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# Enterprise restructuring in early transition: the case study evidence from Central and Eastern Europe[1]

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## 1. Introduction

A key task facing the economies in transition is to transform state-owned enterprises (SOEs) into value-maximizing concerns.[2] SOEs are qualitatively different from firms in a market economy. Property rights are hazy, control by managers is subject to the consent of employees, activities often include social welfare and the organization is large by dint of planning decree rather than market success.[3] Evaluating the extent to which restructuring has been successful and the determinants of the desire and ability to restructure is crucial to the people and policy-makers of the Central and Eastern European countries (CEECs). The empirical evidence generally used to measure and understand restructuring is vastly inadequate. Researchers are forced to rely on macro-economic data which are both too aggregate and generally of a low quality. Systematic micro-evidence on enterprises is rarely available and, where it is, it has poor information on managerial incentives. Such data are crucial as the perversity of the incentives facing enterprise managers in planned economies has been exhaustively documented. Recent theoretical work highlights managers as the key agents of restructuring. Under these circumstances, managerial incentives may be the dominant influence on whether or not restructuring occurs.

Case studies have the advantage that detailed information on the particular incentives and constraints facing managers is often available. There has been no attempt to fully survey the available case study evidence in the light of these problems, and the prime purpose of this paper is to fill that gap. An initial insight from the large volume of case study material on which this paper is based is that it is not safe to assume that incentives and constraints in early transition have changed sufficiently for standard performance data to be relied on to judge the progress of individual enterprises. Case studies of individual enterprises provide information on the actions taken by enterprise management or outsiders to alter the organization, internal incentive schemes and the assets of the enterprise. This information allows inferences to be drawn as to managerial incentives, and the constraints and opportunities affecting their actions.

In this paper, the term "restructuring" is used very broadly to refer to actions taken to change the structure of the enterprise along four dimensions: internal organization, employment, output and investment. A behavioural definition of restructuring is used to identify actions along these four dimensions. Not all such restructuring can be seen as contributing to the creation of a competitive market economy - for example, the exploitation of positions of monopoly is not *prima facie* consistent with competitive market behaviour. Nevertheless, managers exploiting monopolistic positions can be seen as responding actively to the opportunities for making profits.

Restructuring behaviour is contrasted to the alternative of passivity, where enterprises show minimal organizational and behavioural changes. Falling somewhere in between restructuring and passivity lie many ambiguous patterns. Here enterprises are engaged in active behaviour but this behaviour appears to be motivated by the desire of the enterprise manager to protect the enterprise from market pressures. In this sense, such behaviour has features in common with the passive pattern. The ambiguity arises because in spite of the sheltering motivation of the actions, there is some evidence that these actions open the way for the development of structures compatible with a competitive market. Ambiguous restructuring appears to be a route through which viable activities have been salvaged from the often loss-making large enterprises.

The raw material for the analysis of restructuring is a collection of case studies of over 450 enterprises conducted between 1990 and 1993 in Poland, the Czech Republic and Slovakia, Hungary and Russia. The serious problems of selectivity and quality of the case studies are discussed in section 2. In spite of these problems, this study provides a rather comprehensive overview of enterprise behaviour in the early phase of transition.

The information on patterns of restructuring is confined initially to enterprises which have not been privatized (section 3). One way of conceptualizing the incentives for and constraints on restructuring by the managers of state-owned enterprises is provided by Aghion, Blanchard and Burgess (1994). The manager faces two choices: 1. to restructure which entails a cost to the enterprise (and not only to the employees who lose their jobs) in the current period and an uncertain pay-off in the future; 2. to maintain the *status quo* which is painless now but entails a cost with certainty in the future. The manager's incentive to restructure is raised by a hardening of the budget constraint which can be seen as increasing the penalty to passive behaviour (for example, by bringing forward the date of the closure of the enterprise).

The improved functioning of the managerial labour market can cause the incentives to restructure to bite harder. A functioning managerial labour market allows the manager to secure a "private benefit" from revealing her quality through undertaking successful restructuring. There will be less incentive for the manager to expend the effort on restructuring the noisier is the economic environment, since the signalling of quality becomes much less effective. If outside opportunities for managers are few, the manager will have to balance up the risk of job loss from the closure of the enterprise if restructuring is not undertaken with the threat to her position from within the enterprise if it is undertaken. Since undertaking restructuring generally entails cuts in employment and the shedding of social assets by the enterprise, the losers from restructuring will oppose it and will attempt to mobilize support to threaten the job of the manager.

A reading of the case study evidence suggests that enterprise managers possess some idiosyncratic or enterprise-specific human capital. This is in the form of informal networks of suppliers and customers of the enterprise, as well as contacts in government agencies. A general understanding of "how the system works" will be transferable outside the enterprise but individual contacts will usually not be. The larger the wedge between inside and outside options (*e.g.*, the higher is the level of idiosyncratic knowledge) the

greater is the temptation for managers to be risk averse and avoid the sorts of restructuring which could lead to dismissal.

Section 5 documents the way in which ownership transfer has affected behaviour - by influencing the incentives facing managers and altering the balance of power within the enterprise. Privatization has influenced restructuring most clearly in the case of foreign ownership: there is a very close correlation between major capital investment programmes and foreign ownership. However, whilst foreign ownership may solve the corporate governance problem and open the way to investment, the case study evidence suggests that foreign ownership is concentrated in enterprises with substantial market power.

In the conclusion, the results from two new large surveys of enterprises (in Bulgaria and Poland) which were not available when the disparate body of case study evidence was surveyed, is used to provide a check on the analysis of restructuring distilled from the case studies.

## 2. The data: why use case studies?

The evidence examined in detail in sections 3 through 5 deals with individual case studies and surveys of groups of enterprises where visits to firms have been undertaken. An attempt was made to be comprehensive in collecting surveys and case studies from Poland (198 enterprises), the Czech Republic and Slovakia (29 enterprises plus four sector studies based on visits to individual enterprises), Hungary (92 enterprises), and Russia (141 enterprises plus 18 from the Ukraine). As far as we are aware, we have examined the bulk of the relevant material available in English up to the end of February 1994, as well as some proportion of the material written in Russian. In this study, enterprises or sets of enterprises covered in a survey are referred to by a country code where C refers to the former CSFR and R to Russia and Ukraine, P is for Poland and H for Hungary. Where the survey reports on more than one enterprise, the number of enterprises is denoted by n= ... . The full list of case studies is provided in the appendix.

Why look at case studies? On the one hand, the theoretical literature on transition emphasizes managerial structures and incentives that are extremely hard to quantify. On the other, for the market tests of profitability and insolvency to reflect the efficiency of individual enterprises it is necessary for the incentives facing firms to have changed decisively in the direction of market driven ones and that firms are faced with effective competition in the product market. This seems too strong an assumption for the early stage of transition. Contingent features of the environment and legacies from the past appear to matter. Quantitative performance data on profitability are distorted in inflationary periods and false data are frequently reported by managers, for example to reduce tax liabilities in countries where tax collection systems are not fully effective. Even where data are not being deliberately distorted, they can still provide a misleading picture. For example, data on employment may not reveal the extent to which workers are simply being kept on the books to avoid layoffs; there are examples of short hours (C18), compulsory leave (R23) and workers on minimal wages with minimal work requirements (R15).

At least in the early stages of transition, case-studies, therefore, acquire an unusual importance as a source of information as to what is really happening inside enterprises. Of course case-studies provide quantitative data which must be treated with as much caution as official statistics, but with case-studies it becomes possible to discover patterns of adjustment that may be disguised by purely quantitative data, since they enable one

to build up a picture of the relations between different actors in and around the enterprise and of the contingent features of the environment which may be critical for enterprise performance.

The value of case-studies can be seen when the issue of profitability is considered. There is a tendency among analysts of the behaviour of Eastern European enterprises to regard profitability as an indication of the extent to which an enterprise is adjusting towards competitive market behaviour; loss-makers tend to be thought of as not having adjusted sufficiently (see Pinto *et al.*, 1993, for example). Detailed investigation of case-studies makes clear that there are many ways in which enterprises can be highly profitable without having adjusted (*e.g.*, P13), and there are many reasons why enterprises that have adjusted can still be making losses (*e.g.*, P12). Polish car parts producer P13 had the initial advantage of a good financial position at the close of the communist era. It has remained profitable through the cunning, but unsustainable, use of resources (including foreign exchange transactions and arbitrage). By contrast the Polish rolling stock maker P12 became a loss-maker as it lost all its exports and subsidies. Nevertheless, the management has attempted to adjust through a range of active restructuring measures (see Table 1a section 3.1).

Case studies have their own problems and are highly variable in quality. To a large extent, the variation in quality is a consequence of the design of the investigations. Frequently, observations are made without sufficient supporting information to be able to tell their true significance. Sometimes such a lack of information could have been remedied by simply writing fuller reports of the investigations. If, however, it is a consequence of a lack of depth of the investigation itself, one is left wondering whether the investigators have failed to observe significant aspects of what is happening inside the enterprise. It is clear that many studies are based on visits of only a few hours, with perhaps a couple of interviews with senior and middle management and an opportunity to collect data. The problem of quality of information can be illustrated well by comparing pairs of case studies carried out independently by different people but at the same enterprise[4].

As well as considering the problems that arise when looking at any one case study, it is also necessary to be careful when looking at the full range of studies and drawing conclusions from patterns among them. When researchers are selecting which enterprise to study, bias can arise both in the selection method of the investigator and by force of circumstance. As an example of the second type of bias, it is in general only possible to carry out a case study where one has permission from the management to do so. It may well be the case that those managers who are willing to give permission are precisely those who are more dynamic and less resistant to change. As an example of the first type of bias, it is often the case that the firms studied are chosen as "interesting" examples of a particular aspect of transition. It may be that the firm chosen is in a strategic industry (R7), or that it demonstrates well the role of trade unions (C20). Sometimes the selection bias is clearly stated but often it is not. Despite these problems, the dubious nature of quantitative performance data in early transition and the need to investigate the incentives key agents face make case studies a vital source of evidence.

## 3. Enterprise restructuring prior to privatization

Examination of the surveys of enterprises and the individual case studies reveals an almost bewildering variety of responses to post-reform conditions. The variation in responses arises from the different motivations of actors within the enterprise, the

changing balance of power between these actors, and the complex web of factors that create the economic environment for the enterprise in early transition.

Since there is a variety of responses in so many cases, it is useful to develop caricatures of different types of response, and then to examine what evidence there is of enterprises being more or less like these caricatures. The three broad patterns of enterprise adjustment are 1. active adjustment, 2. passivity and 3. ambiguous adjustment. Section 3.1 begins with enterprises where active restructuring measures have been taken which appear to be broadly consistent with the development of a competitive market economy. For enterprises which have demonstrated some restructuring behaviour, the constraints which have limited its depth and speed are recorded. The passive pattern is used to characterize enterprises which show minimal organizational and behavioural changes. In section 4, the third pattern is explored. These are the "ambiguous" cases where active behaviour is recorded but it is unclear how far this is consistent with furthering the market economy reforms.

Restructuring actions are catalogued across four dimensions: changes in internal organization such as the separation of non-core from core activities, the closure of unviable units and the spinning off of social assets; finding markets and adapting product ranges; labour shedding and the reform of incentives for managers and employees; and the modernization of equipment.

It is theoretically possible that without any adjustment at all, an enterprise could find itself, post macro-transition, in a state that is already compatible with a competitive market. In practice, though, it is extremely unlikely, and there was no evidence of enterprises that clearly fell into this category. Nevertheless, it is worth considering the factors that might lead to such a situation to clarify the influences that affect an enterprise's behaviour, both those relating to the enterprise's inheritance from the communist era, and to post-reform conditions. As regards inheritance, it would require that the enterprise's product mix was already directed towards areas of high demand, and that it did not inherit a heavy burden of debts, social assets or unproductive assets. If the firm found itself in a competitive market post-reform, a heavy burden of any of these would be unsupportable, and without restructuring the firm would go under. Such an enterprise might also have had the advantage of substantial investment shortly before macro-transition, thus sparing it the need to invest and allowing production of a quality equal to or higher than the rest of the market.

As regards post-reform factors, it would be essential that the market faced by the firm quickly became competitive. Given that it is most unlikely that any inherited market structures would resemble a competitive market, the rapid development of competition would require either a high degree of import competition or that low barriers to entry would allow for the fast growth of a private sector or that the large firms dominating the sector in the planned economy had spontaneously split up. Furthermore, it would require that the legal and institutional framework in the industry did not perpetuate the distortions found under communism. It would require, for example, that genuinely hard budget constraints would be immediately imposed through the ending of subsidies, the presence of effective bankruptcy legislation and a government credibly committed not to allow tax arrears or any form of bail-out. An institutional framework appropriate to a market economy would also necessarily involve secure chains of solvent suppliers and customers.

The low probability of the conjunction of all these factors both explains why there is no evidence in the cases studies of any firms in this category, and demonstrates the variety of reasons why active restructuring of a specific nature is generally essential in the transition to a market economy.

## *A guide to reading the tables of cases*

The restructuring actions reported in the case studies are presented in Tables 1 (restructuring actions), 2 (constraints on restructuring) and 3 (passivity). Enterprises which are discussed in sections 3 and 4 are only found in one of the three categories. To fall into the restructuring category, an enterprise has to have undertaken some restructuring actions consistent with the thrust of the reform process. For these enterprises, evidence of specific constraints preventing further or deeper restructuring are also recorded (Table 2). Table 3 records specific types of passivity for enterprises described as doing nothing to respond to the market reforms.

A quick look at these tables reveals many blank cells and the absence of many enterprises included in the survey. An enterprise has only been included in a row in one of these tables when there is clear evidence that such behaviour has been displayed. If the subject was not discussed in the case study report or if the description could not be deciphered with confidence, the enterprise is not registered. The summary tables, therefore, present a record of enterprise behaviour that has been documented, and are not to be seen as providing quantitative evidence on the extent of different types of behaviour. The purpose of the tables is rather 1. to show the dimensions across which enterprises do and do not restructure; 2. to highlight the similarity across at least three of the four countries (there is much less evidence for Russia); and 3. to provide a guide to the case studies themselves.

The recording of passive behaviour is likely to be an understatement. First, all enterprises for which there is some evidence of active restructuring behaviour are counted as "restructuring". However, virtually all these enterprises are passive in some respects. To be recorded in the passive category, there is firm evidence that the enterprise is overwhelmingly passive. In general, action is much more likely to be recorded than passivity and contact with active enterprises is often easier than with passive ones.

A number of studies have been included in this survey which cover sets of enterprises for which the details of individual cases were not available. When such cases are listed as registering the occurrence of a form of behaviour, the code *e.g.*, P16(n=64) is simply a label indicating that there were 64 enterprises covered in the study. There is no information to indicate whether a majority, minority or even all of the enterprises covered in the study display this behaviour. It is usually only possible to say that *some* behaviour of this kind was reported.

## *3.1. Restructuring*

Since power in most enterprises is held by senior management, most of this section is taken up with discussion of senior management's motives and actions and with the constraints they face. Sometimes restructuring is also initiated by middle management, employees and the state, and these cases are considered at the end of section 3.1.

### *3.1.1. Enterprise managers: incentives for and constraints on restructuring*

There is considerable evidence in the case studies of enterprise managers engaging in active behaviour which is broadly compatible with the evolution of a more efficient enterprise sector. Table 1 presents a summary of the types of behaviour which have been reported. The sparseness of entries in the Russian column in Table 1 is in part a result of the relative paucity of such behaviour in Russia, but is also in part a result of the bias in the sample towards privatized enterprises.

## Table 1. Restructuring undertaken by enterprise management

| | Poland | CSFR | Hungary | Russia |
|---|---|---|---|---|
| **A. Internal organization** | | | | |
| Increase independence of plants/divisions | 2; 16(n=64); 18(n=18) | 5; 7; 8 (then reverses); 12; 17; 18; 20 | 3; 5; 6; 8 | 2;14;16 |
| Spin off subsidiary plants/depts into independent companies | 2; 12; 24 | 2; 3; 5; 8; 12; 15; 17; 18; 30 | 3; 4; 16; 23; 30; 37; 44; 46; 17 (middle management initiated) | 4; 5; 17 |
| Get rid of all/nearly all social assets | 6 | | | |
| Sell, lease non-production-related assets | 11; 15; 16(n=64) 29(n=50) | 2; 7 | 19; 32; 44 | |
| Close unsuccessful plants/depts | 9; 12; 15; 24; 29 | | 5; 12; 32; 47 | |
| Rationalize management structure | 12 | | | |
| **B. Product market** | | | | |
| Set up marketing department | 3; 4; 6; 14; 18(n=18) 29(n=50) 30(n=9) Common | 3; 6; 7; 11; 13; 17; 18 Common | Common | |
| Change product mix/ lines | 3 Common | 2; 17 Common | 4; 12; 44 Common | 16 |
| **C. Labour market** | | | | |
| Employment-shedding comparable to fall in output | 3; 9; 15; 24 | 3; 5; 10; 18; 22 | 5; 9; 15; 29; 32; 35; 37; 38; 48; 49(n=40) | |
| Wage differentiation/ incentive schemes for managers | 6; 12; 14 | | 4; 5; 16 | |
| Wage differentiation/ incentive schemes for workers | 6; 29(n=50) | 1; 8; 12; 13; 20 | 16; 44 | 15; 16; 17 |
| **D. Investment** | | | | |
| Major capital investment programme funded by retentions unless o'wise stated | 4 | 1; 10; 13 | 16; 30 (WB funded); 49(n=50); 51 | 7(gvt funded) |
| I | | 1; 18 | | |
| Training | | 13 | 16; 23 | |
| R and D | | | | |
| **E. Other** | | | | |
| Engaged in or negotiating joint-venture with foreign company | 12; 14; 29(n=50); 30(n=9) | 1; 2; 3; 7; 11; 18; 21; 24; 28 | 3; 6; 10; 14; 15; 23; 26; 27; 37; 38; 41; 45; 51; 54 | 1; 6; 17 |

**Notes:**

1. There may be many more examples among the enterprises looked at; many of the studies were limited in terms of the range of information provided.
2. Where a reference is to a survey of several enterprises, rather than to a case study, the number of enterprises in the survey is given in the form (n=...). Some behaviour of the type shown was found in the sample.

## Table 2. Constraints on restructuring identified by enterprise managers

| | Poland | CSFR | Hungary | Russia |
|---|---|---|---|---|
| **A. Internal Organization** | | | | |
| Increased independence of plants/divisions prevented by middle management | 9 | 11 | 51 | |
| Spin off of subsidiary plants/depts into independent companies opposed | | | | |
| by top management | | | 3; 16; 30 | |
| by middle management | | 11; 12 | | |
| Prevented from getting rid of social assets because of | | | | |
| legal obstacles | 9 | | | |
| lack of buyers | 12 | | | |
| Prevented from getting rid of non-production-related assets because of | | | | |
| legal obstacles | 10; 21 | | | |
| lack of buyers | 3 | | | |
| Closure of unsuccessful plants/depts prevented by local dependence on plant for utilities | 9 | | | |
| Employees constrain amount of restructuring | 2; 3; 4 | | | |
| **B. Product market** | | | | |
| Loss of CMEA markets | Common | Common | Common | Common |
| Loss of military orders | 3; 15 | | 5 | |
| Collapse of wholesale network | Common | Common | Common | Common Barter 2; 7; 20(n=18) |
| Insolvent suppliers/ purchasers | | 2; 3; 20 | | |
| **C. Labour market** | | | | |
| Good workers leave because of low state sector wages | 7; 8; 9 | 2; 8; 11; 12; 16; 20 | 5; 10; 21; 24; 35; 47 | 1; 7; 10; 11; 13 |
| Layoffs prevented by: | | | | |
| high severance pay | 12; 14 | | | |
| incomes policy design | 16(n=64) | | 26 | |
| law on layoffs | 29(n=50) | | | |
| Wage differentiation/ incentive schemes for managers prevented by employees | 3; 8; 9; 10; 11; 15 | | | |
| Wage differentiation/ incentive schemes for workers prevented | | | | |
| by employees | 11 | | | |
| by incomes policy | | 1; 3; 5 | | |
| Rationalization of production to best plants prevented by workers unwilling to move | 9 | | | |
| **D. Investment** | | | | |
| Prevented from investing because of lack of profits/ lack of access to credit | 11; 12; 16(n=64)/ 2; 6; 18(n=18) Common | 2; 3; 11; 12; 18 | 4; 10; 49(n=40) | |
| **E. Other** | | | | |
| Lack of bank credit to allow employees to participate in privatization | 11; 22; 24; 25 | | | |
| Lack of legal enforcement of contracts | | | | 20 |

**Notes:**

1. Enterprises are only included here if they have undertaken some restructuring measures listed in Table 1a.
2. There may be many more examples among the enterprises looked at; many of the studies were limited in terms of the range of information provided.
3. Where a reference is to a survey of several enterprises, rather than to a case study, the number of enterprises in the survey is given in the form (n=...).

In the other three economies key characteristics of enterprise organization in the planned economy are being unwound on the initiative of enterprise senior managers: 1. vertical integration; 2. cross-subsidization of plants and 3. the social sphere attached to the enterprise. For example, C17 is the product of the break-up of a large SOE during the period of "spontaneous" deconcentration early in the transition. Further unbundling took place during the first wave of privatization with a plant being sold by public tender. The increased independence of plants and divisions and the spinning off of plants into independent companies represents the weakening of cross-subsidization of activities within the large SOEs. Although little evidence was found of enterprises shedding the bulk of their social assets and activities (hence, the shortage of entries in the table), the finding that some efforts at separation had been undertaken was more common (except in Russia).

In Table 2, cases have been identified in which senior managers who have attempted to engage in restructuring have encountered obstacles to their plans for internal reorganization. For example, in P9 (shown in Table 1 as having closed an unsuccessful plant) management was prevented from extending its programme of rationalization (through plant closures) by the opposition of middle management in the weak plants (who have attempted to prevent closure by increasing input-output ties between weak and strong plants), by the opposition of the local community to the loss of steam from the plant scheduled for closure, and by the unwillingness of employees to relocate.

The most common responses by managers to the replacement of state orders by a product market has been to create a marketing capability in the enterprise and to adjust to a more profitable product profile. This form of adjustment was mentioned very frequently in the case studies of Polish, CSFR and Hungarian enterprises (hence, the term "common" in Table 1). However, an almost universal complaint by managers who showed signs of adjustment along other dimensions is of the absence or underdevelopment of a wholesale distribution network (Table 2). There are cases of managers attempting to overcome this by investing to establish one (*e.g.*, P3, P4, C11, C18).

The overwhelming impression from the case studies is that major investment in new capital equipment is a form of restructuring only available to enterprise managers where profits have been accumulated in the enterprise (Tables 1, 2).

Since labour hoarding was endemic in enterprises in planned economies, enterprise adjustment toward market behaviour involves labour shedding. During the years of transition, enterprises have typically experienced sharp falls in sales. Adjusting enterprises have cut output in line with sales and there are some cases where employment has fallen roughly in line with the decline in output. To achieve this degree of labour adjustment, it has usually been necessary to lay workers off. There is no mention in the Czech cases of problems with achieving desired employment cuts. The design of incomes policies is cited in both Hungary and Poland as preventing layoffs (H26, P16(n=64)). The law preventing large-scale layoffs in Poland is also cited (P29(n=50)). If a layoff involves more than 99 employees, it is deemed "large-scale" and the enterprise has to supplement

unemployment pay from its own budget. Other cases are reported where layoffs have been constrained by the inability of the enterprise to afford severance payments (P12, P14).

The aggregate data (*e.g.*, Boeri, 1994) suggest that there is a considerable amount of separation and rehiring taking place in the labour markets of these three economies. In one Czech enterprise (C17), the manager explains that he is able to take advantage of the high implicit unemployment in the region (the many enterprises where there are large amounts of short-time working and where layoffs are expected) to restructure his labour force - firing unskilled workers and hiring skilled ones.

In the case studies, there are many examples where managers are seeking to widen wage differentials. In CSFR, there are managers who were able to introduce wider wage differentials and/or elements of performance related pay in spite of the existence of the incomes policy (*e.g.*, C8). In another Czech enterprise (C20), the manager abandoned collective bargaining and introduced individual wage contracts. This was in response to the shortage of skilled labour caused by the departure of employees for more lucrative returns in the private sector. The case studies provide a lot of evidence that the "adjusting" enterprises were finding it difficult to retain skilled employees due to the uneven application of incomes policy arrangements and taxation as between the state-owned and private sector (Table 2). There are several cases where management has, or is considering, hiring migrant labour (*e.g.*, from Ukraine (H4); from Ukraine and Poland (C20); from Lithuania (P8)).

There is rather limited evidence of increased wage differentials for managers or of more general managerial incentive-pay schemes. In Poland, in the set of adjusting enterprises, we find a larger number of cases where managers discuss their failure to secure greater wage differentials because of the opposition of employees than of cases where incentive pay has been introduced (Tables 1, 2). In the CSFR case studies, there is simply no discussion of the issue at all. (The caveats discussed above relating to the quality of the evidence must be borne in mind here.)

There is little sign from the case studies of the existence of an external managerial labour market. Changes in senior management have occurred because of: 1. dismissal by the employees (*e.g.*, P2, P3, P7, P8, H20, H22); 2. dismissal by the government for political reasons (C7, C8, H51); 3. dismissal by the government (Ministry, SPA) to improve management (H9, H49(n=40), H50); 4. dismissal by the new *foreign* owner (H31, H54, H36) (although, more usually, the incumbent management is supplemented by one or two foreigners (*e.g.*, C21)); 5. retirement or death. With the exception of the foreign owners who brought in managers from the parent company, changes in senior management resulted in the promotion of new managers from inside the enterprise.

The "threats" to the position of the manager from employees typically represent a constraint on the extent of market-oriented adjustment rather than pressure for more adjustment. In R3(n=36), there are two cases in which the senior manager was sacked by the employee shareholders because of his sale or attempted sale of a substantial part of the enterprise to foreigners. In H22, the enterprise council sacked the senior manager when he proposed trimming managerial positions. A counter-example is P6 where the workers council replaced the management board in an attempt to improve the enterprise's performance. In P29(n=50), it is reported that there is a slight correlation between change in management (workers' councils replaced senior managers in 23 of the 50 enterprises) and the depth of organizational change.

The government appears to take the step of sacking senior managers in "political" cases (which reflect past activities), in cases of gross incompetence (*e.g.*, C9), or where it judges that restructuring incompatible with the interests of the state is occurring (*e.g.*,

H9 and see Section 4 below). There are no reported cases of senior managers leaving voluntarily for better positions in the private sector or in other enterprises. There is one case where the senior manager chose to move to the foreign joint-venture he had established with the best of the enterprise's assets (C24).

The career motive for managers to undertake restructuring defined in terms of an outside market for managers appears of limited relevance in the noisy phase of transition, where the contacts of managers retain a high value even in enterprises which are adjusting to the market environment. The "career motive" is most likely to come into play in enterprises which are engaged in or planning joint-ventures with foreign companies. A foreign joint-venture partner presents the opportunity for an outside evaluation of the manager, thus, raising the manager's incentive to perform well. Moreover the foreign joint-venture may reduce the uncertainty about the enterprise's prospects under restructuring (for example by providing access to finance for investment) thereby raising the manager's incentive to restructure.

For some of the enterprises displaying restructuring behaviour in Table 1, this behaviour cannot be linked solely to improved incentives arising from economy-wide changes in the economic environment (*e.g.*, hardening of the budget constraint through the abolition of subsidies, trade liberalization-*cum*-devaluation packages). Governments have engaged in individualized deals with enterprise managers to elicit restructuring by reducing debts or providing finance to enable the compensation of losers from restructuring. One example of this is the Czech electrical goods enterprise C20 which was rescued from collapse by a large government loan given in return for a commitment to restructuring.

In the case of the Czech steel enterprise C30, the restructuring package arose from cooperation between the enterprise, local government and the Ministry of Labour. It was necessary to shed some 6,000 jobs and to break up the enterprise. Labour shedding was made easier by the availability of jobs in Prague, but the restructuring deal included the provision of several thousand jobs - including measures through which skilled work-groups could be kept together. The government and the enterprise have provided subsidies to support so-called "conversion units" which have been set up using surplus facilities and labour. Most such conversion units have subsequently become independent sub-contractors.

### *3.1.2. Restructuring initiated by other agents*

**(i) Middle managers**

In each country in the early period of reform there has been a phase of spontaneous splitting up of enterprises. Managers of subsidiary enterprises within large concerns took the opportunity created by the political opening up to remove their enterprise from the control of the general director of the concern (*e.g.*, Zemplinerova, 1993 on CSFR, Voszka, 1993 on Hungary). The motivation of middle managers was typically expressed in terms of the desire to take control ("to escape from the unqualified decision-making of the concern management") and to position themselves to benefit from expected MBO-type privatization schemes. An example in the case studies is of H17 where the middle managers initiated the splitting off of a plant.

**(ii) Employees**

There is some evidence of cases where employees have had both the power and the incentive to force the hand of managers toward more restructuring. The employee-instigated changes in management were noted above. Although evidence has been presented that employees have been able to slow the pace of desired cuts in employment, there are also examples where employment reductions were initiated by unions and

workers' councils. This was so in 25% of the "small and medium-sized" enterprises (*i.e.*, those with employment of up to 2,000) in P29(n=50).

**(iii) The state**

The role of the state in changing the incentives so as to induce managers to move in the direction of restructuring has been discussed already - both the use of economy-wide measures and of enterprise-specific deals. However, the state has also intervened directly to raise efficiency. From the case study evidence there are just a few cases of the government breaking up an enterprise on competition-policy grounds. The clothing enterprise P5 was one of the early show-case Polish privatizations and the Anti-Monopoly Office intervened to separate one of the five plants. It is likely that it was because of competition policy that a plant was separated by ministerial decree from the Hungarian monopolist in measuring instruments (H32).

The state has also taken direct control of enterprises in order to bring about restructuring. One example is a Polish glass manufacturer (P8) where the Ministry is reported to have sent in an official to restructure the enterprise. This enterprise was previously crippled by conflictual industrial relations (resulting, for example, in the resignation of the senior manager) in the wake of a strike over wages. The outside appointee has established a marketing section, retail stores and sales agents in order to diversify from almost complete dependence on export sales.

## 3.2. *Passive behaviour*

While the case studies provide evidence of a wide range of active responses by managers to the circumstances they find themselves in, there are some firms which display a general lack of response. Table 3 shows clearly the lack of response that can be observed in a variety of different respects across all four countries. In looking at this table, the limitations of the case studies should again be borne in mind; the absence of examples for some types of behaviour and countries may simply be a consequence of the variation in the information collected by different investigators.

Two broad categories of passive behaviour at odds with the market reforms can be distinguished: in the first, management may have an interest in actively restructuring the enterprise but is prevented from doing so; in the second, the management has insufficient incentive to restructure.

**(i) Blocked restructuring**

These enterprises are characterized by a general lack of response, whereas in the previous section, firms generally seemed to be responding but were facing constraints. Not surprisingly, the story to be told here is similar to that discussed previously, but more extreme.

The primary constraint on the ability of managers to restructure is the power of workers. The possible reactions of the workers to the management's attempts to restructure can be approached by thinking of different groups of workers as being either "gainers" or "losers" in the restructuring process. In the simplest case, where the proposed restructuring is the laying off of workers, the "gainers" are those who retain their jobs, while the "losers" are those laid off. The reaction of the workers to the proposal for restructuring depends both upon the number of gainers relative to the number of losers, and also upon how concentrated the losses are in certain groups (Aghion *et al.*, 1994). A distinction is also to be drawn between cases where it is clear *ex ante* which units are viable and which are not, so that the gainers and losers know their identity, and cases where the viable/unviable distinction is blurred, so that all workers become potential losers and what becomes important is the expected probability of being a gainer *vis-à-vis* the expected probability of being a loser. The greater is the extent to which the losers (or

potential losers) outweigh the gainers (or potential gainers), the stronger is the opposition to restructuring.

## Table 3. Passive responses

| | Poland | CSFR | Hungary | Russia |
|---|---|---|---|---|
| **A. Internal organization** | | | | |
| Little organizational change | | 4 | | 19(n=12) |
| Retain all/nearly all social assets | 2; 13; 14; 29(n=50) | 4; 14 | | 3(n=36); 6; 13; 15(n=41); 18 (n=6) |
| *Not close unsuccessful plants/depts* | 13 | | | |
| Unions/ enterprise council change management structure to retain *status quo* | 2 | | | |
| **B. Product market** | | | | |
| Does not set up wholesale network/ marketing system | | | | 16 |
| No change in product mix/ lines | 17; 29(n=50) | | | |
| **C. Labour market** | | | | |
| Limited employment shedding compared with fall in output | 10; 13 | 4; 14 | 15; 22; 47 | 19 |
| No wage differentiation/ incentive schemes for managers | 10; 16 | | | |
| No wage differentiation/ incentive schemes for workers | | | | 17 |
| **D. Investment** | | | | |
| No major capital investment programme | Common | Common NOT 4 | Common | Common 1; 19 |
| **E. Other** | | | | |
| Resist privatization | 2; 27 | | | |

**Notes:**

1. There may be many more examples among the enterprises looked at; many of the studies were limited in terms of the range of information provided.
2. Where a reference is to a survey of several enterprises, rather than to a case study, the number of enterprises in the survey is given in the form (n=...). Some behaviour of the type shown was found in the sample.

The ability of workers to block restructuring depends not only on the weight of gainers and losers, but also on the balance of power between different actors within the enterprise, a crucial determinant of which is the extent to which workers have formal powers. The Workers' Councils in Poland are the prime example of workers having formal powers which include the ability to dismiss and appoint managers. Restructuring may be blocked both by managers' fear of being dismissed, and by the replacement of pro-restructuring managers by managers who are less likely to engage in restructuring. Where there is a high risk of being dismissed, this may provide a considerable incentive for managers not to engage in restructuring, given that their human capital is to some extent non-transferable.

One example demonstrates how a powerful worker-lobby can hold up the restructuring process. P2 is a Polish manufacturer of electrical household appliances that has suffered

from a large fall in demand, while facing a hard budget constraint, and without the protection of a dominant market position. In spite of the adverse conditions confronting it, there has been minimal restructuring. Its large range of social assets has not been cast off, there has been no significant investment, and a large proportion of profits has gone on the social welfare fund and on employee bonuses. Employment has fallen 25%, but this is below both the fall in output and falls in employment in other SOEs in Poland. The explanation surely lies in the resistance of workers, through the Workers' Council and the unions. The workers have brought about repeated changes in management, and their resistance caused a plan for corporatization and privatization to be abandoned.

**(ii) Low incentive to restructure**

The absence of any active response is in many cases the consequence of there being no, or a low, incentive for managers to respond. These cases fall into two categories: first, cases where the fortunate position that the enterprise finds itself in post-reform means that it is able to achieve relatively high levels of profit even in the absence of activity aimed at improving its position; secondly, cases where the continuation of a soft budget constraint means that the enterprise is able to keep going without any active response even if it is running losses.

**(a) Favourable positions**

For a variety of reasons enterprises can find themselves in favourable financial positions post-reform. Where this occurs, even if the enterprise is facing a hard budget-constraint, that budget-constraint is unlikely to bite. For example, an enterprise might find itself in a dominant market position which would allow it to shelter from financial pressures, thus lowering the incentive to engage in active restructuring.

- C4 is a Czech chemicals manufacturer with a dominant market position for several of its products. It was also helped considerably by the government cancelling a large volume of debt in 1991. Its sheltered position has enabled it to avoid restructuring: its internal organization is unchanged, it still has a large range of social assets, as well as still being involved in a number of productive activities unrelated to its core activity. Employment has fallen only 18%, half the fall in output. It has, however, secured large investment loans from the Czech investment banks, although this seems to be primarily related to its "strategic" importance in Czech industry.
- P13 is a Polish manufacturer of car parts. It started the post-reform era with a good financial position, and has obtained large profits through arbitrage while most firms in the industry have run heavy losses. It has a large range of social assets, which the management intends to maintain. An unprofitable subsidiary plant has been kept going out of concern for its depressed location.The fall in employment (30%) has been half the fall in output (58%) and has occurred entirely through retirement and voluntary departure; management has consciously resisted layoffs on humanitarian grounds.

In such cases, factors other than a favourable position may also contribute to the lack of response. These factors explain why enterprises shelter under their favourable position and remain passive, rather than also restructuring and thus reaping even higher profits. Factors of this kind include a strong worker lobby, a concern for local political reaction (P13), and support for the "labour collective".

**(b) Soft budget constraints**

The continuation of soft budget constraints allows the enterprise to survive even if it is making losses. The absence of a genuine threat of bankruptcy removes the incentive to restructure that would otherwise arise for firms with a poor financial situation.

- Direct subsidies from government have sometimes continued. For example, large subsidies to R13 (a Russian clothing manufacturer) have helped it to avoid layoffs and to expand its social assets in spite of making substantial losses.

- The extent of tax arrears has widened. Pinto *et al.*'s survey of 64 Polish enterprises (P16) reports that among the 25 enterprises making gross losses the average volume of tax arrears (as a % of taxes due) rose from 5.0% in 1990 to 50.8% in the first half of 1992. In Szanyi's survey of 40 Hungarian enterprises (H49), from 1990 to 1991 tax arrears rose by more than 30% in 11% of firms, rose by up to 30% in 39% of firms, and fell in only 14% of firms. P9 is a Polish furniture manufacturer that has successfully made a deal with the Treasury to freeze penalty interest on tax arrears.
- The threat of bankruptcy is removed either because of the belief that nobody would initiate bankruptcy proceedings for fear of systemic collapse, or because managers are confident of a bail-out by the government. P14 is a Polish pharmaceuticals manufacturer whose employment has remained constant in spite of a 60% fall in output. It also has a large range of social assets as well as rapidly increasing wages. The management is reported to be convinced that it will receive state-support not only in the form of favourable investment-credits but also in the form of a bail-out if it becomes necessary. P10 is a Polish machine-tool manufacturer that has suffered terribly from the collapse in military orders and CMEA exports. Although employment has fallen 50%, output has fallen 70-80%. The management, however, assumes that the government will not allow it to be liquidated because of its "national importance". These examples qualify Pinto *et al.*'s claim (P16) that Polish managers no longer expect bail-outs from the government.
- Inter-enterprise arrears are extremely widely reported, particularly in Russia. Negative or very low real interest-rates on inter-enterprise arrears are invaluable in helping to prop up ailing firms. H32 is a precision-engineering enterprise in Hungary that in early 1992 was on the verge of bankruptcy. It was unable to secure a loan from its bank, but eventually received a rescue loan from another enterprise instead, at a low interest-rate. On the other hand, Pinto *et al.* report that inter-enterprise arrears are stabilizing in Poland, with strong firms now creating rankings of customers, and differentiating their credit-treatment accordingly.

The inspection of the case studies has underlined the importance of distinguishing between high-cost and low-cost restructuring activities. The most common types of action taken by managers were those that were not threatening to the insiders in the enterprise and which did not require major investment. Clear evidence was found of managers being prevented from pursuing deeper restructuring strategies by the opposition of employees and by the lack of access to finance for investment in both physical capital and marketing capabilities. This suggests that one should be sceptical of placing too much weight on the existence of "business plans" as an indicator of restructuring. Drawing up such plans incurs few costs. We have focused on restructuring actions as opposed to intentions. The case studies make clear that in Poland, Hungary and CSFR, there has been widespread adaptation to the cessation of orders for output and the need, therefore, to produce for sale rather than stock, to establish a department to seek sales and to be willing to adapt the output mix in response to demand. However, each of these adjustments can be achieved at relatively little cost.

It is clear that the willingness of members of the enterprise to sanction the separation of the social sphere depends on adequate access to the health, education, recreation and other community service facilities from other providers. The pace of enterprise restructuring is, therefore, linked to the successful build-up of parallel structures providing these services.

Major capital investment programmes were few and far between in the SOEs covered by the case studies (except for those with foreign owners). When they were present, they typically relied on retentions for finance. A general complaint in Poland (and also frequently made in CSFR and Hungary) was that enterprises could not get credit to

finance investment. Although retentions are the typical source of finance for investment in developed market economies, the consequences of this form of investment allocation are different in the transitional economies. It appears that the pressure of competition is bearing rather unevenly on the former SOEs with the result that the distribution of current profits is a poor guide to the appropriate allocation of investment (see Carlin, Van Reenen and Wolfe, 1994, for a more detailed discussion). Moreover, from an efficiency point of view, the inherited financial resources (or indebtedness of enterprises) should not be allowed to determine their growth.

# 4. Ambiguous restructuring

The restructuring undertaken by enterprises discussed in this section is ambiguous not simply because of the motives behind it but, more importantly, because it is not clear whether in the long term the structures that are being formed are going to help or hinder the transition to a market economy. For example, while it might be argued that the "spontaneous" formation of holding-company structures in Hungary in the late 1980s stimulated the growth of a class of entrepreneurial middle managers, the motivations underlying the changes and the uncontrolled manner in which they took place may have had negative effects on the development of the attitudes towards the law and the market which are appropriate to a competitive market economy.

From a reading of the case studies, several types of ambiguous restructuring can be identified. In the first, managers actively exploit the monopoly position of the enterprise. This is followed by a discussion of two strategies which involve organizational innovation: the creation of holding companies and of internal companies.

**(i) Monopoly**

As discussed in Section 3.2, sometimes the presence of a monopoly can simply shield an enterprise from the pressures of the market so that the enterprise can survive even with minimal response; sometimes, however, enterprises can be seen to be taking active steps to secure their market power. Here we concentrate on the "active" monopolists. The pursuit of market dominance is driven by two motives: one is simply to increase profitability, the other, related, motive is to reduce pressure on the enterprise to restructure in other ways. High profits and a lack of potential competition to threaten those profits mean that there is less pressure on the management to lay off workers, get rid of social assets, *etc.*

The pursuit of market dominance is made possible by the absence of effective anti-monopoly legislation, as well as by the market structures inherited from the communist era. Buchtikova and Flek (1993) show for the Czech Republic, for example, that sectors with the highest concentration benefited from faster growth of profits and of prices than was characteristic of less concentrated industries. In addition, in the examples below management's actions are facilitated by a poorly developed privatization programme and by the ease with which the government can be "captured" by influential individuals and enterprises. These various factors combine to mean that an opportunity is available to the manager to secure his position both by increasing profits and by avoiding the most risky kinds of restructuring such as layoffs.

The forms which such actions take vary and can be best approached by considering some examples. In these examples managers take a variety of steps, in all of which the intention is either to increase market power or to prevent its erosion.

- P15 is a very successful Polish textile manufacturer. The general manager is a high profile figure, not only dominant in the enterprise, but also influential in the industry at

the national level. Because of his contacts, he feels assured of government support, and places a very low priority on tax payments. More significantly, he has succeeded in having himself appointed as the Ministry's official in charge of restructuring the textile industry in the region. His plan for office appears to be to liquidate all local competition. It is striking that in P15, employment has been cut by 55% through groups layoffs and that this is roughly in line with the fall in output. As argued above, such extensive labour-shedding through involuntary separations is rare and it would be very interesting to know if the enterprise used its profits to finance the layoffs. Unfortunately, the case study does not report whether this was the case.

- H18 is a very profitable Hungarian wholesale and retail trader with a dominant market share. In 1989 the management became concerned that a future Privatization Act might lead to the break-up of the chain and the separate privatization of its shops. To prevent its market share being lost, the management rushed through the privatization process before the new Privatization Act became effective and before the SPA could take control of the process. Although less detail is provided than for P15, it is clear in this case too that substantial cuts in employment have occurred.

**(ii) Holding companies**

One structural innovation that is frequently seen in Hungary is the transformation of the SOE into a holding-company. This holding-company then acts as a property manager of the various subsidiary joint-stock companies that have been created and which have taken over the SOE's productive capacity, the subsidiaries numbering anywhere between 4 and 24 in the enterprises that were looked at. The holding-company generally retains a majority stake in most or all of the subsidiaries, with other stakeholders being foreign and domestic investors, suppliers, banks and local government. Generally these transformations took place during the wave of "spontaneous privatizations" in Hungary prior to the creation of the SPA in 1990. There are also examples of these structures elsewhere, for example in the CSFR (C15 and C20).

A variety of motives may underlie management's decision to transform the enterprise into a holding-company. A common purpose is to increase managerial control by removing the direct influence of the state. Since it is only the holding-company itself which the state owns, it is only the holding-company that the state can easily control. It might be thought that the control of senior management is in fact likely to decrease as a result of such a transformation, since the independence and, therefore, power of middle managers will have increased. However, this motivation does frequently lie behind senior managers' decisions. The interest in removing state control may be closely tied to management's fears about what the state might do in terms of breaking up or liquidating the enterprise. This action may, therefore, be motivated by senior managers' fear of losing their jobs and/or concern for the "labour collective". In so far as managers' fear is that the enterprise may be liquidated, transformation into a holding-company is more likely in hard-hit enterprises.

A good example is H25/H50, a Hungarian ship-builder which was turned into a holding-company with 7 subsidiaries in 1989 in order to stave off what would otherwise have been imminent liquidation. In 1990, however, after the creation of the SPA, the government took back direct control and fired the General Director. Management's fears were confirmed as by summer 1992 all the subsidiaries had become loss-makers and 4 of them had either been made bankrupt or liquidated.

Another purpose is to allow stakes in the enterprise to be quickly sold to key external actors. The fact that this could be achieved without going through the process of privatization meant firstly that this method was particularly appealing at a stage when the privatization procedure was not yet clear, and secondly that state interference could be

avoided. Stakes for suppliers, for example, may enable the enterprise to guarantee secure supplies in an uncertain market. Alternatively, stakes for banks may allow debt-for-equity swaps as a means of preventing collapse. In H25, mentioned above, in a debt-for-equity swap banks took substantial stakes in several of the subsidiaries.

Although the motivations underlying the transformations (tax evasion, prevention of liquidation of unprofitable firms, *etc.*) do not point in the direction of the competitive market, yet the structure that results may actually help to foster competition. Transformation into holding-companies increases the independence of divisions within the SOE by turning them into independent companies. This is likely to make more visible the distinction between viable and unviable divisions. Viable divisions will prosper, and unviable divisions sooner or later will be liquidated. In addition, the increased independence of divisions of the SOE gives new power to the managers of the divisions, which may help in the development of a class of entrepreneurs by providing resourceful middle managers with the opportunity to spin their divisions off and become independent. For example, prior to transformation H47 was one of the largest furniture manufacturers in Hungary. In 1990 it became a holding-company with 4 subsidiaries. Two of these subsidiaries have been very successful and are to be privatized independently, while one of the subsidiaries is on the verge of making losses and has already been forced to close down one of its four plants.

On the other hand, it is by no means clear that the holding-company structure will encourage the break-up of enterprises. On the contrary, there is evidence that some of the transformations are geared specifically to prevent the original SOEs being broken up. For example, H3 is a plastics manufacturer with a large share of an oligopolistic market. During the late 1980s it was turned into a holding-company with 12 subsidiaries. When the case study was carried out in 1992/93 the holding-company was soon to be privatized, but the privatization plan proposed by the management ruled that the holding-company was to be privatized as one concern, that no equity-stake in the holding-company itself should exceed 5%, and that no equity-stake in any subsidiary should exceed 50%. H51 (which is a holding-company with 24 subsidiaries) is an example of how unlikely the break-up of holding-company structures may be even when the management is not overtly trying to prevent it. The subsidiaries are highly interdependent, and the transfer-pricing mechanism between them renders it very hard to distinguish viable from unviable subsidiaries. Consequently, break-up was not an option, and by August 1991 the holding-company had gone into liquidation.[5]

**(iii) Internal companies**

A second structural innovation is the establishment of a number of new enterprises which then operate within the SOE, often carrying out a large proportion of its productive activity. This is more commonly seen in Russia, where following the 1989 law internal co-operatives were set up in many enterprises. Many of these were later transformed into "small enterprises" after changes in the law made this status more advantageous for the companies.

The primary motives for the creation of internal companies are to avoid taxes and by-pass wage regulations. Russian laws regarding cooperatives, and subsequently small enterprises, freed these companies from the restrictions imposed on wages in SOEs. Until 1991 the tax liabilities were also lower for co-operatives than for SOEs. Moreover, the creation of complex corporate structures, elements of which are effectively out of state-control, has made it easier to avoid taxes through not declaring certain activities and revenues. Above all, then, the creation of internal companies is a means to submit painlessly to workers' demands for higher wages and to increase profits through loopholes in the tax system. In so far as this method of increasing profits is a

displacement for more productive methods, since it removes the need to increase efficiency even while budget constraints are hardening, it cannot be regarded as leading in the direction of a market economy.

A rather different motive for the creation of internal companies relates to the interests of middle managers. It is frequently middle managers who control these internal companies, and it provides an opportunity for them to increase their independence considerably. This increased independence may be seen as one route to the development of a class of entrepreneurs, since it provides a large number of middle managers with the opportunity to use their skills in a small enterprise in a pseudo-private sector environment, where the profits from their activities are clearly visible. On the other hand, it should be emphasized that these middle managers are operating in a pseudo-private rather than a private sector. Remaining under the umbrella of the SOE provides several advantages for internal companies which are not available for firms operating in the new private sector. Internal companies are, thus, protected from some of the pressures of the market. As Johnson and Kroll (1991) point out, they have the following advantages: 1. supplies are more secure, 2. they can use the SOE's network of contacts, and 3. they are protected against political interference.

R7 is an example that possibly shows the constructive potential of these companies. Six production shops of this aircraft-manufacturer became "small enterprises" in 1990. The general director of the SOE subsequently wished to bring the small enterprises back within the fold of the SOE, but they have been able to resist his pressure and one is about to become an independent company. In spite of the motives underlying their establishment, the existence of these small enterprises may, therefore, encourage the growth of competition.[6]

In this section the focus was on enterprises which were actively responding to changes in the economic environment but for which there was genuine ambiguity as to how these forms of response should be interpreted from the perspective of raising efficiency. Into the ambiguous category fell those enterprises with clear monopoly power but which were not simply using this as a device for non-adjustment. Unfortunately, there is not enough information in the case studies to determine whether these active monopolists are undertaking major investment programmes or if monopoly profits have been used to provide compensation to employees laid off. If either of these forms of restructuring are closely tied to the enterprise possessing *quasi*-rents, the welfare assessment of monopoly under transitional conditions may have to be modified. Another "ambiguous" strategy by management is the creation of holding company structures. Often created to prolong the life of an enterprise threatened by bankruptcy, the holding company structure has the potential benefit of decentralizing economic organization and facilitating the emergence of independent firms.

## 5. The effects of privatization programmes on enterprise behaviour

In economic debate, the motivation for privatization arises from the idea that private ownership will raise efficiency by 1. opening up the possibility for managers' incentives to be brought into line with those of the owners; 2. hardening the budget constraint and 3. reducing the opportunities for the state to interfere with the pursuit of efficiency by imposing non-economic objectives on enterprises (Boycko *et al.*, 1993). All three have played a part in the design of privatization programmes. The benefits from the fastest possible privatization have to be weighed against costs of forgoing state revenues, of

inadequate corporate governance and of permitting the transformation of state into private monopolies. One reason for the variation between the approaches to privatization observed in the transitional economies lies in the differential weighting of these factors. But the existence of different constraints plays a part as well (see Carlin, Van Reenen and Wolfe, 1994, for further discussion about the forms of privatization across countries).

In terms of pre-privatization behaviour, both the content of the programme and the uncertainty concerning its timing and detailed implementation will influence the decisions of managers as to how to position themselves. In general, one might expect that greater uncertainty in respect of either the benefits or timing of privatization would shorten managers' time horizons biasing them against actions which cause pain in the short run. It has been argued (Aghion *et al.*, 1994) that delaying privatization raises the incentives to restructure as managers believe they have the chance to reveal their abilities. However, this is only the case if managerial behaviour is strongly influenced by career concerns. The evidence from the case studies suggests that the continued noisiness of the environment militates against the relevance of the career effects, except in the case of foreign investment. For these reasons, the focus of this section is on the forms of post-privatization behaviour and the role of foreign enterprises.

## *5.1. Post-privatization behaviour*

Because of the brief period of time for which most enterprises have been privatized, the quality and quantity of evidence on post-privatization behaviour is very limited. In the case of CSFR, for example, the new owners only took over their shares in the spring of 1993 and post-privatization evidence was not available.

**Poland**

Participation in the Polish "capital" or "individual" privatization programme has been limited to profitable enterprises. Nevertheless, it appears that their superior financial performance has been maintained post-privatization (P17, n=8). Rapid changes of ownership have occurred after privatization with employees selling their (subsidized) shares and managers increasing their stake in the enterprise. Privatization has seen a shift in the balance of power from workers to managers with some slight evidence of more profound organizational changes as a consequence. There is also some suggestion that investment increased after privatization reflecting lengthening time horizons of managers and greater managerial control *vis-à-vis* workers. The strong impression from these cases is that sound financial performance (at the outset of reform rather than resulting from adjustment) determined the form of privatization and has permitted fairly minimal restructuring either pre- or post-privatization.

In enterprises privatized through "leasing" (P18, n=18), loss-making firms have relaxed the share transfer regulations which they had designed to keep outsiders out. In one case, over one-third of shares had shifted from employees to outside investors. However, for this set of firms as a whole, it seems that there was no change in pace or depth of product or market adjustment post-privatization. This form of privatization was chosen with the objective of continuing existing strategies and the firms concerned have succeeded in this. In only one case was the senior manager dismissed post-privatization and it seems that the shareholders (*i.e.*, employees) were concerned about the wage structure rather than about the firm's viability.

**Hungary**

Privatization through liquidation appears to have been one mechanism through which some restructuring has occurred. Although the State Privatization Agency (SPA) has never had the administrative capability to do substantial restructuring, there was also a legal obstacle: the SPA could only take control of enterprises directly owned by the state

and not of the subsidiaries of the holding company. However, it is interesting that removal of this obstacle through liquidation has still not prevented management from maintaining the holding intact. Take, for example, the electronics enterprise H15 (also reported on in H51) which is a large holding company with 20 subsidiaries. It was liquidated in 1991 and sold to a consortium of a state-owned bank (to whom one-third of its debts were owed) and a private domestic computer firm. The new management includes managers from the computer firm. During liquidation all its liabilities were written off by the government and employment was cut by 70%. However, the managers have succeeded in their aim of preventing the firm from being split up.

**Russia**

Relative to elsewhere, privatization has taken place at an earlier stage in the transition process in Russia. There may also be a bias toward privatized enterprises in the selection of Russian case studies. The cases covered are almost all of insider-privatization and a central issue concerns the relationship between managers and workers. There appear to be three broad trajectories for privatized enterprises: 1. unchanged control mechanism; 2. employee-dominance and 3. manager dominance.

1. Unchanged control mechanism

A classic example of this case is the clothing manufacturer R13. Privatization has simply allowed the locus of plan-bargaining to shift from the central to a regional parastatal conglomerate. The political connections of the senior manager have allowed the soft budget constraint to prevail through the procurement of large subsidies. The shareholders' council is passive and there have been no changes in managerial structure. Social assets have been extended, plan-fulfilment remains the priority in production and wages remain closely tied to plan-fulfilment.

2. Employee-dominated

There is evidence of this in the study of 36 privatized enterprises (R3, n=36). There had been no layoffs. In two cases, senior managers had been sacked and on both occasions it was for engaging in the sale of shares to outside investors. Managers expressed the view that they were unwilling to engage in restructuring before the first shareholder meeting for fear of being sacked. Although social assets may have been formally transferred to municipalities, the firms are required to continue to finance them.

3. Manager-dominated

There are a number of cases in which managers have sought to increase their formal control by persuading employees to sell their shares (*e.g.*, R11). This has enabled the firm to carry out layoffs and create large wage differentials. However, more recently, the employees have succeeded in forcing management to raise wages and cut dividends suggesting that managerial authority is still strictly limited. On the other hand, managers seem to be able to manipulate the control structures to ensure they have the upper hand. Examples are to be found in R8 (management ensures that there are no employee representatives in management structures), R9 (management can determine who sits on the board of shareholders), R12 (management decides to stop calling meetings of the shareholders' council). Increased real authority of managers is demonstrated in the case of R8 where management unilaterally introduced temporary job contracts. This provoked conflict but the management was able to sack those leading the workers' opposition.

In the Pistor study referred to above (R3, n=36), managers state their aim of increasing ties of cross-ownership. Enterprises are keen to establish cross-ownership with suppliers and customers so as to prevent a takeover by outsiders and to preserve the security of the old supply system. Such ownership patterns are likely to increase once the legal restriction on cross-ownership is lifted.

## *5.2. The role of foreign companies in enterprise restructuring and privatization*

A reading of the case studies reveals that managers in state-owned enterprises have a rather schizophrenic view of the role of foreigners in enterprise reform. Financially weak enterprises see a foreign owner as a potential saviour. By contrast, there are other enterprise managers who see foreigners as a threat to survival, fearing that a foreign company might simply strip assets such as the enterprise's position in domestic and Eastern European markets. In fact, the evidence available from the case studies suggests, not surprisingly, that weak enterprises are very unlikely to find a foreign saviour unless the financial weakness masks potential viability (*e.g.*, H23, a heavily indebted enterprise but with a strong monopoly in the domestic market).

The pattern of foreign ownership is fairly clear: foreign companies are attracted either by domestic firms with market power or when some pre-privatization restructuring has already been undertaken - *e.g.*, labour shedding, separation of social assets. The examples of the former in the case studies are of confectionary firms (C3, C21, H13), construction materials (H53), packing materials (H56), electrical goods producers (H31, H52) and a plastics producer of automotive parts with a secure supply relationship with VW-Skoda (C7). In two cases, further acquisitions to reinforce the firm's monopoly position are taking place. For example, H53 is trying to take over other companies so as to eliminate competition and the multinational owner of H56 has subsequently bought a majority stake in another enterprise to give it 98% of domestic packing material production.

An example of a failed sale to a foreign company highlights the role of market power. The enterprise H19 is a cosmetics and household chemicals producer with an initially large market share in domestic markets. Privatization negotiations were well under way with two multinational companies. Both eventually withdrew essentially because the enterprise had become progressively less attractive as its market power suffered from a dramatic rise in import competition.

In order to attract foreign buyers in cases where a monopolistic position is less secure, the government has been forced to engage in restructuring (something which the employees were apparently strong enough to prevent in the cosmetics case of H19 discussed above). For example in the case of a Hungarian telecommunications enterprise (H36), the German buyer required the separation of the core business from other parts of the enterprise and reduction of employment by 55%. In another case (a large electrical engineering enterprise H54), the foreign buyer wanted the SPA to retain a substantial stake in the enterprise so that the company would still get state orders. Voszka (1993) provides further examples of trade and tax concessions.

In the case of the Czech truck enterprise C22, two bids from foreign companies included the following "governmental favours": bid 1: cancellation of all debts, grants for environmental clean-up, import of equipment and of components free of customs-duties, market protection followed by gradual deregulation; bid 2: 10 years market protection, 5 years tax exemption, import of equipment free of customs duties, import quotas for new and used trucks.

A number of foreign acquisitions have taken place through the prior establishment of a joint-venture between the SOE and the foreign company. This has proved to be a route through which substantial restructuring of SOEs has occurred. A good example is the case of the Hungarian elevator enterprise H23. As noted above, this enterprise had a large domestic market share but inherited large debts. Managers negotiated a joint-venture with a western firm taking 75% ownership with the SOE retaining 25%. The joint-venture route allowed the selection of the best employees (and presumably other valuable assets)

from the SOE without the burden of layoffs or debts. The foreign owner has invested in new capital equipment and the firm has maintained its market share.

## Table 4. Restructuring observed in enterprises owned by foreign companies

| | Poland | CSFR | Hungary |
|---|---|---|---|
| **Enterprises with majority foreign ownership** | one from 17 (n=8); one from 18 (n=18) | 3, 7 | 13, 31, 36, 52, 56 |
| **Majority foreign ownership *via* joint-ventures** | | 21 | 23, 53, 54, 55 |
| **A. Internal organization** | | | |
| Increase independence of plants/divisions | | 21 | |
| Spin off subsidiary plants/depts into independent companies | | | 54 |
| Get rid of social assets | | | 31 |
| Sell, lease non-production-related assets | | | |
| Close unsuccessful plants/depts | | | 31, 53 |
| Rationalize management | | 7, 21 | 31, 36, 52, 54 |
| **B. Product market** | | | |
| Set up marketing system | | | |
| Change product mix/ lines | | | 13, 52, 55 |
| **C. Labour market** | | | |
| Layoffs comparable to fall in output | | | 52, 54 |
| Wage differentiation for managers and workers | | | 13 |
| **D. Investment** | | | |
| Major capital investment programme | one from 17 (n=8); one from 18 (n=18) | 3, 21 | 13, 23, 31, 36, 52, 55, 56 |
| Invest in wholesale network | | | |
| Training | | | 23, 36 |

**Notes:**

1. There may be many more examples among the enterprises looked at; many of the studies were limited in terms of the range of information provided.
2. Where a reference is to a survey of several enterprises, rather than to a case study, the number of enterprises in the survey is given in the form (n=...).

Post-privatization behaviour by foreign owners shows an unambiguous change: most notably, virtually all cases of foreign ownership have been associated with a major investment programme (see Table 4). Considerable changes in management structure have also taken place with local senior managers typically being supplemented by foreign managers. In the Czech plastics firm C7, for example, the management board comprises the Czech senior manager and two Germans; the German owner occupies half of the positions on the Supervisory Board. The organizational structure of the firm is usually changed to "harmonize" it with that of the parent firm. Although, we found only fragmentary direct evidence in our survey (C24, see Section 3.1), it seems plausible that the career motive for managers is most likely to be at work in the CEECs in cases where

the SOE is in contact with a potential foreign owner. To the extent that this is true, foreign direct investment helps promote managerial effort pre-privatization.

# 6. Conclusions

In the period from the collapse of Communism to early 1994 the countries considered in this study faced huge changes. A severe downward demand shock in the product market was coupled with the desire to move towards a market-based economy by restructuring SOEs into organizations that could compete domestically and internationally. What have we learned about restructuring from the survey of case studies presented in this paper?

First and foremost is the bewildering heterogeneity of responses to the shock within and between the former state socialist nations. Some order has been placed on this variety by proposing a taxonomy dividing the different types of and constraints on restructuring. It must be emphasized that this information is of a qualitatitive rather than a quantitative nature: it sketched possibilities rather than weighting probabilities.

Whilst enterprises have frequently responded to the hardening of the budget constraint and the emergence of competition in the product market, there is little evidence of "deep restructuring". Much of what is commonly recorded as restructuring is shallow, such as the setting up of marketing departments or adjusting product lines. There is a variety of reasons for this pattern. Frequently overlooked is the variability in the stock of assets which enterprises brought with them from the planned economy and the uneven extent to which a winding down of state subsidies translated into a hard budget constraint. Managerial incentives to restructure appear to be relatively weak as the macroeconomic turbulence drowns the manager's attempt to signal her ability through higher effort. Additionally, managers are hampered by the constraints of a workforce reluctant to risk layoffs under conditions of high and stagnant unemployment.

The rarest form of restructuring is a significant increase in investment. The only exception to this is where enterprises have been acquired by foreign multinationals. Unfortunately, it appears that foreign investment is attracted only when the purchased firm can exercise substantial monopoly power or when restructuring has already taken place. The latter condition usually involves considerable labour shedding (measured in relation to the fall in output) and this opens up the possibility of a two-step process: if the enterprise, either alone or in conjunction with the state, can deal with labour-hoarding then it may be picked for investment by foreign firms.

Another key finding is that many forms of "active" managerial behaviour are not obviously compatible with a competitive market economy. These ambiguous cases include the exploitation of market power but also, the setting up of holding and internal companies. They pose a challenge for theorists and policy-makers, as it is unclear from a normative point of view whether they should be discouraged or encouraged.

Finally, there was little evidence that the privatized enterprises were more likely to restructure than state-owned enterprises. This is consistent with Pinto *et al.*'s (1993) conclusions. The incentive problems appear despite ownership structure, especially when insiders have been in control of the privatization process.

These conclusions are of course tentative and heuristic. They are subject to the caveats raised in Section 2 which discusses the quality of data in the existing case studies. Nevertheless, one might wish to use the conclusions stated here as hypotheses which could be tested on more systematic micro-data, ideally drawn from panels of enterprises combined with managerial survey data. Two new data sources are relevant

here - from Bulgaria and Poland - which can be used as a kind of out of sample prediction test.

The Bulgarian data consist of almost 500 firms in the very earliest phase of reform between 1989-1992. Jones (1994) finds that one form of restructuring - job shedding- is significantly larger for firms who switch away from being controlled by workers.[7] In examining managerial structures he also finds little role for the career concerns which could give managers incentives to restructure (Jones *et al.*, 1994). The Polish data are of two forms. There is basically a population of firms with over 5 employees for the early period (1988-91) (Konings *et al.*, 1995) and a survey of 200 firms for the more recent period (1991-93) (Belka *et al.*, 1994). Both are panels, but only the latter has managerial information.

Most of the main findings are also consistent with the case studies: 1. there is a huge heterogeneity of job creation and destruction that is less linked to sectoral shocks than in the UK and US; 2. employment growth is far higher among *de novo* private firms (even controlling for size and life cycle effects); 3. privatized firms appear very similar to SOEs in their constraints and employment changes; 4. there is little evidence of spinning off of social assets. However, there does appear to have been a better performance in terms of investment and new technology in privatized firms than in SOEs, even when foreign owners were not involved. This is consistent with the case study evidence on the characteristics of "capital" privatized firms: this method of privatization was used for profitable firms and investment was confined to firms with access to retentions.

Overall, the more comprehensive surveys from Bulgaria and Poland do not seem to contradict the flavour of results from the case studies. As more systematic data become available econometric tests of the key hypotheses can be put to more rigorous quantitative analysis. Our analytical survey of case studies is designed as complementary research to the empirical studies of the future.

# Endnotes

1. An earlier and considerably longer version of this paper has appeared as European Bank for Reconstruction and Development Working Paper No. 14. We are grateful to the EBRD for financial help in supporting this research. Marianne Afanasseva provided great help in translating the Russian case studies. Useful comments on an earlier draft of this paper were made by Philippe Aghion, Robin Burgess, Andrew Glyn and Mark Schankerman, and by conference participants in Berlin and Prague.
2. This does not rule out employees owning firms and hiring managers as long as the employees have value maximization as their objective.
3. Although some larger firms in market economies share some of these characteristics, the difference is so great that it is one of kind not just of degree.
4. Consider one particular pair of studies of the same enterprise (H7 and H20) which were carried out at roughly the same time. In H7 we are told that several attempts to privatize the SOE fell through before the final strategy was decided upon. In H20 we are told why. First, a potential sale to a foreign firm fell through when a Hungarian investor came forward, who was favoured by management and employees because he promised to keep the profits in the country and to lay off fewer workers. However, the Hungarian investor's attempt to buy the enterprise also fell through when a group of employees, who had become suspicious of his motives, established a new trade union and succeeded both in forcing the SPA to abandon the sale and in having the

managing director dismissed. Clearly these events are extremely revealing in terms both of the motives of management and employees and of the power of the employees.

5. Examples of holding companies which are not discussed in the text are H9, H27, H29, C15 and C20.
6. Examples of the formation of internal companies not discussed in the text are: R4, R5, R16, R20, H24.
7. The converse is also true, becoming more labour controlled reduced the probability of job loss. Note, however, that there are very few firms which changed status - only about 6% of the sample. Also there is no attempt to control for the endogeneity problem: a bad demand shock could cause the firms to change simultaneously its managerial structure and shed workers.

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# Appendix: List of cases and surveys

## Table 1a

| Label | Industry | Empl. | Source | Date |
|---|---|---|---|---|
| **P 1** | not in use | | | |
| **P 2** | Household electrical | 5000 | Estrin *et al.* | Apr.-Dec.92 |
| **P 3** | Radio components | 1450 | Estrin *et al.* | Apr.-Dec.92 |
| **P 4** | Chocolates | 750 | Estrin *et al.* | Apr.-Dec.92 |
| **P 5** | Garments | 4200 | Estrin *et al.* | Apr.-Dec.92 |
| **P 6** | Plastics | 700 | Estrin *et al.* | Apr.-Dec.92 |
| **P 7** | Footwear | 250 | Estrin *et al.* | Apr.-Dec.92 |
| **P 8** | Glass | 900 | Estrin *et al.* | Apr.-Dec.92 |
| **P 9** | Furniture | 800 | Estrin *et al.* | Apr.-Dec.92 |
| **P 10** | Machine tools | 550 | Estrin *et al.* | Apr.-Dec.92 |
| **P 11** | Steel | 8300 | Estrin *et al.* | Apr.-Dec.92 |
| **P 12** | Railway rolling stock | 2200 | Estrin *et al.* | Apr.-Dec.92 |
| **P 13** | Auto parts | 1350 | Estrin *et al.* | Apr.-Dec.92 |
| **P 14** | Pharmaceuticals | 1300 | Estrin *et al.* | Apr.-Dec.92 |
| **P 15** | Cloth | 450 | Estrin *et al.* | Apr.-Dec.92 |
| **P 16** | 64 varied enterprises | | Pinto *et al.* | Summer 91-Sept.92 |
| **P 17** | 8 pvzd. through capital | | Dabrowski *et al.* | Oct.91-end 92 |
| **P 18** | 18 pvzd. by leasing | | Dabrowski *et al.* | Oct.91-end 92 |
| **P 19** | 6 pvzd. through liquidation | | Dabrowski *et al.* | Oct.91-end 92 |
| **P 20** | 10 commercialized SOEs | | Dabrowski *et al.* | Oct.91-end 92 |
| **P 21** | 12 dissolved (bankruptcy) | | Dabrowski *et al.* | Oct.91-end 92 |
| **P 22** | Trading | 50 | Dabrowski *et al.* | Oct.91-end 92 |
| **P 23** | Machinery repairs | 200 | Dabrowski *et al.* | Oct.91-end 92 |
| **P 24** | Geological services | 350 | Dabrowski *et al.* | Oct.91-end 92 |
| **P 25** | Machinery | 450 | Dabrowski *et al.* | Oct.91-end 92 |
| **P 26** | Leather processing | 1000 | Dabrowski *et al.* | Oct.91-end 92 |
| **P 27** | Construction | 250 | Dabrowski *et al.* | Oct.91-end 92 |
| **P 28** | Trading | 200 | Dabrowski *et al.* | Oct.91-end 92 |
| **P 29** | 50 SOEs | | Dab., Fed.& Lev. | (late 1991) |
| **P 30** | 9 varied enterprises | | Jorgensen *et al.* | July 1990 |
| **C 1** | Transport | ? | McDermott | (Sept.1993) |
| **C 2** | Auto parts | 3700 | Estrin *et al.* | Apr.-Dec.92 |
| **C 3** | Chocolates | 600 | Estrin *et al.* | Apr.-Dec.92 |

| | | | | |
|---|---|---|---|---|
| C 4 | Chemicals | 4500 | Estrin *et al.* | Apr.-Dec.92 |
| C 5 | Heavy engineering | 4800 | Estrin *et al.* | Apr.-Dec.92 |
| C 6 | Pharmacueticals | 2700 | Estrin *et al.* | Apr.-Dec.92 |
| C 7 | Plastics | 1400 | Estrin *et al.* | Apr.-Dec.92 |
| C 8 | Cloth | 2400 | Estrin *et al.* | Apr.-Dec.92 |
| C 9 | Garments | 150 | Estrin *et al.* | Apr.-Dec.92 |
| C 10 | TV sets | ? | Estrin *et al.* | Apr.-Dec.92 |
| C 11 | Vehicles | 3500 | Estrin *et al.* | Apr.-Dec.92 |
| C 12 | Construction services | 1000 | Clark and Soulsby | Sept.1992 |
| C 13 | Heavy engineering | 5000 | Soulsby and Clark | Spring 1992 |
| C 14 | Truck and bus parts | 1000 | confidential | Nov.93-Feb.94 |
| C 15 | Whole sector - glass *etc.* | | Hughes *et al.* | (April 1993) |
| C 16 | Whole sector - furniture | | Hughes *et al.* | (April 1993) |
| C 17 | Flax-processing | 300 | Mladek | (May 1993) |
| C 18 | Whole sector - truck and bus | | Jirasek | (Aug.-Sept.91) |
| C 19 | Whole sector - textiles | | Mejstrik and Ben. | (Nov.1992) |
| C 20 | Electrical goods | 1500 | Pollert with Hr. | March 1993 |
| C 21 | Confectionery | 850 | Pollert with Hr. | March 1993 |
| C 22 | Truck manufacturing | 6000 | Jirasek | 1991-92 |
| C 23 | Truck manufacturing | 8000 | Jirasek | (Jan.1992) |
| C 24 | Telecommunications | 1400 | Brom/Orenstein | (Nov.1993) |
| C 25 | Computers | ? | Brom/Orenstein | (Nov.1993) |
| C 26 | Construction | ? | Brom/Orenstein | (Nov.1993) |
| C 27 | Trading | ? | Brom/Orenstein | (Nov.1993) |
| C 28 | Transport | ? | McDermott | (Sept.1993) |
| C 29 | Aircraft | ? | McDermott | (Sept.1993) |
| C 30 | Steel | ? | McDermott | (Sept.1993) |
| C 31 | Trucks | ? | McDermott | (Sept.1993) |
| | | | | |
| H 1 | not in use | | | |
| H 2 | Pharmaceuticals | 3750 | Estrin *et al.* | Apr.-Dec.92 |
| H 3 | Plastics | 2000 | Estrin *et al.* | Apr.-Dec.92 |
| H 4 | Garments | 300 | Estrin *et al.* | Apr.-Dec.92 |
| H 5 | Precision engineering | 350 | Estrin *et al.* | Apr.-Dec.92 |
| H 6 | Chemicals | 5700 | Estrin *et al.* | Apr.-Dec.92 |
| H 7 | Brewing | 950 | Estrin *et al.* | Apr.-Dec.92 |
| H 8 | TV sets | ? | Estrin *et al.* | Apr.-Dec.92 |
| H 9 | Cloth | 4000 | Estrin *et al.* | Apr.-Dec.92 |
| H 10 | Oil and gas equipment | 1200 | Estrin *et al.* | Apr.-Dec.92 |
| H 11 | Glass | 1000 | Estrin *et al.* | Apr.-Dec.92 |
| H 12 | Auto parts | 2600 | Estrin *et al.* | Apr.-Dec.92 |
| H 13 | Chocolates | ? | Estrin *et al.* | Apr.-Dec.92 |
| H 14 | Garments | 1200 | Gyekiczky *et al.* | (Dec.1992) |
| H 15 | Electronics | 6500 | Lee | (June 1993) |
| H 16 | Hotels | 3500 | Ariel *et al.* | (June 1992) |
| H 17 | Iron products | 50 | Neumann | (early 1990) |
| H 18 | Trading | ? | Pasztor | (late 1991) |
| H 19 | Cosmetics, chemicals | 1400 | Antal/Estrin | (August 1993) |
| H 20 | Brewing | 1000 | Antal/Estrin | (Sept. 1993) |
| H 21 | Glass | 2000 | Branyiczki *et al.* | (Apr.-June 92) |

| | | | | |
|---|---|---|---|---|
| **H 22** | Porcelain | ? | Branyiczki *et al.* | (Apr.-June 92) |
| **H 23** | Elevators | 450 | Branyiczki *et al.* | (Apr.-June 92) |
| **H 24** | Computers | ? | Branyiczki *et al.* | (Apr.-June 92) |
| **H 25** | Ship building | ? | Voszka | (late 1990) |
| **H 26** | Rubber goods | 9000 | Brada *et al.* | Jan.91-summer 92 |
| **H 27** | Machine tools | 3600 | Brada *et al.* | Jan.91-summer 92 |
| **H 28** | Pharmaceuticals | 6000 | Brada *et al.* | Jan.91-summer 92 |
| **H 29** | Cloth | 8500 | Brada *et al.* | Jan.91-summer 92 |
| **H 30** | Oil and gas | ? | Brada *et al.* | Jan.91-summer 92 |
| **H 31** | Precision engineering | ? | Hughes *et al.* | (April 1993) |
| **H 32** | Precision engineering | ? | Hughes *et al.* | (April 1993) |
| **H 33** | Precision engineering | ? | Hughes *et al.* | (April 1993) |
| **H 34** | Precision engineering | 250 | Hughes *et al.* | (April 1993) |
| **H 35** | Telecommunications | 3500 | Hughes *et al.* | (April 1993) |
| **H 36** | Telecommunications | 1600 | Hughes *et al.* | (April 1993) |
| **H 37** | Telecommunications | ? | Hughes *et al.* | (April 1993) |
| **H 38** | Telecommunications | 350 | Hughes *et al.* | (April 1993) |
| **H 39** | Pharmaceuticals | 4200 | Hughes *et al.* | (April 1993) |
| **H 40** | Pharmaceuticals | ? | Hughes *et al.* | (April 1993) |
| **H 41** | Pharmaceuticals | 2750 | Hughes *et al.* | (April 1993) |
| **H 42** | Pharmaceuticals | 4000 | Hughes *et al.* | (April 1993) |
| **H 43** | Pharmaceuticals | ? | Hughes *et al.* | (April 1993) |
| **H 44** | Furniture | 100 | Hughes *et al.* | (April 1993) |
| **H 45** | Furniture | ? | Hughes *et al.* | (April 1993) |
| **H 46** | Furniture | ? | Hughes *et al.* | (April 1993) |
| **H 47** | Furniture | ? | Hughes *et al.* | (April 1993) |
| **H 48** | not in use | | | |
| **H 49** | 40 varied enterprises | | Szanyi | Summer 1992 |
| **H 50** | Ship building | ? | Voszka | (Dec.1993) |
| **H 51** | Electronics | 14000 | Young | (Nov.1992) |
| **H 52** | Electrical goods | 12000 | Barta | (Dec.1993) |
| **H 53** | Construction materials | ? | Barta | (Dec.1993) |
| **H 54** | Electric motors | 1700 | Barta | (Dec.1993) |
| **H 55** | Electronics | ? | Barta | (Dec.1993) |
| **H 56** | Packing-materials, *etc.* | 600 | Barta | (Dec.1993) |
| | | | | |
| **R 1** | Rubber goods | 3500 | Burawoy & Hend. | Jan.-Mar.91 |
| **R 2** | Furniture | 2200 | Burawoy & Krot. | Mar.-July 91 |
| **R 3** | 36 privatized enterprises | | Pistor | Summer 1993 |
| **R 4** | Computing | 100 | Bernstein | (Nov.1993) |
| **R 5** | Communications | 50 | Bernstein | (Nov.1993) |
| **R 6** | Machine tools | 18000 | Hayes | (1992) |
| **R 7** | Aircraft | 14000 | Hendley | Jan.-July 92 |
| **R 8** | Electrical equipment | >1000 | Kabalina and Naz. | (Nov.1993) |
| **R 9** | Ventilators | >1000 | Kabalina and Naz. | (Nov.1993) |
| **R 10** | Chemicals | 3500 | Clarke *et al.* | Mar.92-1993 |
| **R 11** | Industrial equipment | 300 | Clarke *et al.* | Mar.92-1993 |
| **R 12** | Coal | 2400 | Clarke *et al.* | Mar.92-1993 |
| **R 13** | Garments | 700 | Clarke *et al.* | Mar.92-1993 |
| **R 14** | Metals | ? | Stanford conf. | (1993) |

| | | | | |
|---|---|---|---|---|
| **R 15** | 41 enterprises from Moscow | | Commander *et al.* | Nov.1992 |
| **R 16** | Watch-making | 6000 | Artemev *et al.* | (Dec.1991) |
| **R 17** | Scientific research | 3300 | Kolesnikova *et al.* | (1992) |
| **R 18** | 6 enterprises | | Alasheyev | 1992-93 |
| **R 19** | 12 enterprises in 4 regions | | Clarke | Mar.92-1993 |
| **R 20** | 18 enterprises in Ukraine | | Johnson and Kroll | Dec.1991 |
| **R 21** | 20 varied enterprises | | Gelb and Singh | (Dec.1992) |
| **R 22** | Confectionery | 2300 | Nellis | 1992-early 93? |
| **R 23** | Defence | ? | Metalina | (Nov.1993) |
| **R 24** | Metal components | ? | Romanov | (Nov.1993) |
| **R 25** | Machine building | ? | Romanov | (Nov.1993) |
| **R 26** | Assembly parts | ? | Romanov | (Nov.1993) |
| **R 27** | Electronics | ? | Romanov | (Nov.1993) |
| **R 28** | Telecommunications | ? | Romanov | (Nov.1993) |
| **R 29** | ? | ? | Romanov | (Nov.1993) |
| **R 30** | Metallurgy | ? | Romanov | (Nov.1993) |
| **R 31** | ? | ? | Romanov | (Nov.1993) |
| **R 32** | Garments | ? | Romanov | (Nov.1993) |

**Notes:**

1. The date given is that at which the study was actually carried out. Where this is not stated, the date of writing or publication is given in brackets.
2 The figure for employment is that at the time of the study (*i.e.*, after layoffs, *etc.*, have occurred), and is rounded off.
3. For surveys of several enterprises (*e.g.* P16), the number of enterprises surveyed is given, as well as the criterion according to which they were selected, unless the sample was intended to be random.
4. P refers to Poland, C to both the Czech Republic and Slovakia, H to Hungary, R to both Russia and Ukraine.