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Research Output

(Final Report)

TRANSFERRING MANAGERIAL COMPETENCE AND ORGANIZATION FROM WESTERN TO EASTERN EUROPE

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Introduction

> Motto: „For only the explicit, formulable core of knowledge can be transferred, neutrally from person to person."
> Polányi Michael (1969) *Knowing and Being,* London: Routledge & Kegan Paul

Mainstream Approaches on the Transformation Process and the Questions Investigated

In late 1980's and at the beginning of the 1990's, the dominant view among economists and political scientists - observing and advising the transition process from planned to market economy of formerly socialist countries of Central and Eastern Europe (CEE) - regarded the change as being from one type of socio-economic regime to another type ignoring any institutional continuity. The transition was interpreted as 'an once-and-for-all shift from political-economic regimes based on the logic of the central planning to another political-economic regime based on the logic of the market. (For instance, the notion of transition was so popular among Hungarian social scientists that in the first years of the 1990's a forum was called „Transit Club" established to discuss various aspects of the transformation process.)

Transition means radical (100 per cent) break with the social and economic institutions of the ex-socialist system and the creation of brand new institutions, patterns of behaviour of social and economic agents. The new system gives the society a development potential, where the old system was throughly exhausted. This approach is often characterised by the „0" sum game model of society, according to this logic, the triumph of one social-economic system implies complete failure of the other one. Assuming incompatibility between social systems excludes any continuity of former patterns of social relations and their perspective institutions. The societal developments seem to be following according to the rationality of revolution: without complete destruction of the old institutions it is almost impossible to create the genuine new institutions of the market economy.

This view of transition is related to a variety of other concepts. Firstly, it proposes the *legacy of the socialist past represents only institutional deficiency* and limits the speed of the transition process. Secondly, it *overestimated the level of coherence (or homogeneity) of institutions* in the former social-economic regime and neglects the diversity of regulations governing both individual and collective actions. (Makó-Simonyi, 1992:36-41). Thirdly, this view of „turn-key" capitalism *underestimates the importance of time for the social learning process* in creating market economy of consistent institutions in the post-socialist countries of CEE. Based on his comparative study of the past and present development of the former GDR and Hungary, Grabher criticised the above mentioned mainstream transition approach: „The vision of Central Eastern Europe future is shaped by images of Western Europe's and North America's present ... and this basically teleological development concept of changes anticipates future society which is not only desirable, but already known." (Grabher, 1995: 33.) or using another well known expression the „End of History".

The other more balanced approach concerning the changes of 1990's refutes the „social tabula rasa" or „institutional vacuum" arguments of the transition approach. This second approach stresses the importance of the *transformation process,* in which the political and economic institutions, patterns of social actors' behaviour are „re-combined" with some elements of the old institutional configuration. It is argued by recognising the role of „path-dependence" in the emergence of the new institutions of the market economy (for instance, privatisation, emerging new labour relations system, governance structures of the firm, etc.) we may better understand the variety of trajectories and forms of development in the post-socialist countries. (Stark, 1992., Hausner-Jessop-Nielsen, 1995., Stark-Grabher, 1996.) As one representative of the evolutionary development noticed, „The path-dependent emergence of a new, post-socialist form of capitalism calls for a complex evolutionary interpretation of this, great transformation, as opposed to the big bang view, as the metaphor itself suggests, forgot that something historical was there before. (Chavance, 1995: 288.)

Using the „production models" of the so-called 'regulation school' in economics, there is not only one „efficient" production model even in the capitalist system, the same efficiency could be reached by the combination of 'pure local', 'intermediary' and 'universal' models of production system. (Boyer-Freysennet, 1996.) The basic differences between *transition* and *transformation* are not only theoretical but also have significant effects on the success of economic restructuring of the country concerned. As a specialist of the macro-economic development has noticed recently, „In the course of the reconstruction period, the customary, the already-known and well-practiced are re-established, such that old skills can efficiently be used. The contrary is true for the transformation periods. They require the acceptance of the new and different, the acquisition of new skill, and the dissemination of these elements." (Bekker, 1995:105.)

In evaluating both theoretical and empirical evidence related to the *transfer of managerial competence and organisation*, our analysis represents a combination of „path dependence" approach with the significant creative role of the social actors. In this way we try to avoid the risk of a social-cultural determinism, often associated with the „path-dependence" approach. This normative position employed in transformation of managerial labour process could be labelled as „social constructivism" (Dubois, 1994.). This approach treats institutions as socially constructed which are at least in the short run resistant to change and during the change, social actors must take into consideration as constraints. Contrary to the „social realist" view which assumes that reality is given 'out there' in the world, the „social constructivist" approach insists that
social actors
the reality is constructed by human minds interacting in social institutions, which by definition „... consist of cognitive, normative and regulative structures and activities that provide stability and meaning to social behaviour. Institutions are transported by various carriers - cultures, structures and routines - and they operate of multiple level at jurisdiction" (Scott, 1995:33.)

Until recently, most discussion and debate about the post-socialist economies in the countries of CEE has been dominated by the issues related to the transformation of the political (legal) and economic institutions (e.g. models of privatisation, creation of democratic political system, restructuring the existing welfare system etc.) and the roles of the political and social actors in this process. Nowadays, we may assist a well publicised debate on the EU integration concentrating mainly on the fulfilment of the necessary technical requirements. Rather less attention has been paid to the role of *management as a labour process and the related issues of changing skill and organisational morphology* in the emerging market economies in the countries of CEE. This relative negligence of the role and the work of such key *economic actors as managers* in the 'every-day life' in the transformation economies can be explained partly by the overestimation of changes in the ownership structure (privatisation) and partly by the interest of social scientists in the role of the economic elite in the new society (e.g., status conversion, social composition, etc.)

Several studies have tried to identify the particular features of the post-socialist managerial class opposed to the business elite in the matured market economies. One influential group of scholars tries to identify the particular characteristics of the post-socialist managerial class compared with of mangers in the developed market economies. These scholars speak of the rise of a distinctive form of capitalism, so-called „managerial capitalism", where managers are in a strong power position compared with the power of the new private owners. In this view, the dominant feature of the „managerial capitalism" in the post-socialist countries is that the economic elite is more dependent on the political elite compared with the private owners in matured capitalism (e.g., recruitment, nomination, firing the members of the business elite in these countries heavily influenced by the ruling political elite.) (Szelényi-Kovacs 1995.). The other group of scholars is treating managers as the simple executive „arm" of the new (private) owners in the business organisations (Maximov, 1996.) According to our view, it is too early to qualify the nature of capitalism in the post-socialist countries of CEE. The briefly presented approaches dealing with the post-socialist business elite are treating „... management as a unitary concept, and the singular 'frontier of control between management and workers' is located at operational level. The concept of a differentiated management with separate rationalises does create a more complex and differentiated approach for those who seek to combine theory and practice." (Teulings, 1986: 143.) Only systematic empirical studies on the decision making system and the labour process of management in the business organisation representing the variety of ownership structures could inform us about the power distributions between managers and owners or between managers and the political elite.

In spite of the understandable shortcomings of the briefly presented attempts, these approaches, however, have called the attention of management scientists to the complexity of the transformation process in the post-socialist countries. Until now, relatively modest efforts have been made to understand and evaluate the nature of changes in the managerial labour process, which is the core topic of our study. Our approach fits well into the framework of organisational structuralism. „In this perspective, management is not in the first place regarded as a category of society, as a societal class, or even as a collectivity of professionals, but as *combination of labour process within organisations.*" (Teulings, 1986:142) As we noticed earlier, the transfer of managerial skill and organisational practices from the matured market economies into the post-socialist countries - first of all into Hungary - are the focus of our research. During this investigation, we intend to answer the following interrelated questions:

1: *What elements of managerial skill (and organisation) are required* to successfully run business organisations in the emerging market economies in the post-socialist countries? Can we easily distinguish and identify the *'transferable'* (well-coded knowledge in the forms of manuals) and or *non-transferable form of management's skill?*

2: During the transfer of managerial skills *which levels or section of management or organisation (enterprise, establishment, plant) are the targeted field* of the transfer? Can we register changes or modification in priorities of skill and organisation transfer since the 1990's?

3: How does the 'amalgamated' character of the post-socialist economies and societies influence the *form, and the speed of the 'learning process'* associated with these changes? To what degree can the different national social-cultural framework (e.g. American versus Hungarian way, Hungarian or Czech way, etc.) explain variations in receptivity of imported managerial methods and concepts? For instance, can we identify a distinctive Hungarian, Czech or Polish model of managerial thinking or instead a convergence of managerial skill and organisation?

4: Which *institutional legacies* facilitate or constrain the managerial and organisational transfer to the target country? Can we identify patterns of behaviours and social relations facilitating or constraining the managerial (or organisational) learning process (e.g., tradition of cooperation or lack of it in the firm-level labour relations, knowledge 'hiding' syndrome in business organisations, etc.)?

5: Do the transfer of managerial skill and organisation have only technical and fully formulable characters or are they permeated by social-cultural and non-transferable elements, too?

In our attempt to answer the above-listed questions on the transfer of managerial skill and organisation, without exaggeration of the 'colouring effect' of history of managerial skill development, we intend to pay enough attention to the cumulative changes in the organisation of economic activity and the related 'learning process' during more than four decade of socialist political-economic regime.

The following tables contain the key dimensions of the learning process related to the transfer of managerial skill and methods in the business organisations

Table 1 Key dimensions of the learning process in the organisations

Dimension of learning process	Explicit (or 'formal')		Particular ('tacit')	
	Individual	Collective	Individual	Collective
Technical-professional				
Social-cultural				

The main tools or carriers of knowledge and practice transfer are the social structures, routines, cultures which represent the core compositions of the basic institutions in the society as well as in the organisation. The carriers and the 'corner stones' (or pillars) of the institutions are illustrated in the next table.

Table 2 Carriers and Pillars of Institutions

Carriers	Pillars		
	Regulative	Normative	Cognitive
Culture[+]	Rules, laws	Values, expectations	Categories, typification
Social structure[++]	Governance system, power systems	Regimes, authority	Structural isomorphism, identities
Routines[+++]	Protocol, standard system,	Conformity, performance of duty	Performance programs, scripts

Source: Scott, R. (1995: 52)

Notes: [+] *Cultural carriers* that rely primarily on integrative structures or codified patterns of meanings and rule systems.(Op.cit.p.53.)

[++] *Social structural carriers* represent forms or types of expectations related to networks of social positions. For instance role systems as „... the structures constrain and empower the behaviour of actors at the same time that they are reproduced and transformed by their behaviour"(Op.cit.:54)

[+++] *Routines as carriers,* organisational routines and skill, knowledge of members of firm are the role-stabilisers. Some author (Winter, 1990) make distinction between 'hard' and 'soft' routines. The 'hard' type activities are encoded into technologies, the 'soft' represents a kind of repetitive activities (e.g. assembly line job, data processing job etc.)

Concerning the learning process within the business organisation, the next Table sums up its key components which could be analysed by the above presented carriers of the three major institutional forms (regulative, normative and cognitive).

Analysing the changes in managerial skill and organisation, we intend to use a multi-dimensional approach of the managerial labour process. In relation with that - following the work of Chandler, Touraine and Snellen, Teulings - four functions and thereby levels of management in the modern business organisations could be distinguished. (Warhurst, 1996: 25) The Table 3 presents the functions and various levels of management.

Table 3 Functions and levels of managerial labour process

Functions	Levels
I. The ownership function (accumulation of capital)	Institutional management (creation and preservation of legitimation)
II. The administrative function (allocation of investments)	Strategic management (development of objectives)
III. Innovative function (product market development)	Structuring management (new combination of production factors)
IV. The production function (control of direct labour process)	Operational management (direction and co-ordination of direct labour)

Source: Theulings, Op.cit.:154-

In modern large corporations, the above presented four functions of management can be identified as separate but interrelated labour process:

a) *institutional management* represents functions by which the forms of economic activity are created and legitimated;

b) *strategic management* aims to develop enterprise objectives;

c) *structuring management* engages product market development;

d) *operational management* which is focusing on the supervision and co-ordination of direct labour both in production and service activities.

This multidimensional approach of the managerial labour process helps to visualise a number of legacies of the socialist-past and the current difficulties of corporate management in introducing new concepts and practices. Articulating them in such a way, may help the better understanding of transferring managerial skill and organisation from Western Europe into the post-socialist countries of CEE.

The Chapter I describes the erosion of the soviet-type political and economic regime and the gradual changes (reforms) in the organisation of economic activities. Chapter 2 concentrates on the emerging market economies following the collapse of the socialist planned economy, with special attention to the privatisation process. Due to its key role in creating market economies in the CEE countries, Chapter 3 deals with the various aspects of privatisation. Chapters 4 and 5 represent the core part of the 'Final Report' and focus on the process of managerial skill and organisation transfer from Western Europe into the post-socialist countries of CEE. Finally, in the 'Conclusion' we intend to sum up some lessons learned from the experiences in reorganising economic activities of the emerging market economies in this region, particularly in Hungary.

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1. Erosion of the „Soviet-Type" model of Organising Economic Activity: the Case of the Hungarian Economic Reform Process

1.1. New Economic Reform (1968) and Its Impact: Increasing Diversity in Managerial and Organisation Practice in Economic Activities

For the better understanding the present economic restructuring process in the post-socialist countries of the CEE, and especially the variations in efficiency of the massive support from the developed economies (mainly from the EU countries) to upgrade managerial skill and methods in the transformation economies, it is necessary to indicate the similarities and differences in the past development of these countries. In this respect, in the centre of our interest is the legacy of the past having long lasting effects both on the structure of managerial labour process and on the pattern of behaviour and perceptions of managers.

Following the collapse of the planning-logic based state-socialist political-economic system in 1990, the mainstream approaches popular among politicians and social scientists - see the details in the introductory chapter - categorically refused to follow to any mixed or hybrid model of the post-socialist development. According to these views, the precondition of the „soft-landing" from planned economy into the market one, is to cut all institutional ties with the past political-economic system (or as Hungarian politicians and journalists often label it „with the damned system"). This approach is misguided both in relation with the social-economic history of the past and also with the institutional diversity of the „mature market economies." In the case of the developed market economies, this 'institutional reductionist' view, did not realise the remarkable differences both in macro and local (organisational) level (e.g. Nordic versus South European model, Japanese versus American type of economic and social development, etc.) These differences leave a strong mark on the combination of institutional pillars (e.g. normative, regulative and cognitive) and also on the carriers (e.g. social structures, routines and cultures).

It is worth calling attention to the important contribution of the French regulation school in identifying the institutional diversity (configuration) in the 'matured' market economies. Boyer summarises well the transformation from one type of mixed-economy into another, describing the configuration both of macro and micro level regulation of economic activity: „En effet, les deux dernieres décennies ont révélé la transition chaotique et plutot myope hors d'un régime d'économie mixte que *l'approche regulationniste* qualifie de fordiste, beveredgien et keynésien. Ces termes characterisent respectivement le compromis capital-travail, le systeme de protection sociale découlant d'un compromis citoyen - État issu de la grande dépression et enfin l'emploi contracyclique d'instruments monétaires et fiscaux afin d'attenuer les fluctuation économiques. Le résultat probable sera *une nouvelle configuration d'économies mixte.* Il a été proposé de qualifier ces regimes de *toyotiste pour le Japon, d' uddevaliste pour la Suede, de fordiste nostalgique pour les État-Unis et la France.* Si un tel diagnostic est correct, il dénie toute convergence institutionelle que soit au sein du monde occidentale ou pour les pays d'Europe de l'Est." (Boyer, 1991. (in) Chavance, 1996: 67.)

Despite the still strong tendency of treating the former-socialist political-economic system as having 'uniform' or 'homogeneous' institutions (e.g., the label of former 'soviet-bloc' countries reflects well this view), the systematic and empirical studies discovered significant variation in the development of both macro- and micro-level institutions. To understand the nature of diversity, we have to present the core institutional arrangement of the state-socialist political and economic system.

After the Second World War - more precisely from 1949 in Hungary - a combination of economic, political and ideological monopoly was introduced with an ambitious aim of the new political elite: to permanently exclude social conflicts organised around the distributions of resources of society among various social-professional groups. *Economic monopoly* was based first of all on the almost full nationalisation (ironically called 'socialisation') of private and community property in the industrial, service and agriculture sectors of the economy. To illustrate the extent of nationalisation, it is necessary to note that, before the Second World War in Hungary, only 10 per cent of the industrial assets were state-owned. The situation in the other former-socialist countries was similar. But following the massive nationalisation campaign, the state or public ownership became dominant. The next Table illustrates the differences in the form of ownership between socialist and capitalist countries!

Table 4 The share of state (or public) ownership in selected countries

Countries	(%)
Czecho-Slovakia	97.0
G.D.R.	96.5
USSR	96.0
China	73.6
Hungary	65.2
France	16.5
Italy	14.0
F.R.G.	10.7
Spain	4.1
USA	1.3

Source: The share of state(public) ownership in manufacturing sector in different years. (in) Richet, X. (1992) 'Restructuration industrielle et transformation economique en Europe Centrale et Orientale'. *Association Internationale des Economistes de Langue Francaise*, Tunis, 21-23 Mai.

The nationalisation of private and community ownership affected not only the industrial and service sectors but also agriculture. As a result of the forced campaigns of collectivisation (with the first wave occurring in the first half of the 1950's and the second wave at the end of 1950's) and organisational concentration in this sector, the majority of agricultural cooperatives and the state farm's activities embraced more than one village. The concentration of economic power in the hand of co-operative presidents (whose nickname today is 'green baron') produced the following social impact: the key political actors in the Hungarian villages were neither the local government presidents nor the local party secretaries but the presidents of the agricultural co-operatives. The *economic monopoly* was based not only on the dominance of the state ownership and on the well-known centralised planning but also on the *extremely concentrated and centralised organisational structure of the economy.* The following Table illustrates well the degree of organisational concentration in the planned economies compared to the size of the capitalist firms operating in similar industrial sectors. It is necessary to note that in the former Soviet Union, the 'mega' firms were dominant. For instance, according to this survey which covered 47,000 industrial firms, the average sized firm employed 800 persons. (Kablina - Komarovski 1991: 6).

Table 5 Size Distribution of Manufacturing Firms: Planned Economies Versus Western Economies, 1970

	Planned economies[a]	Western economies[b]
All manufacturing Firms		
1. Average no. of employees per firm	197	80
2. Percentage of those employed by large firms [c]	66 %	32 %
Textile industry		
1. Average number of employees per firms	355	81
2. Percentage of those employed by large firms	75 %	17 %
The Ferrous Metal Industry		
1. Average number of employees per firm	253	82
2. Percentage of those employed by large firms	61 %	28 %
The Chemical Industry		
1. Average number of employees per firm	325	104
2. Percentage of those employed by large firms	79 %	35 %
The Food-Processing Industry		
1. Average number of employees per firm	103	65
2. Percentage of those employed by large firms	39 %	16 %

Source: Kornai, J. (1992) *The Socialist System: The Political Economy of Communism*, Princeton: Princeton University Press, p. 400.

Note: [a] Sample includes Czechoslovakia, East Germany, Hungary and Poland
[b] Sample includes Austria, Belgium, France, Italy, Japan and Sweden
[c] Large firms are employing more than 500 people.

The briefly presented structural components of the *economic monopoly* aimed at completely replacing the market regulation of resources by the bureaucratic one. The economic monopoly was completed by the *political monopoly* of Communist Party and the *ideological monopoly* of Marxism-Leninism. In a practical sense this means that in the new society based on the homogeneity of the state (labelled 'socialist') ownership and the bureaucratic redistribution system of central planning, there was no more room for conflicts of interest. Therefore - among others - there was no need for an autonomous Labour Relations System. Government officials, state firms' managers and trade union officials had only the obligation to execute the resolutions of the Communist Party, translated into the forms of plans and their indicators.

From the point of view of development of managerial skill and organisation, it is worth mentioning the one-dimensional system of Labour Relations, in which the trade union's role was largely confined to legitimate the plan-targets; that is to mobilise workers to fulfil or overfulfil the plan's indicators and via this to legitimate the new system economic and political performance. The almost complete lack of autonomous trade union activity was illustrated by the well-known *transmission belt function* of unions between management and workers. In this one-dimensional Labour Relations System (LRS), the only active social actor is the Communist Party, which tries to govern the society using the three-pillar structure of economic, political and ideological monopoly. The ideological monopoly aimed to homogenise and unify the existing different values and patterns of behaviour in the society. According to the dominant Marxist ideology, socialist society and naturally the socialist firms are immune to the conflict of interests and powers. In this ideological approach, social tensions or deviant behaviour have individual-psychological character and explained by low level of education, underdeveloped consciousness or the influence of capitalism, etc. To overcome the lack of motivation to work or to outperform the plan's targets, the political leadership of the country often used the tools of administrative punishment mainly in the form of the so called 'labour discipline campaign' without any remarkable success. (Makó-Gyekiczky, 1987.)

In this period of economic development, the enterprise management in the dominant large state-firms became par excellence „Homo Administrative", whose *production function aimed to control and co-ordinate direct labour*. Lacking *ownership* and *innovative functions* - using the dimensions of the managerial labour process described in the introduction - they very much needed such 'social-organisational skill' which guaranteed to the firm maximum financial resources via fighting with central actors of 'mega hierarchies' of the party and state (bureaucracies) in the course of redistribution of resources. The other co-ordination related task of the firms' management was to keep social peace by tolerating 'loosened input requirements' of blue collar workers at shop-floor level. In other words, the managers in the state firms and within the conditions of the shortage economy, essentially practiced only the 'production function' had not enough autonomy to fulfil the functions related to ownership, allocation of investment and innovation. The main expectations formalised by the representatives of 'mega-hierarchies' towards them favoured the 'organisation man' or even the 'civil servant behaviour' whose key ambition is to fulfil the plan's targets and to control the direct labour. Using the managerial labour process approach again, we may assert that the managerial skill and methods (organisation) related to the institutional, strategic and structural management were underdeveloped compared with the production management and political-administrative skills.

In addition, it is necessary to mention that in the archetype socialist firm, the available skills and manpower were not necessarily treated as a pool of resources and routines which could be used in innovative ways as a condition of better business performance. The emphasis of the socialist firms was characterised by the size of physical resources (e.g. size of plants, number of machines, number of employees, the size of social welfare facilities, etc.) and at the very end by the composition of manpower. But the workers' motivation, and skills of management were generally underestimated among the production factors. The political-ideological rationality behind this treatment of managerial labour process was that in the classless society -

which is free from the basic interest conflicts of labour and capital, the various social-professional groups within the business organisations - like in society as a whole - are sharing the same interests: to fulfil the plan targets. In this conflict-free world of the state firms, managers were treated as the 'No. 1 administrator' of the State, who had to follow the plan's indicators with the help of trade unions and were placed under the control and initiative of 'mega hierarchies' (Party and government). This view on the Labour Relations System, in which the conflicts of interests were illegal and oppressed, had an extremely short 'life expectancy'. The political challenge of the 1956's revolution and the 'core workers' significant (informal) bargaining power in the labour process together with the alliance of trade union leaders with the firms management to fight for a larger share of the available resource questioned the validity of the ideological view on the 'interest and conflict free' society. The combined effects of these factors accelerated both in the relations of social actors and in the development of managerial labour process. The next section focuses on the reform attempts within the socialist political and economic regime.

1.2. Reforms within the Socialist System: An Attempt to Combine Hierarchies and Markets

A leading architect of China's First Five Year Plan (1953-1957) characterised the economy within the state-socialist system in the following: „Stimulating the economy is to be done within the framework of the State-plan. The relationship between the two is like a bird in the cage. The bird should be allowed to fly, but within the framework of the cage. Otherwise, it will fly away." (Prybula, 1987:1.) But, within the state-socialist type political and economic system the following model could be distinguished (Chavance, 1995.):

1: Traditional (Soviet type) model,

2: Systematic adjustment,

3: Radical reforms

Table 6 summarises the key components of these models.

Table 6 Hierarchies and Markets in Socialist System

Model elements	Traditional model	Systematic adjustment	Radical reforms
Megahierarchy and substantive property rights [1]	Petty tutelage of enterprise by ministry, usufruct [uses fructus] concentrated at the centre, strong uses at ministry level [3]	Reduction of petty tutelage; some decentralisation of fructus and uses at the enterprise level [4]	Abolition of petty tutelage; strong decentralisation of uses and weak decentralisation of fructus at the enterprise level
Market for consumption goods	Unmediated horizontal links between buyers and sellers	Unmediated horizontal links between buyers and sellers	Unmediated horizontal links between buyers and sellers
Market for production goods	Horizontal links between buyers and sellers mediated by vertical links in the megahierarchy	Horizontal links between buyers and sellers mediated by vertical links in the mega hierarchy	Strong reduction of vertical mediation in horizontal links between buyers and sellers
Labour Market	Unmediated horizontal links between buyers and sellers (except for special periods)	Unmediated horizontal links between buyers and sellers	Unmediated horizontal links betrween buyers and sellers
Micro hierarchy [2]	One-man management	One-man management	Introduction of somesort of self-management in most cases [5]

Source: Chavance, B. (1995), Op.cit. p. 279.

Notes: [1] Mega-hierarchy represents the various forms of hierarchy (e.g. party, state) above the firms.

[2] Micro-hierarchy is functioning within the enterprise but the micro-hierarchy is not simple copy of the mega-hierarchy.

[3] The 'usefruct' (usus fructus) right is concentrated in the hands of 'redistributive' institutions (e.g. central planning office). This means that the capital ownership is controlled by the state - which is no more than an abstract category - but by the top level control hierarchy practiced by the communist party and the state organ.

[4] The 'usus' right is shared, following the changing bargaining positions of the intermediate (regional and local levels) and the enterprise managers.

[5] The introduction of Enterprise Council (E.C.) in the Hungarian firms (1985) terminated the formal dependence of company's management from both the ministries and party organs in the field of strategic decision making. (Makó, 1987)

Following the above-presented distinctions on the roles of market and hierarchies in the socialism, the implementation of the New Economic Mechanism - almost three decades ago - represents in Hungary (1968) a radical version of economic reform. Without going into details - there is rich library on the reform attempts carried out in the former socialist countries - these changes increased autonomy of social actors in organising economic activities (Granick, 1961., Kornai, 1980.) For instance, companys' managers were not forced to prepare planning, they had more freedom to use financial incentives instead of administrative ('coercive') ones, etc. Liberalisation of the labour market represented a break with the administrative regulation of the labour market movement. In addition, the chronic labour shortage within the conditions of the 'command economy' assured for the large segment of the workforce a significant individual bargaining position in the forms of exit and entry options . (As the well known expression in the labour movement: „A tight labour market is the best friend of the employees".) But due to the lack of genuine collective bargaining institution in the socialist firm, the voice option - the other well-known adaptation mechanism in the organisation - existed only for employees having strong power positions in the labour process who influence the ratio between input and output favourable for them in the forms of „quota regulation" (Héthy-Makó, 1989.) The increased autonomy for the social actors (both for managers and trade union leaders) modified their social and economic relations within the firm. For instance, the increased freedom of managers in the field of production was counterbalanced for instance by the right of veto of trade union in relation to the managerial decisions.

To illustrate the nature of firm-level changes in the Hungarian economy, it is worthwhile calling attention to some changing elements of the managerial labour process. These changes, first of all, aimed to develop one of the limited resources in the state owned firms: the quality of management and organisation. In relation to socialist firms, management scientists usually stress the following characteristics of the socialist-type economic system: a). excess physical resources, b). limited financial resources, c). limited managerial resources. (Peng - Heath, 1996: 501.)

During the 1960's and 1970's, Hungarian firms were the locations of wide-ranging initiatives in the field of work-organisation and managerial methods. The relevant initiatives partly came from the representatives of the mega-hierarchy and partly from the enterprise management. Empirical research conducted at the firm-level discovered that several organisational and managerial innovations had been introduced into the labour process. Among others thing, it is worth mentioning the various initiatives of the firm management to encourage the group-centred division of tasks instead of an individualistic emphasis, the introduction of systems of job evaluation and job-classification, and implementing wider possibilities to improve employees participation in managerial decision making, etc. (Bossányi-Nyikos, 1987., Héthy, 1983.)

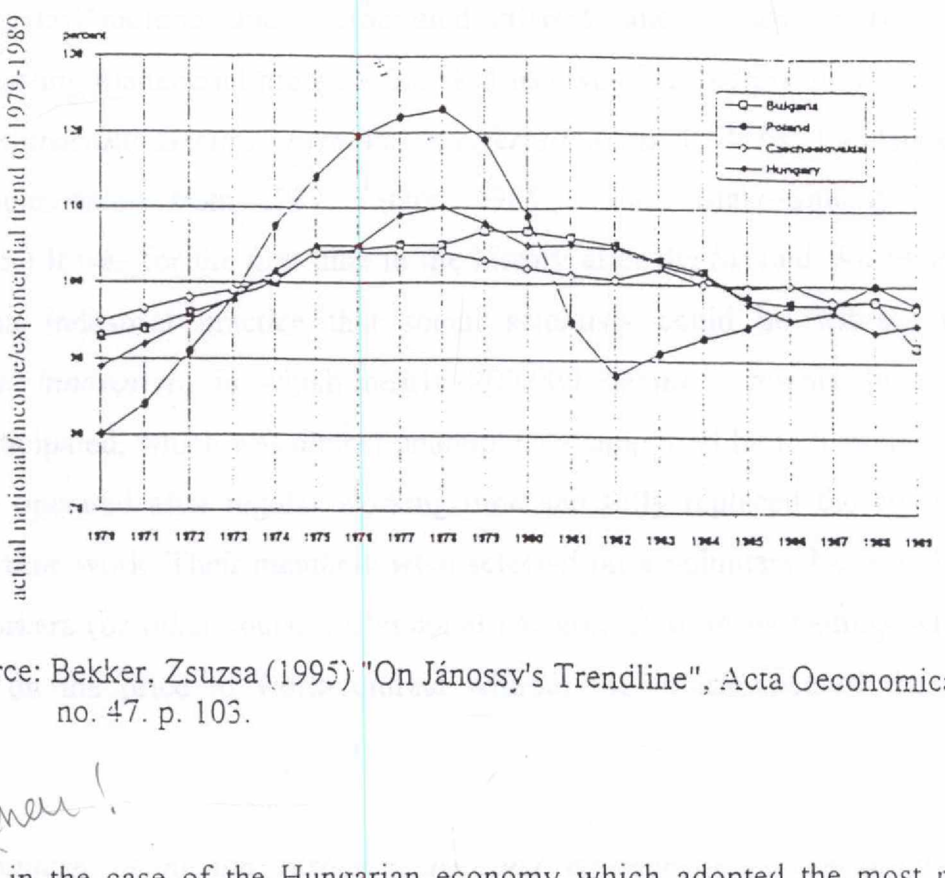
Often independently from the centrally backed initiatives but under the pressure of the chronic labour shortage and the frequent 'bottle-necks' in the production process, shop-floor managers tolerated and in several cases even supported the individual or collective initiative of workers to improve job satisfaction and work performance. (Makó, 1980.) These changes, initiated more than two and half decades ago, represent a 'positive legacy' of the cumulative development in skill structure and work organisation and have accelerated the present restructuring process. For instance, AUDI, the well-know German car manufacturer has recently started to manufacture its newest engine in Győr, located near to the Austrian border. From 1998, AUDI will use the engines manufactured in Hungary exclusively for its gasoline powered cars. According to the German president, the technical training of workers and managers is excellent, mainly because most of them were employed at the RABA Truck Company located in the same city. According to the President, German workers cannot believe that the Hungarians now are manufacturing high tech engines, which are the 'heart' of the AUDI A4, the new VW Passat and Skoda Octavia. (Nota bene: The RABA Truck Company was among the first in CEE countries to manufacture world-quality engines based on the licence bought from the German MAN firm in early 1970's. This 'flagship' Hungarian company's president - who had the nickname of 'Red-baron' due to his membership in the Central Committee of the Hungarian Socialist Worker's Party - not only introduced the state of art manufacturing technology and work organisation but also invested heavily into R & D activities.)

Apart from such core sectors of the economy as car manufacturing, even in several leading large clothing companies, anticipative managers were playing initiative roles in introducing 'world-class' managerial techniques (e.g., QAS systems) and Computer Aided Design and Cutting Systems, etc., during the 1970's. These managerial initiatives were often criticised by workers, trade unions and party officials as „capitalist techniques" to intensify work, and such resistance in several cases slowed down the speed of changes. These movements of upgrading managerial organisation, skill and production technology were stimulated or forced by the rapidly increasing production co-operation between the Hungarian and Western firms, very often in the form of „job-processing". The continuous development of theses firms has played a significant role in keeping their „competitive edge" in the relevant sector, during 1990's, too.

1.3. Micro-Flexibility and Macro-Rigidity: Lessons from the Experiences with „Inside Contracting Groups" (VGMK'S) (Period of 1980's)

After this sketchy outline of changes induced by different motivations and pressures, we shall try to present the developments of the 1980's, that is, the last decade before the collapse of the socialist political and economic regime. Among the various initiatives of the economic policy makers, it is necessary to mention the so-called 'policy package' to develop small undertakings from the early 1980's. The aim of this central economic policy initiative was to overcome the macro-rigidity of the socialist economic system. To illustrate the extremely high level of rigidity of the macro-economic decision making in Hungary and other CEE countries, we intend to use some empirical evidences. The best indicator to illustrate the extremely rigid character of this economic system is the „wait-and-see" syndrome. As a Hungarian economist specialised in studying economic trends noticed: „After 1973, contrary to the reaction of the world economy itself, a clear-cut regional boom began to unfold in the state socialist countries. *While the world economy was already suffering from the* *price shocks and the recession that followed, and was attempting to counteract the effect by structural rearrangement, the East European region continued along its previous growth path as if nothing had happened. Along with unconditioned reflex the non-action was actually reinforced by a certain degree of ideological support."* (Bekker, 1995: 101.) This extremely long time-lag in the macro-level decision making is well illustrated by the policy response to the well-known oil price rises, which pressed or forced the developed market economies into the direction of economic restructuring. See Figure 1.

East European Regional Boom after 1973



Source: Bekker, Zsuzsa (1995) "On Jánossy's Trendline", Acta Oeconomica, no. 47. p. 103.

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Even in the case of the Hungarian economy which adopted the most radical reforms within the socialist system, central decision makers initiated the necessary changes only after a 6-7 year delay. But during this delayed reaction, the reorganisation of economic activity did not aim to change the leading policy-making role of the Communist Party and the monopoly of state-ownership. In this perspective, one can see toleration of the development of the 'hybrid' economy. This means - among other things - the emergence of the so-called *second economy* (this term refers all types of economic activities organised outside the state controlled and planned economy) which questioned - besides its economic and social significance - the efficiency of the bureaucratic regulation of economic activities. The growing economic role of the second economy became visible from the mid-1970's. At the end of this decade, one third of the household income was generated from this sector. These activities were extremely important in the agriculture, housing construction and the service sectors. (Gábor - Horváth - Lae - Murard, 1990.) The attractive performance of the second economy created initiatives to diversify the management and organisation methods within the large state enterprise operating in the *first economy*, too.

The greatest national and international interests and disputes in relation to impacts on existing managerial practice and skill use was focused on the activities of the *Inside Contracting Groups (hereinafter referred to as VGMKs,* the Hungarian acronym) implemented from 1982. (Stark, 1985., 1986., Makó-Simonyi, 1992., Grabher, 1995.) It was for the first time in the history after the Second World War in the Hungarian industrial practice that social scientists could be witness to an *organisational innovation,* in which nearly 200,000 people - mainly blue collar workers - participated, which was almost unanimously supported by industrial society. The VGMKs operated after regular working time and fully replaced the company's need for overtime work. Their members were selected on a voluntary basis and these groups of workers (or other social-professional categories) were bargaining with the management on the price of work-contract without the interference of the Trade Union.

The *pattern of human resource use and co-operation were different in comparison with the work-organisation of full-time (or regular) job.* To build, operate and explore a set of relations, different from the clearly divided and defined hierarchical organisational structure of full-time employment based on maximum specialisation. The work performed in the VGMKs required considerable efforts and multi-skill use from their members. But in turn, their members learned significant 'organisational skills', a holistic view not only of their work organisation but of the operation of the plant, too.

The simultaneous participation in the over-specialised, individualised job-structure of the full-time employment and 'job-empoyement' in VGMKs after regular working time enables the members of these autonomous working groups to compare, and critically evaluate this 'double-pattern' of work-organisation. During these contrasting working experiences, working group members were able to develop richer technical-professional and social-organisational skills or knowledge. Among the members of VGMKs, it was widely recognised that the clear boundaries between certain sectors of production (e.g., manufacturing, maintenance, programming, internal material transport and handling, quality control, etc.) had only administrative-social relevance and did not serve flexibility (or smooth operation) in the production. *The members of these autonomous working groups, organised their activities within organisational networks, integrating both horizontal and vertical relations.* This pattern of organising economic activity via amorphous relationships of mutual dependence had a clear contrast in comparison with the dominant formal-hierarchical management system based on individualised and segmented use of skill and manpower.

The development of VGMKs gave the chance for more than 10 per cent of the industrial work-force to participate in a working-system based on 'high-involvement' and to develop and use extensive networks within and outside the socialist firms. The network-type relations can be distinguished from both hierarchical and market type ones, because transactions between economic actors are based neither on the logic of hierarchy (administrative order) nor on discrete market exchange. In spite of the fact that the top management of the socialist firms were unable or more precisely unmotivated to integrate the lessons from VGMKs activities into its methods and organisation, the one decade history of this innovative work-organisations in the Hungarian firms questioned the efficiency of the bureaucratic regulation and management structure and demonstrated clearly the advantages of network-based regulation within the business organisations. Furthermore, the development of the 'social-organisational' skills along with 'technical-professional' ones equipped the VGMK's members with the necessary skill and networking knowledge to create their own business following the collapse of the socialist political-economic system. (Kuczi-Makó, 1996.)

The outcomes of the „dual-pattern" of work-organisation became important new elements of the 'organisation routines' in combination with the „physical" and „human resources" in the development of post-socialist firms. As the representatives of the evolutionary approach noticed the importance of 'organisational routines' in the growth of the firm: „The efficiency of a firm is a function of its routines, which are the product of its cumulative organisational history. Diffused throughout the organisation, these routines are not embodied in any individual. As such, organisational routines take on a tacit nature, thus making articulation of such routines difficult." (Peng-Heath, 1996: 496.)

The experiences of VGMKs became an integrated part of the development of organisation and management in Hungary. We intend to stress again, that the simultaneous functioning of these autonomous working groups within the over-centralised and specialised skill and manpower use in the socialist firms, had diversified (or modernised) the methods of the 'operational management' in comparison with the other components of the managerial labour process (e.g., institutional, strategic and structural management). The below-listed lessons of the VGMKs show well their significant roles in changing normative, regulative and even cognitive components of socialist firms as social institutions. Through these complex changes, the learning capacity and adaptability of the former socialist firms improved, as well.

First, co-operation is generated not only by hierarchical (bureaucratic) mechanism, but also by the network-type social relations which open channels for action on the basis of *reciprocity principle* (or regulation). This means that even within the socialist firms where hierarchical order was the dominant mechanism in governing economic activities, from the beginning of 1980's another governance mechanism, network, was completed.

Second, the initiatives for change do not come only from the representatives of the mega-hierarchy (e.g., Party and government organs) or micro-hierarchy (e.g., top management of the firm). Different groups of rank-and-file employees have notable though *unequal degree of autonomy*, that is perceivable only in the long term, in moulding and influencing social relations both inside and outside the firm.

Third, the flexibility of operations in VGMKs amounts to a most obvious criticism of the performance and quality of the firm's management, especially questioning the necessity of the heavy and over-centralised organisation structure of management. With their records of performance, these autonomous groups undermined *the raison d'etre of certain functions and structures of management* (e.g., the presence of the overpopulated groups of middle managers, unnecessarily great numbers of levels of management, separation and specialisation of the quality control function, etc.) But on the other hand, they also demonstrated the important role of supervisors in the shop-floor level bargaining process, whose roles were generally underestimated and downgraded.

Fourth, the experience of the VGMKs, with regard to the wage-incentives, has impelled not only enterprise management, but also *government regulations* concerned with wage and income to adopt more innovative tools.

Finally, the practice of bargaining between representatives of VGMKs and management deregulated the trade union control on the working conditions and wages. This deregulation has greatly contributed to the decline of trade union influence and increased the income inequalities between members of VGMKs and non-members; the process of labour market segmentation within the socialist firms accelerated.

The remarkable performance of VGMKs not only challenged the existing structures and methods of management, but also enlarged the spaces for the social learning process and increased the possibilities to build-up trust relations at the work-places. The new model of direct interest representation and co-ordination emerged from the world of hidden and informal bargaining and left room for large segments of the workforce to learn how to shape the patterns of social relations prevailing in the labour process. In other words, the presence of VGMKs can be interpreted as a partial decentralisation of *usufruct rights* which were concentrated in the traditional Soviet type system exclusively in the hands of 're-distributors' and strong decentralisation of *usus rights* of ownership for the social actors of the firm (e.g., management and VGMKs members) and regional or other local actors (e.g., Party officials, trade union leaders) had no more formal right to intervene. The implementation of the institution of the *Enterprise Council* in the middle of 1980's further strengthened the position of enterprise management and increased the autonomy of the managerial labour process. For the first time in the history of the socialist-type economy, the 'operative' (production) function of management was enlarged with some 'institutional' (ownership) and 'strategic' management ones.

1.4. Increasing Autonomy of Management: the Case of the Enterprise Councils (1985-1990)

The other innovation in the managerial labour process (and organisation) in this period, the *Enterprise Councils (EC)* were established as the highest collective body of the management of the state owned (public) firms. Half of their members were delegated from among the ranks of management, the other half were elected directly from rank-and-file employees, blue collar workers. All the strategic decisions of the firm (e.g., important investments, mergers, significant lay-offs, etc.) should have been formally considered by these councils that received even the right of electing the directors of the firms. In Hungary, this solution of direct participation of employees in the EC aimed to exercise control over the emerging technocrats of the still state-owned firms. The Communist Party and trade union officials, invited to the meetings of the EC for first time in the history of state socialism had no right to vote on the issues discussed.

In spite of the original wish of the initiators of this institution, the EC did not become the body of 'self-management' in the Hungarian firms. The practice of these ECs in the mid 1980's was rather contradictory. For instance, their directly elected members were not prepared enough to follow and influence strategic decisions of the firms concerning investments, technical development, finance and organisational restructuring. According to the evidence of surveys, the rank-and-file employees even restrained themselves from being elected, so mostly lower level managers and foremen were delegated by them. Anyway, for those who participated in these councils, higher and lower level managers of the enterprise learned important experiences in collective decision making and how to get insight on the problems of the shop-floor community via delegates of rank-and-file employees. Briefly, the half decade functioning of the ECs increased the autonomy of management on the following fields of managerial labour process: institutional, structural and strategic management.

The above-listed changes carried out within the framework of macro-economic control of the Communist Party and the unchanged nature of the ownership structure, were not sufficient to create genuinly independent social actors at firm level. Plus, it is necessary to note that the resources available for the firms - in the majority of cases - did not depend on the economic performance of the individual firms, but from the re-distribution of the centralised resources among the strongest political-economic (interest) coalitions, which often cover their true ambitions in well-designed 'ideological-mask' (Bélley-Rozgonyi, 1996.)

The majority of firms was under-financed, and in spite of the earlier described organisational and managerial innovation, the quality of managerial resources was very unequally developed. These shortcomings in the shortage economy forced managers to run their business as „... a just-in-case system to hoard physical resources, which is in contrast to the just-in-time system pioneered by Japanese. As a result, excess physical resources can often be found" in the socialist firms (Peng-Heath, 1996:508). The inefficiency symptoms in manufacturing process in the former socialist countries are well illustrated by the so-called *Kornai ratios*, which is the indicator of input inventories versus output inventories: the higher ratio signals a strong resource hoarding approach adopted by the socialist management in contrast with the opposite pattern of managerial behaviour in the market economies. Table 7 shows the systematic differences between the stronger safety net ambition of socialist managers and the downsizing attitude of the managers in the capitalist firms.

Table 7 The Kornai ratios of Input versus Output Stocks: International Comparison

Manufacturing enterprise	1981 - 1985
Planned Economies	
Bulgaria	5.07
China	-
Czechoslovakia	3.07
Hungary	6.10
Poland	4.49
Soviet Union	3.16
Market economies	
Canada	0.92
Japan	1.09
Sweden	0.89
United Kingdom	1.02
United States	1.02
West Germany	0.71

Source: Kornai, J. (1992) The Political Economy of Communism, Princeton: Princeton University Press, p. 250.,(in) Peng-Heath (1996) Op.cit. p. 508.

In spite of the growing liberalisation of the Hungarian economy, the positive changes generated at the firm-level organisation of economic activities (e.g., the New Economic Mechanism combining planning with some elements of the market economy) were not sufficient to produce favourable macro-economic performance. In other words, the micro-flexibility developed by the organisational (institutional) innovations (e.g., the second economy, VGMKs, ECs) were unable to counterbalance such negative symptoms of the macro-rigidity of the planned economies:

- the extremely *slow reaction time* in the system of macro-economic decision making system;
- the economic shortage created regular *bottle necks* in the production process and the tendency of using enormous size of buffer stocks;
- the permanent *resource hoarding* instead of *resource saving* behaviour combined with the 'wait and see' attitudes of the socialist mangers generated by the chronic shortage of resources.

The innovations in the organisations of economic activities at micro (enterprise) level and the creation of the so-called second economy were not enough to dynamise the macro-economic performance of the Hungarian economy which had to finance huge foreign indebtedness. The next section (2) deals with the collapse of the socialist political and economic regime and the institution building of the emerging market economy.

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2. Collapse of the State Socialist Political-Economic Regime and the Emerging Market Economies in CEE Countries

2.1. Converging and Diverging Tendencies of Institution Building in the Post-Socialist Countries: the Case of Privatisation

Illustrating the similarities and differences of institution building in the post-socialist countries, we intend to concentrate primarily on the developments in the four 'Visegrad-countries'. But even among these four countries which are following a relatively similar pattern of transformation, we may identify different trajectories of development. Hungary, among them, did not 'properly' follow the principle of the traditional (Soviet-type) socialist planned economy. This deviance from both the 'traditional model' and the 'systematic adjustment' in the form of 'radical reform' has a strong impact on the current path of development, too. For instance, in relation to privatisation, a German social scientist noted that the Hungarian „ ... privatisation approach - as a first and fundamental difference to East Germany is not based on a 'proper' dichotomous conception of property rights, that is of private versus public control. Hence it might appear more appropriate to conceptualise the Hungarian approach as property transformation rather than privatisation in the strict sense. Moreover ... the Hungarian history of transforming state property did not just start in 1989 but can be traced back to three main lines of change in the ownership structure."(Grabher, 1995: 40.) In this report, we have described already the process of 'hybridisation' of state economy by the creation of a *'second economy'* and the introduction of an economic program characterized by small steps. One of these small undertakings was presented in describing the functioning of *VGMKs* in the large state firms. The other elements of proto-privatisation were the legal possibility to create joint-ventures, comprising state-owned firms and foreign capital (e.g. Siemens AG, the well-known German electric and electronic firm created the first joint-venture at the beginning of 1970's in Hungary.) It is also necessary to mention the movement of 'autonomy' or *'independence' of individual plants* within the large state corporations. (Neuman, 1993.) The focus of this chapter will be the company level transformation process and the illustrating cases based on empirical research and also on available statistics.

The current analyses of the privatisation process in the CEE countries often do not take into consideration the differences in the 'starting conditions'. This explains the popularity of the convergence approach concerning the future societal model in the post-socialist countries. The experiences of the last half decade of development are showing a coexistence of both the tendency of convergence and divergence in the development trajectories in these countries. Still it would be very risky and premature to typify the model of market economy emerging in this CEE region. Instead, we intend to analyse the various kinds of national-historical and institutional development in comparative perspective and to adopt the so-called 'subjective relativism' approach. According to this approach, the various institutional elements regulating the attitudes and behaviours of social actors (e.g., regulative, normative and cognitive) are quite stable (or rigid) in the short run.

In this section, we try to illustrate both converging and diverging characteristics of privatisation, an institution which is playing a core role in transferring managerial skill and organisation from Western Europe into the post-socialist countries of CEE. In identifying the characteristics of the present development, it is worth distinguishing the following two groups of factors: (The similarity and dissimilarity of legal and regulatory environments of the Visegrad-countries is summarised in the Appendix 1.)

a). Factors of convergence:

- increasing corporate autonomy by privatisation,
- globalisation of economic activities,
- key role of Foreign Direct Investment in the modernisation process of the countries concerned.

b). Factors of divergence:

- Differences and uneven development in the forms of privatisation,
- Industrial Relations System: from patterns of co-operation to confrontation,
- Variety in forms of FDI: 'brownfield' versus 'greenfield' investments.

Among the actors of convergence and divergence, we intend to deal with the phenomena of privatisation. Following the collapse of the socialist political-economic regime, numerous simplistic and over-optimistic views dominated the debate on privatisation. For instance, the simplistic expectation of the „Terminator" role of privatisation is well summarised in the next statement: „Some advocated systematic privatisation believing that such simple ownership are sufficient to bring about a radical break with past patterns of economic and political behaviour. Formerly wasteful and unresponsive public sector managers will become eager searcher for efficiency and panderers to consumer desires. Formerly disinteresed, alienated and irresponsible citizens will discover a new stake in preserving their community and the economic institutions that sustain them..." (Feigenbaum-Henig, 1993, 'Privatisation and Democracy', (in) Ellingstad, 1996: 41.)

Half a decade later, the 'political divide' in the post-socialist countries of CEE, private ownership became a common dominator both in the share of employment and GDP in the 'Visegrad-countries'. See Table 8.

Table 8 Private Sector Growth in the 'Visegrad Countries'

Countries	Private sector share in Employment		Private sector share in GDP	
	1989	1994	1989	1994
Czech Republic	16 %	65 %	0 - 10 %	56 %
Hungary	20 %	65 %	20 %	55-56 %
Poland	47 %	61 %	25-28 %	58 %
Slovak Republic	< 10 %	55 %	10 %	58 %

Source: Borish, M.S. - Noel, M. (1996) 'Private Sector Development During Transition' (The Visegrad Countries), Washington: *World Bank Discussion Papers*, No.318. p. 87.

The results of the massive privatisation programs introduced in the CEE region over the past half decade are well illustrated in Table 8. In spite of the similarities in outcomes of privatisation in terms of employment and in share of GDP, there are noticeable differences in the forms or patterns of privatisation. But the aggregate statistics at national level cannot reflect the diversity of ownership-patterns.

The more detailed analysis of privatisation process needs sectoral, firm-level empirical studies. In spring 1996, on the initiative of the Hokkaido University Slavic Research Centre (Sapporo), the Hungarian National Research Team carried out a survey together with the other 'Visegrad-countries' in the machine industry. (The Hokkaido Project, 1996, see the Project Description in the Appendix 2.) The machine industry in general - and the machine tool industry especially - is often treated in the literature as a thermometer for the larger national economy. This means that the economic recession hits first this sector and the economic recovery also appears here first. Looking at the profile of firms participating in the survey, we may conclude that the outcomes of the extensive privatisation schemes pursued in the CEE region over the past six years are evident in the statistics. For Hungary, only 14.3 per cent of firms sampled in the machine industrial sector are classified as a state-owned joint stock company (i.e., the stocks are majority-owned by a state holding company), with no firms being classified as traditional state enterprises (See Table 9).

A rather small percentage - 2.9 per cent in the Hungarian case - of firms are newly created 'greenfield' sites (Note: 'greenfield site, separate from existing developments, are newly developed for the first time as opposite to 'brownfield sites' which have been previously developed to some extent, Schwarz, 1996: 458 and 129.) Greenfield sites, which have attracted increasing attention as the CEE countries become increasingly attractive locations for exporting into the EU, are likely underrepresented in the survey precisely because they are so new. (Researchers sometimes lack not only the contacts - already built up at older firms - but also have difficulties to receive permission and to get the 'foot in the door' in order to conduct appropriate interviews.) *As the vast majority of firms sampled have nearly all gone from state ownership to various forms of private ownership in the last years, concurrent with major changes in markets and products, the Hokkaido survey can be seen as one of the first measures of Central European corporate anatomy following stages of intense stress and social prices in these transformation economies.* See the Table 9 on the great variety of ownership types in the 'Visegrad-countries'.

Table 9 Types and legal forms of enterprise ownership

Types of ownership	Poland	Czech Republic	Slovakia	Hungary
1. State enterprise	26.7 %	3.3 %	4.2 %	0.0 %
2. Former state enterprise				
a. State-owned joint stock co.	36.7 %	3.3 %	12.5 %	14.3 %
b. Privatized joint stock co.	30.0 %	70.0 %	58.3 %	22.9 %
c.Limited liability co.	6.7 %	3.3 %	0.0 %	20.0 %
3. New private enterprise				
a.Joint stock co.	0.0 %	3.3 %	4.2 %	2.9 %
b.Limited liability co.	0.0 %	3.3 %	0.0 %	0.0 %
4. Joint venture	0.0 %	3.3 %	8.3 %	20.0 %
5. Other	0.0 %	10.0 %	8.3 %	20.0 %
No answer	0.0 %	0.0 %	4.2 %	0.0

Source: The Hokkaido Project, 1996.

As stated earlier, the machine industry in the CEE region generally experienced economic crisis before most of other sectors of economy, but also emerges from the depth sooner than other industries. Most of the firms surveyed have already passed through the most critical years of the transformation. Evaluating the results of the Hungarian privatisation process in comparison with other CEE countries, we share the following opinion: „... the transformation of ownership relations was slower in Hungary than in other countries where mass-privatisation was carried out in the form of free-distribution of the 'fragmented' ownership rights. In Hungary, already existing entrepreneurs became owners who could exercise real control on management and could enforce profit motivation. This way of privatisation played significant role in carrying out deep restructuring (re-organisation) in the large numbers of firms." (Kornai, 1996: 609.) Notable is the relative lack of declining or failing firms in the Hungarian case, a larger share of which would likely have been seen had the survey been carried out only two years earlier. The vast majority of the firms have survived the rigors of privatisation and subsequent restructuring, with positive results beginning to reveal themselves.

The data presented in Table 9, illustrates not only the dominance of private ownership, but also the great variety of ownership patterns in the post-socialist countries of CEE. In Poland, for instance, the still state owned firms represent more than one quarter of the firms surveyed. In the Czech and Slovak Republics, the 'privatised joint-stock co.' of the former state enterprises represents the largest segment of the firms investigated, but they have the largest share of the newly created private enterprises, too. Hungary has the more diversified ownership structure, with two thirds of the firms representing various privatised forms of former state-ownership (e.g., state-owned joint-stock co., privatised joint-stock co., limited liability co.) and one fifth of them belongs to the category of joint-venture firms.

Comparing the aggregate statistics of the share of privatisation on employment and GDP in the countries participating in the international survey, we may identify some degree of convergence: the share of private sector both in employment and in

GDP varies between 55 and 61 per cent. The more structured evaluation of privatisation in such a key sector of national economy as the machine industry reveals significant signs of divergence in the forms of privatisation: on the one extreme of the 'ownership variety scale located Poland where the state and privatised state ownership is dominant, with the other extreme point of the case represented by Hungary's extremely rich ownership forms (e.g., among them the share of joint-ventures several times higher compared with the other countries), and the middle position is occupied by the Czech and Slovak Republics. The great variety in the forms of private ownership opens also a variety of options (or trajectories) for the transfer of managerial skill and organisation. For instance, in the case of firms remaining in state ownership, the challenge for management to restructure economic activity is weaker than in the joint-ventured firms. But to answer to the challenge created by the transformation crisis related problems, it is necessary to pay attention outside the visible characteristics of privatisation to the less visible 'human-organisational' side of transformation process. These factors are embedded in the social-organisational „fabric" of the company's organisation and influenced by the environment of the business organisation.

After presenting the similarities and differences in the ownership changes in the 'Visegrad-countries', the next chapter focuses on the other elements of the transformation process.

Appendix 1

1. The Hokkaido survey was conducted in Spring, 1996 in the four Visegrad countries at the manufacturing companies in the machine industry employing at least 500 employees. The sample includes 35 firms in Hungary, 30 firms in the Czech Republic and Poland, and 24 firms in Slovakia. In order to create a representative sample, the companies were located in at least three or four different regions in each country. Guided, extensive interviews were conducted by professional researchers attached with each country team with top managers of the companies (usually the general director) regarding issues of corporate governance and communication channels, current business performance and the main factors affecting it, industrial relations, and the influence distribution in decision making. The focus of analysis will be centred on current levels of company performance, strategies being pursued by firms in the region to survive and develop, and implications for current and future patterns of social relations in the firms.

Appendix 2

Overview of Visegrad Countries' Legal, Regulatory and Institutional Environment

	Business registration	Commercial Code	Civil Code	Bankruptcy Liquidation	Regulation	Taxation	Foreign investment
Czech Republic	Need simultaneous processing, fewer locations; improvement since 1990	Conflict of interests; limited bankruptcy, liquidation, tax rules limit debt write-off	Collateral limited by land registry, title, secured credit limited; tenancy restrictive	Focus on liquidation, not corporate restructuring; weak dispute resolution, court capacity	Open trade and investment; demonopoliz and privatisation of infrastructure and utilities	High tax rates lead to avoidance; only country without holidays	
Hungary	Registration easy; large informal sector due to high taxes, not registration procedure	Extensive use of bankruptcy + liquidation; small-scale transactions follow Civil Code	Enforces contracts, basis for property rights; problems; tenancy, land registries	Strong capacity; recent amendments should increase effectiveness	Open trade and investment; demonopoliz' and privatising of infrastructure and utilities	Rates high, especially social insurance	Successful despite gradualist approach to privatisation; open environment
Poland	Taxes + Fee requirements provide perverse incentives to keep firms under-capitalised	Collateral legislation needs central registry for liens, more creditor recourse, market-based liquidation	Restrictive tenancy, multiple titles, costly land registration, lack of bank recourse lowers credit	Out-of-court common; collateral protection, judicial infrastructure limit court use	Open trade regime; obstacles to privatisation, demonopolisa -tion	Rates high; evasion common; policy favours investment in GoP paper vs. Enterpr's; holidays ineffective	Barriers, political turnover, privat.; holidays ineffective; foreign investment small-scale
Slovak Republic	Needed: simpler, faster process, lower fees, more information, etc.	Unclear Code weak court capacity, lack of creditor recourse all lead to poor contract enforcement	Restrictive tenancy, weak title and bank recourse undermine property rights; need new Coll.Law	Limited capacity,; deficient information; binding arbitration, simplified procedures	Open trade; obstacles to investment, privatisation, demonopolisa -tion	High rates; holidays, guarantees, exemptions, other incentives not successful	Poor; unreliable information, delays, political turnover, privatisation reversals etc.

Source: Borish, S. Michael-Noel, Michael (1996) 'Private Sector Development During Transition', (The Visegrad Countries), *World Bank Discussion Papers*. No. 318. P. 2.

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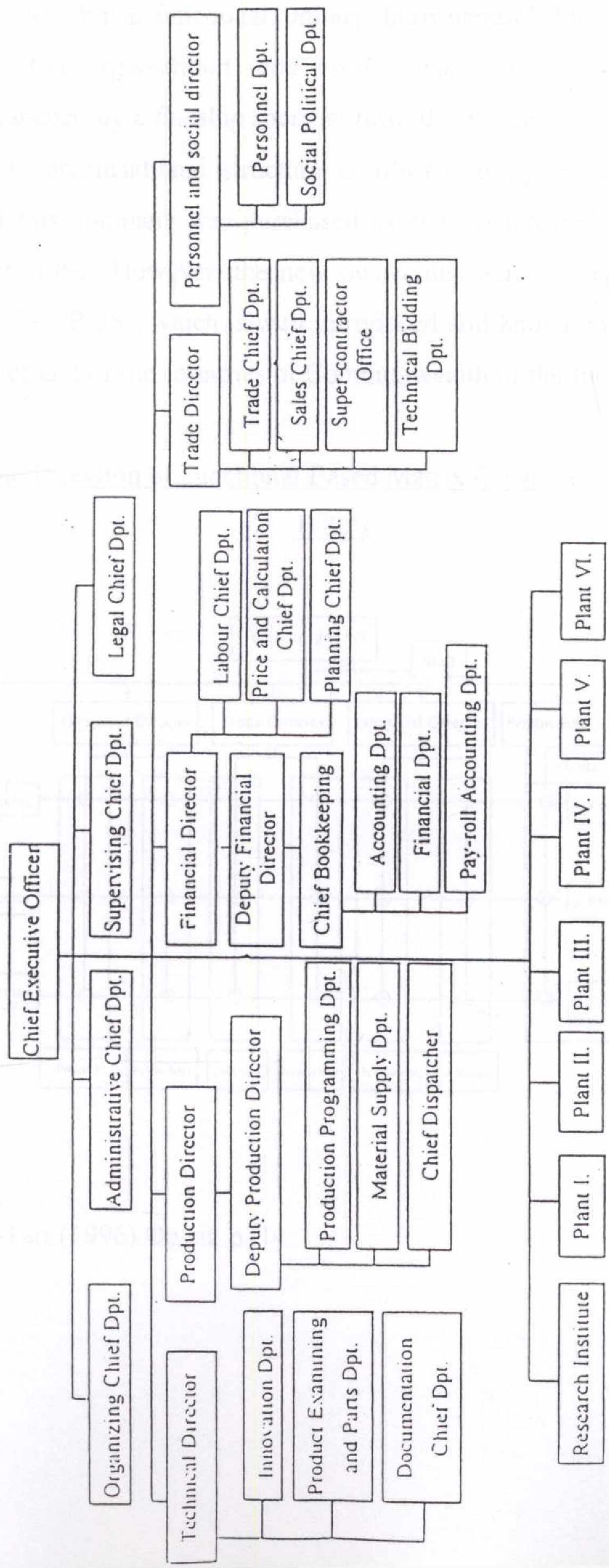
3. Overestimating the Role of Privatisation in Conversion from the Planned to Market Economy in the Countries of CEE

3.1. Antecedents of Privatisation: Restructuring the Hungarian Enterprise Management System in the 1980's

The soviet-type model of the enterprise management system (or company's organisational structure) adopted in all former socialist countries is essentially based on the early stage of the Western business organisation and management. For instance, even in the 1970's, the so-called 'centralised functional management' was regarded as the best organisational structure in Hungary. The dominant management organisation was the *functional-unitary bureaucratic form of organisation*, which served at realising the traditional and vertical expansion strategies according to Chandler. (Chandler, 1962.) As the authors reviewing the evolution in forms of business organisation in Hungary recently have noticed „ ... the Hungarian development of organisational forms between 1945 and 1980 has achieved the first stage of the US and Western European companies which was completed by the fifties and sixties." (Dobák-Tari, 1996:10.)

The Figure 2 illustrates the exclusive mode of the 'centralised-functional' organisation in Hungary.

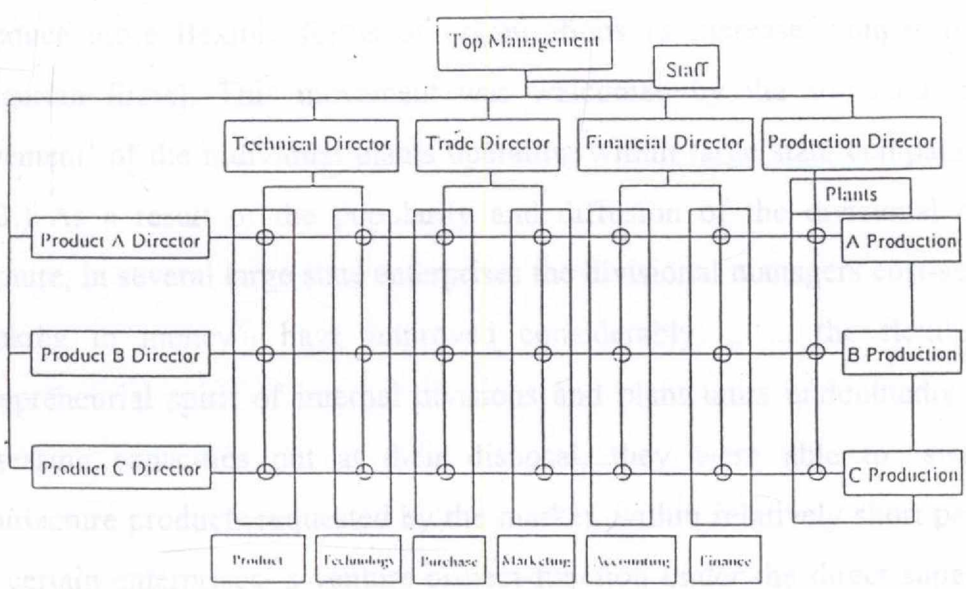
Figure 2 The Organisational Chart of a Typical, Linear-Functional organisation in the large enterprise in machine industry



Source: Dobák-Tari, (1996) Op.cit. p. 11.

The first wave of the re-organisation of large state-firms represented the replacement of the 'linear-functional unitary bureaucratic' form of organisational structure by *'matrix organisation' and product-management system.* The pioneer initiative was launched by a flagship socialist firm, the TAURUS Rubber Works at the end of 1970. Its organisational structure is illustrated by Figure 3. (It is worth mentioning that this company was purchased by the French multinational, Michelin Tyre in October, 1996. However, the new owner insisted on keeping and using the 'brand name of TAURUS', which is well introduced and known in the tyre market of the CEE countries and of the countries of Commonwealth of the Independent States.

Figure 3 The Direction of Functional Based Matrix Organisaiton in the Early 1980's



Source: Dobák-Tari (1996) Op.cit. p. 14.

In most of the cases, product managers had only co-ordinated the responsibility, however, the decisional power was still in the hands of functional managers. Due to the lack of balance in power between functional and product managers, the latent conflict became invisible; „The different interests could not confront each other openly. Consequently, effective compromises or properly reconciled decisions for evolving the market sensibility and regrouping resources rapidly and flexibly could not be made, either ... The excessive written regulation remained in force, and so for functional bodies, they jealously watched over their resources, questioning from time to time product management system as whole." (Dobák-Tari, 1996:14-15).

The final steps in modernising the organisation of large state firms - in the advent of the collapse of the socialist political-economic regime - were carried out in the late 1980's. Both Western and Hungarian 'organisation designers' advocated the *divisionalisation* of business organisations (partly promoted by the World Bank to introduce more flexible forms of organisations to increase competitiveness of the Hungarian firms). This movement was welcomed by the so-called 'independence movement' of the individual plants operating within large state companies. (Neuman, 1993.) As a result of the popularity and diffusion of the divisional organisational structure, in several large state enterprises the divisional managers cost-sensitivity (i.e., 'thinking in money') have improved considerably; „ ... the flexibility and the entrepreneurial spirit of internal divisions and plant units undoubtedly increased. In possessing capacities put at their disposal, they were able to 'switch over' to manufacture products requested by the market, within relatively short periods of time. For certain enterprises, a venture project function under the direct supervision of the head division was set up, endeavouring to exploit the opportunities disclosed by market surveys as soon as possible." (Dobák-Tari, 1996: 16) But, as is well known in the management literature, the multidivisional model still treats top management as a dominant player in business activities. (Forsgen, 1989.) The multidivisional model is still very much a hierarchical one: strategies and organisational structures adopted are designed by top management, while divisional management is responsible for tactical aspects of the firm's activity and the trouble-free functioning of the site-production.

Finally, following the brief presentation of the various forms of organisational changes (modernisation) in the former socialist firms in Hungary, it is necessary to mention *the basic laws which accelerated the restructuring process*. Among the legal regulations consistent with market institutions, it is worth mentioning the law on the 'Transformation of Public Enterprise'[1988.VI.Act.) and the new accounting law (consistent with the standards of the developed market economies) which was adopted at the beginning of 1990 [1991.XVIII.Act.] In spite of these significant steps in modernising organisational structure in the socialist firms, the process of deconstructing the bureaucratic and hierarchic type of regulation advanced quite slowly until 1990. This means that the so-called 'intra-organisational networks' as distinctive formal organisational structure were underdeveloped. For instance, the status of the profit-centres which have - in the form of a performance contracts - tight relations with the headquarters were at the 'embryo' stage of development at the end of 1980's. The key factor in the resistance of the top-management in favouring the profit centres model, was the high risk of the possible anarchy and loss of control in the firm in the last days of the socialist political-economic system.

3.2. Is privatisation Magic Tool in the Process of Transformation?

At the beginning of the 1990's, the majority of economic policy makers were expecting almost automatic performance improvement in the privatised former state owned companies and especially in the Hungarian subsidiary units of multinational corporations (MNCs). The speed of the privatisation process appeared to other social actors (e.g., managers, trade union leaders and representatives of academic community) as a 'magic tool' to create in the short-run a market economy, introducing management skill and organisation and through these changes excellent economic performance both at firm and national level. Over-emphasising the role of privatisation - or in general the changes in the ownership relations - was well reflected in the repeated declaration of the prime ministers (since 1990) to speed up privatisation as number one priority in developing a market economy. (For instance, the acting Prime

Minister of Hungary, at the 'World Economic Forum' held in Budapest in spring 1995, even declared that the privatisation process will be finished in the country by 1997.) In addition to that, among the post-socialist countries of the CEE region, we may observe a kind of 'privatisation competition' in reading interviews of leading politicians of the countries. In the majority of cases, privatisation is treated in these countries as 'super-engine' or 'magic-tool' to restructure the former state owned firms, improve efficiency and strengthen the institutions of the young democratic systems. (Kulpinska-Cichomski-Morawski, 1996.) Surprisingly, The Financial Times' opinion was also rather simplistic and idealistic, but reflecting the general mood or widely shared optimistic view at the beginning of the transformation process; „ ... the fall of communist regimes throughout Eastern Europe ... has opened the way for privatisation of state owned enterprises and assets on an unprecedented scale. With it has come to promise of greater prosperity but above all the chance of creating a property-owning middle class to underpin democracy and guarantee the irreversibility of the escape from totalitarianism." (Ellingstad, 1996: 40.)

The exaggerated belief in the positive social impact of the privatisation systematically neglects the social-organisational and cultural elements of the transformation process. This is not at all an unknown phenomenon in the post-war economic history of Hungary and the other CEE countries. Comparing this overestimated role of privatisation with the emergence of the so-called socialist (but in reality state) ownership after the Second World War, we have the feeling of 'Déja Vu'. For instance, from the nationalisation/socialisation of the former private-ownership, the politicians and firm managers - as the similar social actors today - expected radically different workers' attitudes towards work and company. However, they took no account of the complexity of the social-organisational relations in the firms and the presence of the social-cultural 'fabric' created by the past and the present experience of the social actors.

According to the simplified and ideologically coloured image of the ownership changes, the overthrow of private ownership was to have automatically changed the confrontational relations based on the different interests of capital and labour and replace them by the 'co-operative' (harmonious) relations in the „worker's state". This approach did not realise that the managerial and worker's habits and patterns of behaviour are shaped in the production by the various system of resource-allocation within and outside of the firm. (For instance, within the firm, 'zones of uncertainty' or the related 'monopolistic position' both in the labour process and the managerial organisation created important differences in the 'informal bargaining positions'. In the everyday practice of the factory society, the labour process within the socialist firms does not cease to exist as an area of social fighting; „core" groups of blue collar workers having monopolistic position in the labour process on the shop-floor could gain significant financial and non-financial gain from the management at the expense of „peripheral" workers. (Burawoy-Lukács, 1989., Héthy-Makó, 1989.)

3.3. Transfer of Managerial Skill and Organisation and the 'Knowledge Deficiency Model'

The societies and economies in the former socialist-countries of CEE are in a period of transformation, associated with a search for legitimacy by various social actors - both at national and firm (local) level. Acquiring and demonstrating the efficient use of the new market-consistent knowledge and competence represent an unprecedented challenge for the various groups of managers (and other social actors, too). There is a widely accepted view concerning the managerial responses to these challenges created by the transformation process. For instance, in relation with the legitimacy search of managers, the following dimensions of the transformation process are strongly emphasised by popular management consultants: the transformation process in the post-socialist countries can be seen from the point of view of the firm as a shift from 'political rationality' to 'economic one'. But this shift from one type of rationality to another follows an uneven development path, well reflected - among other things - in the various level and pattern of Foreign Direct Investment (FDI) and the quality of management. In Russia, for example, the low rate of FDI could be explained - out of the well known constraints as the political instability, underdeveloped financial institutions, etc. - to the „ ... unsatisfactory quality of management at the level of enterprise, including marketing, poor organisational cultures and inadequacy of a significant proportion of top managers.' (Zaitsev-Uvanov, 1996: 59.) This view on the post-socialist managers - not only in the case of Russia, but in general - is reflected very often in such simplistic assessment that all are either incompetent or lazy to change habits and that simply by replacing them many problems will disappear. It is interesting to note, that even in Western Germany, after unification (1990), the following opinion became popular not only concerning managers but on Eastern German employees in general; „ ... the eastern workers were lazy and would be unable to cope with western working methods and pace ..." (Upchurch, 1995: 289.)

These 'label-type' approaches to behavioural patterns of post-socialist managers and workers are not based on solid empirical evidences, but explained by mainly 'anecdotes'. According to the experiences of the empirical comparative studies of capitalist versus socialist firms confronting similar challenges, the socialist managers were quite refined (skilled) to satisfy the following double-requirements: to meet plan targets and to guarantee smooth functioning of the labour process within the constraints of the shortage economy (Dubois-Koltay-Makó-Xavier, 1990.) These managers, very often demonstrated strong initiatives and high level of flexibility; ' ... in producing what they could given the many shortages present and were generally following the incentives which the system provided, such as striving for quantity over quality, lobbying for higher budget from central authorities, bartering with other companies over product inputs, etc. (Ellingstad, 1996: 41.)

In spite of the existence of the valuable skills and great variety of experiences of the former socialist managers, we often met in the literature of the transformation process the quite mechanical approach of transferring western managerial skill and organisation into the post-socialist countries. These approaches are influenced by the so-called *knowledge deficiency model,* which assumes that the managers in the post-socialist firms are deprived from the fundamental elements of the competence necessary under new circumstances of the market economy. (Thompson, 1994.) According to the advocates of this model, the remedy to overcome this problem could be an extensive reliance on Western consultants and the permanent contacts with the managers in the forms of joint-ventures.

Without denying the lack of important elements of managerial competence in the post-socialist firms, we intend to call attention to the need of systematic empirical studies (using comparative perspectives) on the problems related to the organisation and management transfer. In addition, the permanent evaluation of the information and experiences accumulated by the consulting firms operating in the former socialist countries of CEE are valuable resources of information and knowledge. Unfortunately, social scientists are rarely using this rich pool of information. (E.g., in Hungary - among others - the following world largest consulting firms have offices; McKinsey & Co., Ernst & Young, Deloitte Touche Tohamatsu Int., Coopers & Lybrand, Andersen Consulting).

Surveys or observation carried out by a management consulting firm questioned the validity of the so-called *knowledge deficiency model* and instead of that revealed not only the complex nature of the transformation process but also the necessity of the *mutual learning process:* both Hungarian and foreign managers have to learn from each others (Adorján-Balaton-Galgóczi-Makó-Ternovszky, 1996). In addition, these surveys also revealed that the changes in the ownership structure (e.g. privatisation) in itself is not enough to improve the performance of the firms. In relation with that, it is enlightening to present the diagnosis of an Austrian based 'Productivity Consulting Firm' (Czippin and Partner Ltd.) on factors explaining the productivity gap between the parent-company (multinational corporations, MNCS) and their Hungarian subsidiaries. (Népszabadság, 1995:11.) According to the survey, the productivity level in the Hungarian sister company represents only 57 % of the same indicator registered in the parent company. The most significant differences in the level of productivity was found in the case of the capital-intensive firms. This means, that the deviation in productivity cannot be simply attributed to the lack of investments, but to the problems related to the quality of organisation and managerial work. In the following chapter, we try to list, the major sources of the lower productivity characterising the Hungarian sister subsidiaries:

1: Foreign firms, during their investments in Hungary, are mainly concentrating on *radical cost-savings and do not pay enough attention to the preparation of production, and especially disregard the importance of training of managers and blue-collar workers;*

2: *The policy of low wages, with foreign managers not paying enough attention to the necessary organisational conditions for the smooth operation;*

3: Very often, they are implementing *older equipment and machines without the necessary 'renewal'* before launching production in the Hungarian plants;

4: Introduction of machines and equipment into the Hungarian plants is organised by the help of foreign technicians and managers. Their presence is a source of *many communication problems, generated not only from language-related difficulties.;*

5: *Foreign managers do not elaborate clear requirements for their Hungarian employees.* Following the Opening Ceremony Day, employees and workers very often became disillusioned in the every-day operation;

6: Managers coming from the parent-company, are *copying the organisational structure (organisation) functioning well in their home-firm,* without realising the different social-cultural environment for the operation in the Hungarian sister company;

7: The managers coming from abroad *place too much trust in their computerised system, and they visit their Hungarian plants too often,* which increases the costs of operation;

8: Foreign manager are not well informed about the *legal regulations of the work-places.* They do not know - or in several cases do not want to respect - the Hungarian Labour Code, in relation with the collective bargaining, working time regulation and the activity of Trade Unions and Works Council.

The above-listed factors explaining the lower-level of productivity in the Hungarian sister-companies of the MNCs are well illustrating the '*knowledge deficiency*' problems on the side of the parent company managers, too. However, these phenomena are not at all unknown in the history of organisational transfer and cannot simply be explained by the 'lack of the necessary competence of managers' in the post-socialist firms. For instance, Louis Renault, the well-known French car maker, during his first experiences on introducing 'Taylorism' in his factory (1912) did confront similar kinds of organisational (and managerial) problems. One of the major sources of inefficiency was, the fragmented nature of transfer of the 'scientific organisation of work' into his factory (e.g. lack of standardisation of machines, irregularities in the tool supply, lack of adequate training of managers and workers, etc.) (Moutet, 1975).

Instead of the simple acceptance or rejection of the so-called *knowledge deficiency model,* it would be more constructive to pay attention both to the structural and subjective dimensions of the managerial learning process and the changing content of the managerial labour process surveyed. This multi-dimensional approach to study the changing and stable elements of the managerial activities may help us to reject the various forms of the cultural determinism in relation with transferring manager skills and organisation from Western Europe into the post-socialist countries of CEE. On this point, we fully agree with the following *critics of the cultural interpretation* of the conflicts arising between the native and foreign managers working together in the joint-venture firms; „ ... the differences in business beliefs between Hungarians and Americans in an American-owned firm in Hungary may be significant but may pale in comparison to the *differences between production people and the marketing people* in the same firm. Managers are constantly told to be aware of and alert to „cultural differences". But differences between individuals from different cultures may be less than those individuals from the same one." (Markóczy, 1996: 10.)

In relation to the West-East transfer of organisation and management, Eastern European managers are frequently expected, for instance, to 'jump from Taylorism, Fordism to the flexible-specialisation model' of manpower and skill use. These expectations, often lack the necessary systematic evaluation in the existing structural and subjective barriers in advised important shift in the 'production paradigm'. Evaluating the experiences related with the transfer of managerial skill and organisation in the MNCs, and joint-ventures in general, we may stress the highly 'mutual' character of the managerial learning process; both local and foreign managers have to learn from each other.

Without questioning the 'colouring effect' and 'visibility' of national cultures in general and corporate culture in particular, it is necessary to pay more attention to the role of the managerial labour process in the process of transferring managerial skill and organisation. In this perspective, the next chapter concentrates on the 'facilitators' and 'constraints' of the managerial learning process in the post-socialist countries of CEE, with special attention to Hungary.

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4. Speeding-up the Transfer of Managerial Skill and Organisation from Western to Eastern Europe: Special Focus on Hungary

4.1. Foreign Direct Investment (FDI) as 'Core Facilitator' of Transferring 'Market-Standard' Knowledge and Organisation

Evaluating the significance of the role of FDI, it is necessary to distinguish between 'portfolio' investment and 'direct capital investment'. In the first case, the investors are buying securities issued by the companies or foreign governments' bonds, but they do not practice ownership rights to control the operation of the foreign company. In the second case, investors also intend to practice their ownership rights acquired in the foreign company in question. The following types of 'direct capital investments' could be distinguished (Árva, 1994: 8):

a) Foundation of new companies, mainly in the form of the 'green-field' sites;
b) Purchase of a controlling ownership stake in an existing foreign firm;
c) Reinvestment of profit earned in a foreign company;
d) Lending and raising capital between the parent company and its subsidiary operating in the foreign country.

FDI is not per se benevolent for the receiving country. Scholars have distinguished between 'colonial type' capital export and 'trade generating' investments. Colonial type capital export aims at raw material extraction, etc. and in general does not generate a noticeable economic development for the receiving country. The so-called trade generating (and not trade substituting) capital investment develops export capacities in the target countries and thus gives way to an increase in world exports. The South-East Asian countries have received such type of capital export from Japan in the early 1970's before they themselves became export oriented countries.

The transition process related modernisation in the post-socialist countries of CEE would be unimaginable without significant FDI and privatisation - in spite of the anti-foreign campaign of the populist-nationalist political forces in these countries. For instance, in the Hungarian case, foreign-owned firms are producing up to 70 per cent of manufactured exports, up from 50 per cent in 1993 and the strongest labour productivity increase was experienced in the last five years in the foreign owned joint ventures. (Hámori, 1996: 10.) There is a commonly shared hypothesis among management scientists (Soulsby-Clark, 1996.) that among the foreign-owned firms, MNCs are playing key role in modernising managerial organisation and methods of the privatised former large state firms. Moreover, these firms have become not only the engines of export performance but have accelerated the introduction of new technology and of new managerial methods (.e.g. TQM, team-working, JIT, etc.). Due to the important facilitator role of FDI in shaping the patterns of skill and manpower use, it is worth to give a short survey on the FDI in the transformation economies of the CEE.

Among the post-socialist countries of the region, Hungary received the largest portion of the FDI until the middle of 1996; its share represents USD 15.1 billions. (But the Czech Republic is beginning to edge out Hungary in the race for FDI .) The distribution of the FDI between economic sectors in the country is the following (Népszabadság, 1996: 10.):

- Industry: more than 50 per cent;
- Telecommunication: 15 per cent;
- Energy sector: 13 per cent;
- Financial sector: 6 per cent;
- Wholesale sector: 6 per cent;
- Others: 10 per cent.

The distribution of the FDI within the country is very unequal, which further strengthens the existing regional inequalities in Hungary. If we are using a three-point scale to characterise the level of economic development, three regions should be distinguished:

a). 'Strong regions';
b). 'Intermediary regions';
c). 'Weak or peripheral' regions.

The so-called 'strong regions' (e.g., the agglomeration of Hungarian capital and the Northern Transdanubian regions) received almost as much as three quarters (73.5 per cent) of the FDI. The 'intermediary region' (e.g., the Great Hungarian Plain) and the 'weak and peripheral' regions (e.g. the Northern-Eastern Hungary and the Southtrans-danubia) have similar share (13 - 13.5 per cent) of FDI. (Cséfalvay, 1993.)

The CEE region has attracted significant amounts of foreign investment since 1989, with Hungary received 55 per cent of all long-term FDI in the region, more than USD 13 billions by the end of 1995. However, „despite the often cited USD 13 billion figure, needs facing the region pale to the capital in-flow. France, for example, has received more foreign investment in the last two years than the entire Eastern Block has received since 1989." (Ellingstad, 1996.b.: 8)

Within the broad range of FDI, it is necessary to distinguish between the investments into 'green-field' versus 'brown-field' sites. The 'green-field' investments were carried out by such internationally well-known firms as Suzuki, TDK, Sony, General Motors, etc. The 'brown-field' investments were carried out by the privatisation process of the former state owned firms by such firms as NOKIA, Siemens, G. E., etc. These two distinctive forms of FDI have different impact on the managerial labour process. According to our hypothesis, more balanced distribution of 'green-field' and 'brown-field' investments speed-up the diffusion of modern managerial knowledge and organisation. In other words, the diffusion of managerial skill and methods will create stronger multiplier or homogenising effects in organising economic activities in comparison to domination of either 'brown-field' or 'green-field' investments.

The role of FDI in upgrading quality level of products, services and management is significant not only in the former socialist countries of CEE but also in countries belonging to the matured economies. According to the study made by McKinsey, the US management consultants, more than two-thirds of UK suppliers, 44 per cent of US suppliers and 85 per cent of Japanese suppliers received this evaluation. Top management in the UK car component industry „has ... devoted itself intensely to quality, more than that of any other country in Europe", says the report. According to McKinsey, the driving force behind the change in Britain has been the *influence of car plants set up by Japanese groups. They have made „upping quality levels ... a matter of survival for British suppliers", says the report.* German companies, in contrast, have lacked this stimulus. The report says their „catch-up effort will need to begin with a drastic reduction in current levels of over complexity ... and a focus on strategically important (management) levels (for change). In the case of Germany, „top management commitment to quality which has been only average to date, will need to greatly increase", the report warns, while companies will also need to follow the UK example of operating more „team-working" on factory floors to harness the „problem solving" skills of employees. (Marsh, 1996.)

Before presenting the pattern of FDI in the so-called 'Visegrad countries', it is interesting to have a look on the general weight of FDI, measured by USD/per capita:

Table 10 Foreign Direct Investment (FDI) : 1995

Countries	in USD per capita
Hungary	1.410
Czech Republic	563
Poland	177
Slovakia	138

Source: Business Central Europe, 1996: 39.

Following the earlier presented hypothesis, the simultaneous and balanced presence of 'green-field' and 'brown-field' investments have stronger 'harbinger effect' in diffusing new managerial skills and practices than the one-sided dominance of either 'green-field' or 'brown-field' investments. In relation to that, we may elaborate the following hypothesis: in a post-socialist country, where the 'mono-pattern' of FDI is dominant (either in the form of 'green-field' or 'brown-field' sites), the multiplier effects of FDI on the business performance (e.g. labour productivity) is more limited (creating only islands of use modern management methods and technology) compared with the presence of 'hetero-pattern' of FDI.

Comparing the 10 top investments in the two 'Visegrad countries' having the highest per capita FDI, Hungary and the Czech Republic, we may identify significant differences, see the tables 11 and 12.

11x4

Table 11 Ten top investments in Czech Republic

Investor (country)	Target	Commitment	Sector
1.Tel source (NL, CH)	SPT Telecom	USD 1.423 m	telecommunication
2.Volkswagen (G)	Skoda Auto	UDS 962 m	automobile
3. International Oil (NL,USA)	Unipetrol	USD 615 m	petroleum
4. Philip Morris (USA)	Tabak	USD 500 m	tabacco
5. Steyr (A - Daewo-K)	Avia	USD 384 m	automobile
6.IFC Kaiser (USA)	Nova Huta	USD 231 m	steel
7. Linde (G.)	Technoplyn	USD 154 m	industrial gas
8. Energy consortium (USA)	Energetické centrum	USD 154 m	energy
9. Pepsi-Cola (USA)	**Green-field site**	USD 120 m	softdrink
10. Gloverbel (Belgium)	Glasunion	USD 115 m	glass

Source: Business Central Europe, 1996: 54.

Table 12 Ten top investments in Hungary

Investors (country)	Target	Commitment	Sector
1. Magyar Com.(G., USA)	Matáv	USD 875 m	telecommunication
2. General Electric (USA)	Tungsram	USD 600 m	lighting
3. AUDI (G)	**Green-field site**	USD 530 m	automobile
4. General Motors (USA)	**Green-field site**	USD 283 m	automobile
5. Suzuki (Japan)	**Green-field site**	USD 280 m	automobile
6. Douwe-Egbert (NL)	Compack	USD 150 m	food
7.UNILEVER (NL, UK)	**Green-field site**	USD 150 m	consumer goods
8. ALCOA (USA)	Köfém	USD 146 m	aluminium
9. Pepsi-Cola (USA)	**Green-field site**	USD 135 m	softdrink
10. AEGON International (NL)	AB-Aegon	USD 135 m	insurance

Source: Business Central Europe, 1996: 54.

In Hungary, not only in the case of the 10 top investments, but also in the whole process of privatisation (See Chapter 2), the more balanced distribution of FDI (or 'hetero-pattern' of FDI) and greater variety in ownership and organisational forms have speed up the managerial learning process and created different 'priority list' of managerial problems in the Hungarian firms compared to the other countries of CEE. It is extremely difficult to get reliable information on the uneven pace of the managerial learning process.

Until now we have very few sectoral or (regional) oriented comparative studies on the firm-level transformation process in the post-socialist countries of CEE. In the next section, we present the main results of an international comparative survey on ownership and organisational restructuring process related management problems in the 'Visegrad-countries'. Following the presentation of some relevant tendencies discovered in this study, we intend to describe the forms and tools of the managerial skills and organisation.

4.2. Uneven Development of the Managerial Learning Process: Lessons from the 'Hokkaido Project'

The Hokkaido Project initiated survey was conducted in Spring of 1996 in the firms employing at least 500 employees in the machine industrial sector in the 'Visegrad countries'. [1] During the survey, each national team participating in the Project, used the same structured interview conducted with top mangers of the firms surveyed (usually general director) concerning the following items:

- corporate governance;
- patterns of communication channels;
- current business performance and main effecting factors;
- firm-level labour relations;
- influence distribution in the decision making system.

In relation to transferring managerial skills and organisation from Western Europe into the post-socialist countries of CEE, the focus of analysis will be centred on changing managerial task and knowledge structure to map the possible uneven development in the managerial learning process.

According to the 'Hokkaido survey', 54.4 per cent of the Hungarian managers interviewed classify their firm's state of business achievement as „successful", a figure considerably higher than the 25.4 per cent average for the other three Visegrad countries. (See Table 13).

Table 13 Present state of business achievement

	Czech Republic	Hungary	Poland	Slovakia
Successful	20.0 %	54.4 %	43.3 %	13.0 %
Recovering	56.6 %	34.3 %	46.6 %	60.9 %
Stagnant	16.7 %	8.6 %	6-7 %	21.7 %
Declining	6.7 %	0.0 %	0.0 %	0.0 5
On the verge of bankruptcy	0.0 %	2.9 %	3.3 %	0.0 %

Source: The Hokkaido Project (1996)

While such bright figures may seem counterintuitive given Hungary's very lackluster GDP and employment growth figures, this can partly be explained by the very uneven patterns of economic recovery in this country - both by regions and sectors - and also the relatively large role foreign capital has played in transforming Hungary's machine industry. (37 per cent of Hungarian firms are majority foreign-owned, compared with 6.6 per cent in Poland, 3.3 per cent in the Czech Republic, and 8.3 per cent in Slovakia.) The findings of this survey are backed by other independent surveys, including a 1048-firm survey, which reveals lags, both between manufacturing and non-manufacturing firms, and foreign-owned firms (which are mostly manufacturing) and domestic firms. *Further, despite weak macro-level economic performance, there are indeed areas - particularly in export oriented manufacturing - which give cause for optimism. The utilisation of many meso-level and* *firm-level viewpoints may in the end be more telling than broad, macro-level figures most casual observers rely on.*

The uneven development of organising economic activities in the past and the variety in the privatisation process after 1990, have strong impact on the speed of the managerial learning process. The unequal stages in the development of the management skills and organisations are well reflected in the differences identified in the prioritised list of measures taken by firm's management in the machine industry. For instance, in the case of Poland, the Czech Republic and Slovakia, managers interviewed still place a high priority (ranked second in all of these three countries) on employment reduction, commonly associated as a 'firm-internal transformational 'problems. Hungarian managers, on the other hand, focus almost exclusively on product and market-oriented issues: customers and suppliers, R & D, and the increase of exports are the primary focal points. *Dividing the list of measures into two rough categories, 'firm internal transformation' and 'market/product oriented', and summing responses, one finds that Hungary scores much lower in 'transformational' measures, 37.6 per cent in Hungary compared to 63.3 per cent in Poland, 56.9 per cent in the Czech Republic, and 58 per cent in Slovakia.*

This may be the result of either, or both, of the two factors:

- Hungarian firms in the machine industrial sector are slightly ahead of other Visegrad firms in transforming their enterprises, because of a more ambitious privatisation program (while a slightly higher proportion of all Czech business are privately owned, the networks of investment fund and bank ownership make for a more convoluted owner-management behaviour) and a higher degree of foreign ownership; and/or

- Firm, 'internal-transformational' issues in Hungarian firms are dwarfed by 'market-oriented' problems caused by the break-up of the COMECON (former economic integration institution: „Council for Mutual Economic Aid") trading regime. Hungary has neither the large internal market of Poland (noticeable in the relatively smaller importance given to exports by Polish firms) nor the stronger history of export-orientation for the machine industry that Czechoslovakia had within the former COMECON.

Although Hungarian firms arguably face more difficult market conditions for their products, for both geographic and economic reasons, the likely fundamental reason for the differing emphasis observed lies fundamentally in the temporal component having to do with the particularities of the different market environments. While Hungary and Poland experienced what is politely called „shock therapy", Poland's slower privatisation regime and slightly more protectionist trade laws at the outset of the transformation provided a larger cushion - and a lower set of incentives to transform the firm - than was presented to Hungarian firms. Both the Czech Republic and Slovakia experienced sharp falls in demand, but as alluded to earlier, firms owned by investment funds have often been in the functional equivalent of privatisation half-way house. The differences are temporal in that the general goals, broadly defined, will be reached by all Visegrád countries in the not too distant future (it is important to keep in mind that this enormous transformation project was embarked upon but a few years ago). To the extent that one gives credence to this explanation, one also assumes that the vast majority of these Hungarian firms have already more or less turned the corner, while other Visegrád firms are to varying extent still engaged in, and beginning to emerge from, the process of fundamental transformation.

It is worth noting that a surprisingly large number of Hungarian managers surveyed in machine industry reported to have increased efforts on research and development, which may also be seen as a sign that crisis times in the machine industry are over (as returns on R & D outlays usually accrue in the longer-term, beyond the horizon of a firm struggling just to survive). In the last decade, R & D activities in Hungarian firms have declined precipitously, with 57 per cent of firms claiming no R& D activity whatsoever, and there have been fears that Hungary is losing its R & D capacity, both as a result of economic stagnation and the tendency of foreign firms to build manufacturing capacity in Hungary, but keep R & D functions near company headquarters. However, two large companies, AUDI and General Electric (GE), have recently announced plans to move R & D facilities to Hungary, to be closer to their factories there. The degree to which the CEE countries are able to compete on more favourable terms of trade will depend largely on their ability to be price and quality-competitive not just in manufacturing, but also in innovation.

A glance at current capacity utilisation illustrates the relatively successful restructuring process of management and organisation in the Hungarian machine industry. See table 14.

Table 14. Current capacity utilisation

Capacity utilisation	Czech Republic	Hungary	Poland	Slovakia
0 - 10 %	-	-	-	-
11 - 20 %	-	3 %	-	-
21 30 %	-	-	-	-
31 - 40 %	3.7 %	3.0 %	3.0 %	-
41 - 50 %	14.8 %	8.8 %	13.3 %	-
51 - 60 %	14.8 %	-	20.0 %	16.7 %
61 - 70 %	14.8 %	14.7 %	16.7 %	27.8 %
71 - 80 %	22.2 %	14.7%	33.3 %	27.8 %
81 - 90 %	18.5 %	20.6 %	13.3 %	11.1 %
91 . 100 %	11.1 %	35.3 %	-	16.7 %
Average:	73.1 %	81.6%	68.5 %	71.5 %

Source: The Hokkaido Project, 1996.

With an average utilisation rate of 81.6 per cent, Hungary falls comfortably within OECD averages, and provides added proof that in this sector anyway, the depths of the crisis have already been reached. Of special note is the fact that fully 35.3 per cent of firms are operating at 91 - 100 per cent capacity, and a majority of firms (55.9 per cent) are operating above 81 per cent of capacity.

4.3. Facilitators of the New Managerial Methods: Co-operative Patterns of Labour Relations in the Hungarian Firms

Both forms of employee participation, the direct and the representative (indirect) participation were widespread in Hungarian business organisations. The most important *direct form was* realised in experiments with autonomous working groups, group-level decisions on wage distribution, group based cost saving centres, internal subcontracting system, and especially in its most widespread and publicised version (VGMKs) in the 1980's (See the 1.3. Section of the Final Report.) The growing role of trade union representation expressed in the different shop steward and firm level union committee rights since the middle of the 1970's together with the creation of the Enterprise Councils as quasi-self governing bodies in the second half of the 1980's were the most significant development of *indirect participation.* Trade unions having gradually obtained their participating and bargaining rights were anxious to see how other direct forms of employee participation and non-union representation (e.g., Enterprise Council) were introduced in the industrial practice. They were afraid of losing their newly acquired functions in employee representation that was a well known phenomenon of the labour relations system in the industrialised countries. In Hungary their position was more troublesome as they were still in a politically dependent position until 1989 and they felt threatened more by non union controlled representation and direct participative forms (or new human resources management techniques) designed to create direct 'dialogue' between management and union making trade union role unnecessary since the 1980's.

Research experiences proved that in Hungary employee participation in its very different forms has been a key element of labour relations since the 1970's. Its different forms partially substituted the autonomous institution of collective bargaining and labour disputes and together with informal mechanisms of interest conciliation contributed to the stability and flexibility of the labour process and created lasting practice of co-operation between the social partners at firm-level. (Ishikawa, 1992.) The tight labour market situation and organisational problems (e.g., frequent bottle necks in the production process) generated by the shortage economy in the labour process strengthened the informal bargaining position of certain working groups playing key role in solving them. The enlarged possibilities of participation at firm-level since the 1970's helped certain employee groups to accumulate important social skills in evaluating and manipulating social and organisational situations, in negotiating with different social partner and in elaborating overall views of the enterprises and their environment. The same experiences called attention to the limits of participation and showed which missing elements of the labour relations system hinder the widening and more efficient use of the firm level participation regimes.

Since 1988/89, the innovations of the renewed autonomous labour relations system have become especially important in a situation of overall changes in the Hungarian economy when property relations went through a comprehensive transformation, when public firms were privatised and a new private sector has grown up, when decentralisation of former large organisations was carried out while a deep economic recession damaged almost all spheres of the economy. The circumstances of these unstable economic conditions and of the huge social costs of transformation paid for by large groups, the new elements of labour relations helped to maintain stability and sometimes even to resolve critical situations of social unrest.

At first glance after the transformation participation on firm-level seemed to lose its importance. There were (and still are) certain signs pertaining to the diminishing importance of firm level negotiations and bargaining (in formal and informal ways) under the pressure of the new phenomenon of high unemployment and weak labour markets. Others are supposing that with private ownership, real owners controlling management eager to „import” the well-known managerial methods and techniques of firm level negotiation for „manufacturing consent” without the presence of trade unions. (Poór, 1993.)

Apart from these assumptions - that we shall attempt to refute later on - the location of participation in the Hungarian labour relations system has certainly changed. First of all, it has lost its political and ideological significance - local employer-employee conflicts can hardly be transposed into basic social conflicts as during the socialism. Its functions connected to firm level issues became more circumscribed. Meanwhile the social and political positions of the partners were reset on firm level due to the appearance of direct private property, to the definite disappearance of „mythologies" of work and „class approach", to the declining production because of the deepening recession and due to the new institutions and legal possibilities to influence decisions or protest at firm-level.

A view widely accepted among labour relations experts is that, in periods of recession, when unemployment increases, the number of strikes diminishes. This is taken to be a sign of the weak bargaining positions of employees and their unions. Without denying the weakening bargaining positions of employees within the circumstances of weak labour market, it is worth to call attention the continuity the pattern of co-operation in the Hungarian firm-level labour relations. For instance, comparing the Hungarian and Polish strike statistics we find clear differences in the patterns of labour relations, in spite of similarly high levels of unemployment. In Hungary, where strike activity remained rather low compared to the other CEE countries, the most important strikes were organised in the state-owned branches like railway transportation, energy sector and education. See Table 15.

Table 15 Strikes in Hungary and Poland

Countries	Number of strikes			Number of participants (in thousands)		
	1991	1992	1993	1991	1992	1993
Hungary	3	10	17	250	25 - 30	20
Poland	305	6362	7362	221	730	382

Source: Heti Világgazdaság (Economic Weekly), 1994. No.766. Február 24.
(Ha már elhallgat a csend)

Note: Unfortunately we have no comparative data on 1994, 1995 and 1996, but the number of strikes in Hungary after 1993, do not show different tendencies.

The other distinctive feature of the Hungarian Labour Relations was discovered by the International Worker's Attitude Survey. This Project was initiated in 1984 by the Denki Rengo Japanese Trade Union Confederation, operating in the electric and electronic industry. In 1994/95 the 1984 survey was repeated using the same research techniques and investigating the same firms. The core aim of this international survey was to map the impact of the changes which were taking place in Western Europe, Japan and in the former socialist countries on firm level labour relations. Some characteristics of the changes were similar (e.g., internationalisation of the national economies, unequal weakening of the fordist-production paradigm, declining trade union influence), other by and large restricted to the post-socialist countries like Hungary, Poland and Slovenia participated in the original survey, too (e.g., economic restructuring combined with privatisation of the state ownership, shifting market orientation from the former-socialist countries to the market of the developed economies, etc.)

The evaluation of the international survey has not yet been finished, but we may mention some noticeable *changes and continuities in the patterns of firm-level labour relations*. To illustrate these changes in comparing the Hungarian data of 1984 and 1994 surveys, it is worth mentioning the following: the overall degree of unionisation is decreasing in Hungary. But in the privatised firms surveyed in electric and electronic industry, the degree of unionisation remained rather high (71.3 per cent) - compared to other countries participating in the international project. The most interesting finding is that in spite to the growing autonomy of trade unions, the pattern ten years ago identified *pattern of double loyalty or 'hierarchical identity' shows a sign of strong continuity*. See the tables 16 and 17.

Table 16 Question: 'How far does the decision of your local union reflect your opinions?

Answers	1984's Survey	1994's Survey
(1) Very well + (2)Fairly well	33.2 %	54.5 %
(3) Nat very well + (4) Not at all	18.9 %	30.7 %
(5) I do not expect anything	10.4 %	12.9 %
No answer	37.5 %	1.9 5
Total	594	411

Table 17 Question: 'How far does the decision of management in your plant reflect your opinions?

Answers	1984's Survey	1994's Survey
(1) Very well - (2) Fairly well	45.2 %	55.7 %
(3) Not very well - (4) Not at all	23.4 %	35.0 %
(5) I do not expect anything	4.4 %	7.5 %
No answers	26.1 %	1.7 %
Total	594	411

Source: Makó, Cs. (1996) 'Transformation Process in CEE: Continuity and Changes in the Institution Building', International Workshop on *New Dialogue Between CEE and Japan*. Budapest, 16-19 September, p. 10.

This strengthening phenomena of *double loyalty or hierarchical identity of employees is based on 'economic rationality' (helping the company's survival and through this keeping employment) in 1994, instead of the 'ideological loyalty' discovered ten years ago.* (Ishikawa, 1992: 88-91). The 'economic rationality' which is - among other things - well reflected in the pattern of the 'double-loyalty' could be explained by the 'mini-co-operativism' which is shaped largely by the present transformational crisis related high level of unemployment. In these circumstances, the employees tend to identify with 'their' firm's future to stabilise employment. They agree with the flexible use of manpower and skill if the management also do their best for the success of the company. This pattern of co-operation creates favourable social-organisational (or even cultural) conditions for the new-type interest alliance between managers and rank-and-file employees, based on the so-called *'productivity coalitions'* between social partners at firm-level. (Streeck, 1993: 60-62). The co-operative pattern of firm-level labour relations based on 'productivity coalitions' cannot simply be interpreted as the simple 'institutional heritage' of the socialist past. It is necessary to call attention to the new elements of employee participation which are the social products of the spreading innovative - or several cases 're-labelled' - human resource management techniques and initiatives (e.g. team-working, improving employee's participation, combining functional flexibility with the labour market one etc.). In the vacuum of Labour Relations immediately after the political transformation, the need for everyday communication and problem solving increased the importance of the direct dialogue between managers and various employees groups. Spreading forms of team-work, 'lean' and 'flatter' organisations with reduced number of hierarchic levels, developing 'heterarchic relations' within the organisation, reorganisation of the firm's communication system, relying on Works Councils instead of Trade Unions, diversification of employment contracts, introducing ISO systems, etc., are on the list of new managerial initiatives. In relation to the transfer of new managerial concepts - where the MNCs are the pioneers - both foreign and domestically-owned firm management did not met significant resistance in Hungary and other CEE countries from the part of the rank-and-file employee. But, in some cases, it is difficult to introduce new managerial concepts and approaches. For instance, the well known French multinational, the LAFARGE-group met the following difficulties implementing 'participative' management in its Polish plant: „ ... it is not easy to implement the dynamism of our participative management. It is simply to understand the blockage, in the past, Polish managers behaved as simple operators without criticising the decisions, they did not even express their opinions ... „ (Piot, 1996: 11)

The Hokkaido Project produced interesting findings having important impact on the management initiatives in shaping social relations at firm-level. Given Poland's recent history of comparatively higher strike rates, it should come as no surprise that Poland's composite labour score is significantly above the other Visegrád countries. An interesting comparison can be made between Hungary, which has the lowest composite labour score, and Poland, as both countries have quite weak labour market. See table 18.

Table 18 Bottom-up communication channels on wage-related issues

Form of communication	Czech Republic	Hungary	Poland	Slovakia
Via labour union	46.7 %	28.6 %	77.6 %	47.8 5
Via Works Council	0.0 %	28.6 %	0.0 %	0.0 %
Via foreman or shop-floor chief	30.0 %	5.7 %	23.3 %	30.4 %
Via informal leader	0.0 %	14.3 %	0.0 %	0.0 %
Directly and individually by workers	20.0 %	11.4 %	0.0 %	13.0 %
Other	3.3 %	11.4 %	0.0 %	8.7 %

Source: The Hokkaido Project, 1996.

Table 18 illustrates well that Poland and Hungary represent the two extreme patterns of 'bottom-up' communication channels concerning wage-related issues. In the Polish case, this type of communication channel is controlled mainly by the trade unions, and to smaller extent by the foreman, representing officially recognised institutions. In the Hungarian case, the more polarised communication channels are functioning: besides the divided role of trade unions and Works councils, the individual 'voice' of unofficial leader or individual workers are playing significant role also. The Czech and Slovakian patterns are very similar: union-foreman-direct 'triangular' worker participation is the dominant features without the role of 'unofficial leaders'.

4.4. Consulting Firms and Joint-Ventures as Core Vehicles of Transferring Managerial Skill and Organisation

Before presenting empirical evidence related to the managerial skill and organisational transfer (e.g., the roles of the Western European or local consulting firms, activities of joint-ventures) it is necessary to revise the key dimensions of the learning process in the organisations - presented in the introductory section of the Report. Concerning knowledge - which is the primary product of this learning process - we intend to use the distinctions made by Polányi. (1969). He distinguished between 'explicit' and 'tacit' knowledge. Only the explicit, formulable core knowledge can be transferred neutrally, from person to person without particular loss and social difficulties. But whole explicit knowledge is unthinkable, it is not identical with the verbalised and formulated version of the tacit skill which is belonging to someone (either individual or group). Studying the managerial learning process, we have to be aware of this very complex nature of human knowledge. The success of knowledge transfer does not depend on exclusively on the elaborated character of manuals and other forms of knowledge and skill transfer. As Polányi (1967) stated, „ ... tacit thought forms an indispensable part of all knowledge, than the ideal of eliminating all personal elements of knowledge would in effect, aim at the destruction of all knowledge".

In the practice of firm-level training and skill formation it is worthwhile to make distinctions among the international patterns of technology and knowledge transfer. These methods could be divided into the following three major categories (Kasahara-Makó, 1996:51-52):

1) Where technology exists in an objectively and explicitly stated forms, such as patents, diagrams and manuals, and these are used to transfer the technology;
2) Where machines and equipment are transferred and technology that is part of them transferred;

3) Where technology that is integral to human (or human organisations) is transferred through direct On the Job Training (OJT), by using or dispatching people.

It is said that the Japanese firm's characteristic pattern of developing technology, along with this process of establishing a Japanese style production system, has had a great deal of influence on the fact that Japanese firms rely greatly on technology transfer which centres on the exchange of people and On the Job Training, rather than (or along with) manual based training. Analysing the managerial learning process, we distinguished between not only the explicit (formalised) and tacit forms of human knowledge but also its „technical-professional" and „social-cultural" ones. (See table 1 in the introductory chapter). In the case of managerial skill, the „technical-professional" dimension relates to the various working techniques (methods), the „social-cultural" one represents the social competence of management to 'manipulate' the social relations or 'fabric' within the business organisation. (In addition, these briefly presented dimensions of human knowledge have both individual and collective character, this distinction helps us to understand the psychological and social-cultural elements of the managerial learning process.)

This chapter deals with the problems related to the transfer of managerial skill and organisation from Western Europe into the post-socialist countries of CEE, focusing mainly on Hungary. During this analysis, we try to use the earlier presented distinctions on human knowledge as a kind of background concept. In presenting the „vehicles" of the managerial skill and organisation transfer (e.g., Western consulting firms' activity, joint-ventures etc.), it is worth noting that in the centre of our interest is *management as a labour process*. At the beginning of this Report, we presented a detailed description of the managerial functions as components of the managerial labour process. Without duplicating this presentation, it is necessary to stress again, that the uneven development in the managerial labour process (e.g., governance, administrative, production and innovative functions, etc.) during the state-socialism period within CEE has strong impact (following the logic of 'path dependence') on the present course of the management and organisation development.

4.4.1. Western Consulting Firms as Vehicles of the New Managerial Skill and Organisation

There is a commonly shared view among management scientists concerning the core role of western consulting firms in transferring market-standard knowledge from matured market economies to the post-socialist countries of CEE. (Thompson, 1994). According to the mainstream approach, consulting activity offers services for a variety of clients: business organisations operating in manufacturing or service sector, firms before and after privatisation, newly created organisations etc. To evaluate the activities of western management consulting firm, we have to rely on the available, and very often non-systematic empirical evidences.

It is necessary to mention that in Hungary and in the other countries of the region, the well-known international consulting firms, offering a wide range of services are present without exception (see the 4.1 section) together with local consulting companies. In relation to transferring managerial skill and organisation, it is worth asking why business organisations are hiring western or national (local) consulting firms. Table 19 contains information collected from the very rare nation-wide survey carried out in Hungary on the motifs of selecting consulting firms.

Table 19 Motifs of Hiring Management Consulting Firms (1990-1993)

Topics of consulting	Western Consulting Firms (n=33)	Hungarian Consulting Firms(24)
Internal restructuring	15 %	15 %
Strategy	17 %	13 %
Marketing	5 %	5 %
Finance	5 %	6 %
Privatisation	18 %	19 %
Information technology	8 %	8 %
Taxation	1 %	10 %
Personnel and mgt.training	4 %	3 %
Auditing	8 %	6 %
Evaluation	19 %	17 %
Total	(n=110) 100 %	(n=62) 100 %

Source: Hoványi, G. (194) 'Investigating the Efficiency of Western-European Consulting Firms Working for East-European Companies', *Research Grant from ACE 1992Program.* Pécs: Janus Pannonius University - Faculty of Economics, Department of Industrial Economic Studies, p. 9-10.

Analysing the total number of 172 contracts signed by Hungarian business organisations - which are operating in both manufacturing and service sectors - we may draw the following conclusions: the Western management firms are 'strong' in the following fields: „evaluation", „privatisation", „advise on strategy" and „internal restructuring" Comparing the services given by Western and Hungarian consulting firms, the later ones have better position advising on „taxation". The better position of the national consulting firms could be attributed to the fact that the local consulting experts are better informed and equipped with 'social-cultural' skill to follow the permanently changing taxation rules. Evaluating the 'strong' and 'weak' points of the Western consulting firms in comparison with the local consulting firms, we may say that their competitive advantage is based on the capacity to combine the knowledge of the locally hired staff with the large-pool of their internationally-proven knowledge. Their weakness could be attributed to the often experienced rigidity in solution presentation: „ ... their suggestions are quite schematic: they follow always the same models, not taking into account the conditions of changing environments ... during the phase of fact finding of the consulting process the Western firms did not perceive the consequences of the (former) state regulations - therefore their suggestions have been particularly inadequate. „ (Hoványi, 1994: 19-20)

The brief presentation of the 'strong' versus 'weak' points of the knowledge transfer role of Western consulting firms calls our attention to distinguish between the types of knowledge or solutions advised to implement in the post-socialist business organisations. In the introductory remarks of this chapter, we recommended distinguishing between „technical-professional" and „social-cultural" components of human knowledge. Using this distinction, we may assert that the Western consulting firms had not met particular resistance or difficulties in transferring the „technical-professional" components of their solutions. As a Hungarian consulting expert noticed: „New-comers from the West can be successful consulting firms in Hungary only when solving *clear-cut professional problems (e.g., 'Fully Automated Warehouse System') or when using truly international techniques for international purposes (e.g., 'Making a Balance Sheet According to International Financial Statements').* In other areas only those Western consulting firms which have professionals living in Hungary for longer period and being already well acquainted with legal and economic labyrinth of an economy in transition can be successful." (Hoványi, 1994: 47). In relation with the second part of the remark in quotation, it is necessary to add that not only the 'legal and economic labyrinth of an economy in transition' but the social and cultural 'embedded' nature of the transformational economies present a significant challenge for Western consulting firms operating in the post-socialist countries of CEE.

Concentrating only on the „technical-professional" side of their propositions and not taking into considerations their „social-cultural fabric", would produce failure for Western consulting firms. Evaluation of consulting contracts signed with major Western consulting firms (dominated by US, UK and German companies) four years after the collapse of the state-socialist political-economic regime, suggests that the successful consulting firms were aware of the crucial importance of the „social-cultural" dimension of the managerial learning process. For instance, the majority of contacts were signed by those Western management consulting organisations which have permanent local branch offices in Hungary. See Table 20.

Table 20 No. of Contracts Signed with Western Management Consulting Firms (1990 -1993)

Nationality of Consulting Firms	No. of Contracts	Per cent of Contracts	No. of HBO Contracts (+)
Austrian	8	7	7
Canadian	2	2	1
French	2	2	2
German	19	17	15
British	25	23	19
Irish	1	1	-
Dutch	1	1	-
American (USA)	52	47	44
Total	110	100	88

Note: (+) HBO= Contracts signed with Western consulting firms having Hungarian Branch Office (HBO). Source: Hoványi, 1994: 11.

The earlier-mentioned difficulties of the Western consulting firms operating in Hungary (e.g., lack of local knowledge, weak sensitivity or open-mindedness in several cases to local contexts) is not at all a 'Hungarian-syndrome'. The firm-level surveys carried out in the other countries of CEE have identified similar patterns. For example, in the Czech Republic, the Western consulting firms accepted well are those which employ local experts. (Soulsby-Clark, 1996.) Disposing well-developed local, „social-cultural" knowledge is especially strongly recommended for those Western consulting firms which intend to operate not only in private but also in the public sector. In this sector, the domestic consulting firms, having intimate knowledge of the social-political contexts of the public institutions (e.g., city government-owned facilities) are better placed to implement in a more flexible way the necessary changes.

Summing up the experiences collected on the role of the Western consulting firms in transferring new managerial skill and organisation (e.g., auditing, development strategy, internal restructuring, taxation etc.) we may discover various patterns. For instance, concerning the „technical-professional" elements of the necessary new knowledge and working methods, Western consulting firms had an excellent and proven international 'reservoir' of experiences to elaborate the right 'therapy' and 'diagnosis' for Hungarian clients. This is the case in such fields of activities as auditing, evaluation, development of financial information systems and schemes for management and personnel training. In regards to the „social-cultural" dimension of the transformation process, the majority of Western consulting firms very soon recognised the 'strategic importance' of employing local staff to overcome their (natural) shortcomings in this field. It is not by chance that the most successful international consulting firms, very soon following their introduction into the Hungarian market, established their branch offices, employing mainly local experts. This approach of combining „technical-professional" and „social-cultural" knowledge became a facilitating factor in transferring various elements of the new managerial skill and organisations necessary for business organisations operating in the market environment. However, the assistance and support of the Western or local management consulting firms is temporary and lack the stability and permanent feed-back in the managerial learning process. Now we turn our attention to the role of 'joint-ventures' which symbolise a stable and permanent form of transferring new managerial concepts and organisation.

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4.4.2. Joint-Ventures as Tools of Transferring Managerial Skill and Organisation

There is a shared common view among the management scientists on the following role of the Foreign Direct Investment (FDI): they are 'facilitators' of transferring management skill and organisation from the matured market economies into the emerging, new market economies in the CEE region. (Child-Markóczy, 1993., Soulsby-Clark, 1996). Within the CEE countries - as we have earlier illustrated - Hungary remained the favourite target of FDI, landing approximately USD 13.1 billion by the beginning of 1996. However, the FDI inflows to Hungary appear to be slowing while to other countries in the region are increasing rapidly (e.g., the second most popular country for FDI is the Czech Republic, which received USD 5.6 billions until January 1996. (Frances, 1996:4) Table 21 sums up the latest available data of FDI on the former socialist countries, including Russia.

Table 21 Foreign Direct Investment (FDI) in the former Socialist Countries (in USD mn)

Countries	1994	1995	1996 (March)
Czech Republic	3,077	5,797	5,955
Hungary	7,087	11,919	13,100
Poland	1,521	2,655	.
Slovak Republic	531	728	737
Slovenia	424	600	614
Bulgaria	247	337	397
Romania	552	971	1,006
Croatia	185	265	192
Russia	3,496	5,513	5,900

Source: The Central European Productivity Reporter: Economic Trends, November 1996. P. 3.

In relation with FDI, it is worth mentioning the diversity of privatisation schemes and their effects on the scale of ownership. Compared with other CEE countries, the Hungarian privatisation process has on whole provided the most extensive shifting of ownership of state firms to private sector: „After initially utilising 'spontaneous' privatisation, Hungary has used the so-called 'strategic' privatisation method, whereby the willingness and capacity to invest in the private company is often given as much weight as the actual bid price. This method tends to favour larger, foreign investors as opposed to, for example, Czech coupon privatisation, which tends to concentrate control in the hands of banks and investment funds, often via domestic investors. As such, *post privatised companies in Hungary generally offer a cleaner, more visible contrast to their predecessors than in the Czech Republic, where the picture is more blurry because of slower, more convoluted changes in management structures.* „ (Ellingstad, 1996.b.:41) The pattern of 'strategic privatisation' attracted a significant size of FDI in Hungary and speeded up the managerial learning process in the foreign-owned firms in comparison with the Hungarian owned ones.

In the introduction of this section, we made a distinction between 'technical-professional' and 'social-cultural' dimensions of the human knowledge in general and of the knowledge and organisation transfer in particular. (Instead of this distinction, several scholars suggest distinguishing between 'technical practices' - e.g., techniques, systems and various methods - 'social-practices' - e.g., sets of values, ideas on the nature of managerial or economic behaviour - (Soulsby - Clark, 1996.) In distinguishing between these two important dimensions of managerial knowledge (skill) and organisation transfer, we had the following assumption: *in foreign owned firms (especially in the form of green-field investment sites) the diffusion of the new („leading edge') managerial concepts and methods proceeded faster than at Hungarian-owned firms. The other sub-assumption is that the development of the 'technical-professional' skill is faster than the 'social-cultural' one. However, the latter in the nature of managerial skill has not unfavourable impact - at least not in the short run - on the performance of the firm.*

To test these assumptions we intend to use both the results of case studies made in the joint-ventures at the beginning of 1990's and the experiences of a recent survey carried out in a region (1996) where the concentration of the FDI is extremely high and the industrial growth several times higher than the national rate. In order to present contrasting patterns in the managerial learning process, we compared joint-ventures having foreign owners versus Hungarian majority owners. Beyond this distinction made between foreign versus Hungarian owned privatised firms, it is advisable to distinguish between the so-called 'green-field' sites and 'brown-field' sites. In the second case, both foreign or Hungarian owners have to cope with the institutional legacy of the past (e.g., patterns of skill hiding, old working habits, the presence of trade unions, etc.) In the case of the 'green-field' sites, management has more freedom to shape the present and future pattern of social relations of the firms (e.g., preferring Works Council instead of trade unions, implementing the practice of labour market flexibility instead functional flexibility, etc.) The 'green-field' pattern of investment is a favoured path of the firm's development choosing by such the MNCs as IBM, Ford, Suzuki, TDK, Sony, etc.

Independently from the types of manufacturing sites (e.g., either green-field or brown-field), the core aims of the joint-venture firm's management is to produce as fast as possible world-standard products and services in the post-socialist firms. According to the experiences of the case studies carried out in these firms, the best results of knowledge and organisational transfer could be obtained by the combination of local and international experiences. (When we are using the term 'international knowledge', our intention is to refer the skill of managers who have significant international experiences. Since 1980's, in the publications of management consulting firms, the term of „Euromanager" has often been used to symbolise the owners of this type of knowldege.)

Evaluating the empirical experiences of transferring managerial skill and organisation in the practice of MNCs, we may say that they are the key carriers of the convergence of managerial methods and organisation. „Their cross-border organisation by definition implies transfer of knowledge and methods. In addition, innovation may spread to domestic countries through a demonstration effect. The adaptation of local subsidiaries to corporate standard is fostered by the control structures in place in multinational companies". (Flecker, 1994: 98) Making a distinction between the tools of convergence and divergence in transferring managerial skill and organisation, we may distinguish the following factors:

Factors of convergence:

a) transfer of concepts, patterns of work-organisation, managerial techniques,

b) forms of control, reporting, monitoring systems

Factors of divergence:

a) legacy of values and patterns of behaviours in the managerial working practice,

b) national patterns of employment relations system,

Besides the above-mentioned factors of convergence and divergence, it is necessary to deal with the important but often under-evaluated role of language. Before presenting some empirical experience learned from the case studies, it is worth mentioning that - in opposition to the widely shared opposing belief - the foreign investors are in general aware of the importance of local knowledge and experiences of their operations in the post-socialist countries of CEE. It is not by chance that the managerial roles requiring complex local social-cultural skills are filled by local (native) managers. For instance in the majority of cases, managers responsible for organising production and human resources are filled by local managers. Even in the case of the former GDR, where the institutions and market economy consistent knowledge were implemented in the highest speed and with the support of the largest financial resources to restructure former socialist economy. In this restructuring process, the West German managers took the responsibility of functions such as marketing, sales, etc., but production and personnel-related activities were controlled by the former East German managers. As one French social scientists dealing with the various aspects of the 'unification' process noticed: „Dans les entreprises reprises par des investisseurs occidentaux - á plus de 90 pour cent ouest-allemand - les fonction de direction des ventes, du commerce et du marketing ont été assurées par des personnels venus de l'Ouest. *En revanche, les postes liés á la production et au personnel ont été occupés par des individus de l'Est.*" (Bafoil, 1996: 168.) Changes carried out in the sector of production and its social-organisational relations require more 'social-cultural' experiences and these types of skills in general are underestimated during the re-structuring process of the former socialist economies. (Dittrich-Makó-Novoszáth-Rudolf, 1995.)

4.4.2.1. The Case of the Austro-Hungarian Cold-Rolling Mill: How to Fit New Management Approaches with the Old Ones

The Hungarian owners of the Austro-Hungarian Cold Rolling Mill Co. Ltd. (in hereinafter referred to as 'the A-H Co. Ltd.) which is the largest Hungarian Steel Holding Co., employs more than 10.000 people and located in a 'company town' in Central Hungary comprising a vast, vertically integrated holding structure, parts of which have already been successfully privatised. The results of the partial privatisation has produced a 'recombined' ownership structure of the state and private ownership. Recently, the Holding Co.'s management won the chance from the State Privatisation and Holding Company (ÁPV Rt.) for ownership management, too. This is one of the most important management buyouts (MBO) ever realised in the country. The company's management has to practice the ownership rights in market terms.

The 'A-H Co. Ltd.' represents a joint-venture with an Austrian Steel Company and was established in 1992. The company employs 740 people and produces 10 billion Hungarian Forint turnover. As concerning the ownership structure, 67 per cent are owned by the Hungarian Steel Holding Co. and 33 per cent by the Austrian Steel company.(Füredi, 1994.) Among the first changes initiated by the new management of the 'A-H Co. Ltd.' we have to mention the implementation of the *cost-responsibility system (CRS)* and the *new work-organisation introduced in the maintenance activity.*

Following the establishment of the 'H-A Co. Ltd.', new management was composed of the following structure: Austrians took the functions of director, marketing, sale, storage and controlling, Hungarians became responsible for production, finance and human resource management. Cost-planning and control, especially the form of CRS in the former ('socialist') firm practice was underdeveloped due to the 'soft-budget constraint' of the state, who was the exclusive owner of the steel company, including the 'cold rolling mill'. Both the Austrian and Hungarian managers of the joint-venture were aware of this weakness of managing economic activity. One of the first changes initiated by the new management was the creation of marketing and sales functions, implementation of the *cost responsibility system (CRS)* and the transfer of the new approach in maintenance activity from the Austrian owner's similar plant. There we intend to deal with the difficulties in transferring the new CRS and maintenance work-organisation from the Austrian into the Hungarian practice.

The *logic of the CRS system is to synchronise the production and cash-flow* in the various production cycles in the company. In this system, everybody is to be responsible for its designated cost-place, which includes participation in cost-place calculation, planning and control. The time space for cost-control is one month and the 'controllers' from time to time are checking the relation between the planned and the actual level of costs and register the discrepancies for each product cycle. Owning this knowledge, the 'controllers' are able to suggest to the management the necessary cost-adjustment measures. Using this method of CRS, the management of the joint-venture could avoid the worst surprise at the end of the fiscal year: financial crisis. During the implementation of the CRS, the Austrian chief controller - who was responsible for the smooth operation of this system - confronted numerous difficulties, from terminology to the legacy of the over-centralised and specialised management system of the state-owned ('socialist') company. Surprisingly enough, against the expectation of the

Hungarian managers and professionals, the difficulties of the implementation of CRS techniques were not related to the lack of the 'computerised management information system' (CMIS) or to other problems of infrastructure supporting management. Instead the Austrian chief controller often complained on the terminology problems and the over-centralised and specialised nature of the management and information system where the members of organisation are lacking the global view and the autonomy of action in the organisation. The following scripts from the interviews made with the Austrian chief controller illustrate well the above described difficulties of this new concept of financial management (CRS) within the new joint-venture: „The efficiency of the new CRS does not depend - as several Hungarian colleagues anticipated - on the level of technical infrastructure. But I have *serious problems related to the use of terminology*. For instance, we - Austrians and Hungarians - are using the same notion, but its meaning is different. Therefore if I want to realise the ideal CRS designed by myself, I have to revise it, again and again. The categories used in my previous experiences cannot be used here without modifications. From the mechanical use of categories significant misunderstandings arise. Sometimes, I feel that these misunderstandings are irreconcilable. *Our way of thinking is different* ..."

Looking for sources explaining this 'different way of thinking' between native and foreign staff members, we may discover significant differences in the managerial learning process of the managers concerned. The smooth operation of CRS needs strong and visible individual cost-responsibility consciousness which is supported by the decentralised decision making system (this is the source of the autonomy necessary for taking responsibility) and open information system. In practice, there is an essential gap between the desired individual cost-responsibility and the necessary degree of decentralisation of decision which is the core component of the individual responsibility for the cost formation. Without the necessary decentralisation (delegation) of decisions, the person responsible for cost-saving lacks both the necessary information and the discretion to bear responsibility for his cost-place. This system itself conditions refusal of individual responsibility and re-produces the well known organisational syndrome of the socialist political and economic regime: refusal of individual responsibility and relying on 'collective irresponsibility'. The Austrian manager responsible for 'controlling' made a correct diagnosis on the roots of this attitude of 'responsibility refusal' experienced among the Hungarian employees in relation with CRS: „ ... *avoiding the responsibility for cost-formation conditioned by the existing leadership style ... this is the heritage of the past: the majority of people cannot or do not want to take responsibility, or do not want to work autonomously.* In the past, written instructions dominated and people tried to fulfil tasks prescribed by instructions. This system was very comfortable, but very inefficient ... *Top management concentrates decisions and do not delegate them to the lower hierarchical levels.* Top managers are responsible for everything. For instance, when somebody wants to order the necessary material he or she cannot sign the documents, even those representing very small value. Only top managers can sign it; these are very stupid things. Within these circumstances, people rightly protest and they ask: why am I responsible for this cost accounting? This creates an ambivalent behaviour. From the top management side, they do not want to change the decision making system, and therefore on the bottom-line, employees say: I cannot do anything. There is a proverb here: an employee has such quantity of rights, what he or she secured through fighting." (The Austrian chief controller)

The difficulties in transferring participation based or decentralised management system (e.g., financial control system) are not limited only to Hungarian organisational culture. (Makó - Dittrich - Stojanov, 1996.) Similar patterns of behaviour were identified by the well-known French multinational firms' operations (e.g., Lafarge, Danone, etc.) in other CEE countries. For instance the Lafarge top manager responsible for the 'conversion' of the former East-German and Polish work-force to the requirements of the market economy in its recently purchased plants in these countries was confronted also with the above presented difficulties in introducing new operation management methods and organisation consistent with the requirements of the market economy (e.g., cost efficiency, quality, customer orientation). However, it is interesting to note that the French managers did not confront noticeable problems during the course of training and re-training both East-German and Polish work-force:

the introduction of module-type training did not meet resistance of the rank-and-file employees. *But, on the other hand, significant problems were raised during implementation of the „participative" management.* French top manager commented on difficulties met in the Polish plant, during an interview given to the 'Le Monde': „... la dynamique de management participative que nous appliquons n'est pas facile á faire passer. Le blocage est simple á comprendre; les Polonais étaient habitués jusqu'ici á executer sans critiquer ou meme donner leurs avis ..." (Piot, 1996: 11)

- An important *organisational transfer* was carried out in the production sector of the Austro-Hungarian joint-venture: a *new maintenance concept and work-organisation* were implemented from the Austrian mother company to its Hungarian subsidiary plant. In order to understand the rationality of the new maintenance concept, it is necessary to describe the logic of the old one, which represented a generally used maintenance approach in the industrial practice of the former socialist countries of CEE. The old maintenance concept was called 'Planned Preventive Maintenance' (PPM) and according to its logic, after certain period of time, the parts or spare parts of the equipment were changed following the instruction of the maintenance manual, independently of the technical condition of these parts. This method of equipment maintenance was costly, has produced permanently high work-load (and bargaining power) for the maintenance workers and periodically significant losses for the production personnel because of the work stoppages during significant maintenance. The core logic of the new maintenance concept is that the maintenance section can periodically make equipment diagnostic and let the sub-equipment or spare-parts function until the anticipated serviceable technical limit. Before the introduction of the new concept of maintenance, both Hungarian top and middle managers had a chance to know in operation of the new system using the possibilities to visit the Austrian plant, where the new system was in service. It seemed that the Hungarian managers fully understood and welcomed the new maintenance concept, they were convinced by the advantages, especially in the long-run efficiency of the new concept over the old one. The management did not meet any difficulties related to the 'cognitive' aspect of the planned transfer of new maintenance approach. However, at the lower-level, the 'relabelling' of the existing 'job-title' in relation to the re-organisation of the maintenance work provoked an unexpected resistance both in the group of supervisors and the workers. This resistance could be explained, at first glance, by the differences between the Austrian and Hungarian terminology differences: in the maintenance practice of the Austrian company, instead of supervisor of maintenance, the title of 'Master' of maintenance was used and accepted without troubles in the Austrian context. But in the Hungarian shop-floor society, for both supervisors who are representing the social-professional group of first-line managers and rank-and-file employees, the 'Master' title reflects lower social-status and shrinks the 'space' of organisational career for the blue-collar workers. To overcome the resistance of the Hungarian supervisors against the new-work organisation in the maintenance section, the Hungarian and Austrian managers modified the label of the criticised job title and called them 'area-technicians' instead of 'Master'. The head of the Hungarian maintenance section described the situation in the following way; „In the Hungarian shop-floor culture, the 'master' job has a different social and cultural sense compared with the Austrian factory. There, the 'master' carries out some kind of supervisory (managerial) tasks, too. But in the Hungarian context of the maintenance section, 'master' belongs to the social-occupational category of the highly skilled blue collar workers, without having any officially recognised supervisory obligations and prerogatives. As a result of compromise, instead of the 'master' or 'area-master' the former 'supervisors' became 'area-technicians' ... the invention of the title of 'area-technicians' was the result of common efforts of Austrian and Hungarian managers."

It is necessary to call attention to the fact that the centre of debate was not the terminology or title differences, but the fear of the Hungarian blue-collar workers and supervisors of the shrinking mobility chances in the Hungarian plant. Introduction of the 'Master' title has the following message for the Hungarians concerned: they have no chance to leave the 'social-occupational' category of blue-collar workers, no possibility to became managers - even at lower-level - in the joint-venture. The only remaining chance for the rank-and-file employees is to move up on the scale of qualification and the top of this scale is represented by the Master-category. This explains why middle managers and blue-collar workers created a coalition of interests to support supervisors of the maintenance section to refuse the introduction of the 'Master' title. Summing up, the *key motivation of resistance related not at all to the 'terminology' or 'cultural' differences but to the possibility of the narrowing organisational promotion created by the implementation of the new-work organisation in the maintenance activity of the Hungarian subsidiary.*

4.2.2.Combination of Local and International Experiences: the Case of a MNC Operating in the Electric and Electronic Industrial Sector

A well-known multinational corporation started its activity in Hungary as early as 1970's, having minority ownership in the Hungarian electronic firms. (It is worth to note that this MNC with German headquarters was extremely well-known in the Hungarian market before World War II). As a result of its cumulative development - which was sped up by the collapse of COMECON, the key market for the Hungarian electronic industry. Nowadays the Hungarian subsidiary has recently received full autonomy within the global network of the company.

During the first years of the joint-ventures - in which the German company became the majority owner during the middle of 1990's - one of the most visible difficulties in transferring managerial skill and organisation was language, especially at the beginning. As one Hungarian top manger noticed; *'One of the most essential source of communication disturbance was the language.* At the beginning the management intended to keep German-speaking (native) persons in the managerial positions, but this attempt failed ..." The language related problems are producing headaches not only for the local managers of the 'receiver' country, but also for the 'international' managers who are the subjects of the transfer policy of the MNCs. [2] For example, according to the latest experiences of European manager's transfer, the language difficulties ranked on third position of the problems, following the main concern of children's education and the 'dual-career family'. See in detail table 22:

Table 22 Constraints on Transfer of Managers: Ranking of Problem Factors

Problem factors	1996	1995	1994	1993
Children' education	1	2	2	1
Dual career families	2	1	1	2
Language difficulties	3	3	3	3=
Quality of life	4	4	4	3=

Source: MONKS Partnership: Briefing, Issue Sixteen, August 1996., p. 27.

It seems as though as time passes, the language difficulties and the supporting roles of the international managers are decreasing. In the multinational electronic firm ('E' MNC), in spite of the majority foreign (German) ownership, Hungarian and German managers have well-balanced status. This equal status-based management system reflects well the positive outcome of the 'mutual-learning process' during transferring managerial skill and organisation. The participants of the managerial learning process are well aware of the importance of the knowledge and experiences accumulated both in the Hungarian and the international practices. The following, relatively long passage quoted from the interview conducted with a Hungarian director illustrates well the 'collective' and 'interactive' character of the knowledge creation and use: „ ... we tried to use firstly our own personnel in production because of an important tradition and experiences in assembly-type work in Hungary. When we needed strong professional support, we invited experts from the German mother company. They assisted in various kinds of 'Product and Service Exhibition' organised for our potential customers with the ambition to improve our marketing and sale related skill. In this way, *we tried to combine the knowledge of mother's company experts and our local experiences accumulated with the Hungarian clients.* This approach adopted by the management did help us to overcome the difficulties of starting years of joint-venture. Later, we used the method 'on the job training' (OJT) to overcome our shortcomings in organising and managing people (e.g., team-working, method of parallel working practice) and our colleagues have spent one or two months working in the same field at the mother-company. In this way, our employees tried to pick up as fast as possible the most important elements of the necessary skill. Nowadays, our engineers are working together with the engineers of the mother-company in South Africa, in South Korea etc."

The other extremely interesting method used to speed up the underdeveloped cost sensibility of the Hungarian managers - as we already have mentioned in the case of the A-H Co. Ltd. in the previous section - was the implementation of the so-called *'four-eyes approach'*. According to this working method, the sale-engineer is working in a team with the financial specialist. As derives from its function, the sale-engineer is motivated to increase the turnover of the company, the key interest of the financial-specialist is to control the profitability of the firm. The logic of team-work means that the final decision on the planned transaction could be made only in the case of convergent opinion of sales-engineer and financial-specialist. To avoid any unequal relations in power between the two partners in co-decision, their performance evaluation does not depend on the same boss. Due to the lack of dependent relations, the 'financial-specialist' (in German: 'Kaufman') could represent his cost-efficiency driven position in front of the sales-engineer. Within the organisational context of the 'separated dependence' relations, the sales-engineers and the financial-specialist are working in team and co-operating in making sale' related transactions without particular difficulties.

Summing up the experiences in transferring managerial skill and organisations using the briefly presented cases, we have to call attention at least to two lessons. *Firstly*, the desired changes in the practice of skill use and the organisational-social relations desired postulate a *time-space pre-condition.* It is well-known among the experts of organisation design and changes, that a new and well functioning system needs at least 6-7 year 'learning-process'. Like other kinds of innovations, the new combination of skill and organisation of economic activity involves continuous changes not only in the work-practices but also in the patterns of behaviour of the actors concerned. *Secondly,* the other precondition for the successful transfer of managerial skill and organisation is the *mutual-adaptation (or interactive learning) of the actors having international and local knowledge and practices.* The recognition of importance of the mutual-learning or learning from each other is well reflected in the following remark of a foreign financial controller, after several years of service spent in joint-venture firm in Hungary: „*The foreign manager cannot come here with the ambition to change everything and very fast. In that case he will probably fail. It is not necessary to change everything, because it is almost impossible to transfer exactly the same categories, practices.* It could be that something is working well in the Austrian context, but it does not work in Hungary. He has to know what is possible to change here, and in which cases he or she has to avoid any changes, plus what amount of time is needed for the desired changes. The foreign manager could be successful, if he adapts to the existing local institutions and he is well aware of these circumstances before his assignment into another country. The working conditions are very different here, and within these circumstances he or she can or cannot perform the job assigned.„

After presenting the roles of western consulting firms and the experiences of joint-ventures in transferring market standard managerial skill and organisation from matured market economy into the post-socialist countries of CEE - focusing mainly to the Hungarian experiences - we try to demonstrate the results of the managerial and organisational learning process. Naturally, it is extremely difficult to find any global indicator reflecting the complexity of this performance. In spite of these difficulties, the next chapter tries to evaluate the development of the transformation process using variety of indicators reflecting the efficiency of diffusion of the market institutions (privatisation schemes) and managerial skill and organisation necessitated within the new circumstances in the CEE region. Particular attention will be paid to the relation between owners and managers as well as to the special role of 'green-field' investment in modernising managerial methods and practice.

Notes

[1] The Hokkaido Project was initiated by Professor Rihito Yamamura, Hokkaido University, Slavik Research Centre, in co-operation with Professor Akihiro Ishikawa, Chuo University, Institute for Social Sciences, Tokyo and the survey was conducted in Spring 1996, at the machine industry sector. The sample includes 35 firms in Hungary, 30 firms in Czech Republic and Poland and 24 firms in Slovakia. The firms surveyed have at least 500 employees. In order to create a statistically representative sample, the firms participating in the survey were located at least three or four different economic zones (e.g. 'strong' and 'weak" regions) in each country. The so-called structured interviews were conducted by professional researcher themselves and graduate students from the Budapest University of Economic Sciences, Department of Management and Organisation. The Hungarian research (national) team was co-ordinated by Csaba Makó, scientific advisor at the Centre for Social Conflict Research HAS and professor at the Department of Management and Organisation at the Budapest University of Economic Sciences. Using the same research method, at the spring of 1997, the textile and clothing industry will be surveyed by the Hokkaido Project Team.

[2] In relation with the company policies for assisting the executive and family transfer from one country in Europe to another varies with the type of transfer undertaken. MONKS Partnership Ltd. consulting group classifies moves into the following three categories:

„Short Term Move": This type of transfer is typically for up to one year. The objective may be the transfer of specific skills or experiences to a different location or the development of a new business area.

„Career Move": A career move will often be a period of between two and four years. The transfer will take up a specific role in the host country and become a temporary member of the management team. It is recognised that the move will widen the individual's experience and enhance his or her worth to the organisation. It is also recognised that at the end of the assignment, the transferee will either move on to another country or return to the home base.

„Permanent": The individual is transferred without time limit, apart from retirement. There is normally no automatic right to return to home base. The executive will be considered to be a permanent member of the local work-force or management team.
(in) MONKS Partnership: Briefing, Issue Sixteen, August, 1996. P. 24.

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5. Strategic Privatisation: Speed-up Re-organisation of Economic Activity and Managerial Learning Process

5.1. Privatisation: Creating Real Owners and Managers

Several years have passed since the collapse of the state-socialist political-economic regime, but until now we have rather few firm or meso-level empirical studies on the impact of privatisation and the transformation of the managerial labour process. According to the lessons learned from the previous chapters, the ownership (either state or private) matters not in itself but in the forms of investment in new technology and introducing new managerial concepts and methods (e.g., new HRM techniques, TQM, JIT etc.) Fortunately, recently several studies have been carried out on the changing governance and organisation structure in both post-privatised or newly created private firms in the post-socialist countries. (Child - Markóczy, 1993., Simon - Davies, 1996., Child-Czeglédy, 1996., Adorján-Balaton-Galgóczy-Makó-Ternovszky, 1996., etc.) These interesting studies have no primarily ambition to compare the development of management and organisation at sector level among the CEE countries. The other wave of studies, dominating the scene of social debate in Hungary are dealing with management as a distinctive social-occupational group and its role in the emerging new political-economic elite. In the centre of this interest, among other things, is the degree of autonomy practised by the new owner vis-á-vis the management. One school of thought, most commonly associated with the University of California's Iván Szelényi, holds that firm-internal transformational processes are slowed (or at least not promoted) by top and middle-level managers, who maintain control over the everyday workings of the firm and who still operate, to some degree, according to non-market and often clanistic incentives which previously existed. (Szellényi, 1996.) In response, Cornell's David Stark has found that given the proper conditions, owners, not managers, hold the upper hand and they are indeed willing and capable of intervention to protect their own interest. (Stark, 1996.) In the earlier chapter presented data of the 'Hokkaido Project', carried out at the beginning of 1996 in effect mirror not only this debate but inform us also on the uneven development of the relation between owners and managers as well as of the managerial learning process. (Yamamura-Ishikawa-Makó-Ellingstad, 1996.) First, by examining the relative decision making power of top managers compared to the owners, we see that *owners are more powerful exactly where we expect: the appointment of managing director, capital investment and profit distribution.*

However, in questions of reorganisation, the overwhelming balance of power falls to top management, which is, after all, chosen by owners. The rather large gulf in the reorganisation category does suggest that management enjoys considerable flexibility in pursuing ownership's strategic goals, as expressed through capital investment and the appointment of the managing director.

An interesting contribution to the debate over the efficacy of coupon privatisation can be observed with the results that show the Czech Republic, on average, as having the lowest gulf in influence distribution between top management and ownership. This seems to suggest that the huge investment funds in the Czech Republic (and to a more limited extent, Slovakia) take a more active role in management than has previously been ascribed to them. Poland, having the largest proportion of state-owned firms - in the machine industry firm's sample of Hokkaido Project - predictably shows the largest gap between top managers and owners.

The differences between top and middle management are significantly larger in the Czech Republic and Slovakia than in Hungary and Poland, suggesting that indirectly - through the appointment of top managers - Czech and Slovak owners have more influence over the internal workings of the firm.

The labour component offers some very interesting findings, with numerous consequences both for human resource management and the labour market as a whole. Given Poland's recent history of comparatively higher strike rates (See the section 4.3. evaluating the various patterns of labour relations), it should come as no surprise that

Poland's composite labour score is significantly above the other Visegrád countries. An interesting comparison can be made between Hungary, which has the lowest composite labour score, and Poland, as both countries have quite weak labour market - in comparison with the Czech Republic. Poland's history of strikes and its relatively high score in these measures - at a time of historical labour weakness - might support the conclusion that in the longer-term, when the period of transition passes and labour markets are presumably tighter, patterns of industrial relations will likely be spicier in Poland than elsewhere in the CEE region.

Table 23 Bottom-up Communication Channel on Wage-Related Issues

Channels of communication	Poland	Czech Republic	Slovakia	Hungary
Via Trade Union	77.6 %	46.7 %	47.8 %	28.6 %
Via Works Council[+]	0.0 %	0.0 %	0.0 %	28.6 %
Via foreman or shop-floor chiefs	23.3 %	30.0 %	30.4 %	5.7 %
Via unofficial leaders	0.0 %	0.0 %	0.0 %	14.3 %
Directly or individually by workers	0.0 %	20.0 %	13.0 %	11.4 %
Other	0.0 %	3.3 %	8.7 %	11.4 %

Note: Among the Visegrád countries, only the Hungarian Industrial Relations has the institution of Works Council for the employee participation.
Source: The Hokkaido Project, 1996.

Table 23 shows how Poland reflects its history of trade union activism compared to the more indirect and subtle labour relations system which have arisen in the other Visegrád countries, especially in Hungary. In this country, the examination of the bottom-up communication channel on wage related issues shows the great variety in patterns of communication channels, and the significant role of 'informality' in the social relation of the firm.

5.2. Variety in Forms of Privatisation Facilitates the Diffusion of New Managerial Techniques and Organisations. Green-Field Sites as the Vehicles of the 'Leading-Edge" Methods of Management

The results of the extensive privatisation programs in the CEE region over the past seven years are evident. According to the latest report of the World Bank, the private ownership is dominant both in the share of employment and in GDP in the post-socialist countries of CEE. (Borish-Noel, 1996: 87.)

In examining the results of privatisation at sector-level (e.g., machine industry) we may discover noticeable variety in forms of the ownership. For Hungary, only 14.3 per cent of firms sampled are classified as a state-owned joint-stock company (i.e., the stocks are majority-owned by a state holding company), with no firms being classified as traditional state enterprise. (See Table 24)

Table 24 Types and Legal Form of Enterprise
(Sample of machine industrial firms)

Forms of Ownership	Poland	Czech Republic	Slovakia	Hungary
1.State enterprise	26.7 %	3.3 %	4.2 %	0.0 %
2.Former state enterprise				
a. State-owned joint stock co.	36.7 %	3.3 %	12.5 %	14.3 %
b. Privatised joint stock co.	30.0 %	70.0 %	58.3 %	22.9 %
c. Limited liability co.	6.7 %	3.3 %	0.0 %	20.0 %
3.New private enterprise				
a. Joint stock co.	0.0 %	3.3 %	4.2 %	2.9 %
b. Limited liability co.	0.0 %	3.3. %	0.0 %	0.0 %
4.Joint venture	0.0 %	3.3 %	8.3 %	20.0 %
Other	0.0 %	10.0 %	8.3 %	20.0 %
No answer	0.0 %	0.0 %	4.2 %	0.0 %

Source: The Hokkaido Project, 1996.

A rather small percentage - 2.9 % in the case of Hungary - of firms are newly created 'green-field' sites. Green-field sites, which have attracted increasing attention as the CEE countries become an increasingly attractive location for exporting into the EU, are likely underrepresented precisely because they are new. (Note: in the latter part of this chapter we shall present a table on the diffusion of 'leading-edge' management methods from a region, where 'green-field' sites have higher concentration rate than national.)

In relation to the privatisation process it is worth mentioning the variety of approaches adopted by the former socialist countries. As Ellingstad (1996.b.:48) noticed; „After initially utilising „spontaneous" privatisation, Hungary has used the so-called „strategic" privatisation method, whereby the willingness and capacity to invest in the privatised company is often given as much weight as the actual bid price. This approach tend to favour larger (mainly foreign) investors as opposed, for example, Czech coupon privatisation, which concentrates control in the hands of banks and investment funds often via domestic investors. As such post-privatised companies in Hungary generally offer a more visible contrast to their predecessors than for instance in the Czech Republic, where the picture is more blurry because of slower, more convulated changes in management structure."

It is not surprising, therefore, that Kornai in his recent (1996) analysis of the economic restructuring process in the CEE countries and Russia explains the impressive labour productivity development in Hungary - among other factors (i.e., severe budget constraints, no more 'unemployment' within factory gate) - by the impact of privatisation schemes which did create 'real owners' pushing managers to initiate and carry out deep restructuring in their firms and are creating strong profit motivation within management. See Table 25 for figures regarding labour productivity development.

Table 25 Labour Productivity in the Visegrád countries

Country	Average Labour Productivity (Real GDP/employment; 1989=1)					
	1989	1990	1991	1992	1993	1994
Poland	1.00	0.92	0.91	0.98	1.00	1.07
Czech Republic.	1.00	0.97	0.88	0.89	0.88	0.91
Slovakia	1.00	0.98	0.95	0.93	0.92	0.96
Hungary	1.00	0.98	0.92	1.05	1.11	1.16

Source: Kornai, J. (1996) 'Kiigazitás recesszió nélkül' (Correction without Recession), *Közgazdasági Szemle, (Economic Review),* XLIII.évf. Julius-Augusztus, p. 609.

In explaining the better productivity figures in Hungary, it is necessary to emphasise the 'core' roles of the 'green-field' sites of multinational corporations facilitated by the large foreign direct investments. These new manufacturing sites speed-up the introduction of both new technologies and 'leading-edge' managerial methods and practices. Such well-known high-precision manufacturing firms as GM, Audi, Ford, IBM, Matsushita, Philips, Samsung, etc., were attracted to Hungary - and also in the other Visegrád countries - not merely by the low-wages but by the combination of low-wage rate and a relatively highly skilled work-force together with the relatively developed infrastructure. In the globalised manufacturing environment today, quality, productivity and market opportunities are at least as important as low-wages. However, it is necessary to stress the strong role of wage competition among the former socialist-countries. For example, in the special number of the 'Economist' dealing with the tendency of 1997's, we could read about the signs that western companies already have discovered that the Ukrainian labour at a cost of USD 40 a month irresistibly attractive compared with Czech at USD 400 - in comparison with German at USD 4,000 a month. (Lacas, 1996:42)

In the weak labour market context in Hungary, MNCs or foreign owned firms in general pay 20 - 30 % above average wages to the blue-collar workers to keep skilled employees. In the case of professionals and managers the gap between the Hungarian wages and Western European is much more moderate.

To get a deeper insight into the managerial and organisational learning process which is the combination of spaces for transferring managerial skill and organisation from Western Europe into the post-socialist countries of CEE, it is necessary to focus again our attention on the sector or firm-level changes. Within the framework of the often quoted 'Hokkaido Project', the top managers (chief executives) of the post-privatised firms operating in machine industry, were asked to rank measures aimed at improving the economic position of the company. The list of measures (20 factors) was divided into the following two categories:

a) *'Firm internal transformation'* indicator (e.g. accelerating privatisation, reduction of personnel, replacement of top-managers, separation of section from the mother company, setting-up profit centre from branches or sections, merger with other companies, diversification of business, reorganisation of production process, improvement of financial management, establishment of joint-ventures.)

b) *'Firm external drive'* indicator (e.g. reinforcement of marketing activities, change customers, change of suppliers, reinforcement of non-productive activities, dropping non-profitable products, R & D for new products, increasing exports, becoming sub-contractor of foreign partner)

Table 26 Measures taken for Survival and Development of the Firm

Indicator	Hungary	Czech Republic	Poland	Slovakia
a) 'Firm internal transformation'	36.7 %	56.9 %	63.3 %	56.0 %
b) 'Firm external drive'	43.3 %	43.3 %	36.9 %	41.9 %

Source: The Hokkaido Project, 1996.

The data presented in the Table 26 show that the Hungary scores much lower in 'internal transformation measure' (36.7 per cent in Hungary compared to 63.3 per cent in Poland, 56.9 per cent in the Czech Republic and 56 per cent in Slovakia). This may be - at least - the result of the combined effects of the below listed factors:

■ Hungarian firms in the machine industry are slightly ahead of other Visegrád countries' firms in transforming their companies, because the important re-organisation of management and organisation already have started as early as 1970's and accelerated from the 1980's. The evolutionary type of changes (or organisational mutation) produced an institutional context where the „ ... boundaries between state and private property were being eroded in even the most advanced sectors of Hungarian manufacturing ... in the 1970's and 1980's industrial manufacturers operating in cities or industrialised regions, for example, typically externalised the simpler processes to remote villages.' (Grabher, 1995:48-49.)

■ Strategic privatisation did create autonomous and 'real owners' and 'real managers' and between them visible decisional power: owners have the power to decide on key issues of ownership use (e.g., appointment of directors, significant investment and dividing profit) and managers as a social-professional group decide on various issues of the firms' operation (e.g., reorganisation, wage system, working conditions, hiring-firing personnel, etc.) These distinctive and clear roles between owners and mangers played a strong force in firm's restructuring and profit motivation of the Hungarian managers. (Kornai, 1996.)

■ The internal transformation process in the Hungarian firms was accelerated by the break-up of the COMECOM, the former socialist trading bloc. Hungary has not large internal market of Poland nor the long history of the export oriented machine industry, like the Czech Republic. (e.g., the famous Czech machine industry firm, Skoda has more than 40 joint-ventures and is active in the field of foreign investment, too.) (Kevin, 1996.) To illustrate the significant size of the Polish market, it is enough to mention that the GM low-cost family car, Opel Astra will be sold mainly (60 - 70 per cent) in Poland manufactured in the future GM plan in this country. But in the case of the 'Opel Hungary Co. Ltd.' only tiny minority of this model is sold in the country, but the Hungarian Opel will manufacture more then 400,000 car engines a year, and every fifth Opel equipped by Hungarian-made engine.

Summing up, the Hungarian machine industry firms are in a slightly better position than other Visegrad countries in transforming their enterprises, because of their wider opportunities to learn in the former socialist past and also better because of the clearer possibilities to acquire new managerial methods and skill. The first result of an international research project (REGIS) - initiated by the EU - on the regional innovation system (Makó-Ellingstad-Kuczi, 1997, forthcoming) carried out in a region where the concentration of foreign owned firms extremely high, illustrates the 'engine' role of 'foreign-owned' firms (especially green-field sites) in diffusing new managerial concepts and practices. Their visible and significant activity in Hungary (see Chapters 3 and 4) is important not only from the point of view of their economic performance (e.g., their share in export and GDP production) but also as they enlarge the 'pool' of the available 'state of the art' managerial skill and organisation.

The REGIS Project survey was carried out in the autumn of 1996 in one of the most economically dynamic regions of Hungary, with managers surveyed given a list of organisational tools from 'leading-edge' concepts in management and asked which their company had introduced. There were some rather dramatic divergences between foreign-owned and Hungarian firms, but before we examine these, a short rhetorical detour is needed. When interpreting responses to questions such as „*Have you introduced TQM, JIT, IT, benchmarking, etc.?*", we must also consider that unfamiliarity with the terminology does not necessary imply unfamiliarity with the functionality of the idea. At the core of some of these more fashionable concepts bandied about by the business press and western management consultants are to be found, very often, some very elementary ideas which one does not need to read the Harvard Business Revue to be familiar with. A Hungarian manager might reply „no, we haven't instituted an IT system yet", while sitting at a desk with an integrated, networked computer.

TQM, for example, prescribes a set of procedures and a corporate mentality designed to make quality a given at every stage in the production and distribution process. (On the growing literature of TQM consult Logothetis, 1992.) While helpful in focusing attention on quality, it would be folly to suggest that a formalised TQM system is a prerequisite for higher quality. Group work found favour in the western business community after successful patterns were observed in Japan and Sweden, but it is a little known fact, for example, that formalised group work initiatives (with their own cost accounting structures, creating in effect, firm-internal profit centres) were institutionalised in Hungary as early as the mid-1970s (the so-called VGMK).(Stark, 1985, Makó-Simonyi, 1992.) Furthermore, the „faddish" and occasionally temporary nature of some of the above-listed organisational tools or managerial concepts cause us to wonder if their implementation or lack thereof is indeed a proper measure of managerial finesse. A study cited by the Financial Times comes to mind which revealed that British firms which had adopted JIT inventory control procedures had twice the rate of bankruptcy as „traditional" firms.

This said, the responses given to such questions can indeed be used as a useful tool in interpreting managerial priorities, as well as the dominant models (and sources of inspiration), present at firms in the region surveyed. Looking at the responses to all questions, foreign-owned companies returned average scores of 45.8 per cent compared to 24.1 per cent for Hungarian firms. Particularly large differences are visible under TQM, Profit Centres, Benchmarking (ironic, as Hungarian and other CEE firms in the period of socialism generally worked under norms for decades), Flat hierarchies, Outsourcing, ISO, JIT, and IT. (See Table 27.)

Table 27 Question: Has Your Company Introduced the Following?

Have your introduced?	Hungarian owned firm	Foreign owned firm
Total quality management	18.4 %	37.5 %
Group work	55.1 %	66.7 %
Profit or cost centres	44.9 %	62.5 %
Inter-organisational networking	34.7 %	37.5 %
Benchmarking	4.1 %	37.5 %
Flat hierarchies	22.4 %	50.0 %
Interdisciplinary design teams	18.4 %	33.3 %
Just in time delivery	10.2 %	41.7 %
Outsourcing	8.2 %	29.2 %
System suppliers	10.2 %	20.8 %
ISO 9000	34.7 %	62.5 %
Information technology	28.6 %	70.8 %

Source: Makó-Ellingstad-Kuczi (1997) 'REGIS: Székesfehérvár Survey Results and Interpretation', January, p. 12. (Manuscript)

Finally, the importance of uneven development in the managerial labour process in creating managerial skill and even 'habitus' (in the sense used by Bourdieu) is often under-evaluated and the role of the cultural differences is overrated, especially regarding the post-socialist countries. Evaluating the development of new managerial methods and practices we question the explanatory value of the 'cultural variable' in explaining conflicts during the transfer of managerial skill and organisation between the local and foreign managers. The cases of joint-ventures presented in this report underline the 'colouring effect' of the national (or even corporate) cultures in comparison to the role of the managerial labour process. Our experiences learned in evaluating the impacts of various 'vehicles' of managerial skill and organisation transfer (.e.g., western management consulting firms, joint ventures, various empirical surveys on re-structuring organisation and ownership, etc.) question the validity of overrating the role of culture. In this regard, we fully agree with the following statement; „ ... managers in the area of strategic interest share goals and beliefs about what makes their business success more coherently and distinctively than any other group within the organisation. People within the area of strategic interest but of different nationalities are more likely to share beliefs with each other than people of the same nationality but not in the area of strategic interest." (Markóczy, 1996:10.)

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Conclusions

Evaluating a variety of experiences in relation with transferring management skill and organisation, it is worth signaling some lessons drawn from the past and present development of business organisations in Central Eastern Europe(CEE), and especially in Hungary. Our analysis is focused on the managerial labour process and such key related issues as changing or stable elements of the managerial skills and organisation in the socio-economic transformation process of post-socialist countries. The core motif in selecting for study these dimensions of the managerial labour process was the relative lack of interest in understanding the role of such key actors in the every-day life of institution building in transformation economies.)

In this effort, we tried to avoid both the 'demoniac' and 'apologetic' treatment of managers - which is often present in the sociological approaches - dealing with the role of the new (or renewed) business elite in new power structures. Our ambition was understand and evaluate the everyday social and organisational practice of the firm - as a key societal institution - both in the socialist and post-socialist political and economic regimes. In examining the various components of the managerial labour process, we refused to use the clear-cut images of both the former socialist past and post-socialist present. The 'rationalised myth' approach hide the very complex nature of the institutional arrangements and does not help us to understand the sources of diversity in the institutional (and economic) development in the emerging market economies in the CEE countries.

One of the most important insights learned from more than a half decade experiences of this enormous transformational process is the very necessity to use the *evolutionary interpretation of the socio-economic changes in opposition to the so-called 'big-bang' or 'instant-capitalism' view.* The emphasis on transformation, like its twin concept of 'path-dependence', relies heavily on past events in gauging the development of decision making process, patterns of behaviours etc. In this view, history matters. The path-dependent emergence of new forms of capitalism call our attention to the strong, future shaping influence of the former socialist practice in organising economic activities.

It is necessary to stress that in practice the socialist past did represent more than an amalgamation of different forms of regulation of economic activities than a single bureaucratic form of regulation. In spite of the fact that the countries belonging to the former world of existing socialism did share well-known core institutions (e.g. dominance of state ownership, ideological and political monopolies, central planning, etc.), it would be misleading to overestimate the level of institutional coherence in the post-socialist countries of the CEE region. The erosion of the 'soviet-type' model of organising economic activity demonstrates well the diversity or combination of regulatory societal mechanisms in governing both individual and collective actions of various actors, as well as the weakness of the core socialist institutions. Using the distinction between 'systematic adjustment' and 'radical reforms' launched in Hungary as early as 1970's, the autonomy of social actors, including the company managers had increased markedly. These cumulative changes created a 'hybrid-type' of system in regulating economic activities both at local (e.g. business organisations) and national level. Chapter 1 deals with the process of 'hybridisation' of regulatory mechanisms of economic activity with planned economies. For example, the „internal subcontracting groups" (VGMKs) introduced in the state companies could be qualified as one of the most interesting organisational and managerial innovations within the history of socialist economic policy.

The other general observation made on the transformation of the managerial labour process could be summarise thus: in the post-socialist countries of the CEE region, we may identify certain *pattern of uneven development in creating knowledge and organisations (and thereby institutions) of the emerging market economies.* This variety of development can not be understand without evaluating the pre-history of the present transformational process. Our findings on the differing rates of organisational restructuring and the related transfer of managerial skill in the post-socialist privatised firms question the validity of those views which treat the legacy of the socialist past as something which equivalent with institutional deficiency (pathological syndrome) of economic development. Evaluating systematically the impacts of the „radical reform" initiated by social actors within the planned economy of Hungary, it is possible to identify such changes in the nature of managerial work and knowledge, which speeded up the adaptation of these actors to the new requirements of the developing market economy. Chapter 3 focuses on the pre-privatisation modernisation of enterprise structure (.e.g. the pioneer firms' experiments with matrix-organisation, group activities, profit-centres etc.) and growing autonomy of management within the state owned firms (e.g. implementation of the Enterprise Councils, etc.) have increased the importance of the managerial labour process within the firm.

Finally, we may identify the visible pattern of *uneven development in the post-socialist firms and management, too.* In regards to this uneven development, it is worth listing the following lessons drawn from the problems relating to managerial and organisational skill transfer:

1: Privatisation is an extremely important process in creating 'real' owners and managers in comparison with state socialism, where the state ownership was abstract and unable to produce a strong profit-orientation amongst managers and workers. Evaluating the impact of privatisation on the management and organisational restructuring in Chapter 3, we have to note that it is not privatisation per se that is important, but also *the 'filters' through which privatisation is experienced by the social actors* (owners, managers and workers, as well as their interest representative organisations). Among the institutional 'filters', Chapter 4 describes the role of the facilitators (e.g. co-operative patterns in firm level Labour Relations in Hungary) in introducing new managerial concepts and organisations.

2: Evaluating the impacts of such tools of managerial skill and organisational transfer - such as Western-management consulting firms, different types of international joint ventures etc. - it is necessary to call attention to *the risk of the mechanical and 'under-socialised' use of the notion of „transfer"*. To understand the learning of new values and new patterns of behaviour for both local and foreign managers and employees, it is necessary to treat managerial learning not only as a continuing process, but also as a multi-dimensional phenomena. Distinction can be made between „technical-professional", explicit forms versus „social-cultural" and tacit forms. Using this distinction in analysing the roles of vehicles (e.g. joint-ventures, consulting firms, FDI, etc.) in transferring managerial skills, we may signal the risks involved in using the concept of „transfer" without mentioning its social-cultural contexts.

According to the empirical experiences presented in Chapters 4 and 5, it is clear that even in the case of learning „technical-professional" elements of new managerial skills, the mechanic use of transfer is not only misleading, but also hides the structural and subjective elements of the managerial learning process. Due to its social-cultural embeddedness, even the technical-professional ingredients of managerial skill could be acquired via manual learning and the careful re-balancing of social relations in business relations. For instance, the examples on how to fit the new managerial concepts with the impact of the organisational legacy of the past illustrate well the importance of embeddedness, which refers to the fact that all social action and outcomes (like economic actions and outcomes) are affected by actors' dyadic relations and by the structure of overall network relations. (Grabher, 1993, Kuczi-Makó, 1997.)

3. Concerning the tempo of the transformation process itself, we have to repeat again the very uneven development of managerial skill and organisation, and their impacts on the outcomes of the transformation. Outside the undeniable dependence on past events (path-dependence) it is necessary to call attention the new model-creator roles of such actors as foreign-owned firms, especially the norm-setting role of greenfield investments of multinational companies. According to our experiences,

greenfield sites function as accelerators of the diffusion of new managerial concepts and practices. It is empirically tested in the Hungarian case (see Chapter 5 for details) that in the foreign-owned firms, leading-edge concepts of management (e.g. TQM, benchmarking, JIT, flat organisation, outsourcing, IT, etc.) were adopted at a much higher rate than in Hungarian-owned firms. The uneven development of managerial skills could be identified not only within one country (e.g. Hungary), but also among other CEE countries. The variations in development trajectories are also reflected in economic performances (e.g., labour productivity).

Finally, from the point of view of future research on roles of such key actors in the transformation process, it is necessary to raise some methodological shortcomings in the present state of knowledge. *Firstly*, there are relatively few comparative studies using commonly developed research design and the set of research instruments to guarantee the comparability of the date collected. *Secondly,* even within the ideal circumstances of commonly elaborated research design and the standard use of research instruments, it is necessary to rely on the professional help of local experts in interpreting not only the data, but also the concepts and categories used in the international comparative projects (e.g., some expressions or notion often have different meanings and stimuli in different countries). *Thirdly,* in analysing the trends and trajectories of development in the post-socialist countries, the future projects have to focus on specific sectoral or regional level transformational process to reveal the extremely complex nature of the socio-economic changes(Peng-Heath, 1996). The aggregated data often hide even the variety of forms of the privatisation process and the organisational changes, while the aggregated indicator of privatisation - measured in employment share and GDP created by the private sector - are currently quite similar among the CEE countries, but the sectoral level surveys revealed noticeable differences both in the forms and outcomes of privatisation and organisational restructuring of the business organisations.

Summing up the core lessons of our study on transferring managerial skill and organisation, we may certainly assert that in the „mutant" corporate structure developing in the CEE countries - different from the share-based capitalism in the US and UK and the bank-based capitalism of western Europe - our systematic knowledge on the changing labour process of such key actors as managers is still very limited. For the future research, it would be advisable to initiate more sector-focused comparative projects to understand the interaction between managerial roles, and the contextual institutions on the country concerned.

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The Phare ACE Programme
Action for Cooperation in the field of Economics

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Brussels, 17 June 1997

Dear Mr Mako,

I am pleased to be able to inform you that the final report of your fellowship (P95-2625-F) was approved by the European Commission.

The report has been evaluated by a panel of external referees, who graded it excellent. They noted that the background analysis was well done, comprising a very well structured and thorough review of the literature, which had been compiled on a normative basis. They observed that the empirical component was lacking because of limited access to survey data for Central and East European countries. The referees also found that there had been intensive co-operation both with the host institution and with academics from outside the University of Glasgow. The policy relevance of the project was high, and serious efforts had been made to disseminate the work. Overall they considered that the project represented very good value for money. The Commission services would like to congratulate you on achieving this high standard.

The second instalment of your fellowship grant, 30% of the total budget awarded, will be transferred to your bank account as soon as possible.

Yours sincerely,

Barbara Hondius

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