micro-economic changes advocated would deal with the asset side of the public sector balance sheet, as well as encouraging more efficient credit allocation, and therefore also restructuring. Ultimately they claim:
'Any statement about the sustainability of the public finances is questionable given the uncertainty about the value of public sector assets.'

Finally Abel and Bonin (1993c:4) point out that it is important to separate the objectives of financial sector reform from those of enterprise sector reform, that is 'recapitalising banks, consolidating loans to facilitate workout, and restructuring large loss making enterprises. Separate procedures should be designed to deal with each problem.'

Conclusion: A Neo-classical Approach or Ad Hoc Interventionism

This chapter has discussed the economic transition plan of Klaus's government from 1990-mid 1994 in Czechoslovakia, and, with briefer reference to important later developments in the Czech Republic. Generally it has been argued that there has been emphasis on macro-economic stabilisation and liberalisation and a neglect of the micro-economic and institutional dimension. Hrnčíř (1993) describes this imbalance as 'asymmetry'.

In terms of overall policy detail McDermott (1994), Myant (1993), Takla (1994), Begg and Portes (1992) and Czech politicians and economists Jan Vrba and Valtr Komárek support this analysis. In particular many of the above authors highlight the lack of a systematically thought out and integrated industrial policy on the part of Klaus's economic programme. Therefore, whereas the mass privatisation plan and macro-economic policy were strategic attempts to create a certain type of market
system, industrial policy as such was an inconsistent and piecemeal affair rather than a developed strategic approach.

It is important to note that although Czechoslovakia and later the Czech Republic relied upon the market to regulate ownership and control relationship through voucher privatisation with little government intervention, it did not allow the same to occur with employment policy. The point to be made here is that the government denied the full implications of the relationship between economics and the political and social spheres in supporting the neo-liberal approach on the one hand for privatisation, however on the other hand the government accepted this interplay of spheres for their employment policy which bound firms firmly to regulations for political popularity rather than economic reasons (Myant 1993). Myant describes the end result as:

'...a kind of compromise in which neo-liberal or monetarist policies were adjusted and modified, but no full alternative could be developed.'

McDermott (September 1994) outlines the continuing problems arising from those chosen process of transition as being inter-enterprise debt, inadequate banking and investment fund structures, inadequate regulation, and, as a result of all of these issues, a lack of restructuring at firm level. Takla's (1994) treatment of the banking sector also supports important aspects of McDermott's hypothesis. The confusion of financial sector reforms with enterprise restructuring policies have been referred to above, and the neglect of micro-economic restructuring reform resulted in
inherited practices being adapted by economic actors for survival in the new proto-market circumstances.

What will become increasingly important for the economic future of the Czech Republic is long term efficiency of domestic industrial and manufacturing base. This is at present compromised by cross-ownership and lack of restructuring, lack of long term investment, and the fact that the weak and outdated industrial base supplying foreign markets will have to produce this change. In fact on the 6th of December 1996 the Financial Times reported on the looming trade deficit in the Czech Republic and the lack of efficiency in enterprises. Until mid-1996, low production costs and a low korunna had encouraged sales abroad. The issues of firm level imbalances arising from the macro-economic emphasis of transition, only became highlighted from 1996 onwards. The decrease in competitiveness combined with the problem of a complex and sometimes unstable capital market, with cross ownership that compromises banks, IPFs and firm behaviour, and continuing firm indebtedness have highlighted the micro-level issue; how to restructure with limited long-term finance, lack of management skills, especially new and important areas, such as marketing, and how to improve productivity and quality.

It has also been argued by government ministers (as reported in various Financial Times issues) and by Myant (in correspondence with the author), however, that the increasing trade deficit is in part a result of the importation of technology to improve quality. However, a it is too early for this supposition to be proved. What the evidence does at present suggest is that for an improvement in the trade deficit to occur:
'depends on managers and shareholders whipping industry into competitive shape. That requires finance experience and nerve by existing management. As Richard Salzman, chairman of Komercní Banka, notes: "There are no reserves of management available on the market." 

Some commentators, notably the Financial Times (May 14, 1997), argue that although the new owners in the form of IPFs in the Czech Republic have failed to restructure, reforming the capital market should allow more foreign investors in, which in turn should influence management and performance. Again the assumption is that firstly new shareholders will have the long-term interests of the firm at heart and thereby influence management of the organisation, and secondly that the new owner has the expertise to carry out any such restructuring, that is expertise of operation in both a mature market economy and of a transitional economy and of the domestic business culture and practise. This is a rather overoptimistic view of management and owners' abilities and interests, which has still not been qualified by experience to date. In addition development of banks given the plans for bank privatisation in both the Czech and Slovak Republics, their potential new owners and the roles of these banks in enterprises all combine to influence the evolution of enterprise corporate governance and thus possibilities for restructuring. A rather more realistic hope therefore, although still a slow and difficult one to realise, is a 'silent secondary privatisation', resulting from IPFs beginning to sell their shares in 1995, not however on the official capital markets but as direct sales at the Securities Centre. Although Mertlik notes that many new owners may be foreigners in the

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Czech Republic, there are also private Czech investors. The difficulties with this approach, however, link to the lack of protection for minority shareholders and against hostile takeover bids. Thus there are concerns that this may amount to 'cheap sale of the national economy'\textsuperscript{124}.

At the micro-level, and with the limited example of the firms interviewed by this author, the case study of Dřevodělný appeared to have benefited from exactly this silent secondary privatisation. Further research on across a wider selection of firms would be necessary to explore this point adequately.
On Sachs’s role see previous chapter and LIPTON and SACHS (1990:1) ‘Creating a Market Economy in Eastern Europe: The Case of Poland’, Brookings Papers on Economic Activity 1, pp.75-133.

On Milton Friedman’s advice see SVOBODNÉ SLOVO (Free Word), Czech Daily, No. 13, September 1990.


Formed on November 19 1989 at 10pm at a meeting in the auditorium of Prague Čínoherní Klub by a variety of groups listed in the Proclamation of the Founding of Citizens Forum, including Charter’77, the Movement for Civil Freedoms, the Czechoslovak Democratic Initiative, the church, artistic and other associations and some former and present members of the Communist party. For a translation of the proclamation and including a complete list of participants see Wheaton and Kavan (1992). Appendix B, p.203.

The Slovakian sister organisation was Public Against Violence which was formed on 25 November 1989 with similar demands. See Wheaton and Kavan, Appendix B, p.215 for a translation of their declaration.


ibid.

ibid.


Spring 1993 (Slovakia), Summer/Autumn 1993 (Czech Republic and Eastern Germany), Spring 1994 (Eastern Germany), Summer 1994 (Czech and Slovak Republics).


TAKLA, LINA (1994) op cit., p.162.


MEJSTRIK, MICHAEL and BURGER, JAMES (1993) op cit.


See Chapter Four on privatisation.


ibid. p 135.

ibid. p.135.

ibid. p.137.

MYANT, MARTIN (1993) op cit., p.87.


Insight from Martin Myant in correspondence with author of 27 March 1997.


Hospodářské noviny (February 15, 1990).


DYBA, KAREL (1991) op cit.

ŠÍP, EMANUEL (18/4/91) in Práce.

ŠÍP, EMANUEL (30 January 1991) in Lidové noviny.

ŠÍP, EMANUEL (18 April 1991) in Práce.


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'Druhotná platební neschopnost je do značné míry jevem dočasným, způsobeným nerozvinutostí, institucionálního tržního rámcu v transformující se ekonomice (neprůchodnost platebního styku bankami, nepříznivost jejich úvěrové politiky způsobená disorznem jejich bilancí, nerozvinutost, resp. neexistence směněného oběhu apod.'


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Chapter Six
Slovakia: Post independence economic transition and the centre-locality dichotomy in micro-economic restructuring

Introduction
In the Slovak Republic since the beginning of 1993 the specific socio-economic conditions and industrial structure inherited from the command economy have forced a more cautious approach to privatisation and economic transition than in the Czech Republic. In addition problems of corruption, which exist in both the Czech and Slovak Republics, have coalesced in Slovakia into a form of political clientelism affecting the political sphere at a highly public level and impeding the progress and maintenance of clear policies in economic transformation. As a result privatisation has been reduced to a stop-go process all too often obviously linked to political favouritism, rather than based on designed macro- or micro-economic criteria. Thus Slovakia has, unlike the Czech Republic, undergone a period of political instability and change, while at the same time maintaining surprising stability and apparent success in the economic sphere. These elements require Slovakia post-1993 to be dealt with separately.

The chapter will attempt to clarify the position of Slovakia as opposed to that of the Czech Republic in the field of economic transformation and to highlight the linkages to the micro-economic or organisational level in the republic, thus further contextualising the information gathered from the Slovak case studies and creating an organisational paradigm with which the Czech and to a lesser extent the eastern German case studies can be later compared.
It is not the intention of this chapter to cover issues of separation from the Czechoslovakian Federation and how this was achieved, but rather to plot independent Slovakia's domestic economic progress.

**Chapter Outline**

An outline of Slovakia's economic transition since 1993, including political and economic changes will be given. The reasons for the different approach to economic transition, including counterarguments will then be examined under the section Inherited Industrial Structures. Subsequently the changes in privatisation method and in the political sphere will be assessed, followed by an updating of political and economic changes 1994-96, including the question of whether economic improvement actually occurred. Finally the organisational implications will be assessed with reference to privatisation, regional policy, management buyouts, and centre-locality networks.

The potential development of political clientelism and its affect on economic change will be updated for the period 1994-96. Finally, the organisational and economic implications of this pre 1989 inheritance and of the experience of transformation and post- independence will be assessed before the conclusion.

**Economic Transition Since 1993**

**Political Independence 1993**

Slovakia became an independent country after the 1st of January 1993, ruled by Prime Minister Vladimír Mečiar who with his Movement for a Democratic Slovakia
(MDS or HZDS in Slovak) had won the June elections of 1992. The MDS had campaigned at this election for an independent Slovakian economic policy, which would protect the country from the worst excesses of economic transformation already experienced as part of the federation.

Leading up to 1993, Slovakia had suffered from substantially higher unemployment than the Czech Republic. In addition, enterprise failure and industrial closures had affected Slovakia heavily, especially in steel and in the armament producing Western Slovakia. Slovakia has a greater share of the armaments industry and the loss of markets after the end of the Cold War, combined with President Havel's request to cut production on humanitarian grounds, threatened this industrial branch. Ježek (1991) and Outrata (1991) both refer to this imbalance in production share in armaments between the two republics. Dědek et al. (1996) describe the production of armaments in the former Czechoslovakia peaking in 1987 when it reached 3% of total industrial output and employed 100,000 people. By 1992 this amount had been reduced to 15% of the 1987 volume and Slovakia produced 60% of the total Czechoslovakian output. Therefore cutbacks in the sector affected Slovakia much faster with its share reduced to 40% and 50,000 employees affected.

Thus there was a common perception that Slovakia was in general being affected worse than its sister republic by economic transformation. The lack of regional policy and policy making bodies within Slovakia, fuelled this perception further. This view was shared by The Independent Association of Slovak Economists who made these very points in their Declaration on Sovereignty of the Slovak Republic,
published in Hospodářské noviny on the 19 March 1991. They called for a revision of the reform process to allow for the specific conditions of Slovakia and for Slovakian economic sovereignty.

Thus Mečiar managed to attract popular support for his policies in June, although support for independence was more qualified. Actual independence was never voted upon by the populace and indeed was not generally popular in either republic but occurred as a result of political bargaining. Once Prime Minister Vladimír Mečiar headed the first independent and democratically elected government in the history of Slovakia, he was not, in fact, able to deliver his economic promises.

Economic Independence 1993

1993 proved to be a mixed success. The economic disaster predicted by many did not occur, although the first year of independence was hardly an unmitigated economic success. Slovak gross domestic product fell by 6% in the first six months of the year when compared with the same period in 1992 and continued to fall.\(^3\) Industrial production declined by 14.7% in the first three quarters of 1993 compared with the previous year over the same time span. However, by August and September it began to grow again for the first time in months\(^4\). Unfortunately unemployment, one of the prime motives in the campaign for economic independence, continued to increase. By 31 October 1993 the unemployment rate had increased to 13.8% from 10.4% the previous year. In addition, inflation rose to 18.2% over the first three quarters of 1993, and an annual rate of 25-30% was predicted for December\(^5\).
The reasons for this continued downturn were many but an added complication was the effect of separation from the Czech Republic on inter-republic trade. Generally, however, the causes were the same as experienced under federal control, as already discussed in Chapter Four. The new Slovak government was, perhaps unsurprisingly given the depth of problems to be overcome, unable to alter the economic situation immediately.

However, the prime failure of the new government was in the area of privatisation and institutional macro-economic change. To this extent it continued to mirror disappointments with the same process in the Czech Republic for similar and for some very different reasons.

The absence from the macro-economic reform package of a combined policy for institutional economic change (for example, the development of an appropriate banking sector or the establishment of empowered and appropriate regulatory bodies), and strategic industrial change (for example encouraging competition through restructuring of monopolies before privatisation, strategic support for both promising state enterprises and newly established firms with appropriate stable financing), was characteristic for both republics. The result of the first wave of privatisation in both republics (completed in Slovakia in January 1993), and indeed of the second wave also in the Czech Republic, has been a predominately Privatisation Investment Fund led ownership structure, with a smaller number of independent individual domestic owners and a degree of foreign ownership. To this extent the organisational implications arising from this type of ownership change are the same for both republics.
However, the Slovak Republic's disenchantment with the effects of radical economic change did slow down the privatisation process after 1993 and heralded in a more qualified approach to ownership change. In its initial conception this different approach encompassed the criticisms regarding the inability of privatisation alone to effect increased enterprise efficiency in terms of improved performance and appropriate restructuring. However, political instability and opportunism combined with an underestimation of the change in current reforms required to combat inherited economic structures, networks and practices, to ensure that no coherent alternative was implemented. Instead the new approach only increased the opportunity for those with a positional advantage to gain from the privatisation process with little benefit to the enterprise as an economic unit. In order to understand the reasons for the argument for a different economic transformation approach and indeed to comprehend the environment that gave rise to the situation of positional advantages, one must first examine the inherited economic structure.

Inherited Industrial Structure and Centre-Locality Networks

Reasons for a different approach to economic transformation

The reasons for this search for an alternative approach to economic transition in Slovakia can be found in the economic structures inherited from the past. Much of this is related to the heavy industrial concentration in Slovakia, especially of steel and armaments, whose markets had been severely affected by the economic transition from state socialism. In addition regional concentration of such industries
occurred to a greater extent in Slovakia than in the Czech Republic, due to the form of late industrialisation undergone as part of the federation after 1947. In fact, one of the few economic successes of the past regime was in industrialising the basically agrarian economy of Slovakia and improving living standards to a comparable level with the Czechs. In 1956 Slovak household incomes per head were only 68% of the Czech level, but by 1980 represented 90% of the Czech level. Similarly, the national income (calculated by Myant [1989] from the Net Material Product in official Czechoslovak statistics) in Slovakia per head of active population reached 94.4% of the Czech level by 1989 from 62.2% in 1948. However, the concomitant inheritance was a simultaneously highly centralised and patchy industrialisation, which relied upon central directives and resource allocations, not only to continue enterprise activity but also to support entire communities which had built up around the enterprise exclusively. Myant describes the industrial structure of Czechoslovakia as being characterised by 'dispersion and equality' which translates as greater equality between regions in terms of income and employment, and as dispersion of industrial centres according to developmental criteria and not the logistical criteria of proximity to markets or raw materials. Reasons for this particular drive to heavy industrial development and the negative effects on Czech industry have already been dealt with in Chapter One. In Slovakia, by contrast, this policy did develop areas previously reliant on agrarian production and thus the characteristics of this type of development were particularly pronounced. In the Czech Republic heavy engineering remained in the Prague region, Plzeň retained the Škoda combine and Ostrava built upon its original base to become the most
important centre for coking coal and steel and heavy machinery production. By contrast Bratislava became the new base for the petrochemicals industry (the resulting pollution being one of the major spurs to Public Against Violence and Slovak environmental group activities leading up to 1989), Košice for steel, and the Váh Valley in Western Slovakia for armament production.

As Myant points out, although many of these new agglomerations called for large scale investment, few of the locations were justified by logistical criteria mentioned above, with the exception of closeness to the Soviet Russian border, this being the other major market after the internal one. Another drawback of the industrialised development particularly in Slovakia, was the fact that this dispersion carried on to the very small villages and towns, where fragmentation of processes within branches of industrial production seemed to occur. In one respect this maintained rural communities and indeed helped them grow and Myant (1992) refers to Hoffman's 'charity concept' as being the overriding feature of this type of activity, which lead to social considerations being put above economic ones. However, the consequences for inefficient production resulting from the lack of integration and the isolation from the appropriate infrastructure for many factories in the smaller villages and towns are obvious. One justification of such an approach would be François Perroux's theory of poles of growth in regional development. Myant, however, suggests that the sectoral pressures on the government from already established industrial enterprises and agglomerations for investment and development hampered the government's attempt to develop fully a regional policy based on Perroux's notion. In fact, these two counter pressures of locational
considerations and sectoral development, resulted once again in an inconsistent, short-term and reactive regional industrial policy. This situation continued, despite debates, into the new democratic system in 1990 and erupted once structural changes in the economy began to uncover the hidden inadequacies and unresolved imbalances. Myant suggests the real failure of the previous regional policy was the resulting inflexible structure and not its economically inefficient location\textsuperscript{9}. This has implications for both economic transition in Slovakia and organisational restructuring.

**Counterargument to different approach claims**

The interpretation of Slovakian specificities as described by The Independent Association of Slovak Economists has been contested by other Czechoslovakian economists. It is important to assess this different interpretation as it broadens the understanding of the socio-economic inheritance of the Slovak Republic which influences both political choices and organisational transformation. The general specificities outlined by proponents of a different approach for Slovakia are as follows:

- higher concentration in Slovakia of production facilities manufacturing semi-finished goods or business oriented towards the supply of raw materials and semi-finished goods to the Czech Republic;
- higher dependency on imports, especially from the former CMEA members and the USSR;
-orientation of most exports to the former CMEA and the USSR;

-higher share of the armaments industry;

-lower efficiency of the Slovak economy vis-à-vis the Czech one.\textsuperscript{10}

Dědek et al. (1996) have also analysed the specificities of the Slovakian economy and differ on a number of points while maintaining that important differences do actually exist. The important macro-economic indicators of inflation rate, GDP annual growth rate, and the unemployment rate are all analysed for the first two years of transition showing major differences only in the unemployment rate. The annual GDP growth rate for the Czech Republic was -1.2 in 1990 compared with -2.5 for Slovakia for the same year. This, however, balances again in 1991 where the figures are -14.2 and -14.5 respectively\textsuperscript{11}. For unemployment the figures quoted by Dědek et al. show a greater disparity between the two republics. In 1990 the unemployment rate stood at 0.8\% for the Czech Republic and 1.5\% for Slovakia, rising to 4.1\% and 11.8\% respectively for 1991. In 1992, the Czech Republic recorded an unemployment rate of 2.6\% and Slovakia, 10.4\% for 1992\textsuperscript{12}. The reasons for the higher growth of unemployment in Slovakia are assessed by Dědek et al. as being: the greater demographic and social complexity of Slovakia; a more easterly geographic position; the structural economic issue of greater dependence on heavy industry; and the occurrence of locations reliant on a sole employer.

However, Dědek et al. (1996) do not incorporate these findings into the specificities of the Slovak economy usually outlined by proponents for a different economic approach for Slovakia as outlined above. Indeed, all of these claims are refuted by
Dědek et al. (1996) as being either unjustified or unproved except for a higher dependency on imports from the USSR. (This dependency on the USSR appears to have actually increased after the first two years of transformation. In 1992 36% of Slovak imports came from the USSR, compared with 18% of Czech imports). An equivocal rejection is made with regards to the claim of the major role played by the armament industry in the overall economic picture of Slovakia. The fact that Slovakia did in fact experience a faster economic decline in this sector due to its 60% share of production is accepted. However, the fact that the economic and social costs of a slump in armaments production to the surrounding area are the same for the Czech armaments producing areas of Southern Moravia (producing 20% of total Czechoslovakian armaments industry output) and the Prague vicinity (producing 17%) is used as the main argument against viewing the slump as affecting Slovakia more severely. This is hardly rigorous proof, when the Slovakia’s share of armament production is so large. In addition the structural importance of the industry, as well as its share of total production in the Czechoslovak economy as a whole is evidence of the large impact of its demise on the economy. Between 1978 and 1988 Czechoslovakia was the eighth largest arms exporter in the world and the largest in terms of per capita production. Weapon sales accounted for between one quarter and one half of Czechoslovakian foreign trade income leading up to 1989, Slovakia producing disproportionately more than the Czech Republic. Thus the important emphasis in Slovakia’s production orientation for foreign trade income cannot be denied. Despite this imbalance between the two countries, the worsening economic situation in Slovakia cannot be
completely blamed on the Czechoslovakian decision to downscale the arms trade. Structural and regional issues must also be taken into account.

Dědek et al. (1996) dispute the claim that the Slovakian economy was structurally very different from that of the Czech Republic both in terms of sectoral and product emphasis and in terms of organisational structure. While this assertion provides a valuable counterpoint to the claims of the Independent Association of Slovak Economists, the refutation of most of the claimed important economic differences removes the supporting evidence for Dědek's own claim that the lack of a structural policy integrated into the economic transformation plan, along with the lack of a functioning and appropriate regional policy and uniform social security net across the two republics, brought about growing economic differences and political disagreements:

'... apart from many common features there were also differences between the Czech and Slovak economies that deepened after the transformation process had been launched. This raises the question of whether the scenario of liberal reform had not been too one-sided in not paying enough attention to appropriate forms of structural, regional and social policies which caused important differences between the two Republics to grow bigger."

The lack of an integrated structural policy has been dealt with in the previous chapter under industrial policy and institutional economic change. With regard to regional policy the necessity of its application to Slovakia is supported by the
evidence of Myant, Schmoegnerová and other commentators, and ultimately by Dědek's analysis:

'Regional policy is based on a hierarchization of regions following certain criteria, such as the unemployment rate, economic growth, income per capita or migration of labour forces. At the beginning of the 1990s, based on these criteria, most of the depressed regions would be found in Slovakia. Except for the towns of Bratislava and Košice, and several western regions, the Slovak unemployment rate was over 7 per cent. On the other hand, the number of districts in the Czech Republic exceeding the 7 per cent unemployment rate was rather low. Experimental studies conducted at the beginning of the 1990s revealed remarkable differences in the performance of the regions in the Czech and Slovak Republics (business performance indicators, small-scale privatisation and development of the private sector). Therefore, the potential regional policy expenditure would have had a very differentiated implementation in both Republics."

In Slovakia, the case for regional policy becomes more pertinent not only vis-à-vis the Czech Republic leading up to 1993, but also since independence due to the vastly different economic and socially different regions within Slovakia (e.g. Bratislava had an unemployment rate of 4 to 5% in October 1996 as compared to 20% in some central and eastern Slovak districts). Dědek et al. quote Myrdale's 'backwash effects' of the market mechanism, where more developed regions attract
economic activity and capital away from weaker economic regions rather than supporting them.

Thus while not denying the political mileage made from claims that Slovakia was suffering more than the Czech Republic during transition, it is clear that the Association of Independent Slovak Economists, Dědek et al. (1996), and Myant (1992), all reinforce the picture of a Slovak economy with an overemphasis on heavy industry and agriculture, an inflexibility of markets and economic organisations and weak entrepreneurial resources when compared with the Czech Republic. Indeed the slow development of small and medium-sized enterprises is shown by the registration of only 280,000 private entrepreneurs in the Slovak Republic by the end of 1991 (5.3% of total population) as compared with 1,06 million (10.2% of total population) in the Czech Republic.

**Political Changes and Privatisation Method 1993**

Schmoegnerová (1993) notes that while the Czech Republic post 1992 was intent on speeding up privatisation through a second wave of voucher privatisation, Slovakia began to favour direct sales as a method.

Prolonged consideration over the viability of a second wave of voucher privatisation for Slovakia gave way to the decision to favour the standard privatisation method over voucher privatisation as the main method, particularly through foreign investment. Schmoegnerová describes the dominant approach in the standard method in Slovakia as being direct sale to a predetermined buyer whether foreign or domestic. However, as both Fisher (1994) and Schmoegnerová (1993) point out
foreign investment in Slovakia was much lower than in the Czech Republic, Poland and Hungary, thus calling into question the viability of this form of privatisation. In addition Schmoegegerová (1993) has shown that the government's enthusiasm for the revenues from direct sales to foreigners has resulted in sales at a lower book price encouraging accusations of the giving away of state assets. The only other substantial opportunity to privatise through standard method is through direct sales to domestic buyers, in this case management buyouts and domestic entrepreneurs, who are of course thin on the ground especially in Slovakia where small enterprise establishment has been particularly slow.

Under a united Czechoslovakia and by the beginning of 1993, Slovakia had managed 353 contracts on direct sales and sales of shares to the value of Kčs 13.8 billion exceeding the book value by 15%. This did not prevent claims that some sales had been made at excessively low prices. This compared with 503 state owned enterprises being privatised in Slovakia over the first wave of voucher privatisation. In 1993, however, the Slovak government began preparations for the second round of privatisation which was aimed at 577 state owned enterprises with a total asset value of Kčs 200 billion by methods of public tenders and direct sales to predetermined investors. Schmoegegerová (1993) claims that this is more in line with the new Slovak tendency after 1992 of paying greater attention to branch and sector specific aspects. To this end, although the pace of privatisation was generally slowed, lower prices for firms and soft credit conditions were set up to foster management buyouts and management-employee ownership, as well as to stimulate foreign investment. These soft credit conditions involved management being able to
repay loans for the purchase of firms over a five to ten year period with a principal free period at the beginning and an interest rate that is equivalent to the deposit rate. In addition to different and perhaps inappropriate economic choices, the political events of 1993 (and indeed since that year), did not aid the process of transformation. As pointed out by Fisher (1994), many of the economic problems faced by Slovakia during 1993 were a result of 'discontinuity within the government'\textsuperscript{23}. The Ministry of Economy experienced three different ministers at its helm during 1993, while the Ministry of State Property and Privatisation experienced the resignation of Dolgos and temporary control by Mečiar. Thus by September 1993, only 19% of industrial firms were under private ownership whereas 50%, 89% and 50% had been in the transport, trade and construction sectors respectively. With the exception of the trade sector, these figures were only minimally higher than the figures for December 1992\textsuperscript{24}.

**Political and Economic Changes 1994-96: Further Complications of Political Culture**

**Political Change and Privatisation**

From October 1993 Prime Minister Vladimír Mečiar, leader of the MDS (Movement for a Democratic Slovakia) managed to hold on to power only by signing a coalition agreement with SNP (Slovak National Party). This gave only a very slim majority and by early 1994, Mečiar suffered a loss of confidence vote which eventually caused him to be replaced as Prime Minister by Jozef Moravčík.
The loss of confidence vote, was focused on the government's proposed amendments to the large-scale privatisation law. In the parliamentary session of the 3 February 1994, there was concern that the proposed changes would give too much power to Mečiar, who had already been acting as privatisation minister and chairman of the National Property Fund. During the session of February 17, the Slovak parliament voted in favour of separating the NPF's income and expenditure from the state budget, thus also separating the cabinet and the NPF. Current members of the NPF's Presidium and supervisory board were therefore replaced by new members elected this time by parliament, which alone retained the right to dismiss them. This was described as 'regaining parliamentary supervision over privatisation'.

As the furore over democratic practices continued throughout February, Mečiar rushed through a number of privatisation projects on the night of February 15. Twenty-nine privatisation projects were approved, two-thirds the number passed in the previous year. Mečiar was later accused of favouring his political allies through this process and selling at below market values.

The actual vote of no confidence against Mečiar took place on March 11, and due to the MDS's refusal to continue in cabinet without Mečiar, they were all replaced on March 14. Jozef Moravčík, formerly the last Czechoslovakian foreign minister and latterly Slovak foreign minister since March 1993 became Slovak Prime Minister. Moravčík had previously been a member of the MDS but had left to join the APR (Alternative for Political Realism) which later became the Democratic Union of Slovakia (DUS), a centrist party. The opposition coalition supplied 17 ministers representing five parties for the cabinet. President Kovac continued in post under
the new arrangements. Moravčík immediately set about outlining political pledges of returning to a rule of law and accountability and aimed to achieve this by changes in the legal system. It was hoped this would revitalise public trust in the state as well as reassure ethnic minorities. Moravčík stated that each citizen born in Slovakia had the right to protection of their democratic rights, 'including the right to criticise the government'. In addition a renewed emphasis on the privatisation process was announced and Privatisation Minister Milan Janicína began an investigation into the mid-February privatisation projects, of which 13 were believed to have been illegal. Consequently Finance Minister Filkus was asked to freeze temporarily the National Property Fund accounts. Elections were set for September 30 and October 1 later that year.

During Moravčík's tenure of office mostly successful attempts were made to improve Slovakia's economic position and image abroad. Moravčík relaunched coupon privatisation, loan agreements with international financial institutions were achieved and the budget deficit was tackled. However the September/October elections resulted in a stalemate with neither Mečiar nor Moravčík achieving a high enough vote to form a government without making coalition alliances with other parties. Eventually Mečiar formed a voting block with ZRS (the far left Association of Slovak Workers), the RSS (Peasant Party), and the SNP (Slovak National Party). This block managed to effect far-reaching political changes which shocked much of Slovakia, resulting in two major demonstrations in Bratislava on November 17 and December 8, 1994.
Important institutional changes were also instigated along with the removal of senior officials and politicians (some of whom had a mandate to remain in office until a new government was formed, i.e. Interior Minister Ladislav Pittner and Privatisation Minister Milan Janicina). Replacement of top officials at the Supreme Supervisory Office, of the Attorney General Vojtech Bacho by a MDS member and heads of the media as well as replacement of all members of the National Property Fund’s presidium and supervisory board occurred and a committee investigating the crisis of confidence in Mečiar’s leadership in March was set up.

As regards privatisation, all direct sale privatisation projects passed by the Moravčík cabinet after the 6th of September were cancelled affecting 38 to 55 projects (valued at 4.5 billion Slovak korunny)\(^{10}\), including foreign purchases among them. As Fisher\(^{31}\) points out, although the Moravčík government had cancelled some of the direct sale projects approved by Mečiar's government in February 1994, it had done so on a case by case basis and according to the criteria of associated legal difficulties. Instead Mečiar encouraged sales to domestic buyers, particularly to management and employees. (The results of this approach will be dealt with in the section Organisational and Economic Implications). While promising to reduce the list of enterprises to be sold in a potential second voucher privatisation wave (planned by the previous government under Moravčík), and to remove strategic industries such as energy, Mečiar also claimed his government would start criminal proceedings against some participants, especially privatisation investment funds\(^{32}\). The Mečiar government’s economic programme did little to infuse confidence into the privatisation process and the second wave of voucher
privatisation was delayed indefinitely the day before it was due to begin, disappointing the 3.5 million Slovak individuals (90% of those eligible) and the 166 investment funds that had registered to participate. In all a sale of 60 billion koruny worth of state property had been planned.

Economic Change

In part, the new government’s economic promises for 1995 were curtailed by the necessity of conforming to IMF guidelines to secure loans agreed to by the Moravčík government. Moravčík’s government had agreed to strict budgetary measures (reducing the budget deficit to under 4% of GDP) in order to secure loans from the IMF and later from the European Union and G-24 countries, with which it was hoped restructuring and stabilisation could be carried out. However, the Meciar government, which had made political ground criticising this economic plan, themselves introduced an extremely tight budget which was at the same time contradictory and over ambitious, suggesting a lack of economic vision as to how the problems were to be tackled. The Meciar cabinet forecast for 1995 a growth of 5% in annual gross domestic product; unemployment and inflation rates at less than 10% and a budget deficit of less than 3% of GDP, differing little from the slightly more modest Moravčík cabinet’s forecast.

However, it is in the lack of an overall vision in the new government’s economic plans that signs of inappropriate action to combat the problems highlighted become clear. The Moravčík government had hoped to use the National Property Fund to help finance the foreign debt, whereas Meciar cut the budgets for education, health
care, local administrations and the President's office drastically. The new government's plans to increase investment (especially from foreign sources once again) and financial resources did not consider the impact on inflation. Calls for foreign investment were considered to be unreliable given the fact that direct sales to domestic buyers had been declared a priority and that three of the direct sales arranged by the Moravčík government which were later cancelled by the new government, had been to foreign buyers. Indeed, even the IMF, despite the tight budgetary restraints, delayed the third instalment of the standby loan. Kozlík, deputy prime minister and finance minister, claimed the IMF were awaiting the passing of the final version of the 1995 state budget to be passed by parliament. However, as pointed out by Fisher, critics argued that uncertainty over the new government's political and economic policy was the real reason for the delay.

Economic Growth and Micro-Economic Restructuring

Economic Improvement?

Slovakia experienced an upswing in 1994 with GDP growth reaching 4% but many analysts, including Zitnansky (1995) claim that this was due more to increased exports to the West which was experiencing rising growth rates rather than a result of structural economic changes. The Financial Times quotes one Western banker in Bratislava as saying:

'There are still serious problems. The infrastructure is backward, other countries seem to be doing more: technology is not state of the art;
enterprise restructuring is slow; foreign direct investment is unnaturally low; there are horror stories of non-performing loans at the big Slovak banks, and yet the macro-economic story is great.\textsuperscript{40}

Indeed by October 1996, the Financial Times began to raise questions concerning the sustainability of long-term GDP growth based upon competitively priced exports to the European Community, particularly in the heavy industry sector. In 1995 GDP grew by 7.5\% and was expected to grow between 5 and 6\% over 1996\textsuperscript{41}. Unemployment had fallen from a peak of 15.2\% in early 1994 to around 12.5\% and inflation had been drastically reduced\textsuperscript{42}. However the current account had shown a deficit of $740 million in the first half of 1996, and although ING Barings investment bank concluded that this was a good sign at this point in time, it also suggested that this could not be allowed to continue for long. Both the current account deficit and the trade deficit have their roots in the disparity between growing imports and slowing exports. Bank lending to both enterprises and domestic clients has grown by approximately 20\% a year\textsuperscript{43}. Although this has supported economic expansion, the National Bank of Slovakia has raised interest rates as it became more concerned by the high liquidity.

\textit{Technological Imports and Enterprise Restructuring}

Imports have also grown especially in the areas of consumer and investment goods. Imports during the first 7 months of 1996 grew by 26.2\% to $5.9 billion, including industrial technology and cars\textsuperscript{44}. Exports, however, in the first 7 months rose only
by 4% to $4.9 billion\textsuperscript{45}. This is a similar situation to that in the Czech Republic. Another similarity with the Czech Republic is the emphasis on raw materials and low value-added production which formed the core of exports. In Slovakia iron, steel and semi-finished metal goods were the prime areas for export. Indeed the East Slovak Iron Works (Východoslovenské Zelezíarné or VSZ) accounted for around 10% of the country's industrial production and between 15 and 18% of Slovakia's total exports\textsuperscript{46}. It is exactly this area of production for export that some commentators with reference to the Czech Republic have called 'regressive specialisation.'\textsuperscript{47} While Slovakia had a higher concentration of heavy industries than the Czech Republic, and therefore a higher level of export in this area of production than would be expected, it is also true that it is the continued export of these heavy industrial and lower value-added products that has prevented the restructuring of enterprises and has not encouraged the diversification of production generally towards higher value-added and quality exports. The Financial Times refers to a recent OECD report which suggested that enterprise restructuring was paramount as the competitive advantage in certain export goods began to disappear and the Financial Times itself concurs with this view:

'Faster progress in enterprise restructuring is considered crucial if the pace of economic growth and the development of exports is to be sustained, not least because of the concentration of economic activity in large partly state-owned enterprises.'\textsuperscript{48}
In spite of this criticism the Deputy Prime Minister and Financial Minister Sergej Kozlik claimed that the trade deficit (quoted above) was accounted for purely by the rise in technology imports to facilitate modernisation and the imbalance was not an indication of the beginning of declining growth as a result of a lack of restructuring and, consequently declining competitiveness.

However, enterprise restructuring is not simply a question of modern technology but also appropriate financing methods, adequate management skills and trained labour force and clear corporate governance practices. None of these conditions are ensured by the present process of direct sales to domestic buyers (including management buyouts), in the form developed in Slovakia. The political intrigues and lack of clarity associated with privatisation has drawn attention to the political clientelism active in sales to management and other politically connected buyers. The OECD and the EBRD have both voiced concerns over these occurrences and the practise of not making tenders public (thereby discouraging competition), nor informing shareholders of such sales until completed. Therefore the importation of new technology alone cannot compensate for the lack of measures implemented for institutional and enterprise reform, just as it cannot be held uniquely responsible for the trade and current account deficits.

Banking

With reference to the banking sector, which remains predominantly in state ownership, the three top banks; Všeobecná Uverová Banka (VUB), Slovenská Sporitel a, a savings bank, and Investment & Development Bank all act in unison.
with the state's industrial privatisation policy and provide highly expensive though
easy credit to enterprises. The inadequacy of the bankruptcy law means that banks
are faced with losses linked to excessive loans, again reminiscent of the Czech
situation.

Thus the economic transformation programme of Slovakia post 1993, has slowed
down and changed the method of privatisation and kept selected areas in
government hands (e.g. in 1996 telecommunications, banking and energy were still
under state control), while maintaining economic stability and indeed growth.
However, little of the overall process of economic transformation and least of all
privatisation, has facilitated real restructuring at enterprise level.

Organisational and Economic Implications
Organisational Effects of Privatisation

In the summer of 1995 voucher privatisation was cancelled completely. The
government claimed it disliked the dispersed nature of share ownership which
results from such a process. A mistrust of Investment Privatisation Funds (IPFs)
was also stated. Instead citizens were compensated by a five year state bond which
could be exchanged for health and pension insurances, to buy apartments as well as
for shares in state companies. Many failures have been associated with this process
also. By October 1996 property worth Sk 49 billion was privatised through direct
sales to management buyouts.

Latest arrangements require MBOs to pay 10% initially and the rest over 10 years
or through investment in restructuring of the company. However, the scope for
abusing these arrangements in an environment of opaque insider dealing is enormous. The Financial Times refers to the sale of 39% of Slovnaft, a petrochemicals group, in 1990 without any other shareholders being informed (including the EBRD). In 1996 shares in Nafta Gbely, a gas company, and in SCP (a pulp and paper company), were sold to management linked buyers without any public tender. It is notable that these were amongst the largest of Slovak state enterprises.

Thus while Slovakia has developed its own approach to privatisation, it remains questionable as to whether this standard or direct sale form of privatisation, given the conditions of operation, really is resulting in the best qualified owners for the business, who will be able to carry out appropriate restructuring. The Financial Times article suggests that MBOs are fine for small and medium-sized enterprises but not so for large ones.

The findings of the case studies in this thesis tend to question the validity of the above assumption of viability for small and medium-sized enterprises, while supporting its actual criticism of the direct sale process. This will be argued further in the section on MBOs and centre-locality networks but the argument generally draws on the lack of regulation and of challenge to old networking patterns as causing the failure of direct sale privatisation to change anything but nominal ownership. Boland (1996) quotes the OECD expressing concern over accountability in the privatisation drive.
Organisational Effects of Regional Policy

The result of the regional policy approach under central planning has been the continuing tensions in the relationship between the centre and the localities in both the Czech and Slovak republics. However, the crisis in the relationship became most apparent in Slovakia where, due to inherited conditions, the effects of past unbalanced regional economic policy have been the most undiluted. In the emphasis in post-communist Czechoslovakia on macro-economic change without an integrated industrial policy and no attention paid to micro-economic considerations or regional issues these imbalances were further exacerbated. Myant (1995) regards the negative effect of economic transition in some districts in the Czech and Slovak Republics as the result of the non-interventionist government approach. Indeed Buček (1992) claims that the:

'reform scenario has failed to accentuate sufficiently the regional aspects of the economic policy and had concentrated on a planar understanding of macro-economic measures'.

The political structure was also highly centralised. In 1992, part of the newly adopted constitution required the creation of the upper chamber of parliament and the subdivision of the country into regions. (By 1994 neither of these two proposals had been carried out. Indeed, Prime Minister Václav Klaus showed little interest in devolving power away from Prague either regionally or in terms of political process as evinced by discussions with President Václav Havel on civil society). Although
between the Czech and Slovak Republics there was a devolution of certain powers from federal to republic level (e.g. the social security system), the imposition of macro-economic stabilisation policies were uniformly applied by the federal powers. Ultimately the tendency to political centralism and the lack of a regional economic and political policy was one of the main factors which prompted the separation of the two republics.

However since separation, the inherited economic structure has not been reformed within Slovakia to effect an escape form the problems associated with this centre-locality dichotomy. The patchy and unreliable privatisation process has prevented the breaking up of monopolies and the beginnings of new entrepreneurial activity. At the same time old locational and local-centre networks have stepped into the gap left by the collapse of central planning and a lack of an adequate and consistent economic transition policy which addresses the institutional and regional aspect of change in addition to the implemented macro-economic policies. This carries implications for organisational change.

*MBOs and Centre-Locality Networks*

There has been much criticism of this form of privatisation, including claims of management abuse. Although direct sale to managers potentially capitalises on domestic entrepreneurial skills (of those managers), Schmoegnerová (1993) has highlighted the potential problems of excessive facilitation of leveraged buyouts where management is concerned:
'Excessive facilitation of LBOs might, however, eliminate some positive effects of LMBOs, such as increased incentives to managers to run a firm efficiently, to reduce costs, and to make less risky decisions. Moreover, a low purchasing price weakens the pressure of debt servicing with a damaging impact on performance. On the other hand, very hard credit conditions could lead to an excessive debt burden and create a "hard-budget-constraint trap" (Schmoegnerová 1992). Other negative effects of very "hard" LBOs include a preference for short-term earnings and a cutback in spending on R and D. Mass LBOs may also have negative macroeconomic implications such as crowding out effects, tax evasion, mass business failures, etc..159

Thus where Slovak towns are reliant on a single employer, not only for economic support but also as its sole pool of entrepreneurial and management resources, there is little competitive scope for the appropriate restructuring to take place. In addition inherited centre-locality network patterns reinforce this new development. Myant refers to the problem of 'branch factory syndrome' in the previous command economy. He notes that the autarkic tendency of enterprises to control as much as possible of the production process in order to avoid shortages of material, labour and other resources resulted, when combined with a compliant and patchy regional policy, in companies jealously guarding their prime economic and political positions in localities against new contenders in the form of new enterprises. Myant highlights the interest of the firm under the previous system of using its:
'substantial local political influence, once established as the dominant economic and hence political force in the area, to prevent further enterprises setting up in the area and threatening to poach its valuable labour supply. Research in the archives of the former ruling party in Hungary, as yet not repeated in Czechoslovakia, confirmed that precisely this had happened.'

It is clear that Slovakia's policy of direct sale without adequate regulation and institutional control compounded this problem rather than resolved it. This analysis is supported by the case study evidence gathered by the author and represented in part in the case study chapter dealing with the Slovak firm Kreslo. Here the soft credits allowed management to buy out the enterprise but did not provide the incentive to restructure and increase efficiency. In fact no new benefits were brought to the firm in terms of new and better qualified personnel, or better entrepreneurship skills, more finance for investment or organisational restructuring in any significant form. The change of ownership in Kreslo was nominal only and reinforced inherited centre-locality relations and personnel. In effect old structures and practices became more entrenched with a concomitant growth of disaffection in the working morale of employees. Any future sincere restructuring attempts within this particular organisation will, in the future, have to deal with this double inheritance. Furthermore for the direct sale process to be successful in facilitating restructuring and efficiency, a policy of regulation and control would also have had to take into account firstly sectoral appropriateness and secondly the potential for insider
manipulation of information. Fox and Marcus (1992) point out that potential LBOs in developed market economies are usually those in retail, food processing, pharmaceuticals and medical equipment production as they are most likely to satisfy the criteria for success under such an organisational change, in that they can secure substantial and regular cash flows. Thus sectoral appropriateness ensures debt servicing ability as far as possible. The second point is highlighted by the fact that LMBOs encourage managers to reduce firm value in order to secure a cheaper sale. There are many examples of this asset stripping happening in the Czech and Slovak Republics as referred to already. In addition there exists the option of managers using their insider knowledge to distort the value without actually damaging the firm. Thus old networks continue to operate to their own benefit without the firm increasing efficiency. Schmoegnerová (1993) quotes the example of the Slovak government announcing in 1993 that it would support LMBOs where management avoided financial loss, and as a consequence there was an immediate increase in the statistics for profit-making enterprises.

Thus the organisational change in Slovakia was affected by the government's failure to deal with the issues of inherited regional structure; centre-locality networks; positional advantage and political insider dealing in an atmosphere of political clientelism and a lack of regulation. The lack of attention paid to the appropriate application of MBOs (according to sectoral criteria) and their financing (by state banks), contributed to the lack of restructuring. While MBOs hold a potentially interesting solution to the creation of a domestic entrepreneurial sector, the lack of regulation has resulted in nominal ownership change with little restructuring.
Conclusion

Having experienced the first wave of voucher privatisation as part of Czechoslovakia, Slovakia determined to develop its own way. While the Czech Republic emphasised the speeding up of the process, especially through a second wave of voucher privatisation despite criticisms regarding sector specific aspects of privatisation, Slovakia decided to slow down the process, cancelling the second wave of voucher privatisation and using standard (or direct sale to pre-determined buyers, often managers) privatisation methods. This was done, supposedly to re-emphasise the sectoral aspects and to attempt to encourage restructuring of enterprises before privatisation. However, this potential of direct sales alone to achieve these results was not sufficiently researched and the process was further frustrated by political manoeuvring.

As already referred in the chapter dealing with privatisation, Slay (1994) regards the Czech Republic as belonging broadly to the group of countries undergoing 'shock therapy' and Slovakia now undergoing a form of 'gradualism'. Like Hungary, however, this gradualism cannot be compared to the experience of Yugoslavia, Russia or Romania, as real changes have occurred in the former.

Privatisation results from the first voucher wave has produced a predominantly IPF ownership profile similar to the Czech Republic with dispersed share ownership, mixed with the subsequent privatisation process of direct sales, mostly to MBOs, which have reinforced inherited network systems.

In the changed environment of an emerging market economy, again combined with a limited notion of regional policy, alternative sources of regional pools of
entrepreneurial skills and financing are almost non-existent, thus reinforcing the position of the sole local enterprise. In addition the possibilities opened up by privatisation and economic transition, especially in the form engendered in the Slovak Republic, allowed old management or local and central government personnel to take the opportunity to change 'nominal ownership', that is old control stakes inherited from central planning, into new 'legislative' ownership. Thus old personnel and network structures are legitimised and rewarded in the new market and democratic structures but no new corporate governance structures or mechanisms were introduced. The lack of institutional change and an appropriate industrial policy, involving a thought out financial market service with selective and enforceable bankruptcy powers to support privatisation and restructuring, has resulted in ownership change and little else.


4. ibid.

5. ibid.


8. ibid.p.274.


16. DĚDEK, OLDŘICH et al. (1996) op cit., p.56.

17. DĚDEK, OLDŘICH et al. (1996) op cit., p.59.


ibid.

ibid., p.224.

ibid. p.224. Also see Chapter Four.

ibid., p.233.

ibid., p.89.

ibid., p.89.


SLOVAK TELEVISION (February 6, 1994) as recorded in FISHER and HRIB (1994).


SME (February 18, 1994) as recorded in FISHER and HRIB (1994).


SMENA (11 January 1995)


DONE, KEVIN (1996) *op cit.*

DONE, KEVIN (1996) *op cit.*

DONE, KEVIN (1996) *op cit.*

DONE, KEVIN (1996) *op cit.*

DONE, KEVIN (1996) 'VSZ starts to flex its muscles' in Financial Times, October 23 1996., p.5 of Supplement.


ibid.

ibid.

ibid.

ibid.


Part III
Chapter Seven
A Case Study of Organisational Restructuring Issues in the Czech Republic; the role of ownership and control

Management and Ownership

Before there was enthusiasm about becoming an entrepreneur, now people are tired, they no longer want to be involved. At the first joint-stock company meeting two halls had to be prepared. For the second meeting a hall for 500 shareholders was prepared, few turned up. The same happened at Plesni Škoda and Česka Spožitelna....... The fund managers act like 19th century capitalists.¹

External Advisor to Company C1, 1/8/93

Introduction

The role of ownership and control in the slowly evolving corporate governance models of the Czech and Slovak Republics has been highlighted by the Czechoslovakian government, by international institutions (IMF), and by many neo-classical economic advisors as the key to understanding the problems of organisational restructuring in firms in those two countries. The case study that follows shows the complexity of the issues involved in organisational restructuring and supports the analysis so far that questions the supposed powerful influence of privatisation (and therefore also ownership change) alone to effect organisational restructuring.

The problems associated with organisational restructuring in this firm, as with many others interviewed, involve finding investment for restructuring (for changes to the production processes and product ranges), changing product processes and product
ranges for new markets and finding adequately skilled personnel to lead and facilitate in these areas.

In the absence of any integrated industrial policy on the part of the government to support this process, management were reliant on new owners to provide funds, leadership and skilled advise. Therefore the issue of ownership and control was constantly raised by management during the privatisation process both as a result of the functional preoccupation with the process and also in terms of the firm's need for investment and leadership. In this particular firm many of the required restructuring decisions awaited the new owners endorsement or initiative. Both government and management in this regard were reliant on owners to provide these functions. However, in many instances the new owners had developed no strategic policy or leadership skills. The change of ownership impacted upon the firm only in terms of confusion and resentment over control rights and emerging corporate governance patterns, which did little to help the firm. It is in this sense that examining the myth of the ownership/control change provides the key to understanding organisational restructuring, in that none was effected despite government assurances and management preoccupation with the change of control rights brought about by privatisation. Lastly, the scope for abuse of positional advantage both for manager and IPFs (Investment Privatisation Funds) reflect the socio-economic inheritance from the previous regime of centre-locality and inter-firm networks.

The lack of clear controls on the privatisation process and the lack of regulation of the economy generally has resulted in a number of undesirable scenarios: in some cases in

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managerial intransigence and the pursuit of self-interest with a frustrated Board of Directors; or worse, in managerial abuse of the lack of clear controls to devalue the firm with the aim of achieving ownership themselves; and lastly as described in the case study below in the inability of certain owners (especially IPFs), to aid restructuring due to short-term interests and lack of managerial expertise and company knowledge.

The case study rests on interview data from managers (Spring/Summer 1993 and Summer/Autumn 1994). The findings of the other case studies and of the questionnaire responses all support the hypothesis discussed in the analysis of Dřevodělný. This data cannot be taken as evidence of 'the truth' of the managerial position as opposed to that of the owners and shareholders, or indeed of other employees. Rather it enables a picture to be drawn which highlights areas of conflict and interest.

The company Dřevodělný was chosen as an example because it displays most clearly the problems faced². Although the vagaries of the management/ownership relationship in each firm interviewed in each country has situational specificities, the general point of the inability of privatisation to resolve the management/ownership dilemma in terms of a clear delineation of control and effective firm restructuring is apparent³.
Chapter Outline

Due to the rapid changes occurring in the Czech Republic between 1993 and 1994, this case study has been divided firstly on a temporal basis, Interview A (1/8/93) coming first and Interview B (19/7/94), coming second. Within each Interview section the case study has been initially divided according to criteria, or general themes, developed as a result of the codification process (see Chapter Two on Methodology). Some initial conclusions are drawn in each section but a final analysis of all the findings relating to this particular case study will be discussed in the third part, entitled Conflict of Ownership and Control.

Case Study from the Czech Republic: Issues In Restructuring

The Company Dřevodělný

Dřevodělný is a typical example of a medium sized joint-stock company in the Czech Republic, formed out of remnants of the old regional Výrobní hospodářská jednotka (Vhj) and at present employing 156 people. It is located in a small village in a rural, wooded area in northern Bohemia near to both the German and Polish borders, about 3 hours from Prague. This area has a long tradition of furniture-making and has traditional contacts with Germany, being part of the former Sudetenland. The other branches and units of the regional furniture-making Vhj had either stopped production due to unpaid debts or were very small and fragmented. Dřevodělný had continued to exist as a state enterprise, after separation from the Vhj, until the 1st May 1992 when it became a joint stock enterprise prior to the first privatisation wave. The table
Ownership and Organisational Type of Děvovodlný Over Time below displays the changes in diagrammatic form. The company is now a Czech 'akciová společnost' that is a joint stock company, is defined in the Commercial Code as being:

"a company whose capital stock is divided into a certain number of shares of a certain nominal value... The company is liable to the extent of all its assets if it fails to fulfil its obligations but its shareholders do not bear any such liability."

The 'buying' of shares began in January 1993, after a meeting with representatives of the National Property Fund, and the last shares in the Company were bought by June of that year. The first general meeting with the new shareholders was held on the 30th June 1993.
Table 7.1 Ownership and Organisational Type of Dřevodělný over time

<table>
<thead>
<tr>
<th>Company Type</th>
<th>Ownership Type</th>
<th>Time Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Enterprise (part of Vhj), Formerly národní podnik, after 1988 státní podnik [i].</td>
<td>State (administered through command economy).</td>
<td>post-war nationalisation, until 1989</td>
</tr>
<tr>
<td>State Enterprise</td>
<td>Undergoing transferral to National Property Fund.</td>
<td>1990 - May 1992</td>
</tr>
</tbody>
</table>

[i] Vhj, Výrobní hospodářské jednotky, or industrial associations formed after 1958. For brief explanation of change in name of state enterprise see discussion on page 13.
[ii] IPF is the abbreviation for Investment Privatisation Fund. 'B' is the abbreviation of the name of the local IPF involved in this company.
[iii] See section entitled interview B.
[iv] NPF is the abbreviated form of National Property Fund, the government holding authority for property leading up to privatisation.

Source: Original S. Bygate October 1993. Compiled from interview data.

Management and Past and Present Organisational Structures

Senior Management

As made clear by the organisational chart for the company in August 1993, the managing director, Jan D. was also the temporary general manager of the Commercial Department and temporary deputy manager of the Technology and Production Department. The Business Consultant, although considered part of the management team, was external to the company. The personal and professional histories of these three managers are important factors to consider when trying to contextualise their
contributions and in order to ascertain their 'inherited' or assumed perception of the company and of its activities, their information networks and their interest in the company's future. In general the importance of on-going social relations and their influence on behaviour and institutions, as described by Granovetter (1985) and as discussed in chapter two, underline the necessity of understanding individuals' approaches. This is also supported by Sztompka's work as referred as discussed in the final chapter.

Specifically, managers who are new to the firm or indeed to management are certain to display different characteristics from managers continuing in their positions from the pre-1989 era. Soulsby and Clark (1994) have described the institutional stability of management as being in direct relation to the degree of formal and social legitimacy. Thus managers surviving the 1989 transformation must secure some type of legitimacy in order to be able to function as managers. The personal and career histories of the interviewees have therefore to be examined first of all.

Managing Director, Jan D.

The former managing director, active during the state socialist period, had died and thus the post had been filled by a comparatively new appointee. Jan D., was approximately 40 years old and has been the managing director of the firm in the village of F. for the one and a half years prior to the interview, that is since January 1992. He was also, at the time of interview, temporary Deputy Manager to the Technology and Production Department and temporary General Manager for the
newly established Commercial Department. Both of these appointments were due to
the fact that no appropriately qualified personnel could be found to fill the posts. This
aspect will be dealt with in further detail in the section on personnel.

The history of his experience in Dřevodělný meant that he had experienced a range of
ownership types, all of which were transitory. Dřevodělný was still in the state sector
in 1992, as shown in the above diagram, awaiting transferral to the National Property
Fund and joint stock company status in order to be able to offer its shares initially for
bidding (and subsequently for distribution) as part of the first privatisation wave in
1992 (Large-Scale Privatisation Act 27 February 1991). Therefore, although not
implicated as part of the management of this company in the previous regime, he had
experienced a plan style economy of a type at the beginning of the transition of the
economic system to a market form. Consequently he had experienced all the
difficulties of operating in a slowly developing market economy, where old markets
had suddenly collapsed and yet to gain access to new ones was difficult.

Jan D.'s main occupation had previously been schools' inspector. He had, unusually
for a Czech, experience of living abroad as a child as his parents had worked in
Algeria. He thus spoke French well and had a more cosmopolitan outlook than many
other Czech managers interviewed.

General Manager of 'Finance and Economics' Department, Jana S.

Jana S. was in her early thirties and had been continually active in the former state
enterprise in the village of F. through to its newly established identity as joint stock
company, Dřevodělný. She had spent almost four years in the finance and economics department, two years in accounts and two years in planning. She had held the post of Deputy Manager of the Technology and Production Department before 1989. She studied and trained for this profession (economics degree) and was experienced in the industry. She spoke no foreign languages.

She too had experienced all the changes since 1989 with the added advantage of having been active in the firm previous to the turbulent years following the revolution of 1989. She had, therefore, a good grounding in the workings of the furniture-making industry and a knowledge of the changing Czech market and environment in general.

External Advisor, Jaroslav R.

Jaroslav was external business advisor to Dřevodělný and in this company was considered part of the general management team. He had worked abroad in business for a number of years after 1968 when he had been part of a management team in a state enterprise attempting to bring in reforms as part of the Prague Spring. He thus had experience of a command economy, limited experience of a reforming command economy, experience of a West European market economy (he had in particular worked in West Germany) and finally an economy undergoing transition from planned to market. He spoke excellent English and German and was clearly a valuable asset to the firm, which had little knowledge of operating in business outside Czech borders.
**Organisational Structures**

Past Organisational Structure

Until the 1st of May 1992 Dřevodělný had been a state enterprise (státní podnik), forming part of the regional furniture-making industrial association or Vhj. The enterprise in the village of F. had formed the main workshop of the regional Vhj. There had also been other workshops in the villages of L., L1 and H. However the only other significant workshop of the Vhj had been that in the town of L. and this was now no longer producing and in fact had made losses, the interest upon which was still owing. In order to form the joint stock company, Dřevodělný, the main workshop in the village of F. was separated off from the Vhj along with four additional workshops, which were in fact mills, and four smaller workshops. Subsequently the company had been registered as a joint stock company in preparation for the sale of shares in the first privatisation wave. According to management past debts were subsidised by the National Property Fund at this time but outstanding losses were cancelled. Dřevodělný is now a medium sized Czech joint stock company.

Rychetník (1992) and Vácha (1978) have described the industrial association structure (Výrobní hospodářské jednotky or Vhj) in the former Socialist Republic of Czechoslovakia. Combined with the information from the first interview, the organisational chart of the furniture making Výrobní hospodářské jednotky in this part of Bohemia can be depicted for the period 1979 to 1988 as below in diagram

Organisational Structure of Furniture-Making Výrobní hospodářské jednotky
1979-1988. The workforce at this time in the main workshop in the village of F (later to become joint stock company, Dřevodělný), while part of the former Vhj, had stood at over 360 employees.

Výrobní hospodářské jednotky

Since the nature of the planned economy changed over time the diagram below, Organisational Structure of Furniture-Making Vhj, is designed only to give a general idea of the major participants in the command economy system and of general divisions of responsibility from 1979 to 1988. Variations in the respective spheres of responsibility and control vis-à-vis state, industrial associations and enterprises over the period 1949 until 1989 have not been discussed in detail, although generally three stages of reform need to be noted. The package of reforms introduced in 1967/68 as part of the reform movement during the Prague Spring attempted to redress the excessively centralised planning system inherited from the 1950s. The 1979 reforms ensured that long-term strategic management for the industrial branch remained with the industrial ministry. Operational and strategic management were to be the responsibility of the Vhj. The Vhjs were also required to pay taxes and payments to the state budgets as well as bear the central plan targets. The final variation which is pertinent to the present discussion is that described by the 1988 Law of State Enterprises which attempted to abolish the Vhjs and to form state enterprises (státní podnik) out of national enterprises (národní podnik). In four phases between July 1988 and July 1989 412 state enterprises were created out of the national enterprises.

Annual Plenum of Communist Party-Five Year, Two Year and Yearly Plans

Central Committee

State Planning Office Targets and Prices Set

Industrial Ministry long-term strategy

Ministries

Furniture-Making Vhj headquarters in the town of L. + large workshop operational and strategic management

Main workshop of Vhj in village of F. (later Drevodelny)

Workshop in village of L1

Workshop in village of H.

Mill

Mill

Mill

Mill

Note: The number of mills has not been specified exactly in this diagram.
This was aimed at allowing greater autonomy and a degree of self-financing to the state enterprise. However, Decree no. 185, passed in 1989, permitted voluntary associations between state enterprises and this was often used, as described by Rychetník, to save the old Vhj structures in the absence of competitive pressure. The completion of the reform was unsuccessful in making substantial changes to the economic mechanism or to the highly concentrated industrial structure and was also cut short by the velvet revolution of 1989.

In addition the managers interviewed in this case study, as in many others, still referred to the Vhj structure when talking of the organisation structure prior to 1989.

The 1989 statistical yearbook of the Socialist Republic of Czechoslovak (statistická ročenka Československé socialistické republiky 1989), the last publication in the series which referred to economic data for years 1987, 1988 and 1989, itself makes little differentiation between národní podnik and státní podnik, tending to refer to both types under the term národní podnik. The preface, while acknowledging the existence of 1,448 newly established state enterprises with over 3.1 million workers by the 1st of January 1989 claims the above arrangement of referring to both state and national enterprises as national was chosen in order not to impair data comparability. Therefore the author has concentrated on providing an outline here of the most dominant structure leading up to 1989 (1979-1988), in spite of legal (or paper) reforms.

As the focus of this study is the transition two salient points must be born in mind when considering the command economic system in the Czechoslovak Socialist
Republic for these purposes. Firstly Myant (1989) has discussed the problematic relationships between highly centralised state control and enterprises in Czechoslovakia after 1949\textsuperscript{12}. Essentially the system was reduced by the 1950s to an imitation of the planning system of the Soviet Union. Myant highlights the difficulty of assessing the role of the Communist party within the emerging economic system in Czechoslovakia after 1949 but generally points to the 'supreme power' of leadership and Central Committee, 'over major decisions and basic organisations... to ensure that those policy decisions were carried out.'\textsuperscript{13}

This pure command economy lasted for most of the 1950s but eventually was moderated by enterprise management who tried to persuade the centre to set low plan targets for the enterprise\textsuperscript{14}. Thus the authoritarian nature of the state vis à vis the enterprise was curbed by aspects of the bargaining process. Rychetnik also refers to this bargaining process between state and enterprise:

'...industrial associations continued to operate in a highly distorted, monopolistic market and manipulated the state plan targets and prices, using their virtual informational monopoly and network of connections in the political and planning hierarchy...'.\textsuperscript{15}

This second point is important in interpreting the evolving relationship between the new, or in some cases not so new, actors in management and ownership roles. The problem of actors entrenched in acquired behaviour and networks developed under
very different circumstances in order to counteract the difficulties of operating in a shortage economy, but which still influence decisions today is highly intractable and particularly relevant for the case studies interviewed.

In Dřevodělný (See diagram Organisational Chart of Dřevodělný 1/8/93, below), the inheritance from the old command economy can be seen in the large number of detailed activities carried out in the Technology and Production department. 'Procurement' of raw materials had been an extremely important function under the previous system, even more so when choice of suppliers was relegated to the enterprise level. Informal contacts were extremely important in this regard, in locating and securing adequate resources to cover the production targets. Design was not, of course, a necessarily free and creative process responding to customer interest in any particular line. Despite the increased degree of control given to enterprises by the 1988 legislation in the selection of production lines, any such freedom was rather limited. The completion of set production targets of a limited range of designs made up from a narrow choice of available materials which varied occasionally, but only slightly, was generally the rule for most enterprises. Production preparations and technology were similarly involved with keeping the production process ticking over rather than introducing any innovation. Engineers and mechanics were particularly important in the maintenance of, in most cases, old and outdated machinery which were often required to fulfil tasks beyond its capacity.
Organisational Chart of Drevodelny (1/8/93)

Annual General Shareholders Meeting
23,000 Shares. 36 people represent 52% of all shares

Supervisory Board
3 people from the Board of Directors on committee

Board of Directors
Managing Director is also Vice President here.
Others from Investment Privatisation Fund
5 members in total

Department 1
Managing Director
MD: JD.
Functions:
- General Management of all departments and firm.
- Business plans (strategy)
- Legal
- Secretarial + admin.
- Job advertising
Personnel:
- Managing Director
- Business Advisor (JR, external)
- Lawyer (external)
- Secretariat
- Work Safety Officer

Department 2
Commercial
Temporary General Manager (J.D.)
2 other employees here.
Functions:
- New dept. Finding customers and securing sales.
- Replacing central plans and directives.
Personnel:
- No suitably qualified manager found.
- Temporary G.M.
- Managers attempt to acquire skills needed. 4 more people required.

Department 3
Technology and Production
Temporary Deputy Manager (J.D.)
Functions:
- Design
- Production preparations technology
- 'Procurement' of raw materials
- Transport + maintenance
- Water + Energy (including consumption, environmental damage + waste)
Personnel:
- Not given but large dept. covering above functions.

Department 4
Finance/Economics
General manager (J.S.)
Functions:
- Accounts
- Taxes
- Sales + Prices
- Wages + salaries
Personnel:
- 3 in accounts = invoices
- 3 in taxes
- 4/5 statistics
- To be reduced

Workshop + Mill 1
Manager, Mistr (supervisor)
Accountant and workers
W + M 1

W + M 2
W + M 3
W + M 4

Source: Original S. Byagte, October 1993. From interview data
As replacement parts were difficult to come by, if at all, engineers and mechanics performed the important task of scavenging and/or making ad hoc replacements from old pieces, and stockpiling, where necessary, for potential future needs. The enterprise was also responsible for its own transport requirements and its maintenance. Indeed at the time of the first interview, Dřevodělný had its own full-time chauffeur and car, although the size of the firm and the requirements of its personnel did not justify this.

The location of water and energy consumption and environmental control in the same office and in the same department suggests there may have been at times some conflict of loyalties. Increasing environmental degradation, particularly in this part of the Czech Republic, Poland and eastern Germany (the Dirty Triangle) had proved a catalyst for political activity leading up to the transformation of 1989. Since the production target aspects of the plan predominated it is unlikely that any real monitoring of environmental pollution and its control were ever really affected by this structural arrangement. Thus the former networks between localities, enterprise managers, key employees and suppliers and sometimes Vhjs formed information pools and co-operative alliances which could be used to wrest some control from central government. McDermott has referred to these inter-enterprise, firm and local actor alliances and the problem of bridging the 'social distance' and 'information asymmetries' between them and higher level institutions such as government and outside investors.
Present Organisational Structure

The present organisational chart of Dřevodělný, as of the 1/8/93, is drawn below. A major change had taken place in terms of the creation of an Annual General Shareholders Meeting, a Supervisory Board (dozorčí rada) and a Board of Directors, the latter being elected for a maximum period of five years at the AGM. Managers reported that one third of the Supervisory Board must be made up of persons elected by all employees in the company. Candidates are also proposed by employees\textsuperscript{19}. The Board of Directors must include a minimum of three members, one of whom (if the company has over fifty employees) must be a company employee, elected by employees. In this case the elected employee is the Managing Director. These structures are also outlined in the Commercial Code, as designed by the Czechoslovak government, for all akcióva spolecnost or joint stock companies\textsuperscript{20}. Thus new ownership and control structures were now formally established at the upper levels of the firm hierarchy. The previous relationship between 'locality' and 'outsider', that of centralised state and local networks based round the enterprise, has now been replaced by the same or similar locality networks and the shareholder, the major shareholder usually being a Privatisation Investment Fund. In Dřevodělný the major shareholder until shortly before the second interview was, in fact, a privatisation investment fund owned by a regionally based bank.

Prior to full privatisation, as the transition gained impetus and a competitive market began to open, a Commercial department had been founded by management in the autumn of 1992 but due to its short history and lack of experience in this field, it is
still rather lightweight by comparison with the Production and Technology Department (See diagram Organisational Chart 1/8/93 above), which at the time of interview still showed traces of its former importance. Clark and Soulsby have highlighted the existence of some so-called commercial (obchodí) departments in former state enterprises. These departments may well have been encouraged as part of the 1988 State Enterprise legislation aimed at devolving a degree of control in selecting production programmes and choosing outlets and suppliers to the state enterprise and away from the ministries and central planning but still within the limits of the state plan. However, as already discussed, the 1987-89 reform was flawed and never entirely implemented and therefore Dévodělný was still described as having only constituted the main workshop of the former Vhj in the town of L. Thus there was no 'obchodní' or commercial department in the enterprise prior to its establishment in the autumn of 1992 by the new management team. The new department required, at the time of interview, staffing with appropriately skilled personnel with the requisite skills. This was proving difficult to carry out. The services of an external business consultant had also been contracted to aid the management in its reorganisation of the company and approaches to the marketing of its products. They had deliberately looked for someone with Western management experience but with a Czech perspective, as many consultants had flooded into this area from the West, particularly from Germany, offering advice without truly understanding Czech conditions.
The diagram below also shows Department 1, under the control of the managing director, to be rather over-centralised in its activities and personnel. In 1993 Department 1 comprised the general management of all departments, strategy, legal matters, clerical duties and administration, monitoring of work safety and personnel (job advertising). Staff includes the managing director, the lawyer, the business advisor, the secretariat (clerical and administration) and finally the work safety officer. Middle management is spread across the departments in different activities.

Overcentralisation of activities and staff in Department 1 is partly due to the inheritance from the past, where, for political reasons the managing director had a great degree of control over information and activity. For example, the managing director had access, along with party officials, to the details of employees' personal and political allegiances collected in the Personnel section. This information was viewed as highly sensitive and therefore, was often located under the managing director's control, if not always in the same department. Individuals were distrustful of the role of Personnel in this context.

The Finance Department (Department 4) and the Technology and Production Department (Department 3) were felt to be over-staffed and senior management felt that numbers in middle management generally were too high. Although numbers had already been cut on the dissolution of the Vhj from 360 to 156, it was felt that these further specific further reductions still had to take place.

By the first interview, in contrast to the formal structural alterations, few real changes had occurred. Organisational restructuring, the functioning of the firm both at the
level of strategy (i.e. investment in new machinery for new production ranges appropriate to the changed market situation) and at the level of internal adaptations to the new situation (i.e. division and allocation of labour and skills, the tailoring of departments to these needs and ultimately the quality of work effected) had changed only marginally, by dint of the limited alterations already carried out by management. According to managers this lack of change had three causes. The unstable period of joint stock company status under the National Property Fund control before privatisation occurred had left the company in limbo. Government, legal provisions, economic conditions and ownership were all in a state of flux. Managers were feeling their way in a new market environment with little knowledge of what was entailed. There was a lack of clarity as to what managers could change while ownership was in flux and what was immutable. Naturally, many cadre managers, that is those with a vested interest usually continuing from the past regime, used this to their own advantage.

The future changes planned by management in Dřevodělný to redress the lack of concomitant internal organisational change had been drawn up in the form of a business plan and the few organisational changes already carried out were included in this for ratification by the new owners. Notes on planned changes are present in the diagram organisational chart of Dřevodělný (1/8/93) and are discussed in the next section, Restructuring Issues and the Business Plan.

The three major structural adjustments at the upper levels of the organisational hierarchy would suggest that future parallel internal and detailed restructuring at
management, departmental and employee levels was required. The new market arrangements were already influencing the firm in terms of competitive prices, quality and choice described in the section below, Markets and Production. The market had also drawn attention to the need for reformed product orientation, product range and therefore ultimately production process. The necessary future changes do not only apply to formal reorganisation, reduced and improved personnel, new markets and improved production processes and products, but also to intangible aspects such as motivation and dedication to quality. It is the final two aspects which presented West German management with difficulties in eastern Germany at this time. (Chapter Nine contains a more detailed discussion of this). However, in the Czech and Slovak Republics the necessary changes are also influenced by the centre-locality dynamic inherited from the past as described above.

It had been assumed by the government architects of the privatisation process that the structural changes introduced by institutions to the ownership-control hierarchy would suffice to encourage the necessary changes for effective restructuring. The next section describes the limitations of these structural changes and the mistaken assumptions.

Areas for Restructuring, Changing Markets and the Business Plan

The main problem as identified by management, and indeed a major problem across both the Czech and Slovak Republics and for eastern German managers, was restructuring in order to compete in a market environment and the search for
investment money to aid this process. To be able to adapt to changes in the market for furniture, management had to consider means of raising revenue in order to update machinery, buildings and ultimately production processes, as well as investing in appropriate advertising. Loans from banks were not always easy to come by at this stage, perhaps as a result of past bad experiences and a lack of understanding of market economies. In addition the government made it increasingly difficult and expensive to acquire bank credit and government support (see Chapter Five). In fact, by 1994 some commentators were of the opinion that it was this lack of enthusiasm to make out loans by banks and the high interest rate for those loans granted that prevented the Czech economy from growing during 1993. This was especially the case for small, newly established enterprises. A secondary aspect, in this particular firm, was to improve the quality personnel in line with the new requirements and responsibilities involved in altered production process.

Interim Changes

The managing director and finance manager had already made some important, although limited, changes before full privatisation had occurred in the areas of workforce reduction and the creation of a new department and the taking on of an external business advisor. With the virtual completion of the privatisation process in Dřevodělný, management now had to allow the new ownership structure to ratify the two changes made so far via the Board of Directors and the Annual General Meeting. Further large-scale changes would in future have to court the same endorsement.
Therefore the Business Plan submitted to the first shareholders' meeting included not only the organisational changes already carried out but also those necessary for the proposed long-term strategy, including the sale of some fixed assets, as described below.

Markets and Production

Under the state socialist system, production had occurred according to the requisites of the plan passed at government level, which was, in a sense, an officially endorsed planned and allocated market. In this particular company, production had been geared to manufacturing wood, laminated plates and bookcases, etc. and general furnishings for offices and hotels. The company was able to plan ahead for substantial periods because there was no, or at least very little change made to production plans. In addition production was done according to huge quotas and consequently primarily aimed at (state) wholesale dealers who then allocated products to shop outlets.

However, since the change in the political system took hold, the complete network of wholesale dealers had collapsed and the markets for office furniture had become overcrowded. The area around the town of L. has a long tradition of furniture-making and since 1989 many new, independent companies had been established. Management hoped to increase advertising and to also offer products and services through catalogues in order to compete.

They also realised that production of large quotas of any particular product had also become inappropriate.
Consequently the factory now made furniture to order, depending on demand from shops, dealers, large organisations and companies who were equipping new buildings and offices. One manager described this as the discovery of the 'single' or individual customer.

The change in the market for the Dřevodělný’s products resulted in 30% to 40% of production now being tailored to the private home market, which is sold through furniture shops and the remaining 60% or so for the hotel and restaurant market, which tended to require complete interiors, e.g. entrance halls, dining rooms etc. and were made to order.

Indeed the firm had received numerous visits from abroad, especially Germany and Austria and also eastern Germany, interested in buying products but at a price which managers knew would not cover their overheads. In addition these visitors had complained about inadequate quality of products and expressed interest in exporting unfinished products for finishing in Germany and Austria. Managers were aware that products from abroad were also starting to compete in the Czech market with domestic products. The managers complained that western European visitors viewed the Czech Republic as an underdeveloped country and consequently tried to force down the price of products to a level which would not even cover the purchase of raw materials. Of the fifty-four visiting company representatives, only two offers had been acceptable.

All these market changes and proposed related changes to both organisational structure and finance were recognised in the newly drawn up Business Plan.
recognised these changes and proposed related changes to both the organisational structure and future strategy to accommodate and develop these new possibilities. In detail the Business Plan highlighted renewal of production machinery and buildings, both because of age and new production requirements, and pointed to the main problem as being locating investment to enable these changes to take place. The acceptance or otherwise of management's proposals to this effect depended on the agreement of the Board of Directors and ultimately the shareholders. This issue is dealt with further in the section on Restructuring and the Ownership/Control Conflict section.

*Investment and the Sale of Basic Capital*

Management had made a Spring proposal to sell off part of the basic capital of the company in form of a property in the local village of H. This was also seen as a means of rationalising operations and generating desperately needed cash for reinvestment, especially in new machinery for the change in production as a result of market changes. The raising of revenue was particularly important as the new owners' shares were in the form of vouchers, issued by the government, which secured ownership but were not a source of finance and investment. Management had located a potential buyer for the property in H. However, since the Commercial Code states that any increase or reduction in capital stock has to be authorised by the general meeting of shareholders this proposal was made part of the business plan and submitted for ratification\(^25\). It was prepared by the Managing Director, the Finance Manager and the
External Advisor in March 1993 for shareholders comments in April, prior to the first Annual General Meeting in June 1993.

According to management, the endorsement of the shareholders and the Board of Directors proved to be rather more difficult to achieve than expected. The Business Plan was rejected by the Board at the first meeting of the joint stock company with its new shareholders in June 1993. Management reported that no reason was given for the decision and in addition the meeting suggested no alternative long-term plan or investment raising suggestions. The decision against the sale of property meant that the potential buyer was lost as well as the opportunity to raise essential revenue, and the organisational changes were put in jeopardy. Management reported that the Board of Directors made regular monthly visits to the company but without making any comments or suggestions as to advisable courses of action, particularly in the field of finding investment sources for the renewing old machinery. Thus while management recognised that markets had changed and production processes had to change similarly, and indeed struggled to do this in order to survive, they were not provided with any future strategy options as to how the necessary changes were to be financed.

Personnel

Management believed that a reduction in the number of managers across departments (not workshops) from 23 to 15 could be achieved by June 1994. One of the few areas of agreement was in fact employee reductions and the Board of Directors agreed to
the above and further proposed that only 10% of the original workforce eventually be retained.

Managers expressed regret at the decision taken after separation from the Vhj to reduce the workforce, especially as they felt there were few alternative employment opportunities in the immediate locality. In spite of this it was still felt necessary to reduce middle management from twenty-three to fifteen individuals, as well as make further reductions in the finance department. The Board of Directors proposal for a reduction of the work-force to 10% seemed a rather drastic measure which would reduce employees to fifteen people. This would only be possible with the introduction of a highly mechanised production process on a large scale. The rationale, and more crucially, the funding for such a proposal was not present at that time, due to the reported lack of support on the part of the Board of Directors for changes.

Management also expressed concern over how the further reductions were to be achieved and were proposing two methods at the time of interview. The first method relied on natural wastage primarily through retirement. For the remaining employees they accepted that an increased work load and greater flexibility were inevitable, although management were uncertain as to the employee response to the change in job roles. The second method cited the increased use of technology, in particular of computers. Computerisation was to take place firstly through computerisation of the headquarters and subsequently the workshops. The final step was to be the connecting of the two networks.
It was estimated that this would reduce overstaffing in the finance department especially, where the laborious manual processing of accounts, invoices, taxes and statistics, employed around ten women (see diagram, Organisational Chart of Dřevodělný 1/8/93). There was one personal computer already in use in the firm and management was aware it was not being deployed effectively. Its scope was at that time limited to the drawing up of tables and schedules and as a typewriter. Generally, the number of managers employed would suggest pre-1989 attempts to compensate for a lack of quality personnel (especially those able to take responsibility for decisions) and lack of adequate and properly used technology by increasing numbers. Senior management, were aware that a similar company in Western Europe would have fewer managers than Dřevodělný at present. They felt that a maximum of only 6 managers would really be necessary, although at the moment Dřevodělný employed 23 managers across all departments. (as discussed above a reduction to 15 was planned by June 1994).

New Personnel

Now management were engaged in searching for new personnel to fill the post of Commercial Department general manager and a deputy manager for the Technology and Production department. However, the finding of such personnel, especially someone with marketing skills for the Commercial Department and someone with adequate expertise for the Technology and Production Department was proving rather difficult. The post for Deputy Manager in Technology and Production department had
been advertised for 3 months but no applicant had any experience in the furniture trade. The Commercial Department had been established the previous year and was still temporarily managed by the managing director with help from other managers across departments.

Remuneration

Part of the problem appeared to be a loss of skilled employees across the border to Germany but more importantly to newly established private companies which were not bound by government wage bands as were former state enterprises. The wage capping policy of the Czech Republic was an attempt to control inflation, necessary for the arranged International Monetary Fund (IMF) loan. Wage capping restrictions in 1992 did not apply to enterprises with more than 30% foreign ownership, enterprises with less than 50% state ownership and any enterprise established since the 1st January 1992. Since the 1st January 1993 wage capping restrictions have been abolished but an amendment to the social and employment insurance legislation effectively continues to limit increases, in this case, to below 5%. Companies who fail to comply will be required to pay substantially increased social insurance contributions. Indeed fines for excessive pay increases were in effect until 1995. Management described 1990/91 as a particularly difficult year due to the government policy of wage capping. Consequently, many well qualified people left to join the newly established private sector. The top wage in a state-owned enterprise was 5000-6000 Czech crowns, that is wage band 8 (see Appendix 2), applicable to
managers of workshops employing 50 staff. While in newly established enterprises this restriction did not exist. A wage of approximately 8000 Czech koruny (or Crowns) were cited as the top reward for employees in newly established enterprises not employed on a salary, while in former state enterprises this top wage was restricted by the wage bands to 5-6000 Czech koruny. This situation was to change by the time of the second interview.

In addition government policy made it very difficult for companies to make employee reductions without continuing to pay wages for those laid off for another 3 months. The managing director felt that the only way to fill the posts now was to compete with a private company and unofficially 'overpay' the appointee, an illegal activity which risked the company incurring a fine.

Motivation

Despite the limitations of wage constraints there was still an awareness of the need for a better quality of employees which was felt to be in short supply. Management had identified the profile of a higher quality work-force as being one which could work with less supervision than currently necessary. They cited lack of motivation as the major inheritance from the past which was braking present progress. They knew that employee behaviour in this respect had to be changed. This is a common point raised by all managers across all three countries and amongst foreign (west European) and indigenous managers. There also appeared to be a growing awareness of the changing nature of management practice in terms of a move away from a bureaucratic and
closely supervisory role to one of creative and independent thinking; decision-making unencumbered by inefficient levels of supervision. The remuneration of managing directors and departmental directors was not included on the wage band scales, these were rather subject to contract and paid on a salary basis. This, it was claimed, had raised incentive and motivation for managers.

All managers reported increased overlapping of departmental activities which previously did not occur due to stable nature of the market and production and to delineation drawn by the central authorities. As already discussed, in the past commands were passed down to companies who then bargained for reduced plan quotas and other benefits. These plans were then carried out by departments rather than developed in departments according to priorities identified by the companies.

**Impediment**

While expressing frustration at the impediment caused by the Board of Directors' imperviousness to the proposed restructuring ideas, all three managers were initially confident that changes already made could be sustained and others introduced. Management decided to continue informally with the changes to the organisational structure already implemented. Changes in production and managerial activity and a reduction and improvement in the work-force were felt to be necessary in order to survive in a transitional and market-type economy. They now planned to achieve these other goals by circumventing the Board of Directors and again proceeding
informally with their plans, although how this was to be done without risking dismissal by the Board was not raised.

**Issues Constraining Restructuring**

From the description above there are a number of issues affecting restructuring in this particular company: changes in the market, government policy (in particular employment policy and credit control), the absence of an established domestic financial sector, the countrywide lack of appropriately trained personnel for the new market system and the nascent relationship between new owners and managers of enterprises. Of all these areas the most immediately important ones are finance and the ownership/control relationship. This issue of finance has already been dealt with in Chapter Five, under Indebtedness, Banking and Bankruptcy. As regards the ownership-control (or management) relationship, the chosen process of economic transformation devolved the unresolved problems of enterprise and industrial restructuring to this level. This was the one issue in the managers' environment, where managers felt they could legitimately exert influence and take responsibility for the development of the situation in the locality. The change to a market system and the concomitant macro-level adjustments taking place were felt to be outside the managers' control. These findings are mirrored by those of other firms interviewed.

Other areas for managerial activity involved circumventing credit controls through writing credit notes between suppliers. This type of activity was not envisaged by the
government's macro-economic policy and the official vision of corporate governance as projected by the privatisation process.

Privatisation and Ownership in Dřevodělný

In order to understand the interaction between management and owners a dissection of the owners and share distribution in Dřevodělný is necessary. Subsequently it is necessary to examine possible reasons for the Board of Directors blocking management proposals and how this lack of symmetry in management and ownership outlooks was dealt with.

Generally in the Czech Republic, the wide dissemination of actual share ownership and the limited knowledge and experience of individual shareholders led to an overt concentration of power and influence in the hands of the privatisation funds. While IPFs usually effected little restructuring with this power, they were able to block other shareholders and management input. Central government's inspiration for voucher privatisation was to create citizen owners who would have a stake in the future of the firm in question. This rarely occurred in a real sense, although it ensured nominal citizen ownership. Instead the Investment Privatisation Funds (IPFs), which sprang up spontaneously, lobbied citizens for their vouchers, promising large or speedy returns. Due to the fact that any IPF can own up to 20% of shares and that government encouraged firms to become involved in management of enterprises even before shares were issued to them, there exists 'a fragile alliance, which may be threatened in the future because there is no protection for minority shareholders from
a hostile takeover. There is one other aspect regarding lack of management know-how on the part of the IPF which is highlighted by this case study.

Table 7:2 Ownership Distribution in Drěvodečíný - 1/8/93

After first wave of privatisation

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Share %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regional Privatisation Fund &quot;B&quot; (which is also the regional bank)</td>
<td>20%</td>
</tr>
<tr>
<td>Individuals (see x below)</td>
<td>20%</td>
</tr>
<tr>
<td>Various Newspapers (y)</td>
<td>45%</td>
</tr>
<tr>
<td>National Property Fund (z)</td>
<td>Shares still held for following</td>
</tr>
<tr>
<td>For Investor (s)</td>
<td>7%</td>
</tr>
<tr>
<td>For Small Privatisation Investment Funds</td>
<td>5%</td>
</tr>
<tr>
<td>For Restitution Fund (original owners)</td>
<td>3%</td>
</tr>
</tbody>
</table>

(x) This group may include informal groupings of shareholders acting together, although they may not always be co-ordinated in their activity and therefore do not form an effective block vote.
(y) The shares held by the newspapers do not represent a single cohesive grouping.
(z) Shares remaining with the National Property Fund awaited sale in the second privatisation wave, to be dealt with later in this chapter.

Source: Interview carried out by S. Bygate with Managing Director, External Advisor and Finance Director, 1/8/93

The prime role of the Privatisation Investment Fund in the ownership configuration is also true for Dřevodělný. There was a total of 1500 shareholders in this company. Representatives were chosen by dint of the portion of shares owned. These representatives numbered 36 and controlled 52% of all shares. They therefore formed
the basic invested capital. The breakdown of investors can be seen above in diagram *Ownership Distribution in Dřevodělný - 1/8/93.*

Managers reported that the individual shareholder had little influence and in fact the regional privatisation fund, which was owned by the regional bank was the single biggest shareholder and dominated the Board of Directors. The managing director and finance manager continually highlighted the lack of knowledge and the old style thinking of the shareholders. The external advisor experienced the dealings with the shareholders with great disillusionment and believed that they had lost interest after the initial euphoria of belonging to a propertied class (*see quotation at the beginning of this chapter*). As an example of this he cited the first joint stock company meeting with the new shareholders when two halls had to be prepared. For the second meeting room for 500 shareholders was prepared but few turned up. The 3 interviewees cited similar more widely known examples of this in bigger companies such as Škoda Plzeň where a hall was prepared with a capacity of 20 000 for a meeting of shareholders and only 300 appeared and Česka spožitelna, a major savings bank, where only 120-200 shareholders attended, as evidence of a general lack of interest amongst shareholders. It can be summarised, therefore, that due to superior numbers a lack of cohesive groupings and active interest amongst other shareholders, the IPF holds the most dominant position in Dřevodělný’s ownership profile. The impact of this ownership configuration on management decision-making and hence restructuring plans was therefore of central significance.
Management and Owners and the Board of Directors

In Dfevodělný, as management attempted to initiate organisational restructuring considered necessary to ensure the survival of the firm, owners, the Board of Directors blocked these moves, while remaining unwilling to suggest alternative plans or to comment on reasons for the rejection of the business plan put forward. Consequently management felt very frustrated in their activities.

The shareholders and board of directors had only recently adopted the ownership role in relation to this company. The Board of Directors were removed from the detailed running of the company and unlike management it had not experienced at first hand the changing market and demand structure. From the description of the issues where management decision-making was affected by the Board of Directors it would appear that there was a direct effect on the long-term strategic planning.

In practice the Board of Directors had been involved only negatively in strategic decision-making, e.g. their rejection of the Business Plan. Their only positive contribution was limited to a few individual operational issues, e.g. possible labour force reductions and regular monthly trips to the firm. No recommendations were made on these visits, much to the disappointment of the senior on-site management. It is possible that, although the managers were new to the firm that they had residual expectations of active ownership input as under the old central planning system, where the owner, the state, sent down the plan quotas and controlled resources and outlets. However, the fact that the Board of Directors would offer no alternative plan which could be acted upon and that management were thinking 'creatively' as to how
to circumvent the opposition to change belies any such passive stance at enterprise level. Although it is interesting to note that this very 'creativity' when dealing with seemingly intransigent authorities may be interpreted as a parallel to the past dynamic of locality-centre relationship.

With regards to the relationship between ownership and management in Dřevodělný, the latter realised that a prerequisite for the acceptance of the Business Plan by the Board of Directors was a greater awareness of the issues in the running of the company. The possibility of re-educating the Board of Directors was discussed, but strategies for this had not yet been developed. However management believed that it was necessary to foster a co-operative spirit rather than allowing the situation to grow into an 'us against them' scenario thereby achieving a greater change in attitude.

They were convinced that the Board of Directors and the General Meeting would eventually have to accept the Business Plan as no other workable alternative had been proposed. Meanwhile management recognised the value of implementing aspects of the Business Plan piecemeal, with or without seeking Board approval.

However, by Interview B, two of the senior management team had resigned and the company sold to a private Czech owner, who had immediately endorsed the Business Plan as laid out in 1993. In the event, therefore, the Business Plan was never accepted by the Board of Directors and stalemate ensued until the take-over by the new owners occurred.
Ownership Change

Ownership had also changed drastically. The majority owner was no longer the regional IPF 'B', but an individual Czech owner, who had bought a 30% share in the company. 15% of the shares available in the firm had remained with the NPF for the second privatisation wave. The new owner had bought these shares directly from the NPF and had then approached the regional IPF for another 15% of the shares. Thus by the time the new Board meeting occurred on the 14th of June, the majority owner had changed and thus new management changes were set in motion.

The new owner was the son of a previous employee of the firm who had left the company three years previously and had moved to Prague. This employee had been active as a technical assistant and therefore had detailed knowledge of the furniture-making sector and the company.

Interview B (19/7/94)

By the second interview in 1994 many changes had taken place. Both the constellation of management and ownership had radically altered reflecting, perhaps, the very problems that have been described in the relationship in this firm in the section dealing with the first interview.

Management Change

As already mentioned there had already been certain management changes with the resignation of Jan D. in December 1993 and Jaroslav R. in February 1994. Jan D. had
returned to his original profession of schools’ inspector due to his frustration with the Board of Directors' intransigence and because he also earned more in his previous profession. The external business advisor, Jaroslav R., had begun to work for a foreign company, now operating in the Czech Republic. Between Jan D.'s resignation and the new ownership take-over the company had been without a director. The Board of Directors, with a majority representation of the IPF, had continued to reject the Business Plan and ceased to function properly, in that no competition took place to find a new director. Jana S. reflected on the reasoning for this as being that the IPF did not feel responsible for the survival and future strategy of Dřevodělný, as their interests were only in trading shares and investing for short-term profit. In this respect Jana S. saw privatisation as no particular advance for Dřevodělný, rather a change of ownership form. Nobody took the necessary responsibility for debts and investment.

Organisational and Personnel Changes
The new owners and management had only been in position for less than a month. The Board meeting had occurred on the 14th of June and the interview took place on the 19th of July. Therefore, only a limited number of changes could be reported. Despite the style of the new owners, their insider knowledge and the changes already made suggested a break from the past stalemate for the company. As for the new owners, Jana S. reported that neither had they brought with them investment sources, however she tentatively saw a change in the level of responsibility being taken for the
direction of the firm and a bank loan had been secured for restructuring purposes. The
new owner had made his father managing director and already more orders were
flowing in for products. The production emphasis had been changed to the making of
interiors for buildings. Management had fully endorsed the business plan proposed by
the previous management team with few changes.
Additionally the new director had brought with him one man as assistant and the
manager of one department had been replaced because of insufficient functioning.
One of the workshops had also not been functioning properly and the Mistr or
supervisor here had also been changed. Jana S. reported that there was now
recognition of the need to increase the quality of supervision and middle management
as the prime concern.

Conflict of Ownership and Control

With the above narrative in mind it is consequently of importance to examine the
legal delineation of responsibilities of owners and management at this time, while
accepting that legal delineation does not guarantee that the actual behaviour of parties
conforms to the prescribed pattern. The privatisation process envisages the right of the
shareholders through their shares to 'participate in the company's management, profits
and liquidation balance, should the company be wound up.' According to the
managers and supported by the Commercial Code, no independent management
decisions can take place on issues such as the increase or reduction of capital stock,
the issue debentures or higher investment levels without the Board of Directors
approval or the AGM (Annual General Meeting) endorsement\textsuperscript{33}. All proposals concerning decisions in these areas must be formally accepted by the Board of Directors. Finally the AGM alone can approve the annual financial statement. It is also stated that the scope of this participation in management is limited to the business of the general meeting convened annually\textsuperscript{34}. This has important implications for the management-shareholder relationship in practical terms.

Senior management in this company, i.e. the general manager, the finance department manager and the external advisor also mentioned the division of legal responsibilities described above and emphasised the responsibility of shareholders to contribute to the management of the firm. Management, however, also stressed that ultimately the Board of Directors were only interested in profit and could play no role with regards to the production process. In the minds of managers at least, the delineation of control and responsibilities with respect to management and ownership remits is rather unclear. The reasons why relate to the above issues. In this particular company the shareholders and elected board of directors appeared to be acting according to a very different behavioural pattern than managers. The fact that the Board of Directors and the shareholders, both bodies being effectively controlled by the IPF, blocked restructuring measures and basic capital rationalisation suggests a fear of loss of immediate liquid value. There is a possibility that the new owners were unenthusiastic about making any major changes before having time to assess the situation properly. However, the IPF had been involved in the firm since January 1993, and had seen a copy of the proposed business plan in March/April, well before the first joint-stock
meeting. They had had, therefore, time to accustom themselves to the new property and its problems. Management believed IPF intransigence with regards to the restructuring proposals to be due to an old style of thinking which encouraged hoarding in case of shortage and where the larger the enterprise physically, the more power it could wield. This locality-centre dichotomy may also account for management expectations of active ownership involvement. Memories of directives sent from the central administration to the firm as to production, perhaps encouraged higher expectation of ownership involvement. However, this does not adequately account for the reaction of the IPF involved in Dřevodělný in a new market environment. Certainly behaviour may be influenced by past scenarios but there must also be a reaction to stimuli in the present.

Therefore, a possible further explanation is the desire of these IPFs to trade their shares later on the nascent stock markets in order to secure the funds both for their own survival and in order to repay investors. Indeed, in this firm the IPF sold all its shares to a private Czech investor a year later, having made no organisational changes whatsoever. The new owner immediately endorsed previous management's restructuring plan.

For the moment it is important to note the generally benign approach of management in Dřevodělný. In this particular company, there appears to be a 'disinterested' (see Cannon's definition of corporate governance below) awareness, that is one based upon firm interests rather than management self-interest, on the part of management of the
required changes in company strategy. These changes are needed to accommodate new production requirements and new organisational arrangements, as a result of and appropriate to emerging market relations, as has been discussed under the section entitled Market and Production.

This awareness amongst senior management has been built up within and in relation to the company since the 1989 transformation.

However, it is also important to note that no generalisation can be drawn from this case study with regards to management acting in the interests of the firm as opposed to self-interested owners. There are numerous cases of the opposite happening where management was entirely corrupt or, as will be described in chapter five, cases of former management legally taking over ownership of a firm while not adequately addressing the legitimacy crisis that this provokes, nor carrying out any changes towards restructuring the firm. What the situation in Dřevodělný does show is the realm available for misuse in the power-control dichotomy due to the lack of regulation and accepted practice.

The comments, however, by management do show an awareness of the potential for abuse of the managerial position of (feasible) covert power and insider knowledge.

In terms of knowledge asymmetries, it is important to note here the difference between overt and covert power. Managers may be either active or passive with self-interest or the interest of the firm at heart. Since the Czech Republic, as indeed the Slovak Republic, lacked closer guidelines at this time, as to remit of managerial versus share-holding responsibility, this opened up spheres of activity for either covert
power (former cadre managers exploiting their insider knowledge, lack of regulation and lack of ownership knowledge to asset strip the firm) or for overt power being used with little understanding or consultation and often with short-term interests at heart (shareholders, specifically, privatisation funds, interested in making a short-term profit through eventual trading on the nascent stock market). Both possible outcomes reflect a lack of regulation by government, its mixed approach to the economic situation and an ineffective, bureaucracy, largely remaining from the past era and also to the absence of an established business culture of acceptable practice. The fact that the government chose large-scale privatisation as the sole tool to restructure firms suggests a laissez-faire economic approach on the part of the government but also assumes an important role envisaged for owners in the management of firms. However, the major role allotted intrinsically to the Investment Privatisation Funds, due to their monopoly of shares and the process itself had not been referred to either legally or institutionally. Furthermore the fact that the IPFs were encouraged by government both in this company as in many others, to become involved in the management process even before privatisation had been completed reinforces the more institutional approach to ownership and management.

However, many IPFs had no experience of management, and even fewer of management in a market economy. Some were set up by independent entrepreneurs, but most belonged to banks. Bank ownership of IPFs potentially leads to a conflict of interest in this environment. In the first instance financial criteria are the gauges of
success for the investment funds and short-term liquid assets are of most benefit to
them. In the instance of bankruptcy, however, banks are unlikely to put into practice
the new legislation, if it results in losses to themselves. They are more likely to shore
up the company in the hope that eventually the firm will break even and make some
returns on loans and invested shares.

The unresolved nature of the relationship of ownership to control in this process
reflects a complex set of inherited circumstances and relationships (centre-locality
relationship, inter-firm networks, etc), and inadequate industrial policy, provision and
design on the part of the reform government. In this last respect it is clear that
privatisation has not bridged the knowledge asymmetries between ownership and
management networks.

Conclusion

At the beginning of the discussion on restructuring two problems for this particular
company were highlighted. Firstly the difficulty of making organisational changes and
secondly the problem of rationalising the work-force and finding the appropriate
personnel.

However the underlying operational problem, became, as a result of privatisation, the
relationship between owners and management, reinforced by the lack of government
regulation in this area and the lack of a strong and clearly thought out industrial
policy.
Paradoxically the problem of finding adequately skilled personnel was in part a result of the government's limited industrial policy intervention, which worsened the position of the company regarding personnel in 1993. The structural change of ownership, which was involved in the large-scale privatisation, cannot transfer company and production sector knowledge to an essentially stock market oriented ownership. Neither can profit seeking and potential efficiency criteria be transferred automatically through ownership change to a self-interested management, motivated only to maintain the status quo.

Therefore, put into its situational context of the Czech Republic 1990 to 1994, the industrial restructuring has yet to be solved by the new ownership/control relationship brought about by privatisation. Within a slowly emerging free market the situation of unequal and unregulated distribution of power and knowledge between ownership and control has not been dealt with. In Děvodičný the requirements of restructuring to ensure firm survival were not effected by privatisation, but had to wait for an owner with sectoral and firm specific knowledge and interest as well as finance.

How this relationship will be developed further between the two parties in an atmosphere of limited regulation and an unstable, still embryonic business culture within an evolving political and economic culture, is a subject which needs to be understood if the machinations of management and firm in transition are to be properly grasped.
External Advisor to Dřevodělný, interviewed by the author during the first round of fieldwork interviews in the Czech Republic, Summer 1993.

The name Dřevodělný is a pseudonym for the actual company interviewed as anonymity was promised. Translated from the Czech dřevodělný means 'wood-working' and was therefore thought appropriate for a furniture producing company.

The case study dealt with here was also examined in terms of ownership and control as part of a comparative paper 'The Role of Managerial Responsibility in Times of Change' by Bygate, Siobhan; Davies, Peter and Geppert, Mike for the 'Ethics in Transition' Conference at the Godollo Agricultural Sciences University, Godollo, Budapest organised by the Friedrich-Naumann-Stiftung in June 1994.


RYCHETNIK, LUDEK (1992) 'Industrial Reform in Czechoslovakia' in JEFFRIES, IAN Industrial Reform in Socialist Countries: Edward Elgar, Aldershot.


RYCHETNIK, LUDEK (1992) op cit. p.111. and


FEDERÁLNÍ STATISTICKÝ ÚŘAD, ČESKÝ STATISTICKÝ ÚŘAD, SLOVENSKÝ STATISTICKÝ ÚŘAD. (1989) 'Statistická ročenka Československé socialistické republiky 1989. PRAHA, SNTL-Nakladatelství technické literatury. (various pages including preface (předmluva) p5.).


ibid., p.35.

ibid. p.260.


ibid.


This arrangement seems to hark back to the Company Law introduced in April 1990, where one third of the supervisory board is elected by employees if the company employs more than 200 people. See also RYCHETNIK in JEFFRIES, IAN (ed.) (1992) *op cit.*


Quoted from correspondence with Soulsby and Clark 19/4/96.

RYCHETNIK, LUDEK (1992) *op cit.* pp.112-120.

CENTRAL EUROPEAN BUSINESS WEEKLY (4 - 10 February, 1994) *Converting the Central Bank,* Northridge, California, USA. Eastern Express.

MICHELSON, BETH (4 - 10 February 1994) 'Governor steps up campaign for lower interest rates' in *Central European Business Weekly* No. 80. Northridge, California, USA. Eastern Express.


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See Chapter One, Table 1:3, for a general resume of differences between the enterprise in the command versus market system.


*ibid.*
Chapter Eight
A Case Study of Organisational Restructuring Issues in the Slovak Republic: the role of ownership and control

Olievačka

"There is an old tradition in Slovakia of Olievačka, the throwing into the river of the women of the village on Easter Monday. It is a symbol of purification with religious connotations of the rebirth of Christ...The water is still cold at this time of the year. The women must learn to swim or sink. This is the way we live now. The Transition has been a cold shower."

Economics Manager, Central Slovakia, April 1993.

Introduction

This chapter analyses the ownership-control relationship in a case study where restructuring is paramount to its survival. This case study displays a management team using their superior locality knowledge and networks to wrest control from the state and to a certain extent from employees. This process is legitimised by privatisation legislation and the muddled progress of privatisation in the Slovak Republic. The previous chapter has discussed the issue of information networks and knowledge asymmetries as raised by McDermott with reference to the former Czechoslovakia during transition. The case study in Chapter Seven displayed the inability of privatisation alone to resolve either the centre-locality dichotomy, now expressed in terms of ownership and management, or to provoke restructuring.

The Slovak case study, chosen for this chapter, highlights the same basic issues but with the added dimension of the question of legitimacy and with more emphasis on the centre-locality networks. Influencing these two issues is the underlying context of a rather different evolution of political culture in Slovakia, which ultimately influences choices in economic policy, and the industrial structure inherited from state
socialism and characteristic of this region. (see Chapter Five). Lastly the chosen company, Kreslo, displayed most clearly the centre-periphery tensions present in differing degrees and forms in all the Slovak case studies, now 'devolved' to the owner-management dichotomy, and the problems arising out of the privatisation process. These aspects are of prime importance in understanding management in transition in the Slovak Republic and similarly in the Czech Republic, in the two year period 1993-94.

As in the last chapter, it will be argued that privatisation (effecting ownership change), has been inadequate as the sole guarantor of restructuring in enterprises, which was hoped would ultimately lead to greater efficiency and profitability. Chapter Four discusses the general theoretical aspects of this in the Czech and Slovak contexts.

The general issues were elicited from the data generated from six companies which were interviewed from the furniture making sector as well as brewing over two years, April 1993 and July 1994. A Slovak questionnaire was also distributed in early 1995 to managers and employees randomly across all the former state furniture manufacturers and the brewery previously interviewed. As in the previous chapter, the general findings will be incorporated in the analysis given in this and subsequent chapters as the questionnaire data supports the main findings arising from the interviews.

**Chapter Outline**

The chapter will first of all describe the chosen company and setting for the case study in terms of its inheritance from the previous (the period ending 1989) Vhj
(Výrobnohospodárska jednotka or Economic Production Unit) structure and the reasons why this particular case study company was chosen over others interviewed. The issues relating to restructuring will then be examined in chronological order over the two interviews carried out in consecutive years. Finally the analysis of the highlighted issues relating to restructuring will be carried out in the penultimate section and will emphasise the underlying aspect connecting all the issues, namely that of the legitimacy of ownership and control arising from the privatisation process.

Case Study from the Slovak Republic: The Centre-Locality Dichotomy: the Issue of Ownership and Control and Legitimacy

Why Kreslo?

Kreslo was chosen out of a total of six companies interviewed in the Slovak Republic. Of these six firms, four had been part of the Woodworking and Furniture Vhj, one was a newly established furniture company in Košice and one was a brewery, again in the region of Košice. Of the four with direct links to the above mentioned Vhj, one was Drevounia, the export wing, the other three being associated factories, sometimes also with functions at the level of management of the trust and/or Vhj as a whole.

Kreslo had constituted one of the affiliated factories of the 'trust' headed by Novy Domov in Spišska Nová Ves, prior to the establishment of state enterprises in July 1989. Kreslo had no overall trust management function outside its own administration. It was felt that both in terms of its production and its position within the trust it represented a typical example of a furniture making factory within this particular Vhj and indeed within the Slovak Republic. Although originally slightly
larger than the Czech case study company described in Chapter Seven and with a greater emphasis on upholstered products, its essentially productive role within the Vhj, product orientation and relative size made it excellent comparative material. Lastly, as explained in the introduction, Kreslo displayed most clearly the centre-periphery tensions present in all the Slovak case studies, now 'devolved' to the owner-management dichotomy.

The Interviews

The two stages of interview with Kreslo took place on 9/4/93 and 28/7/94.

The first interview took place in the conference room adjoining the managing director's office with almost all senior managers. Jozef, general manager of Kreslo, Emil K., senior manager of the technical department, Ing. (Engineer) Vladimir K., senior manager of the economics department, Jan, senior manager of the production and marketing department and Miroslav T., deputy manager, of the marketing department, Yvette K., senior manager of the Accounts and the Personnel departments and lastly the legal advisor. A second interview was conducted with the managing director, Jozef on 28th of July 1994, in a newly revamped office. All other managers refused to be interviewed, some (those not involved in the Management Buy Out) having already left. The possible reasons for the refusal to be interviewed will be discussed below, as will the developments which had given rise to this situation.

A degree of observation was carried out on both occasions with tours around the factories and encounters between management and employees noted as they arose.
The Company

The company Kreslo is situated in a small town in Central Slovakia on a wide plain between the mountainous regions of the Výsoké Tatry (the High Tatras) and the Níské Tatry (the Low Tatras), closer to the major urban and industrial centre of Košice in Eastern Slovakia, than to the capital Bratislava in the West. The company had been part of the former furniture-making Vhj (Výrobné hospodárska jednotka) in Slovakia. The formation of these industrial associations in 1958 has been discussed in the former chapter, Chapter Four, as part of the background to the Czech case study. Despite the slightly different Slovakian name, these units were introduced throughout the former Czechoslovakia with little variation in function and management hierarchy. Although the senior management of the Vhj did change over time as a result of political decisions, the basic structure of the hierarchy remained the same. In this firm further changes occurred with certain satellite firms being amalgamated with the main firm in Spišská Nová Ves or separated from it.

From the 18th of March 1958 the firm in Spišská Nová Ves, of which Kreslo was a satellite part, had belonged to the Vhj of woodworking enterprises with its direction in Žilina. Subsequently, from the 1st of January 1961 the firm in Spišská Nová Ves, was subordinated to the Vhj 'Združenie' for furniture-making industries with its seat in Brno, Moravia. Brno was the control centre for the industry across the former state of Czechoslovakia. From 1st of January 1969 there was once again an organisational reshuffle and the firm became part of the Vhj 'Drevárska a Nabytárska Priemysel (Woodworking and Furniture Industry) with its general management in Žilina. The design of the Vhjs in this final reorganisation has been discussed in Chapter Four.
this reorganisation of Vhjs there were generally three types, 'branch national enterprises', 'concerns' and 'trusts'. Rychetnik (1992), offers a basic description of each type and describes the trust particularly, as:

'consisting of national enterprises and other service organisations, co-ordinated by a trust's "general directorate"',

and makes the point that unlike the other two forms the 'trust' did not have the status of a legal person. Rather, as outlined in decree No. 91/1974, they represented a middle layer of three stage management hierarchy coming between ministry and national enterprise levels. As noted in Chapter Seven, although the Law of State Enterprise legislation 1988, theoretically removed this structure, the lack of competition preserved the old Vhj structure. Therefore the old networks arise predominately out of this type of organisational structure, especially as final conversions from the old Vhj to the new state enterprise structure only took place on 1st of July 1989 and the revolution began in November 1989. The state enterprise structure and function had little time to establish itself. It is therefore this structure on which the chapter will concentrate when looking at past inheritances. However, in Chapter Seven the amendments which took place in 1990 to the Law of State Enterprises 1988 and the implications for enterprise management structure is discussed.

The firm in Spišská Nová Ves was of the 'Trust' type. The structure of the former Vhj and the firm in Spišská Nová Ves with its amalgamated factories from the 1st of January 1969 to the 1st of July 1989 is depicted below.
Organisational Structure of the Slovakian Furniture-Making
Vyrobnohospodarska jednotka 1/1/69-1/7/89 (including Kreslo)

Vhj Drevarska a Nabytarsky Priemysel
(Vhj Woodworking + Furniture Industry)

General Management
Zilina

Trust Enterprise
Novy Domov
in Spisska Nova Ves + factory and showroom

Kyscko factory
separated from firm in 1981

Liptovsky Mikulas
factory linked to the above location from 1950 onwards. Producing display cabinets for sitting rooms and bedrooms and upholstered suites. Servicing (maintenance) also dealt with.

Kralovsky Chlimici factory amalgamated in 1974. New factory producing display cabinets + writing desks for living rooms, upholstered suites & other elements

Spisska Nova Ves factory: producing bedrooms, collection of bookcases for sitting-rooms

Maluzina factory: producing small bookcases and restaurant tables

Sabinov factory: new factory producing display cabinets + collection of bookcases, restaurant tables and desks. Older servicing centre.

As with the Czech case study the 1988 Law of State Enterprises made the firm in Spišska Nová Ves a state enterprise from the 1st of July 1989 subordinated to the Ministry of Wood and Water Production and Woodworking Industries in Bratislava, Slovakia.

A picture appears from this history of both great stability of structure, function and personnel, and of minor reorganisation between a number of loci of senior management of the Vhj in the industry and, in this particular 'trust' organisation, with its seat in Spišska Nová Ves, of the changing number of factories affiliated to and separated from it. The potential for secure networks of personal and organisational contacts to become the bedrock of 'post-socialist' or transitional management becomes clear.

Chapter Seven has raised the issue of network capital and its implications for the Czech case study, as McDermott (1994) has done generally. This will be developed further later.

Restructuring Issues-1st interview 9/4/93

Management, Enterprise Culture and Old Networks

The management personnel were essentially from middle or lower management from within Kreslo. Many had been held back for political reasons. The general manager, Jozef, had been active in the reforms of 1968 and was expelled from the party during the 'normalisation' process after Dubček's well documented visit to Moscow. Jozef was thus well known and well liked and respected both within the enterprise and the small town for his stance during the time of the Prague Spring and since. In 1991 all
interviewees were working in Kreslo but not in senior positions and expressed the difficulty they had experienced in acquiring the necessary skills in accordance with their new status. In addition these promotions had occurred during a time of rapid change and instability. The previous senior managers of the various departments as well as the former general manager had either already left or been 'demoted'. The previous general manager of the technical department of Kreslo had been a rising star of the old regime.

"At 25 he had his picture on the wall and now he owns his own company",

reported one manager resentfully.

In an authoritarian and procedural structure most had to wait for the appropriate age profile as well as satisfying work and political requirements before securing promotion. It was felt by the new breed of managers that the former general manager of the technical department had manipulated the old system to personnel advantage, just as he was the new. It was believed that he had used old contacts in the political and economic fields in order to be able to set up his new business. Generally it was noted that former Communist Party officials or members and those with important positions within the past state hierarchies had the experience, capital and contacts to set up their own companies under the new system.

This was a common occurrence after 1989 and indeed the logistical and bureaucratic problems of setting up a business encouraged the use of old contacts. The interview with the newly established furniture company K. in Košice in Spring 1993, as
described by the author in Bygate, Edwards, Mills and Polonsky (1994), refers to these aspects and the subsequent problems. The difficulty of the slow processing of necessary forms by the Slovak bureaucracy and the problems of implementing the large amount of new legislation being passed by government caused one young partner of this private firm to use contacts in the legal profession and favours in order to speed up certain applications necessary for the survival of the firm. The scope, therefore, for old cadre managers to use contacts from old networks within the former Vhj structure, party organisations and bureaucracy, many of whom were still in a position of authority, or had reinvented themselves, is therefore enormous.

However, Kreslo's managers claimed that this new furniture company threatened little competition with their already well established firm, primarily for reasons of product design and range and also because the new company had the problem of financing premises and equipment which did not face the former state enterprise. The showroom of this new company in the town was visited by the author independently and its size, product range and quality of products did indeed suggest little rival competition to Kreslo.

Managers of Kreslo were at pains to point out that by contrast to the above example, one former manager, functionary and Communist Party member still worked within Kreslo but now in storage. It was emphasised that former political loyalties did not prejudice continued employment in the firm as long as the individual worked well. Unlike some other firms interviewed, however, high office in this firm did not appear to be open to former incumbents as the above two examples show. In two other former state furniture companies interviewed some members of former senior
management were still in place, although they fully endorsed the new political and economic freedoms and were critical of the past.

Thus the combination of a popular new general manager and a new crop of senior managers recruited from former middle and lower management, who were not implicated either in a formal or high profile way with the former regime, lent the organisation as a whole a renewed enthusiasm for the future of the company and gave management a sense of legitimacy sometimes found lacking elsewhere. This perhaps explains the atmosphere encountered in observations of the interaction between employees and management both within the offices visited and on factories rounds which appeared genuinely friendly, interactive and relaxed, if slightly patriarchal/avuncular.

There was also added optimism in the country generally as a consequence both of the '89 revolution but also, and in particular, as a result of the first experience of independence from any external power in Slovakian history since the Great Moravian Empire one thousand years before. Independence was of great emotional and cultural importance at the time of the first interview. The Economics Manager seemed to express a commonly held concern amongst all the managers at the way economic reforms passed in the former state of Czechoslovakia had hit Slovakia hardest. Most heavy industry or early part of production processes (later finished off in the Czech Republic), in the old Czechoslovakia had been located within Slovakia's borders. Slovakia's main markets then had been to the former Soviet Union. Thus in the process of closing outdated heavy industries whose products were no longer marketable, the Slovak Republic had been affected more dramatically. Whilst
maintaining hopes and expectations that separation from the Czech republic would bring about change and open up opportunities, the managers, however, generally commented that the separation had been a move supported by political forces rather than the populace as a whole.

*Organisational Structure at First Interview*

The organisational structure at the time of the first interview was still in a state of flux. Initial changes had been made but it was recognised that further organisational structure changes would have to be carried out once privatisation had been completed. It was felt that until now only the names of departments had been altered but little else. Indeed the Economics Department had formerly been Planning and Statistics and the Finance department had only been founded relatively recently by the Senior Manager of the Economics Department, Ing. Vladimir. Previously the Finance Department had been located at the centre of the former 'trust' Vhj in Spišska Nová Ves. Finance was now run by Yvette, as was Personnel.
Organisational Structure of Kreslo (9/4/93)

General Management Department
General Manager: Jozef T.

Technology Dept.
Senior Manager: Emil K.

Production Dept.
Senior Manager: Jan V.

Construction Dept.

Sales and Marketing Dept.
Senior Manager: Jan V.
Deputy Manager: Miroslav T.

Economics Dept.
Senior Manager: Ing. Vladimir K.

Finance Dept.
Senior Manager: Yvette K.

Personnel Dept.
Senior Manager: Yvette K.

Legal Advisor

Approximately 760 employees in the rest of factory

Source: Original S. Bygate based on interview data 1993
Personnel was described as formerly being controlled by the Communist Party and at the time of interview had not yet been subsumed into another department as was sometimes the case after 1989, as new incumbents attempted to sweep away old and unpopular political control mechanisms.

The Sales and Marketing department had also previously existed but presumably in the form of the Commercial or 'obchodni' department. However, its function differed considerably from this time and was now much larger and more important. This was explained by two factors. Firstly Kreslo had previously received more or less fixed orders at fixed prices for five permanent clients for its furniture production, three domestic clients, and two export clients, the former Soviet Union and abroad via the export wing of the Vhj, Drevounia in Bratislava.

Secondly, it had not as a company ever had direct contact with its customers as the 'trust' headquarters in Novy Domov, Spišska Nová Ves, had dealt with this. The situation post-1989 had of course involved almost complete market collapse. One manager summed up the changes thus:

"Before to be successful as a director it was necessary to fulfil three conditions. Firstly to be a good friend of the local Communist Party chief, secondly, to have as many friends in the state apparatus and party as possible, and thirdly to have lots of container wagons in the railway station. Now we have all the wagons we need in the station and no markets."

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The friends and contacts were required to aid the factory in the frequent event of lack of adequate materials, investments and machinery which could potentially curtail the production process and in order to bargain for and secure lower enterprise production plan targets.

The situation had now changed dramatically. Customer orders were now separate and the customers had to be found, particularly customers from Western Europe.

"Before to get furniture it was necessary to bring along a bottle of Borovička, now to sell you have to bring along a bottle of Borovička".11

However, it was hoped that the necessary changes in organisational structure, working rationale, production and market sector establishment would be primarily enabled by the success of the management privatisation plan, if and when it was accepted by the Slovakian government.

Production for a Changing Market

Until two or three years prior to the interview in 1993, exports to the former Soviet Union had accounted for approximately 40%-80% of production, the rest going onto Czechoslovak markets, and only 10% to the Western European (exclusive of West Germany) market and 5% to West Germany. The market in Slovakia was now extremely poor, with little fluidity of capital amongst customers. The problem of payment arrears has been dealt with in Chapter Five and with reference to Begg and Portes (1992), McDermott (1994), and Veselý (1992). Indeed as with many
companies interviewed in the Czech and the Slovak Republics, payments to Kreslo for its products not yet honoured by purchasing Slovakian firms were a serious problem. The demand for furniture in Russia was still potentially big, but no-one had the necessary finance to be able to purchase such items. At the time of interview, over 50% of actual sales were going to western Germany, France, Holland and Switzerland. The management team wanted to open up British markets but had found access very difficult. Many products were being stockpiled due to lack of customers. The company was still pursuing Russian markets, in the hope that finance would eventually back demand. They noted that they would also now try to approach the Eastern supply market with regards to supplies of raw materials and partly finished goods in a similar vein to the West European approach to their own market. It was felt that West Europeans were only interested in raw materials and since it was made illegal by the Slovak government to export raw timber abroad (in order to prevent the export of wood supplanting the wood-working industry in foreign trade terms and thus providing lower revenue), western companies subverted this by arranging to buy minimally worked timber and exporting this to their own factories for re-working. In addition there was much resentment against the European Community at firm level due to what were felt to be unhonoured promises as regards open markets. Instead, furniture companies and clients from abroad, required a higher quality of product, which Kreslo was unable to supply at that time, but at extremely low prices. This was cited especially in dealings with countries such as Switzerland, Germany and Austria. The resentment was particularly felt as the Swedish firm IKEA had been buying the products from Czechoslovakian companies under the former regime for a number of
years, in this particular case through Drevounia, the Vhj's export wing in Bratislava. The same products were now demanded but at lower prices. The product range was primarily furniture and upholstered furniture and although management planned to change models they essentially wanted to remain in this area. They were interested in diversifying into saunas and sports production, as there seemed to be demand from abroad for these specific products and indeed there were offers from abroad for collaboration on such products. Kreslo was still considering these offers.

Motivation, Training and Personnel

Management felt aware of the changes needed in order to ensure a better working rationale and therefore to fulfil one of the requirements of better product quality. The rationale of the past had been one of completing time cards. Employees would clock on and off at the appropriate times but with little application to the work in hand and little attention paid to the actual quality of work. Employees were aware of the required changes now that the market rationale had changed and the company had to engage in the actual selling of products to ensure the future of the firm. Management wanted to improve supervision and to encouraged a heightened awareness of these issues, firstly through improving management skills commensurate with the new burgeoning market system requirements, later offering appropriate training also to the factory employees, and lastly improving health and safety standards, and environmental conditions.
Management and the Improvement of Skills

The growing importance of searching out markets for products, especially in Western Europe, meant that language and marketing skills were now deemed to be of importance, as well as what was termed as 'foreign economics generally'. However only the Deputy Manager in the Sales Department had the training and experience in both these fields leading to a strain in the relationship between the senior and deputy managers of this department that was quite apparent during the interview and indeed was commented on independently by individuals after the official interview. The Scandinavian company interested in buying the other half of the factory in the forthcoming privatisation plan (see below), had attempted to employ the Deputy Sales Manager, Miroslav. However, he felt first of all a loyalty to the Slovak firm and to his home town and secondly he felt the package offered to him was exploitative.

It was generally felt that the skills and experience required to steer a course through the present changes were lacking and managers were attempting to acquire the appropriate skills as they worked. None of the former middle managers had really had any formal management training at all and realised the importance of improving their skills base to ensure firm survival and success. As part of this aim the Deputy Sales and Marketing manager had gained access to an human resource management course in the near future in Japan, to be conducted in English.

On the positive side managers had successfully installed and acquired the requisite skills for the new computers used in the Finance Department. This was greeted as a very substantial technological revolution by the department, as in the other case study company, Dřevodělný, in the Czech Republic, which is analysed in the previous
chapter. Until 1989 there had been no computers and no fax machine either. Now Kreslo had 14 computers and management had learnt to use them without formal training by trial and error.

Motivation and Workforce

There was continuing confusion as to what approach to take with the workforce regarding discipline. Management preferred an informal and common spirited approach rather than a harsh one. However, it had been noted that until now this had not really been successful, as employees listened avidly and then did not follow instructions. The question this experience appeared to pose for managers was how was this way of thinking to be changed? Part of the problem was perhaps also what was described as "transitionally low morale", due to the looming privatisation which envisaged the Scandinavian company hiving off some workers and some of the factory and machinery. It was clear that some dismissals would occur as a result of this and employees felt wary of the future. Two immediate consequences of this were firstly a rise in the number of thefts of company property and secondly the present enthusiasm by workers to take on a second shift due to a fear of unemployment, where prior to this point managers had problems recruiting for extra work requirements. This was recognised at this time as motivation for 'negative' reasons and was not viewed as a long-term solution. Management had outlined three areas which needed to be tackled in order to improve motivation for more positive reasons. Firstly, health and safety issues, secondly the employee training and skills base and thirdly closer supervision.
Health, Safety and Environmental Issues

The team felt it to be important to improve health and safety standards, as much of the machinery on the shopfloor did not have covers and there was a lack of hygiene throughout the factory. In addition the factory had to face particular environmental concerns due to its position in the centre of town and near a residential area. A number of other Slovakian furniture companies commented on the new environmental laws and were concerned how they were to meet such strict legislation with such little money at their disposal and no promise of future customers. All of these firms were situated either on the outskirts of towns or far from private dwellings which consequently made the issue less pressing. Due to Kreslo's geographical location, however, it was felt in 1993 that the environmental legislation was of great importance. It was also believed that improvement of standards within the factory would also stimulate motivation. The general manager had been impressed by this approach on a recent visit to furniture-making factories in Britain. However, there was also an awareness that financing such an undertaking could be a problem, especially if the management privatisation plan were endorsed by government, who would then have to be paid for the existing machinery and buildings.

The third arm of the strategy to improve motivation and approach to work was the increased quality and attention of supervision. At this point no plans had been made as to how this improvement was to be made, but it is interesting to note that responses to the questionnaire circulated to employees and managers by Spring 1995 to all firms generally cited supervision (expressed as confidence in the supervisor or Majstr and increased discipline) as generally the one area of enterprise functioning to have
improved and increased with privatisation. There was also a correspondence between improved supervision and perceived management improvement. This will be highlighted in the final chapter.

Legislation

The general legislative situation of 1993 was commented on by many companies interviewed. The legal advisor in Kreslo reported similar concerns. She noted that for two to three years after the Velvet revolution of 1989 the government did not make any large scale changes to the legal system which resulted in a "wild west atmosphere". Kreslo had to adapt to the changes in the situation quickly as they appeared:

'We felt like firemen constantly putting out the fire wherever it arose'

When new laws did eventually come into being, they came in a flood of legislation and the company noted that many of them contradicted old legislation. The legal advisor also noted that this was an ideal situation for former Communist Party members who were adept at working the system. She also observed, however, that the legislation was not very "strong", and that Kreslo was finding ways around it in order to survive. This observation was not exclusive to Kreslo amongst the case studies. Yvette F. noted in the Finance Department that while new tax laws had been drawn up with January 1st 1993 in mind, they had since changed again and the situation had not been clarified. This affected Kreslo's functioning directly.
As regards environmental legislation, despite the Slovakian government processing much legislation, one manager reported 73 pieces of separate legislation pertaining to business operations being sent to his company between January 1st and April 1993, the authorities were not as effective in monitoring and implementing those same legislative codes\textsuperscript{13}. Thus the initial concerns over environmental legislation were not met by strict implementation and fines. This is reminiscent of the past regime's approach to environmental legislation which on paper was extremely advanced but was never properly implemented if at all\textsuperscript{14}.

\textit{Management and Foreign Privatisation Plans}

The privatisation of Kreslo was to be decided by the competing of various privatisation plans put forward, in this case, by five separate parties during the first wave of privatisation in 1991. These plans were assessed at ministerial level and two of the plans were accepted. The managerial buy out plan and that of a foreign Swedish company. It was hoped that privatisation would occur by the 1st of May or June 1993, although it was envisaged that it may take longer due to the usual slow processing of documents by government and state institution bureaucracy.

The management buy out team consisted of seven people from the Kreslo management team: the General Manager of Kreslo, and the Senior Manager of the Finance and Personnel Departments' manager, the Technology Department, the Sales and Production Departments', manager, the Upholstery Department and Construction and one further senior manager who would be the major investors. A further twelve who worked in the company but not in management were also to invest in the new
company but at a less prominent level. It was hoped that the remaining part of Kreslo, after the Swedish purchase, would then become a limited company under the above owners. The privatisation plan submitted to government included not only the price offered by potential buyers, but also the number of employees to be retained and plans for the future of the firm, including investment and sources. Management claimed that the main capital for buying the company was to come from personal savings, the rest from bank credits. The arrangement would be that repayments would take place over five years.

This was an unusual source of funding at the time as few citizens possessed very many savings, particularly not former middle and lower management, who were less able than top management and party functionaries to capitalise on their positions. Personal saving had not been encouraged by the previous regime and was not a useful option in a state where money was unlikely to be as powerful in securing goods in short supply as contacts.

Management realised that the venture would involve a great personal risk but they felt they possessed the self-confidence and professional skills required to make the investment work. It was also hoped that government would support those who wished to invest.

It had been provisionally agreed that on privatisation the foreign company would take over approximately 300 employees and Kreslo under the management buy out team would retain 400, but that of the 760 employees who worked in both companies, 25% would lose their jobs. The management team had already identified the changes
needed to be made in organisational structure, production and marketing, motivation and personnel, working conditions and morale.

Enterprise Culture

Management was concerned about the popular perception amongst employees of working for a foreign owned company. The assumption was that not only would the company assure jobs, but that it would also pay a higher salary and indeed a higher price to the state for the firm. In effect, reported management, foreign firms generally employed fewer people than domestic firms and also often made people unemployed only to re-employ them again in order to claim a Slovak government subsidy open only to foreign firm to encourage location within its borders. Whether this is an accurate picture of every foreign firm or not, it does confirm management's appraisal of the situation as being fuelled initially by social concern. This concern was indicative of a degree of social responsibility observed in almost all firms interviewed especially in the first round of interviews. Many managers expressed the hope that dismissals of employees for restructuring reasons could be avoided. Indeed, although part of the proposed two privatisation plans involved a certain degree of dismissals, it was hoped that if the new management limited company was successful thirty more people could be needed, depending on production and sales. Any question of making lay offs in order to increase savings and promote higher productivity amongst those remaining employees was dismissed as being "too capitalistic". The social function of the former národní podnik (national enterprise) obviously still influenced the culture of the new management echelons at this time (see Chapter One).
Restructuring Issues-2nd Interview 28/7/94

By the time of the second interview the two privatisation plans, foreign and domestic had been endorsed by government and processed. The company was now a limited entity formed on the basis of the management buy out described above. The four senior managers of the new departments were now also the directors of this company. Although the second interview was open to senior managers and directors, all of whom had attended the previous interview and therefore had already met the author and been aware of the nature of the work, only one agreed to attend. A second had already left the company, for reasons which will be discussed and was working abroad. Thus the second interview data rests on the evidence of one witness, that of the General Manager, Jozef. However the context of the case study, the nature and stature of that particular interviewee, as well as the fact that the descriptions given are consistent with the author's analysis of the situation in Kreslo and are supported by the general findings of other company situations reinforce the reliability of the data. In addition numerous other examples in the press and exposed at a political level of problems surrounding direct sale to managers and the questions of corruption and legitimacy involved, testify to the widespread nature of the problem illustrated below.

Privatisation and the Management Buy Out

The cost of the management buy out had been estimated at approximately 120 000 Slovak Crowns, and was acquired in the form of credits from the government which the new owners were required to pay back to government over the coming five years. Investment for new machinery had been provided in part by banks (with interest rates
of 20%) and in part by the profits made by the company. Management itself had very little money. The personal savings mentioned in the first interview as forming the basic capital had not materialised.

The general manager declared that privatisation in this company had been very specific. The form and timing for the privatisation of companies across the country had to be decided by both the Ministry for Privatisation and the Slovakian government in Bratislava. The first step in this process, however, is applying to the regional council, or local government with a privatisation plan. According to the interviewee, who had been part of the process, the management team had especially good relations with the local council, which enabled them to lobby the higher echelons of government effectively. This was possible due to the old political networks still operating between local firm and local government, between local government and central government and indeed between local firm and central government. The inherited structure of the Slovak economy with regards to centre-locality networks (see Chapter Five), strengthens the local firm as sole employer and reinforced by the political culture developing since 1993. The process of direct sale privatisation became entangled at all levels, but most spectacularly at government level (see Chapter Six), with a degree of political clientelism or favouritism. Jozef was of the opinion that coupon privatisation, used in both the Czech and Slovak Republics at different times as a means of privatisation, was morally a better proposition. He felt that until the previous year no-one had really understood the nature and implications of privatisation. Government had claimed that where direct sales of enterprises were concerned all Slovaks would potentially be able to buy. In actual fact management
and directors have far more opportunities to profit from direct enterprise sales than employees or citizens without a connection to the firm.

Organisational Changes

Thus Kreslo's management team, now also the new owners, were able to make and endorse the organisational changes thought necessary to improve company success. Actual organisational structure had, indeed, become more streamlined with fewer departments, mostly achieved through the amalgamation of some functions under main departments, as shown below. The four main departments were now Economics, Technology, Production and the Commerce department, which included marketing and sales. The senior managers of the four streamlined departments were also the directors of the new limited company, which was likened to the German GmbH (Gesellschaft mit beschränkter Haftung or limited company.).

As in many other former state run enterprises, the personnel function was reduced in importance and subordinated within another department. This was due to the powerful role of the personnel department under the previous regime, when it had busied itself with information gathering and cadre nominations. It was therefore stressed that the present four senior managers of each department dealt with the personnel matters of their respective departments individually. The secretaries of each department recorded illnesses, absences and holidays for each employee in that particular department.
Production, Markets and Investments

Production, that is method, equipment and products had remained more or less the same, with a change only in the upholstered furniture. Foreign export was aimed at Germany, France and Switzerland and had reached about 50% of all production. This is similar to the level achieved at the first interview with the exception of Holland as an export destination. The other 50% went to the domestic Slovak market. Many foreign firms were interested in Kreslo's products but were always pushing the price lower. Occasionally Kreslo still managed to export to the former Soviet Union through old contacts which they had maintained along with contacts to the former enterprises of the Vhj. In fact, with respect to old contacts and networks, it was noted nothing had really changed.

The Scandinavian firm had bought new production rooms since 1993 and had imported 400 million Slovak crowns (approximately £100,000) worth of machinery from Italy and indeed were attracting some of the employees from Kreslo. With increased competition, it was felt possible that wages and working conditions within Kreslo would be improved in the near future to cope with this competition.
Management Buy-Out - 4 Managing Directors represent management ownership interest in firm and are also senior managers of each department described below.

General Manager

Production
Senior Manager
Branch Production + distribution
Centre- computation + assembly
Centre- upholstered production
Centre- construction of worked pieces
Branch- PP, PO-CO
Branch- legal + personnel

Economics
Senior Manager
Branch- finance, taxation and accounts
Branch- wages + bookkeeping
Branch- formulation prices, calculation, rationalisation, consumption of materials + work
Branch- (ASR) regulation of statistics of provisions

Commerce
Senior Manager
Branch- Sales + marketing for export
Branch- sales + marketing (DT) advertising
Branch- (MTZ) construction cooperation
Branch- small commercial sales

Technology
Senior Manager
Branch- technology, development + construction of furniture
Branch- realisation of custom made production
Branch- management + control (inspection) activity
Branch- Investment, technical services + maintenance
Branch- care of surroundings + environment

Source: Original S. Byagte from interview data 28/7/94
This differs from the Czech example given previously where due to a lack of unemployment, poor skills, wage controls and competition from new companies, the company had problems finding employees of good calibre in certain areas. In Slovakia, by contrast, it would appear that despite greater unemployment, the problem of a lack of an appropriately skilled or motivated workforce had not been solved. However, Kreslo now had no more money for machines and had to spend what remained on materials. In addition they had the problem of outstanding debts still to be honoured by Slovak firms. The general manager saw some firms as simply functioning with no intention of paying for goods but usually the problem was one of bankruptcy.

Generally it was hoped that if management continued to make good in sales they would be able to invest in new machinery and would be able to pay off loans. It was also noted that competition was increasing rapidly in this sector.

**Personnel**

The foreign buy out of half of the old state owned Kreslo enterprise had indeed gone ahead but the firm had not taken on 300 employees from the available labour pool. Only 80 had gone over to the new company and another 40 from outwith the former complex had been taken on. Kreslo in turn had cut down drastically on staff and by July/August of 1993 employed only approximately half of the original number, that is 350 people out of the original 760, minus the 80 employees who had gone over to the foreign company. The technology department had been especially reduced with about 50% of its staff being released from employment. The main criteria for dismissal had
been inadequate motivation and attention to work or lack of skills. It was stressed that it had been a difficult decision and in the main good Majstr, (the Slovak and indeed Czech Republics follow the German tradition of having master craftsmen as supervisors, the Slovak name itself comes from the German Meister or master), 'technologists', and managers had been favoured over other groups. Generally greater numbers of people working in administration and production had been released from employment. All former managers, however, had remained. This was reported as having resulted in very low morale, and indeed observation at the factory in general and interactions gave evidence to feelings of strong suspicion and resentment on the part of employees with regards to management and new owners. The general manager reported the disappearance of all of the former community feeling in the factory and described the differentiation between managers and employees had increased with management, now proud new owners, generally behaving rather autocratically.

No new skills had been acquired by management since the last interview although it had, at the time of the first interview, been expressed as one of the prime areas of concern. The deputy sales manager, Miroslav, had completed the training course in human resource management in Japan as planned the year before. After his return to the firm, personnel problems caused him to leave and he was now working in abroad. The personnel problems were reported as being jealousy from the senior managers and owners, to the degree that his functioning within the firm was made impossible. Thus the one area where the skills base had been improved had not been capitalised on.
Motivation and Enterprise Culture

Wages had increased and working conditions had improved, but only marginally and the planned improvements in health and environmental conditions of employees had also improved much less than planned. Motivation was not being raised as management as a whole had previously hoped, as a result of better wages and working conditions and a desire for the company to succeed, but rather out of fear. Unemployment in the small town stood at 10-15% and there was little else around the town, in terms of industries, services and urban settlements which could provide alternative work. In fact the only other option was agriculture and as a result employees were working relatively well despite low morale.

In fact the General Manager noted that the workforce was indeed secretly very angry with management over dishonoured promises and the way the firm had been acquired over their heads. The enterprise culture had changed remarkably with suppressed hostility and sombre mood amongst employees, especially in dealings with management, being quite obvious on visiting the factory.

Indeed the General Manager, one of the management buy out team, was quoted as saying:

"Die Arbeiter hier arbeiten wie Sklaven und Management benimmt sich wie Königen."\(^{15}\)

("Workers here work like slaves and the management behave like kings.")
He predicted the firm could be worth almost 1000 million Slovak Crowns (almost £2500 000) in five years time, and would belong to seven people, himself included, who had never really paid for the firm out of their personnel wealth, but rather had used the sales produced by employees to service and pay back government loans on a buy out capital of 120 000 Slovak Crowns. This arrangement had been the sole means of differentiation between management and employees and the formally legitimised process by which management had achieved ownership status.

**Future Problems**

The main condition of the survival of the firm was continued sales which would allow the settling of loans and the investment in new machinery. The environmental problems were also still of concern due to the emissions of gas and sound, however, given the concern of the first interview and the lack of change by the second, it would suggest that this was deemed less pressing by the rest of the management team given the machinery and debt repayment needs, in order to secure their ownership. One area, however, where an overlap of interests would seem to occur was in the replacement of the heating system which was deemed uneconomical. The issue of energy generally would have to be tackled. Lastly there was a concern over attracting the best personnel given the growing competition in the town. There was an awareness that in some respects and for some employees, wages and conditions would have to improve.
Analysis: Centre-Locality Issues and the Question of Legitimacy in Ownership and Control

Jozef was still managing director and had been part of the initial management reorganisation plan and buy out project, and was thus still set to benefit ultimately from the process. However, his misgivings and concern over new management (and enterprise) culture and practice were serious enough to override his own potential personnel gain. Indeed, he felt so strongly about the experience of the two years that he was convinced that voucher privatisation was 'morally' superior to direct sales for reasons already outlined above. This attitude, of course, raises the issue of legitimacy, but initially it is necessary to examine the evidence in order to cross-reference this interpretation.

Included in the analysis must be both firm specific factors and evidence from the examination of other cases in this study and the evidence from studies of the macro-level situation. The firm specific factors relate to personnel, motivation, capital and investment funding, sources and acquisition, training and health and environmental improvement plans, organisational restructuring and product and market strategy, the lack of willingness of management to be interviewed and lastly the author's independent observations. On the wider level the author's analysis of other case studies in the same sector across both the Czech and Slovak Republics as well as general findings on the effect of privatisation on management behaviour across the two countries would suggest that the criticisms of the general manager of Kreslo were of some validity. These factors need to be looked at individually.
Relating to personnel and the skills profile, the only member of the management team with a high degree of fluency in English, experience of working practice in both American and Japanese firms and market economy environments, and the only member to increase his knowledge of new appropriate skills since the first interview had met with hostility and a lack of co-operation on his return to the company. This, in turn, encouraged him to leave the firm and subsequently to return to employment abroad. No other changes had occurred at management level in terms of a change in personnel or the improvement of the skills portfolio offered by senior management to the advantage of the firm.

As far as concerns the capital and investment funding and sources, there was an overlap with the personnel considerations. Neither entrepreneurial skills nor adequate capital had justified this take-over of ownership. In effect the privatisation process of direct sale had enabled legitimisation of a partial resolution of a centre-locality relationship without truly benefiting either the locality itself (given the lack of employee participation in the ownership and control process and the degree of resulting unemployment), nor the entity of the firm itself (no superior knowledge or funding had accrued to the firm as a result). By the time of the second interview there were 350 employees in the firm who produced the profit with which the loan for the purchase of the firm by management was serviced and paid off, as well as loans for investment. Management had limited personnel money for investment and limited skills and yet by their superior position and contacts had been able to secure ownership from the central state for a narrow elite within the locality. The main advantage of their superior position was the ability to capitalise on opportunities open
to them alone to use contacts from the old extended networks within the former Vhj, ministries and central and local state apparatus and also to use new institutional networks which still function upon old lines. Ultimately, once the government loan was paid in five years time, the firm, given its continuing rate of reported sales and profit, would have appreciated significantly in value and would effectively belong to only seven owners with a major stake out of the original 760 employees. The initial management privatisation plan had also involved another twelve minor investors working in the company but not in management, however, the consolidated dual control of seven major investors who also shared senior management positions and four of whom were also managing directors created a situation of a controlling majority by seven individuals in both ownership and control terms.

The number of employees had been reduced more drastically than originally forecast and indeed any previous commitment to 'social' obligations, the eventual re-employment of some employees and an improvement in workforce training the development of positive and more effective motivational factors (for example improvements in health and safety conditions, environmental upgrading and indeed regarding stricter supervision and guidance by supervisors and lower management) were now completely absent, and no attempt in the past year had been made to enact them. The organisational structure had indeed been reformed and streamlined but was also used as a means, along with the personnel overlap, by which ultimate control of the management structure by new owners was reinforced. The share of production being exported had not significantly increased, although the domestic market demand had improved. No clear market strategy had been developed to cope with the rising
competition. Lastly no explanation had been given to the firm generally, and there appeared to be no necessity to inform central authority of the changes in the originally stated privatisation plan. In addition none of the other members of the management team would communicate in any form with the author on this or other issues, in marked contrast to the initial survey of opinion.

The author's analysis of the firm is a result of the author's direct observations in this particular firm and the differences in facts and descriptions of intentions between the first interview and the actual occurrences by the second. By the second interview the atmosphere and interaction between managers and employees had visibly changed due to the experience under the new management buy out scheme.

**Culture Change and the Inheritance of Past Value Systems**

It is also interesting to note the change in Kreslo's management approach to the feared exploitation of the workforce by the foreign firm stated in the first interview. By the second interview, this concern had been abandoned and instead Kreslo was considering potential ways to prevent the loss of scarce highly skilled employees to the foreign firm. The culture had changed from one of the guardian of social concern to one of a competing firm concerned over the poaching of its employees by a rival.

The observation of the changing management forecast for employment of the firm cannot be judged as intrinsically correct or incorrect given the lack of figures and data available and the completely unprecedented situation. What it does suggest is that the value systems of the managers on purchase with regards to certain aspects of past inheritance where no self-interest was attached were swept away. Where past
inheritance served self-interest, be it local government, ministerial or inter-enterprise contacts and the self-protectionist approach to management personnel, their skills profile and approaches to finance, the values were maintained. Indeed the approach to the financial sources were similar to the bargaining entered into by enterprises with the central state under the old system. Previously firms bartered, unofficially of course, for increased investments and lower production targets. Here management's original privatisation plan was made attractive to central government in the terms outlined above of personnel and strategy and in terms of personal and bank funding. None of this materialised in the end, and indeed government was relied upon for the capital loan for purchase.

Privatisation, Centre-Locality and Legitimacy of Ownership and Control

Although one of the advantages of direct sales to management is the opportunity for domestic entrepreneurial investors to develop their skills and for the country to capitalise on the skills and knowledge already available in firms, their are problems. Both the advantages and disadvantages have been discussed by Schmoegnerová (1992) and (1993)\textsuperscript{16}.

In general, the experience of privatisation in the Czech and Slovak Republics suggest that direct sale has given rise to opportunities for management to use their superior knowledge position to their own financial advantage. Management in some cases have either asset stripped the firm to their own short term financial advantage, or have used this technique prior to the beginning of the privatisation process in order to be able to buy the firm at a lower value at privatisation. In other cases lower firm evaluations
have been secured by specific proposed privatisation plans on the basis of contacts alone.

In Kreslo there was a need for management to establish their identity as owners and authority as managers over employees. As shown above this was not justified by improved skills on the part of the managers, or indeed by any market management skills, nor by sources of funding. The centre-locality tensions, expressed in the past as state versus enterprise/locality tensions, were now dissolved by direct sale into a crisis of legitimacy in ownership and control. In some ways control had still not been wrested from the centre as they were the prime source of loan funding. How this relationship would develop further and how it would affect firm functioning is still unclear at this point in time due to the early stages of the relationship.

By contrast in Dřevodělný the centre-locality conflict had been converted into a devolved the control crises between ownership and management. However, there are important similarities. Firstly it is the centre-locality conflict in both and the need for restructuring in order to survive in a new market environment that has provoked privatisation. Secondly, the failure of either approach to properly ensure an appropriate and efficient restructuring can be observed. This failure is not only at management and firm level, but also reflected in macro-economic planning and local and central state functioning. Lastly the influence of past value systems and cultures inform present behaviour regardless of significant political and economic changes.

In Dřevodělný managers referred to the 19th century capitalist mentality of owners. In Kreslo, the general manager referred to a management acting in a similarly authoritarian vein. The perception of ownership in both firms seems to have been
informed by the previous regime's often rather simplistic interpretation of Marxist analysis of capitalism in the last century and applied to the present day capitalist system without adjustment. In addition the authoritarian/paternalistic nature of management in the past has informed a behaviour of control according to rank differentiation, rather than leadership by virtue of leadership by confidence, superior and appropriate skills or entrepreneurial experience and source of funding. It appears in both examples that at the end of the privatisation process, it is the state of owning that is considered to be the real sign of success, rather than what is done with that ownership, even in the case of a management buy out. Ultimately his limits the enthusiasm for restructuring. In the Slovakian case study, the fact that the government is the main creditor, would suggest the reinvention of the 'soft budget constraint' as referred to by Kornai, and the possibly tentative approach to any potential bankruptcy proceedings. Similar effects have been observed elsewhere\textsuperscript{17}.

What it also significant in this particular case study, is the fact that it is not former senior management (i.e. from the previous regime) which is availing itself of the techniques described above but the former regime's middle and lower management, who had become senior management after the revolution of 1989. The new senior management has taken on and perpetuated the inherited socio-economic culture of former enterprise management behaviour, as discussed in Chapter Five. There is a parallel here with the political developments in Slovakia and its interaction with macro- and micro-economic policy.
Conclusion

The fact that management are in a better position to gain potentially from direct sale privatisation (for example, by reducing company value before privatisation and thereby securing a cheaper buy-out, or indeed to reduce value in book terms alone to the same ends or to use their old firm-locality-centre networks, to bargain for privatisation projects to their own advantage), or to asset strip before voucher privatisation or direct sale to an investor outside the management, reoccurs not only in the case studies looked at by this author but also in numerous other reported examples and has been commented on by other authors (McDermott [1994], Myant [1993], Schmoegnerová [1992], [1993]). Indeed Myant has suggested that if employees had been given a greater role to play in privatisation some of excesses of managerial profiteering could have been avoided. A consequence of this could have been greater legitimacy not only of management and the process of restructuring and privatisation within the firm but also outwith. Perhaps ultimately such legitimisation would also have informed the debate regarding civil society, decentralisation of state institutions and political control, as discussed between President Havel and Prime Minister Václav Klaus during 1994. These two separate positions have resulted in political divisions between advocates of civil society (Havel) and advocates of a more narrow interpretation of liberal democracy (Klaus) in the Czech Republic. This carries implications for the evolution of an appropriate model of market economy in the two republics.

In Slovakia specifically, the optimism over independence at the time of the first interview was to disappear rapidly on the political level, as the initial euphoria of
independence from the Czech Republic paled and political instability and renewed economic problems began. On the social level, the economic hardship resulting from the many closures of firms, affected the trust of many employees in firm management and the promises of various political factions also affected the mood of the country. The numerous problems at the political level with the privatisation process in Slovakia and the macro-economic policy, resulting in a damaging stop-go process of privatisation and the identification of certain privatisation forms with certain politicians, has already been discussed (see Chapter Six). This emerging clientelism also carries implications both for both the privatisation process itself and the emerging political order. The final chapter will raise certain interesting points from the questionnaire data pertinent to the question of the ability of privatisation to engender restructuring, it will also link the general findings to the question of corporate governance.
Kreslo is a pseudonym for the company as anonymity was promised all interviewees and is the Slovak for armchair, appropriate for this company as it produced upholstered furniture as well as exclusively wooden products.

For a short discussion of the Vhj structure in the former Czechoslovakia, see section entitled 'Organisational Structure' in Chapter Four 'Ownership and Control Issues in the Czech Republic: the Case Study'. For a more detailed discussion, see:


RYCHETNIK, LUDEK (1992) op cit., p.113.


VÁCHA, V. (1978) op cit.


MAJETIKA, J (1988) in Hospodářské noviny, No. 26, 1 July.


and interview data gathered by author 1993.

KRESLO interview by author, Slovakia 9/4/93.

ibid.

LEGAL ADVISOR, Interview by author with Kreslo, Slovakia 9th April 1993.


BYGATE, SIOBHAN Unpublished Master of Philosophy thesis 'The Integration of Environmental Policy into the Economic and Political Agendas of East/Central Europe'. Submitted 30/9/92. The Institute of Soviet and East European Studies, Glasgow University.

KRESLO interview by author with general manager 28/7/94.


McDERMOTT, GERALD A. (Spetember 1994) *op cit.*, and


PEHE, JIRI (30/1/95) *op cit.*
Chapter Nine

Comparative Issues in Organisational Change (and Economic Transition) in Eastern Germany; a general resume of the case studies

Introduction
Despite the initial obvious differences between the east German and Czechoslovakian (latterly the Czech and Slovak Republics') transformation, both economic and political, a comparative study of these areas highlights similarities as well as differences. It is interesting that a study of organisational change in former state enterprises undergoing privatisation or having been privatised in all three countries highlights a first level of functional similarities, such as the obvious lack of knowledge of the market economy environment, sales and marketing, and so on, but there is also a second level of similarities in the form of inherited and adaptive networks in the Czech and Slovak Republics, and deleted and transferred networks in east Germany.

Chapter Outline
The chapter will first of all discuss issues linked to organisational change and the external environment. Subsequently the chapter will look at the details of the operation of the Treuhandanstalt (THA), the aims of privatisation in East Germany and its outcomes, the political and social unrest resulting from this strategy and the attempts to temper these effects. The difficulties and implications for East German firms (state-owned or privately owned, usually through MBOs) are discussed generally and by means of the chosen case studies, both of which reveal the influence
of old networks on firms attempting to adapt to the new market situation and the
constraining influence of new transferred networks on that attempted adaptation.

Organisational Change Issues and the External Environment

The type and success of organisational changes carried out in former state enterprises
depend as much on the external environment and the chosen (or aimed for) corporate
governance model as they do on the individual characters within the firm. For eastern
Germany, unlike other countries, there was a ready-made system for transplantation
waiting in the wings. The West German corporate governance, economic and political
models were deemed an end-state from the beginning and as the process of
transformation. This, one may call, the ultimate teleological approach. Within this it is
important to note that political choices influenced economic transformation policies in
spite of economic rationale: political pressure for reunification, political and social
pressure for currency reunification; promises of West German consumption and
wealth levels and political prestige for West Germany. Initially it was believed that
privatisation of East Germany alone would compensate for costs of transformation to
West Germany. An East German group, Neues Forum, represented by, among other
writers and notables, Christa Wolf, did call for the maintenance of East Germany as a
distinct area to protect its heritage and economy, but events overtook this movement
and no such attempt was made. Thus predominantly political choices, as opposed to
economic rationale, influenced the style and pace of transformation. Many prominent
persons, however, both East and West, such as the West German writer, Günter Grass,
have continued to criticise the purely political rationale for early reunification as the
root cause of the increasing malaise which tolerates the numerous Treuhand scandals 'like petty offences', and which reduces the 'expropriation' of the East to the West into social estrangement and massive unemployment. Scandals were not only limited to the THA but also surrounded such issues as the diverting of investment money bound for the East into western developers' hands. In addition by 1993 hidden unemployment was already estimated to be as high as 30% of the workforce and was set to increase.

Pickel (1993) cites East Germany as a special example of the consequences of shock therapy with external actors dominating all the processes. Therefore, the domestic process of institutional building from the ground up, the construction of market mechanisms and choice of form of regulation and its implementation was unnecessary, as it was all imported wholesale. The cost to East Germany of not having to make these decisions was the literal deletion of GDR heritage and history. This included the deletion of independent and indigenous local economic base (Koch and Thomas 1997) and the destruction of endogenous potential (Hoffman 1993; Matzner et al. 1992) caused by a number of measures including; price rises, currency conversion, collapse of eastern markets, liberalisation (flooding of East Germany with western goods of better quality, initially greater cachet and more readily available), and trade union pressure for equal wage levels, despite low productivity. All this meant that East German firms could not compete with the West. In addition, whereas, in the Czech Republic industry experienced restructuring towards Western industrial structure, the East German industrial structure, notwithstanding differences in basic ideology and economic systems, was already similar to the West German one at the
beginning of 1989. Economic transformation actually caused the structure to differ. Thus the construction sector increased under transformation to a greater role in the East than in the West. In 1990 construction accounted for 18.1% of gross output from productive industry in East Germany. By 1994, due to infrastructure reconstruction, it had risen to 34.5%, while in West Germany the comparative figure was 7.3% for 1994. Similarly, chemicals, once a significant sector in East Germany has been reduced to an extremely low level. The gross output of chemicals compared with the total for all sectors was 4% in 1990, declining to 2.7% in 1994, compared to 10.8% in West Germany for 1994. Two consequences of this which raised concern were issues of social fall out from such drastic measures and the concern to retain political control and stability. Thus political priorities changed industrial sector structure and the economic climate which in turn affected the choice of privatisation strategy and design of the structure appropriate to carrying this out.

In this context it is interesting that although the Treuhandanstalt aimed to privatise, preferably to West German managers and entrepreneurs, it became involved with Sanierung or restructuring to a greater extent than the National Property Fund in Czechoslovakia (and subsequently in the two republics), with the government playing little role. On the other hand these policies were not part of an overall programme to build an eastern German economic base but to prevent social unrest. This is both different and similar to the Czechoslovakian situation. In both Czechoslovakia and Germany the government were less involved in privatisation then their respective privatisation organisations, the NPF (National Property Fund) and the THA. However, the THA strategy was administrative in nature as compared with the more
minimal form of involvement of the NPF which devolved the responsibility to the market. Therefore the role and nature of Treuhandanstalt as an organisation of economic transformation was more important in East Germany than the nature and role of NPF in Czechoslovakia.

**Treuhandanstalt- administrative privatisation**

The THA was created by the last GDR government prior to the first free elections in March 1990. Its portfolio was to transfer legally state enterprises into a form comparable with West German corporate law. The Treuhand organisation reflected the structure of the state-owned economy. The THA headquarters were located in East Berlin for large Kombinate (or industrial conglomerates, the equivalent of the Czechoslovakian Vhjs) and then distributed across the 14 district branches for the Volkseigene Betriebe. Another remarkable difference between most other East/Central European countries and East Germany which bears witness to the influence of external actors on the process is the rapid growth of investment levels in East Germany during the early 1990s, whereas elsewhere investment especially in the public sector initially collapsed. This was a result of West German investment in rebuilding the East German infrastructure.

Actual reunification occurred on 3rd October 1990, with the German Democratic Republic's accession to the Federal Republic of Germany, and currency reunification had taken place on 1 July 1990. The legal basis of the THA was revised on 17 June 1990 to enable it to sell state-owned property as its main task and it became responsible to the Finance Ministry. The organisational structure of the THA was
discussed in Autumn 1990 and revealed the great confusion as to how to proceed and indeed as to how many firms the THA actually possessed. The criteria for sales was set in order to check that West German buyers were actually interested in the firm, and not motivated by the desire to erase a potential competitor from the field or acquiring highly valuable real estate. The criteria therefore covered four areas; the investor's product development, marketing and finance plans; the amount of planned investment; the number of future jobs; and purchase price. A board, called a Leitungsausschuss, was appointed to assess each application and included 4 top West German managers and 80 analysts.

Structure of the Treuhandanstalt.

The THA was organised into departments around industrial sectors. Later in August 1990 it was reorganised into either Privatisation or Sanierung departments. There was a fear that under the old structure departments might identify with industrial sectors and attempt to preserve them, (especially as they ran along the lines of the old Kombinate). However, this new structure proved untenable as each department had to deal with about 2000 firms. Restructuring especially proved too complicated to carry out without sectoral knowledge. Therefore a new divisional structure was reintroduced according to industrial sectors. This, in effect, was a revision to the former model.
Aims of Privatisation- Ownership, Control and Restructuring

Aims

There were two basic aims initially. Firstly privatisation was used not only for transferral of property to private ownership as an aim in itself and to encourage restructuring and to improve efficiency (as in Czechoslovakia), coined by Kern and Sabel (1992) as the 'concept of restructuring through competition and market' or 'auction market privatisation' ('Auktionsmarkt-Privatisierung'), but also to ensure sale to West German managers/proprietors in order for firms to benefit further from management skills such as marketing know-how, finance, investment, technological know-how, product knowledge etc., coined as the 'concept of reorganisation through powerful company groupings' or the 'big groupings model' ('Grossgruppenmodell'). It was believed that this would reinforce restructuring attempts. Indeed Birgit Breuel, head of the THA from 1990 to 1994, claimed:

'We always say we are not just selling firms, we are also buying something for them. We are buying management, we are buying technology, we are buying capital, and probably more important, we are buying a market share'.

Secondly, the authorities assumed they would be able to finance the costs of transformation to the West German state by using the estimated profit of DM 500 billion from privatisation. However, the harsh economic conditions after currency reunification caused a massive drop in value of East German firms. It became obvious
by Autumn 1990 that most firms could not be sold profitably. Ultimately a debt of DM 260 or 270 billion arose from THA privatisation activities\(^\text{12}\).

**Outcomes**

The types of ownership actually achieved remained in line with the original aims of the THA.

On 1st July 1990 the Treuhandanstalt possessed 12,132 firms and 4 million employees but by 31st December 1994, 97% of its portfolio had been sold to private owners or reprivatised and transferred to municipalities or liquidated\(^\text{13}\). It is interesting to note the types of ownership in broad percentages given the above aims.

By 1993, 80% had been sold to West German managers and 20% to indigenous (i.e. East German) MBOs\(^\text{14}\).

Most importantly for the following discussion about endogenous entrepreneurs and economic potential, Kombinate had been broken up and Research and Development departments hived off and privatised separately. The main aim was to improve individual firm micro-efficiency, by hiving off unproductive units, in order to attract West German investment. This overriding aim proved a greater priority than the health of the regional economies of the former GDR. As a consequence of this approach, and because many firms within the Kombinat were involved in incomplete production processes, surviving East German found enormous difficulties, in finding and producing for appropriate alternative markets for goods.
Political and Social Unrest- temporary adaptation of governance

Due to the political need to control social unrest, Sanierung initiatives began to figure as part of THA activity. Birgit Breuel, president of the THA made a speech in November 1991, where she acknowledged the real possibility of deindustrialisation.\(^5\) There was real fear that the trade unions and Laender governments may form a united political opposition to economic reform. However, the concept of how to maintain the industrial core regions (as referred to by Breuel), remained unclear and resulted in only limited policy measures. Indeed the external economic and political environment left little option for adapting the THA role and privatisation process. Although a policy change was formalised in June 1993 with regard to THA tasks and strategy, the main strength of the THA, as Seibel points out, was to voice concerns in order to prevent a political backlash:

>This achievement was made possible by the Treuhandanstalt’s institutional status as an independent federal agency and its step-by-step differentiation in a rigid centre with a flexible periphery, a process that gradually developed after crisis-like phases. In this way, the Treuhandanstalt balanced out not only the political dilemmas of the drastically accelerated privatization process but also the tension between the short-term task of privatization and the long-term process of economic structural transformation.\(^6\)

The limited policy measures taken were as follows. Firstly better information explaining the reasons for closures was made available and meetings with economic
players in the localities were undertaken. This was in response to incidents such as those around Schwerin, where workers and trade unions briefly began opposing closures, and in the East German potassium mining sector in 1993 where employees organised sit-ins and hunger strikes lasting into 1994. Two further policy measures were THA led: the MBOs (Management Buy Outs) and the MKGs (Management Kommanditgesellschaften). The innovation of the Land of Saxony ATLAS (Ausgewählte Treuhandbetriebe von der Landesregierung angemeldet zur Sanierung) model was, however, the result of regional pressure which the THA, under political pressure, had to cede to. Indeed Geppert and Kachel (1995) describe these attempts as '(passive) Sanierung' and divide the development of the THA policy into 3 phases: quick privatisation through sale (until the beginning of 1991; privatisation and complementary restructuring (until the beginning of 1992); and the phase of 'restructuring accompaniment and restructuring co-operation with the federal (Land) governments'.

MBOs, MKGs and Saxon Atlas Model Initiative

The MKG - Management Kommanditgesellschaften

The MKG were formed from the Spring 1992 onwards to restructure and ensure eventual sale of individual firms rather than the industry of a particular region or industrial sector. An experienced West German manager directed each holding and received an additional premium if privatisation was a success while the THA owned and supplied capital resources. This initiative was exceptional in that it was the one of the few instances where the THA became involved in restructuring before sale. The
fact that in 1992, only 10% of the Treuhand firms were destined for the MKG status also emphasises the limited nature of the initiative.20

*ATLAS model*

The ATLAS (Ausgewählte Treuhandbetriebe von der Landesregierung angemeldet zur Sanierung or 'selected THA businesses registered by the Land government for reconstruction'), model was not an initiative of the THA but rather of the Land government of Saxony. Here a district attempted to control THA activity by influencing the process and form of privatisation (and restructuring). The THA only accepted this local initiative under political pressure in April 1992. Under this agreement the Land government earmarked THA enterprises which it deemed important for the region. The Land government then subsidised these firms (with federal funds given for improvement of regional economic structure), and the THA closely supervised them. The co-ordinating mechanism consisted of a non-profit organisation with two managing directors; one nominated by the trade unions and the other by the employers' association. Seibel calls this an 'attempt to make firms competitive in a corporatist style'.22

The advantages and disadvantages of both models are interesting when one regards the concept of deleted, imposed and adaptive networks. The MKGs model ignored existing networks of suppliers and customers as the THA was fearful of the propagation of networks from the old Kombinats. However, firms found it difficult to become competitive without capable and appropriate networks of suppliers, customers and services. This will be discussed in greater detail for East German firms.
generally in a moment. This weakness of the MKG mirrored exactly the very strength of the ATLAS model, which concentrated on a regional inter-related industry approach. However, the drawback, as outlined by Seibel (1997) was that:

'the interests of existing production sites and existing jobs were dominant, thereby limiting the innovation of products and industrial organization.'

**MBOs**

The fact that the THA believed only Western management experience could restructure East German enterprises and make a success of them meant that this strategy effectively excluded East Germany from the whole privatisation process. The MBOs which did occur were almost the only example of privatisation from below in East Germany and were concentrated in small and medium-sized enterprises and parts of enterprises. These were not the result of a centrally initiated strategy by the THA but a strategy which evolved out of the regional subsidiaries of the THA in response to concerns about unemployment and deindustrialisation. Carlin (1994) points out that not only did the THA not encourage MBOs, as they were not expected to survive for long, but in addition banks and funds were unwilling to provide external finance to MBOs. This is confirmed by interviews carried out by the author of this thesis. As with the other initiatives, MBOs only formed a fraction of privatisation initiatives, by 1993, 20% of all privatisations. By 1994, 2,400 MBOs had been successful, which constituted just under one fifth of the total number of sales of enterprises or parts of enterprises. Two thirds of MBOs were small firms of less than 50 employees, 6
MBOs were between 500 and 1000 employees and 45% were concentrated in manufacturing.

**Difficulties of East German Initiatives**

It is in the context of East German initiatives that the problems of old networks between suppliers and producers became obvious. These problems were reinforced by the difficulty of breaking into Western associations. Fleischer (1996) points out that a number of environmental conditions caused significant problems for small- and medium-sized East German firms in establishing new markets. Many of these problems relate to changes in business organisations in West Germany which, after unification automatically became part of the business environment in East Germany. The rest of the problems were part of the transformation process carried out in East Germany and a result of its inheritance.

The main elements in the changing West German business environment are as follows: Firstly, *internationalisation* favours large-scale enterprises. Secondly, German *research and development* facilities in large firms tend to be located increasingly outside Germany (in order to make the most of technological innovations as quickly as possible) and tend to be founded between large competitors in 'strategic alliances'. Fleischer (1996) cites the example of Siemens in this context. These external conditions make it very difficult for small firms to compete, especially as Research and Development can be a very costly undertaking. Thirdly, a further development is the trend of the passing on of costs by final producers to suppliers, causing rationalisation and further cost cutting among suppliers. Thus the nature of
the networks between supplier and producer are changing in a mature market economy. Thus within such a competitive and tightly integrated market environment the only chance for a newcomer is to produce innovations in order to corner at least a section of the market. Fourthly, under the German system there are certain special taxes incumbent on the newcomer, such as auditing costs, stock control costs, and 'shelf money'. Thus not only the legal system of West Germany relating to business fell upon East Germany, but also the West German business networks and the evolving nature of those networks.

Therefore, in many cases, the changing business environment of West Germany, rather than alleviate the situation, compounded further the problems already experienced by East German firms as a result of their domestic economic inheritance and as a result of the transformation process

**Implications for East German Small- and Medium-Sized Firms**

As large-scale East German enterprises began to decline after 1989, so too did the opportunities, particularly for medium-sized firms to maintain supply links with customers. In addition West German enterprises could satisfy almost every East German demand and therefore medium-sized indigenous enterprises had little possibility of finding replacement customers. Furthermore West German firms brought with them their own settled supply networks, as noted above, and also established distribution systems. Fleischer (1996) points out that as wholesale chains dominate the modern retail business and much of this was organised across regions, this meant that there were even fewer openings for East German enterprises both for
entry into the supply chain or as regional players in either supply or production of finished retail goods. The only option was to be able to offer innovative products or services and/or low prices.

However, there were two major problems with this option. Firstly, cost competition came from the other East/Central European countries and, secondly, the lack of access to maintenance and development of research and development facilities during privatisation meant that even offering innovative products and services was difficult. The lack of maintenance and development of research and development facilities in East Germany were the result of inherited phenomena and the on-going privatisation policy. Most Kombinats included a number of enterprises and services under their umbrella, often with the Research and Development facilities serving all component parts. Thus the breaking up of the Kombinats under privatisation and separate sale of all parts meant that most enterprises were deprived of access to Research and Development facilities, unless they were prepared to contract them in separately at high cost. This was the very function required in order to reform product lines in old enterprises and aid new regional entrepreneurs to generate new products saleable in Western markets. Between the end of 1989 and the autumn of 1992, the number of researchers in East German industry dropped from 75,000 to 15,000 and this fall especially affected the industrial core sectors of the former GDR industry, such as electrical engineering (a loss of 90.8% of R and D capacity), the chemical industry (83.3%) and the machine-building industry (77.7%)\textsuperscript{22}. Indeed, Grabher states:
To what extent future economic potential was sacrificed for the sake of rapid privatization may be seen from the wanton destruction of the research and development facilities.33

The question is therefore how remaining East German firms coped with this situation. It would appear that as the difficulty of breaking into Western associations increased firms fell back on the old remnants of old networks of suppliers and producers, and outlets.

Case Studies

The two case studies chosen for this chapter are typical examples of East German firms undergoing restructuring since the Wende (the transformation or change of 1989). They do not each display every single characteristic outlined above but in the main are representative of the general problems reported both to this author in the conduct of interviews and by many other writers as already outlined in their research, and noted throughout the chapter.

Firm Dunkles was a small brewery with strong and well-known roots in the local area (established in 1887 by the grandfather of the present owner), and also recognised across the Land of Saxony as a quality producer of a traditional and well loved beer. The THA had allowed it to be partly privatised and partly restituted to the descendants of the original owners (from the 1 June 1990 onwards), who still lived in East Germany and had continued to be active in the brewing industry. These owners had initially had to buy a proportion of the firm (51%, covered by a loan of over
DM 1 million), not included in the restitution plan (49%), although since then they had successfully carried through a long term legal case to be recompensed by the state for this amount, which was finally achieved in December 1992. The brewery had previously held the status of 'Nebenbetrieb' (or supporting or branch enterprise) in the previous Kombinat and had then employed approximately 40 people, compared with the present 11. Production had been tied to beer and soft drinks at a level of 25,000 hectolitres, which was now limited to beer alone and had dropped significantly. Thus Firm Dunkles was a very small enterprise, which held problems and advantages for the new owners.

Firm Sessel was a furniture producer, again in the Land of Saxony, and was still in the possession of the THA, although management had put in an as yet unsuccessful bid for a Management Buy-Out proposal. This firm had formed an important part of the former Kombinat, being a leading firm out of nine other smaller firms within a radius of 50-60km. It had originally engaged 410 employees and was thus a medium-sized enterprise for the time. However, after restructuring and the closure or breaking off of the smaller surrounding firms, it now employed approximately 85 people.

Thus the problems and challenges for both these firms were typical of the small- and medium-sized new firms emerging from the old enterprises in East Germany. They shall be divided here along the lines of old and new network issues which have already been defined above as being of particular significance in the survival of such firms.
Old Networks

Both firms experienced problems associated with the breaking up of the old Kombinat structure and the replacement of functions previously carried out elsewhere. In addition there were problems inherited from the firms' previous status within the old structure. Thus both firms had to reproduce supply and distribution networks to replace the now defunct ones. In addition firm management had to begin new functions which had previously not existed, as with accountancy in Firm Dunkles. Over and above these individual functions overall management strategy and direction had to be learnt and out effectively by incumbent and/or new management, where no previous experience had been acquired due to the Ministry and Kombinat exercising these functions. For Firm Sessel, the former Kombinat's main enterprises had produced parts, which were then assembled in the smaller enterprises. Thus firm Sessel had had to learn and take over the complete production process. It had previously supplied foreign firms, especially in the West (such as IKEA), organised through the Ministry, but also firms in the Soviet Union. However, the market in the former Soviet Union had collapsed a year after the Wende, and all Western contacts had disappeared with the destruction of the former GDR authorities and structures. One advantageous inheritance of Firm Sessel was the relatively high quality of products and therefore the good operation of its research and development function, in comparison to other East German products. This was due to the nature of its previous production in the area of children's and youth products which had to reach certain safety standards for internal sale and export. Thus the firm was better able to produce new quality products compared to other East German firms. Firm Dunkles had the
advantage of inheriting a traditional name and product well appreciated in the area. However, its existence as a 'Nebenbetrieb' had meant a lack of investment in comparison to other branches of the Kombinat (in fact of all profits made under the previous regime 96% were returned to the Kombinat headquarters and only the remaining 4% was left to the firm for its own use). Thus the firm required substantial investment in machinery and infrastructure which had depreciated significantly under the previous regime. Although ultimately provided, the sourcing of a loan to these ends had been a major concern for the survival of the brewery, especially as the THA and most banks were not forthcoming in making loans to East German owners, due to lack of confidence in their management ability and lack of personal savings or possessions which could act as security.

New Networks

Both firms had to build up new contacts and outlets for supply and distribution, in different fashions according to size and type of products. The brewery found that West German breweries with a greater disposable income and with, for East German consumers initially at least, novel products, managed to secure tied houses amongst local inns by supplying them with funds for refurbishing in return for the exclusive sale of that beer. By contrast Firm Dunkles did not have the funds to set up similar outlet networks. However, once the initial novelty of 'West' beers had worn off, the local populace had returned in favourable numbers to the local beer, to the firm's advantage. To increase this potential the general management, in this case the owner-manager Herr Hahnemann and his wife, had employed a West German
marketing and company consultant to aid them in restructuring both the firm's departments, but also and more importantly, in improving the look, quality, and marketing of the product in line with European Union norms. To this end, the general manager, who also worked as one of the two head brewers, had begun investment in and improvement of machinery, buildings and production processes.

Firm Sessel, by contrast had to compete both with Polish and Czech wooden furniture and furnishing products at the lower end of the market and high quality products from the West, especially West Germany. It possessed no unique niche market as Firm Dunkles did. In addition 80% of all the distribution and sale of products in Germany is carried out mostly by established wholesalers and their networks. As Firm Sessel's outlets collapsed, they were forced to consider agreements with West German firms in order to secure sales. Thus Firm Sessel, had made an agreement to produce a well known West German firm's furniture model which was then distributed and sold by that firm. Indeed 75% of Firm Sessel's production was oriented to this activity and the remaining 25% of production was concerned with office and house and hotel interiors for the local market, for which the firm was building up its own distribution and sales network.

It is interesting to note that both firms described the problem of low 'Arbeitsmoral', while registering their sadness at having to carry out redundancies. Both firms recorded low attention spans and lack of exactness among their employees in carrying out important pieces of work, which often resulted in sizeable losses. Management felt that this was due to an inherited culture on the part of the employees who disassociated the firm's continuing success and survival from their own individual

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working practices, and thus ultimately their future continued employment. It was reported, however, that this was gradually improving with redundancies and market competition, although for management, this was still not quick enough.

**Deleted and Transferred Networks**

Thus the evidence of the case studies reinforces other research indicating deleted East German networks and the transference of established networks (loose and unofficial) from the West.

**Deleted**

The final chapter discusses the impossibility of separating organisational change from the external environment of economic transformation. Ultimately, neither macro-economic transformation, nor individual organisational restructuring and change can be relied upon in isolation to effect successful reform. Geppert (1996) has also discussed the importance of comprehending the social embeddedness of organisational change in the East German context as opposed to viewing organisational learning as a 'purely self-centred process'. Fleischer (1996) highlights the fact that little attention was paid to the need for a regional industrial environment, that is the need for a regional industrial policy, if not to protect the remnants of East German economic inheritance, to provide the conditions for new local entrepreneurial activity. Grabher (1997) more pointedly states that the cost reduction policy pursued by the THA in respect of separating off unproductive units from other units for privatisation, was:
'part and parcel of a strategy to isolate individual production plants by paralysing economic and social linkages with pre-existing production system. This strategy was expected to facilitate the privatisation of the GDR economy by enhancing the attractiveness of the plants for Western investors.'

Transferred

On a number of levels, however, West German investment also curtailed endogenous entrepreneurial potential growing out of former state enterprises or indeed newly founded ones. West German owners did indeed secure much needed investment in East Germany but in ways which do not portend well for the region's long-term economic development. Firstly, investment was concentrated in two regions, Berlin-Brandenburg (due to proximity to the new capital), and in Saxony (due to its strong industrial origins and industrial concentration). Secondly, initial investment reflected Western firms' market motivations—access to Eastern European markets, access to the European Union (for example for Austria and Switzerland) or widening of product markets (for example for American firms). Thus cost differentials (unlike other East/Central European countries), did not play a role. As a result corporations tended to establish new firms in East Germany but only 7.3% were for production purposes, and 78.7% were branch plants for distribution or representative functions. Furthermore, after this first stage of investment, economic changes across Europe challenged the THA and the German government's optimistic predictions of the second stage investment. Measures which had caused the deletion of old networks meant that the old GDR industry collapsed and thus there was no indigenous
established industry for capital-goods projects to supply in East Germany. Then again the collapse of trade with East/Central Europe after the 1 January 1991 meant that there was no entry point into Eastern Europe through the eastern part of Germany. In addition labour costs soared. Thus THA predictions of a second wave of investment commitments from the private sector in 1994 were confronted with West German investment stagnation and the stretching of investment projects over a much longer time span as investors began to withdraw from the region. Grabher estimates that taken together this reflected a drop in investment in 1993 by DM5 billion. Lastly, a transferred network phenomenon related to the factor of investment withdrawal was the collapse of burgeoning supply chains around these withdrawing firms, as the example of Mercedes-Benz proves, where around 60 supply firms were left isolated after Mercedes-Benz's withdrawal.

This latter phenomenon also spans the issue of transferred networks at another level. As described above, many West German firms brought with them their own networks but also used 'aggressive' tactics to target competitors. By Autumn 1993, even industrialists and Western managers of East German subsidiaries and foreign investors were claiming that big Western manufacturing firms were operating 'effective cartels' to prevent other entrants, the dumping of stocks of goods accumulated due to the recession in the West, and price slashing from the West (as well as the East). This resulted in serious barriers to production and sale of, for example, the first CFC-free fridge made by an east German firm. West German competitors mounted 'major trade barriers' including 'negative image', 'cartel agreements, price dumping, head hunting of staff and connections between
administration and industry', in order to prevent East German companies entering the market\textsuperscript{42}. When all of these measures failed to stop the CFC-free fridge production, they included similar fridges in their own production lines.

Similarly, Fleischer (1996) notes the example of Jenoptik as suffering difficulties breaking into markets even with innovative products for the same reasons of a 'high degree of stability of established delivery and supply networks' among West German firms\textsuperscript{43}. Loose networks exist naturally also exist in mature Western economies, into which other Western firms must break. However, for East German managers and firms the implications of the wholesale importation of such established networks into a region of deleted or reduced networks are notable for the severely destructive effect on the whole regional economy. Jenoptik, a descendent of the Karl Zeiss combine in Jena, developed innovative products and regional services but could not break through until it resorted to distribution partnerships with international groups.

It is important, however, to view the experience of West German investment also from the West German perspective. Two firms bought by Western investors in East Germany reported similar phenomena, both problems and opportunities of operating in the area. The furniture making company Firm Lichtbraun, in Dresden, and the brewery, Firm Flasche, in a small town in Saxony, both reported the opportunities arising from the lack of any challenging local competition, finance opportunities more readily open to them as Western manager/owners as well as problems with the THA, issues associated with the organisational and network inheritance from the past and the continuing linked problem of low 'Arbeitsmoral' (working morale). Brewery Flasche had been deprived of vital information regarding the viability of the firm prior
to purchase. It was actually classed as a category 6 firm, that is as economically
unviable, but according to management the THA was politically motivated to ensure
sale and so had suppressed certain documents testifying to this state of affairs. A legal
process had been threatened by the new owners/managers who had thereby managed
to free up an investment of DM 600,000, initially promised by the THA at purchase.
One of the general manager/owners complained that these practices in West Germany
were unthinkable, but that West Germans were not averse to using these practices
abroad, that is in East Germany, where they were politically expedient.
Both sets of buyers at Lichtbraun and Flasche were either general managers and/or
enterprise owners in West Germany, and involved in the same sectors as their new
firms, as well as various different manufacturing sectors. Thus both groups brought
with them knowledge of market systems, knowledge of the specific product market
and a series of ready made contacts and networks necessary to the efficient
functioning of the enterprise. External sourcing of finance was highly significant for
both firms, as they sourced this partly from the THA and partly from West German
banks. Personal investment appeared to be less important, especially as the new
owners/managers in firm Lichtbraun claimed that they would never have found the
opportunity to buy their own firm in West Germany.
Management at both Lichtbraun and Flasche expressed problems with 'Arbeitsmoral'.
Firm Lichtbraun felt that the technical ability of employees was as high in East as in
West Germany, but that less attention and dedication was paid to work in hand in East
Germany. Brewery Flasche felt this issue posed a greater problem, perhaps because of
the nature of its production process. One small mistake on a machine, in one instance,
had caused the writing off of a large consignment of beer which fell below presentation quality, the quantity recorded on the label was incorrect. Management found the workforce was uncomprehending as to why perfectly good beer had therefore to be thrown away. Indeed the workforce had suggested washing the beer bottles in warm water to remove the labels without giving consideration to the effect on the beer.

It is worth noting that while firm Lichtbraun displayed appreciation of the East German workforce, half the ownership/management of the brewery Flasche maintained a highly critical and indeed at times aggressive attitude to its East German employees. This perhaps was also the result of the brewery having been the centre of the old Kombinat in the past and consequently having inherited many old personnel networks strongly identified with the Ministry and indeed evidence of a strong Stasi (Staatssicherheit or state security police) presence in the town. Old networks were felt to be preventing the effective operation of the market. By contrast, firm Lichtbraun having purchased the main part of the old Kombinat, used former contacts within the old Kombinat (many of which were now MBOs) in order to capitalise on those personnel networks that worked efficiently and to Firm Lichtbraun's advantage in terms of supply of materials and parts.
Conclusion: Comparative Findings of Case Studies

The issues explored above broadly relate to two points: market networks and the role of institutional economics in Western market systems.

Networks

What is notable in the comparison of East Germany and the Czech and Slovak Republics is the important role of informal networks as an unofficial infrastructure for barter, necessary because of the particularly highly centralised nature of both planned economies.

Deleted indigenous networks in East Germany compare with reinvented or on-going adaptive networks (which may or may not be prone to stagnation) in the Czech and Slovak Republics. Stark claims the latter transformations resemble 'innovative adaptations that combine seemingly discrepant elements, or bricolage, more than architectural design', whereas the aim of privatisation in East Germany was the exclusion and thus deletion of such networks.

Indeed Kern and Sabel (1992) note that the 'Grossgruppen-Perspektive' (big grouping perspective) within the Treuhand believed:

'one could build up firms without taking into account any practical consideration of the industries or sectors concerned. In this view markets were structured by means of economic unions, standardisation agreements, agreements with authorities and above all through the activities of big economic groups- most private but some also public- the latter being most
associated with this by advocates of the 'big groupings' idea.46

However, in East Germany privatisation became an inadequate bolster between the political aims of West Germany and the social discontent in East Germany. Although certain remedial measures were taken, no concerted attempt was made to foster East German economic identity or inheritance, or indeed to encourage endogenous regional growth. Instead deleted networks were replaced by loose but sustained and established West German ones (Granovetter 1992). However, despite these criticisms of the West German strategy in East Germany it is important to remember that the political priorities of reunification were also real and pressing. Hornschild (1996) notes the impossibility of maintaining difference in payment levels between East and West due to potential problems of migration, and that therefore strict economic logic was inapplicable.

'Political expediency meant that longer-term isolation of east Germany through flexible exchange rates was not feasible. The whole adjustment process followed a path of political necessity while the economy had to find the best possible solutions under these circumstances.'47
Economic Institutional Building

In the Czech and Slovak Republics, the complete legal, institutional, political and economic system had to be built from the base with no guidelines. The choice of privatisation policy as a restructuring tool was a major part of this institutional building. This privatisation policy was devolved through the political process down to the population in the belief of the automatic regulatory nature of the market (Hayek 1944) and a belief in neo-classical economic theory⁴⁸.

In the final chapter of this thesis the author refers to the importance of understanding the loose network capital (Bourdieu [1986] and Granovetter [1992]) at work in established market economies when considering the aims of economic transformation in East/Central Europe. The experience of West German versus East German entrepreneurs and enterprises in East Germany offers a good context for this type of research, given the similarity in all other fields; that is the economic and political institutional and legal system transplantation to the east.

However, the viability and success of the privatisation process, the economic institutional and loose network transplantation still need to be ascertained by the political process across Germany. By the end of 1994, THA was abandoned and the Bundesanstalt fuer vereinigungsbedingte Sonderaufgaben (Federal Office for Special Tasks Related to Reunification or BVS) was set up to control contracts taken out by THA and the final stages of privatisation. The BVS claims that public funds are still needed to keep enterprises floating. The THA financial obligations (DM 100 billion) added to the THA loss of DM 250 billion and total public transfers of DM 848 billion between 1991 to 1995 produce a heavy toll on the German state. Thus from these
figures Hornschild (1996) surmises that East Germany is still far from being an independently viable region. There are not just problems of privatisation but also problems in industry, especially in the sectors of construction, catering and a generally weak competitive capacity. In other words the long-term effects of deindustrialisation of East Germany on future long-term economic health need yet to be ascertained. Similarly the problems in the sphere of economic institutional transference have yet to be fully manifested in terms of their social impact and effects, although already by 1994 political differences were beginning to emerge in the October 16th elections.

The 1994 business scandal in the united Germany involving a West German property magnate and investment into Leipzig reflects the growing need to reassess, assumptions about the ability of imposed macro-economic reform, and in the case of eastern Germany, a transferred institutional and micro-economic model, to produce a society of responsible economic actors and ethical codes within the market place. The failure of a well entrenched banking system, within a relatively stable institutional and economic framework to monitor business, as in the case of the scandal surrounding the West German property magnate, Jürgen Schneider and his involvement in Leipzig, has called into question the very legitimacy of this type of political system for the citizens (of the former GDR), only recently persuaded of its virtues:

"The phoney magnate may have disappeared with his millions, but the people who trusted him to rebuild their city out of the ruins of communism are left
with a collapse of confidence in the market economy itself'.

Indeed one of the firms interviewed by the author is still owed 85 000 DM by Schneider for the furnishing of a hotel.

Thus outstanding issues and problems of economic transference have been automatically transferred to the political and social arenas. Granovetter (1992) has called this fusion of networks and institutional building the intertwining of economic and non-economic motives', echoing his earlier emphasis on the important context of on-going social relations for economic activity (1985), and thus the implications for endogenous economic potential are clear.

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14 THA-ZENTRALES CONTROLLING (31/10/1993), Monatsinformationen der THA, 31
October.
16 SEIBEL, WOLFGANG (1997) op cit., p.300-301.
17 FLEISCHER, FRANK (1996) op cit., p.58.
18 GEPPERT, MIKE and KACHEL, PETRA (1995) 'Die Treuhandanstalt am Ende-historischer
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19 SEIBEL, WOLFGANG (1997) op cit., p.298.
20 ibid.
22 ibid.
23 SEIBEL, WOLFGANG (1997) op cit., p.299.
24 CARLIN, WENDY (1994) 'Privatisation and deindustrialization in East Germany', Chapter
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26 THA-ZENTRALES CONTROLLING (31/10/1993) op cit.
27 CARLIN, WENDY (1994) op cit., p.146.
28 ibid.
29 FLEISCHER, FRANK (1996), 'East Germany's New Firms', Chapter 3, in MYANT,
FLEISCHER, HORNISCH, VINTROVÁ, ZEMAN, SOUČEK (1996) op cit.
30 FLEISCHER, FRANK (1996) ibid., p.83.
31 FLEISCHER, FRANK (1996) ibid.
32 FLEISCHER, FRANK (1996) ibid., p.81.
33 INSTITUT für WIRTSCHAFTSFORSCHUNG (IWH) (1992) Kurzinformation, 7-8: 6-8, and
GRABBER, GERNOT (1997) 'Adaptation at the Cost of Adaptability? Restructuring the
Eastern German Regional Economy', Chapter 4, in GRABBER, GERNOT and STARK, DAVID (eds.)
34 GRABBER, GERNOT (1997) ibid.


GRABHER, GERNOT (1997) op cit., p.111.


GRABHER, GERNOT (1997) op cit., p.120.


DEMPSY, JUDY (10/5/94) 'Courting the Customer', in Financial Times. p.16.

FLEISCHER, FRANK (1996) 'East Germany's New Firms', Chapter 3 in MYANT, FLEISCHER, HORNBSCHILD, VINTROVÁ, ZEMAN, SOUČEK (1996) op cit., p.82.

FLEISCHER, FRANK (1996) ibid, p.90.


HORNBSCHILD, KURT (1996) 'East Germany's Way', Chapter 1, in MYANT, FLEISCHER, HORNBSCHILD, VINTROVÁ, ZEMAN, SOUČEK (1996) op cit. Table 1.6, p.13 calculated from figures in Bundesministerium für Wirtschaft (BfW) 1995b, p.27.


DEMPSY, JUDY (21/11/94) 'We're no pushover, politicians are told', in Financial Times. FT Survey Germany, p.3.

Property magnate, Jürgen Schneider, with the help of Deutsche Bank had invested heavily in Leipzig, in the territory of the former German Democratic Republic, without being credit-worthy and eventually absconded with grave consequences for the local economy.

Interview with Finn Lichtbraun.


Part IV
Chapter Ten
A Cross-Country Comparison of Organisational Change and the Ownership-Control Relationship in Evolving Corporate Governance Models; reflections and conclusions on the case studies and other research literature

The Revolution and the Present

"I think that the revolution stopped too early, that it was not finished, because I think that there was no movement, no clearing or cleaning of the country from the evil, from the communism......there is still this communist mafia everywhere."


Introduction
The arrangement of rights and duties with regard to the shareholders, owners, employees, managers, business practise and business culture generally in the environment of economic system change are highly significant when trying to assess how organisations effect restructuring for survival. Ownership patterns and institutional arrangements for the regulation of economic activity especially managerial and enterprise performance are important ingredients in the corporate governance system.

However, the analysis of the case study findings and the theoretical contributions, presented in the preceding chapters, highlight the inability of ownership change alone to effect organisational restructuring and indeed the constraints imposed on the process by this unique emphasis. What the theoretical and phenomenal analyses do profile, with regard to organisational restructuring, are the central issues requiring reform in order to achieve a permanent shift in management practise and organisational change. These areas are firstly in the functional sphere of management and organisational practise: finance and appropriate banking systems, the roles of
management and owners, their respective skills, experience and with regards to owners investment potential, personnel skills, legislative clarity, stability and enforceability; and secondly in the sphere of the underlying business culture or socio-economic issues: the centre-locality dichotomy (with the inherited firm-bureaucratic and firm-political networks), inherited inter-firm networks and the inherited industrial sector structure, and finally the cultural (social, political and economic) inheritance which influences business culture. This chapter aims to assess the major emerging components of economic activity and corporate governance in the countries under discussion which influence organisations and any attempt to effect organisational change.

**Chapter Outline**

This chapter will first of all assess the ownership patterns resulting from large-scale privatisation in the Czech Republic and in Slovakia and the resulting *constraints* on organisational change. Within this context the following areas will be looked at: IPF (Investment Privatisation Funds), ownership patterns, shareholder behaviour and corporate control, the role of the career manager, cross-ownership, banks and indebtedness, regulation of economic institutions and activity, capital and equity markets corporate control and restructuring, MBO and control networks, large-scale enterprises and financial sector privatisation, and lastly local government. A cross-country comparison of enterprise restructuring will then be drawn between the Czech and Slovak Republics on the one side and Eastern Germany on the other, in order to highlight the Czech and Slovak characteristics of organisational change.
Ownership Change: the effect on restructuring

In the field research conducted by the author in former state-owned companies in Czechoslovakia (and later in the two independent states), the new relationship of shareholders to firm management did little to effect restructuring of the firm and improve efficiency, as had been hoped when initially designed. What privatisation, especially voucher privatisation did create, in addition to the outstanding problems of restructuring and inefficiency mentioned above, was an unresolved relationship between two key stakeholders in terms of confused lines of ownership and control with often very different priorities informing the behaviour of the two parties. In other words an unclear corporate governance structure. This was not conducive to firm restructuring and successful survival.

The case studies reviewed for this study and particularly those examined in the relevant chapters display different aspects of the same problem relating to ownership and control. The configurations of motivated interests may vary: management may be motivated by a professional interest in firm survival and shareholders by contrast may be motivated by short-term trading interests with little firm or market specific knowledge for ensuring restructuring and securing long-term firm success (as in Dřevodělný in the Czech Republic, dealt with in Chapter Seven); alternatively the opposite may be true, especially in firms where former cadre managers managed to retain power and use their positional (for example old contact networks of suppliers or in the bureaucracy) and knowledge (of the firm and industry and local council contacts) advantage to their own benefit against less well informed and therefore powerless owners, be they the National Property Fund (prior to privatisation) or
shareholders (post privatisation). The latter information asymmetries (McDermott 1994) can have a number of outcomes. Firstly managers could asset strip prior to privatisation. Secondly, asset stripping and limited information supplied to central authorities could result in a lower book value for the firm, from which managers could then profit in any privatisation project proposed by them. This positional advantage combines with old local-central networks (firm- council- central authorities) which enable managers to continue the established bargaining process, in this instance for ownership in the place of reduced plan targets, as appears to have happened in Kreslo in the Slovak Republic. In these cases the potential for managerial abuse of positional power to obtain ownership has been legitimised by the privatisation process itself, whether voucher or direct sale. Although Management buy-outs have to compete with other privatisation projects, the above weighted opportunities for key personnel mean that such a sale does not always benefit a company. These variations occur throughout the Czech and Slovak Republics further enhanced by the different national macro-economic and political approaches post separation. Since separation Slovakia has relied to a greater extent on MBOs and Direct Sales as the preferred form of privatisation, with no second voucher privatisation wave occurring. These different economic and political approaches have begun to evolve different relationship patterns between ownership, control and restructuring.
The Czech Republic: Cross-Ownership, Shareholders and Capital Market

Corporate Control

IPF Ownership Pattern

This type of pattern occurs predominately in the Czech Republic (as a result of the first and second waves of voucher privatisation), although the basic problems are shared by IPF ownership patterns in the Slovak Republic which resulted from the first wave of privatisation.

The first type of scenario is that of short-term interested shareholders, most notably those represented by the IPFs. Although the Czechoslovakian government assumed that spontaneously arising IPFs would have a role in the privatisation process, they underestimated the degree of influence eventually held by them⁴. Indeed the wild success of the IPFs, particularly the independent IPFs, forced the government to pass hastily arranged regulatory legislation, which in fact has not proved to be very watertight. Kenway and Chlumský (July 1995) report that the government's original plan did not include IPFs and that their appearance occurred in the wake of an initiative taken by a gypsy family in a small town in Bohemia (Jihlava). This was then developed by the Harvard Group and adopted by other funds⁵.

IPF led ownership pattern is best depicted by the case study Dřevodělný, in Chapter Five. Ownership change has emphasised share distribution according to citizenship status which neither guaranteed any new sources of investment or an influx of new management skills. Investment was one of the major sources of the problems in Dřevodělný. Although voucher privatisation produced initially a very wide spread of ownership, the Investment Privatisation Fund linked with the regional bank, have
concentrated these shares into a single unit with little control being exerted by the original shareholders. Individual shareholders had little experience, information or organisational strength with which to oppose any major shareholder's decisions. This situation of share concentration was repeated across the Czech Republic with some important and unexpected outcomes.

Share Distribution and Concentration

Coffee (1996) and Claessens (1994, 3) have both assessed the extent and structure of IPF ownership and control. Coffee's table of average share ownership over 1,491 firms privatised in the two rounds of voucher privatisation is perhaps the clearest indication of major investors by class (see below). It would appear from this table that IPFs, particularly the top 10 could exercise effective control, especially if they acted co-operatively. However, both Coffee and Claessens question whether this actually occurs so unconditionally in practice. Claessens' survey of 1,491 Czech and Slovak firms questions whether effective control can be defined as stock ownership greater than, or equal to 50% of stock ownership by other major investors. Claessens' premise is that 10% ownership would mean effective control if no other strategic investor owned more than 10% also. On the basis of this working definition of control, he finds that 273 firms would be effectively controlled by a single IPF, 793 firms by two IPFs and 1,013 firms by three IPFs. However, Claessens accepts that this does not rule out the possibility of co-operation amongst other strategic investors which could dilute IPF control, especially if they gain seats on the board of the firm.
Table 10:1 Czech and Slovak Share Distribution in the Two Privatisation Waves
(based on 1, 491 firms, in percentage)

<table>
<thead>
<tr>
<th>Investor Class</th>
<th>Mean</th>
<th>Standard Deviation</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>State</td>
<td>8.37</td>
<td>15.38</td>
<td>0.00</td>
<td>84.00</td>
</tr>
<tr>
<td>Individuals</td>
<td>36.53</td>
<td>21.62</td>
<td>1.56</td>
<td>96.82</td>
</tr>
<tr>
<td>IPFs</td>
<td>39.39</td>
<td>22.22</td>
<td>0.00</td>
<td>90.89</td>
</tr>
<tr>
<td>Domestic Investors</td>
<td>3.25</td>
<td>12.51</td>
<td>0.00</td>
<td>84.00</td>
</tr>
<tr>
<td>Foreign Investors</td>
<td>1.34</td>
<td>8.00</td>
<td>0.00</td>
<td>80.00</td>
</tr>
<tr>
<td>Not Sold</td>
<td>11.12</td>
<td>N.A.</td>
<td>1.14</td>
<td>92.83</td>
</tr>
<tr>
<td>Total</td>
<td>100.00</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Investment Funds as a class</th>
<th>Mean</th>
<th>Standard Deviation</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top 1</td>
<td>13.42</td>
<td>6.26</td>
<td>6.00</td>
<td>32.44</td>
</tr>
<tr>
<td>Top 1 and 2</td>
<td>22.20</td>
<td>10.86</td>
<td>0.00</td>
<td>49.97</td>
</tr>
<tr>
<td>Top 10</td>
<td>38.36</td>
<td>21.32</td>
<td>0.00</td>
<td>86.52</td>
</tr>
</tbody>
</table>

Source: from Coffee (1996) p.141. Table 4.3. Note that although Slovakia was not involved in the second voucher privatisation wave, it was in the first.

Another aspect of share ownership which qualifies the success of IPF ownership and calls into question the scope and influence of their real control over any firm is the effect of IPF share ownership on equity price data. He finds that:

'high absolute strategic ownership has a positive effect on prices, but effective control, particularly by investment funds, does not have a positive influence.
Coffee concurs with this finding and suggests the cause to be the assumption by the market that a majority shareholder will attempt to buy remaining shares or will have the motivation and capital to restructure the firm and make it profitable. However, when the majority ownership consists of a group of IPFs, Coffee notes a negative price impact even when compared to that associated with a dispersed shareholder structure. Coffee suggests that the reason for this may lie in the degree of cross-ownership between banks and IPFs. The market perceives even effective control of a firm through a bank affiliated IPF shareholding majority as negative. Coffee postulates the ultimate cause of this effect thus:

'The most plausible (if speculative) explanation for this market reaction is the conflict of interests issue: the market may fear exploitation of minority shareholders by bank-affiliated IPFs, who are more interested in maximising their position as creditors.'

It is important to note here, that the most successful IPFs are not all bank owned. Indeed Coffee points out that in the second round some independent IPFs, in particular HC&C (Harvard Capital and Consulting), did substantially better in attracting voucher points.
Web of Cross-Ownership: Bank, IPFs and the National Property Fund

Kenway and Klvačová (1996) have analysed their own data with regards to bank ownership, supplemented by data from Brom and Orenstein (1994) and have drawn an analysis of results with regards to the 'web of cross-ownership' between bank ownership and IPFs funds and ultimately the National Property Fund. This cross-ownership affects both privatised financial institutions and bank owned intermediary financial organisations on horizontal and vertical lines. The horizontal aspect of cross-ownership connects all the major financial institutions. For example, all the major IPFs, both private and bank owned, hold extensive shares in the biggest banks - Komercní banka (including Komercní banka's own IPF, the so-called IKS KB a.s.), Česká spořitelna and the insurance company, Česká pojišťovna. Vertical connections link all these institutions to the state via the National Property Fund. Indeed Kenway and Klvačová surmise that state ownership continued to exist but is masked by the various young financial institutions.

Thus Coffee and Kenway and Klvačová point to the weak nature of the pattern of concentrated ownership in the Czech Republic, when viewed separately from IPF numerical control of shares. They all conclude, but with differing emphasis, the reasons as being thus:

1) IPF shareholder motivation and behaviour.
2) web of cross-ownership between bank, state and IPFs and
3) the strength of insider (i.e. top management) positional power.

Each of these shall be dealt with in turn.
Shareholder Behaviour and Corporate Control

The IPFs had a rather specific orientation to the firm due to a number of interlinked factors relating to function (or success criteria), experience and status. Firstly, and most significantly, the IPFs' interest in dealing in shares were for the purpose of profiting in the short-term from ownership change, secondly few IPFs had any management experience, particularly not management in a market economy and thirdly their approach was reinforced by the popularity of the neo-classical advisors from abroad and neo-classical economic and political thought prevailing in Czechoslovakia at this time (Frydman, Gray and Rapaczinski 1996).

With regards to the first point the IPFs were fundamentally interested in trading in shares in order to repay and thereby attract future voucher holders. In addition revenue also comes from the management and start-up fees charged by IPFs to their firms and lastly from independent trading activities. Coffee (1996) has also enumerated these success criteria for the IPFs and notes that independent trading could potentially be informed by insider tip offs, especially since so many of the IPFs were bank controlled, the banks often being creditors to the firms. This again raises the question of regulation.

Thus success criteria for the IPFs were located outside the firm on the nascent stock market, and were not derived from the potential long-term profits emerging from a restructured, well managed firm with improved efficiency and a greater share of the market. Many economic commentators, including Komárek (director of the Institute of Economic Forecasting, and one time Deputy Prime Minister), warned of the negative effects of this tendency in IPFs early on. Subsequent writers have reiterated

Indeed many IPFs promised unrealistically high returns on vouchers in the attempt to compete for investors. As early as 1993, Mejstik and Burger (1993) highlighted the potential effect of bankrupt IPFs on the economy as a whole, the bankruptcies resulting from excessive option offers and the fall in the average book value of assets per coupon book. Average book value of assets fell from Kčs 70,000 (US$ 2,300) when IPFs began offers to Kčs 35,000 when more than twice as many coupon books were registered before the deadline. Indeed, the Harvard Investment Fund began offering to redeem its options for cash early but at a discounted rate to try to remedy the situation. This aspect of IPF success criteria and lack of regulation of and control over their activity continued into 1995.

In August 1995 Česka Spořitelná, one of the major banks which own an IPF, was having to deal with the problems arising from its inability to pay back shares after initially promising investors to its IPF fund (Spořitelná or SPAS) a large return.

In respect of the second point, most shareholders had of course been educated under the previous regime according to a Marxist critique of 'Manchester Capitalism' of the last century. This critique had been taught as a negative and still highly relevant account of modern day market economies around the world. (The influence of this on IPF managers were reported upon by many enterprise managers interviewed, and indeed the influence of this critique on enterprise managers themselves was observed both by the author and the re-trainers of managers and at various times the trainees...\[365\]
interviewed during the course of the study). The vision of capitalism drawn by this critique was one of an authoritarian owner-manager with no role for co-operative work between owners and managers (as they were one and the same), managers and employees (no trade unions) etc. By contrast, the experience under state socialism was a combination of two influences: one of a centralised and controlling state passing down directives for production with little official participation by other levels; and, unofficially, the state and local levels entering into a bargaining process to achieve results, due to the state's lack of knowledge of tasks at enterprise level. As Casson (1995) points out with reference to the appeal of economic liberalism:

"For citizens accustomed to a simplistic Marxist ideology, an equally simplistic ideology that puts everything into reverse has a natural appeal as an explanation of what went wrong under the previous regime."

Both these interpretations appeared to be informing the behaviour of shareholders, as represented by the IPFs, and supported an authoritarian interpretation of the role of ownership which took precedence over managerial authority and co-operative functioning within the enterprise. Both this author and Coffee (1996) found in interviews that unlike the US or UK system there was little official delegation of authority to a Chief Executive Officer or to the company management team. Contemporaneously, however, similar to the experience under state socialism, the lack of grassroots knowledge (knowledge asymmetries), and lack of managerial expertise forced IPFs to take a rather distanced approach, relying on managers to fill the gap.
The study by Kenway and Chlumský (July 1995) suggests there are three equally probable IPF attitudes to control of firms and their restructuring:

1) complete passivity
2) supportiveness of changes initiated by others
3) funds themselves initiating changes

Kenway and Chlumský's study, however, also points out that where funds have taken the initiative this usually means only a change in top management. Few changes in the way the firm functions were carried out. In these instances the effect on finance and investment were negative. Where the fund did initiate change in the functioning processes of the firm, the effect on finance was positive. Generally Kenway reports a modified passivity on the part of the IPFs activity in firm restructuring, partly due to IPF interests (and the belief that active management is the same as replacing the management team), and partly due to insider power networks. The lack of managerial experience of IPFs was reported by enterprise managers interviewed by this author and indeed, Coffee (1996) (who interviewed amongst others IPF and enterprise managers), and Kenway and Chlumský (1995) and Kenway and KIvačová (1996) also report the same findings from their surveys and interviews. The best anecdotal example of this is one quoted by Coffee, where the newly appointed general director of Prago a.s., was required to turn around the loss making enterprise in three months, despite the fact that 80% of its market had collapsed with
the insolvency of major Eastern bloc customers in Russia and Ukraine and the
dissolution of COMECON.

'I was given the task of within three months to move the company from red to
black. I explained that that's nonsense in that short term, and, in the end, they
said... that the last quarter this year must be a profitable quarter' 21.

Jan Suchanek, chief executive of YSE, the investment company, is critical of most
IPF directors' performance, especially those appointed by bank affiliated funds. He
sees IPF directors as 'trying simply to avoid risk' by staffing boards with 'old
Communists' whose main aim was to 'avoid embarrassment' 22.
Lastly the third point with regard to the popularity of neo-classical economic thought
in Czechoslovakia until partition, and since in the Czech Republic was supported
practically by the lack of regulation of economic institutions and economic activity of
actors. It is indicative of this ownership versus control perspective that in Dřevodělný
it was only once a domestic Czech owner with firm specific and sector specific
knowledge took over the firm that the proposed changes were endorsed. Under IPF
ownership little was changed.
The neo-classical hope that a change in ownership status of a firm would
automatically result in restructuring becomes patently untenable in the light of the
above findings. Indeed Kenway and Chlumský (July 1995) argues that privatisation
transferred ownership but not control and control was the key to restructuring 23.
However, it would appear that a firm oriented interest expressed by the economic
actor concerned, is also needed if effective control is to result in effective restructuring.

Role of the Career Manager

An important aspect of a functioning corporate governance system in a modern market capitalism has been described as the 'disinterested' manager (Chandler 1992). Myant (1993) points out that in a neo-classical market structure, only the career manager has the long term interests of the firm at heart. Casson (1995) has also highlighted the complicated institutional requirements necessary to foster entrepreneurial spirit and the imperfect operation of those institutions even in the 'low-trust legalistic culture of the West', especially where economic institutional activity operates at a minimum level (that is in a more neo-classical economic oriented system). Parker (1993) has outlined amongst other measures, the agent-principal relationship as important for creating an incentive environment for managers. None of these conditions are met in the situation of a newly established market system, where the relationship of owners to management is unclear, the quality of management in terms of ethical behaviour within an accepted code of business practice and the quality and appropriateness of management skill in the operational sphere is low or even non-existent. Therefore this type of 'self-disinterested' or firm-oriented entrepreneurial behaviour cannot be expected.

It could be argued that the fact that managers interviewed by this author often felt themselves to be the guardians of the 'positive' social-communitarian aspects of the
firm organisation while trying to improve its effectiveness as an enterprise, is indicative of old cadre groups unwilling to move away from their familiar roles in the enterprise toward a new concept of management. Coffee (1996) also discusses this phenomenon. In addition Coffee (1996) quotes IPF managers as citing this reluctance to carry out lay offs as a problem with enterprise management. However, when measured against the facts, there seemed to be little evidence for this claim. Where managers interviewed by this author reported on the phenomenon, this did not prevent them from reducing the workforce often, before privatisation. Similarly, Coffee (1996) notes that in his sample most workforce reductions had occurred under enterprise management, before IPF ownership had been instated.

Many of these same old cadre managers inherited positional power, firm knowledge and active insider power networks but had no formal stake in the privatisation process, or the improved efficiency and restructuring of firms. They were often therefore self-interested rather than firm-interested. McDermott (1994), Kenway and Chlumský (July 1995), Myant (1993), Frydman Gray and Rapacyzinski (eds.) (1996) and Grabher and Stark (1997) etc., have all referred to the positional power, old network systems and information asymmetry on the part of the old cadre managers and other insider groups. Indeed, some commentators , Kenway and Chlumský (1995), argue that this negative influence of managers could have been mitigated by giving them a stake in the process. Myant (1993) suggests only employees have the long-term interests of the firm at heart and should have been given a stake. Those advocating a complete purge (see quote at the beginning of this chapter) forget the lack of skill and management experience in the population generally. Indeed even the old cadre
managers are ill equipped to deal with the new circumstances. Whichever view is taken, more formal regulation of and guidelines for privatisation and economic reform could have prevented many excesses and made the aims of the reform process in its construction of corporate governance practise clearer. The fact that no acknowledgement was made of the distinction between ownership and control resulted in abuse and manipulation of loopholes in the reform process.

Cross-Ownership, Bankruptcy and Disclosure of Information

The cross-ownership of IPFs and banks creates yet further problems of conflicting interests.

The two main areas of conflict are the lack of an informational firewall between banks and IPFs to prevent insider trading and secondly the compromised position of banks imposing bankruptcy proceedings on firms. Coffee (1996) has noted that while all banks and IPFs claim that no insider information crosses the so-called ‘informational firewall’ between bank affiliated IPFs, there is evidence of insider trading, especially since IPF success criteria lie in stocks and share trading and banks are ultimately responsible for making returns to investors.

On the other side of the situation there are many instances of banks hesitating to impose bankruptcy proceedings in accordance with new legislation because they are compromised by their joint creditor and ownership (through the IPFs) status. Any bankruptcy would incur loss to the bank in both these functions. In addition, as discussed already, bank loans carry high interest rates and this was a prime origin of revenue for banks (see Chapter Five). Although there was no evidence of this type of
debt versus ownership conflict in Dřevodělný, the regional bank concerned allowed the considerations of its IPF, as to the potential profit to be made from a resale without restructuring, to outweigh any consideration of longer term strategic thinking. Concern over the relationship of banks and IPFs continue to be reported upon and concern over the lack of regulation has not been adequately met with appropriate action. The siege of some major IPF funds by Plzenska Banka backed by Agrobanka and Motoinvest caused consternation in the winter of 1995 as large banks were suddenly under attack by a much smaller bank. In general the concern over both insider trading between banks and IPFs and widespread fraud in IPF activity, as well as a number of malpractice scandals and lack of government control has resulted in a lack of domestic and foreign investor confidence in the Prague stock exchange and the junior market RM-system.

Regulation of Economic Institutions and Activity

The modus operandi in business is influenced by on-going (Granovetter 1985) relations and by the instability brought about by the transition in terms of the lack of regulation and the residual lack of institutional (Jone Pearce) and bureaucratic (Robert Jones) trust has meant that there are many examples of old management using this instability to asset-strip companies for their own individual benefit, as there have been examples of corruption amongst civil servants, Privatisation Investment Fund managers, government officials, most famously Jaroslav Lizner, head of the Centre for Coupon Privatisation. (Lizner was caught taking a bribe from businessmen in a Chinese restaurant in Prague on the 31/10/94). In Slovakia the
kidnap of Kovac's son by hitmen allegedly hired by Mečiar is an on-going news item in 1998 in the international press.

This lack of regulation affected a number of different areas, many of which were pertinent to the survival of the firm. Firstly regulation of stocks and shares and shareholder activity was lacking. Even in the cases where it did exist, as in the Commercial Code which came into force in 1992 and was revised again in 1995, guidelines were limited and/or unclear. Finally many rulings were simply not imposed. Indeed according to Zdenek Bakala of Patria Finance by the end of 1996 there was still:

'no protection for minority shareholders, few disclosure requirements, and little enforcement as no punitive powers were given to the minister of finance.'

This combination of a lack of overt regulation and a lack of enforceability was displayed most spectacularly at the shareholders meeting of Agrobanka, a major Czech bank, which ensured a takeover by Motoinvest (to the detriment of Agrobanka) and where certain key shareholders were deliberately excluded from the meeting. Although illegal, the government did nothing to enforce the limited regulation pertinent to this type of action, therefore setting a precedent for other lower profile businesses.

Indeed anti-monopoly agencies only began functioning in March 1991 and the power of those agencies were to prove inadequate to the task of monitoring a transient
The problem of effective regulation continues currently (Summer 1997) with the rather late consideration by the government of establishing a Czech form of the British Securities and Exchange Commission to monitor the Prague stock market and the junior RM-system, planned for January 1998. Privatisation of the big banks have also been discussed as one of the means to separate bank lending status from ownership status. Whether this will actually be carried out and whether it will prove up to the task remains to be seen.

With regards to the IPFs' business activity unethical behaviour ranges from the manipulation of a weak legal regulatory system and a lack of enforceability for IPF narrow self-interest to outright corruption in order to secure greater profitability.

Indeed, this self-interest displayed by the IPFs in increasing their portfolios and increasing their value rather than being actively involved in restructuring enterprise, is displayed by their increasing preference for closed unit funds over open-ended trusts. In the closed unit funds there is no requirement for shareholder voting power or a supervisory board, nor assessment and potential replacement of the IPF management. In fact leading up to the second wave of privatisation in 1994, as new regulations were brought in to control IPFs, many IPFs began using the unit trust format rather than the joint stock company, alternatively they included clauses retaining the same management for a minimum of six years or so.

Coffee (1996) asks whether the government were simply inadequate in their attempt to control IPFs or whether they judiciously decided to avoid confrontation in the belief that the banks needed an incentive to get involved in IPF activity. This was perhaps felt to be a requirement in order to counterbalance the unexpected success of economy. The problem of effective regulation continues currently (Summer 1997) with the rather late consideration by the government of establishing a Czech form of the British Securities and Exchange Commission to monitor the Prague stock market and the junior RM-system, planned for January 1998. Privatisation of the big banks have also been discussed as one of the means to separate bank lending status from ownership status. Whether this will actually be carried out and whether it will prove up to the task remains to be seen.

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the private IPFs and to encourage the success of the voucher privatisation scheme in rural areas, where people held more trust in the established banks.

At the other end of the scale, the Harvard Investment Fund one of the largest and most successful private Investment Privatisation Funds (IPFs), and in indeed the prime innovator of the present IPF role in the economy, has been implicated in an political/economic scandal, throwing into question the degree of ethical operation of these funds. The legal process is continuing but insider information between senior government officials and politicians and the young founder, Viktor Koženy, of the fund includes claims of blackmail and bribery involving members of the government.

**Summing Up The Czech Republic**

Thus the emerging major components in economic activity and the evolving corporate governance structure in the Czech Republic can be listed as: the IPF ownership pattern, share distribution and concentration, cross-ownership between IPFs, bank founders and the National Property Foundation, role of managers, bankruptcy and disclosure of information, regulation of economic institutions and activity, and the effect of all of these on shareholder behaviour and corporate control.

**Slovakia: Control Networks, MBOs and Stagnation**

The post 1989 experience of Slovakia can be divided into two phases. Firstly the experience of a democratic Czechoslovakia and the beginnings of economic transition with an emphasis on macro-economic mostly monetarist reforms and voucher
privatisation, promoting initially a limited degree of IPF ownership pattern. Secondly, the experience of post-independence Slovakia from January 1993 onwards, where unclear economic policies combine with a shift in privatisation emphasis to management buy-outs and direct sales. The broad backdrop of issues described above in the section on the Czech Republic are all relevant for Slovakia post 1989, with certain modifications post January 1993. Therefore similar issues will only be dealt with here if they differ fundamentally or where they have been significantly modified.

**IPFs in Slovakia**

Voucher privatisation in Slovakia finished in January 1993. The process until that time had been carried out by federal government although many other executive powers were shared by federal and republic (Czech or Slovak) governments. Thus the emerging ownership structure in the enterprise sector of the Slovak economy by the end of 1992 was dominated by institutional share ownership, although individual (especially as a result of restitution) and state ownership also existed. Among the dominant financial institutions, the most important form was also the IPFs. In Slovakia most of these had been established by commercial banks, savings and loan associations, and insurance companies. As a result of the cross republican process of voucher privatisation, Slovakia shared not only many of the main IPF investors with the Czech Republic (See Schmoegnerová (1993) and by 1994, trading on the stock market was dominated by the top investment funds, including Harvard Capital and Consulting, Cassovialnvest, Creditanstalt and VUB$^{45}$. 
Similarities continue over and above names. Many of the problems associated with this type of ownership affected Slovakia also. Schmoegnerová (1993) highlights similar issues to Coffee (1996) in the context of lack of effective corporate control, such as problems of raising investment capital, insider information trading between IPFs and bank owners, lack of IPF managerial ability and product and firm knowledge vis-à-vis an entrenched managerial insider group.

One of the most significant aspects in the Slovak context, as in the Czech context, is raised by Schmoegnerová (1993) as IPF confusion over corporate control and the meaning of management. She demonstrates this by the findings on attitudes to corporate control by owners in a survey of 29 Slovak IPFs carried out in March 1993. Of the 29, 14 wanted to shape corporate policy, 8 did not want to be active owners and only wanted to trade shares, and 7 wanted to combine the two approaches. However, of the IPFs attempting to establish control over firms, less than two-thirds wanted to change the chief managers. It is claimed that this lack of corporate control allows the possibility of 'spontaneous privatisation' by managers before property rights are transferred from the National Property Fund to the new owners. This tendency is also indicative of strengths being played out in direct sales to management. Another important aspect raised by Schmoegnerová (1993) is the development in Slovakia of IPFs owned by large-scale enterprises, which differs from the Czech experience. These enterprise owned IPFs may possess better information on the firm (e.g. product markets, market position, suppliers etc.) while the IPFs established by other financial institutions possess better information on stock markets.
and financial situation. These two aspects intersect with the issues of MBOs and control networks and local governments.

The State, Direct Sales, MBOs and Control Networks

The predominant form of privatisation after 1993 in Slovakia became public auctions and direct sales to private individuals, foreigners or to managers as discussed in the chapter on Slovakia. When former managers use positional power to gain ownership they usually do so with little experiential or capital justification, as the case study of Kreslo shows. In this scenario managers' behaviour also seemed to be informed by past critiques of capitalism as well as state socialist behaviour (similar to IPF behaviour referred to in the last section). In this case little was done to re-skill personnel, open new markets or change production. This situation appears to have reproduced itself across Slovakia, especially in large-scale enterprises.

Large-Scale Enterprises

Indeed large-scale enterprises have persisted particularly in Slovakia. The reasons for this are complex combination of factors: the halting process of privatisation, the inherited industrial structure, both already referred to as well as the persistence of old firm, local and central political networks highlighted in this chapter.

The extent of their control is demonstrated by VSZ (Východoslovenské Zeleziarne or East Slovak Iron Works) although it is the most extreme example of the influence wielded by these. VSZ accounts for between 15% and 18% of Slovak total exports and 10% of the country's industrial production. In October 1996 it emerged as the
dominant shareholding force in IRB, Investicná a Rozvojova Banka (Slovakia's largest bank). It has also become a leading shareholder in Slovenská poistovn'a, the insurance group and acquired Národna obroda (a leading Slovakian business daily) and taken over Sparta Prague (a prominent Czech football team). In addition it has sought to solidify its industrial presence with its takeover of Trinecke zelezarny, an important steel producer in the Czech Republic.

The continuing important role of these large-scale enterprises, particularly in the financial sector are highlighted below, but a further important aspect of their survival is the firm-based culture promulgated by them. As discussed throughout this thesis, enterprise culture continues to operate in a similar way in both the Czech and Slovak Republics as before 1989.

Inherited Networks

The elite networks retain elements of the old culture necessary to maintain their survival (i.e. a control on firm knowledge, a degree of authoritarian-paternalistic control with regards to the workforce and 'outsiders', etc.), while also adapting to the new situation and incorporating features in line with their new often neo-classical market approach.

In the Czech Republic, Rychetnik has surveyed and interviewed the senior management of 35 firms with regards to 'Performance and Incentives of Enterprises in Transition and surveyed also, as a sub-sample, employee attitudes. Rychetnik remarks on the lack of managerial change at the top of enterprises and that where change has occurred new personnel are promoted from within in the firm or the
management team searched 'professional networks for personnel.' In fact in only six cases did public competition take place for the top posts. Accompanying this stagnation of management personnel in firms, is an enterprise culture combining pre-war, state socialist and transitional practices. This has already been an intrinsic part of the discussion in this thesis for both the Czech and Slovak Republics. Rychetnik highlights particularly that Czech managerial culture has an engineering and technical orientation rather than a social or personnel orientation and that this has combined with a strong 'culture-focused management (combined with Fordism) in Bát'a's tradition. He also suggests that product orientation may be reinforced by a new attitude in small, private businesses of disregard to the worker, where the spread of information and personnel management are seen as second to the role of capital. Rychetnik suggests more research is required here, but quotes Vymétalfk, who first noted this phenomenon, as remarking on:

'...a widespread opinion that what is decisive is capital which (in turn) will direct labour as necessary. Knowledge... (is) considered valueless. Money (is) considered as the main engine of economic revitalisation'.

It has been argued for the Czech Republic that a secured role for managers in the privatisation process could have averted certain excesses (Kenway and Chlumský (1995)). Schmoegnerová (1993) has argued that MBOs may avoid the problem of 'spontaneous privatisation' on the part of management. It would appear then from these arguments that MBO options in Slovakia would have avoided certain excesses
prevalent for example in the Czech Republic. However, this does not appear to have been the case. As in the Czech Republic, an increased role for employees could have averted instances of managerial corruption or excessive power. Employees have little to gain from asset stripping but much to gain from the survival of the firm (Myant 1993). Kenway and Klvačová have pointed out 'spontaneous privatisation' or asset stripping in the Czech Republic is only slight when compared to other transitional economies. No comparative study of the Czech and Slovak republics exist with regards to this phenomenon and it is not the focus of this thesis to carry out any such analysis. The specific and very strong resistance of old information and power networks in Slovakia has a number of causes. The pattern and structure of industrialisation has reinforced locality power (local enterprise as sole employer holding important political as well as economic power vis-à-vis the centre), and strong central authority direction (central authorities having been the cause of industrialisation strongly influence the interplay of its splintered economic units and industrial structure and their respective future directions) and a history of a highly authoritarian political culture, whether one considers the experience of independence under the nationalist cleric Tiso during the second world war or the experience of subjugation in the Austro-Hungarian Empire, which was more oppressive in Slovakia than in the Czech Lands. As discussed in the chapter on the Slovakian economy, the regional policy under the past regime never managed to resolve this centre-locality dichotomy. So it appears that the present day political clientelist behaviour and slow and confused economic reform has done little to break with this tradition.
However, the Slovak socio-economic and political environment appears to have reinforced certain of these phenomena to a greater degree than in the Czech Republic. Indeed the chosen course of privatisation, the role of MBOs in this and the financial importance of industrial giants in the financial sector (referred to below) due to the exclusion of foreigners and the absence of alternative domestic owners, suggests an even greater reinforcement of the evolving enterprise culture of informational and power networks considered by Rychetnik and others.

Large-scale Enterprises and Financial Sector Privatisation

Slovakian banks suffer from all the problems of the Czech banks. Continued bad debts, from which they suffer as well as reap benefits in the form of high interests rate payments. In many cases the three biggest banks Všeobecná uverová banka (VUB), Slovenská spořitelňa, a savings bank and Investičná a Rozvojova Bank (Investment and Development Bank -IRB) are controlled by and often act in accordance with state policy. The state owner respectively 48%, 91% and 35% of each bank. The three also own 62% of total banking assets. The other 28% is spread over other smaller banks many of whom have alliances with foreign shareholders. Furthermore, the OECD estimates that 29% of the SK451bn of outstanding loans made out by Slovak banks at the end of 1995 were more than 90 days in arrears and another 9% were more severe and in a 'special mention' category. Boland concludes that the majority of these bad loans are made by the three biggest banks and therefore also underwritten by the state budget. Again this reflects a similar situation in the Czech Republic. Given the conditions giving rise to the domino effect of payment arrears in Czechoslovakia and
subsequently the Czech and Slovak Republics, most debt must ultimately be subsidised by the state. This situation complicates the ever more pressing need for privatisation of the financial sector. However, the slow pace of privatisation and the lack of enthusiasm to sell to foreigners has meant an emphasis on domestic buyers. In the context of large-scale bank privatisation, the only viable owners, if foreigners are excluded are the industrial giants such as VSZ or Slovnaft (the petrochemicals group) and other large concerns. However, there are a number of concerns associated with this option. The fact that many large-scale and therefore powerful enterprises have not restructured and run inefficiently does not bode well for the financial sectors. Indeed, many commercial banks are worried about becoming subsidiaries to such large concerns. Ľudovít Pósa, general manager of Poľnobanka, a private bank, is reported by the Financial Times as saying that VSZ majority ownership of IRB would:

'...make it a state within a state.'

This pattern of ownership and influence would suggest a highly corporatised structure.

**Local Government and Network Capital**

The problem of managerial abuse of positional power and knowledge is true for both the Czech and Slovak Republics. However the situation is further compounded in Slovakia by the evolving business and political-economic cultures. The government control of television and the appointment of media figures according to political
loyalty rather than according to ability testifies to this, as does the political scandal surrounding the Kovac kidnapping\textsuperscript{46}. The kidnapping of President Michal Kovac's son to Austria in 1995 has been linked to senior political figures and the security forces, headed by Ivan Lexa, one of Kovac's critics, and is an on-going issue between the President and Prime Minister Mečiar\textsuperscript{57}. Within this context, the stop-go process of voucher privatisation has given way to direct privatisation often according to political allegiances of managers, local authorities and individuals. The Financial Times notes in relation to direct sales:

\begin{quote}
'While there is no suggestion that politicians are lining their pockets with the proceeds from sales, the close ties between the political and industrial establishments, and the difficulty in many cases of establishing details of individual privatisation agreements, have bred public cynicism about the direct sales approach.'\textsuperscript{58}
\end{quote}

Thus the motivation for direct sale and MBOs in Slovakia until now has not operated within a context of ensuring economic stakeholding by key groups in order to secure an effective corporate control culture. Rather the context for MBOs and direct sales has been one of political clientelism, which interacts with firm-based management informational networks operating within a specifically evolving enterprise culture, all with as yet unknown effects.
The role of local government and the exploitation of old power networks comes fully into play here. Pickvance (1997) has written an initial investigation into the relationship between local government and enterprises in East/Central Europe and has pointed out that more research needs to be done in this area to gauge fully the role played and the potential for restructuring the relationships to the advantage of reform. However, he refers to Bourdieu's 'social capital' which Bourdieu argues exists alongside economic and cultural capital. Indeed Bourdieu has specifically argued that in socialist societies these elites are well able to translate the 'cultural capital' of education and training from an old order into a new. Czako and Sik (1993) have referred to 'network capital' in respect of research in Hungary, as has Grabher with regards to East Germany and Sik (forthcoming) generally in capitalist, communist and post-communist societies. Sik claims that:

'since post-communism follows communism and since in communism network capital was very widespread, it follows that network capital cannot be less widespread in post-communism, except if it was destroyed or became useless.'

There are a number of conditions, however, which Pickvance highlights as potentially 'devaluing', or heightening the value of network capital. Conditions which may cause devaluing are as follows:

1) '...changes in occupational and other roles which accompany transition' and
2) "...a reduction in the level of trust and the development of one-off deal-making."

Pickvance goes on to explain that first condition as one in which the networks 'by which industrial managers tried to cope with the obstacles to production and which involved party officials as well as other managers (which Si'k, forthcoming, calls 'managers' reciprocal transactions') decline because 'party structures collapse and market processes take the place of network linkages. Likewise occupational changes among network members are as likely to devalue network capital as to maintain it, and will create the basis for new networks."

The second condition refers to the relationship of reciprocity as opposed to one of power relations between a dominant and weak partner. Thus 'Network relations are enduring and can be contrasted with one-off transactions which are instantaneous and where there is no necessary equality of status between partners."
However, the adaptation of network partners and their activity, to new situations cannot be ruled out. Indeed during a time of transition where all definitions of role and accountability are in flux, it is quite likely that the inherited and very embedded cultural practices, in this case the culture of networks and network capital, be relied upon to breach the gap both in terms of personal survival and economic maintenance.

In fact, Pickvance refuses to deny the importance of 'network capital' despite the existence in transforming economies of the conditions for its devaluation. Ultimately, Pickvance argues that the role of local government is one of a:

'key mediating institution in the transition from state socialism because it controls resources which can play an important part in the development of marketization.'

However, the lack of empirical research on local government is highlighted in that the extent to which local government is an 'active or a passive mediating institution' and whether this activity reflects:

'autonomous internal interests rather than the interests of external bodies such as central government and local firms.'

**Summing Up of the Slovakian Situation**

The major characteristics influences the Slovakian socio-economic situation appear therefore to be: Direct Sale privatisation with a more limited role for IPFs; old control
networks based on information and old power centres, and within this the roles of the centre-locality dichotomy and local government and large-scale enterprises; financial sector issues, such as bankruptcy and bank privatisation and the role of industrial corporation control.

**East Germany: Deleted Networks and Model Transplantation**

Eastern Germany has felt the greatest effect of ownership change on organisational restructuring due purely to the bonus of investment finance and skills brought in especially from western Germany. However, where privatisation has occurred to East German individual entrepreneurs (whether through privatisation or restitution) or through the limited number of MBOs, the problems faced by management/owners are similar to those faced by their contemporaries in the Czech and Slovak Republics, that is lack of investment capital, lack of the appropriate skills.

However, the combination of the government transplanting an economic, political and legal system wholesale from western Germany with the influx of economic actors with the appropriate management skills and experience of a market economy (whether as owners or managers) has enabled government to avoid much of the discussion regarding the most appropriate form of corporate governance necessary to aid organisational change at enterprise level. What appears to be more prominent in firm management minds here, is not the forms of corporate governance and the delineations of ownership and control but rather the more pressing problem of lack of motivation amongst the workforce, expressed by both West and East German
management and/or owners. Although recognised in the other two countries, this aspect was not regarded as so pressing.

The government's politically influenced approach to economic restructuring, however, has also brought with it high economic costs in the form of the radical deindustrialisation of eastern Germany and the destruction of endogenous economic potential, as discussed in Chapter Nine.

This has both an overt side and a more subtle side. Overt action was taken by the new government in favouring fast economic union, the hiving off of research and development facilities from East German firms for privatisation purposes and to break old inter-firm and Kombinat networks, and the pre-eminence of West German or foreign entrepreneurs in privatisation sales. Subtly, the looser and economically stronger network systems between West German producers, suppliers and retailers, meant that West German firms 'imported' all their western networks with them when relocating to the east, thus producing little economic growth at the local level and leading to the even greater demise of local industries and networks. Indeed relocation to the east provided West German firms with a retail boom in the early 1990s, and the further shrivelling of any potential endogenous growth.

**Summing Up Eastern Germany**

Thus, eastern Germany initially faced similar problems to the other two countries but the transplantation of a new system and its 'foreign' network patterns and the deletion of indigenous regional network patterns has been both advantageous and disadvantageous. Advantageously, old entrenched socio-economic networks have
been destroyed but at the cost of long-term economic decline (in terms of regionally located production potential) and potentially severe social dislocation (e.g. massive unemployment), expressing itself through political concerns of a right-wing revival.

Comparison of Factors in Enterprise Restructuring in the Czech and Slovak Republics and Eastern Germany

All the previous evidence dispels the argument of the property rights school and new theories of capital structure, referred to in Chapter Four, which claim that management performance can be adequately monitored in market economies by debt and equity information. In the ideal situation of capital and equity led economies, control rights rest uniquely with managers unless debt highlights problems. In such cases banks take over control rights and introduce restructuring measures and new management. However, this is an unreliable instrument in transforming economies due to the lack of effectively operating institutions.

Begg and Portes (1993) also consider it doubtful whether such a streamlined approach is (as advocated by Lipton and Sachs (1990) for Poland and Russia and as implemented in Czechoslovakia post 1989, and subsequently in the Czech Republic), possible in Central/Eastern Europe given the inherited debt situation (debt inherited from the past regime, now between banks and firms, and the practise of payment arrears between firms) and the transitional nature of the economic environment. In this view the role of the capital structure as a management control device is only possible when the following three criteria are met:
(i) the correlation of individual enterprise performance with the ability of its management team.

(ii) the ability of incumbent managers relative to the managers who feasibly could be brought in to replace them, and

(iii) the relative effectiveness of managers and their bank monitors.

The more the fate of an enterprise depends on factors outside its managers' control, the less important is capital structure as a device to alleviate moral hazard. The benefits to potential external control also depend on the realistic possibility of being able to find alternative management talent with which to displace failed managers. Finally, the control structure depends critically on the willingness of external monitors to play the role assigned to them. ⁷³

As can be seen in the case studies and in the analysis of the economic situation carried out in this thesis, the macro-economic policy in the Czech and Slovak Republics did not provide an adequate structural and regulatory framework for such institutional and socio-economic conditions to emerge. Certain outstanding problems run contrary to the above recommendations for capital and equity market control. The problems of payment arrears, both primary and secondary, was external to the firm (i.e. it was independent of profitability or non-profitability criteria), there were few alternative sources of skilled managers and managers and their banks were sometimes unable and sometimes unwilling to monitor the situation. For the Czech Republic the change in ownership has effected no change in effective corporate control. Thus some commentators have suggested, as Kenway and Chlumský (July, 1995) do:
"We believe that our findings are consistent with the view that privatisation to funds has transferred ownership but not control. It therefore follows that transition requires a further restructuring in the relationship between firms and funds: the stage reached now is not the completion of the process.\textsuperscript{74}

Indeed Mertlik (1996) points to a 'silent secondary privatisation' which is underway as foreign and individual domestic investors buy major shares in firms from the IPFs, occurring especially from 1995 onwards\textsuperscript{75}. Whether these new owners will make more effective strategic management decisions regarding firm restructuring remains to be seen. Anecdotal evidence of this author's research would tend to support this hypothesis, but further empirical research is required, perhaps in the form of a widespread survey. Thus the Czech Republic shares many of the phenomena evident in Slovakia, e.g. informational networks, but the development and integration of these into a new macro-economic framework have been very different. The prime role of IPFs in the privatisation process and their position in corporate control of the enterprise (even if not effective) have caused many more of these phenomena to adapt to change, not always, however, with unmitigated success with regards to restructuring. Thus the main characteristic of economic activity in the Czech Republic is one of 'on-going' social relations and economic activity incorporating and merging with old and new socio-economic phenomena.
<table>
<thead>
<tr>
<th>Elements from Socialism</th>
<th>Czech Republic</th>
<th>Slovak Republic</th>
<th>Eastern Germany</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inheritance from Socialism</td>
<td>High degree of state control, institutionalised informal networks. Great degree of inter-enterprise debt, informal links between firms, especially within Vhjs for plan fulfillment.</td>
<td>As in Czech Republic, but with even greater emphasis on heavy industrial development due to complete lack of it until after Second World War. As a result, stronger regional fragmentation of production processes within firms and Vhjs.</td>
<td>Strong centralisation, economic sectoral structure similar to West Germany. Advanced technology. One of 10 richest countries in world. Lack individual responsibility, entrepreneurship. Networks also operating around Planerfüllungspakt.</td>
</tr>
<tr>
<td>Political Institutions/Civil Society</td>
<td>Stable state, developing civil society. Institutionalised corruption.</td>
<td>Tendency to stagnate. Autocratic/paternalistic state, weak civil society. Increasing industrial corporatism with political influence especially in regions.</td>
<td>Transplantation of systems and networks with cultural lag resulting in political and economic disillusionment</td>
</tr>
<tr>
<td>Ownership</td>
<td>Firms largely privatised via IPFs, banks, fewer MBOs, but state ownership strong through cross-ownership of the above. Moderate private sector.</td>
<td>Some IPFs, MBOs and Corporate ownership, much still state owned. Limited entrepreneurial sector.</td>
<td>Almost completely privatised. Mostly West German owners and management. Very few MBOs. Stunted endogenous economic potential.</td>
</tr>
<tr>
<td>Legislation</td>
<td>Commercial/company law follows German style.</td>
<td>Overlap with Czech Republic (first 2 years). Development unclear. Legal approach German/Hungarian case tradition.</td>
<td>Transplanted from West German</td>
</tr>
<tr>
<td>Control Rights</td>
<td>Information asymmetries. Persistence of entrenched social groups, often relocated to different spheres of economic activity (i.e. banks, government, IPFs, mismanagement).</td>
<td>As opposite with less change in ownership rights, and greater political and economic stagnation. Passive blocks of entrenched social groups, less relocation.</td>
<td>As in West Germany firmly with managers, where separate from owners, but greater role of institutional owners in decisions than in Anglo-saxon system.</td>
</tr>
</tbody>
</table>

Source: First development as a cross-country comparison between this author's findings and those of Dr. Beth Kewell on Poland as a publication draft in 1995.
By contrast the main characteristic of the Slovak situation, is the predominance of the adaptation of old socio-economic phenomena to 'on-going' social relations and economic activity, in the form of a gradual corporatisation of old networks' interests. In Slovakia the potential effect of industrial groups' shares in IPFs and banks, the continued effect of strong locality political-economic networks and continued management positional advantage in direct sale privatisation and continued business operations and corporate control on the Slovakian economy remains to be seen. Little restructuring of firms appears to have been effected. However, the effect of bank privatisation being discussed in 1997 in both republics will undoubtedly affect the financial environment of firms and may also influence the corporate control of many enterprises in both republics.

Lastly, in eastern Germany the radical surgery of deleting old networks and the wholesale transplantation of a new, 'foreign', corporate governance system with pre-eminence given to West German owners and managers, has highlighted the less obvious, but as effective, network systems of western European market systems. These West German network systems, especially those between producers, wholesalers and retailers and the central role of the research and development role in future developments of the firm, have combined with a macro-economic policy designed to break up inherited East German network systems through sale to and management by West Germans, and destruction of the indigenous research and development facilities 'feeding' East German firms. This has resulted in East Germany becoming an industrial backwater, due to the fact that surviving East German firms could not break into these networks (even if, on the rare occasion, they could do so.
competitively) and has also lead to the stunting of endogenous business potential. The political advantages of short-term economic policy appears set to ensure long-term economic decline of an entire region, with the concomitant financial and social strain on the rest of the country. The table above sums up this comparative analysis between the three countries.

**Conclusion**
The key aspects constraining restructuring in the situations of the Czech and Slovak Republics have been dealt with above. The Czech and Slovak governments' policies did little to counteract the functional problems faced by firms or to counteract the economic institutional practices and cultures with a view to modifying management, bank and ownership (whether IPF or management) behaviour. It is with regards to this that the requirements of an explicit corporate governance model, where duties, responsibilities and expectations of owners, manager, employee and civil society behaviour (that is acceptable business practices) were not adequately considered.
SVEJDOVA, LISA (2/6/92) Student Leader in 1989 reported in Assignment Czechoslovakia, BBC Television.


In Spring 1992 Privatisation Committees around the country highlighted the lack of information provided by the government. Specific company information was actually obtained by foreign journalists from the Ministry of Privatisation for cash, as claimed by a leading spokesman of the Privatisation Committees, Martin Borovicka.


COFFEE, JOHN C. Jr. (1996) op cit., Table 4.3, p.141.


BOLAND, VINCENT (22/11/95) 'Fund Managers under siege.' Financial Times.

Financial Times, Survey (14/5/97) Czech Industry and Investment, p.I.
Reforms Promised, p.VI
Obstacles to be Overcome, p.IV.


Interview with Agriculture Minister in Assignment Czechoslovakia, (2/6/92), BBC Television on farm privatisation to old Communist cadres.


MLADA FRONTA DNES (10/2/95)


EAVIS, PETER. (March 4-10, 1994) 'I'm still No.1 at HCC" says Viktor Kozeny' in Central European Business Weekly N.84. Prague. pp.1 and 8.


BLOOMBERG BUSINESS NEWS (November 4-10, 1994) 'Securities chief charged with taking bribes'. in Central European Business Weekly. N. 119. Prague. p1


MLADA FRONTA DNES (17/12/94)


MYANT (1993) op cit., (p.191-192), quoting Flassik, I (3/5/91) in Rudé Právo,'


Financial Times, Czech Survey (14/5/97) 'Czech Industry and Investment', p.I. 'Reforms Promised', p.V. 'Obstacles to be Overcome', p.IV.


BOLAND, VINCENT (16/12/94) 'Never mind the politics' in The Financial Times. Slovakia Survey, p.11.


DONE, KEVIN (23/10/96) 'VSZ Starts to Flex its Muscles', in *The Financial Times, Slovakia Survey.* V

See the discussion of the Slovak case study, especially Shareholder Behaviour, Career Manager and reference to the differences between a Command Economic System and a Market System in the table in Chapter One.


*ibid.,* p.81.


BOLAND, VINCENT (23/10/96) 'Privatisation is a daunting task' in *The Financial Times, Slovakia Survey,* p.IV.

*ibid.*

BOLAND, VINCENT and DONE, KEVIN (20/12/95) 'Slovakia. Infighting obscures economic progress' in *The Financial Times, Slovakia Survey.* p.I.

BOLAND, VINCENT and DONE, KEVIN (20/12/95) 'Slovakia. Infighting obscures economic progress' in *The Financial Times, Slovakia Survey.* p.I.

DONE, KEVIN (23/10/96) 'The Kovac Kidnapping', in *The Financial Times, Slovakia Survey,* III.

BOLAND, VINCENT (23/10/96) 'Sell-offs give rise to suspicions' in *The Financial Times, Slovakia Survey IV.*


62 SÍK, E. (forthcoming) op cit.

63 PICKVANCE, CHRIS (1997) op cit., p.316.

64 ibid.

65 ibid.

66 ibid.

67 Pickvance considers this relation as forming part of a wider definition outlined by CZABO and SÍK (1993).

68 PICKVANCE, CHRIS (1997) op cit., p.316.

69 ibid., p.317.

70 ibid., p.318.

71 ibid., p.318.


73 ibid.

74 KENWAY and CHLUMSKÝ (July, 1995) op cit., p.35.


76 GRANOVETTER, MARK (1985) op cit.
Chapter Eleven

Corporate Governance Models and Theories of Progress and Change in the Czech and Slovak Republics; the reassertion of the concept of economic embeddedness in a social and cultural reality

'To shift in natural science from one conceptual framework to another is one thing; to do so in social sciences is quite another. It is like rebuilding a house, foundation, walls, fittings and all, while continuing to live in it. We must rid ourselves of the ingrained notion that the economy is a field of experience of which human beings have necessarily always been conscious. To employ a metaphor, the facts of the economy were originally embedded in situations that were not themselves of an economic nature. The crystallization of the concept of the economy was a matter of time and history. But neither time nor history have provided us with those tools required to penetrate the maze of social relationships in which the economy was embedded. This is the task of what we here call institutional analysis.'

'For Aristotle, man, like any other animal, was presented...as naturally self-sufficient. The human economy did not, therefore, stem from the boundlessness of man's wants and needs, or, as it is phrased today, from the fact of scarcity.'

Introduction: A New Stakeholder Model

The 'corporate governance' model of the old regime (a bureaucratically administered, or command economy), was inadequate both in economic provision and in the attempt to use it as a replacement for civil society. The transformations of 1989 challenged the model and called for a new more legitimate model to be built in its place. Hilary Wainwright (1994) describes the dissidents and youth of this period as being influenced by neo-liberal ideas in the fields of social and political activity; that is they
were in favour of the prevention of state interference in the arena of politics and the private social arena. She questions however whether this really included the neo-liberal view of the market economy, one totally (or near as) devoid of regulation by state or other bodies.

The points made throughout this thesis correspond in different degrees to the various findings of many authors arguing explicitly or implicitly for a more institutional approach to economic reform in East/Central Europe and the former states of the Soviet Union, such as Beggs and Portes; van Brabant; Zdislav Šulc, Czech economist, closely identified with the Czechoslovak Economic Forum; Valtr Komárek as Head of the Czechoslovak Institute of Forecasting and Deputy Prime Minister in the first post-1989 government; the Czechoslovak High School of Economics as represented by Milan Matějka; Jan Vrba, Czech Minister of Industry, in the first post-1989 government; Myant; Myant, Fleischer, Hornschild, Vintrová, Zeman and Souček, Casson, Kenway etc. A central critique of this approach is firstly and primarily the questioning of the neo-classical emphasis on ownership change (in the form of privatisation) as the catalyst to economic reform and growth.

It would appear that privatisation is only one step on the road to a market economy which adequately provides for its citizens not only in terms of the efficient supply of consumer goods and basic commodities but also in terms of a democratic, regulated framework which enables effective and open participation in society, at either economic or political levels. Any macro-economic policy applied alone will not produce the important function of competition without other 'deeper' institutional reform measures. Fair competition requires an environment of thorough
demonopolisation (not assured by privatisation), clear delineation of corporate ownership and control and the responsibilities of economic actors within this (owners, managers, banks, local government, employees etc.), and a clearly regulated and enabling environment. Laws alone will not be enough to ensure the respect of such regulation. A culture based upon a new stakeholder model is required, one which emphasises access to information for the shareholder, the manager, employee and local citizen, and also which emphasises a wider notion of privatisation and the efficient operation of market forces. Only a wider understanding of the processes involved in economic activity and thus the implications for the very necessary process of privatisation (expropriation of the state from the national economy), can ensure the re-emergence of a truly ethical and operational civil society, which in turn is requisite for stabilising economic change and innovation. In other words rather than a narrow interpretation of market system prerequisites, a new and wider corporate governance model is required. Ultimately the governments of the Czech and Slovak Republics failed to recognise the importance of creating a forum for discussion of the issue of corporate governance models. In Germany the political importance of creating a united Germany effectively stifled any debate affecting action in the interests of Eastern Germany, which consequently appears to have become an industrial backwater.

This chapter attempts to assess the findings of all previous chapters in the above context. It sets out to ascertain to what extent the evolving corporate governance models can be defined for each country under discussion. The comparison of the three countries aims to highlight the different roles played by the various actors in the
corporate governance models and the transformation process as a whole and to reinforce the argument of embeddedness and the social nature of economic activity (Grabher and Stark 1997). Ultimately the chapter will challenged the 'transitionist' theory approach where the destination of 'capitalism' is assumed. The teleological assumption of such approaches first of all assume that the end state is static and known, and secondly that once the first changes have been made, the rest of the picture will automatically fall into place. It will also raise questions as important for Western Europe in the throes of developing a 'global economy', and will highlight areas for future research, reasserting the importance of the neglected area of the social and cultural embeddedness of economic life, or simply the sociology of economic life. This would include not only an appreciation of the role of institutional economics, but also a further exploration of network analysis and locality ecology (covering inherited and on-going socio-economic phenomena), and convergent ownership-control delineations (Sabel 1991), or asset ambiguity (Grabher and Stark 1997).

Chapter Outline

The chapter will first of all compare emerging corporate governance systems with Western models, before assessing the evolving characteristics of the Czech, Slovak and German models independently. The most important elements shaping the emergent domestic corporate governance models from the stages of the present transforming phase, from the state socialist phase and the pre-state socialist experience, will be reiterated from previous chapters. The main issues arising from this cross-country analysis will also be highlighted. Finally the diversity of models
and choices to be made, due to the active principal of economic embeddedness will be discussed.

**Comparison of Emerging Corporate Governance Systems**

**Comparison with Western Models**

In discussions of the merits and disadvantages of different types of market systems throughout the world many commentators have ignored, the concept of economic embeddedness (or the sociology of economic life) and thus also institutional economics as well as the possibilities for further evolution and change of any such economic models (e.g. Hayek, von Mises)\(^7\). They do so from a macro-economic point of view, rather than accepting the influence of inherited culture. Where the influence of institutional economics is appreciated it is done so in a rather limited scope. Thus Estrin (1991) argues that specific institutional economic forms in East/Central Europe have influenced the choice of privatisation, that is the chosen form has emphasised transferral of ownership rights (von Mises 1951), rather than control rights (Yarrow 1986), or the importance of regulation in privatisation (Vickers and Yarrow 1988, Estrin and Whitehead 1988)\(^8\). However this analysis of the role of institutional economics in the context of the Czech and Slovak Republics ignores the influence of issues embedded in past relations with on-going significance, as enumerated subsequently in this chapter. Similarly in discussions of the evolving corporate governance models of East/Central Europe many contemporary commentators have either ignored institutional economic theory and/or have used what they consider to be fixed model concepts. Thus Lipton and Sachs (1990) err on both counts with their
promotion of capital markets and an highly neo-classical view of the outsider model, and Dittus and Prowse (1996) on both when contrasting the Czech corporate governance system to both the Anglo-Saxon, Germanic and Japanese models in turn.

However Kenway and Klvačová (1996) and Coffee (1996) err only on the latter, in that they overlook the flux of such models, when comparing to the insider or Germanic model. Conversely Grabher and Stark (1997) take both these issues into consideration when comparing to the German and Japanese models, question both applicability and the assumption that these models are no longer evolving. Lastly Sabel continues to assess changes and transformations in market and other economies, especially with regard to an emerging, so-called 'global economy'. Therefore the value of such 'Western model' comparisons and fixed concept models are useful as a system of mapping differences and similarities in corporate governance structures, but limited as a tool for analysing change. The likelihood of East/Central Europe and the states of former Soviet Union being able to reproduce the necessary preconditions for a Western style social market economy, especially with regards to the so-called spontaneous development of social institutions has been questioned (e.g. Barry, 1993). Much more appropriate for such an analysis is an investigation into, and comparison of, economic organisations, actors and conditions in the countries under discussion. The bulk of this thesis has attempted to satisfy these conditions of investigation.

Indeed, this is one of the most fundamental problems of the many 'Western' comparisons which assume the validity of Fukuyama's argument of an End to History.
and the supremacy of the Western capitalist model\textsuperscript{24}. In fact the 'Western' or market economy model is so diverse as to question the notion of a Western model\textsuperscript{25}. In addition mature market economies, which are often assumed to be fixed and stable, are, in fact, in decline or undergoing dramatic change themselves (Sabel 1991), which have lead some authors to claim the rebirth of history (Glenny 1990) and the decline of the Western model (Gray 1993)\textsuperscript{26}.

Evolving Czech Corporate Governance Model

In the Czech Republic the production of the Anglo-Saxon outsider financial model of corporate governance was left to the supposedly automatically efficient mechanisms of the market, created by means of shock therapy (as counselled by Lipton and Sachs and the IMF), which involved stabilisation policies (freeing prices, currency conversion, opening of markets) and privatisation\textsuperscript{27}. The discrepancies between the imposed macro-economic model and the grassroots micro-economic system highlight the difficulty of imposing a supposedly 'disembedded economy' or a neo-classical free market economy onto a more 'embedded economic' system inherited from the previous regime and the need for a design of corporate governance structures to create an economic model appropriate to a transient economy\textsuperscript{28}. Instead, what does appear to have happened is that the organic model growing at the firm or micro-level of the system in response to the unresolved and on-going socio-economic and political problems has influenced the macro-economic level model originally conceived as a singular panacea. Thus, from this interplay of factors
has resulted the vagaries of the ownership-control dichotomy and lack of restructuring outlined in this thesis.

Resolution of this problem can only come about by a decision to begin structuring governance of corporations and a model to be adopted in both the Czech and Slovak Republics. This means that issues of both physical and cultural infrastructure and institutional arrangements (similar to Bourdieu's financial capital, social capital and network capital) must be dealt with, rather than relying rather optimistically upon the vagaries of the market to sort them out\textsuperscript{29}. Thus the issue of embeddedness of any economic system in a social and cultural landscape which has \textit{on-going} relevance for the functioning of that system needs to be recognised and dealt with\textsuperscript{30}.

\textit{Imposition of the Outsider Model at Macro-Economic Level.}

In the Anglo-Saxon model institutional arrangements for industrial investment are minimal and the trading of shares, often by investment funds and groups, on the stock market is relied upon to regulate firm efficiency and allocate investment and share value according to success.

Tom Cannon (1994) has described corporate governance as follows:

\textquote{The governance of an enterprise is the sum of those activities which make up the internal regulation of the business in compliance with the obligations placed on the firm by legislation, ownership and control. It incorporates the trusteeship of assets, their management and their}
deployment. The responsibilities of the trustee centre on the disinterested care of assets belonging to another party. The executor is an agent entrusted with the deployment of resources on behalf of another. A manager is expected to marshal assets to get the best returns for his employers. Each of these components are included in the notion of effective governance. The separation of ownership from control in most large firms shaped a view of the senior management of the firm as the 'elected' government of the firm. They are elected by and responsible to, their electors, i.e. the voters or shareholders in the enterprise.‘...’.\textsuperscript{31}

This type of definition is more appropriate for Anglo-Saxon system. It functions to a certain degree in the UK and USA, despite the problems of this type of ownership arrangement, due to firstly, relatively stable patterns of business practice, a strong entrepreneurial social grouping with experience and capital for investment and secondly due to long established dealings with international corporations and markets and experience with banking systems.

However, in the Czech Republic all institutions and economic relationships are nascent and still evolving and the scope for independent Czechoslovak and, subsequently, Czech investment is limited due to a lack of domestic saving. The lack of capital causing, in part, primary payment arrears, and almost all of secondary payment arrears. (Veselý 1992), is not altered by a change in ownership. In addition the Investment Privatisation Funds, due to the lack of an established entrepreneurial class and stock market and therefore a lack of competition, are able
to act without any opposition from other sources of capital. This, in turn, allows the Funds to act with free license according to their own wishes and requirements. Lastly during the time of study (late '89 to Spring 1995) there was also little external governmental or legal regulation of these trusts and even of banks resulting in unprecedented take-overs and abuses. In effect government policy, shareholder behavioural expectations and IPF and bank priorities for short-term gain combined to endorse the minimum legal and regulatory framework of the neo-liberal model, to a far greater extent than it had evolved in the US. and the UK. Given that this model was imposed, albeit inappropriately, from above, the question must be asked: what was the inherited model from the enterprise and grassroots level and whether it is closer to the Anglo-Saxon (outsider) or Germanic (insider) model.

Inheritance and On-Going Issues

The following issues have been raised throughout this thesis and have a direct role to play in establishing the nature of the actual evolving corporate governance model.

Firstly, the immediate inheritance from the socialist regime has been referred to as follows;

* networks and 'network capital' - firm-locality links, firm-state links, local government-central government link.
* the problem of primary and secondary payment inabilities, or arrears originating from the previous regime and being propagated in the present

* inherited industrial structure reformed since the 1950s but still rooted in that planning with an emphasis on heavy industry and central directives - lack of investment in traditional areas of expertise, and in potential growth areas, such as brewing, glass-making, and light engineering and electronics etc.

Secondly, on-going phenomena from the present 'transforming' system:

* inadequately reformed banking system - large state ownership in banks; new commercial banks unwilling to make out loans; high interest rates (only form of real financial revenue for banks); lack of regulation of insider trading, especially no 'informational firewall'\textsuperscript{33} enforced between banks and IPFs; no limit on bank owning through its IPF substantial shares in competitor enterprises\textsuperscript{34}.

* 'weak character of concentrated ownership'\textsuperscript{35} pattern - cross-ownership between banks, financial intermediaries, IPFs and state via National Property Fund; banks owning shares in competing enterprises; IPFs have no management experience and no industrial sector and firm specific knowledge; banks and IPFs have neither the incentive nor the resources to become active owners in firms and carry out restructuring, as there are fewer overheads and more money to be made in trading in voucher shares. Banks hold no equity directly in firms owned by their IPFs, therefore the only advantage to a bank of an increase in the value of a stock is an increase in the management fee it receives (2% of net asset value of fund)\textsuperscript{36}; there is little stock market trading (that which exists tends to be in IPF shares themselves) and no further privatisation waves.

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* Management knowledge - of firm, industrial sector and appropriate networks; no experience of market systems, nor of restructuring, and naturally not of management of transformation on such a large scale.

* Lack of work discipline in workforce but a strong/passive or limited bargaining role from past\textsuperscript{37}.

This combination of factors reflects a tradition more in tune with a German or continental corporate governance model (an insider model).

\textit{The Germanic or Insider Model}

Teichová (1974) has noted the existence of strong participation by joint-stock banks in industrial enterprises and in transport and trade companies in the inter-war period in Czechoslovakia. She has described the resulting relations between industrial companies and banks as being 'a net of relationships of varying degrees of dependency'\textsuperscript{38}. In 1997 the cross-ownership between banks, IPFs and control of firms, and thin equity markets as well as the position on the boards of directors and supervisory boards of firms of bank-owned IPFs parallel certain elements in the German system. Thus some commentators such as, Dittus and Prowse (1996) suggest that once openness of information and monitoring of banks is adequate, the German/Japanese model will make a more appropriate model for the Czech Republic to emulate than the Anglo-Saxon version\textsuperscript{39}. To this end they suggest banks being allowed slowly to swap debt for equity to gain the necessary experience of management and managerial responsibility to function in the required way. Unfortunately it is questionable as to whether this single measure...
would effect such improvement. It misses the point, that firstly, in a sense banks do own equity through their financial intermediaries which control the respective IPFs; and secondly, while IPFs do actually own equity, this makes little difference to their involvement with the enterprise for reasons already outlined, such as: lack of management experience; lack of financial and other resources to aid restructuring; lack of competition in the financial sector; lack of fluidity on the stock market; and the nature of incentives and success criteria for shareholders in the form of IPFs and ultimately banks owners. Therefore existence of the same factors in the environment and behaviour of banks suggests that bank ownership of equity alone would not effect any efficient development of responsible firm management. Indeed, Kenway and Klvačová's (1996) insight into the nature of equity in the Czech Republic emphasises the importance of the last three factors noted above. They refer to the fact that the acquisition of shares in the first place are a result of voucher privatisation and not the result of:

'past decisions to raise finance for these firms through new equity issues',

and thus are unlikely to produce greater access to credit on the part of the firm. Kenway and Klvačová (1996) consequently point out important differences between the Germanic system and the Czech one, which temper any easy comparisons. Until recently it was assumed that because German banks often hold firm equity and often sit on supervisory boards (although this is not always the case), this allows an ease of access to loans for firms (from their bank owners) and
access to information on the firm for the bank. However, Edwards and Fischer (1994) have questioned this assumption by claiming that fewer banks hold equity in firms and sit on supervisory boards in Germany than previously supposed. Similarly, only 3% of value of loans are equity supplied finance. They conclude, therefore, that there are few advantages to either banks or firms under this system over the Anglo-Saxon one, unless the bank or a majority shareholder is interested in and has the ability to fulfil the role of being actively involved in the firm. Despite this, it has been argued by Gorton and Schmid (1994) for West Germany, that where banks do hold firms' equity, they improve firm performance.

Consequently, Edwards (1995) suggests that the role of interested and able shareholder is the one IPFs must take over in the Czech Republic for the same insider model to work. However both this author and Kenway and Klvačová (1996) question the incentive for and ability of present day IPFs to carry out any such a role.

In addition to the aspects noted above, the problem of loans is an important one. Many banks are reluctant to make out new loans while preferring to charge high interest on the loans they do make out. The reason for this behaviour is that the interest on loans is the only source of revenue, as has been reported in previous chapters. In the German system, the importance of banks making loans available to companies is one of the supposed hallmarks of this system. However, such ease of access to credit does not occur in the same way in the Czech Republic. What does signify a special relationship between banks and IPFs and firms is the reluctance of banks to initiate bankruptcy proceedings, compromised by their ownership status.
through their financial intermediaries, which hold the IPFs. The chances of a bank with any such a relationship embarking on inevitably risky firm restructuring is unlikely. Thus while also arguing for banks to be given equity, Coffee (1996) has pointed out that:

'Indeed, to the extent that the major banks are also lenders to the major industrial firms, their self-interest is not for fierce, cost-cutting competitive battles to break out, but for stable, sustained growth and shared markets. In particular, because the banks (and their controlled investment companies) do not own much equity in the industrial sector, but rather simply advise IPFs for a fee, their economic center of gravity is that of risk-averse creditor with a distaste for uncertainty and volatility.'

Thus the concerns over any bank's ability to carry out such a management function in the German context (unless they become an interested and able majority stakeholder) mirror the same concerns for the Czech Republic. The important difference is that in the German context these concerns refer more to potential characteristics or deficiencies of actors within the system. In the Czech Republic, however, these concerns centre on the actual inability of the very economic structure to deliver the preconditions for such characteristics to emerge. Consequently, it would appear that the cross-ownership structure in the Czech Republic superficially mimics the Germanic arrangement, but cannot operate in the
same way due to the lack of similar economic institutions and institutional fabric (including legal provisions and a wider competitive environment).

However, important similarities do exist between banks and firms in the Czech Republic and in advanced market economies with regards to risk-aversion behaviour. Sabel (1991) notes from observations of the US and German advanced manufacturing sectors that market flexibility of firms is increased by ambiguous property delineation and not dissaggregated property as claimed by the property rights school. Kogut et. al. (1992) finds that economic actors engage in relationships with other economic organisations (competitors or otherwise) to survive in situations of extreme market volatility. Thus there are great parallels with the inherited and adapted patterns of socio-economic networking behaviour observed within and between firms and between central and local authorities and the enterprise which have prevented either the pure insider or the outsider model of corporate governance from operating fully, as if transplanted into a cultural vacuum. Stark's findings support this thesis as follows:

'The existence of parallel structures (however contradictory and fragmentary) in these informal and interfirm networks that 'got the job done' means that the collapse of the formal structures of the socialist regime does not result in an institutional vacuum. Instead, we find the persistence of routines and practices, organizational forms and social ties, that can become assets, resources, and the basis for credible commitments
and co-ordinated actions in the post-socialist period (Bourdieu 1990; Nelson and Winter 1982). In short, in place of disorientation, we find the metamorphosis of *sub rosa* organisational forms and the activation of pre-existing networks of affiliation.

Evolving Slovakian Corporate Governance Model

*The 'Pure' Insider Model?*

The Anglo-Saxon model envisaged by the first wave of voucher privatisation and macro-economic policies across the united Czechoslovakia gave way in Slovakia to a subsequent emphasis on Management Buy-Outs through Direct Sales and a slower and more erratic macro-economic platform. These policies were successful in maintaining stability in the short-term, but also in provoking a potential long-term stagnation, yet to be fully realised.

Schmoegnerová (1993) argues that while the ownership structures initially suggest the insider model of institutional stakeholders, the lack of interest and expertise of the IPFs in the long-term restructuring of a firm suggests the evolving model falls short of the 'pure' insider corporate governance structure usually associated with this type (similar to the Czech situation). However, when viewed in the context of specificities of the Slovakian situation; the inherited centre-locality relations, Schmoegnerová's analysis is further qualified.
The centre-locality dichotomy intersects with political patronage to produce privatisation and other economic action according to old and re-intrenched power and informational networks.

Slovakia's achievement of status as a Rechtstaat (state where rule of law predominates), and thus ultimately its strength and nature as a liberal democracy rest on its ability to properly execute law without political clientelism and faction fighting. The fact that privatisation has become a weapon of political clientelism resulting in a stop-go process endangering the very legitimacy of new ownership and thus a market order would suggest that this problem had not been averted. Political patronage also influences choice of personnel in key posts in the media and economics and elsewhere.

*Inheritance and On-Going Issues*

Slovakia shares similar characteristics with the Czech Republic inherited from their common past and separate experience under the Austro-Hungarian Empire. The differences, however, are also striking. Previous chapters have enumerated the properties of the Slovakian situation influencing current events.

Firstly from state socialism:

* general tradition of strong state-weak society relationship

* relatively young industrial development (beginning in the state socialist period)

- emphasis on heavy industry, especially steel and armaments; few domestic
traditional success industries (as with Czech glass-making and brewing); little indigenous entrepreneurial skill; few domestic entrepreneurial skills

* uneven and splintered **distribution of industrial and regional development** under state socialism, unreformed post-1989 - most localities dependent on one employer; production processes splintered down to small villages; dependence on centre for much direction and guidance

Secondly from the post-1989 transforming system:

* **more gradualist macro-economic change** post 1989 - slower pace of privatisation

* **developing political favouritism/clientelism/patronage** with regard to privatisation and important media and other positions and regular **political faction fighting** affecting political processes.

* **charismatic and populist but essentially weak political leadership**, especially in the sphere of economics

* **unresolved financial field** - banks yet to be privatised (1997); stock market weak, little trading

* **re-intrenchment of old informational and power networks** amongst and between management, local authorities and the central state apparatus

* **strong unrestructured firms, often comprising whole industrial sectors**, with old networks still in place, e.g. East Slovakian steelworks

* **intersection** of unresolved centre-locality dichotomy with informational management and local power networks
corporatisation-large industrial conglomerates moving into the financial sector, thus becoming important stakeholders.

Corporatism, Localities and Clientelsim

Thus so far, in Slovakia the inherited conditions and present policies have produced strong, unrestructured firms, whose management networks, often with the ignorance of the shareholders (European Bank for Reconstruction and Development with Slovnaft⁶⁹), amass political, economic and financial power from their bases in the regions. Although it is too soon really to typify the type of corporate governance model evolving in Slovakia, it appears that MBOs and ownership of firms and financial institutions by former domestic industrial sectors, (which are now evolving into national corporations), are now beginning to take on an important role. These phenomena define the Slovak situation as opposed to the Czech.

It is interesting to note that the form of management capitalism of 19th century Britain was primarily characterised by ownership management, as compared to the German form in the same period, in which the banks and institutions had already begun to figure strongly in the ownership and therefore in the market structure. Slovakia displays characteristics from both these 19th century systems. Thus, at the cost of potential stagnation, Slovakian policies have created domestic owners and a national economy based on inherited and re-intrenched old power structures and network capital. This has not been purely a by-product of patchy reform and inadequate policies as in the Czech Republic, but also a result of the very choice of
processes themselves. In Slovakia, the government intervened in the development of a market economy for reasons of political self-interest and rising nationalism. However, the intervention was characterised by short-term thinking rather than strategic choices, resulting in an increasing stagnation and unhealthy corporatisation of economic and political life. This has implications for the development of civil society, which in turn underpins all spheres of social and economic life. The extent to which this economic form will remain productive is questionable.

It is also interesting to note that the centre-locality dichotomy in terms of a lack of state legitimacy in the eyes of a disempowered society has also been expressed as a reality in more mature market economies such as Italy, where the political and state corruption crisis have resulted in a complete breakdown of civil society trust in both the political processes and to a certain extent the state apparatus. This is not yet the case in Slovakia, although one could argue that the parallels to the former states of the Soviet Union and some other East European states is more evident. Thus, it could be argued that this situation is not only one of so-called 'transitional' economies in the former state socialist states but also one of post-modernity in the mature capitalist economies. Indeed Illner (1996) also refers to Putnam's (1993) work on Italy with regard to the relevance of mapping social and cultural mechanisms which ensure the transmission of different regional political cultures and patterns of civic engagement.  

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Issues for the Czech and Slovak Republics Arising from Cross-Country Comparison

A number of points arise from the cross-country comparisons:

First of all, one cannot assume appropriate end models for transforming societies. Stark (1997) notes the different patterns of networking in South-East Asia, but quite rightly argues that these are valuable for East/Central Europe not as models but as comparisons, by which regional features become more distinct.

Second, once a comparison with the Anglo-Saxon, Germanic and the Japanese Keiretsu system and other South-East Asian forms has been carried out it becomes clear that one cannot draw simplistic conclusions. As a result Stark (1997) argues that the answer lies not in 'the right mix of public and private' but in the 'right mix of adaptability and accountability' arising from the right 'organization of diversity.'

Third, the author of this thesis argues that the issue of economic embeddedness or the essentially social nature of economic activity and thus networks is as important in mature Western societies and South-East Asian societies as it is in post-socialist societies. Indeed, Stark (1997) refers with reference to Gereffi (1994), to the importance of 'social embeddedness and local organizational innovation of East Asian corporate networks.'

Fourth, the importance of the ability to regulate economic institutions and actors adequately and to provide a system whereby economic actors accept degrees of social and institutional trust becomes apparent.
Fifth, this author argues that the conception of civil society holds a key to this last point as reflected in the on-going differences of opinion between President Havel (representing an emphasis on aspects of 'positive freedom' and the importance of civil society) and Prime Minister Klaus (representing the 'negative freedom' emphasis of the neo-classical economic approach) on the approaches to political involvement of citizens. As Klaus's reforms now come under a new critical approach the processes of an emerging political and socio-economic culture continue to be debated.

Sixth, on the positive side, however difficult the evolution of such a model may be, both the Czech and Slovak Republics have the unique opportunity to develop their own forms of business and legal practice in accordance with their specific historic experience and cultural setting. This is not the case in "eastern" Germany, which has additional implications for the stakeholder model. Nuti (1996) argues that since elements have appeared in transforming economies which should not be there, 'post-communist mutations', there is a chance that these forms may develop negatively, i.e. descent into mafiya corruption and nomenklatura privatisation, or may develop a better form of market economy, considering the concessions made to employees (in the form of shares), achieving greater economic democracy. This is a rather optimistic view, but does make the point that the transformation of post-communist economies brings into relief the discrepancies in the advanced capitalist market systems advocating change.
Diversity or Choices of Freedom: the reassertion of theories of economic embeddedness

Systems and cultures arising from choices of freedom have been explored in relation to market versus command economies in Chapter One of this thesis. The reality of choices of freedom is still however relevant to transforming societies in two ways: firstly in relation to the positive cultural inheritance of 'freedom to' (referred to by Illner (1996) as the 'heritage of "real socialist" society'), and therefore a strong awareness of the issue; and secondly and subsequently in relation to the present choices of social and economic transformation and behaviour. The 'real socialist' society is the culturally accepted form of state socialism, which sought to legitimise its authoritarian political control by means of satisfying positive or economic freedom. Although it did not succeed entirely in this respect, where it did achieve equality of economic provision, this became embedded culturally as a good and necessary form of real socialism. Similarly, writers assuming transition to a liberal democratic system, such as Dahrendorf (1990) and Habermas (1990), ignore this potential choice of freedoms, and thus by implication, choice of corporate governance systems, by emphasising the deviation from the 'norm' by the socialist experiment. Thus Dahrendorf (1990) describes the legacy of state socialism as the 'long and tragic historical deviation which had begun in 1917', and Habermas (1990) refers to the events of 1989 as 'rectifying revolutions'. The reality of choice of freedom reinforces the argument of economic embeddedness (Polanyi 1944). Granovetter's (1985) further development of this
principle into the concept of the 'on-going phenomena' resulting from the interplay of inherited internalised behavioural patterns and existing external conditions, e.g. of economic change, is also highly significant for transforming economies. In this context 'on-going phenomena' are similarly located in the interplay between past and present behaviour and conditions in a multi-sphere context, that is in the economic, political, social and cultural spheres (or capitals as Bourdieu might call them). It is within this context of inheritance, present radically changing conditions and on-going phenomena that organisational reform and the evolution of a corporate governance system must be located. Five important issues arise from this contextualisation.

Firstly, the inability of the simplistic neo-classical and usually Western inspired models and assessments of transition such as those of Lipton and Sachs (1990) and (1991), Friedman (1990), Kornai (1990a), (1992) and (1993) (although his 1997 work reassesses these views), the IMF and the World Bank to take into consideration the interplay of the economic, political, social and cultural, as well as the role of inheritance, present conditions and ongoing phenomena. Thus the economic models applied were inappropriate to the task in hand. Thus Casson writes:

"Western experts advising East European countries on the transition to a market economy face an embarrassing problem: namely, that there is no adequate economic theory of institutions on which to base their policy recommendations. As a result, the advice given by Western economic
experts stresses those aspects of the economic system which can be understood using the limited range of concepts employed by conventional economic theory.60

Where an acknowledgement is made in the neo-classical literature of other influences, there is no attempt to integrate them into economic policy advice (Lipton and Sachs 1991), except to suggest that boards of directors should control management and that those boards should be made up of pension fund, bank and investment trust representatives61. No questions are raised as to the shortcomings of this suggestion, i.e. lack of management skills and experience, lack of investors' incentive to monitor for long-term restructuring etc. Thus the recommendations barely reach the level of the institutional economic approach. Illner (1996) has called this the 'economic fallacy' of transition. However, the institutional economic approach has a similar weakness, in that it emphasises exclusively the importance of changing institutions in order to effect any real economic change. This ignores issues of 'on-going', that is adaptive socio-economic behaviour of actors and their practices in the firm and its environment, e.g. network capital, inter-firm networks, centre-locality networks, etc. This Illner refers to as the 'institutional fallacy'.

Illner also raises the question of 'voluntaristic fallacy' whereby it is believed that 'the successes and failures of the post-communist transformation depend predominantly on the configuration, behaviour and strategies of political actors, political parties and movements, the leading politicians - the Havels and Walesas, foreign political and economic institutions - NATO, the European Union, the
World Bank, the IMF, foreign capital, the conspiracies of the former *nomenklatura*, Mafias, ethnic minorities etc.\(^{62}\). This thesis does not cover the political aspects of change in any great detail although it does refer to its importance.

I would like to add to this 'organisational theory fallacy', which although referred to by Illner in the above in terms of organisational factors, I do not believe covers the economic organisational area adequately. Here I would include writers such as Jone Pearce. At the micro-level Pearce (1993) argues that Western organisational change models are more applicable to post-Communist enterprise organisational change in Eastern Europe than the prescribed Western economic models\(^{63}\).

However, this approach has led to claims that there is more resistance to change in stable Western economic organisations, where employees can use their residual power base as a block, than in Hungarian organisations where all is in flux, and thus no power base remains unchallenged\(^ {64}\). From the evidence of this thesis, it would appear that in fact firm and local power networks have had adequate opportunity in the largely unregulated environment of East/Central Europe and the former Soviet Union to adapt and profit from various economic strategies and to resist organisational change, whether they be old static networks or reinvented professional ones. Zeleny (1993) notes similar mistakes in attempts by organisational theorists and practitioners under past systems to import models\(^ {65}\).

Thus, while accepting that many capitalist and state socialist organisational forms were more similar than different, the environment for those organisational forms were completely different. Thus socialist theorists, who under the past regime attempted to run the country as General Motors Co., a huge and successful
corporation, failed because although 'General Motors was run as a command economy according to such principles', the society in which it operated was not. Therefore, it can be argued that while the purely neo-classical economic approach resting on Hayek's arguments for an unfettered market free of state interference (as advocated from 'Harvard, from IMF, and from the experience of Bolivia'), and control can be rejected as the panacea to post-Communist societies undergoing economic transformation, so too can the micro-level theory of organisational change which seeks to define itself within a functional understanding of organisational change separated from the surrounding social, cultural and political environment.

All the above points are rejected as fallacies when promoted as the sole explanation and solution to transformation. However, they are all accepted as factors which combine to influence transformation. How are they to be organised under an integrated approach to analyse and promote opportunities for transformation? I suggest here the approach which I define as 'theories of progress', after Sztompka's (1990) title. Theories of progress acknowledge the interplay of inheritance from the past which in turn fuel the on-going phenomena, or an adaptive behaviour of old socio-economic actors and practices at micro-level (Myant [1993], [1997], Begg and Portes [1992], McDermott [1994]), etc. In theories of progress (Sabel [1991], Grabher and Stark [1997], and Stark [1997]), the corporate governance model relies on the state of the inherited environment in which it must take root. Therefore any economic system is embedded in society and social processes (Polanyi [1944]). In a situation of
system transformation this relationship of embeddedness is doubly emphasised due to the influence firstly of inherited socio-economic, political and cultural practices from the previous regime and secondly the process of a newly evolving system of rapidly changing paradigms in the above areas and thirdly on-going behavioural and cultural practices. The first two factors fuel the on-going phenomena (or adaptive behaviour). Unlike gradual transformation of a society, where only certain aspects of certain areas may be evolving at any one time, in system transformation all areas are simultaneously under pressure to change. Thus the very dynamism of the process may cause completely new, and radically different, practices to be introduced while certain inherited practices go unchallenged (Sztompka [1990], Nuti [1996]).


However, Sztompka and Illner offer perhaps the most succinct view of the processes involved, and the closest to this author's findings and indeed from a East/Central European (Polish and Czech respectively) perspective. Sztompka (1990) has produced a diagrammatic description of sociological and cultural processes influencing progress. He asserts that any existing state of society is only a phase of a process, a product of past operation (according to historical tradition) and a precondition for future operation. However, Sztompka also refers to an
essential constitution of society which is the human individual with the potential ability to be reflective and self-conscious. Thus, issues of freedom and self-tranascendence forms the core, but not the exclusive part, of this process. In this conception neither the economy nor politics holds sway. Rather progress or otherwise is a synthesis of all these elements. The findings of this thesis both at organisational and theoretical levels have promoted the author's argument for a participative and overt design of corporate governance structures to promote change. However, the one of the biggest hurdles to the effective design and implementation of appropriate corporate governance models in East/Central Europe and the former states of the Soviet Union is the often absent or at least compromised issues of social and institutional trust and the difficulty of providing for this in the form of an economic programme. This trust can be interpreted as the awareness of, and willingness to honour, individual and group responsibility to ethical practise in the various situations of economic and social engagement. Indeed Sztompka refers to this as a lack of 'civilizational competence'.

Under the former context of institutional trust can be listed situations of economic and administrative actors, managers and employees. Under the later context of social trust can be listed social and political activity aimed at engaging in and effecting change, i.e. civil society.
Sztompka's Agency and Progress Theory Diagram

past \hspace{1cm} time t_1 \hspace{1cm} time t_2 \hspace{1cm} future

\begin{center}
\begin{tikzpicture}
  \node (past) at (0,0) {past};
  \node (t1) at (4,0) {time t_1};
  \node (t2) at (8,0) {time t_2};
  \node (future) at (12,0) {future};

  \draw[->] (past) -- (t1);
  \draw[->] (t1) -- (t2);
  \draw[->] (t2) -- (future);

  \draw[->] (past) -- (structure); % Structure of the Past
  \node (structure) at (1,1) {structure};
  \draw[->] (structure) -- (transformation); % Transformation from Structure
  \node (transformation) at (2,2) {transformation};

  \draw[->] (structure) -- (agency); % Agency of the Structure
  \node (agency) at (2,1) {agency};
  \draw[->] (agency) -- (praxis); % Praxis of the Agency
  \node (praxis) at (2,0) {praxis};

  \draw[->] (praxis) -- (actor); % Actor of the Praxis
  \node (actor) at (2,-1) {actor};
  \draw[->] (actor) -- (action); % Action of the Actor
  \node (action) at (2,-2) {action};

  \node (history) at (4,-3) {history}; % History

  \draw[->] (history) -- (past);
  \draw[->] (history) -- (t1);
  \draw[->] (history) -- (t2);
  \draw[->] (history) -- (future);

  \draw[->] (structure) -- (transformation) -- (agency) -- (praxis) -- (actor) -- (action) -- (structure);

\end{tikzpicture}
\end{center}

\textit{Source: Sztompka, Piotr (1990) Rethinking Progress, Movements, Forces and Ideas at the End of the Twentieth Century. Figure 12.4, p.254}
Thus a new corporate governance model for each of the countries under discussion cannot be reduced to a mimicking of Western model, already in decline, but must be part of an organic, participative process. Within this two important constituents must be taken into account, participative economic organisation and decentralisation from the centre to the regions regarding economic reform and privatisation. It is would be necessary for this to occur within a context of overt and officially regulated involvement of employees, managers, citizens and local regions. Similarly Zeleny (1993) called for a transition to capitalism to occur along the diagonal line of his conception of the relationship of ownership to control; that is from socialism (anonymity), characterised by state ownership and control, to capitalism (public), where control rests with public corporations and ownership rests with the public (shareholders), to capitalism (private), where control resides with private corporations and ownership resides with the private sphere (employees). This, he claims, avoids the problems and failures of other combinations of ownership and control: for example 'Perestroika (as-if' pseudo-ownership), resulting from public corporations holding control and the state retaining ownership; or 'participation with no responsibility' (as in the Yugoslav experience), resulting from control resting with private corporations and the state retaining ownership; or Fascism (state holdings), where the state controls and the public (shareholders) own; or Nazism (state dictate), where control rests with the state and ownership with the private sphere (employees). Thus Zeleny (1993) also argues for decentralised regional and local economic reform and privatisation with rigorous demonopolisation along with other measures.
All views which fall into the category of 'theories of progress' provide a richer perspective from which to view the transformations in East/Central Europe and overcomes the problems with what has been accepted as the standard type of economics but which is in fact the neo-classical type.

In other words the choice for future development is not a choice between Marx or Adam Smith's theses. It must include the understanding of inheritance from the past, which Illner refers to as follows:

"The "lost-child-returning-home" model of post-Communist transformation is simplistic and ahistorical: we hypothesise that irrespective of the programmatic intentions of the transformation's designers - politicians and intellectuals, the societies that are developing in Eastern and Central Europe on the ruins of the Communist regime will not just become late-arrivals to the family of the Western liberal capitalist states and will not be passive copies of some of them. Nor will they be reproductions of what Eastern and Central European societies used to be before the Communist takeover or before World War II."79

It is in this sense that cultural inheritance forms the bedrock of the contextual paradigm for economic, political, social and cultural transition. It is for this reason, as Grabher and Stark (1997) point out, that economic sociologists and legal scholars study East Asian economies from a network approach80. According to Redding and Whitley (1990:79), the:
'Anglo-Saxon conceptions of the legally bounded firm as the basic unit of economic action are inadequate to explain the economic actions and structure of chaebol and Chinese family businesses, both of which have complex extra-firm linkages influencing decision making'.

If one subsequently accepts this view of the theories of progress approach in East/Central Europe, then the interpretation of data from the field becomes immediately richer. Thus Jones (1993) argues for a return to 'diversity' of distinctive national developments of the new administrative systems as in other areas of reform in these societies. Grabher and Stark (1997) also refer to diversity when talking about enterprise restructuring and corporate governance and economic activity in East/Central Europe. If this approach is taken, the level of democratic functioning and the processes of civil society need to be properly appreciated in order to create the best environment for a new corporate governance model at organisational level. Similar issues need to be considered for Western Europe and other mature market systems.

This, in turn, provokes questions for societies of Western Europe and North America. Charles Sabel (1991) has written about the problem of our old language of organisational and social and economic change not being adequate to the task of describing economic transformation (specifically) in capitalist systems. He argues that the development of new vocabulary needs to take place away from the old terms of proletarianism. This is because the economic system previously exploited citizens, but now excludes them from it. Also he claims that in volatile Western
markets, a new form of organisation which learns to adapt rapidly from declining
to new markets, rather than diversify into unrelated activities to avoid danger, is
developing and this requires a questioning of the relationship between the
corporate and local society. However:

'The precondition of this strategy is increased internal flexibility, and its
consequence is the opening of the borders between corporations and
between the economy and local society. But flexibility and openness create
new problems of coordination... responses to these vulnerabilities are
consistent with the reintegration of conception and execution and depend
on overcoming the distinction—traditional in theories of organization of the
firm—between learning and monitoring or trust and control.'85

If in the Czech and Slovak Republics ownership-control responsibilities are unclear
and the role of owners, managers, employees, and local-central government
organisations are in flux and continue to be undefined and unplanned for, then the
future, given the above global scenario, is even more unclear.

What becomes pertinent to both mature market economies, transforming market
economies and developing economies in the global context of state divestment of
economic power to multi-national corporations are issues of democratisation and
regulation. What happens when at the locality level, economic disempowerment
(i.e. unemployment and inability to affect decisions influencing the locality)
becomes a feature across the globe.
What will develop in East/Central Europe or indeed in the former Soviet Union is still not clear but the outcomes will not only be influenced by the global economy but also by the national characteristics outlined above. Ultimately Polanyi's (1944) thesis, as also developed and argued by Granovetter (1985) offer the best approach of analysis; one of economic embeddedness which allows an open analysis of economic preconditions, sociological processes and national-cultural influences.

**The Future or A Postscript**

**Suggestions for Further Research**

Two 'holes' of knowledge appear from this research which are mirrored and referred to in other works specifically dealing with transformation in East/Central Europe and the former states of the Soviet Union, and more theoretical works dealing with the issue of economic embeddedness and the sociology of economic life.

*Sociology of Economic Life in East/Central Europe and Generally*

* The difference between networks in post-communist (inherited from an administrative system of communist economy) and capitalism requires further work. Although differentiation of networks between the two is real, excessive resort to this differentiation without appreciation of the role of networks in capitalist societies gives rise to the problem experienced at the beginning of the transformations in East/Central Europe of simplistic models being recommended
without due understanding of institutional economics, and the sociological practices of economic life.

* Within this the roles of employees and local citizenry as supposedly 'passive' networks in organisational change need to be assessed.

* The role of owners in, and the possibility for, effective strategic management arising from secondary privatisation in the Czech Republic.

* The role of local government as a mediating institution between centre and locality, enterprises, citizenry and power networks.

**Firstly,** assessing the role and nature of network capital, in advanced, as well as transforming and developing economies, would feed usefully into organisational and economic theory approaches enabling a more accurate and contextualised view. An example of this in the transforming context would be a comparison between East and West German entrepreneurs and enterprises in post 1989 for a window of a few years until the culture gap or firms closed.

**Secondly,** with regards to the important role of local government. This author would argue on the basis of the present research for a view of local government as being active in the process. The question of direction and orientation, as well as motivation for any action, requires in-depth research into linkages between local, central government and a set number of firms.

**Thirdly,** a question with regard to the participatory role or otherwise of employees in restructuring of enterprises needs to be answered. This is particularly important with regard to the true effect of restructuring at enterprise level. The role and
manner of dealing with employees at the 'bottom' of the pyramid in terms of information, participatory management, discipline in production or otherwise. Slovakia and the Czech Republic, because of similarities and differences, would make a very good comparison for such a study. Both these sets of actors form part of the corporate governance structure.

Fourthly, more monitoring of corporate governance evolution and the role of owners and managers within any such development, and the effect of secondary privatisation in the Czech Republic and industrial ownership in Slovakia.

Theoretical Issues

* Arising from the comparison of networks it would be useful to carry out an investigation into the degrees and styles of economic embeddedness in a social or cultural reality in a mature market economy and a transforming economy and a traditional market economy, e.g. the North African souk. Granovetter has already attempted the latter with regards to Malaysian business and market practices and the 'Entrepreneurship and African Cultures Research Programme Workshop' (1993-1994) has highlighted the rational nature of economic activity for neo-classical economists versus the relational nature for Africans. Indeed von Zon (1994) notes the importance of certain aspects of 'Third World economies' experience for East/Central Europe (especially the deindustrialisation of Argentina and the experience of Mexico, and the experience generally of third world countries and their relationship with the IMF), rather than the Western European and North American models.
A cross-cultural comparison may throw into relief the networks active in mature market economies. Similarly the importance and constellation of centre-locality relationships in all of the above societies need to be explored. The increasing power of multinationals vis-à-vis national governments and locality self-determination are as relevant, if not more so, in mature market economies as elsewhere.

It is interesting to note here that in relation to the issues of networks and economic embeddedness, Polanyi (1944) has referred to the three basic principles influencing the consciousness of Western man/woman and thus influencing our conception of society's relationship to the economy. These three principles are as follows: knowledge of death, knowledge of freedom, and knowledge of society. The first he remarks comes from the Old Testament story, according to Jewish legend; the second, the idea of the unique individuality of each person, comes from the teachings of Jesus, according to the Gospels; and the third, the awareness of the importance of society comes from Robert Owen, industrialist, social reformer and utopian. Owen points to the fact that the Gospels ignored the reality of society and that the potential for individual freedom cannot be realised in this form in a modern complex society unless it takes place in a truly co-operative commonwealth.

In other words the cultural as well as the social context provide the bedrock for economic and political activity in which human beings locate themselves. The experience of East/Central Europe has thrown into question the very economic systems that seemed to have superseded it (i.e. those of Western Europe), and
emphasised the complex nature of change. The claims of the end of history have begun to be replaced by claims of the rebirth of history. The rapid evolution of complex modern society and its socio-economic and political forms questions the provision of economic and ultimately political freedoms and how these are arranged and expressed.

ibid., p.66.


ŠULC (1990a) 'Jak se zrodil západoněmecky hospodářský zázrak', Práce, Prague.
ŠULC (1990b) 'Snaha rozdávat nikam nevede', Hospodářské noviny, No.18.
ŠULC (1990c) 'Vůz nelze zapřát před koně', in HN, No.12. argues for 'a substantial enhancement of the position and regulative role of the centre' in advocating subsidisation for firms susceptible to suffering from the impact of price regulation. pp.8-9.

KOMÁREK, VALTR (1990) 'Alternativní scénáře reformy', in HN, No.5.
KOMÁREK, V. et. al. (1990) Prognóza a program, Academia, Prague.

MATĚJKA, MILAN (1990) 'Ekonomika nelze vidět černobile', HN, No.7. Matějka generally criticised Klaus's reforms, arguing that there was no one form of market economy, however, no alternative was offered.


GRABHER, GERNOT and STARK, DAVID (1997) 'Organising Diversity: Evolutionary


GRABHER, GERNOT and STARK, DAVID (1997) *op cit.*


GRABHER, GERNOT and STARK, DAVID (1997) *op cit.*


GRAY, JOHN (1993) op cit.
LIPTON, DAVID and SACHS, JEFFREY (1990:1) op cit.

With regard to a 'disembedded economy' see POLANYI, KARL; ARENSBERG, CONRAD M.; PEARSON, HARRY W. (eds.), Trade and Markets in the Early Empires Chicago: Henry Regnery, 1971, originally published in 1957. See especially Polanyi's discussion of Aristotle's concept of economy (p.66) and the influences from Hegel, Marx, Toennes, Weber and Malinowski leading him to conceive of market capitalism as a disembedded economy (pp.68-70). With regard to an 'embedded economic' system see especially Polanyi's discussion on embeddedness and institutional analysis on p.242.


ibid.


DITTUS, PETER and PROSE, STEPHEN (1996) op cit.


STARK (1997) *op cit.*., p.56.

ibid., p.60.

ibid., p.55.


TRAYNOR, IAN (11/6/97) 'Czech leader wins key vote but crisis mounts', in *Guardian*, p.15.


LIPTON, DAVID and SACHS, JEFFREY (1990:2) 'Privatisation in eastern Europe: the Case of Poland', in Brookings Papers on Economic Activity, no.2. (Spring). pp.293-341.

LIPTON, DAVID and SACHS, JEFFREY (1990:1) *op cit.*

For Friedman's advice to Czechoslovakia in transition, see Svobodné slovo (Free Word, a Czech Daily) No. 13, 1990.


LIPTON, DAVID and SACHS, JEFFREY (1990:1) *op cit.*


ibid.


BEGG and PORTES (1992) *op cit.*


445
GRABHER and STARK (1997) op cit.
STARK (1997) op cit.

SZTOMPKA, PIOTR (1990) op cit.

GRABHER, GERNOT (1997) op cit.


STARK, DAVID (1997) op cit.

For discussions on institutional trust within enterprises see works of Jone Pearce with regards to Hungary, e.g. Pearce, Jone (1991) 'From Socialism to Capitalism: The Effects of Hungarian Human Resources Practices', in Academy of Management Executive, Vol.5., pp.75-88.
For a discussion of the importance of local government and reform of the state as an important and neglected aspect of a wider social view of institutional trust, see JONES, ROBERT (1993) Reinventing Government in Eastern Europe: Some Lessons from the Western Managerial Revolution? Sheffield School of Business.

BOHATA, MARIA (1994).


ibid.

ibid., pp.60-62.


PICKVANCE, CHRIS (1997) *op cit.*
CASSON, MARK (... *op cit.*
MYANT, MARTIN (1989) *op cit.*
GRANOVETTER, MARK (1985) *op cit.*


POLANYI, KARL (1944) *op cit.* Chapter 21, 'Freedom in a Complex Society' (pp.249-258B), especially, p.258A.
Appendices
'Seven Year Old'
In each hand he holds a revolver, a toy machine gun hangs from his chest.
"What does your mother say about all of these weapons?"
"Well she bought me them."
"What for?"
"Against the baddies."
"And who is good?"
"Lenin."
"Lenin. Who is Lenin?"
He thinks hard but he does not know what to answer.
"Don't you know who Lenin is?"
"The Sergeant."

Appendix 2

Government Wage Bands in Dr.evode\'lny' (1/8/93)

<table>
<thead>
<tr>
<th>Wage Band</th>
<th>Remuneration</th>
<th>Position</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2.500 KC (per month)</td>
<td>Technical and Administrative Workers</td>
<td>Unskilled workers (1 or 2), Porters (1), maintenance personnel (2).</td>
</tr>
<tr>
<td>2</td>
<td>2.800 KC (per month)</td>
<td>As above</td>
<td>As above</td>
</tr>
<tr>
<td>3</td>
<td>3.220 KC (per month)</td>
<td>Secretarial and skilled workers</td>
<td>e.g. drivers, machine operators, wood workers etc.</td>
</tr>
<tr>
<td>4</td>
<td>3.680 KC (per month)</td>
<td>Junior accountants</td>
<td>Junior accountants are those who can work only with supervision.</td>
</tr>
<tr>
<td>5</td>
<td>4.140 KC (per month)</td>
<td>Senior Accountant and some designers.</td>
<td>Designers covered here are those who are instructed</td>
</tr>
<tr>
<td>6</td>
<td>4.600 KC (per month)</td>
<td>Mistr (masters) supervisors, planners and Creative designers.</td>
<td>Planners are responsible for costing and drawing up the financial side of a project. Creative designers are those working alone.</td>
</tr>
<tr>
<td>7</td>
<td>5.060 KC (per month)</td>
<td>Workshop managers, technologists, chief designers and the Commercial department.</td>
<td>Workshops with up to 50 employees.</td>
</tr>
<tr>
<td>8</td>
<td>5.520 KC (per month)</td>
<td>Workshop managers</td>
<td>Workshops with over 50 employees.</td>
</tr>
</tbody>
</table>

Source: Original S. Bygate 5/2/96. Drawn from interview data in Dr.evode\'lny'.
Appendix 3
Questionnaire in Czech
UDAJE O VAŠEM PODNIKU

k se jmenuje podnik, pro který pracujete?

Q2. Oznámite, prosím, políčko, které nejpřesněji vystihuje oddělení, ve kterém pracujete?

(Můžete označit i více políček).

- Nákupní a zásobovací oddělení
- Osobní oddělení
- Oddělení marketingu
- Oddělení vývozu a dovozu
- Oddělení výroby
- O. odbytu a distribuce výrobků
- Finanční/ekonomické/účetní odd.
- Právní oddělení
- Oddělení výzkumu a vývoje
- Oddělení informačních systémů
- Generální ředitelství
- Sekretariát
- Služby (např. stravování, doprava)
- Jiné
- Nelze hodnotit

Q3. OSOBNÍ ÚDAJE

Jste...?

- žena
- muž
Q4. VĚK
Je Vám...

16-18 let
19-25 let
26-35 let
36-40 let
41-55 let [✓]
56-60 let
nad 60 let

Q5. VAŠE POSTAVENÍ V PODNIKU
Jaký typ zaměstnání zastáváte v podniku?
(Můžete označit i více políček).

 µřednické
manuální [✓]
manuální odborné
služby (např. stravování)
řídící (mistr)
vedoucí (oddělení a výšší)
výzkum a vývoj
jiné

Q6. Jaké postavení zaujímáte v oddělení nebo podniku?

zaměstnanec [✓]
pracovník s měsíčním platem
mistr
vedoucí oddělení
ředitel odboru nebo ústavu
generální ředitel
jiné

Q7. Kolik let pracujete v tomto podniku?

0-2 roky
3-5 let
6-10 let
11-20 let [✓]
více než 20 let

Q8. Kolik hodin činí vaše normální týdenní pracovní doba?

0-10 hod.
11-20 hod. [✓]
21-30 hod.
31-40 hod.
41-50 hod.
51-60 hod.
více
1. Jak lze charakterizovat vaší současnou pracovní dobu?

- jako práci na plný úvazek
- jako práci na částečný úvazek důvodů
- jako prací na zkráceném pracovním týdnu
- jako přesčasovou práci několik úvazků
- jako jiný typ práce

2. Jaký je váš hrubý výdelek?

- 0-3000 Kč
- 3001-6000 Kč
- 6001-9000 Kč
- 9001-12000 Kč
- 12001-15000 Kč
- 15001-16000 Kč
- více než 16000 Kč
- nechcete uvést

Q12. Jste vyučen v oboru?

- ano
- ne

Q13. Kde jste se vyučil?

- v podniku, v němž pracujete
- v jiném podniku
- v odborné škole (učilišti)
- v odborné škole (učilišti) a v jiném způsobem

Q14. Získal jste kvalifikaci mistra?

- ne
- ano

Q15. Absolvoval jste univerzitu?

- ano
- ne
Q16. Jste-li vedoucím oddělení, odboru (ústavu) nebo generálním ředitelem, nastaly u Vás od r. 1989 následující změny?

(Můžete označit i více políček).

- změna podniku
- zvýšení zodpovědnosti
- větší pracovní uspokojení
- vyšší postavení v podniku
- vyšší společenské postavení
- vyšší platové zařazení
- větší rozdíly v platech
- žádné z těchto změn
- nevim
- nelze hodnotit

Q17. Před r. 1989 jste byl občanem...

- české republiky
- slovenské republiky
- jiného státu
- nelze hodnotit

Q18. Patříte k etnické, náboženské nebo jazykové menšině?

- ano
- ne

Q19. ÚDAJE O VAŠEM PODNIKU/SPOLEČNOSTI

Je Váš podnik...

- neprivatizovaný
- částečně privatizovaný
- plně privatizovaný
- zřízený po r. 1989

Q20. Kdo je vlastníkem vašeho podniku?

- Fond národního majetku
- Soukromý vlastník
- oba
- nelze hodnotit

Q21. V jakém typu soukromého vlastnictví je Váš podnik?

(Můžete označit i více políček).

- český většinový podíl
- slovenský většinový podíl
- české soukromé vlastnictví
- slovenské soukromé vlastnictví
- zahraniční soukromé vlastnictví
- banka
- privatizační fond
- držitelé investičních kupónů (dukové)
- jiné
Q24. Ve kterém oddělení jste pracoval před r. 1989?

- ne
- ano
- nelze hodnotit

Q25. Jaké postavení jste zastával v tomto oddělení před r. 1989?

- zaměstnanec
- zaměstnanec s měsíčním platem
- mistr
- vedoucí oddělení
- ředitel odboru/ústavu
- generální ředitel
- jiné
Q26. ÚDAJE O ZAMĚSTNANECKÝCH ORGANIZACÍCH
Existuje ve Vašem podniku odborová organizace?

ano [X] ne

Q27. Jste členem odborové organizace?

ano [X] ne

nelze hodnotit

Q28. Je v současné době na vašem pracovišti aktivní stejná odborová organizace jako před r.1989?

(Úveďte prosím její jméno, na levé straně této stránky, ať už je původní nebo nová.)

ROH

ano [X] ne

nelze hodnotit

Q29. Zastupuje v současné době vaší odborovou organizaci stejná osoba jako před r.1989?

ano [X] ne

nelze hodnotit

Q30. ÚDAJE O MOŽNOSTECH KOMUNIKACE
Radím se se svým představitelem odborové organizace...

denně [X] každý týden
každý měsíc
dvakrát za rok
jednou za rok
méně než jednou za rok
nikdy
nevím

nelze hodnotit

Q31. Radím se se zástupcem odboru nebo zaměstnanců o otázkách...

(Můžete označit i více políček)

zdraví a bezpečnost práce
mez
propouštění zaměstnanců
vedení podniku
kontroly řízení práce
uzavření podniku
pracovní náplň
jiných
žádných

nelze hodnotit
2. Máte vedoucího linky nebo mistra?

<table>
<thead>
<tr>
<th>ne</th>
<th>ano</th>
<th>nevím</th>
<th>nelze hodnotit</th>
</tr>
</thead>
</table>

3. Došlo od r. 1989 ke změně vedoucího linky nebo mistra?

<table>
<thead>
<tr>
<th>ano</th>
<th>ne</th>
<th>nevím</th>
<th>nelze hodnotit</th>
</tr>
</thead>
</table>

4. S vedoucím linky nebo mistrem se radíte...

<table>
<thead>
<tr>
<th>denně</th>
<th>týdně</th>
<th>měsíčně</th>
<th>dvakrát za rok</th>
<th>jednou za rok</th>
<th>méně než jednou za rok</th>
<th>nikdy</th>
<th>nevím</th>
<th>nelze hodnotit</th>
</tr>
</thead>
</table>

Q35. S vedoucím linky se radí o následujících záležitostech...

- pracovních záležitostech
- uzavření podniku
- mzdách
- propouštění zaměstnanců
- zdraví a bezpečnosti práce
- vedení podniku
- kontrole práce
- jiných
- žádných z výše uvedených
- nelze hodnotit

Q36. ZMĚNY V PODNIKU

Změnili se od r. 1989 ředitelé odborů (ustavů)?

<table>
<thead>
<tr>
<th>všichni</th>
<th>většina tj. přes 60%</th>
<th>některí, tj. 30-60%</th>
<th>několik, tj. méně než 30%</th>
<th>žádných</th>
<th>nevím</th>
<th>nelze hodnotit</th>
</tr>
</thead>
</table>

Chon Bygate
<table>
<thead>
<tr>
<th>Q37. Došlo po r. 1989 k výměně pracovníků generálního ředitele?</th>
</tr>
</thead>
<tbody>
<tr>
<td>všech</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q38. Po r. 1989 vedení neprovedlo žádné významné změny v mé pracovním procesu...</th>
</tr>
</thead>
<tbody>
<tr>
<td>naprosto souhlasím</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q39. Ve srovnání s podmkami před r. 1989 jsem nyní formálně kontrolován pravidelněji.</th>
</tr>
</thead>
<tbody>
<tr>
<td>naprosto souhlasím</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q40. Ve srovnání s podmkami před r. 1989 jsem nyní neformálně kontrolován pravidelněji.</th>
</tr>
</thead>
<tbody>
<tr>
<td>naprosto souhlasím</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q41. Ve srovnání s podmkami před r. 1989 jsem nyní méně pravidelně kontrolován pokud se týče dodržování pracovní doby, jako např. pozdní příchody do práce, předčasné odchody z práce atd.</th>
</tr>
</thead>
<tbody>
<tr>
<td>naprosto souhlasím</td>
</tr>
</tbody>
</table>
82. Máte vedoucího linky nebo mistra?
- ne
- ano [X]
- nevím
- nelze hodnotit

12. Mate vedoucího linky nebo mistra?
- ne
- ano [X]
- nevím
- nelze hodnotit

3. Došlo od r. 1989 ke změně vedoucího linky nebo mistra?
- ano [X]
- ne
- nevím
- nelze hodnotit

4. S vedoucím linky nebo mistrem se radíte?
- denně [X]
- týdně
- měsíčně
- dvakrát za rok
- jednou za rok
- méně než jednou za rok
- nikdy
- nevím
- nelze hodnotit

Q35. S vedoucím linky se radíte o následujících záležitostech...
(Můžete označit i více políček)
- pracovních záležitostech
- uzavření podniku
- mzdách
- propouštění zaměstnanců
- zdraví a bezpečnosti práce
- vedení podniku
- kontrole práce
- jiných [X]
- žádných z výše uvedených
- nelze hodnotit

Q36. ZMĚNY V PODNIKU
Změnili se od r. 1989 ředitelé odboru (ustavů)?
- všichni [X]
- většina tj. přes 60%
- většina, tj. 30-60%
- někteří, tj. 30-60%
- několik, tj. méně než 30%
- žádných
- nevím
- nelze hodnotit
2. Ve srovnání s podmínkami před r. 1989 jsem nyní pravidelněji kontrolovan pokud
a týče nedostatečné kvality práce nebo

naprosto souhlasím
souhlasím
nенastala žádoucí změna
nesouhlasím
naprosto nesouhlasím
nevím
nelze hodnotit

Q44. Ve srovnání s podmínkami před r. 1989 jsem nyní pravidelněji kontrolovan z
jiných důvodů.

naprosto souhlasím
souhlasím
nенastala žádoucí změna
nesouhlasím
naprosto nesouhlasím
nevím
nelze hodnotit

Q45. VAŠE NAŽORY
Mám důvěru ve své odborové/zaměstnanecké
představitele.

naprosto souhlasím
souhlasím
nенastala žádoucí změna
nesouhlasím
naprosto nesouhlasím
nevím
nelze hodnotit

Q46. Mám důvěru k vedoucímu
linky/mistrovi.

naprosto souhlasím
souhlasím
nesouhlasím
naprosto nesouhlasím
nevím
nelze hodnotit
Q47. Mámدůvěru ve schopnosti vedoucích oddělení, ředitele odborů a generálního reditele.

<table>
<thead>
<tr>
<th>naprosto souhlasím</th>
<th>souhlasím</th>
<th>nesouhlasím</th>
<th>naprosto nesouhlasím</th>
<th>nevím</th>
<th>nelze hodnotit</th>
</tr>
</thead>
</table>


<table>
<thead>
<tr>
<th>naprosto souhlasím</th>
<th>souhlasím</th>
<th>nenastala žádná změna</th>
<th>nesouhlasím</th>
<th>naprosto souhlasím</th>
<th>nevím</th>
<th>nelze hodnotit</th>
</tr>
</thead>
</table>

Q49. Domnívám se, že po r.1989 se vztahy s vedoucím oddělení zlepšily.

<table>
<thead>
<tr>
<th>naprosto souhlasím</th>
<th>souhlasím</th>
<th>nenastala žádná změna</th>
<th>nesouhlasím</th>
<th>naprosto nesouhlasím</th>
</tr>
</thead>
</table>

Q50. Domnívám se, že k zlepšení vztahu s vedoucím oddělení došlo v následujících oblastech... (Můžete označit i více položek).

<table>
<thead>
<tr>
<th>větší možnost kontaktu</th>
<th>lepší kontrola</th>
<th>lepší rozhodování</th>
<th>lepší komunikace</th>
<th>lepší řešení pracovních problémů</th>
<th>lepší jednání s lidmi</th>
<th>v žádném ohledu</th>
<th>nevím</th>
<th>nelze hodnotit</th>
</tr>
</thead>
</table>

Q51. Domnívám se, že vztahy s generálním ředitelstvím se po r.1989 zhoršily.

<table>
<thead>
<tr>
<th>naprosto souhlasím</th>
<th>souhlasím</th>
<th>nenastala žádná změna</th>
<th>nesouhlasím</th>
<th>naprosto nesouhlasím</th>
</tr>
</thead>
</table>

Siobhan Bygate
2. Domnívám se, že vztahy s generálním
editelem se zlepšily pokud jde o ...(Můžete
znázort i více políček).

<table>
<thead>
<tr>
<th>naprosto souhlasím</th>
<th>souhlasím</th>
<th>nesouhlasím</th>
<th>naprosto nesouhlasím</th>
</tr>
</thead>
</table>

Q54. Domnívám se, že vedení podniku má
zájem o názory zaměstnanců.

<table>
<thead>
<tr>
<th>naprosto souhlasím</th>
<th>souhlasím</th>
<th>nesouhlasím</th>
<th>naprosto nesouhlasím</th>
</tr>
</thead>
</table>

Q55. Mám pocit, že významně přispívám k
práci podniku.

<table>
<thead>
<tr>
<th>naprosto souhlasím</th>
<th>souhlasím</th>
<th>nesouhlasím</th>
<th>naprosto nesouhlasím</th>
</tr>
</thead>
</table>

3. Domnívám se, že ve srovnání s
podmínkami před r.1989 se moje
odpovědnost za práci nezvýšila.

<table>
<thead>
<tr>
<th>naprosto souhlasím</th>
<th>souhlasím</th>
<th>nesouhlasím</th>
<th>naprosto nesouhlasím</th>
</tr>
</thead>
</table>

Q56. Od r.1989 se v práci cítím méně
šťastný.

<table>
<thead>
<tr>
<th>naprosto souhlasím</th>
<th>souhlasím</th>
<th>nesouhlasím</th>
<th>naprosto nesouhlasím</th>
</tr>
</thead>
</table>
Q57. Moje pracovní podmínky se po r. 1989 zlepšily v následujících oblastech: (lze tato označit i více políček).

- uspokojení z práce
- kratší pracovní doba
- vyšší příjem
- zlepšená kvalita řízení
- vyšší pracovní jistota
- zlepšené zdravotní a bezpečnostní podmínky
- vztahy pracovní spolupráce
- jsem častěji dotazován na svůj nástroj v jiném ohledu
- v žádném ohledu
- nevím
- nelze hodnotit

Q58. Moje životní úroveň se po r. 1989 zlepšila.

- naprosto souhlasím
- souhlasím
- nenastala žádoucí změna
- nesouhlasím
- naprosto nesouhlasím

Q59. Mám pocit, že po r. 1989 se můj život stal celkově obtížnější.

- naprosto souhlasím
- souhlasím
- nenastala žádoucí změna
- nesouhlasím
- naprosto nesouhlasím

Q60. Po r. 1989 se moje práce stala obtížnější.

- naprosto souhlasím
- souhlasím
- nenastala žádoucí změna
- nesouhlasím
- naprosto nesouhlasím

Q61. Současná vedení podniku pracuje efektivně.

- naprosto souhlasím
- souhlasím
- nenastala žádoucí změna
- nesouhlasím
- naprosto nesouhlasím
Názory pracovníku v České Republice

Doktorandský Výzkumný Projekt: Dotazník

1. Mám pocit nejistoty svého zaměstnání.

- naprosto souhlasím
- souhlasím
- nevím
- nesouhlasím
- naprosto nesouhlasím

2. Domnívám se, že podnik nese za mne dpovědnost.

- naprosto souhlasím
- souhlasím
- nevím
- nesouhlasím
- naprosto nesouhlasím

3. Domnívám se, že podnik nese za mne dpovědnost v tehdy oblastech.

- bytových
- zdravotní péče
- péče o děti
- zabezpečení pracovní příležitostí
- dalšího vzdělávání
- mzdových přídavků (např. nemocenských atd.)
- mzdových v době omezení práce
- v jiných oblastech
- v žádném ohledu
- nevím
Appendix 4
Questionnaire in Slovak
Názory zamestnancov V Slovenskej Republike

VÁŠ PODNIK/SPOLOČNOST

VAS PODNIK/SPOLOČNOST

sa volá podnik, v ktorom pracujete?

Q2. Označte odpoved, ktorá najviac zodpovedá oddeleniu, kde pracujete. (Označte všetky odpovede, ktoré sú pre vás vhodné.)

- Zásobovanie a materiály
- Personálne oddelenie
- Marketing
- Import/Export
- Výroba
- Predaj a distribúcia
- Ekonomické oddelenie/účtarenie
- Právne oddelenie
- Výskum a vývoj
- Informačný systém
- Generálny management
- Sekretariát
- Služby
- Iné
- Neaplikovateľné

Q3. POHLAVIE

- žena
- muž
Buckinghamshire College Research Questionnaire
Employee and Management The Slovak Republic

"Názory Zamestnancov V Slovenskej Republike"

Q4. VEK

<table>
<thead>
<tr>
<th>Vek</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>16-18</td>
<td>[ ]</td>
</tr>
<tr>
<td>19-25</td>
<td>[ ]</td>
</tr>
<tr>
<td>26-35</td>
<td>[x]</td>
</tr>
<tr>
<td>36-40</td>
<td>[ ]</td>
</tr>
<tr>
<td>41-55</td>
<td>[ ]</td>
</tr>
<tr>
<td>56-60</td>
<td>[ ]</td>
</tr>
<tr>
<td>nad 60 rokov</td>
<td>[ ]</td>
</tr>
</tbody>
</table>

Q5. VY A VAŠE POSTAVENIE V PODNIKU
Aký druh práce vykonávate vo vašom podniku?
(Označte všetky odpovede, ktoré sú pre vás vhodné).

- Úradnícka
- Fyzická
- Odborná fyzická
- Služby (napr. zásobovanie atď)
- Nižší riadiaci pracovníci/majstori
- Vedúci (oddelení a vyššie)
- Výskum a vývoj
- Ostatné [x]

Q6. Aké miesto zastávate vo vašom podniku?

- Zamestnanec
- Zamestnanec s riadnym platom
- Nižší riadiaci pracovníci/majstori
- Vedúci oddelenia
- Vedúci odboru/ústavu
- Generálny riaditeľ
- Ostatné [x]

Q7. Kol'ko rokov pracujete v tomto podniku?

- 0-2 roky [ ]
- 3-5 rokov [ ]
- 6-10 rokov [x]
- 11-20 rokov [ ]
- Viac ako 20 rokov [ ]

Q8. Kol'ko hodín týždenné pracujete?

- 0-10 [ ]
- 11-20 [ ]
- 21-30 [ ]
- 31-40 [x]
- 41-50 [ ]
- 51-60 [ ]
- Viac [ ]

Siobhan Bygate
9. Váš pracovný pomery sa klasifikuje ako:

- Plný pracovný úvazok [X]
- Čiastočný pracovný úvazok
- Platená dovolenka
- Skrátený pracovný týždeň
- Plný pracovný úvazok + nadčas
- Iné

10. Aký je váš hrubý plat?

- 0-3000 Sk [X]
- 3001-6000 Sk
- 6001-9000 Sk
- 9001-12000 Sk
- 1201-1500 Sk
- 15001-16000 Sk
- nad 16000 Sk
- Nechcem odpovedať

11. Kol'ko rokov ste mali, keď ste získali svoju kvalifikáciu?

- 16-19 rokov [X]
- 20-25 rokov
- 26-30 rokov
- Iné

12. Skončili ste odborné učilište?

- Áno [X]
- Ne

13. Kde ste získali svoju učňovskú kvalifikáciu?

- V podniku, pre ktorý teraz pracujete
- V druhom podniku
- V odbornom učilišti [X]
- Kombinácia odborného učilište/podnik
- Iné

14. Máte kvalifikáciu majstra?

- Nie
- Áno [X]

15. Máte univerzitné vzdelanie?

- Áno
- Nie [X]

Zmena podniku
Väčšia zodpovednosť
Väčšie pracovné uspokojenie
Vyššie postavenie v podniku
Vyššie sociálne postavenie
Vyšší plat
Väčšie rozdiely v odmenovaní
Ani jedna z možností
Neviem
Neaplikovateľné

Q17. Pred rokom 1989 ste bol občanom...

Slovenskej republiky
Českej republiky
Iného štátu
Neaplikovateľné

Q18. Patríte k etnickej, náboženskej alebo jazykovej menšine?

Áno
Nie

Q19. VÁS PODNIK/SPOLÔČNOSŤ

Je vás podnik...

Neprivatizovaný
Čiastočne privatizovaný
Plne privatizovaný* Založený po roku 1989

Q20. Kto je majit'om vášho podniku?

Fond národného majetku
Súkromný majitel
Obidvaja
Neaplikovateľné


Slovenský väčšinový podiel
Český väčšinový podiel
Slovenské súkromné vlastníctvo
České súkromné vlastníctvo
Zahraničné súkromné vlastníctvo
Banka
Investičný privátočný fond
Držitelia investičných kuponov (Díkovi!)
Q22. VY A VÁŠA PRÁCA PRED ROKOM 1989?

Racovali ste tomto podniku pred rokom 1989?

<table>
<thead>
<tr>
<th>Nie</th>
<th>X</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ano</td>
<td></td>
</tr>
</tbody>
</table>

Q23. V prípade, že ste pracovali v tom istom podniku aj pred rokom 1989, vykonávali ste tú istú prácu?

<table>
<thead>
<tr>
<th>Ano</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Nie</td>
<td>X</td>
</tr>
</tbody>
</table>

Neaplikovateľné

Q24. Na ktorom úseku ste pracovali pred rokom 1989?
(Označte všetky odpovede, ktoré sú pre vás vhodné).

<table>
<thead>
<tr>
<th>Zásobovanie a materiály</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Personálne oddelenie</td>
<td></td>
</tr>
<tr>
<td>Marketing</td>
<td></td>
</tr>
<tr>
<td>Import/Export</td>
<td></td>
</tr>
<tr>
<td>Výroba</td>
<td></td>
</tr>
<tr>
<td>Predaj a distribúcia</td>
<td></td>
</tr>
<tr>
<td>Ekonomické oddelenie/učtáreň</td>
<td></td>
</tr>
<tr>
<td>Právne oddelenie</td>
<td></td>
</tr>
<tr>
<td>Výskom a vývoj</td>
<td></td>
</tr>
<tr>
<td>Informačný systém</td>
<td></td>
</tr>
<tr>
<td>Generálny management</td>
<td></td>
</tr>
<tr>
<td>Sekretariát</td>
<td></td>
</tr>
<tr>
<td>Služby</td>
<td></td>
</tr>
<tr>
<td>Iné</td>
<td></td>
</tr>
<tr>
<td>Neaplikovateľné</td>
<td>X</td>
</tr>
</tbody>
</table>

Q25. Aké miesto ste zastávali na tomto úseku pred rokom 1989?

<table>
<thead>
<tr>
<th>Zamestnanec</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Zamestnanec s riadným platom</td>
<td></td>
</tr>
<tr>
<td>Nižši riadiaci pracovník</td>
<td></td>
</tr>
<tr>
<td>Vedúci oddelenia</td>
<td></td>
</tr>
<tr>
<td>Vedenie odboru/Ústavu</td>
<td></td>
</tr>
<tr>
<td>Generálny riaditeľ'</td>
<td></td>
</tr>
<tr>
<td>Iné</td>
<td></td>
</tr>
</tbody>
</table>
Názory zamestnancov v Slovenskej Republike

Q26. ORGANIZÁCIE V PODNIKU
Je vo vašom podniku odborová organizácia?

- Áno [X]
- Nie

Q27. Ste členom vašej odborovej organizácie?

- Áno [X]
- Nie

Q28. Je to tá istá odborová organizácie vo vašom podniku ako pred rokom 1989?

(Našli ste prosím na lavej strome názov vašej odborovej organizácie či už starej alebo novej)?

- Áno [X]
- Nie

Q29. Je súčasná odborová organizácia zastúpená tým istým ľuďom ako pred rokom 1989?

- Áno [X]
- Nie

Q30. KONTAKT
Som v kontakte so predstavitel’mi odborovej organizácie...

- Denne
- Každý týždeň
- Každý mesiac
- Dvakrát do mesača
- Raz za rok
- Menej ako raz za rok
- Nikdy
- Neviem

Q31. S predstavitel’mi odborovej organizácie/zamestnancov prejednávam otázky...

(Označte všetky odpovede, ktoré sú pre vás vhodné).

- Zdravia a bezpečnosti práce
- Odmenovania
- Prepúšťaní zamestnancov
- Riadenia podniku
- Kontroly riadenia práce
- Zrušenia podniku
- Pracovné otázky
- Iné
- Všeobec neprejednávam

Slobhan Bygate
32. Máte priameho nadriadeného/majstra?

- Ne
- Ano [X]
- Neviem
- Neaplikovatelné

33. Máte iného priameho nadriadeného/majstra po roku 1989?

- Ano [X]
- Nie
- Neviem
- Neaplikovatelné

34. Som v kontakte s mojím priamym nadriadeným majstrom...

- Denne [X]
- Každý týždeň
- Každý mesiac
- Dvakrát do roka
- Raz do roka
- Menej ako raz ročne
- Nikdy
- Neviem
- Neaplikovatelné

35. S mojím priamym nadriadeným prejednávam tieto otázky...

(Označte všetky odpovede, ktoré sú pre vás vhodné).

- Pracovné otázky [X]
- Zrušenie podniku
- Odmenovanie
- Prepúšťanie pracovníka
- Zdravie a bezpečnosť
- Riadenie podniku
- Kontrola riadenia práce
- Iné
- Ani jedna z uvedených
- Neaplikovatelné

36. ZMENY V PRÁCI

Boli niejaké zmeny v personálnej zostave vedúcih oddelení od roku 1989?

- Všetci boli zamienení
- Väčšina, viac ako 60%
- Niektorí, 30-60%
- Málo, menej ako 30%
- Žiadne
- Neviem
- Neaplikovatelné
### Názory zamestnancov v Slovenskej Republike

**Q37. Boli nejaké zmeny v personalnej zostave generalneho riaditeľstva roku 1989?**

<table>
<thead>
<tr>
<th>Odpoveď</th>
<th>Odpis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Všetci bolí zamenení</td>
<td>x</td>
</tr>
<tr>
<td>Väčšina, viac ako 60%</td>
<td></td>
</tr>
<tr>
<td>Niektorí, 30-60%</td>
<td></td>
</tr>
<tr>
<td>Málo, menej ako 30%</td>
<td></td>
</tr>
<tr>
<td>Žiadne</td>
<td></td>
</tr>
<tr>
<td>Neviem</td>
<td></td>
</tr>
<tr>
<td>Neaplikovatelné</td>
<td></td>
</tr>
</tbody>
</table>

**Q38. Od roku 1989 vedenie nepreviedlo nijaké výrazné zmeny v mojom pracovnom procese...**

<table>
<thead>
<tr>
<th>Odpoveď</th>
<th>Odpis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plne súhlasím</td>
<td></td>
</tr>
<tr>
<td>Súhlasím</td>
<td></td>
</tr>
<tr>
<td>Žiadne zmeny</td>
<td></td>
</tr>
<tr>
<td>Nesúhlasím</td>
<td></td>
</tr>
<tr>
<td>Vôbec nesúhlasím</td>
<td></td>
</tr>
<tr>
<td>Neviem</td>
<td></td>
</tr>
<tr>
<td>Neaplikovatelné</td>
<td>x</td>
</tr>
</tbody>
</table>

**Q39. V porovnaní s podmienkami pred rokom 1989 teraz formálne častejšie podlieham disciplínarným opatreniam...**

<table>
<thead>
<tr>
<th>Odpoveď</th>
<th>Odpis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plne súhlasím</td>
<td></td>
</tr>
<tr>
<td>Súhlasím</td>
<td></td>
</tr>
<tr>
<td>Žiadne zmeny</td>
<td></td>
</tr>
<tr>
<td>Nesúhlasím</td>
<td></td>
</tr>
<tr>
<td>Vôbec nesúhlasím</td>
<td></td>
</tr>
<tr>
<td>Neviem</td>
<td></td>
</tr>
<tr>
<td>Neaplikovatelné</td>
<td></td>
</tr>
</tbody>
</table>

**Q40. V porovnaní s podmienkami pred rokom 1989 teraz neformálne častejšie podlieham disciplínarným opatreniam.**

<table>
<thead>
<tr>
<th>Odpoveď</th>
<th>Odpis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plne súhlasím</td>
<td></td>
</tr>
<tr>
<td>Súhlasím</td>
<td></td>
</tr>
<tr>
<td>Žiadne zmeny</td>
<td></td>
</tr>
<tr>
<td>Nesúhlasím</td>
<td></td>
</tr>
<tr>
<td>Vôbec nesúhlasím</td>
<td></td>
</tr>
<tr>
<td>Neviem</td>
<td></td>
</tr>
<tr>
<td>Neaplikovatelné</td>
<td>x</td>
</tr>
</tbody>
</table>

- Plne súhlasím
- Súhlasím
- Žiadne zmeny
- Nesúhlasím
- Vôbec nesúhlasím
- Neviem
- Neaplikovateľné

Q43. V porovnani s pracou rokom 1989 teraz som menej postihovaný za zlý vztah k práci.

- Plne súhlasím
- Súhlasím
- Žiadne zmeny
- Nesúhlasím
- Vôbec nesúhlasím
- Neviem
- Neaplikovateľné

2. V porovnani s pracou pred rokom 1989 teraz som častejšie postihovaný za zlú kvalitu práce alebo služieb.

- Plne súhlasím
- Súhlasím
- Žiadne zmeny
- Nesúhlasím
- Vôbec nesúhlasím
- Neviem
- Neaplikovateľné

Q44. V porovnani s pracou pred rokom 1989 teraz som častejšie postihovaný z iných dôvodov.

- Plne súhlasím
- Súhlasím
- Žiadne zmeny
- Nesúhlasím
- Vôbec nesúhlasím
- Neviem
- Neaplikovateľné
Q45. VAŠE NÁZORY

Dôverujem svojim odborom/ zástupcom zamestnancov:

- Plne súhlasím
- Súhlasím
- Nesúhlasím
- Vôbec nesúhlasím
- Neviem
- Neaplikovateľné

Q46. Dôverujem svojmu priamemu nadriadenému/ majstroví.

- Plne súhlasím
- Súhlasím
- Nesúhlasím
- Vôbec nesúhlasím
- Neviem
- Neaplikovateľné

Q47. Dôverujem kompetencii a schopnostiam vedúcich oddelení a vedenia podniku.

- Plne súhlasím
- Súhlasím
- Nesúhlasím
- Vôbec nesúhlasím
- Neviem
- Neaplikovateľné


- Plne súhlasím
- Súhlasím
- Žiadne zmeny
- Nesúhlasím
- Vôbec nesúhlasím
- Neviem
- Neaplikovateľné

Q49. Myslím si, že moje vztahy s vedúcim oddelenia sa po roku 1989 zlepšili.

- Plne súhlasím
- Súhlasím
- Žiadne zmeny
- Nesúhlasím
- Vôbec nesúhlasím
- Neviem
- Neaplikovateľné
50. Myslím si, že moje vzt'ahy s vedúcim oddelenia sa zlepšili v následujúcich oblastiach.

Oznámite všetky odpovede, ktoré sú pre vás vhodné.

Váčšia možnosť kontaktu
Lepšia kontrola
Lepšie rozhodnutia
Lepšia komunikácia
Lepšie riešenie problémov
Lepšie jednanie s l'udmi
Ziadna oblasť
Neviem
Neaplikovatelné

51. Myslím si, že moje vzt'ahy s vedením sa po roku 1989 zhoršili.

Plne súhlasím
Súhlasím
Ziadne zmeny
Nesúhlasím
Vôbec nesúhlasím

52. Myslím si, že moje vzt'ahy s vedením sa zlepšili v následujúcich:

(Oznámite všetky odpovede, ktoré sú pre vás vhodné.)

Váčšia možnosť kontaktu
Lepšie riadiacie schopnosti
Lepšie rozhodnutia
Lepšie zadal'ovanie úloh
Lepšia komunikácia
Lepšie riešenie problémov
Lepšie jednanie s l'udmi
Zlepšenie všetkých aspektov
Nedoslo k ziadnomu zlepšeniu
Neviem
Neaplikovatelné


Plne súhlasím
Súhlasím
Ziadne zmeny
Nesúhlasím
Vôbec nesúhlasím
Neviem
Neaplikovatelné
Q54. Myslím si, že vedenie podniku sa zaujíma o názory svojich zamestnancov.

- Plne súhlasím
- Súhlasím
- Žiadne zmeny
- Nesúhlasím
- Vôbec nesúhlasím
- Neaplikovatelné

Q55. Myslím si, že sa výrazne podielám na práci svojho podniku.

- Plne súhlasím
- Súhlasím
- Žiadne zmeny
- Nesúhlasím
- Vôbec nesúhlasím

Q56. Po roku 1989 sa cítím v práci menej spokojne.

- Plne súhlasím
- Súhlasím
- Žiadne zmeny
- Nesúhlasím
- Vôbec nesúhlasím

Q57. Moje pracovné podmienky sa po roku 1989 zlepšili v týchto oblastiach.

- Uspokojenie z práce
- Kratšia pracovná doba
- Vyšší plat
- Lepšia kvalita riadenia
- Vyššia pracovná istota
- Lepšie zdravotné a bezpečnostné podmienky
- Vztahy spolupráce
- Častejší záujem o môj názor
- V inej oblasti
- V žiadnej oblasti
- Neviem
- Neaplikovatelné


- Plne súhlasím
- Súhlasím
- Žiadne zmeny
- Nesúhlasím
- Vôbec nesúhlasím
259. Máš pocit, že po roku 1989 je môj život celkovo ďalší.

- Plne súhlasím
- Súhlasím
- Žiadne zmeny
- Nesúhlasím
- Vôbec nesúhlasím


- Plne súhlasím
- Súhlasím
- Žiadne zmeny
- Nesúhlasím
- Vôbec nesúhlasím

261. Súčasné vedenie podniku pracuje efektívnejšie.

- Plne súhlasím
- Súhlasím
- Žiadne zmeny
- Nesúhlasím
- Vôbec nesúhlasím

262. Máš pocit neistoty vo svojej práci.

- Plne súhlasím
- Súhlasím
- Nesúhlasím
- Nesúhlasím
- Vôbec nesúhlasím

263. Myslíš si, že podnik nesie za mňa zodpovednosť

- Plne súhlasím
- Nesúhlasím
- Nesúhlasím
- Vôbec nesúhlasím

264. Myslíš si, že podnik je za mňa zodpovedný v týchto oblastiach...

- Bytové otázky
- Starostlivosť o zdravie
- Starostlivosť o deti
- Zabezpečenie pracovných príležitostí
- Dálsie vzdelávanie
- Mzdové prídavky (nemocenské atď)
- Mzda počas doby obmedzenia práce
- Iná oblasť
- Žiadna oblasť
- Neviem
Appendix 5
Questionnaire in German
1. Über das Unternehmen
Le heisst das Unternehmen, in dem Sie arbeiten?

Q2. Bitte kreuzen Sie die Kategorie an, die Ihre Abteilung am treffendsten beschreibt.

- Einkauf und Lieferplanung
- Personal
- Marketing
- Import/Export
- Produktion
- Verkauf/Vertrieb
- Finanzen/Buchführung
- Rechtsabteilung
- Forschung und Entwicklung
- EDV
- Betriebsleitung
- Sekretariat
- Service (z.B. Fahrer, Restaurant)
- Andere
- Nicht zutreffend

Q3. Über Sie...?
Sind Sie...

- weiblich
- männlich
### Q4. Sind Sie....?

<table>
<thead>
<tr>
<th>Alter</th>
</tr>
</thead>
<tbody>
<tr>
<td>16-18 Jahre alt</td>
</tr>
<tr>
<td>19-25</td>
</tr>
<tr>
<td>26-35</td>
</tr>
</tbody>
</table>
| 36-40            | X
| 41-55            |
| 56-60            |
| über 61          |

### Q5. ÜBER SIE UND IHRE Rolle im Unternehmen

Was für eine Tätigkeit üben Sie aus?

- Büroarbeit  | X
- Angelernte Arbeit/Hilfsarbeit
- Facharbeit
- Vorarbeiter/Aufsichtspersonal
- Service
- Management
- Forschung/Entwicklung
- Andere

### Q6. In welche der hier aufgeführten Kategorien ist Ihre Tätigkeit einzuordnen?

- Arbeiter(in)
- Angestellte(r)
- Meister/Aufsichtspersonal
- Abteilungsleiter
- Betriebsleitung
- Geschäftsführer
- Andere

### Q7. Wie viele Jahre haben Sie in diesem Unternehmen gearbeitet?

- 0-2 Jahre
- 3-5 Jahre
- 6-10 Jahre | X
- 11-20 Jahre
- Über 20 Jahre

### Q8. Wie viele Stunden arbeiten Sie normalerweise in der Woche?

- 0-10 Stunden
- 11-20 Stunden
- 21-30 Stunden
- 31-40 Stunden | X
- 41-50 Stunden
- 51-60 Stunden
- Über 60 Stunden
Q9. Arbeiten Sie in...? (Bitte alles zutreffende ankreuzen).
- Ganztagsarbeit
- Teilzeitarbeit
- Kurzarbeit
- Plus/Überstunden
- Andere

Q10. Wie viel verdienen Sie pro Monat (Brutto)?
- 0-600 DM
- 601-1200 DM
- 1201-1800 DM
- 1801-2400 DM
- 2401-3000 DM
- 3001-3600 DM
- over 3600 DM
- Möchte lieber nicht antworten

Q12. Haben Sie eine Lehrlingsausbildung absolviert?
- Ja
- Nein

Q13. Wo haben Sie Ihre Lehrlingsausbildung absolviert?
- In diesem Unternehmen
- In einem anderen Unternehmen
- An einer Hochschule
- Hochschule/Unternehmen
- Nicht zutreffend

Q14. Haben Sie eine Meisterprüfung abgelegt?
- Nein
- Ja

Q15. Haben Sie ein Studium an der Universität abgeschlossen?
- Ja
- Nein
Q16. Wenn Sie Abteilungsleiter oder Mitglied der Geschäftsleitung sind, haben Sie seit 1989 folgendes erfahren...?

(Please mark all that apply).

- Firmenwechsel
- Zunehmende Verantwortung
- Zunehmende Arbeitszufriedenheit
- Höherer Status im Unternehmen
- Höherer Sozialstatus
- Lohnerhöhung
- Größere Lohnunterschiede
- Keines von den Obers
- Ich bin nicht sicher
- Nicht zutreffend

Q17. Vor 1989 waren Sie Staatsangehörige/r...?

- der alten Bundesländer
- der DDR
- eines anderen Landes
- Nicht zutreffend

Q18. Gehören Sie einer ethnischen, religiösen oder sprachlichen Minderheit an?

- Ja
- Nein

Q19. ÜBER DAS UNTERNEHMEN

Ist das Unternehmen...

- Nicht privatisiert
- Teilweise privatisiert
- Vollkommen privatisiert
- Eine Neugründung nach 1989

Q20. Wem gehört das Unternehmen?

- der Treuhandanstalt
- einem Privat-Unternehmer
- Mischung THA/Privatunternehmer
- einer staatl./Landesbehörde
- Nicht zutreffend

Q21. Was für einem Unternehmer gehört das Unternehmen?

(Please mark all that apply).

- Management Buy-Out
- Besitzer aus den neuen Ländern
- Besitzer aus den alten Ländern
- Ausländische Besitzer
- In Besitz von einer Bank
- Keines von den Obers
- Nicht zutreffend
Q22. ÜBER SIE UND IHRE ARBEIT SEIT 1989
Haben Sie vor 1989 in diesem Unternehmen gearbeitet?

Nein
Ja [X]
Nicht zutreffend [X]

Q23. Wenn Sie vor 1989 in diesem Unternehmen gearbeitet haben, hatten Sie dieselbe Stelle inne wie jetzt?

Ja [X]
Nein
Nicht zutreffend

Q24. In welcher Abteilung haben Sie vor 1989 gearbeitet?
(Die treffendste Beschreibung ankreuzen)

- Einkauf und Lieferplanung
- Personal
- Marketing
- Import/Export
- Produktion
- (Verkauf)/Vertrieb
- Finanzen/Buchführung/Ökonomie [X]
- Rechtsabteilung
- Forschung und Entwicklung
- EDV
- Betriebsleitung
- Sekretariat
- Service(z.B. Fahrer, Restaurant)
- Andere
- Nicht zutreffend

Q25. Was für eine Stelle hatten Sie in dieser ehemaligen Abteilung inne?

- Arbeiter(in)
- Angestellte(r) [X]
- Meister/Aufsichtspersonal
- Abteilungsleiter
- Geschäftsleitung
- Andere
Q26. ÜBER ORGANISATIONEN AM ARBEITSPLATZ
Ist die Gewerkschaft in Ihrem Unternehmen aktiv?

| Nein | Ja |
--- | --- |

Q27. Haben Sie einen Betriebsrat?

| Ja | Nein |
--- | --- |

Q28. Sind Sie Mitglied der ....? (Bitte alle Zutreffende ankreuzen)

| Gewerkschaft | Betriebsrat | Überhaupt nicht | Nicht zutreffend |
--- | --- | --- | --- |

Q29. ÜBER KOMMUNIKATION
Ich berate mich mit dem zuständigen Betriebsratvorsitzender(in) ...

| täglich | wochentlich | monatlich | zweimal jährlich | einmal jährlich | weniger als einmal jährlich | Nie | Weiss nicht | Nicht zutreffend |
--- | --- | --- | --- | --- | --- | --- | --- | --- |

Q30. Ich berate mich mit dem zuständigen Betriebsratvorsitzender(in) über ...(Bitte alles Zutreffende ankreuzen)

| Gesundheit und Sicherheit | Lohnniveau | Entlassung | Betriebsleitung | Unternehmensschliessung | Über Arbeit | Aufsichtspersonal/Meister | Andere | Überhaupt nicht | Nicht zutreffend |
--- | --- | --- | --- | --- | --- | --- | --- | --- | --- |

Q31. Ich habe Vertrauen in meinen Betriebsratvorsitzender(in)

| Sehr viel | Ziemlich viel | Wenig | Überhaupt nicht | Weiss nicht | Nicht zutreffend |
--- | --- | --- | --- | --- | --- |
32. Welche Gewerkschaft ist jetzt hier aktiv?

- IG Metall
- IG Nahrung/Gaststätten/Genuss [x]
- IG Medien
- IG Bau/Steine/Erden
- IG Chemie
- IG Holz und Keramik
- Andere
- Weiss nicht
- Nicht zutreffend

33. Ist der/die Gewerkschaftsvertreter/in noch dieselbe Person wie vor 1989?

- Ja
- Nein [x]
- Weiss nicht
- Nicht zutreffend

Q34. Ich berate mich mit dem zuständigen Gewerkschaftsvertreter(in) über...

- täglich
- wöchentlich
- monatlich
- zweimal jährlich
- einmal jährlich
- weniger als einmal jährlich
- Nie [x]
- Bin nicht sicher
- Nicht zutreffend

Q35. Ich berate mich mit dem zuständigen Gewerkschaftsvertreter(in) über (Alles Zutreffende bitte ankreuzen)

- Gesundheit und Sicherheit
- Lohnniveau
- Entlassung
- Betriebsleitung
- Unternehmensschliessung
- über Arbeit
- Aufsichtspersonal
- überhaupt nicht [x]
- Andere
- Nicht zutreffend
**Q36.** Haben Sie einen Linienmanager oder Meister?

<table>
<thead>
<tr>
<th>Nein</th>
<th>Ja</th>
<th>Weiss nicht</th>
<th>Nicht zutreffend</th>
</tr>
</thead>
</table>

**Q37.** Hat Ihr Linienmanager/Meister seit 1989 verwechselt?

<table>
<thead>
<tr>
<th>Ja</th>
<th>Nein</th>
<th>Weiss nicht</th>
<th>Nicht zutreffend</th>
</tr>
</thead>
</table>

**Q38.** Ich berate mich mit meinem Linienmanager/Meister...

<table>
<thead>
<tr>
<th>täglich</th>
<th>wöchentlich</th>
<th>monatlich</th>
<th>zweimal jährlich</th>
<th>einmal jährlich</th>
<th>weniger als einmal jährlich</th>
<th>Nie</th>
<th>Bin nicht sicher</th>
<th>Nicht zutreffend</th>
</tr>
</thead>
</table>

**Q39.** Ich berate mich mit meinem Linienmanager oder Meister über folgendes...

(Please mark all applicable)

<table>
<thead>
<tr>
<th>Über Arbeit</th>
<th>Unternehmensschliessen</th>
<th>Lohnniveau</th>
<th>Entlassung</th>
<th>Gesundheit und Sicherheit</th>
<th>Betriebsleitung</th>
<th>Aufsichtspersonal</th>
<th>Andere</th>
<th>Keines von den Oberen</th>
<th>Nicht zutreffend</th>
</tr>
</thead>
</table>

**Q40.** Über Veränderungen am Arbeitsplatz?

Haben die Abteilungsleiter gewechselt seit 1989?

<table>
<thead>
<tr>
<th>Alle</th>
<th>die meisten, über 60%</th>
<th>Manche 30-60%</th>
<th>Einige, weniger als 30%</th>
<th>Keiner/Keine</th>
<th>Weiss nicht</th>
<th>Nicht zutreffend</th>
</tr>
</thead>
</table>
41. Haben/Hat der/die Geschäftsführer/Geschäftsführung gewechselt seit 1989?

Ja [x]
Nein
Nicht zutreffend
Ich wiss nicht

42. Management hat seit 1989 keine wesentlichen Veränderungen in meiner Arbeitsweise vorgenommen.

Stimmt [x]
Stimmt größtenteils
Keine Veränderung
Stimmt eher nicht
Stimmt überhaupt nicht
Weiss nicht
Nicht zutreffend

43. Im Vergleich zum alltäglichen Arbeitsleben vor 1989, werde ich jetzt häufiger disziplinarisch zur Verantwortung gezogen...

Stimmt [x]
Stimmt größtenteils
Keine Veränderung
Stimmt eher nicht
Stimmt überhaupt nicht
Weiss nicht
Nicht zutreffend

Q44. In Vergleich zu früher, bekomme ich jetzt öfter eher mündliche Hinweise für meine tägliche Arbeit...

Stimmt [x]
Stimmt größtenteils
Keine Veränderung
Stimmt eher nicht
Stimmt überhaupt nicht
Weiss nicht
Nicht zutreffend

Q45. Im Vergleich zum alltäglichen Arbeitsleben vor 1989, werde ich jetzt wegen Unpünktlichkeit weniger disziplinarisch zur Verantwortung gezogen...

Stimmt [x]
Stimmt größtenteils
Keine Veränderung
Stimmt eher nicht
Stimmt überhaupt nicht
Weiss nicht
Nicht zutreffend
**Q46. Im Vergleich zum alltäglichen Arbeitsleben vor 1989, werde ich jetzt für nicht ausreichende Qualität in der Herstellung oder in der Ausführung meiner Tätigkeit häufiger disziplinarisch zur Verantwortung gezogen...**

<table>
<thead>
<tr>
<th>Stimmt</th>
<th>Stimmt grösstenteils</th>
<th>Keine Veränderung</th>
<th>Stimmt eher nicht</th>
<th>Stimmt überhaupt nicht</th>
<th>Weiss. nicht</th>
<th>Nicht zutreffend</th>
</tr>
</thead>
</table>

**Q47. Im Vergleich zum Arbeitsalltag vor der Wende, werde ich jetzt wegen mangelnder Arbeitsmotivation nicht so oft diszipliniert...**

<table>
<thead>
<tr>
<th>Stimmt</th>
<th>Stimmt grösstenteils</th>
<th>Keine Veränderung</th>
<th>Stimmt eher nicht</th>
<th>Stimmt überhaupt nicht</th>
<th>Weiss. nicht</th>
<th>Nicht zutreffend</th>
</tr>
</thead>
</table>

**Q48. Im Vergleich zum Arbeitsalltag vor 1989, werde ich jetzt aus anderen Gründen häufiger diszipliniert...**

- Stimmt
- Stimmt grösstenteils
- Keine Veränderung
- Stimmt eher nicht
- Stimmt überhaupt nicht
- Weiss. nicht
- Nicht zutreffend

**Q49. ÜBER IHRE MEINUNGEN**

Ich habe Vertrauen in meinen/meine Gewerkschaftvertreter(in)

- Sehr viel
- Ziemlich viel
- Wenig
- Überhaupt Nicht
- Weiss nicht
- Nicht zutreffend

**Q50. Ich habe Vertrauen in meinen Meister/Linienmanager...**

- Sehr viel
- Ziemlich viel
- Wenig
- Überhaupt Nicht
- Weiss nicht
- Nicht zutreffend
51. Ich habe Vertrauen in die Fähigkeiten der Abteilungsleitung, Geschäftsleitung, oder des Geschäftsführer...

Sehr viel
Ziemlich viel
 Wenig
 Überhaupt nicht
 Weiss nicht

52. Wie ich geführt werde, hat sich seit der Wende verändert...

Stimmt
Stimmt größtenteils
Keine Veränderung
 Eher umgekehrt
das völlige Gegenteil
 Weiss nicht
 Nicht zutreffend

53. Ich glaube, dass sich seit der Wende die Beziehungen zu meinem Abteilungsleiter verbessert haben...

Stimmt
Stimmt größtenteils
 Keine Veränderung
 Eher umgekehrt
das völlige Gegenteil
 Nicht zutreffend

Q54. Ich glaube, dass sich die Beziehungen zu meinem/meiner Abteilungsleiter(in) verbessert haben in Bezug auf...
(Bitte alles Zutreffende ankreuzen)

mehr Kontaktzeit
Bessere Führungseigenschaften
Bessere Entscheidungsprozesse
Bessere Kommunikation
Bessere Arbeitsproblemlösung
Besserer Umgang mit Menschen
Schlechtere Aufgabendelegation
In keiner Hinsicht
Weiss nicht
Nicht zutreffend

Q55. Ich glaube, dass seit 1989 die Beziehungen zu der Geschäftsleitung verschlechtert haben...

Stimmt
Stimmt größtenteils
 Keine Veränderung
 Eher umgekehrt
das völlige Gegenteil
 Nicht zutreffend
Q56. Ich glaube, dass sich die Beziehungen zur Geschäftsführung verbessert haben in Bezug auf...(Alles zutreffende ankreuzen).

Mehr Kontaktzeit
Bessere Führungskonzepte
Bessere Entscheidungsprozesse
Bessere Aufgabendelegation
Bessere Kommunikation
Bessere Lösung Probleme
Bessere Umgang mit Menschen
Besser in jeder Hinsicht
Besser in keiner Hinsicht
Weiss nicht
Nicht zutreffend

Q57. Ich glaube, dass ich jetzt genauso viel Verantwortung für meine Arbeit trage wie vor der Wende...

Stimmt
Stimmt grösstenteils
Keine Veränderung
Stimmt eher nicht
Stimmt überhaupt nicht
Weiss nicht
Nicht zutreffend

Q58. Ich glaube, dass sich das Management für die Meinungen der Arbeitnehmer und Angestellte interessiert...

Stimmt
Stimmt grösstenteils
Stimmt eher nicht
das vollige Gegenteil
Weiss nicht

Q59. Ich glaube, dass ich einen wichtigen Beitrag für das Überleben der Unternehmen leiste...

Stimmt
Stimmt grösstenteils
Stimmt eher nicht
das vollige Gegenteil
Weiss nicht

Q60. Ich fühle mich seit der Wende unglücklicher an meinem Arbeitsplatz...

Stimmt
Stimmt eher nicht
Keine Veränderung seit 1989
Eher umgekehrt
das vollige Gegenteil
Nicht zutreffend
61. Meine Arbeitsbedingungen haben sich seit 1989 verbessert in Bezug auf... (Alles Zutreffende ankreuzen)
- Arbeitszufriedenheit
- Kürzere Arbeitszeit
- Höhere Löhne und Gehälter
- (Bessere) Führungsqualitäten
- Mehr Arbeitsplatzsicherheit
- Sicherheit am Arbeitsplatz
- Zusammengehörigkeitsgefühl
- meine Meinung wird öfter gefragt
  - in anderer Hinsicht
  - in keiner Hinsicht
  - Nicht zutreffend

62. Mein Lebensstandard hat sich seit 1989 verbessert...
- Stimmt
- Stimmt größtenteils
- Keine Veränderung
- Eher umgekehrt
- das völlige Gegenteil
- Weiss nicht
- Nicht zutreffend

Q63. Ich glaube, dass mein Leben seit 1989 im allgemeinen besser geworden ist...
- Stimmt
- Stimmt größtenteils
- Keine Veränderung
- Eher umgekehrt
- das völlige Gegenteil
- Weiss nicht
- Nicht zutreffend

Q64. Meine Arbeit ist seit 1989 schwieriger geworden...
- Stimmt
- Stimmt größtenteils
- Keine Veränderung
- Eher umgekehrt
- das völlige Gegenteil
- Weiss nicht
- Nicht zutreffend

Q65. Ich finde, dass meine Geschäftsführung eine gute Arbeit leistet...
- Stimmt
- Stimmt größtenteils
- Keine Veränderung
- Eher umgekehrt
- das völlige Gegenteil
- Weiss nicht
- Nicht zutreffend
Q66. Ich glaube, dass mein Arbeitsplatzgefährdet ist...

Stimmt
Stimmt grösstenteils
Stimmt eher nicht
das völlige Gegenteil
Weiss nicht

Q67. Ich glaube, dass das Unternehmen mir gegenüber eine bestimmte Verantwortungen trägt in Bezug auf...

Stimmt
Stimmt grösstenteils
Stimmt eher nicht
das völlige Gegenteil
Weiss nicht

Q68. Ich glaube, dass das Unternehmen mir gegenüber eine bestimmte Verantwortung trägt in Bezug auf...

Unterkunft
Medizinische Versorgung
Kinderkrippe
Arbeitsplatzsicherheit
Weiterbildung
Lohnfortzahlungen(Krankheit, usw)
Bezahlung trotz Mangel an Arbeit
in anderer Hinsicht
in keiner Hinsicht
Weiss nicht