

**SWP 67/91 EAST GERMAN MANAGERS -
FROM KARL MARX TO ADAM SMITH?**

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by

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Introduction

As the economies of West Germany and former East Germany become progressively, if slowly, integrated, questions are being raised as to the competences of German managers from the east. At first glance, any such doubts would appear to be inappropriate. After all, East Germany provided the show-case economy of the COMECON countries and, so the argument runs, if the country's managers could make communism work then they should encounter few problems in the market economy.

But this contention ignores the special circumstances in which former East German managers were educated, and above all the way in which major enterprises were run. It also ignores some of the latest evidence on the competence of East German managers emerging from the west of the newly-reunited country.

Philosophy of education

The whole of the education system in former East Germany was predicated on the state's claim to the right of the education of children within the socialist world order. The education of children was not a parental right (1). Since the state was defined as: "The political organisation of workers led by the working

class and its Marxist-Leninist Party (2)," the nature of the education to which all children were exposed, including future managers, was heavily influenced by the tenets of socialism.

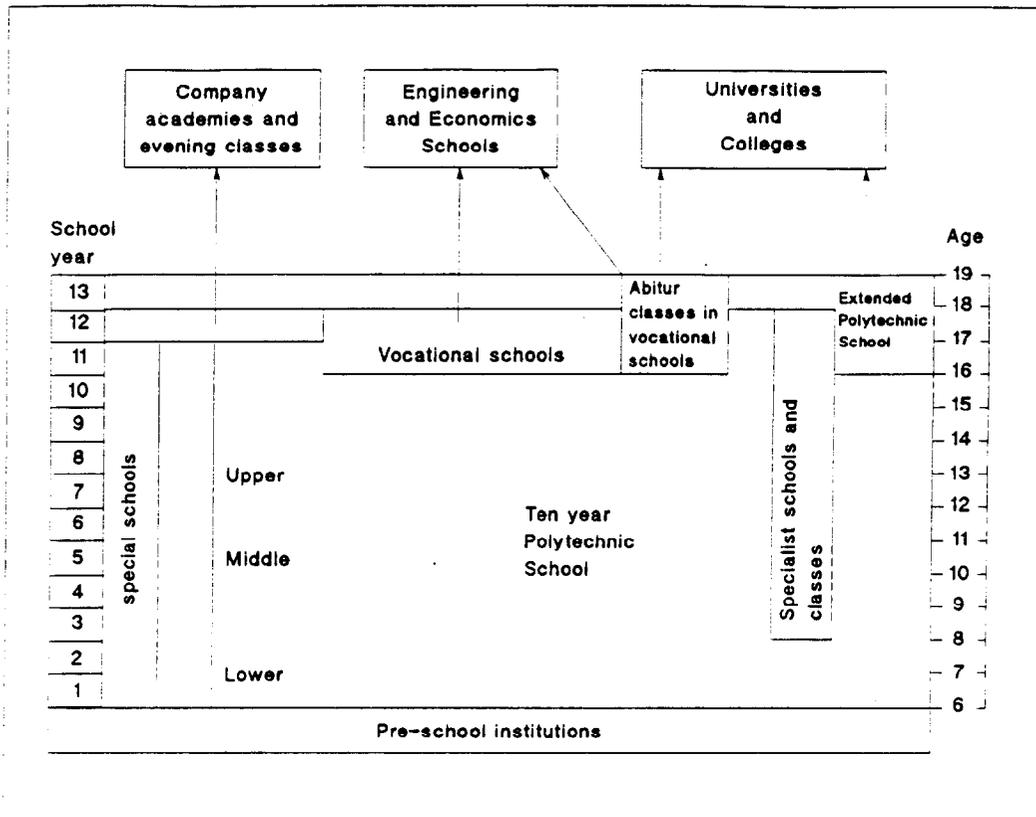
The state also claimed the unity of education and the economy, and this led *inter alia* to a system of ideological homogenization in all schools, colleges and universities (3): there were no confessional schools; nor was there any religious education in schools.

School education

Ideological homogenization began even in pre-school education, in the state or state-company-run *Kindergärten* which, in 1987, were attended by 93 per cent of age cohort. One of the aims of pre-school instruction was: "To prepare for learning in school and to make initial acquaintance with socialist life and the activities of working people (4)." Another: "To educate children to love their socialist home and to love peace (5)." This was achieved in the pre-school curriculum by learning about feast days and holidays, especially those related to the birthdays of the founders of Marxism-Leninism and leading politicians, and by promoting contacts to state-owned companies, party representatives, and the German People's Army.

Indoctrination continued in the so-called Polytechnic School, attended by all children from the age of six to sixteen (see Figure 1). This school was viewed throughout the country as a pre-selection stage for the trade or profession to be chosen. Closely linked to its godfather company, with 80 per cent of pupils doing voluntary work in the factory during school holidays, one of the main aims of the school was to contribute to the development of the rounded socialist personality.

Figure 1: Structure of the Education System in East Germany



Source: *Vergleich von Bildung und Erziehung in der Bundesrepublik Deutschland und in der Deutschen Demokratischen Republik*, Cologne, Verlag Wissenschaft und Politik, 1990.

In the Polytechnic School, particular emphasis was placed on the communication of work virtues and the specific socialist attitude to work. One of the ways in which it was hoped to achieve such was via the system of work instruction which permeated the whole curriculum (6). In classes one to three, all pupils were required to work in the school garden; in classes four to six, they were expected to acquire knowledge of materials and gain their initial experience in technical modelling; in classes seven to eight, technical drawing was introduced and accompanied by light work in the godfather company; in classes nine to ten, the final two classes of obligatory school attendance, theoretical instruction in economic socialism and socialist production methods was complemented by actual manufacturing work in the factory.

Other features of the Polytechnic School designed to inculcate the work ethic and its relationship with socialism were the six-day week for all school children (214 days per annum) and the insistence throughout the system on Russian as the first foreign language. Russian was learned from the fifth class onwards (7).

Entry to the Extended Polytechnic School, the East German equivalent of the Sixth Form in England and Wales, was restricted by the state to eight per cent of age cohort. The *Abitur*, the German counterpart of 'A' levels, was taken at the age of 19. The subjects studied were German language and literature, Mathematics, Russian, Sport, and Physics or Chemistry or Biology.

Vocational training

Very few youngsters in former East Germany failed to take an apprenticeship. According to the state, "All young people have the right and duty to learn a profession (8)." Thus, after completing the tenth class in the Polytechnic School, 87 per cent of age cohort went through a two-year apprenticeship, with 85 per cent of these young people signing an apprenticeship contract on first application, usually with the school's godfather factory (9). Not only was the practical work done in this factory, but the vocational school where the theory was learned actually belonged to the godfather company.

It was possible for the more gifted to embark upon a three-year apprenticeship after the tenth class, leading to the twin qualifications of skilled worker (*Facharbeiter*) and the *Abitur*. Six per cent of all pupils took this route, which could lead to university, or one of the 88 engineering schools, or alternatively one of the seven economics schools (*Fachschulen*). The final qualification here was the approximate equivalent of technician status.

In theory, all pupils having completed the tenth class had some 238 trades and professions from which to select an apprenticeship. But the 300 state combines and approximately 8,000 companies, either vertically or horizontally integrated into these combines, were responsible for their own recruiting. In practice, therefore, the choice was more restricted for both the two groups above. The options were even more limited for a third group, the less gifted, who started a four-year apprenticeship after the eighth class: they had only 63 professions to choose from. 98 per cent of all apprentices passed their final examination (10).

Tertiary-level education

Studies at the six universities and nine technological universities, the nine engineering colleges and two economics colleges (*Hochschulen*), all of which were controlled by the state, were held to be a high social distinction and the personal duty of the student to the working class and the state (11). Access to tertiary level education was on the one hand structurally determined by the economic and social needs of the state, i.e. study places at universities and colleges were allocated according to state economic plans. On the other, access was personally determined by the aspiring student in the form of political loyalty (membership of the Free German Youth movement) and by readiness to defend East German society (12). Tertiary-level studies for males were thus much facilitated by 'volunteering' for three years' military service in the German People's Army, as opposed to eighteen months, which was the regular conscription period. The ratio of tertiary-level places to applicants in the 1980s was 1:1.4.

All studies at university or college, except medicine, lasted four to four and a half years. Common to all, including medicine, was a three-year compulsory study of Marxism-Leninism, with a fourth year elective on offer; two years of further

instruction in Russian and one other foreign language, usually English, were also compulsory; as were sports studies for males and females; and military studies for men, with civil defence training for women (13).

By the end of the 1980s, a dual system had established itself in tertiary education: the universities and technological universities provided the people for top management functions in all aspects of the state; the engineering and economics colleges provided the technical or back-up staff. Expressed in quasi-Marxist terms, then, most engineers and technicians formed a middle layer between the intelligentsia and the working class (14).

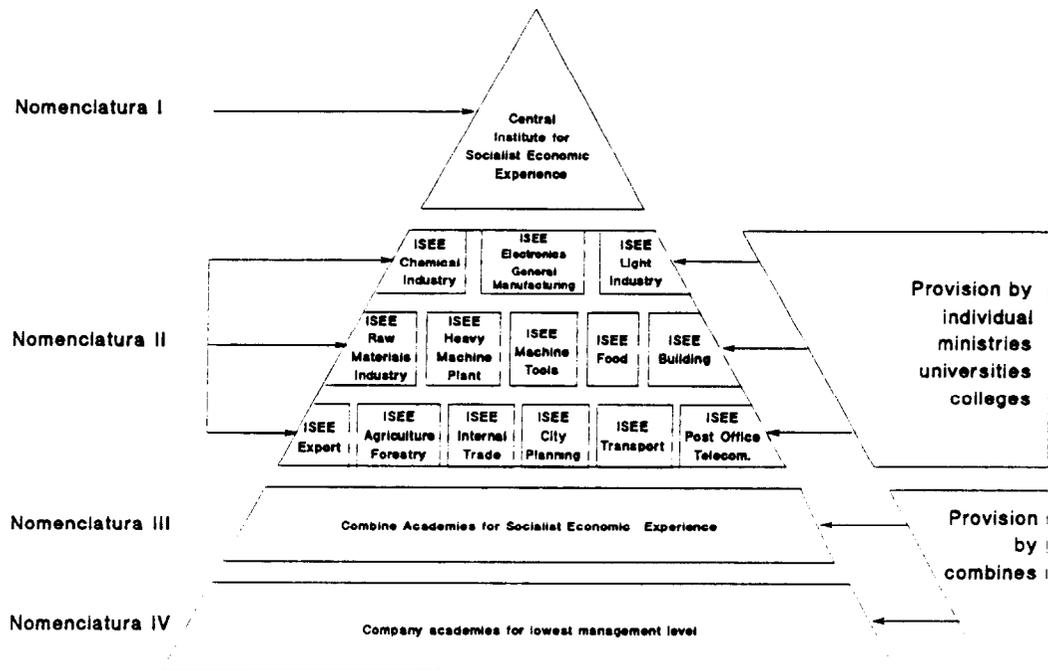
Management development in East Germany

It was, therefore, the members of the intelligentsia who took over not only the running of the state, the party, its central planning institutions, but also its combines and their associated companies. Indeed, the strict, closed hierarchy of the *Nomenclatura* system in this supposedly classless society was even extended to the system of development for all managers in former East Germany.

It is clear from Figure 2 that the topmost echelons of society, *Nomenclatura I*, received their management development at the élite Central Institute for the Socialist Economic Experience, which was founded in 1965. *Nomenclatura II* had to be content with what the Institutes for the Socialist Economic Experience (ISEE) attached to the fourteen industry ministries had to offer (15). These ministries often worked in close association with the universities and the engineering colleges in the provision of management development. The universities and colleges were responsible for approximately 20 per cent of overall development training. *Nomenclatura III* were catered for by the 150 so-called Combine Academies for the Socialist Economic Experience and

Nomenclatura IV by the Company Academies. These institutions provided some 60 per cent of management development (16).

Figure 2: Management Development System in East Germany



Source: Autorenkollektiv: *Kaderarbeit in Kombinat und Betrieben. Schriften zur Sozialistischen Wirtschaftsführung*, Berlin, Dietz Verlag, 1983.

The nature of management

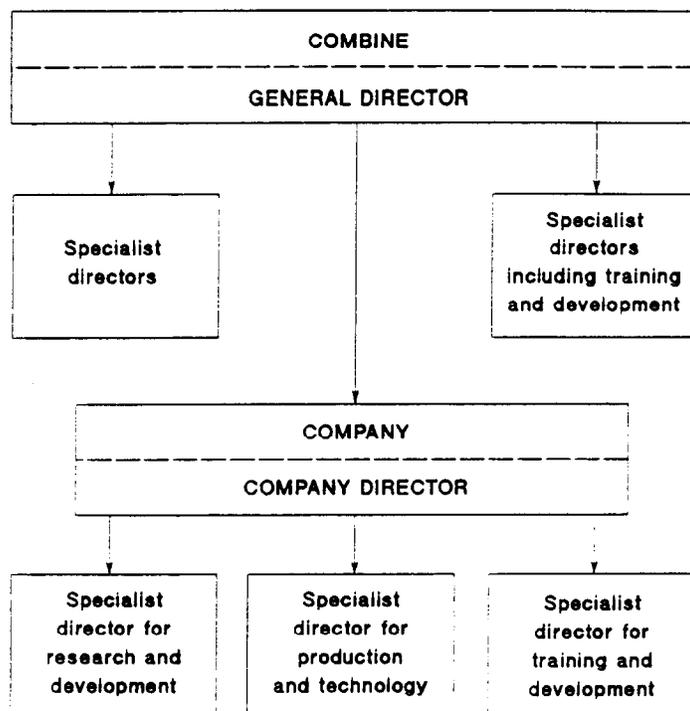
Again it is ironic that, in the egalitarian society which the former East German state was purportedly attempting to achieve, the management system which emerged was strictly of the one-man variety. This is nowhere better typified than by the directors general of the state-owned combines (see Figure 3).

These directors general had arguably more power than the presidents of companies in the United States. Eight of the economic overlords sat on the party's central committee from 1986. They were thus even more influential than

the industry ministers to whom they reported because some of these industry ministers were not members of the central committee (17).

The elevated position of the directors general enabled them to influence the economic plan for their particular combine. It also gave them the freedom to break many of the stultifying rules and regulations and to cut red tape. Above all, however, their membership of the central committee afforded them priority in the allocation of precious resources and access to hard currency.

Figure 3: The Management Hierarchy in East Germany



Source: Schäfer, H-P.: Schule und Berufsbildung in der DDR. *Deutsche Studien* 25 (1987).

The directors general of the conglomerates were, however, personally responsible for everything in the combine and in its associated companies, from plan fulfilment through to the combine academy and the protective equipment

worn by the company firemen. They could change middle-level managers, create new divisions, shift the site of production from one combine to another, or effect inter-combine transfers of machinery (18). Although they were obliged to present a monthly progress report to all employees at the parent plant and had to meet regularly with the trade union and local party officials, it was usually not in the interest of the latter two bodies to probe too deeply into the actions of their director general.

Enjoying great social prestige within the country, not only on the basis of their positions but also by their personal achievements, observers in the west were occasionally taken aback by some of the pronouncements by the directors general. One example will suffice. Reporting on the zero defects drive within his combine, Wolfgang Jacob stated: "Step by step we want to make EAW-Electronic into a name familiar all over the world: a watchword for quality everywhere. Like Zeiss, *Lada* or Coca-Cola." (19)

Middle managers?

The 'middle managers' in the former East German system (*Nomenclatura II*) could be defined as a substantial layer of professionally-qualified, but for the most part ideologically-detached officials. They had sought relatively high positions in order to fulfil personal ambitions and to receive the perquisites of life on the *Nomenclatura* ladder.

Perhaps the term 'middle managers' is inappropriate for this stratum of society; in reality, they were but higher industrial functionaries. Their power was constrained not only by the one-man management practices of their directors general, and by the trade unions, but by the realities of commercial life within the system. Profits were only regarded as genuine if earned within the

regulations of the state-determined economic plan; profits could only be made by cutting costs and not by raising prices; profits were retained partly by the companies and partly by the combines. The rest went to the state (20).

These functionaries were usually not permitted to shop around in order to lower their costs: raw materials had to be bought in at prices laid down by the state; semi-finished products, possibly from another company within the combine, had to be purchased at cost-levels determined outside their sphere of influence.

In other words, these people did not manage: they functioned by taking orders from above and executing them. They had just one boss - their immediate superior (21).

East German managers in the east

In the past two years, approximately 500,000 citizens of former East Germany have emigrated to West Germany. Not many of them are managers.

The managers remaining in the east are to a large extent disillusioned with post-reunification developments. They claim that they 'must have done something right' from 1945 to 1990. Apart from helping to build the show-case economy of the Eastern bloc countries, they protest that East Germany was the best of the COMECON countries in automation, robotics, microelectronics, computer hardware and optics. They met their targets in the past, and now the West Germans are coming along, closing down their companies and telling them that they have been doing it all wrong!

There is a widespread lack of confidence among the former managerial strata. Many former managers have been dismissed, especially top party officials and members of the *Stasi* (state security police) (22). Others have been fired or

demoted for incompetence by western firms taking over companies in the eastern part of Germany. There have been wholesale removals of personnel managers, who were widely regarded by the workforce as local party spies. Accountants have suffered in particular because of their ignorance of market economy techniques. But many sales managers have been retained because of their deep acquaintance of, and contact with, markets in eastern European countries.

East German managers in the west

Of the former East German managers emigrating to the west, the engineers have the best chances of success - but as engineers, not as managers.

Since reunification, many East German engineers have been recruited by West German companies in an effort to meet skills shortages. Yet these companies are often dissatisfied with their new staff. Complaints abound that their technical competence is the equivalent of only 8-bit technology (in 1981, IBM introduced a 16-bit computer). Moreover, the training of these engineers, it is claimed, is too narrow because it was specifically related to the needs of their former combines. Finally, the engineers tend to see only production problems and fail to heed the needs of the market (24).

Interpersonal skills are reported to be hardly developed among former East German engineers. Their attitude to their superiors is one of blind obedience. They commonly assume that the boss *must* be better informed; knowledge is power; therefore the boss is always right. Moreover, it is claimed that engineers from the east are unable to work successfully in teams because they are incapable of motivating people. Motivation was not regarded as a management task in former East Germany, where orders came from the top down. According

to Günter Steinbach, personnel specialist at Siemens, these engineers are "totally unsuited to management tasks (23)."

Conclusion

In 1990, an attempt was made by Mülder & Partner, management consultants, to ascertain whether, despite all the fragmentary evidence to date, there was an untapped pool of top management talent in the east of the reunited country. 250 East German managers were surveyed for their suitability as management board members in West German companies. The finding was that only seven would qualify (24).

The other 243 would fail in the west on account of their lack of market knowledge, lack of confidence, lack of creativity, lack of initiative and lack of mental flexibility. Although some of the candidates possessed positive qualities, the most outstanding of which were intelligence, motivation and a talent for improvisation, far too many had been scarred by the system.

Even the seven successful candidates, however, would face an uphill task, not least from their peers in the west. They would encounter an acceptability problem because of the widespread conviction abroad in West Germany today that: "Ossis (East Germans) are all turncoats: yesterday Karl Marx; tomorrow Adam Smith."

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