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Corporate Governance and Industrial Relations in Poland¹

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The paper discusses Polish privatisation from the industrial relations point of view. It focuses on the role of trade unions and workers councils in the privatisation process. Two polar privatisation blueprints are identified: those aiming at competitive ‘atomistic’ firms and those, which accentuate corporate financial-industrial structures and networks.

The internal structure of corporate control in Polish companies is evaluated from this perspective, taking into account the role of organised labour, of the managers and of the politicians in the privatisation process.

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Introduction

The Industrial relations of countries that have been transforming their economies in the 1990s have not been a major subject of interest. Researchers have focused on the direct results of privatisation and firm restructuring rather than on internal relations in the firms and their nation-wide underpinnings in terms of “capital - labour” relations. The interest in industrial relations, if any, was rather detached from the question of firm restructuring, and somewhat channelled by a notion of “tripartite” commission. Corporate governance, in its broad definition, re-opens conceptual capacity to include the sphere of industrial relations in the context of privatisation and firm restructuring, and studies its impact on institutional change toward a transparent governance structure.

In the case of Polish transformation “capital - labour” relations have actually played a significant role in the institutional change related to firm restructuring, especially in its first and decisive period. The specific role of institutionally organised labour in Poland resulted from legal regulations, which were introduced ten years earlier, at the time of the “Solidarity” social movement in 1980-1981. Unlike in other countries, they were deeply embedded socially in the 1980s, and then competed with a neo-liberal vision of privatisation in 1990s.

The main thesis of this paper is that, in the case of Poland, the organised and institutionally granted involvement of labour representation in the process of privatisation has improved the general outcome. It did so by increasing competition for corporate control from the very beginning of the process, at a stage when neither financial market (which hardly existed) nor banking system (strongly distorted) could fulfil such a role.

The thesis on the positive role of labour involvement in corporate governance does not go hand in hand with a claim on ‘insider threats’ in the post-communist environment. However we cannot deny it in particular cases at the micro level. In Poland there were both positive and negative cases of strong worker involvement in privatisation and in the governance structure. More importantly, the impact of organised labour did not necessarily end up with direct workers’ participation in new governance structure. Rather it opened new channels for managerial careers and created additional, institutionally granted, control over privatisation deals. Thus, the old and new managers faced more constraints to their potential temptations for tunnelling and unlawful conduct (on this, see also Mickiewicz and Baltowski, 2003). Social control encouraged disclosure of information, as well as a more open and competitive environment in the competition for managerial positions. As a result, the previously existing managerial networks became the subjects of intensive reshaping alongside the privatisation process.

The active role of labour in firm restructuring comes directly from the previously established institutional settings of state owned enterprise, which were confirmed by the first non-communist government, and largely exercised in majority of SOE (needs explanation). In the Polish case this kind of exercise has played a significant and generally positive role. One might have expected a model similar to the German model of corporate governance as the result of such a relatively mature labour involvement in privatisation, at least as far as worker representation is concerned in this model. However, surprisingly, together with the ongoing privatisation and changing governance structure, the role of organised labour steadily vanished. The opening of channels for individual careers have effectively drained the

institutions which represented labour, making them weaker.

1. Pre-existing industrial relations and its impact on governance

The Institutional settings which existed prior to the large privatisation programmes were not uniform throughout the economy, and not all enterprises were equally exposed to organised labour control. This provoked a segmentation of the privatisation process and its consequences. Nevertheless, majority of enterprises in manufacturing were the subject of law from the 'Solidarity' period in 1980-81.

The Legal foundation of SOE from 1981 and completed in early 1990 has established a new type of actor, who has then contributed to the privatisation process. These were the workers' councils (or employee councils) from the state owned enterprises, which not only modified actual corporate governance at micro level in a significant portion of privatised economy, but also affected the lawmaking on privatisation at the national level. One should not be confused by a substantially different phenomenon in other countries of the region, from Hungary to Soviet Union and then post-Soviet states. Equally misleading would be reference to works' councils in German system. Neither manipulated councils in the rest of the eastern block, nor co-determination pattern, mirror the workers' councils in SOEs in the Polish economy of 1980s and 1990s.

The recent history of councils demonstrate their strong roots in a genuine social movement which tried to compromise between labour and managerial perspectives on industrial enterprise, expressed in the idea of employees' self-management. Established in 1980-1981 and legally acknowledged in 1981, the councils quickly mushroomed among manufacturing enterprises (Lewandowski & Szomburg, 1985). Marshal law of December 1981 dramatically stopped their activity, and than reactivated it in a radically weakened position. Yet, it was unable to change basic laws, which provided councils formally with very extensive rights of co-management, at an equal position with managing director in all strategic decisions. Every two years in almost all manufacturing enterprises the workers voted for their councils, with an average turnout of 70% of all employees (Osiatynski, Panków, Federowicz, 1985). Despite restrictions, a number of workers' councils in important state owned enterprises remained active throughout the 1980's (Jakubowicz, 1989), protecting their legal status within the framework of enterprise co-management, and being engaged in some managerial decisions. They manifested their independence from external pressure in various ways, including for example the court trials against the unlawful decisions of ministers. They also contributed to public (or rather quasi-public) debates on economic reforms. In 1986, when the government attempted to re-centralise its control over economy, the active councils were strongly opposed and as a consequence none of eleven bills prepared by the government passed (Federowicz, 1992).

Soon after the failed attempt of re-centralisation in 1987, the Communist authorities decided to re-establish the pre-war Commercial Code, and more open discussion on property rights began. The councils, with their rapidly growing activity in the public sphere, immediately showed themselves to be a vigorous and well organised actor in the new debate, establishing a Self-Management Forum as an informal institution straightening the inter enterprise links and debate. When political change came in 1989, it resulted in a positive

attitude in the councils towards participation at both levels of their activity, national wide and within enterprises. The later was to affect a large number of privatisation projects in the coming years, which will be discussed in the next section. The former, together with self-management activists elected to the Parliament in June 1989, created a strong lobbying at the time of preparation for the first privatisation bill, passed in July 1990.

The legal framework of governance structure of former state owned enterprise (1881) was completed by an amendment in early 1990. It made clear that it is the workers' council's duty to appoint and dismiss the director, respecting formal procedure of open competition for managerial position, and with passive acceptance of the ministry. The amendment passed at the same time as neo-liberal reformers in the new government tried to reduce or liquidate the impact of councils (Federowicz & Levitas, 1995).

In the CEE countries, a regular practice of governments together with the IMF advisors in the early 1990's was to commercialise the SOEs as the initial step towards privatisation. More precisely speaking, there was a 'corporatisation' which led to the removal of an entity from the law on state owned enterprise and putting it in the framework of Commercial Code as a JSC or LLC with 100% of shares in the state hands. In Hungary or Czechoslovakia a general 'corporatisation' of SOEs took place almost overnight. In Poland, however, the vigorous workers' councils blocked such a move, because it would have led to the cessation of their existence. However they did accept privatisation in general, which also liquidated them, but did not accept 'commercialisation'. In such a way they were able to keep control over privatisation projects, as the law granted them the right to approval on any substantial change in organisation and the property shift of 'their' state owned enterprise. Although councils were not generally promoted by "Solidarity" at the national level, they received much support from "Solidarity" within enterprises, as well as legal assistance at Solidarity regional offices.

One of hot issues of privatisation was the question of mushrooming quasi-private satellites around SOEs. In the Polish case it began some two years before the political turn around. Since 1989, particularly in the period of 1990-1993, both the councils and trade unions have reacted to quasi-privatisation. There is no pattern of their reaction, but in general, it reduced the scope of those so-called 'nomenclatura privatisation', and to some extent modified pre-existing networks.

In the Polish move towards clarified corporate governance, workers' councils (or employees' councils) played a significant role, especially in the period of 1989-1993, and thus they contributed to a kind of segmentation of corporate governance. Having played this role, they steadily vanished in course of privatisation, being neither powerful enough, nor interested in finding a new place in the growing private sector. Even the regulation on 1/3 participation in the Supervisory Councils in Companies by employees, which was easily introduced to the Commercial Code in Hungary and Czechoslovakia, in Poland has never been seriously considered. Only after 'corporatisation' of SOE, when the state remains the owner, the Supervisory Council is mandatory composed with 1/3 of representatives elected by employees. If the share of the state goes below 50%, this regulation does not apply.

Paradoxically, the initial strong position of workers' councils prevented them from establishing a new form of institutional representation in the private sector. This paradox may be explained by managerial nature of the mission behind the workers' councils and their

activists that dominated since 1980. Since their beginnings under the communist regime the councils tried to diminish the impact of communist party on individual enterprises and the economy in general. They typically called for more reasonable management and quite often supported managers against external authorities. The role of councils was enhanced even further, when the Communist party was removed from government in mid 1989 and lost any capacity to intervene in enterprise management. Subsequently, the councils actively contributed to privatisation. They sometimes blocked it, sometimes pushed to it, and often just helped to smooth privatisation. But majority of councils did not see the necessity of continued existence of the firm after privatisation. There was also another factor that contributed to final demise of councils. Commercial Code from 1934 did not allow any worker representation in the company's authorities. Yet, a widely spread consensus among reformers of all political wings supported the Code as an untouchable 'founding stone', even before the privatisation process reached a critical point. Any substantial modification could have provoked a massive pressure on lawmakers for endless amendments to the Code, which would eventually deconstruct its internal coherence. Nothing like that happened, and the Code remained the same for the whole decade of transformation.

2. Privatisation and segmentation of corporate governance

From the very beginning there was controversy relating to privatisation. On the one hand there was consensus among both reformers and society that privatisation was inevitable. Public opinion polls have shown the rapidly growing general support for an ownership change in the economy. On the other hand, concrete scenarios of privatisation and real dilemmas related to methods were continuously provoked strong disagreements. Experts' opinions often contradicted themselves. Even after a few years of the on-going process the evaluation, its result was far from being unanimous. Privatisation itself might not bring as much as expected, and there were parallel substantial changes in the state sector (Dabrowski, Federowicz, Levitas, 1993; Pinto, Belka, Krajewski, 1995). On the other hand, privatisation first of all contributed to a substantial change of the business environment. It is an open question whether privatisation or marketisation was a major factor of change (Chavance, 1997; Cavance & E. Magnin, 1997), and the general outcome in relatively successful transformation economies shows a kind of synergy of the two, rather than pointing to just one factor. A precise empirical investigation of the real outcome of privatisation in an econometric sense has been practically impossible as too many factors affected the changes in both privatised and state sector the changes were too quick, and the economic actors faced too much uncertainty.

The most important outcome of privatisation is not necessarily visible as a direct output measurable in econometric terms. It is first of all a change of corporate governance. But further to this statement, a new corporate governance does not necessarily result from "finding a well defined owner", as was strongly believed in the initial period. Corporate governance, aiming at a sound decision-making, joins various institutions that affect corporate performance. It is a sensitive nexus linking the perspective of micro-rationality of individual actors with institutional environment that determines capital flows, industrial relations, and involvement of the state. Thus, the relations between owners and managers, specified in Commercial Code constitute only one fragment of actual governance structure.

When interpreting privatisation, as a substantial change of corporate governance, and comparing the privatised and the state owned enterprise, it becomes clear that removing an enterprise from the legal regulations on SOE and putting it under Commercial Code is not enough to achieve a real change of governance. Surprisingly, often it is not enough even if the share of the state in a new company drops below 50%, or even below 25%. The result depends on the owners and managers, and their constellation among other actors who may affect capital flows. An apt definition of corporate governance showing the agency problem from the perspective of investors says that: "Corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment" (Shleifer & Vishny, 1998: 737). But it may also be interpreted from the managerial perspective. If the manager is really interested in development of the company, he/she has to attract external capital. In case the new owner does not have enough financial capital for the development, both the owner and manager have to look for other sources. Usually these are in the banking system and in a more or less hidden state contribution. More than that, these resources come from somewhat privileged relations to public funds and (state controlled) banks, rather than their formalised role as investors. But if so, the real governance structure goes beyond formal relations defined by Commercial Code and are not necessarily reflected in ownership structure or Supervisory Council. A weak financial position of new formal owners leaves room for so-called networks consisting of managers and owners of various legal entities, as well as politicians and other actors who try to keep control over companies, or at least maintain their influence.

The essence of the change lies in the statement that these networks are not the same. Their capacity for reproduction depends on the nature of economic and political environment, which they face. It also depends on 'barrier entrance' for other actors who might start the game from outside the existing networks. The internal game (i.e. on the enterprise level) on the one hand, and the nature of economic and political environment on the other hand, determine the dynamics of institutional change and to some extent also dynamics of identity change of the involved actors, and also reshapes constellations of actors participating in the game for control over the enterprise.

Privatisation, not only in manufacturing but also in the financial sector, is a major process confronted by actors trying to keep or get control over assets. Main-stream experts' opinion repeatedly expressed at the beginning of transformation, and at the time of the Czech and then the Russian crisis, that speed has priority over quality in privatisation (e.g. EBRD, 1996). That turned out to be very misleading. The way and quality of the process are important not only for their minimum transparency standards to help reduce corruption, which was obvious but not easy to achieve. Moreover, methods of privatisation have been important for the type of actors and their constellations that were likely to emerge in structure of corporate control, after formal privatisation had been completed.

Segmentation of corporate governance, in the sense explored in this paper, turns the attention on various constellations of actors who fill in the formal structure of corporate governance, providing different outcomes in terms of corporate control and its further development, as well as in terms of the firms' capacity to restructure. In case of the Polish trajectory of systemic change, the segmentation results from the degree of intensity inside the market for control in the enterprise before privatisation on the one hand, and from the

intensity of inflows of the FDI on the other. A third less significant, but important factor consists of the genuine development of private firms, sometimes able to grow up to a size of the largest privatised organisations. As the intensity of inside market for control depends on the size and type of SOE, we will first consider privatisation of manufacturing enterprises in its main variants in Poland, then the, problem of large economic entities resulting from both privatisation and genuine private development, and finally the dynamics of the FDI impact.

3. Main line of privatisation in the manufacturing sector

As mentioned earlier, the strong position of the workers' councils was institutionalised by the law on SOE (1981), as well as by social embeddedness in a large movement with its ethos of independence from the state authorities. It enabled councils to persist in their vision of an autonomous enterprise with internal social control during marshal law and a resurgence of authorities' re-centralising efforts, by the time of a new decentralising wave and then, political change (1989). There was not much support of workers councils by Solidarity trade union at the national level. However, a potentially strong position of councils was often, but not always, used by re-merging Solidarity within enterprises, as the trade union was often being able to win democratic election to the workers council. At the beginning of 1990, the amendment to the law on SOE made it clear that councils were to appoint and dismiss the enterprise director, and they used this right extensively in the following years. In the national debate on privatisation law, the workers councils achieved much less than they demanded. Nevertheless, before passing the privatisation act (1990) the Parliamentary Commission worked out a compromise between the new neo-liberal government, and the workers expectations, expressed mainly by councils. It paved the way for some 'unconventional' ways of property transfer and for granting some privileges to insiders in expected privatisation.

In this way councils entered the game for a stake in privatisation. They were equipped with the right to not only replace a managing director, but also approve or not the enterprise project of privatisation, before SOE was privatised. Wherever the labour representatives were able to mobilise employees (which strongly depended on individual history of given enterprise), they could also strongly influence management. It provoked a series of conflicts, internal 'wars', but also compromises among inside actors. According to some estimates, more than 70% of directors were replaced in the period 1990-1992 (Panków, 1993). On the other hand, old directors were often skilled enough in talking to labour to be re-admitted to their managerial position, and finally privatise the enterprise, keeping their control and extensively using privileges addressed to all insiders, including managers. But also, many leaders of councils with managerial ambitions and skills were able to take managerial positions, and than play a major role in privatisation, often being the most experienced at how to suppress the impact of workers representation. Sometimes, councils called to a managerial position a director who was dismissed by authorities in the past.

Definitely, the strength of councils opened new channels for managerial careers, and it occurred at a time of intensified preparations for privatisation at the enterprise level. That resulted in a kind on inside market for control. How much market, and how much politics was there, is rather an individual question related to a concrete enterprise. At the national level, "Solidarnosc" has rejected the institution of workers councils as a potential devise of more

general policy. The union leaders did not want to follow a Party style involvement in micro-economic decision making. At the enterprise level all scenarios were possible, from being vengeful against some old nomenclatura guys for their political past, to straightening position of some other nomenclatura managers as the most experienced and often having international contacts useful for the enterprise.

Purely political attitudes of all internal actors were of marginal significance. Typically, the internal game for power, both before and after a formal privatisation, was rather a kind of 'inside quasi-politics' with little reference to outside politics, being called by a Hungarian economist "politicising within the enterprise" (Antal-Mokos, 1998). However, the economic concern in this inside market for control was dominating, being radically emphasised by a hardship of economic environment created by the Balcerowicz's programme. Together with macro-economic measures reducing domestic demand, enterprises have faced a decline in output, and then, in majority of cases, a downsizing of employment. Redundancies have generally been accepted by all kinds of worker representations, being only a subject of quarrels for detailed scheme of reduction of labour. Councils often played a role of mediator between managers and unions to reach final agreement. 'Enterprise egoism' did not exist as a notion in Poland, because there was no arrangements above enterprise level, but definitely an economic perspective of enterprise dominated in the inside game (Dabrowski, Federowicz, Levitas, 1991, and 1993).

With the emerging new corporate governance, and initially enhanced position of workers, the replacement of managing director was likely, which in turn significantly modified the previously existing managerial networks. It also enhanced disclosure of enterprise information for other actors. One of the hot issues was a 'tunnelling' of enterprise assets, especially financial capital, to artificially founded external quasi-private companies. Quite often the councils' and unions' impact helped to reduce and marketise the enterprise relations with these satellite companies. Those of them who persisted became economically rationalised and confronted with an open external competition. The 'satellitisation' of SOEs started even before the political change, and the number of such companies has been really significant (Blaszczyk & Kaminski, 1999), though, a bottom up mechanism of control turned out to be extremely effective in putting privatisation on a more lawful track. In a search for a privatisation project the old/new managers, often together with councils, looked for external investors both domestic and foreign, depending on the size of the enterprise. As a result, a future ownership structure was not necessarily dominated by insiders, especially in larger entities where insiders' financial capacity, despite some privileges, was not covering the minimum requirements established by the law to participate in the privatisation sale contract.

It is not to say that the mechanism of the inside game for control brought only positive results. The enterprises have actually faced a lot of internal tensions and open conflicts, even strikes. There were cases where the council replaced the director almost every year. In other cases the bottom up control significantly delayed privatisation, regardless of the dropping value of the enterprise. That was one of the reason of sluggish privatisation in Poland (Blaszczyk, 1997). Paradoxically, the most successful councils have more effectively lead to the privatisation, which meant their dissolving as an institutional body. Those who lasted were less and less influential, due either from their lack of skills in a new market environment, or from the declining condition of the enterprise itself. However, in general, the impact of labour

representations at the enterprise level prevented many firms from being involved in cross-ownership, so typical for some post-communist transformation, and contributed to the clarification of the ownership structure of privatised companies and their temporary satellites (Gardawski, 1998; Pankow & Gaciarz, 1998). However, the bottom-up control did not manifest equally strong across manufacturing, and a cross-ownership scheme did appear and persist in Poland to some extent.

The above scenario of workers council involvement was mostly in manufacturing enterprises of typically between about one thousand to a few thousands of employees. In smaller SOEs, despite the same formal settings, a kind of social tradition of labour mobilisation was rather weak and the real capacity of workers representations was rarely significant. Together with often quite large necessary redundancies, sometimes of 40% or even 20% of previous employment, labour position was easily suppressed by management (Federowicz, Kozek, Morawski, 1995). But these relatively smaller SOEs did not actually manifest much of corporate governance problems. After privatisation, they quickly turned into a typical medium size LLC, controlled by managers or by managers and some external domestic capital of a comparable size.

The governance problem manifested among large and extra large SOEs, before and after privatisation, and councils were able to reduce it by a temporary occurrence of the internal market for control. However that could hardly happen in extremely large firms of more than a few thousand workers or with huge assets. There, the outside interests related to the firm, were too strong to leave room for a bottom up mechanism of control. Beside the size and (potential) value of assets, another criterion was important: exposure on competitive markets versus protected monopolistic position. In the later case councils were practically eliminated from the game by external actors whose interests might be threatened by them. Those facing competition, and often financial problems, were more willing to submit to an internal control of councils, and subsequently to submit to control of outside investors. Market pressure from foreign and domestic competitors has appeared quite soon after initial stabilisation and liberalisation, and was growing over time along the whole decade 1990s (Krajewska, 1999). Yet, there were some important segments with somehow privileged position on the domestic market.

4. The problem of large corporate structures and the role of FDI

As presented above, not all enterprises have taken advantage of a type of internal market for corporate control on their way to healthy corporate governance and restructuring. The extra large size, value of assets, and delayed exposure in the competitive environment was among the reasons hampering restructuring. But there were also entities that took advantage by avoiding the internal game for control and any labour driven impact. These were mostly firms dealing with international trade. They were not numerous, but turned out to be very influential, especially immediately after the transition process started. However, subsequent development of those companies was very diverse. By now, some of them are among the biggest companies in Poland, while some other practically bankrupted or have shrunk to a marginal size.

In the past, these enterprises were founded as exporting and importing entities

specialising in a given, but often narrow, branch. They practically monopolised foreign exchange of a given segment. For that reason they were under strong criticism, if only a more decentralising wing showed itself stronger. That was the case in 1980-1981, and then since 1987. When only the restored Commercial Code enabled a legal change, foreign trade enterprises were the first to get rid of regulation on SOE and take the legal form of a company. Those transitional ownership structures of these companies reflected pre-existing links among various state owned entities somehow related to international trade, or expected to provide new financial inputs in the future. In the early 1990's privatisation of these companies was not a focus of public interest, despite that the fact that privatisation as a general issue was more than ever a subject of hot debate in that time. What seemed more important at that time was quick liberalisation, opening access to international transactions for all enterprises. The companies specialised in international trade lost their monopolistic positions, but did not lose their experience and contacts. They also kept their domestic networks, which were beside interests of other collective actors. The Majority of them possessed some financial capital in hard currency resulting from international transactions, which overnight jumped threefold up, in terms of domestic purchasing power, together with initial devaluation of Polish Zloty by the stabilisation programme.

Privatisation of the international trade companies went smoothly, with agreement reached easily between them and the corresponding state agencies. The new ownership structures aimed at a clever construct that would be favourable for two contradicting purposes: providing more financial capital in the coming years, and maintaining autonomy. There were two potential sources of capital: the state, and foreign investors. Typically both of them were involved. Cross-ownership among a group of privatised entities was introduced to protect them from a possible intervention of state agencies, in case of unfavourable future development of political environment, but also to prevent a likely hostile take over by much stronger foreign investors. At the same time, it was to attract some controlled but important foreign investments, as well as keep access to public capital flows.

Private capital in this ownership structure was initially very low, but then increased rapidly. Companies privatised in such a way that very soon they started to contribute to the privatisation of other firms. The law prevented all state controlled enterprises, agencies and financial institutions from acquisition of privatised SOEs, but the already privatised companies, with less than 50% of direct state engagement, were allowed to buy shares of newly privatised firms with no restrictions. The trade companies have extensively used this opportunity, steadily building large holdings. They were usually interested by manufacturing firms within their old branch of specialisation, but not exclusively (Romanowska, Trocki, Wawrzyniak, 1998). Some of them, especially at the beginning, were buying whatever firms that were available to buy, at a low price (Dabrowski, Federowicz, Levitas, 1993). It did not affect the economy much, as these buyers were not numerous, but it showed some weakness of strategies of some newly growing up companies. Only a few years later a necessary clearing of their portfolio came, together with first financial problems (Federowicz, Jasiocki, Wesolowski, 1998).

The financial capital for acquisitions was in large extent provided by banking credits. Banks, before they started to diversify their policy a few years later, offered easily obtainable credit to these companies, claiming that they are among the most reliable clients

(Boguszewski at all, 1993). The financial resources came partly also from raising corporate capital, with growing engagement of both foreign and domestic investors. The political involvement in this process has certainly been important. Links between the firms to politics and politicians is not an easy subject for scientific investigation, yet a few hypotheses seem quite plausible. First of all 'the networks of corporate control', in the Polish case, have constituted themselves mostly in the period between 1987 and 1992 and people involved in this process was perfectly aware of the necessity of eventual market type confrontation of their companies. Equally true, they were aware of scarcity of financial capital for expanding in the company development. In the initial period the only source of capital could be the state. From that perspective the involvement of state institutions and representatives in the networks was inevitable for ensuring financial inflows for business activity from public resources. Yet, managerial part of the networks, in majority cases, wanted to reduce or even get rid of political impact on their businesses. Not all however were equally devoted to a purely managerial vision, or equally successful in maintaining distance from politics. A continuum of managerial strategies may be identified, from a deep political involvement (the case of a large company "Universal") to a cutting off political links at first possible opportunity and actual move out from the initial type of networking (the case of a bank established in 1988 and then very quickly expanding, and four years later privatised with a serious involvement of German capital). Politicians, on the other side of the story, were interested to get back some financial inflows in the most sensitive moments of their own development.

In such dynamics, and this is the most important thesis here, a nature of economic environment has been the most important factor of a selection of corporate strategies. In other words, in less competitive the environment the more 'politicised' strategies were more likely to ensure a successful corporate development, while in more competitive environments the least politically affected firms were likely survive and develop. However, a borderline between these two contradicting circumstances is hardly visible. In long run, the most successful companies were among those whose managerial staff was able to foresee a growing competitive pressure and likely economic turbulence, and reduced early enough their political involvement resigning from their potential gains. Thus, the economic environment and managerial capability in strategy building are the most powerful explanations of growing diversification among large companies. After all, these 'domestic empires' suffered all the time a scarcity of capital. The point is that some of them were rather greedy in acquisitions along privatisation process and devoted the available resources for that purpose, while some other were more careful with internal restructuring of both themselves and firms controlled by them.

In the Polish case, however, the impact of the economic environment interferes with an important change of political circumstances, in 1997. The ruling coalition (1993-1997) of two post-Communist parties, SLD and PSL, being mostly identified with the pre-existing managerial networks, lost power for a new coalition of two post-Solidarity parties, AWS and UW. That happened at the time of a beginning of a series of local financial crises in the international economy. The years 1998-1999 were testing for all larger and smaller businesses in their capacity to endure a period of slowing down in economic development. But for the large companies analysed above, what was equally true was a growing complexity of domestic political environment and a kind of hidden political competition for control over some large

business activity. It is difficult to distinguish the two factors, but two kinds of competitive pressure, although often hard for companies in a short run, were rather favourable for clarification of their ownership structures and relations between owners and managers, and thus, led to sounder corporate governance.

Beside firms formerly specialising in international trade, some financial institutions (except large banks), as well as some enterprises in manufacturing and services followed a similar pattern, but they were not numerous and not necessarily equally successful in terms of acquired capital. A general pattern of their development, including a delayed confrontation with competitive environment, remains the same. For instance, an insurance company "Polisa", being deeply linked to politicians and with a 'politics-dependent' strategy, just recently went bankrupt, while other cases of interwoven ownership with much more distance to politics were able to survive on the same market. A sign of the changing political environment is also visible on newly created markets, e.g. pension funds. As usually the push toward a kind of control from the politicians' side has been quite strong, but tensions from all political wings are more and more mutually counter-balancing each other. Together with substantial role of important foreign capital on that market, there is practically no room for a type of 'cross-ownership' lack of transparency.

The most politically vulnerable are still the extra-large companies not yet privatised, like copper company in raw material industry, or petrol companies with a delayed exposure in international competition, or telecommunication in the infrastructure segment. Probably here, an impact of approaching perspective of European integration may play significant role.

The other trajectories towards a sound decision-making structure occurred in a genuine private sector. Typically the private firms were developing outside of former managerial and political networks. They used mainly a quick turn over strategy for rapid accumulation of capital, expanding from local to domestic markets, and often avoiding banking credits. However, the origins of the largest domestic fortunes are more heterogeneous (Federowicz, Jasiocki, 1998). There was also, a continuum of their relations to politics, from overall rejection to deep involvement and mixing within old/new networks. When the later slightly modified the networks, the former showed an alternative strategy. Interestingly, the genuine private businessmen/women who kept a sound distance from politics and public money inflows, even if not dominating in terms of controlled assets, started play a dominant social role among business leaders as a social circle (Federowicz, Jasiocki, Wesolowski, 1998). Nevertheless, the most important phenomenon which reflects business environment in Poland is that these genuine private firms with no political involvement, were able to expand by the size comparable to the largest size in the domestic market. Often a quite important source of capital for their development came from the Warsaw stock exchange, or international financial markets.

The role of foreign investments is fundamental in Polish evolution of corporate control. Definitely, the most clarifying agent in corporate structure has always been a foreign direct investor. As mentioned earlier, foreign investors did not necessarily introduce all solutions typical for their origin country. They rather needed a transparent relations based on domestic legal arrangements in order to be able keep control. For that reason they usually hardly accept steps that are legally ambiguous, but on the other hand they are not necessarily interested in improving domestic laws. One should also distinguish between a serious foreign

investors who usually follow their general world-wide know strategy when they enter a new market, from a smaller, and sometimes ‘ad hoc’ composed international capital, often interested in a short term gain. The proportion between inflows of these two different kind of investors probably depends on business and political environment in a given country. The impact of the FDI on structures of corporate control is under-investigated, although it is not an easy field for empirical studies.

Summing up, the segmentation of the ways of evolving constellations of corporate governance came from a variety of economic and collective actors who contributed to the institutional change. In few last years, foreign investors often play a role of ‘last resort’ in this process. But serious foreign capital did not rush to Poland on the next day after the Balcerowicz’s stabilisation plan had been introduced. In the first five years of systemic change the FDI inflows were marginal. The GDP growth achieved since the third year of transformation came mainly from a genuine private development. But that would not have happened without an earlier desegregation of old industrial structures. The dominant way of privatisation hampered an easy reconstruction of old networks, partly due to the mechanism of a bottom-up control by the social collective actors and the inside market for control. Yet, some old/new networks were able to expand through the intensive acquisition of privatised firms, but then with a certain delay they were submitted to an external verification coming from a market pressure. At the same time, some genuine private corporations appeared among the biggest domestic firms.

Conclusion

There is no necessity to point out that the transformation process could not aim at an initially taken ‘targeted’ model. Equally true is that it needed a concrete design be able to orient the change in one dominating direction, otherwise reforms had no chance to succeed (Federowicz, 2000). Two contradicting tendencies were clearly visible from the very beginning of the process. One based on neo-liberal reform package, another opposing majority of these measures. It is outside of the topic of this paper to discuss this very general contradiction, which actually brings many more detailed controversies in classifying the actually taken by reformers steps, not only declared by them, and evaluate reforms for their theoretically too much or not enough liberal taste. Nevertheless the tension between the main stream approach and those opposing it, makes an overwhelming context for any research perspective on transforming economies, being perhaps even more imposing in a much broader question on convergence and divergence in the contemporary world (Berger, Dore, 1996). One can not neglect it, when dealing with any subject on institutional change in economy. Let’s find a place for the empirical evidence on corporate governance in Poland in the time of systemic change, not ignoring, yet not entirely embarking on a more comprehensive evaluation of the neo-liberal design and its critique.

On the wing of neo-liberal reformers, there was an implicit assumption that “finding a real owner” would lead straight ahead to a sound corporate control, with good enough underpinnings in the Commercial Code. There was no precise model of corporate governance in the reform design, but the key steps were recommended, like low entrance barriers, withdrawal of the state, and first of all efforts in establishing and fostering the role of stock

exchange as a main segment of the market for corporate control, as clearly suggested by a desired US-style governance (Balcerowicz, 1995).

On the opposite wing, huge protests came from enterprises not only because of a financial hardship they faced, but also because of cutting of industrial links and co-operation between firms, as well as vanishing R&D activity. Many academic researchers supported such an attempt of a bottom up rejection of neo-liberal reform. In terms of a model, the farthest reaching works evoked the Japanese, or Korean solution (Amsden, Kochanowicz, Tylor, 1994). The major argument was that neo-liberal measures atomise enterprises and make them more vulnerable to external competitors. Thus, the reform design should rather help to develop links between economic actors than damage them.

If the critics of any superficial, often just nominal property shift, in so-called privatisation accurately showed the weakest aspect of transformation, a dream of Polish *cebols* were equally unrealistic as a vision of 'real owner' resulting from a quick and large scale privatisation. Both these desired images did not correspond to a specific reality of large organisms, which grew up in the past, according to different logic, and specifically neglected the issue of political interference during the transition period. In this regard, the atomising pressure on enterprises by macro-economic measures and exposure to a growing force of competitive environment was rather more successful in enhancing internal restructuring, than the opposite strategy.

Nevertheless, none of existing models could correspond to a complexity of decision making in deeply changing, means blurry and unstable, institutional environment. A meaningful empirical exercise has been provided by the Czech economy. Some part of international audience was willing to see it as taking from both American and German modes in developing a quite original solution. Coffee was probably the first to question such a picture. He pointed that neither financial markets corresponded to the US ones, nor banks, despite formal property links, were likely to co-ordinate large industrial activity as it is claimed in the German pattern (Coffee, 1996). This statement applies to Poland as well. Even if banks finally engaged themselves to their own restructuring, the expectation of their more significant external role was not realistic. Equally true, even if the Warsaw Stock Exchange provided capital for a few dozens of expanding companies, that was good enough to show an alternative way of corporate strategies, but did not change much in the dominant business environment.

Stark and Brust expressed that the search for a targeted model was pointless and should be replaced by a venture, which relies on specific strength of post-Communist countries (Stark, 1995; Stark & Brust, 1996; Grabher, G. & D. Stark, 1997). However, their concept that neither markets nor hierarchies but networks may take a role of the founding stone of new economic relations neglected the nature of post-Communist economic actors and their transformation. The problem is not whether to focus on networks or not, but what kind of conceptualisation opens the door for empirical diagnosis of the actual role of networks in transforming economies. Not only in the Polish case, are networks not "between markets and hierarchies". When looking for them 'in between', the statement 'between markets and politics' would perhaps be more helpful, and 'politics' does not transform into a 'hierarchy'. Thus, maybe the key question related to the networks is elsewhere. They exist in all kind of economic and political systems. The point is that these are not the same networks.

The thesis here is that the nature, constitution, and role of networks depend on the type of environment they deal with. Also, their capacity to reproduce varies together with constraints and facilities coming from the environment. The success of systemic change from Communist to democratic and market type arrangements lies with a move from monopolistic to pluralistic type of relations in both politics and economy. Competition as a systemic mechanism is one of few available devices to brake monopolising attitudes of group of interests that have typically hampered the development. The environment, which determines the network reproduction is mostly characterised by a ratio between monopolistic protections and competitive pressures, the later appearing together with openness of both political and economic arenas to potential and actual newcomers. The same statement may be expressed from a different perspective: the monopolistic (close) versus competitive (open) environment determines in large extent the changing identity of economic and political actors, and their networks. The more competitive environment, more likely the shift towards a market-type networking. Networks without a context do not exist as a distinctive concept.

Shleifer and Vishny, looking from the Russian perspective on the advanced economy models of corporate governance realised that all of models, despite many contradicting elements, have one common features of fundamental importance. They all are build on an assumption of lawful attitudes of the involved parties, as well as institutional capacity for law enforcement (Shleifer & Vishny, 1997). Even if the problem of poor legal system and law enforcement in transforming economies is widely know nowadays, this general remark shows how very different was the starting point in these countries from any model of advanced capitalism. The question on models is not about a ‘targeted’ model, but a ‘transforming’ model. In other words it does not need to concretise a ‘final’ outcome but rather provide capacity of a deep change. But such a concept has to take into account real actors who are present in the game, or potentially may enter it. The same is true considering how to achieve the minimum standards of law and lawful attitudes in order to speak about any kind of functioning corporate governance.

It is clearly visible in the Polish case, that the dynamics of institutional change does not depend only on quality of legal settings and their enforcement, but also on the nature and changing constellations of social, economic, and political actors who both create, fill in, and reproduce the institutional arrangements.

The trajectories of evolving corporate governance provoked a segmentation in terms of different inter-company relations and inter-company control. Where the worker representations were active in executing their legal rights to intervene in managerial projects of privatisation they quite often led to a partial cutting off of the previously existing informal links, which were not justified by the new economic situation of the enterprise. Sometimes too many conflicts hampered the real restructuring, but usually initial tensions between insiders eventually led to a compromise at a higher quality level of the new project for the firm, quite often with contribution of a domestic genuine private investor. Such a scenario was likely to occur in medium and larger SOEs, but not in very large and extra large ones, the later being much more politically involved and often not privatised by this time. If they were financially lucrative, which is the case of few of them, they have been targeted by politicians from all political wings. Some other trajectories appeared among those medium and larger SOEs who were not successful in improving their financial condition, no matter whether workers’

councils were active or not. These firms went often in the programme of mass privatisation through the so called National Investment Funds.

The programme of mass privatisation, however, played a marginal role in Polish transformation. Capitalisation of the NFIs, all together, does not reach the level of one successful company developing from the stretch or expanding from the former activity in the international trade. The genuine private large companies provide a good example of a positive outcome of initial decomposition of industrial links and atomising pressure provoked by macro-economic hardship. The higher the protection of old industrial ties, the less room and capital for genuine private expansion. Companies originated in their past monopolistic position in Polish export-import activity show the networking style of business activity. Under a growing pressure of competitive environment and political turbulence they were reshaped by external forces, or reshaped themselves, or were eliminated. The banks, focussing on their own survival facing future competition, after an uncontrolled engagement in the first years of transformation, have become interested to make themselves distinct from a non-financial sector. Together with the tightening control of banking sector by the politically autonomous central bank, it prevented the emergence of financial-industrial groups.

With a certain vision of liberal relations in the economy there was not a concretised model of corporate governance ahead. The Central European countries relied on their pre-war legal tradition, but the actual dynamics of institutional development had little in common with the pre-war commercial relations. In the absence of a coherent and realistic model the actual corporate governance depended on many crossing tendencies, like: weak but slowly improving exit mechanisms, varying access to public money flows through political channels, as well as different origins of managerial careers, and finally more and more significant input of foreign direct investors.

What is specific for Poland is that before a serious inflow of foreign capital occurred, employee representations significantly contributed to the game for control. It is not to say, that nowadays the corporate structure is more oriented toward workers than elsewhere, rather the contrary. The point is that worker representations were more a part of civic activities than a typical labour movement, known also in Poland from much earlier (pre-war) capitalist history. Like well performing mass media in the developed civil societies, the worker organisations at the bottom level (institutionalised in both unions and councils) contributed to the disclosure of information and clarification of the rules of the game in the most vulnerable period of property transformation.

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