Journal for East European Management Studies (JEEMS)

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Editorial Mission of JEEMS

Objectives

The Journal for East European Management Studies (JEEMS) is designed to promote a dialogue between East and West over issues emerging from management practice, theory and related research in the transforming societies of Central and Eastern Europe.

It is devoted to the promotion of an exchange of ideas between the academic community and management. This will contribute towards the development of management knowledge in Central and East European countries as well as a more sophisticated understanding of new and unique trends, tendencies and problems within these countries. Management issues will be defined in their broadest sense, to include consideration of the steering of the political-economic process, as well as the management of all types of enterprise, including profit-making and non profit-making organisations.

The potential readership comprises academics and practitioners in Central and Eastern Europe, Western Europe and North America, who are involved or interested in the management of change in Central and Eastern Europe.

Editorial Policy

JEEMS is a refereed journal which aims to promote the development, advancement and dissemination of knowledge about management issues in Central and East European countries. Articles are invited in the areas of Strategic Management and Business Policy, the Management of Change (to include cultural change and restructuring), Human Resources Management, Industrial Relations and related fields. All forms of indigenous enterprise within Central and Eastern European will be covered, as well as Western Corporations which are active in this region, through, for example, joint ventures. Reports on the results of empirical research, or theoretical contributions into recent developments in these areas will be welcome.

JEEMS will publish articles and papers for discussion on actual research questions, as well as book reviews, reports on conferences and institutional developments with respect to management questions in East Germany and Eastern Europe. In order to promote a real dialogue, papers from East European contributors will be especially welcome, and all contributions are subject to review by a team of Eastern and Western academics.

JEEMS will aim, independently, to enhance management knowledge. It is anticipated that the dissemination of the journal to Central and Eastern Europe will be aided through sponsoring.

Albanien, Polen, Slowenien, Tschechien: Makro- und Mikroperspektiven zur betrieblichen und gesellschaftlichen Transformation in vier Ländern

Das zweite Heft im neuen Jahrtausend beschäftigt sich sowohl mit dem betrieblichen als auch mit dem überbetrieblichen Transformationsprozeß. Die Beiträge zeigen, daß der Transformationsprozeß nach wie vor vom Versuch der Mittel- und Osteuropäischen Länder geprägt ist, westliche Gesellschafts- und Wirtschaftsinstitutionen zu übernehmen, um Anschluß an die westliche Welt zu erlangen. Gleichwohl, auch das wird in den Beiträgen angesprochen, ist ein solches Vorgehen nicht unproblematisch. Einerseits läßt sich die sozialistische Vergangenheit nicht einfach radikal ersetzen und zum anderen ist nicht geklärt, was denn die richtigen westlichen Konzepte sind, und ob eine Übertragung, i.S. einer simplen Kopie, überhaupt sinnvoll ist. Die betriebliche Praxis in Mittel- und Osteuropa, so glauben wir, zeigt schon eine erste Lösung auf, die selektive und betriebsspezifische Übernahme westlicher Managementkonzepte und –methoden und deren bewußte Verknüpfung mit tradierten „sozialistischen" Arbeits- und Leitungsmethoden.

Wir freuen uns besonders, in diesem Heft wieder einmal einen Artikel aus Albanien zu haben. Vasilika Kume und Shyqyri Llaci geben einen Überblick über die Albanische Wirtschaft vor und während der Transformation. Damit versuchen sie, den gesellschaftlichen Transformationsprozeß Albaniens zu verdeutlichen und dabei zu analysieren, welche Maßnahmen notwendig sind, diesen Prozeß positiv zu stabilisieren.

Izabela Robinson und Beata Tomczak-Stepien präsentieren uns die Ergebnisse einer Fallstudie zur kulturellen Transformation von Unternehmen. Sie analysieren die Kultur von vier polnischen Unternehmen und zeigen, daß die Eigentumsverhältnisse, das Humankapital sowie die Managementphilosophie und –ideologie die Schlüsselfaktoren in der Entwicklung marktorientierter Verhaltensweisen sind. Jedoch zeigen Robinson und Tomczak-Stepien auch, daß Elemente sozialistischer Kultur einen starken und anhaltenden Einfluß ausüben.

Der dritte Artikel in dieser Ausgabe beschäftigt sich mit der strategischen Nutzung von Informationstechnologien in kleinen und mittleren Unternehmen in Slowenien. Dušan Lesjak zeigt, zu welchem Grad slowenische KMU Informationstechnologien strategisch nutzen und welchen Effekt dies z.B. auf das finanzielle Ergebnis hat.

Eleanor M Maitland-Davies und Brian Kenny, die Autoren des Schlußartikels, untersuchen die Motive für die Wahl von Joint Ventures an Stelle anderer möglicher Formen der Zusammenarbeit britischer mit tschechischen Firmen. Die Autoren fokussieren dabei auf organisationale Motive (z.B. die Suche nach Ressourcen), Motive, die den Partner betreffen (z.B. der Grad der Autonomität der Firmen), und exogene Motive, wie z.B. Möglichkeiten der finanziellen Unterstützung durch Förderprogramme.

Im Teil „News and Information“ des Heftes haben wir diesmal u.a. einen ausführlichen Bericht zur Konferenz „Financial Development in Eastern Europe: The First Ten Years“. Obwohl diese Konferenz eher volkwirtschaftliche Aspekte adressiert ist es immer wieder interessant, die Ergebnisse anderer Wissenschaftsdisziplinen zu erfahren, die sich auch mit der Entwicklung in Mittel- und Osteuropa beschäftigen und wichtige Rahmenbedingungen für die Entwicklung des Managements in den Mittel- und Osteuropäischen Staaten erforschen.

Wir wünschen Ihnen viel Spaß beim Lesen des Heftes!

Rainhart Lang

Ingo Winkler

Albania, an ex-communist country during the transition period: problems and challenges*

*Vasilika Kume / Shyqyri Llaci***

This paper intends to give a brief history of the Albanian Economy before and during the transition period, to analyze the transformation of Albanian Society toward an economy based on private property and the free initiative of free people, and to highlight some of the problems and challenges Albania is currently facing. The aim of this article is to tell what could be some of the ways for a fast recovery and steady development of our country.

In diesem Artikel wird die Geschichte der albanischen Ökonomie vor und während der Übergangsperiode kurz dargestellt. Damit verbunden ist die Analyse der Umwandlung der albanischen Gesellschaft hin zu einer Ökonomie, die auf Privateigentum und der freien Initiative freier Menschen beruht, wobei einige Probleme und Herausforderungen aufgezeigt werden, die in Albanien aktuell sind. In diesem Artikel sollen einige der Wege, die zu einer schnellen Erholung und nachhaltigen Entwicklung unseres Landes führen könnten, gewiesen werden.

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Background on Albania

Albania is located in the Balkan Peninsula in southeastern Europe, on the Eastern Shore of the Strait of Otranto across from the "boot heel" of Italy. Former Yugoslavia borders on the north and east, Greece on the South, and the Adriatic and Ionian seas on the West. The smallest of the Balkan Countries, it has an area of about 28, 000 square meters.

Albania crosses a vertical line extended from South to North, to link thus Northern and Central Europe with one of its extremities, Greece

Albania is a predominantly mountainous country. Roughly, three-fourths of its territory in the north, south and central regions, consist of mountains and hills full of streams, rivers and lakes. In contrast to the rugged terrain and limited arable land in the mountainous regions, the western plains beside the Adriatic sea, endow Albania with a wealth of natural resources, including chromium (5 percent of the total world reserves), copper, iron, oil, bauxite, phosphate, asbestos, coal, marble and clays. Since the transition began about eight years ago, the mining of these materials has been barely operational.

In one pagan legend of Albanians, it is said that, after creating the world, God was left with a sack of stones and rocks and did not know where to throw it. He shook the sack once or twice unresolvedly and threw it down on lands where forever Albanians live.

This story is told by Albanians whenever they are fed up with troubles they have to encounter on this strip of land, not so wide, rough mountains, historically poor and permanently attacked by others, while others, even in two thousand years, never have been attacked by them. And whenever they escape bad luck, they repent for harsh words and call their Motherland a beautiful and brittle bride, looking to the future, which for Albanian brides as for Albania itself is insecure and full of puzzles.

The distinct geographic strategic position has confronted the Albanian people with long and violent occupations by ambitious peoples like ancient Romans, Turks in the Middle Ages, Italians and Germans in our Century. It is a fact already recognized now by Albanians and foreign analysts that the five-century occupation of Albania by the Ottoman Empire has been a decisive factor for the destruction of the Albanian Economy.

Albanians have suffered too much from oppression during their history. One feeling was however not suppressed, and this gradually became a main feature of Albanians: national feeling. As centuries were passing, in the complicated Balkan context, where oriental and western cultures were differentiated and matched, where entire populations were assimilated and new ones acquired, this feeling grew stronger. Representatives of the Albanian Renaissance, a handful of idealists in the century-long darkness of the Ottoman Empire, worked hard to raise national consciousness, permanently pressing on this idea.

Only in 1912, Albania won independence from the Turkish Empire. Neither the monarchic regime of King Zog, nor the communists of E.Hoxha could make Albania a European country, as it deserved to be a long time ago.

Cultivated patriotic and collectivist sentiment has been more successfully used by Albanian communists than in other eastern countries, for Albania was rather compact. They found a ready-made basis to establish their totalitarian regime, which is closer to perfection in peoples with strong collectivist sentiment, like in Germans for instance or in Serbians, as they were realized from relatively tolerant obligations of Tito's Yugoslavia.

During the 11-year period of the kingdom (1928-1939), Albania could not create the capitalist mentality as it existed in civilized Europe. Even those few capitalist elements created during these years were eliminated by the communist regime "rich" with the traditions of an extremely centralized economy. This regime not only extinguished the capitalist seed inherited from the past, but it did not allow at all their recreation and its access as happened in Hungary, Poland and elsewhere. So, from this point of view in Albania, there has existed not simply institutional emptiness, but also emptiness in the mentality of this society.

The Albanian economy during the communist regime

The Albanian communist regime (1945 - 1990) has often been defined as "the stronghold of Stalinism". In fact, the productive model applied after World War 2 by Enver Hoxha, has its roots in Stalin's policy, whose salient characteristics were:

- Authoritarian and centralized economic planning.
- Industrialization giving pre-eminence to heavy industry.
- Forced collectivization of agriculture.
- Nationalization of industry and commerce.
- The use of coercion through police and secret services to ensure strict control over society.
- Frequent recourse to political "purges".
- Absolute hegemony of the communist party.
- The strengthening and extension of the administrative and bureaucratic apparatus, which served as "conveyer belts" to the party leadership, and
- The leader's personality cult.

However, the peculiarity of Albanian communism, with respect to other eastern bloc countries, came from the strong nationalistic push for independence which conditioned all the main decisions taken, regarding both domestic and foreign policy, so much so that it was to be defined “National Communism”.

Indeed, the system of central planning of the economy and the control, applied by the State Party, had no equal in the whole of Eastern Europe. The choice of a strong centralizing government and recourse to radical solutions in building up the socialist system, were natural in a country which had known conditions similar to anarchy, weakened by clan and tribe sectarianism, where poverty, illiteracy and superstition predominated, and whose economic life was primitive and disorganized. In the old semi-feudal society, the workers lacked the discipline and industriousness necessary for the country’s rapid development. A strong centralized state was therefore considered essential for transforming the country’s manpower into a united workforce, overcoming the problem of negligence and individualism, ensuring a more rapid growth in industrialization and to fight possible opposition.

The policy of self-reliance and the extreme isolation of the country, especially during the 1970s and 1980s brought about the interruption of financial support from abroad, so hindering every kind of accumulation of resources for capital investment. With an industry based upon old technology and with a backward agriculture, the signs of the crisis became obvious in the 1980s and it burst out in all its components in the year 1990. Very high inflation, a deep decrease of the GDP (about 50 percent), the accelerated growth of unemployment, as well as the general disintegration of the balance of foreign trade, in the period 1991-1992, were the main consequences of economic collapse.

The general crisis with economic, political and social dimensions was accompanied by a people’s uprising, which having as vanguard the movement of the students in December 1990, forced the communist leadership to accept political pluralism. The communist party won this election, but the wave of popular protests presented a big obstacle for it to govern the country. The first non-communist government, based on an agreement between different political parties was created in June 1991. This government had a short life of only five months. It only started the liberalization of prices, of the rate of exchange, the privatization of land and of some public services.

The transformation of Albanian society toward the free market economy.

Numerous analysts are investigating factors and causes of collapse of the socialist system in eastern countries. Without going into depth in such an article, we would like to deal with those occurrences, which follow such major shifts as the overturning of political and social systems. Maybe it is one of the rare cases in the history of mankind that one system replaces its opposite without bloody revolutions and massive victims.

Perhaps the most important and true change this time evolved within the human being. Imagine a person born in 1947. At kindergarten, where he is sent at least xat the age of three years old, the first verse learnt is dedicated to the Labor Party, which according to it is his second mother. As he grows up, he learns in school and everywhere he goes, new concepts about communism as the best system in the world, about the bad people of this world, that more or less are rich people, blood suckers, etc.

What he hears from parents is, be careful, don't talk outside about what you hear at home, don't talk to that person because he has a bad biography. (Which means he has relatives who have been rich or connected with fascists in the past).

The person grows up and goes to work. He spends his youth in the agitation of excitement for building Socialist Fatherland. He begins to be afraid quite early. Afraid of slips of the tongue, of classmates, of social curb, of relatives that might be imprudent regarding their conviction and devotion to the party and might make a blunder, thus be interned and imprisoned, then necessarily he himself would be interned and imprisoned.

Imagine now how these people are confronted with a reality entirely different, quite opposite of the one they have lived in all their life?

In various aspects, Albania has represented a unique case compared with other eastern countries, an extreme version of Marxism-Leninism with numerous local ties linked with both the strong national identity of the Albanians and with Hoxha's attempt to build a communist society of Albanian nature.

Even "Albanian transition", as far as the strength of its impact and the speed of the transformation is concerned, might be seen as a kind of an extreme case within the framework of the more general transformation phenomenon occurring in eastern countries.

Albania was the latest communist country that entered the road of economic transformation. Apart from the ups-and-downs and the intensity of the political processes in Albania, which undoubtedly has its reflection in the trend of economic reform, the first serious economic steps toward a market-oriented economy began after the first pluralistic elections in March 1991. This might be considered as the first phase of the Albanian economic reform accompanied by a lot of controversies, confusion, half measures and, above all, a virtual political instability.

The general elections of March 22, 1992, were finalized by the victory of the Democratic Party. A new government assumed office in April 1992, starting a new comprehensive reform program. The program was carried out in two phases. From mid-1992 to mid-1993, during a one-year program, fiscal and monetary control combined with comprehensive price and exchange system reforms was introduced. The program was generously supported by various international financial and technical sources. An important element was the support and remittances sent by the Albanians working abroad. After the good implementation of the almost one year emergency program, a medium term program was presented in the parliament in November 1993 for the 1993-1996 period.

Until 1996, Albania seemed to belong to the transition “success stories”. The GDP evolution placed Albania in the group of leaders. The growth in 1995 was reported at 13.4 percent, one of the highest rates in the world. After a severe drop between 1990 and 1992 to 65 percent of the 1990 level, the economy was rapidly growing since 1993 and reached already 86 percent of the level of 1990. However, with 675$ of GDP per capita in 1995, this small country of 3.4 million citizens, remained the poorest in Europe. Two other indicators were impressive: the inflation rate, which was 31 percent in 1993, 16 percent in 1994, 6 percent in 1995. And with a private sector, representing at least 60 percent of the GDP, Albania could be considered as one of the most privatized transition countries, comparable to Poland and Hungary.

Other indicators that would present a more balanced picture could confirm these results. According to foreign investment, the place of Albania in that period was rather modest, with a global stock of 130 million FDI, i.e. 38$ per capita. However, this level was comparable with Poland or Croatia. The main investors were Italy and Greece, mainly in light industry (textile and shoes) and infrastructure. There were other investments in tourism (Austria, France). EU (EBRD, Phare Program, and EIB) mainly provided foreign funding. At the end of 1995, regarding the synthetic transition indicator (the sum of EBRD indices), Albania rated at 21, i.e. rather far from the leaders with 31 (Czech Republic and Hungary). The rank of Albania was equal to Uzbekistan, just behind Macedonia and Romania, and just before Ukraine.

As the table shows, Albania’s good marks were on the easiest (but very important) items: price and trade liberalization, small privatization, (the indicators do not consider the specific privatization in agriculture; if they did, Albania’s image would be better). The weaknesses were on the institutional side of transition, on large privatization and enterprise restructuring, all items reflecting the depth of the development of the market economy. However, the steps that were made were sufficient to launch private initiative and to start to modernize the country. In that time, Albania has started to build the financial sector. Two of the three state banks were planned to be privatized by 1997, and five foreign banks were operating in the country. In April 1996, the Anglo Adriatic Fund, the first private investment fund for privatization bondholders was created. In May 1996, a first stock market, trading only privatization government bonds, started.

	1	2	3	4
Large-scale privatization		X		
Small-scale privatization				X
Enterprise restructuring		X		
Price liberalization			X	
Trade and foreign exchange system				X
Competition policy	X			
Securities markets & non bank financial institutions	X			
Legal rules of investments		X		

How to characterize the Albanian transition? How to explain its success? There are three features to the Albanian path to the market economy: strong support of the population, a radical liberal orientation, and a strong extroversion of the economy.

The communist regime in Albania was especially tough and the willingness of the population to leave the past and to enter the market economy system was high. It gives *strong political credit* to post-communist government.

Moreover, this political credit allowed the government to launch a *radical reform*. The Albanian reform could be characterized as quick and liberal. The price and trade liberalization, the cut of subsidies happened in a few months and the economic policy became very orthodox according to IMF recommendations. The dominant philosophy was the less state, the better. The concept of privatization was also radical. The aim to privatize almost everything would reduce the state sector to the smallest minimum. The result of this policy was strong growth and disequilibrium. The shock for the economy was very hard, industrial production fell in 1992 by 60 percent and 10 percent in 1993. The GDP drop was 35 percent; real wages fell 30 percent between 1990 and 1993. Unemployment jumped officially to 26.5 percent at the end of 1992, and in cities, the global underemployment was at least twice as high: 50 percent of the active population was jobless. But already in 1993, GDP increased. Growth was led by agriculture, construction and by small private services.

The third feature of Albanian reform is its *extroversion*. It means that inside Albania consumption was much higher than production: the differences were provided by outside sources, by private transfers and emigration. Aid was equivalent to 40 percent of GDP in 1992, 20 percent in 1993 and 12 percent in 1994. Incomes from 400,000 emigrants working in Greece and Italy, are estimated at 400 million $ per year, 25 percent of GDP in 1994, and around 15-20 percent in 1996.

However, apart from the success of the reform, the achievements of it appear to have been rather hollow. The financial sector remained underdeveloped and the willingness of the ex-government to implement reforms and comply with IMF and World Bank requirements masked reality. In fact, apparent economic success depended in large part on remittances from the workforce living abroad, large-scale smuggling and money laundering and the short-term profits from the pyramid schemes. This situation seemed to continue for a relatively long period.

But the situation began to get out of control since the contested elections of May 1996 and after the repression of the opposition in the main square of the capital ("Scanderbeg square"). In the economic context, it was the time when the pyramid schemes had passed their point of maturity and they were running fast toward bankruptcy. Within few months, everything built up for several years seemed to be ruined. All that international investment did not give its fruits and the country was again near the abyss. The land of the eagles began to be called the "land of kallashnikovi". During and after the election of June 1997, when the socialists and their allies won the absolute majority in the new parliament a "hot debate" is continuing about the causes of the Albanian catastrophe.

This debate continues even today and not only the politicians, but the analysts too, often do not share the same opinion for the evaluation of economic reform in Albania. Perhaps, this is due to the Albanian climate, which is loaded more than is necessary by political influences. Below we will try to escape from political influences of this kind and will stay within the frame of technocrats.

The crisis of spring 1997 and its causes

The years that came after the collapse of communist regimes in Eastern Europe and in Albania have shown clearly that the success or failure of reforming steps should be seen closely linked with the specific conditions, as well as with the historical experience of the region.

After this, a logical question is raised: Did Albania adopt the rules of the game according to that of a market economy, or was everything allowed to happen in a spontaneous way? What would have happened in an environment where the old rules did not exist any more and the new ones were drafted only on paper?

Let us try to analyze several moments of economic reform in Albania, with the aim of discovering the main causes of Albanian crisis.

In the chaotic situation, after the spring unrest of 1997 and the events that followed it, it seemed as if the economy, politics and the whole Albanian society were frozen and here and there, sunshine was seen at the end of the tunnel. In fact, the social agreement between the Albanian political forces and the successful realization of parliamentary elections were uncontested hopes for bringing into normalization the economic and social life of the country.

The causes of economic crisis in spring 1997 in Albania have been commented on in different ways from different analysts from a variety of areas and with different interests behind them. But let us try to analyze some of the main causes from the technocratic point of view:

- During these years, Albania has adopted a legal framework in which the local government was very closely controlled by the central government. So in Albania there was born a *powerless local government,* unable to present itself as the materialization of the people's will and accountable for the fundamental developments of the society itself.

- *The governmental structure of the country* (including the political opposition, too) which was the first to cope with the crises of pyramid schemes as a precursor of political demands that accompanied the civil unrest in February-March 1997, was unable to absorb immediately the people's demands. It showed lack of flexibility and adopted with delay the political changes that were asked for by the people.

- *The legal framework and the institutions* started to be set up rapidly aiming at European standards. Such laws were very good often only on paper, because the level of their implementation in practice was very low. The question was not simply having a very modern legislation, but first of all implementing it in reality. It would be better to have a not very modern legal framework, but for it to be applicable and the citizens to see its implementation as a precondition to enter into the European family.

- Under the conditions of a relatively full legal framework, but not really in full implementation, in these first years of transition there were possible the creation and the existence of *inefficient business networks*, not competitive but in monopolist positions and even with discrimination power. This kind of business network, in which we can include the partial or full pyramid schemes, unbalanced in an obvious way the market ratios, the shift of capital from one branch to another and hindered the real economic growth of the country.

- *The capital inherited from the socialist past could not be fully restructured in order to be suitable for the market economy*, while the human capital, being unsuitable for the new economy, as well as, being forced from the poverty and lack of jobs was transferred to neighboring countries. It must not be forgotten here the "shrinking" of the state property through the special board's decisions for this purpose and the creation on this basis of a stratum of new entrepreneurs within a relatively short time. In many cases, this stratum was not able to put in use that part of national wealth that passed into their hands. First of all, this was due to lack of entrepreneurs' abilities to manage this wealth according to the rules of the market economy.

- So, in these first years of transition there was not only an institutional and organization vacuum, but also a *weak intervention of the state in the economy*. In other words, the new system in which our country entered after the 1990s displayed a vacuum, which was filled by the informal sector in all the areas of activity. Here are the main causes for the large extension of this sector in the Albanian economy.

- Despite the reservations that we may have, the privatization of small and medium enterprises, should be considered as the most successful step toward the market economy on the road to setting up the institutions of this kind of economy. *But the private property created in this period was not able to find the incentives of real economic growth, to stop the overconsumption and to reduce in an economic way the informal sector*. As a consequence, the productive resources were not used with sufficient efficiency; consumption of all kinds was increased artificially and the economy went inevitably towards a general crisis.

- The reforms are successful when experts manage them with a mentality qualitatively different from that of the pre-democratic period. It was a fact, that in Albania the tradition of *appointing people on the basis of party merits and not on professional ones* continued. Coming from a fifty-year dictatorship, and used to managing with the old methods of dictate and of the party spirit, it was understandable that the Albanians would not change in a radical way and within few years this style of management. But this would be only half of a bad thing, if the people in power would have gathered around themselves those who were experts in their areas of knowledge. Professional knowledge in the specific jobs was replaced rapidly by the party militancy. It was in Albania where you could find a bank governor or a minister of finance from any profession, except for economist.

- *The banking system, one of the most powerful institutions of the market economy, despite some small progressive steps, was left too far behind. Its incompetence caused the banks to lack credibility in the view of the Albanian businessmen and their money transactions instead of going through banks, passed in suitcases of cash from one businessman to another when doing business*. In this way, the businessmen risked their business and their life at the same time. On the other hand, the banking system was supportive not only of the honest and competitive businesses, but also of the pseudo businesses, too. On behalf of their "businesses", many people got credit from banks and used them for other purposes. A part of them, tempted by the high interest rate of the pyramid schemes invested there the money they got for business from banks with the hope that without working they would have the chance to profit much more. *It is thought that the inefficiency of the Albanian banks and the lack of private banks are some of the causes of the beginning of the Albanian crisis, which, as it may be known, started as a crisis of pyramid schemes*. In such a ground, the pyramid schemes, where their existence was accelerated because of lack of proper legal framework, became quickly "successful" offering the incentives to start a massive epidemic among people. Two of the worst things of the pyramid schemes were:

First, "the robbery" of the savings of those working for years as refugees (and of their relatives) in Greece and Italy, and

Second, the education of the people with the motto that capitalism is the system of many surprises like that of being rich without working and within a short period of time. What the individuals in capitalist countries achieve after working hard for many years, the Albanians would achieve through tasting, in two or three years time, the fruits of their "money coupons" issued by the pyramid schemes.

The number of people that invested their money in these firms was very large. So their loss was transformed into an earthquake which gathered many things with it, while at a certain point (the people at the beginning were involved in economic protests) demanded even the resignation of the president and his party. All these protests happened in such a way that it will be remembered for a long time not only in Albania, but in the entire civilized world.

If we expand this analysis further into the capital market, we can say without any doubt that it is still in the infantile phase. The beginning of this market officially in May 1996, is an example of a delay in its development. In this market, mainly the banks and some other institutions, which like banks are state owned, operate. In this market, only obligations of the state are traded, but private companies are still not quoted. While the state is playing with itself, this market keeps out of the game the private sector.

- One of the great achievements, which was spoken also much about, was the freedom of thought and opposition of the specialists. But after a short time, it was clear that a thought and especially an economic thought different from those of the people with power began to be considered as anti reform, and as such, it should be left aside. Although with more space than before to express themselves and their ideas, the specialists found themselves within the frame decided from above, and the scientific debate for alternative solutions was replaced by *conformism with what was approved from the top, from the new nomenclature*.

- Corruption was raised into a system and nothing could be imagined to be realized without paying something under the counter. The government declared with all the channels of its voice the war against this phenomenon, but the result was too much ado about nothing.

- As far as the rights of the people and the image of Albania before international opinion led by American opinion are concerned, the situation continued to get worse and this was displayed openly after the election of May 1996, in "Scanderbeg square". The arena of the unequal "battle" of the governmental heavy machine, against the demonstration of the opposition forces for not knowing the results of the violated elections, was a show of almost unbelievable efforts of a party trying desperately to stay in power in an antidemocratic manner.

A brief history of the development of pyramid schemes in Albania

The beginning of the informal market in Albania was in the years 1991-1992. With the wind of change in economic, political and social life, with the development of the economy, to find the necessary capital for starting a business was a priority. As a first step, it was the development of the informal line of credits from friends and relatives. This helped the creation of the initial capital so necessary for the birth of a business.

Gradually, with the increase of income per capita, which is one of the necessary bases for the birth of pyramid schemes, in the period 1993-1994 there started to appear some phantom firms. Their activity was expanded by collecting incomes from small consumers, attracting them by offering interest rates higher than those of the bank offer. Meanwhile, their activity at that time was only locally focused. It has to be emphasized that the majority of these firms had also businesses like supermarkets, mines, livestock and agricultural activity, etc.

These firms took the pyramid form mainly during the years 1995-1996. Any profit level secured in economic activity could not justify the very high interest rates applied by them. Also, the competition between them for creditors brought an increase in very high levels of interest rates (from 5-50 percent in a month). At this point, the population trusted these firms, because of the fact that for some years they were paying back normally and correctly both the interests and the money invested.

The phenomenon of depositing money into these kinds of firms left its imprints on the banking system as well. At the beginning of 1996 the deposits of the population in the banks decreased drastically. Money was withdrawn from banks in order to be invested in such pyramid schemes. So, in total, bank deposits decreased by 100 percent.

The first signal issued by the government in November 1996 was not accepted by Albanians, who have been attracted very much by the peak that the interest rates of the pyramid schemes have reached.

Paradoxically, after the signals issued through state television, the flow of deposits increased even more. Some reasons for this paradox are:

- The long time of the activity of the pyramid schemes.
- The massive poverty and the desire to be rich within a short time.
- The lack of knowledge about this phenomenon

- The identification of the activity of these firms with the government.

At the end of 1996, the first pyramid scheme ("Sude") went bankrupt. The people who had deposited their money there started demonstrations against the government accusing it of indifference and participation in the pyramid schemes. Finding it facing the people's pressure, the government ordered administratively two foundations "Populli" and "Xhaferri" to be closed down. The government also undertook the difficult task of distributing to the depositors the money they had invested in these two foundations. Instead of calming down the situation, these actions mixed the government totally with the bankruptcy of pyramid schemes.

The first months of 1997 brought with them a general unrest and the country was near catastrophe. The economy ceased its activity. Many businesses were destroyed. Prices increased by 50 percent. The Bank of Albania increased the amount of money in circulation by 45 percent within a period of six months. Meanwhile, the budget deficit by the end of November 1997 was 36.3 billion leks.

The causes of the birth of pyramid schemes and the factors that helped them to a "long life"

Pyramid schemes in Albania reached levels never noticed before in other countries. At the very beginning, their activity was not pure pyramid. At that time, we had an overlap of pyramid schemes and economic activity. But in many instances, people aimed at increasing their deposits because of serious housing problems. Due to lack of housing or bad living conditions, numerous families settled in the large cities, after selling their houses and invested the money in fund-raising schemes.

On the other hand, the base of the income turnover grew very much. The high interest absorbed not only domestic capital, but the incomes of the refugees, too. Monthly interest provided the living means for many families, primarily retired pensioners. But it holds true even for others, who wanted to multiply their initial amounts which reached alluring figures that formed the basis upon which people calculated their earnings without giving due consideration to the sums retrieved.

In many cases, the people had only "coupons" for their invested money, because in most cases they did not received their interest, but capitalized it. They imagined they possessed millions, while having only paper coupons. The psychology of interest re-depositing and capitalizing was aimed at obtaining better housing conditions or setting up new businesses and not simply surviving.

Pyramid schemes were characterized by:

- The multitude of forms in which they appeared in front of the depositors. From this perspective they can be grouped as follows:

- Charity foundations: “Populli” and “Xhaferri” were the biggest.
- Investing companies like VEFA, Kamberi, Cenaj, Silva, etc.
- Companies with no other activity but money collection like “Sude”.
- Unlike other countries where these schemes operated in specific zones or regions, in Albania they spread all over the country. Very soon it became a national phenomenon and did not remain merely a local one as it proved to be in Eastern European countries.
- The schemes developed in Albania stand out from the rest also for their duration. Political factors strongly intervened with economic factors, largely contributing to their longevity. It is estimated that the funds employed in the pyramid scheme amounted to approximately USD 1,2 billion, i.e. 60 percent of the Albanian 1996 GDP.

Amongst the factors that encouraged such schemes, we shall mention the following:

- *Geographic position*. This position is like a bridge that links East with West, Europe and Asia and for this reason Albania became very attractive for the speculators of drugs and guns, as well as for illegal emigrant businesses, etc. The southern environment, from a geographic point of view was very favorable for the birth of pyramid schemes.
- *The massive poverty*. After the “Berlin Wall” was broken in Albania, too, the Albanian people were ready to undertake a high risk for narrowing the economic differences with western countries. In such conditions, this game took such tragic dimensions, that many people sold their houses- the only real estate they possessed- with the hope of winning much more.
- *The accumulation possibilities of the population*. During the years 1994-1996, when the informal market took on large dimensions, the economy of the country was growing significantly. The incomes of the people were increasing as a result of :
    - *The growth of the GDP*. (During the period 1994-1996, the savings of the population achieved a level of 15 percent of GDP, or nearly 350 million $);
    - *The incomes from emigration*. The incomes from emigration in 1995 were calculated to be about 250 million $, while in 1996 this figure was thought to be 500 million $ (an average 700-800 $ per emigrant in a year);
    - *The incomes from aid and loans*. After the events of 1991 and especially after March 1992, the neighbor countries, the European Community, the international financial institutions and other institutions have given to Albania aid and loans in relatively large amounts. A good part of this aid is used directly in favor of businesses, families, etc. But

the entrance of monetary flows accompanies them. The National Agency of Foreign Investments calculates that an average of 150 million $ each year have entered Albania from these sources.

- *The non-positive role played by the massmedia*, which advertised the interest rates applied by these firms and at the same time did not announce the public opinion of the danger.

- *The reaction of international institutions* like the International Monetary Fund, World Bank was with too much delay.

- It is thought that in that “long life” of the pyramids *the money that comes from abroad for money laundering* in Albania has had a significant impact.

- *Lack of civil knowledge of the formal market*. Over a period of 50 years, the structural elements of the formal market have not been in place; people had too little knowledge about business difficulties earning money; the situation was aggravated from the psychology prevailing in people’s mentality, which expected the government to protect its citizens from risk. Furthermore, the pyramid schemes’ bosses participated in official receptions and enjoyed the full support of all the media. Public perception, rooted in the difficult situation of Albania, that these companies were laundering money, reinforced the credibility of the returns they offered.

- *Lack of a legal framework and the absence of legal institutions*. The analysis bears out the conclusion that the backward Albanian financial system passively contributed to such a phenomenon; banks were just entering their restructuring process; there were neither private banks, nor stock exchanges or a full legal framework that could prevent public fund raising by non-licensed operators.

- This vacuum served as a fertile terrain for fund-raising company owners who still find supporters among senior officials who justify them by mixing up private borrowing with public savings.

- As to the effect politics had on the economy, we all are aware that every political group was forced to undertake a structural reformation of the economy, which involved both political and social costs. That is why the problems were not nipped in the bud, but increased until it became impossible to resolve them in a second stage. The attempts made to

Table 1: Growth in real GDP in Eastern Europe

	Years							
Country	1990	1992	1994	1995	1996 Esti-mated	1997 Pro-jectio n	Estimated level of real GDP in 1996 (1989=100)	Projected level of real GDP in 1997 (1989=100)

Albania	-10.0	-7.2	9.4	8.9	8.2	-15.0	**85**	**73**
Bulgaria	-9.1	-7.3	1.8	2.1	-10.9	-7.0	**67**	**63**
Croatia	-6.9	-11.1	0.6	1.7	4.2	5.0	**70**	**74**
Czech R.	-1.2	-3.3	2.7	5.9	4.1	1.0	**89**	**90**
Estonia	-8.1	-14.2	-1.8	4.3	4.0	7.0	**71**	**76**
Macedonia	-9.9	-21.1	-4.0	-1.4	1.1	2.0	**55**	**56**
Hungary	-3.5	-3.1	2.9	1.5	1.0	3.0	**86**	**89**
Latvia	2.9	-34.9	0.6	-0.8	2.8	3.4	**52**	**54**
Lithuania	-5.0	-37.7	1.0	3.0	3.6	4.5	**42**	**44**
Poland	-11.6	2.6	5.2	7.0	6.0	5.5	**104**	**110**
Romania	-5.6	-8.7	3.9	7.1	4.1	-1.5	**88**	**87**
Slovak Rep.	-2.5	-6.5	4.9	6.8	6.9	4.5	**90**	**94**
Slovenia	-4.7	-5.5	5.3	4.1	3.1	4.0	**95**	**99**

Source: Transition report 1997 EBRD, p. 115

protect this activity constituted a political error and figures demonstrate a *strong correlation between the evolution of the political events and deposit levels*. Such was the case with the rise in deposits in 1996, especially after the May 1996 elections.

The overcoming of the crisis and the further development of the country on the road to the transformation of the economy

The important indicators of the economic growth for the whole period of transition of Albania and particularly the years 1997-1998, compared with other countries in transition, are shown in the table 1.

According to data in this report, but also to our own calculation, it was foreseen that in 1997 the countries of Eastern Europe would achieve 95 percent of the GDP of the year 1989. Meanwhile, Albania achieved in 1996 only 85 percent of the 1989 GDP. For the year 1997, the forecast of the EBRD was not achieved, and what is worse, according to EBRD calculations Albania would achieve only 73 percent, because of the turbulent situation in the spring of 1997. It was only Poland, which during the year 1997 passed the level of GDP of the year 1989 by plus 10 percent.

In the context of the Eastern and Baltic states, 8 out of 14 analyzed in the year 1996 passed a growth rate of 4 and more percent, but three of them, Romania, Czech Republic and Albania had a very low or negative growth. The situation of Albania is explained by the events of spring 1997.

If we take into consideration the inflation rate, (the data published by INSTAT) at the beginning of 1992 it was 237 percent, while with a very fast decline in the year 1996 it reached the level of 6 percent. According to the evaluation of EBRD, for 1996, the level of inflation was 17 percent. This report, as well, shows that the projected inflation for 1997 was 42 percent. Returning again to the data presented by EBRD, the economic growth foreseen for several countries in 1998 is shown in table 2.

As can be seen from this table, the forecast for 13 countries is within the span from 1.9 percent to 8.9 percent. The lowest growth is foreseen in Romania, while the highest is in Albania.

The figures of table 3 show that the growth of GDP in 1998 is estimated at 10 percent. This indicates some good efforts in economic development. The other figures of this table indicate a modest improvement of main macroeconomic indicators in 1998.

But what would be some of the ways for a fast recovery and steady development of the country?

1-The necessity of a monetary policy in accordance with the fiscal policy of the state

The difficult situation our country passed through during 1997 and after it in 1998, sets the demand for a wide program of objectives and measurements for a coordination of monetary and fiscal policy.

The achievement of final objectives towards macroeconomic stabilization requires from the Bank of Albania a tight monetary policy. But the implementation of such a policy may be unsuccessful if it is not coordinated with a tight fiscal policy as well, because we will have not a long-term stabilization if the starting point is only the emergency situation.

Table 2: GDP growth forecast for Eastern Europe

Countries	**GDP growth forecast for 1998 (Average)**
Albania	**8.9**

Bulgaria	**2.2**
Croatia	**5.2**
Czech R.	**2.5**
Estonia	**4.4**
Macedonia	**5.1**
Hungary	**4.0**
Latvia	**4.6**
Lithuania	**4.3**
Poland	**5.0**
Romania	**1.9**
Slovak Rep.	**3.7**
Slovenia	**4.3**

Table 3: Main macroeconomic indicators

	1990	1991	1992	1993	1994	1995	1996	1997	1998
The real growth of GDP in %	-10	-28	-7.2	9.6	8.3	13.3	9.1	-7	10
GDP per capita (thousands Leks)	5.1	3.7	3.5	3.9	4.2	4.6	5.0	4.3	5.1
Consumer price index (CPI), in %		22.7	76.4	100	115.8	122.8	144.1	204.8	225.3

Foreign exchange rate Lek/USD (Average period)			75	102.1	94.7	92.8	104.5	149.1	163.3
Budget revenues in % of GDP	46.8	31.5	24.7	26.7	24.1	23.5	18.5	17.3	22.1
Budget expenditures in % of GDP	62.1	62.2	46.2	40,4	33.1	32.3	28.8	29.5	35.8
Total budget deficit in % of GDP	15.4	30.7	21.5	13.7	9	8.7	11.3	12.2	13.8
Inflation in %			237	31	16	6	17	110	40

Source: "Fiscal statistics of government", Tirana, March 1998.

2-The reduction of the informal sector

The long-term development of Albanian business is closely linked with the reduction and elimination of the informal sector, too. (The informal sector is that part of economic activity that is realized partly or totally outside the influence and the authority of the law). An obvious influence in the development of this sector has derived from the main macroeconomic steps undertaken in the economy during these first years of transition. Here can be mentioned especially the steps linked with the giving up of the state intervention in the economy (deregulation), the liberalization of trade and prices and the creation of the legal and institutional conditions for competition.

In different dimensions and indications, during these years of transition appeared many forms of hidden activities like smuggling, the production and marketing of drug plants, prostitution within the country and abroad, the informal credit market, the corruption of a part of the state employees, etc.

As we showed before, the number of businesses increased relatively very fast, but this phenomenon was accompanied by a lot of problems. So, it was with the morality of taxation. To express it more clearly, the problem here is the attitude of the "players" of the informal economy (but, not only they) towards the legal obligation to pay taxes and social security to the state. The results of research carried out about two years ago showed that the majority of the people interviewed (nearly 90 percent of them) did not pay taxes. The rest admitted that they paid, implying here social security in the state enterprises and institutions where they have their "first job". This becomes clearer from some approximate calculation of the percentage of the payments for social security and taxes in the total incomes of the family. (For the people interviewed this percentage was very little, 6 percent of the incomes; from which 4 percent were from the incomes of the job they had in the state and only 2 percent from the incomes of self-employment)

A high level of development characterizes the informal market in Albania. From this viewpoint, it can be said that it represents a source of development for economic recovery, but on the other hand, it is an obstacle for fast economic development. This sector is a strong reason for the decline of the state income from social security, because the unregistered incomes of private entrepreneurship represent a gross amount of incomes that are not paying their fiscal obligations. It has also reduced the level of wages, has hindered honest competition through private businesses and caused damage to the labor market-creating so a strata of undefended people. One of the reasons for this situation, excluding the insufficient level of legal education of the entrepreneurs and the fact that the majority of them are at the same time owners and managers, is also the lack of sufficient experience of the fiscal administration body, the insufficient and nonfunctional control of state structures; as well as the presence in this administration of some people who consider their job as a good position to obtain extra incomes and favors.

The reduction of the informal sector and its legalization among others requires a better harmonization of the interests of employees and employers, of entrepreneurs and the government. A major role is expected to be played by public education on the one hand and the expanding of local government competencies in the administration of fiscal incomes of business activity on the other hand.

3-Business stimulation according to a long-term and differentiated strategy

The number of businesses in the production sector is still far away from the opportunities and the demands of actual and future development. The stimulation of these kinds of businesses is a perspective that generates many jobs and increases the possibilities for leaving the crisis behind. From this point of view, we could say that many businessmen want to invest in this still somewhat virgin area, but the policy and the strategy of the development of the country has not played its stimulus role properly.

The capital required to invest in production is generally large compared to trade and the service sector, but the policy of granting is still within its frozen framework. Up to now the priority is given to short-term credit with unsupportive interest rates for these kinds of businesses. It is well-known that the investment return for production lines and factories is longer and for this reason long-term credit must take its place and with softer interest rates compared with other non-productive businesses.

Business credit has been in an unsatisfactory level because of ineffective management of credits offered by Albanian banks. Very often, a non-stimulus credit is offered i.e. short-term credits with a high interest rate. The business is not treated in a differentiated way and according to a long-term strategy of country development. The short-term credit has prevailed over the long-term one (their ratio has been 1:2 in favor of short-term credit). Perhaps this kind of credit policy, biased toward the short-term has been influenced by the undercapitalization of banks and the lack of sufficient guarantees for a secure return of the credit offered to businesses. If we see this issue from the viewpoint of business management, we can say that several businesses have been in a privileged position because of individual preferences and not of merit and a policy of strategic country development. So a part of businesses taking advantages from the weak control of banks, too, “invested” in the pyramid schemes the credit they obtained from banks instead of using it for “nourishing and growing” their activity. Instead of profits through honest competition, those businesses were oriented in profiting in other ways, even without working. The worst thing of this phenomenon was not simply the deviation from profiting in rivalry with other competitors, but parasitism was stimulated creating the bad opinion that capitalism was easy and anybody can profit a lot even without sweating!

On the other hand, following a protectionist policy for some kind of products and businesses would be stimulating for Albanian investors. Following up a more stimulating policy for domestic production could serve, too, as a support for a more effective management of economic deviation. This deviation actually means that nearly 13-15 percent of the work force lives abroad and more than 25 percent of GDP comes from external (foreign) sources, the capital needed for infrastructure construction is from foreign sources and the demand is mainly oriented towards imported products. This deviation might have positive aspects as well. It might help the reduction of rural unemployment, accelerate development and modernization. But it could have in itself a risk, too. The first danger could be that which happened in Eastern Germany where increasing supply destroyed production capacities. This combined with emigration and liberalization caused non-repairable damages. The danger stands, too, in the fact that in Albania domestic demand does not stimulate local production and this country could be changed into an importer of ready made products. As a consequence, these would increase deficits and foreign debts. Another danger is the possibility of emigration as a result of the unemployment in the rural areas and of urban crises.

With the aim of the development of SMEs and the overcoming of the obstacles and difficulties mentioned above, the role of the state with its supportive policies, powerful business infrastructure and with more integrated mechanisms for solving local restrictions, the conditions and the culture are very important

The start-up and the expansion of SMEs are an ongoing process, which require time. It is relatively simple to create a company, but it is very difficult to survive for a certain period of time. Some of the countries support the development of SMEs through a national strategy, while others do not have officially such a strategy, although elements of the policies on SMEs are part of the general economic policies. This happens particularly in those countries where this sector is about 90 percent of the whole economy. The result of these different choices is the setting up of institutions and the usage of different instruments for SMEs development.

The support and development of SMEs are considered an important element of economic growth. In the conditions of Albania, this is particularly important. The Albanian State is conscious of the big role that it has to play in this process through putting together all the efforts and the necessary resources for facilitating and supporting private initiative. Drafting a contemporaneous policy of SMEs development as well as a development strategy, the Albanian state aims to increase the number of small and medium businesses, their contribution to the national economy and the stimulation of small and medium size production enterprises in the sectors with dynamic development. Also, it aims to set up the state mechanisms for supporting these kinds of enterprises from the start-up phase and their further development.

To achieve these objectives, the state must intervene in three directions:

- *Financial,* through creating a functional system which will guarantee the reimbursement of the credits taken*;* through using differentiated taxes according to the importance of the activity, as well as the perspective of development; through giving credits under favorable conditions for new businesses.

- *Organizational,* through supporting the activities of consultancy and management training for the entrepreneurs; through eliminating the discrimination between the private and public sector; through encouraging incubator centers under favorable conditions for business and mainly for those businesses that propose stable development projects; through supporting wholesale firms as a fundamental condition for securing the supply of SMEs which have production activities.

- *Institutional,* through improving the legal framework especially for SMEs, through securing its implementation; through creating and administrating an efficient information system with access for entrepreneurs; and lastly through creating a national system of consultancy and training centers for small and medium businesses.

Starting from these conditions, the Albanian State is aiming at supporting small business through drafting the development strategy for this sector. This strategy aims at:

- Creating the conditions for increasing the number of SMEs and strengthening those in existence,
- Increasing financial funds for SMEs with favorable conditions,
- Creating all the facilities for the participation of Albanian entrepreneurs in training,
- Consultancy, information in the area of management, marketing, standards of quality, business organization, organization of production with new technology as well as the increasing of productive capacities and the competition of SMEs in domestic and foreign markets, too.

4- Free Economic Zones

Albania desperately needs jobs that are more meaningful. The workers are skilled and their labor cost extremely low. Albania must attract foreign firms, which can take advantage of its cheap labor and national resources. These firms must be allowed to freely export their products to other countries, as an incentive for building their facilities in Albania. Otherwise, the Albanian domestic economy cannot afford them at present. This arrangement may be viewed by some critics as exploiting Albania, but importantly, it will create not only needed jobs for Albanian workers, but it will also lead to work experience, training, and know-how in modern companies. Concurrently, free economic zones will create pockets of badly needed industrial infrastructure – transportation, communications and utilities.

5- A showcase in Tourism

A particularly promising development area for Albania is tourism. In addition to its beautiful mountains and beaches, which are within three hours flying time of most major European cities, Albania has numerous historical attractions.

6- Aggressive training of Young Professionals.

The future of Albania rests on the shoulders of its young people. Many young people have, and still are trying to pursue, a better future by trying to leave Albania. However, giving a ray of hope to young professionals, quality education and training would seem to be extremely valuable.

7- International integration of the Albanian Economy.

Integration generates two welfare effects, trade creation and trade diversion. Trade diversion results from price competition that will divert trade from former trading partners in non-member countries. Trade creation occurs when cheaper supplies may be obtained from member countries at the expense of domestic producers.

The welfare effects of integration for Albania appear impressive. Trade creation will stimulate domestic production to satisfy higher priced foreign markets. Domestic production is so low that trade could hurt some current domestic producers. Albania stands primarily to benefit economically from economic integration – particularly with Western Europe – according to traditional comparative advantage theory. Trade diversion from current partners is unlikely to constitute significant costs because Albania's two largest importers are Italy and Greece, countries which are keen to bolster Albania's economic and political stability. Indeed, such public goods hold a high value in the wake of NATO bombing in March and April.

The benefits of economically integrating Albania to the EU and other Western economies are intuitive and the potential for increasing trade links is apparent in theory and empirical evidence from other regions. However, Albania's weak institutional environment still constitutes a significant obstacle to linking markets. Investments are simply not secure. Transparent, value-added production enterprises that generate regional and foreign exchange and contribute to economic growth have not emerged in Albania. Convoluted property rights and an ineffective judiciary render investments extremely risky. Integration with the EU also offers specific challenges as witnessed by Albania's attempts to accede to the WTO. Accession may be frustrated by the European Union support of certain sectors, particularly agriculture.

Albania's European neighbors would benefit directly from enhanced trade and a larger market, but more importantly, they would benefit from the political stability brought on by a richer Albania. Albania would especially benefit, as it will substantially increase the level of wages and the rate of growth.

The major obstacle is institutional reform. However, given the immense benefits proffered by integration, means must be explored to find mutually beneficial arrangements to innovating joint institutions to generate the surplus that creates value and improved relations.

Despite the achievements and the predisposition of actual government, the success of fully overcoming the crisis as well as the continuation with confidence on the road of further democratic transformation in the economy and in the whole life of our society, will depend precisely on these three factors:

*First**, the level of public confidence in the government and its reforms.***

Since the election of June 1997, the confidence of the public towards the government has shown signs of decline, which was reflected in the resignation of the government followed by another left-wing government. During this year many things happened; the European and American government together with international institutions expressed their confidence in the government, but the process of reforms and above all the level of people’s well-being have not advanced, if not declined. And the indicator of well being is a resultant force that shows better than anything the level of confidence of the public towards its government.

*Second, **full public order***

No improvement in the economic life and in the level of well being can be real if it is not accompanied by full public order. This is closely linked with the prosperity of the economy, with the high level of courage and initiative of the businessmen and in general of the domestic and foreign investors. Smuggling and other aspects of fiscal evasion are present despite the big efforts of the government. One thing should be emphasized here: things will not change much if the center that gives birth to such phenomena is not eliminated. It is too difficult to cut off the way of crime with legal means in a country where three quarters of the population live in poverty. Even states with strong democratic traditions and with a high level of law implementation would not be so successful if they did not fight with economic means that center that is the main cause of crime: poverty. So, the number of unemployed people in the economy is more than 245 thousands. On the other hand, the minimal wage for a state employee is no more than 28 percent of the calculated life minimum level, while the average wage is only 41.5 percent of this life “minimum”. If this analysis is continued with the comparison of the wages in some countries in transition, we see that in these countries (table 4) the average wage is from 2-6.5 times higher than that of Albania.

*Third, **a fair political game according to European standards***

To characterize this ridiculous war between Albanian politicians in the poorest country in Europe, one Albanian author has said that we can compare Albania with a ship in danger of sinking, while the crew (the politicians) is divided into two parts fighting who will be the master of the ship. It seems that their fight probably will be finished before the winner is declared, because a ship waiting for a captain will not survive for a long time. Have the politicians understood that they are fighting a battle without winners at a time when they must work together to save the ship from sinking and then, too, must work together to reconstruct the ship to sail safely into the “democratic sea”?

Table 4: Comparison of wages in some countries in transition

Countries	*Monthly wage in $*	*Growth in percentage (Albania 100 %)*
Poland	329	658

Czech Rep.	316	632
Slovakia	256	512
Hungary	246	492
Russia	185	370
Bulgaria	126	252
Romania	100	200
Belarus	95	190
Ukraine	55	110
Albania	50	100

Source: Albanian Observer NR 7-8. 1997, Tirana, p 22

Many people in Albania think that this generation of politicians should be changed with politicians of a young generation. It is better to have inexperienced politicians who make mistakes from lack of experience but unconsciously, than politicians with an old spirit who dream only of their seats and themselves at the top of the state. The new government composed by some new politicians, ex-students of December 1990 who took part in the movement that brought about the overthrow of communism, are a hope, but it is very difficult for Albanians to believe them. Another new politician as a Prime Minister replaced this government after a year. But let us wait with the hope that something will change in this country and that the people will have a better future- that which it deserved a long time ago.

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Cultural Transformation at Enterprise Level: Case Study Evidence from Poland[*]

Izabela Robinson, Beata Tomczak-Stepien[**]

This paper presents an analysis of the business cultures of four post-socialist Polish enterprises. Western capitalist orthodoxy emphasises the development and management of an 'appropriate' organisational culture as a key component of organisational effectiveness. Within an East European context it is likewise suggested that the development of appropriate market behaviours is necessary if transforming economies are not to hit a ceiling of recovery. However, what constitutes an 'appropriate' organisational culture within an East European context is open to speculation and debate, particularly if it accepted that there is no dominant model of capitalist work organisation which might represent a template for transforming economies. This paper draws on empirical case study material to appraise the business cultures of four post-socialist Polish enterprises. Findings suggest that ownership, turnover of human capital and management philosophy and ideology represent key factors in the development of market oriented behaviours. However, findings also reinforce the strength and endurance of the socialist culture.

In dieser Arbeit wird die Analyse der Unternehmenskultur von vier polnischen Unternehmen der post-sozialistischen Ära vorgestellt. Was unter einer ‚angemessenen' Organisationskultur im Osteuropäischen Kontext zu verstehen ist, darüber kann spekuliert und debattiert werden, besonders dann, wenn kein Standardmodell kapitalistischer Arbeitsorganisation für sich wandelnde Ökonomien existiert. Die Ergebnisse der vorliegenden empirischen Studie legen die Vermutung nahe, daß Eigentum, Humankapital, Managementphilosophie und Ideologie Schlüsselfaktoren bei der Herausbildung marktorientierten Verhaltens darstellen. Andererseits bestätigt sich die nachhaltige Wirksamkeit der sozialistischen Kultur.

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Introduction

Within western capitalist societies, the development and management of organisational culture is seen as a key component of organisational effectiveness (Denison, 1984, Barney 1986, Williams et al 1993). Similarly, within an East European context it is suggested that successful transformation to free market capitalism requires (in addition to institutional and structural reform) the ‘unfreezing’ of a dysfunctional socialist culture and the embedding of entrepreneurial attitudes and behaviours (EBRD1997)

However, the concept of organisational culture remains problematic and there are wide-ranging and unresolved debates as to the meaning of organisational culture and the extent to which organisational culture may be successfully manipulated and changed. Moreover, economic and political transformation in post-socialist Central Eastern Europe (CEE) has specific characteristics and features which distinguish it from western restructuring initiatives. The concept of path dependence (Stark 1992) suggests that individual CEE economies will follow different paths to a free market economy which reflect their specific historical, social and cultural legacies. Furthermore, as Whitley (1995, p11) suggests, the corresponding lack of any dominant model of capitalist work organisation which might represent a template for transforming economies reinforces the likelihood that institutional, socio-technical and attitudinal change will be contingency constrained. However, the concept of path dependence needs grounding empirically if it is to provide a meaningful basis for understanding the differential nature of the transformation process in CEE. Path dependence can operate at enterprise level as well as nationally and it is the nature and complexity of transformation at enterprise level that this paper aims to inform. Accordingly, the following structure is adopted: firstly we draw upon existing literature to conceptualise organisational culture and to identify relevant issues in the management and implementation of cultural change. Secondly, we consider literature in relation to the characteristics of organisational culture within Polish socialist firms Thirdly, we present and discuss empirical data in relation to cultural transformation within four post-socialist Polish enterprises and identify significant factors in the adjustment to free market conditions.

Conceptualising organisational culture and the process of culture change

Western capitalist orthodoxy emphasises the development and management of organisational culture as a key component of organisational effectiveness. The ‘excellence’ literature, (Kanter 1989, Peters 1987, Peters / Waterman 1982) together with studies of Japanese corporations, (Ouchi 1981, Pascale / Athos 1981) highlighted organisational culture as a key factor in the achievement of competitive business advantage. The emergence of the concept of Human Resource Management (HRM) as an approach to managing the employment relationship, has likewise served to emphasise the development of a management ideology and set of practices aimed at creating an appropriate (or changing an inappropriate) organisational culture. HRM policies and practices in areas such as recruitment and selection, socialisation, development, promotion and reward represent mechanisms for translating dominant organisational values into action in a way that supports the business strategy (Keenoy / Anthony 1992).

However, the concept of organisational culture remains problematic and there are wide-ranging and unresolved debates as to what organisational culture is (see e.g. Frost et al 1991) and the extent to which an organisational culture can be managed and changed. Mabey et al (1998) point to a polarised treatment of organisational culture identifying at one extreme a consultancy-based, prescriptive treatment (Willmott 1993, Williams et al 1994) which has an instinctive appeal to managers, particularly those within an individualistic, Anglo-Saxon culture with a bias for action and fascination with business leaders (Lundy / Cowling 1996). At the other extreme are located more theoretical, analytical approaches which illustrate the shortcomings of managerialist prescription. For example as Legge (1995) suggests, a ‘ positivistic/structural/functionalist’ perspective which conceptualises organisational culture as something the organisation ‘has’ results in a view of organisational culture as ‘somehow unitary and the collective conscience of the organisation’, (Legge 1995, p186), whereas an alternative view of culture as the product of social interaction, or as something the organisation ‘is’, emphasises the essentially pluralist nature of organisations, (Legge 1995, p185).

This polarised treatment of organisational culture, reflecting differing epistemological standpoints, likewise extends to debates as to the extent to which organisational culture may be manipulated and changed. Viewed from a pluralist perspective, it is questionable whether organisational culture may be successfully changed (Legge 1995, Ogbonna 1996). Group dynamics processes may be effective in changing attitudes and behaviour and Schein (1987) sees behavioural change as a precursor of cultural change. However, Ogbonna (1996) questions the degree to which employees readily replace existing values with new ones and suggests that employees may learn to adopt the language and behaviour of a new cultural paradigm without fundamentally altering their beliefs and values. Furthermore, the achievement of permanent or deep-rooted change through the use of behavioural change strategies may in itself pose an obstacle to future change.

Pragmatic approaches to changing culture (e.g. through changing job roles, reward strategies and styles of management) on the basis that these will result in culture change likewise equate behavioural change to culture change (or the assumption that behavioural change will result in culture change) and reinforce epistemological questions about the conceptualisation of culture. As Legge suggests, it is a structuralist/functionalist approach which emphasises the role of the leader in developing an appropriate collective consensus and suggests a '…culture created by senior management for the lower orders to follow', (Legge 1995,p186). An alternative view of culture as an outcome of social interaction casts doubts over the degree or even the feasibility of senior management's ability to unilaterally change organisational culture. As Legge points out, 'If the corporate culture makes no sense of the organisational realities experienced by the employees other than senior management, it will not become internalised outside that small sub-group', (Legge 1995, p187). A managerial view of culture change serves to explain why much vaunted culture change programmes have been less than successful in winning the hearts and minds of employees within western capitalist organisations, (Lundy / Cowling 1996, p169). The failure of TQM and BPR programmes likewise bear testimony to the mistaken assumption that enterprise culture (in both western and eastern enterprises) can be transformed as quickly and as easily as other organisational assets and resources. (See e.g. Schaffer / Thompson 1992, pp80-89)

Within the transforming economies of CEE it would be naïve, therefore, to assume that organisational culture change would be any less straightforward and unproblematic than within western capitalist organisations. Case studies of strategic change in Polish enterprises emphasise leadership as a key factor in responding to new markets, (Lempkowski 1992, Kozminski 1995), while other commentators point to structural change, management turnover and the removal of senior managers associated with the past regime as key factors in enterprise restructuring and improved enterprise performance (EBRD 1997, Obloj / Thomas 1998). However, many of the pre-1989 elites, power structures and vested interests remain within enterprises and it would be simplistic to underestimate the strength and pervasiveness of the socialist culture. It is to a consideration of the Polish context and the characteristics of state socialism that we now turn.

Characteristics of organisational culture within Polish socialist enterprises

It has been suggested that the socialist system resulted in a degree of uniformity which militated against the formation of distinct organisational cultures (Czarniawska 1986, p313). This uniformity stemmed from a homogeneity of organisational structures at enterprise level which in turn reflected the economic and political structures of the socialist planning system.

Polish socialist enterprises operated within a hierarchically administered system (union of enterprises, ministries and the Planning Committee), subject to the influence and interference of external power centres (the Communist party and the bureaucratic hierarchy), (Otta 1996, Kostera / Wicha 1996). Thus vertical authority structures were undermined by external agencies with the result that management roles, responsibilities and levels of accountability were blurred. Management attention was focused on the supply side of the value chain. Enterprises were not required to sell their output or to finance their production or investment; this was the role of central agencies. However, managers had to ensure they received sufficient supplies of raw materials (including labour) to ensure plan fulfilment. Here two skills were particularly important; getting soft targets which could be easily achieved and stockpiling resources (including labour) to meet tight deadlines, (Peiperl / Estrin 1998) – both depended on connections within the administrative hierarchy, the authorities, the party and the secret police (See Kostera / Proppe / Szatkowski 1995) for the nature of the 'bargaining' role of Polish enterprise managers and the development of reciprocal networks). Kostera and Wicha (1996) describe the environment of Polish socialist enterprises as one of 'cultural schizophrenia' where economic considerations were subjugated to political rationality as the dominant logic. This resulted in 'introversion' in economic terms characterised by an aversion to risk and innovation and unwillingness to take responsibility for economic decisions alongside 'extraversion' within the political arena manifested by close relationships with communist party members and political interest groups. The results were economically damaging - there were few incentives for efficient performance and the short-term orientation worked against risk-taking, innovation and accountability – but they likewise impacted on employee behaviour and work relationships.

Labour relations within Polish socialist firms were likewise shaped by the features of central planning. The combined effects of an illusory shortage of labour, low levels of labour mobility, the socialist ideology of each worker's right to work and basic survival guaranteed by minimum monetary and supplementary social wage, contributed to what Thirkell et al (1997, p19) have described as an 'apparently indulgent style of labour relations' whereby supervisors tolerated poor quality work and low levels of labour discipline in return for worker support and flexibility in meeting plan targets and coping with shortages of supplies. Lax labour relations were reinforced by a lack of differentiation of work roles between supervisors and workers and close informal working relationships and were further exacerbated by the repressive political climate of socialist enterprises (Staniszkas 1979). In the absence of a specific workers' culture or organisation or the opportunity for protracted lasting action (as opposed to periods of labour unrest and militancy), Kramer (1995, p78) suggests that Polish workers sensed their limited capability to challenge decision-making at enterprise level and instead used '…their lacklustre job performance as a means of 'exit' from the system'. Such sentiments also support Soulsby and Clark's (1995, p99) conclusion that '…one of the few freedoms of a worker was the 'right' not to work hard'. Not working hard could be considered patriotic because it represented a protest against the socialist system.

Within this context of worker ‘voice’ (or lack of), it is appropriate to consider the concept of the state-dependent worker as a normative type of personality created by state socialism. The concept of state-dependent workers relates to the relationship of the worker to the state and to specific work habits and behaviours developed under state socialism which might be said to contribute to an attitudinal and relational legacy which conditions the attitudes of workers and impacts the process of transformation (Miszkala 1996, Staniszkas 1979, Kolarska-Bobinska 1994). To develop the first point; the socialist system of bureaucratic redistribution guaranteed job availability, job security, price stability and a largely egalitarian incomes policy. In doing so it minimised individual risk, generated apathy and passivity of behaviour, promoted attitudes of dependency and created a state of ‘learned helplessness’ (Miszalska 1996, p47) combined with a distrust of the authorities. This state of psychological resignation manifested itself at the workplace in a ‘low-productivity-anti-individualist’ mentality (Miszalska 1996, p47), low levels of accountability and initiative, the suppression of difference and interest representation and a low work ethic.

The dismantling of the socialist system and the process of transformation from a centrally planned economy to free market capitalism has had an enormous impact on the functioning of enterprises but the endurance of the socialist culture and an ‘old cultural mind frame’ (Kostera / Wicha, 1996) is seen as inhibiting effective restructuring and transformation to free market conditions and undermining the effects of technological change. Within this context the concept of organisational culture presents a potentially useful means by which to identify enduring patterns of behaviour from the socialist past but also in demonstrating changed behaviours and their drivers.

Research design

The aim of this paper was to explore the business cultures of four post-socialist Polish enterprises through the perceptions of those involved in organisational change and transformation. We noted earlier the epistemological difficulties inherent in the conceptualisation of organisational culture (whether this represents behaviour, or values and take-for-granted assumptions) and the consequent lack of a convincing conceptual model that demonstrates how cultural change may be successfully undertaken. We are also mindful of the dangers inherent in a monolithic approach to organisational culture where typologies of culture suggest the imposition of a specific category on an organisation (Handy 1986). We have therefore adopted a process approach, building on the work of Schein (1984), which views organisational culture as a dynamic process and which takes account of the perceptions of participants in the process of culture formation, management and change.

Schein (1984, p3) defines organisational culture as:

'…a pattern of basic assumptions that a given group has invented, discovered or developed in learning to cope with its problems of external adaptation and internal integration, and that have worked well enough to be considered valid and, therefore, to be taught to those new members s the correct way to perceive, think and feel in relation to those problems'.

Schein's definition recognises that organisations face two fundamental demands – that of external adaptation and internal integration, both of which have particular resonance within transforming economies. External adaptation, Schein suggests, comprises five elements; strategy, goals, means, performance measures and correction systems while internal integration demands shared meanings, definition of organisational boundaries and the legitimisation of power. Schein's definition likewise suggests that culture embraces the concept of morality in determining what is right and appropriate in advocating acceptable behaviours and thus underscores the ethical dimension of culture change and manipulation. Furthermore, he acknowledges that any group within an organisation has the potential for developing its own sub-culture, particularly if it enjoys stability of membership and has a history of joint problem resolution.

We take the view that organisational culture is socially constructed; that it represents both the experience of past actions and acts as a conditioning element of future actions. Thus organisational culture is influenced by the environment and socio-technical systems of the enterprise which are in turn influenced by the values and beliefs of the groups and individuals making up the enterprise. Viewing organisational culture both as an input and as an output suggests that it is likely to be self-perpetuating and resistant to change. A process view of organisational culture demonstrates the challenge facing socialist enterprises in adjusting to free market capitalism and highlights limitations of neo-classical economic orthodoxy which emphasises privatisation, enterprise re-structuring and introduction of hard budget constraints as principal mechanism for the operation of a free market. Organisational transformation is more complex that such analyses suggest.

The research design adopted a case study approach which incorporated participant observation, analysis of company documents, interviews with enterprise directors and senior managers and a survey questionnaire to assess worker perceptions of the prevailing organisational culture together with their perceptions of how this has changed and their aspirations for future change. Fifteen interviews were carried out across the four enterprises with enterprise directors and senior managers. The interview protocol focused on the use of open questions (with prompts on specific issues), hypothetical questions and unpacking critical incidents in order to obtain different perspectives on different issues. A qualitative approach was felt to be more sensitive to processes in terms of how changes had taken place but nevertheless allowed for an holistic view rather than a narrow focus on component elements. In designing questionnaire items we were concerned with incorporating features identified within the literature as characteristic of the culture of socialist enterprises. Thus questions focused on worker perceptions of levels of individualism, collectivism and egalitarianism at work, management styles and authority structures. Table 1 summarises the sample size and response rates.

Table 1: Sample size and response rates

Enterprise	No. Employed	Sample	Response
A	480	48 (10%)	43 (89%)
B	450	98 (22%)	98 (100%)
C	1,700	170 (10%)	155 (67%)
D	480	48 (10%)	26 (54%)

The questionnaire required workers to indicate their perceptions of 'how things were, are and should be' in relation to a number of items. In this way we were able to construct a model of worker views of their preferred organisational culture. Given the emphasis in the literature of the difficulties of rapid culture change we were also able to identify prevailing features of the socialist culture.

The study focused on four post-socialist Polish enterprises which were at different stages in the transformation process. We were concerned with evaluating the purpose and effectiveness of programmes aimed at enabling enterprises to adjust and compete within free market conditions and specifically we were interested in the techniques employed to change organisational culture to match the perceived requirements of the organisational environment. The enterprises within the study were differentiated by size (number of employees), by product and technology used (although all enterprises were within the manufacturing sector), location and nature of ownership. All enterprises shared similar origins as state-owned enterprises and all were concerned with finding a foreign strategic investment partner from the same industry. Two of the enterprises within the study had strategic investors whilst two were still in the process of trying to attract one. Table 2 provides brief details of study enterprises.

Discussion of findings

The enterprises within the study were at different stages in the transformation from socialist central planning to free market capitalism. Enterprise A was in a very difficult economic situation. In 1989 the enterprise employed 1,200 people and this had reduced to 480 but the enterprise was still making losses largely because a substantial part of its production (over 50%) was geared towards

Table 2: Enterprise Characteristics

<table>
<tr><th>Enterprise</th><th>Size</th><th>Product</th><th colspan="2">Ownership</th><th>Characteristics of Transformation</th></tr>
<tr><td rowspan="4">A</td><td rowspan="4">400</td><td rowspan="4">Manufacture oil tankers & trailers</td><td>5th NIF</td><td>33 %</td><td rowspan="4">Contraction of operations (workforce reduction from 1,200 by natural wastage)
sale of machines, land, buildings
outsourcing of transport, maintenance</td></tr>
<tr><td>State Treasury</td><td>27 %</td></tr>
<tr><td>Other NIFs</td><td>23 %</td></tr>
<tr><td>Employees</td><td>17 %</td></tr>
<tr><td>B</td><td>450</td><td>Manufacture transmission stations and valves for gas industry</td><td colspan="2">100% ownership by PGNiG (state owned)</td><td>Defensive:
partial rationalisation of operations (closure of foundry, outsourcing)
moves towards greater regulation & standardization</td></tr>
<tr><td rowspan="5">C</td><td rowspan="5">1700</td><td rowspan="5">Manufacture loud speakers</td><td colspan="2">JV – Pioneer</td><td rowspan="5">Defensive
Re-structuring of production process, introduction of new, automated assembly line
ISO 9000
Search for foreign ‘know-how’</td></tr>
<tr><td>Treasury</td><td>33 %</td></tr>
<tr><td>Pioneer</td><td>11 %</td></tr>
<tr><td>Employees</td><td>20 %</td></tr>
<tr><td>Bank & Life Ass. Comp.</td><td>1 %</td></tr>
<tr><td rowspan="4">D</td><td rowspan="4">480</td><td rowspan="4">Manufacture integrated systems for gas & water supply</td><td colspan="2">JV</td><td rowspan="4">Heavy investment by parent in production technology, computer systems, management & staff training
ISO 9000 Quality circles
50% staff t/o since 1991
New functions - sales, marketing,</td></tr>
<tr><td>Danish Co.</td><td>70 %</td></tr>
<tr><td>Treasury</td><td>18 %</td></tr>
<tr><td>Employees</td><td>2</td></tr>
</table>

military production and repair and there had been no substitution for this loss of production. Since 1989 the enterprise had been fighting to survive through a variety of cost-cutting and restructuring measures. The restructuring process, which had been largely financed internally and which had required enormous effort on the part of the workforce had been of limited effectiveness. Worker frustrations and disillusionment with the restructuring process were evident in questionnaire responses (see Table 3) which indicated that workers felt that things were better five years ago than currently. For this enterprise a strategic investor represented the only way out of its economic crisis but despite widespread recognition of this situation, there were considerable fears about the implications for job security and remuneration particularly amongst administrative staff. Many skilled and competent production workers had left the enterprise and secured employment elsewhere but administrative staff were particularly vulnerable.

Enterprise B also did not have a strategic investor but here the situation was slightly different because the enterprise was part of a much larger company, PGNiG which dealt with gas extraction and distribution. The gas industry was regarded as of strategic importance to the economy and the parent company thus enjoyed the protection of a strong entry barrier. This protection did not extend to Enterprise B who produce transmission stations and valves and who are subject to competition, but nevertheless, the parent company has sheltered the enterprise from the exigencies of the market and had provided funding for restructuring initiatives such as modernising machinery, the introduction of computerised systems and large-scale training programmes. The enterprise began looking for a strategic investor two years ago; the driver was awareness of growing competition within this industrial sector coupled with the need for a technologically and economically sound partner to support the enterprise's diverse activities. Through a process of elimination, the enterprise began to co-operate with a German concern as a pre-requisite for acquisition. The nature of this co-operation involved exchange visits by managers and workers and a sharing of information and know-how.

In relation to worker attitudes there was a similar apprehension on the part of administrative workers to organisational restructuring but the key opponents of the acquisition process were the trades unions who feared substantial job losses particularly as small scale job losses had already been experienced as part of the restructuring process. A large proportion of the workforce, particularly older workers believed that the enterprise was in a strong enough position to survive and prosper independently within a free market which represented an optimistic scenario. Within the remaining two enterprises there was evidence of co-operation of Polish workers and managers with foreign owners and partners. This is not to say that the initial stages of working with a foreign investor were free from conflict and tension and that Polish managers and workers had to adjust to new ways of working and managing. Strategies for co-operation varied in their nature and scope.

Enterprise C was a large monopolistic enterprise employing 1,700 people in the production of loudspeakers and was one of the first enterprises privatised by public sale of share on the Polish stock exchange following a joint venture with a Japanese investor. The Japanese investor had incrementally increased financial shareholding and involvement in business decision-making but this was not reflected in a clear strategic direction for the enterprise. The Japanese investor had concentrated on the education and training of employees on new production lines and in emphasising quality and continuous improvement issues. They saw their role as bottom-up socialisation of the workforce in Japanese styles of working whilst difficult economic decisions about the functioning of the enterprise (e.g. decisions about job losses) were left to the Polish management team.

By contrast to the Japanese approach, Enterprise D had adopted a clearly defined strategic vision and direction based on developing market share and exploiting the advantages of low cost production. Enterprise D manufactured integrated systems for the supply of gas a water to utility companies and entered into a joint venture agreement with a Danish investor in 1991. The Danish partner had invested heavily in a widespread programme of technological change and the development of a distribution network backed up by large scale training and development programmes. Entry barriers in this market were low but the enterprise competed on the basis of providing an integrated technology with comprehensive pre and post-sales service which gave it a competitive advantage and the company has enjoyed rapid expansion of the Polish and East European markets. The workforce numbered 480 and was predominantly young, qualified and relatively highly paid. Within Enterprise D the workforce were enthusiastic and supportive of the joint venture agreement largely because of the personal style and interpersonal skills of the enterprise director who was instrumental in selling the advantages of foreign partnership to the workforce. During the period of the joint venture there had been no reduction in staffing levels and the workforces had actually grown by 30% through the recruitment of young, qualified people into newly created positions within finance, sales and marketing functions. Initial enthusiasm for the joint venture had been sustained throughout the eight year period of foreign investment and workers at all levels were very positive about their role within the enterprise.

Table 3 presents questionnaire extracts which reflect worker perceptions of aspects of organisational culture and how this has changed within enterprises studied. Responses also indicate worker aspirations for the future.

Table 3: Extracts from questionnaire showing worker perceptions of how things were, are and should be.

Enterprise A

Question	**People co-operate to solve problems**		**People are responsible for results**			**People are able to make decisions in their work**		
	5 yrs ago	*now*	*5 yrs ago*	*now*	*should be*	*5 yrs ago*	*Now*	*should be*
To no/small degree	42%	66%	28%	47%	9%	70%	76%	18%
To adequate degree	16%	16%	35%	20%	-	19%	9%	9%
To great degree	42%	18%	37%	33%	91%	11%	15%	73%

Question	**People are free to exercise individual initiative**			**People build close working relationships**			**People have to abide by rules & regulations**		
	5 yrs ago	*Now*	*should be*	*5 yrs ago*	*Now*	*should be*	*5 yrs ago*	*Now*	*should be*
To no/small degree	42%	44%	7%	49%	63%	7%	12%	26%	14%
To adequate degree	33%	28%	2%	21%	16%	7%	18%	19%	14%
To great degree	25%	28%	91%	30%	21%	86%	60%	55%	72%

Question	**People take responsibility for their own development**			**People take responsibility for colleagues' development**			**There is a strong link between performance & work**		
	5 yrs ago	*Now*	*should be*	*5 yrs ago*	*Now*	*should be*	*5 yrs ago*	*Now*	*should be*
To no/small degree	42%	42%	7%	67%	75%	24%	77%	90%	9%
To adequate degree	21%	23%	9%	19%	12%	16%	16%	2%	-
To great degree	37%	35%	84%	14%	13%	60%	7%	8%	91%

Enterprise B

Question	**People co-operate to solve problems**		**People are responsible for results**			**People are able to make decisions in their work**		
	5 yrs ago	*now*	*5 yrs ago*	*now*	*should be*	*5 yrs ago*	*Now*	*should be*
To no/small degree	23%	10%	31%	11%	1%	61%	19%	4%
To adequate degree	40%	38%	42%	30%	3%	28%	34%	9%
To great degree	37%	52%	27%	59%	96%	11%	47%	87%

Question	**People are free to exercise individual initiative**			**People build close working relationships**			**People have to abide by rules & regulations**		
	5 yrs ago	*Now*	*should be*	*5 yrs ago*	*Now*	*should be*	*5 yrs ago*	*Now*	*should be*
To no/small degree	46%	5%	1%	31%	14%	-	24%	5%	-
To adequate degree	33%	30%	6%	39%	34%	2%	42%	21%	8%
To great degree	21%	65%	93%	30%	52%	98%	34%	74%	92%

Question	**People take responsibility for their own development**			**People take responsibility for colleagues' development**			**There is a strong link between performance & work**		
	5 yrs ago	*Now*	*should be*	*5 yrs ago*	*Now*	*should be*	*5 yrs ago*	*Now*	*should be*
To no/small degree	38%	4%	-	55%	22%	6%	55%	42%	4%
To adequate degree	42%	32%	11%	29%	37%	15%	30%	29%	4%
To great degree	20%	64%	89%	16%	41%	79%	15%	29%	92%

Enterprise C

Question	**People co-operate to solve problems**			**People are responsible for results**			**People are able to make decisions in their work**		
	5 yrs ago	*Now*		*5 yrs ago*	*now*	*should be*	*5 yrs ago*	*Now*	*should be*
To no/small degree	26%	31%		25%	18%	4%	61%	48%	13%
To adequate degree	35%	31%		39%	21%	6%	26%	31%	23%
To great degree	39%	38%		44%	35%	90%	13%	21%	64%
Question	**People are free to exercise individual initiative**			**People build close working relationships**			**People have to abide by rules & regulations**		
	5 yrs ago	*Now*	*should be*	*5 yrs ago*	*Now*	*should be*	*5 yrs ago*	*Now*	*should be*
To no/small degree	18%	18%	8%	30%	31%	6%	14%	8%	5%
To adequate degree	43%	36%	6%	36%	32%	5%	15%	8%	7%
To great degree	39%	46%	86%	34%	37%	89%	71%	84%	88%
Question	**People take responsibility for their own development**			**People take responsibility for colleagues' development**			**There is a strong link between performance & work**		
	5 yrs ago	*Now*	*should be*	*5 yrs ago*	*Now*	*should be*	*5 yrs ago*	*Now*	*should be*
To no/small degree	30%	20%	5%	51%	53%	20%	63%	54%	11%
To adequate degree	34%	34%	16%	33%	31%	29%	18%	21%	5%
To great degree	36%	46%	79%	16%	16%	51%	19%	25%	84%

Enterprise D

Question	People co-operate to solve problems		People are responsible for results			People are able to make decisions in their work		
	5 yrs ago	*now*	*5 yrs ago*	*now*	*should be*	*5 yrs ago*	*Now*	*should be*
To no/small degree	43%	-	19%	-	-	62%	10%	-
To adequate degree	24%	48%	38%	24%	10%	38%	38%	10%
To great degree	34%	52%	43%	76%	90%	-	52%	90%

Question	People are free to exercise individual initiative			People build close working relationships			People have to abide by rules & regulations		
	5 yrs ago	*Now*	*should be*	*5 yrs ago*	*Now*	*should be*	*5 yrs ago*	*Now*	*should be*
To no/small degree	29%	-	-	34%	19%	-	29%	-	-
To adequate degree	33%	24%	5%	29%	19%	5%	24%	14%	10%
To great degree	38%	76%	95%	37%	62%	95%	48%	86%	90%

Question	People take responsibility for their own development			People take responsibility for colleagues' development			There is a strong link between performance & work		
	5 yrs ago	*Now*	*should be*	*5 yrs ago*	*Now*	*should be*	*5 yrs ago*	*Now*	*should be*
To no/small degree	38%	5%	-	66%	24%	15%	57%	19%	-
To adequate degree	33%	33%	10%	24%	66%	33%	19%	24%	5%
To great degree	29%	62%	90%	10%	10%	52%	24%	57%	95%

It is possible to conceptualise the transformation process from a socialist culture to a market led, entrepreneurial culture as a continuum with the ultimate goal of what EBRD (1997) describe as 'deep restructuring'. Viewed in this way the enterprises within the study can be viewed as occupying different positions along this continuum. We have identified key factors impacting on this progression and driving culture change as ownership (in particular foreign ownership), management style and ideology and strategies for performance and reward management. These factors are not mutually exclusive but rather reinforce each other in the development of a new cultural paradigm.

Ownership as a factor in cultural change

The enterprises within the study were at different stages in the transition from a socialist to a market led culture. At one extreme Enterprise A faced an uncertain and insecure future particularly if NIF support was not forthcoming. This uncertainty was evident in worker questionnaire responses where replies on all items suggested a perception that things were worse now than they had been five years ago. In particular workers felt that levels of accountability, co-operation and teamworking had deteriorated. Workers at Enterprise A also reported the widest discrepancy in their perceptions of the present and their aspirations for the future, particularly in relation to the recognition and reward of individual performance and responsibility at work. At the other extreme, Enterprise D represented an example of a commercially successful and prospering enterprise which had undergone a radical transformation in all aspects of its operation and, of all the study enterprises, could be said to approximate to an entrepreneurial, market driven organisational culture. A key factor in this transformation had been the role of FDI and know-how with practically all innovations (production technology, logistic systems, integrated computer information systems, managerial techniques and processes) having been brought in from the parent company. Such innovations underpinned by strategies for recruitment, development and reward had been influential in hastening successful adjustment to a market economy.

Enterprises B and C had made some ‘defensive’ adjustment measures in response to competitive market pressures and a hardening of budget constraints. Enterprise B were planning a rationalisation of operations through the outsourcing of ancillary activities, while Enterprise C were anticipating a restructuring of production processes through the introduction of new, automated assembly lines. Managers within both of these enterprises saw restructuring as an expansion of operations to exploit the profit potential of the enterprise as the appropriate response to competitive market pressures (as opposed to a contraction of operations as at Enterprise A). However, neither enterprise had made any significant attempts at ‘deep’ organisational restructuring. Functional hierarchies remained in place and there had been limited initiatives to change working methods or to improve existing resources. Worker perceptions highlighted improvements in opportunities for individual development and teamworking but also indicated wide discrepancies between existing arrangements and worker aspirations particularly in relation to the development of effective working relationships, levels of responsibility and accountability and involvement in decision-making.

Management styles and ideology

We found little evidence within the enterprises studied of a rational, strategic, management driven approach to culture change. Within Enterprise D, the impetus for a clearly defined vision of the future was provided by the foreign parent company and was underpinned by a strategic business planning and budgeting process implemented by appropriately trained and qualified personnel. Within the remaining enterprises, managers demonstrated a lack of clarity of organisational goals and strategic direction. They had an incomplete picture of business strategy, strategic management or how to address employee expectations as expressed through questionnaire responses. Through interviews with senior managers we detected that Polish managers had enthusiastically adopted the rhetoric and vocabulary of western management (regardless of the degree of foreign involvement) but that this has had a largely symbolic value in enabling them to re-define their role and legitimising their authority within free market conditions. The following quotation is illustrative of how western management rhetoric has enabled Polish managers to nail their colours to the mast of free market capitalism:

'I consider myself to be a young man in my outlook although I am 45 years old. I am now working in the 'second' company, as this is the best way to describe it. Previously the enterprise was a state monopolist, customers were an afterthought; for western managers this would be inconceivable. I had the good fortune to study western organisational structures and systems at university and wrote my thesis on this subject. I took every opportunity to visit England. I tired, but was unable to apply the practical principles here because of the inertia of the state enterprise system. Now (following his appointment as Enterprise Director in 1994), I am able to influence the organisation and apply the principles of a healthy organisation'. (Enterprise Director, Enterprise A).

However, to see the adoption by Polish managers of the rhetoric of western managers as evidence of any real change in management roles and behaviour is superficial and premature. As suggested earlier, managers had an unclear and incomplete picture of business strategy and lacked confidence in their own ability and expertise to implement change which manifested itself in the tendency to seek outside help and know-how through seeking strategic foreign investors and the use of academics and consultants. Whilst privatisation may have removed the political and economic straightjacket of socialism, insider control within enterprises, has meant that the informal networks and reciprocal arrangements characteristic of the management of state owned enterprises have been largely preserved.

Management strategy for the development of human resources.

Despite the differences between enterprises outlined earlier, workers across all enterprises demonstrated a large degree of consistency in respect of their perceptions of ‘how things should be’ and the characteristics of their preferred organisational culture. Particularly significant were issues in relation to people being free to exercise initiative at work, taking responsibility for their own development, building close working relationships and linking individual performance to rewards. Worker preferences indicated support for a strong culture which was individualist rather than collectivist in character. In addition, workers saw the need for clear rules, policies and procedures governing their role at work and their responsibilities, and emphasised the social role of the enterprise in meeting welfare needs. In one sense this can be seen as feature of the socialist legacy which provided extensive social protection but is also a feature of the employment policies of foreign organisations although in the latter case protection is dependent on performance. In contrast with the collectivist provision of social protection within socialist firms, such provision by foreign firms is used as a motivational tool and for many Polish workers represents an attractive approach. Anecdotal evidence suggests that Polish workers respond very positively to the activities of foreign enterprises such as foreign trips, parties and social events.

In order to probe worker aspirations we asked additional questions in relation to what workers felt would make them more effective in their jobs and again we found a high level of consistency in responses across all four enterprises. 84% highlighted ‘better resources to work with’;75% having clearer goals and targets to work to; 74% better understanding of how their work was evaluated; 72% better understanding of the organisation’s purpose and mission; 71% greater freedom to use individual initiative and judgement at work. Whilst caution needs to be exercised in relation to the interpretation of such aspirations of the workforces within the enterprises studied, our findings do seem to reflect a reaction to the uniformity of a socialist culture together with a desire by individuals across all enterprises to have a greater degree of involvement and influence over their work and a greater level of responsibility. To this extent findings indicate a preparedness for change on the part of the workforce.

However, despite formal institutional arrangements for employee representation and the existence of trade unions within all of the enterprises studied we found little evidence of a collaborative, ‘social partnership’ approach or any desire by managers to engage workers in the process of organisational transformation. As a senior manager at Enterprise C commented, ‘ as a good capitalist, I see no role for the trade unions in the process (of organisational transformation)’. Enterprise D, through the use of quality circles, direct forms of communication and increased delegation could be said to be moving in the direction of a more participative management style. However, within the remaining enterprises the management style remained largely authoritative and there was no evidence to support a management ideology that saw human resources as a source of competitive advantage. Nevertheless, we found no evidence that employees were frightened of, or intimidated by their managers, but rather that both workers and managers were disempowered by the need to follow established rules and procedures, although paradoxically, there was widespread agreement that such regulations were necessary and appropriate. Within Enterprise B the emphasis in responding to competitive market pressures was to increase the use of management regulation and measurement. In this context bureaucratic rules and procedures represented less an effective form of management control as an opportunity to maintain the status quo and as a rationalisation for mistakes and inaction.

Strategies for performance and reward management

Reward and remuneration arrangements for workers under the socialist regime were very flat and undifferentiated. Within the enterprises studied, only enterprise D had used the leverage of higher wages and performance based pay. Although pay rates remained considerably lower than within the parent company's operations in western Europe, wages within Enterprise D were relatively high for the locality and twice the national average. With the exception of Enterprise D, there was no evidence within the reaming enterprises of any serious control or motivation systems in place which resulted in a continuation of a somewhat laissez faire approach to discipline and the management of the employment relationship. Such a situation mirrored the socialist past and reflected a lack of managerial expertise and experience in creating effective internal performance management arrangements. However, it also reflected wider social attitudes and values. It was suggested to us that Polish people do not differentiate between their work and private lives; that employees know each other as friends and neighbours within the same community and consider it inappropriate to make judgements and possibly reprimand friends.

Conclusion

Within the enterprises studied, Enterprise D demonstrated the most persuasive evidence of deep organisational restructuring and cultural adaptation to free market conditions. This was achieved through foreign intervention and investment and underpinned by extensive training and development programmes. However,

rapid organisational change within this enterprise took place not only because of changes in institutional processes but because both parties were willing to adapt and to co-operate with each other. This lends support to the view of a 'third way' or an adjustment to changed market conditions which reflects neither a complete emulation nor rejection of foreign approaches but the possibility and value of a joint approach which takes account of the particular circumstances of the enterprise. Such an approach reflects the value of a 'path dependency' approach to the study of transforming enterprises. Within the remaining three enterprises studied it was difficult to point to any large degree of cultural change or adjustment. Privatisation may have removed the political and economic straightjacket within which socialist enterprises had to operate and thus given enterprises a greater degree of autonomy but existing structures, hierarchies, relationships and ways of working remained largely unchanged. We conclude therefore that the speed and consistency of the direction of cultural change and adaptation is more pronounced in situations where there are strong external influences in the form of foreign investment and involvement, clarity of organisational goals and strategic direction and an acceptance of the need to change.

Despite difference between the enterprises studied, there was a high degree of consistency in worker perceptions of the characteristics of a market oriented enterprise. These characteristics were felt to include a transformational element in leadership style, a more individualistic employment relationship which included a link between individual performance and reward, higher levels of worker involvement in decision-making and improved levels of cross functional co-operation and teamworking. Changing organisational culture is a lengthy and complex process but our findings indicate that this process may be hastened through the creation and articulation of clear organisational goals and the direction of their achievement, improved communication throughout the organisation and increasing worker accountability through improved training and development programmes and transparent systems of performance review and reward. Given the characteristics of the socialist legacy, a key factor in the successful implementation of the identified strategy is the constant reinforcement of strategic goals and the behaviours required to achieve these in order for these to be internalised by workers.

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Small Slovene Firms and Strategic Information Technology Usage[*]

Dušan Lesjak[**]

The article describes a study, which tries to identify the degree to which information technology is used strategically in Slovene small firms. Slovenia is interesting from small business perspective, because from 1990, when the transformation of its economy started, the number of small business has increased almost 6 times (from almost 6,500 to nearly 35,000 in 1998). In the paper the research model, hypothesis, methods and the research sample are explained, together with the results and discussion.

In dieser Arbeit wird eine Studie ausgewertet, welche das Ausmaß der strategischen Verwendung von Informationstechnologien in kleinen slowenischen Unternehmen thematisiert. Slowenien ist insofern interessant aus der Perspektive der kleinen Unternehmen, als sich dort seit 1990, dem Jahr, in dem die Transformation der Ökonomie einsetzte, die Zahl der kleinen Unternehmen beinahe versechsfacht hat (von fast 6500 auf beinahe 35000 im Jahr 1998). Im vorliegenden Artikel wird das Forschungsmodell, die Hypothesen, Methoden und Beispiele genauso thematisiert wie die Forschungsergebnisse und ihre Implikationen.

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1. Introduction

1.1 General background

Most information systems texts and a large volume of popular and scholarly literature suggest that information technology (IT) is playing an increasingly critical role in the design and implementation of organisational strategy. IT has been described as facilitating the competitiveness, organisational transformation, increasing market share, and heightening customer service because it provides information and serves as a communication channel among various participants in such a way that may alter the basis for industrial competition (Bhide 1994), (Peppard 1993), (Porter/ Miller 1985).

Indeed, case studies support the idea that IT helps firms in developing and implementing strategy, and that it yields direct economic benefit (Baura et al. 1995), (Taylor/ Todd 1995). Year after year, increasingly affordable computers and other IT tools are produced to assist in the design and evaluation of strategy (Bergeron et al. 1998).

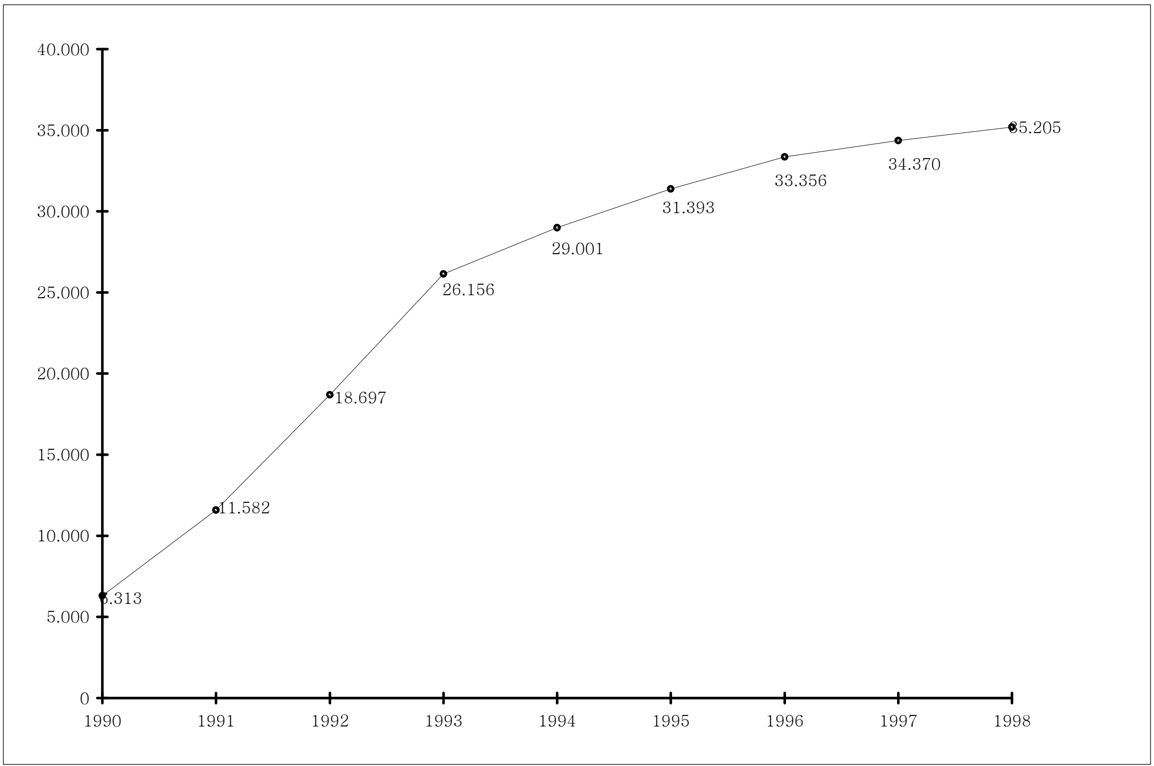
If this is the case, why then do surveys in small and medium size enterprises suggest that two-thirds of the firms or fewer do not use IT strategically (Taylor/ Todd 1995), (Lesjak 1993). Apparently, it is more common for firms to design and implement strategy without the aid of the IT applications they have, and instead, to relegate IT to perform routine internal operations (Moreton 1995), (Langley/ Traux 1994).

The purpose of this study is to identify the degree to which IT is used strategically in Slovene small firms, and to investigate the possible reasons and consequences for patterns of usage. As small firms struggle for positions of leadership in their respective industries, IT offers a possible advantage for the growing Slovene small firms. The question is: Is it being leveraged to that end?

1.2 Slovenia’s Economic Transformation

Although small, Slovenia leads many Central and Eastern European (CEE) transitional economies in economic growth and productivity. Slovenia’s small firms have played an important role in this transition. By transforming its economy Slovenia has established a fertile basis for small business growth and development. The number of Slovene small firms has increased six fold since 1990, when the transformation of Slovenia’s economy began. In 1998, 35,205 small firms represented almost 94% of all companies (1,478 midsize and 869 large companies).(Ministry of Small… 1999)

Figure 1: Number of Small Firms in Slovenia



If we compare the percentage of small businesses in Slovenia to that in the USA and European Union we come across similar patterns. But if we compare the portion of total employment in small business in Slovenia to that in the USA and Europe, there is a rather big difference. For example, in the USA, small business represents 97% of all businesses and 57% of the employment, in Europe: 98% (in 1997 98.92%) of all business and 46% of employment (Heikkila et al. 1991). Although there is a fair amount of variability in the employment share of small firms in Western Europe (ranging from Spain's high of 81.1% down to Belgium's low of 56.2% (Kagar/ Blumenthal 1994)—they are considerably higher than Slovenia's 24% (Rue/ Ibrahim 1995). The sectors represented by small firms differ as well. For example, although only 10% of Western Europe's new small firms have been in the area of manufacturing and construction, these sectors constitute 42% of new small firms in Slovenia (Chamber of Commerce… 1998).

Structural differences between Slovenia's small firms sectors and those of Western Europe, as well as year-to-year indicators, suggest that transition is still taking place among Slovene small firms.

2. Information Technology and Strategy

2.1 Defining Strategic IT applications

A strategic IT usage is the use of information and IT which can help develop, define and redefine, test, and, in some cases, implement strategy and develop a given product or specific business function or activity within which IT usage has a strategic impact. As such, we are interested in the role that IT can play in:

- supporting the on-going evolution of strategy on the one hand and
- enhancing firm's competitiveness and co-operation on the other hand.

The line between strategic and non-strategic applications is a fine one. Academic researchers typically differentiate between strategy and implementation, although directors and CEOs may make this distinction much less often (Gopinath/ Hoffman 1995). Additionally, it is sometimes difficult to identify whether a given IT application is strategic or not. Wiseman (1994), for example, suggests that strategic IT is largely determined by each firm's environment, its basis for competition, and strategy. Using IT to closely monitor inventory levels might be strategic in a firm, which competes on the basis of low costs, but not in a firm, which competes through innovation. Thus, particular IT use has to be paired with firm strategy to identify whether the usage is strategic or not.

The impact of various IT applications, however, may help differentiate strategic IT usage. Moreton (1995) emphasises three outcomes from IT applications as strategic: IT is strategic when it enhances an organisation's ability to change and respond to environmental shift; facilitates movements toward various strategic outcomes such as customer satisfaction, streamlined business processes, and decentralisation, and when it reduces the mundane aspects of jobs, allowing a reorganisation of work, which encourages more learning and innovation. Each of these impacts suggest that strategic IT applications are not stand-alone functions, but well integrated with strategy, people, and operations (Blennerhassett/ Galvin 1993).

2.2 Gaps Between Strategy, Practice, and Effectiveness

There is a sizeable body of literature examining IT diffusion (Moore/ Benbasat 1991), the growth of IT in firms (Covin et al. 1994), and the increasing proficiency (literacy) of IT users (Rainer/ Harrison 1995). None of this addresses the *strategic* use of IT, however, which is where much of the theoretic potency in IT applications lies.

A number of reasons can be suggested as the reason, why IT might or might not be used strategically in a firm. OECD (1989) concludes that information system fails, when it is not implemented with the users and organisational setting in mind at the time of implementation. Parker and Swatman (1995), highlight several reasons why this may be the case:

- The lack of awareness of IT capabilities,
- The time required to become acquainted with IT products and capabilities,
- The lack of vision regarding IT's cost savings (or revenue enhancement),
- The general absence of strategic perspectives in some SMEs.

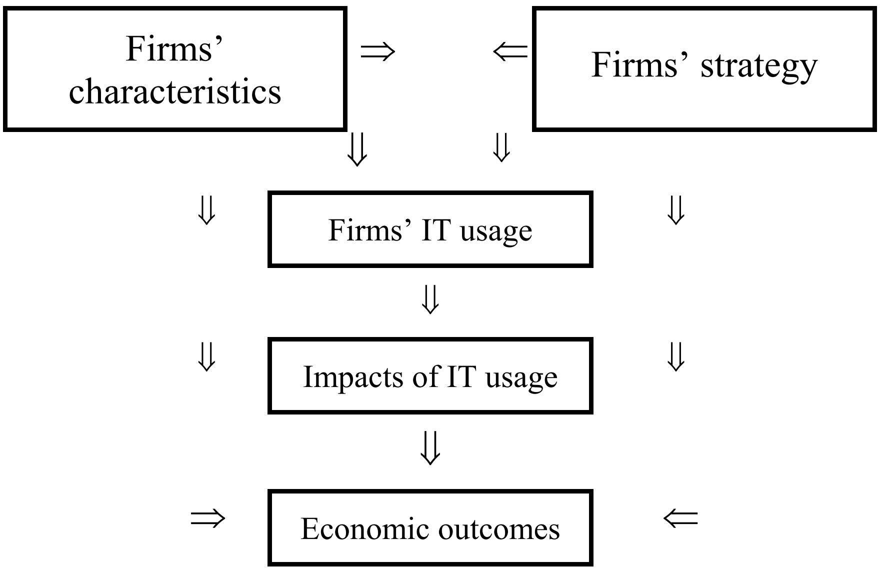
Although there is evidence on both sides, some research has shown that attempts to manage strategically yielded few advantages in firm performance. Slight but not substantial association between comprehensive historical financial reporting/use of financial ratio analysis and the rate of growth/firm performance has been reported (Thomas/ Evanson 1987), (McMahon/ Davies 1994). There's no significant difference between formal and informal planning in terms of problems which arise in the planning process or in the achievement of planning goals in a sample of US small banks (Kagar/ Blumenthal 1994). Others have found that formal planning makes a difference (Lussire 1995).

2.3 “Defining” Strategic IT Usage

Based on existing literature, a theoretical model and accompanying hypotheses can be generated regarding possible influences on the strategic IT usage in small firms (see Figure 2). Previous studies suggest that there are at least two influences, which may impact the degree to which IT is used strategically:

- firm characteristics and
- firm strategy.

Figure 2: Model of Strategic IT Usage



Some latest research (Bergeron et al. 1998) hasn't confirmed our presumption that a firm's environment as well has as an important influence on strategic IT usage.

Firms' characteristics. Previous research indicates that small firms do not as much or as formal strategic planning as do large firms (Bhide 1994), (Rue/ Ibrahim 1995). This may be due to the fact that small firm employees tend to be generalists rather than specialist (Matthews/ Scott 1995), or because small firms are not always growth-oriented and often have a variety of goals, which impact the desirability of planning (Bhide 1994). As firms become older, they tend to grow in size. Thus, we see the firm's size and age, as being positively associated with strategic IT usage. We hypothesise that:

H1: The older the firm, the more frequently IT applications will be strategic.

Strategy. Research consistently shows that entrepreneurs and managers of SMEs vary in the competitive strategies they employ (Covin et al. 1994), (Kagar/ Blumenthal 1994). The choice of strategy is influenced in part by the degree to which the firm is oriented towards growth, and the degree to which SME managers are aggressively pro-active and entrepreneurial rather than reactive. The specific strategy employed will give priority to certain IT applications over others (Wiseman 1994) (sales IT applications, where customer service is important; purchasing IT applications, where resources are shared across divisions, etc.).

H2: Firms will tend to use IT strategically, where applications match the core elements of their strategies.

IT Usage. There is some evidence that the more IT is spread across various business areas or functions and the more it is involved in different areas, the more familiar employees and management will become with possible IT applications, and the more likely they will use IT strategically. Thus, we hypothesise that:

H3: The breadth of IT usage across various business areas will positively correlate with strategic IT applications.

Impacts of IT usage. The impacts of IT usage will be classified into strategic and non-strategic ones, due to their contribution to enhancement of firm's competitiveness and co-operation. Impacts of IT usage will be matched with particular strategy types and again combinations of impacts will become our dependant variables.

Economic outcomes. Additionally, we ask respondents to indicate how important a set of financial measures is in their firm and the degrees of satisfaction with firm performance on these outcomes. We also ask respondents to evaluate their relative standing on financial outcomes when compared to their competitors. We will try to find relations between the strategic IT usage and firms' economic outputs.

3. Methods

3.1 Measures/Variables

Strategy. Strategy was measured in two ways taken from: Covin et al. (1994) and Kim and Choi (1995).

IT Usage. IT strategic usage was measured in two ways: With a 6-item measure of IT applications within functional area are used by Cragg and King (1993); and, with a 3-item measure of the overall role of IT by Grover (1993).

Impacts of IT Usage. This was measured by 16-item measure designed for the present study.

Economic Outcomes. This was measured by 11-item measure which involve traditional economic criteria such as sales, revenue, profit, ROI, etc.

3.2 Research Sample

In this study, the criteria for defining a small business were adopted from the Agency for Payment System of Slovenia (1998). A small business is one that satisfied at least *two* of the following points. It has:

- 50 or fewer employees
- fixed assets should be of 500.000 Euro or less, and
- annual sales of 1 million Euro or less.

In our sample we employed two additional criteria. We selected firms with:

- an annual revenue of more than 100.000 Euro to exclude firms which probably cannot afford IT, and
- 10 or more employees to exclude micro firms.

The names and the addresses of small businesses that fulfil the above criteria were obtained from the state Agency for Payment System (APS) of Slovenia. Non-profit organisations, publicly owned businesses, and wholly-owned subsidiaries of large businesses were excluded from the survey sample, leaving a sample of 974 businesses or 2.84% of all small firms in Slovenia.

3.3 Procedures

The study was conducted in Slovenia in two phases: A pilot study and the questionnaire survey. A pilot version of the “Small Business IT Usage Questionnaire” was compiled in Slovene and pre-tested with MBA students. Additionally, students taking a small business management course pre-tested

Table 1: Characteristics of the Sample

Characteristic	Choices	Frequency	Percent

Sector	Manufacturing	68	46.3
	Trade	42	28.6
	Business Services	26	17.6
	Construction	11	7.5
Years in business	>7 years	25	17.0
	<7	122	83.0
Operating at a profit or loss	Profit	127	86.4
	Breakeven	1	.7
	Loss	19	12.9
Number of full-time equivalent employees	10-20	80	54.8
	21-30	22	15.1
	31-40	16	10.9
	41-50	13	8.9
	51-	16	10.3
Profit-loss/employees	-5,000	17	11.6
	5,001-10,000	43	29.2
	10,001-20,000	49	33.3
	20,001-30,000	21	14.3
	30,001-	17	11.6
Computer usage in the firm	>8 years	44	29.9
	6-7	27	18.4
	4-5	43	29.3
	<3	33	22.4
Employees, who are IT users	86%-100%	40	27.2
	41%-85%	33	22.4
	11%-40%	38	25.9
	0%-10%	36	24.5
Employees, who are responsible for IT	15%-100%	35	23.8
	6%-14%	35	23.8
	1%-5%	46	31.3
	0%	31	21.1

the questionnaire on 10 small businesses randomly chosen from the small business database. Based on feedback from both sources, the questionnaire was refined or the next phase of the study. (Responses from these pilot study businesses were not included in the final sample).

In the questionnaire survey phase, the questionnaire was mailed to the 974 small businesses in the survey sample. The questionnaire was completed by the person who is most closely responsible for IS within the firm. In small businesses that is usually the top manager or the owner. Quantitative data on the organisational characteristics (e.g. business sector, number of employees, annual sales, profit/loss, etc.) of the small businesses were obtained from the APS of Slovenia. All businesses are requested annually to file a report with the APS.

Of the sent surveys, 161 were returned, giving a response rate of 16.5%. Responses from 14 businesses were discarded because they had incomplete data, resulting in a final sample of 147 usable questionnaires.

To insure that the respondents were similar in characteristics to the population, these final 147 firms were compared to the 974 in terms of the number of employees, income, and income per employee (Data on all firms were obtained from the APS.). T-tests showed no significant differences on any of these measures (income: $t = 0.65$; $p = .52$; employees: $t = 0.30$; $p = .76$; income per employee: $t = 0.72$; $p = .47$).

4. Results and Discussion

4.1 Sample

Table 1 presents the sample characteristics. The responding small businesses are from manufacturing, trade (e.g., import-export), business services (e.g., consulting), and construction sectors.

On average, small businesses in the sample had 29.3 employees and mean annual sales per employee of 101,922 Euro. The average firm had 5.8 years of computer experience, and about 50% of their employees computer literate.

4.2 Instrument Validation (Assessing Reliability)

For each composite variable, the reliability (internal consistency) was assessed by calculating Cronbach's alpha coefficient as suggested in (Carmines/ Zeller 1981). Table 2 also presents the results of reliability testing.

The reliability coefficients were higher than 0.7 except strategy-low cost (alpha = 0.67), suggesting that the research variables are satisfactorily reliable (Nunnally 1978). The item-total correlation coefficients of items of research

Table 2: Reliability and Factor Analysis of Variables ([a]Cronbach Alpha (Standard), [v]Variance explained)

Items	Item-total correlation	Factor loading
Differentiation Strategy:	**.72**[a]	**55.0%**[v]

Emphasizing product and/or service quality	.43	.67
Investing in research and development	.68	.86
Emphasizing education and training of employees	.48	.72
Developing new products or services	.48	.70
Low Cost Strategy:	**.67**[a]	**50.9%**[v]
Being a low-cost producer	.37	.62
Automating functions as much as possible	.60	.87
Maximising efficiency of business activities	.44	.76
Maintaining very low-level inventories	.35	.57
Firm IT Usage:	**.75**[a]	**37.3%**[v]
Research and development	.43	.61
Purchasing/Procurement	.58	.72
Production	.62	.76
Marketing and Sales	.35	.50
Inventory (warehousing)	.38	.55
Transport	.50	.65
Personnel/Humane Resources	.56	.63
Finance and Accounting	.27	.39

Table 2 continued

Impact of IT Usage:	**.91**[a]	**52.2%**[v]
The quality of products and/or services	.68	.75
Quality of producing products/services	.64	.71
Finding new business opportunities	.65	.72
Finding new markets	.64	.71
Business process redesign	.67	.74
Firm’s capabilities to adjust to changes	.75	.81
Introducing new products and/or services	.68	.75
Introducing new production and business technology	.71	.77
Customer satisfaction	.62	.69
Employee satisfaction	.57	.64
Business risk	.56	.63
Financial performance:	**.91**[a]	**54.6%**[v]
Annual sales	.47	.56
Annual sales growth	.64	.71
Revenue	.66	.73
Revenue growth	.73	.78
Profit	.74	.82
Profit growth	.80	.86
Profitability	.76	.82
Return on investment (ROI)	.71	.78
Solvency	.58	.62
Ability to fund business growth from profits	.52	.57
Overall firm performance	.73	.77

variables were also high, indicating reasonable reliability of the research variables.

To assess whether the item of the variables constituted different scales of variables, a principal component factor analysis was performed (Carmines/ Zeller 1981). Table 2 indicates that almost all the factor loadings are greater than the recommended cut-off point of 0.5 (except the item Finance and Accounting in the Firm IT Usage column: 0.39) and all the items loaded on their hypothesised factors (Nunnally 1978). Hence, we are confident that construct validity was not violated. These results also provided confidence to combine various items under different variables into one construct. Since we weren't satisfied with the percent of the explained variance of the first component for the research variable "Firm IT usage" (37.3%) and factor analysis revealed more than one underlying dimension for a construct, the factor was further examined. An eigenvalue of 0.9 or above was used as a criterion to estimate the number of factors underlying the construct. Because the construct had 3 interpretable dimensions (which altogether explain 66.6% of the variance), reliability was computed for each dimension. (Table 3).

Table 3: Total variance explained for the variable "Firm IT usage"

Components	Initial Eigenvalues		
	Total	Percent of Variance	Cumulative Percent
C1	2.98	37.29	37.29
C2	1.41	17.58	54.88
C3	.94	11.71	66.59
…	…	…	…

For the first 3 components we performed Principle Component Analysis to identify any related forms of IT usage (Varimax with Kaiser Normalization rotation method). Table 4 shows that components represent different industries:

- **C1** represents **manufacturing** firms because research/development and production functions have high coefficients,
- **C2** represents **trade**, because marketing/sales and transportation functions have high coefficients, and
- **C3** represents **business services** because personnel/human resources and finance/accounting have high coefficients in the contrast with marketing/sales.

To realise the influence among the introduced measures/components of strategic IT usage, (i.e., introduced components for the following variables: Firm Strategy, Firm IT Usage, Impact of IT Usage, and Financial Performance), Pearson correlations was used. The results are shown in Table 5.

Table 4:Rotated Component Matrix

Firm IT Usage:	**Manufacturing**	**Trade**	**Business service**
Research and development	.92		
Purchasing/Procurement	.35	.35	.29
Production	.72	.32	-.10
Marketing and Sales	.20	.85	.21
Inventory (warehousing)	.28	.80	.22
Transport		.11	.81
Personnel/Human Resources			.85
Finance and Accounting			

Table 5: Descriptive Statistics and Significant Correlations

Variable	Mean	s.d.	1	2	3	4	5	6	7
1. Differentiation strategy	5.28	1.07							
2. Low cost strategy	5.49	1.02	.39**						
3. IT usage in manufacturing	4.78	1.63		.18*					
4. IT usage in trade	5.28	1.45		.36**					
5. IT usage in business services	5.13	1.69							
6. Impact of IT usage	5.12	.87	.26**	.24**	.28**	.30**	.37**		
7. Financial Performance	5.00	.79	.31**	.23*		.19*		.18*	

****p* $\geq$ **.01 (2-tailed), ****p* $\geq$ **.05 (2-tailed)**

Table 5 shows the following interesting significant correlations:

- Low cost strategy correlates with the IT usage among manufacturing and especially trade firms, what is actually not surprising. Unfortunately there is no significant correlation among firms following differentiation strategy (such as business services firms) and IT usage.

- Both strategies correlates with the financial performance of the firms, but the questions is whether the IT usage and impacts of IT usage make any contribution to that performance?
- IT usage in firms from all 3 industries significantly correlates with the impacts of IT usage, what is somehow anticipated, because if a firm uses IT heavily, than impacts of that kind of usage are expected.
- Interestingly, there is a significant correlation only among impacts of IT usage and the financial performance of the firms from trade industry.
- Interestingly again, there exist a weak but significant correlation between impacts of IT usage and financial performance of firms. So, we could say that there is a certain influence of IT usage on financial performance of firm.

5. Conclusion

Overall, general idea that IT is used strategically:

- if IT applications support business strategy
- in terms of IT usage across various business areas
- what should have a certain positive impacts of IT usage on firms and
- what altogether should reflect in financial performance of firms

was at least partially supported by the research.

The results suggest that Slovene small firms indeed are using some applications of IT strategically. Especially manufacturing and trade firms which are following low costs strategy. That is proved not only by various impacts of IT usage on firms but as well as by positive influence of IT usage and its impacts on firms' financial performance.

Weaknesses of the present study include the following: We assumed that the common utilisation of IT applications in economic sectors was an indicator of areas of strategic importance. There may be some multicollinearity present between the variables, however. Additionally, environmental variables might be tested in further research, as might the reasons why small firms' managers/owners do and don't utilise IT strategically.

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Appendix

Information Technology Usage in Small Slovene Firms

An International University Research Questionnaire

1. Rank first 3 industries in which you earned your revenue in last period (3 years) :

Comment: The reason why I named industries is because I know the research group of firms!

☐ manufacturing
☐ trade
☐ real estate, bus, activities
☐ construction
☐ elect. gas and water ...
☐ transport, storage and communication
☐ hotels and restaurants
☐ health and social work
☐ other comm. ... activities
☐ other:_____________

2. What parts of your revenues come from sales: (in %; sum is 100%)

__% in SLO __% in ex YU countries __% in EU __% other: _____________

3. How important are the following factors for your firm's business (circle one number on each row):

	absolutely critical						*not important*
Making my product or service unique	7	6	5	4	3	2	1
Excelling in customer service	7	6	5	4	3	2	1
Focusing on a narrow, well-defined customer group	7	6	5	4	3	2	1
Being a low-price competitor	7	6	5	4	3	2	1
Being a low-cost producer	7	6	5	4	3	2	1
Emphasizing product and/or service quality	7	6	5	4	3	2	1
Automating functions as much as possible	7	6	5	4	3	2	1
Investing in research and development	7	6	5	4	3	2	1
Emphasizing education and training of employees	7	6	5	4	3	2	1
Developing new products/services	7	6	5	4	3	2	1
Emphasizing advertising and/or sales activities	7	6	5	4	3	2	1
Building the firm's and/or product/service image	7	6	5	4	3	2	1
Maintaining very low-level inventories	7	6	5	4	3	2	1
Other: _____________	7	6	5	4	3	2	1

4. To what degree do you agree with the statements about your firm's orientation? *(mark one)*

☐ Increase sales and my customer base (willing to accept low profits in the short/medium term, if necessary)

☐ Maintain my customer base and obtain moderate profits

☐ Maximize profits and revenues in the short to medium term (willing to reduce customer base if necessary)

☐ Prepare to sell or close my company or go bankrupt

☐ Other--None of the above (please specify):

5. To what degree do you agree with the following statements about your firm's practice? *(mark one)*

☐ I manage on a day-to-day basis without a real plan or strategy

☐ I make major business decisions only after considering the strategic implications of the decision

☐ Without much forethought, I could easily describe my strategy to someone else

☐ Most company employees could state our firm's business strategy

6. Please indicate your firm's general practice with the following business activities):

	Somebody else is doing that for us	extensive use of computer and IT tools			without use of computer and IT tools				we do not do that
Research and Development: (product development, development project management)	x	7	6	5	4	3	2	1	0
Purchasing/Procurement: (market research, purchase planning, ordering…)	x	7	6	5	4	3	2	1	0
Production product/obtaining services: (planning, production…)	x	7	6	5	4	3	2	1	0
Marketing and Sales: (such as marketing research, promoting activities, selling …)	x	7	6	5	4	3	2	1	0
Inventory (warehousing): (such as inventory plan, stocks…)	x	7	6	5	4	3	2	1	0
Transport: (such as transport planning, transport, Transport capacities…)	x	7	6	5	4	3	2	1	0

Personnel/Human Resources: (forecasting labor demand, calculation of wages/salaries…)	x	7	6	5	4	3	2	1	0
Finance and Accounting: (capital and cash budgeting, invoicing, bookkeeping…)	x	7	6	5	4	3	2	1	0
Office Administration:	x	7	6	5	4	3	2	1	0
Managerial (Decision) Support: (DSS, EIS, ES...)	x	7	6	5	4	3	2	1	0
Communications in a firm and with its environment(such as E-mail, Internet, Intranet...)	x	7	6	5	4	3	2	1	0

7. ***Realistically, what do you think are the impacts of IT usage in your firm on:***

in increasing...	*strong impact*						*no impact*
The quality of products and/or services	7	6	5	4	3	2	1
Quality of producing products/services	7	6	5	4	3	2	1
Finding new business opportunities	7	6	5	4	3	2	1
Finding new markets	7	6	5	4	3	2	1
Business process redesign	7	6	5	4	3	2	1
Firm’s capabilities to adjust to changes	7	6	5	4	3	2	1
Introducing new products and/or services	7	6	5	4	3	2	1
Introducing new production and business technology	7	6	5	4	3	2	1
Employee satisfaction	7	6	5	4	3	2	1
Customer satisfaction	7	6	5	4	3	2	1
in decreasing...	*strong impact*						*no impact*
Administrative costs	7	6	5	4	3	2	1
Business risk	7	6	5	4	3	2	1
Routine work	7	6	5	4	3	2	1
Number of employees	7	6	5	4	3	2	1
Production and/or service delivery costs	7	6	5	4	3	2	1
Production and/or service delivery time	7	6	5	4	3	2	1

8. *Please classify where you think your firm's performance is relative to your competitors' performance:*

	We're the best						*We're the worst*
Sales	7	6	5	4	3	2	1
Sales growth	7	6	5	4	3	2	1
Revenue	7	6	5	4	3	2	1
Growth of revenue	7	6	5	4	3	2	1
Profit	7	6	5	4	3	2	1
Growth of profit	7	6	5	4	3	2	1
Profitability (profit/revenue)	7	6	5	4	3	2	1
Return on assets (profit/assets)	7	6	5	4	3	2	1
Solvency (Cash flow)	7	6	5	4	3	2	1
Ability to finance business growth with own funds	7	6	5	4	3	2	1
Firm's performance in general	7	6	5	4	3	2	1

9. *How many years are you using computers (IT) in your firm: ___*

10. *% of employees, which are responsible for introducing and "operating" (not using) computers (and other IT): ___*

11. *% of employees, which are using computers (and other IT): ___*

12. *Which of the following statements best reflect your "relation" with IT? (mark one)*

☐ Information technology is the most important factor for our business

☐ Information technology is one of key component of our business strategy

☐ Information technology is needed for smooth running of our business activities

☐ Information technology is one of means for lowering cost

☐ I have a positive attitude about IT, but IT is computer expert's concern?

☐ (potential) IT usage is not my concern

13. *How would you describe your opinion regarding funds for information technology? (mark one)*

☐ Information technology is a strategic investment

☐ Information technology is a resource, which must be appropriately distributed across a firm

☐ Information technology is a cost, which must be controlled

14. What kind of vision about IT (usage) you or your firm has: (mark one)

☐ Strong and general vision: “We will be leader in our industry concerning IT usage”.

☐ Technical vision: “We will implement modern communication network”.

☐ Functional vision: “We will exchange the data with our suppliers by EDI”.

☐ There is no vision about IT usage within our firm.

15. How would you describe your firm's use of IT? (Mark one)

☐ Industry leader ☐ close follower ☐ middle of the pack ☐ somewhat behind ☐ laggard

16. Which one the best describes the role of IT in your firm? *(Mark one)*

☐ Integral role: (IT is integral part of the to strategy...)

☐ Evolving role: (IT supports strategy...)

☐ Traditional role (IT supports operations....)

17. Your role in a firm *(mark one or more):*

☐ owner ☐ CEO ☐ manager ☐ employee ☐ other: _______________

Thank You for Your Participation

Managerial Motivations for UK-Czech Joint Ventures*

*Eleanor M Maitland-Davies, Brian Kenny***

The paper examines the motives for the choice of the JV instead of other forms of investment (e.g. greenfield or licensing) in British investment in the Czech Republic. It is noted that despite popular belief, the level of uptake of JVs in the Czech Republic is low in comparison with greenfield investments. The paper identifies organisational motives (resource seeking, synergies, economic and historic), partner related motives and exogenous motives. The role of the partner in the choice of the entry mode is emphasised. Managerial implications: despite theoretical benefits of JVs to investor, these might not be accrued in practice due to the quality of the resource acquired and difficulties in management.

In dieser Arbeit werden die Motive betrachtet, die zu einer bevorzugten Investition britischer Unternehmen in tschechische Joint Ventures im Vergleich zu anderen Investitionsformen führen. Im Artikel werden organisatorische Motive (Ressourcensuche, Synergien, ökonomische und historische Motive), partnerrelevante und exogene Motive identifiziert. Die Rolle des Partners bei der Wahl des Zusammenarbeitsmodus wird hervorgehoben. Organisatorische Relevanz: trotz der theoretischen Vorteile von Joint Ventures können diese in der Praxis oft nicht verwirklicht werden, weil die Qualität der erworbenen Ressource und Schwierigkeiten in der Organisation dagegen wirken.

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Introduction

The scope and patterns of foreign direct investment (FDI) in East Central Europe (ECE) post-1989 have attracted the attentions of governments and academics alike. The focus of much of the work has been on market-orientation of FDI and the benefits that FDI can confer on the economies of ECE in relation to the transition to a free-market economy (Collins/Rodrik (1991); Welch (1993); NERA, 1991; Genco et al. 1993; Deloitte Touche, 1992; Wang, 1993; Gatling, 1993; Lyles/Baird, 1994; Rojec/Svetlici 1993; Szanyi, 1994; Arthur Anderson, 1994; Meyer, 1995; Ali & Mirza, 1996; Konings/Janssens, 1996; Pye, 1998). FDI can be distinguished from portfolio investment as it requires that a ‘package’ of assets such as capital, technology, management skills are invested outside the home country, but inside the investing country (Dunning, 1993).

It is popularly believed that the international joint venture has been in the main form of FDI in ECE. Both pre- and post-1989, the JV has been associated with Western investment in ECE. Before, it was regarded as one of the few mechanisms available to Western firms wishing to access the COMECON markets (Young et al. 1989, Artisien, 1983); whereas after, it has been credited as being a vehicle which can confer benefits on both Eastern and Western parties. Although there are high levels of risk, there are also advantages in forming JVs with Eastern firms. Florescu/Scibor-Rylski (1993) noted that there should be a good match between the needs of the Eastern and Western firms. The West can provide marketing systems, financial management, forecasting, planning, technology, information systems, capital, know-how, human resources and incentives; while the East is able to contribute land, buildings and equipment, distribution networks, skills, low costs, beneficial wage rates, tax relief, political connections and neighbouring markets.

It is perhaps surprising then that JVs *per se* have not attracted more attention from researchers than one might have envisaged. Of late a handful of researchers have investigated JVs in detail; for example (Fahy et al., 1998; Lyles/ Baird, 1994; Cyr, 1997; Lyles/Salk, 1995; Brouthers/Bamossy, 1998)**.**

Rather than attempt to address JVs across the whole region, the present study focuses on a single country market, the Czech Republic. A study extending over more than one country would encompass firms from very different historical, legislative and environmental background. Such heterogeneity would reduce comparability between cases. The specific focus of the research is to explain why managers of British firms chose the JV structure as a vehicle for investment in the Czech Republic, **rather than other forms of investment**. Other methods of investing in the country are greenfield investments, acquisitions, licensing or franchising and many of the benefits of collaboration with a local firm could be achieved through these alternative investment modes. For example, resource-seeking activities could be achieved through acquisition. Access to local market knowledge requirements could be satisfied through market agents. The research question is thus: 'In the specific context of British investment in the Czech Republic in the early years of transition, why was the JV selected rather than other investment modes?' The approach adopted here is to investigate the motives as perceived and understood by the *key managers* (hence managerial motivations).

Theoretical perspectives JVs

The international JV refers to a range of co-operative agreements between two or more firms which operate across a national boundary. It is a type of foreign direct investment There are a number of definitions of JVs, a strict one being the equity JV where two firms combine resources to create a new corporate entity over which both firms exert control.

However, the formation of a 'new' entity is not always necessary for a JV. The business environment emerging Central and Eastern Europe has spawned a new set of relationships between foreign and local firms which have challenged and expanded existing definitions (see Davies et al. 1994; Forescu/Scibor-Rylski, 1993). For example, in CEE the term JV is often used to include partial-acquisitions where the original owners retain a minority share in their business and is renamed the joint venture.

Notwithstanding, it is helpful to put forward some distinguishing features of JVs, these being:

- shared inputs such as capital, technology, know-how and patents
- shared outputs such as profits, losses and R&D results
- sharing of control over decision making
- capacity and ability to participate in governance (though both partners may not actively participate in everyday management)common commercial objective

Theories of JVs

A distinction is in the literature between 'theories' for JVs and 'motives' for JVs. Kogut (1988) maintains that JVs can be explained by three theoretical approaches: transaction costs, strategic positioning/behaviour and organisational learning.

The transaction cost approach attempts to justify the existence of multinational companies in terms of imperfect market conditions. The theory argues that 'firms choose how to transact according to the criterion of minimising the sum of production and transaction costs' (Kogut, 1988). Beamish/Banks (1987) have applied this theory to JVs suggesting the JVs may overcome the transactional problems of opportunism, bounded rationality and small number of market agents. They argue that ‘under particular arrangements, the potential threats posed (...) can be reduced to a point where JVs become more efficient means of dealing with environmental uncertainty and maximising the profit potential of the multi-national company’s firm specific assets, even in the face of bounded rationality.

An alternative explanation of joint venture formation can be seen in terms of **strategic behaviour** where firms transact by the mode which maximises profits through improving a firm’s competitive position vis-à-vis rivals” (Kogut, 1988). Devlin/Bleackly (1988) argue that “strategic alliances” (of which joint ventures are a subset) take place in the context of a company’s long term strategic plan to improve or dramatically change a company’s competitive position. Hill et al. (1990) suggest that global strategic considerations affect the choice of the structure or the mode of entry. They argue that the firm’s choice of entry mode depends on the strategic relationship it envisages between operations in different countries.

The **transfer of knowledge and the learning process** are important motives in joint venture formation. Knowledge transferred can be technology- or, skills-based or acquaintance with local markets or regulations. Various authors have noted however that joint ventures based on accessing the capabilities of partners (whether it be in terms of production techniques or market knowledge) may erode over time once the knowledge desired is acquired. This may account for why joint ventures are dismantled or the JV is acquired by one or other of the original partners. This approach is similar to the ***resource based view of the firm (RBV)*** perspective which suggests that JVs may represent the optimal mode of developing the firm’s resource base as it allows firms to gain knowledge without disturbing the balance of social relationships in which knowledge is embedded. Strategies for a firm's use of a JV are (i) to gain critical mass in resources; (ii) to acquire capabilities through learning; (iii) to generate new proprietary capabilities (Badarrocco, 1991).

Motives for JVs

In addition to the theoretical contributions to knowledge outlined above, authors have more generally listed categories of motives and uses for JVs. Typical is Contractor/Lorange's (1988) identification of seven overlapping objectives. These are (i) risk reduction; (ii) economies of scale or rationalisation of production; (iii) technology exchanges; (iv) co-opting or blocking competition; (v) overcoming government-mandated trade or investment barriers; (vi) facilitating initial international expansion of inexperience firms; and (vii) vertical quasi-integration advantages of linking the complementary contributions of the partners in the value chain. Walmsley (1982) suggests that one of the prime advantages of the JV is its clarity of purpose which forces attention on the dominant business purpose. The JV allows parties to clearly state their objectives during the negotiations and the JV can adopt its own style. Unlike a merger or acquisition, there need not be any 'winners' or 'losers'. Where the JV is isolated from existing structures of the participants, both sides are able to measure the activity generated. A further advantage of the JV is its flexibility as the structure can be moulded to suit a variety of needs.

It is argued that simply listing ‘motives’, however relevant these may be to firms, does not provide a satisfactory theoretical base for JVs (Glaister/Buckley, 1996). Such an approach does not address the fundamental question of why JVs are preferred to alternative forms of governance: be it across the market, or through a hierarchy. Table 1 show one interpretation of the way that motives and theory might be mapped (Glaister/Buckley, 1996).

Table 1: Theoretical explanation and strategic motive

Mainstream Economics – Implied motives Risk sharing Product rationalisation and economies of scale Vertical links (Shaping competition)
Transaction cost explanations – Implied motives Risk sharing Transfer of technology / exchange patents Vertical links
Resource dependency - Implied motives Vertical links (Risk sharing)
Organisational learning - Implied motives Transfer of technology / exchange patents Facilitate international expansion
Strategic positioning - Implied motives Shaping competition Facilitate international expansion Consolidate market position

Source: Glaister/Buckley (1996, p308)

Foreign Investment in the Czech Republic

The majority of investment in the countries of ECE has been concentrated in the Czech Republic, Hungary and Poland, having received US$5008m, US$9934 and US$7389 respectively by 1995. By 1998, the Czech Republic had received US$9574.3 million.

Unlike other countries in the region, the centre-right government of Vaclav Klaus did not offer any incentives to foreign investors on ideological grounds. However, after the currency crisis in 1996 and lobbying from agencies promoting FDI, the Czech cabinet introduced, in May 1998, a package of incentives for domestic and foreign investors willing to invest at least USD25 mil. into high-tech production in the Czech Republic. The legislation was amended in December 1998 to allow smaller investments to qualify for the investment incentives. The minimum required investment of US$ 25 million was cut to US$ 10 million. At the same time, the maximum amount of job-creation grants was raised from CZK 80,000 (approx. US$ 2,500) to CZK 100,000 (US$ 3,300) per job created.

Trends in British investment in the Czech Republic are noteworthy. British investment in the country was very slow in the early years of transition, the British contribution not registering separately in the official statistics. British investment accounted for only 1.27% of the total stock of FDI in June 1994, although by June 1995, this had risen to 5.36 and by 1997, 15.1%. However, in Quarter 3 1998, UK investment accounted for 25.8% of investment in the country (CzechInvest, 1998). The reasons for such an increase are not clear. Possible explanations might include (i) the active promotion of FDI in the Czech Republic by the UK Department of Trade and Industry through its "Open for Business Central Europe" programme (ii) the introduction of investment incentives by the Czech government and (iii) the change in perception of risk of this country in the eyes of British managers.

Despite the suggestion that the JV is the most popular forms of FDI in the Czech Republic, there is little evidence to fully support this claim. Of the Top Ten foreign investors, only one matches the definition of an equity JV (two 'parents' create a third entity). The remainder are either greenfield investments or partial acquisitions whereby the foreign investor purchases either a majority or minority stake in a local firm. Additionally, of the 55 'major projects' quoted on the web-site of CzechInvest, 34 firms undertook greenfield investments, 8 firms were engaged in technical co-operation and only 3 investments took the form of a JV.

Methodology

The research was undertaken among British companies which had established a JV with a Czech partner between 1991 and 1995. Hence, these companies can be considered to be early investors in the region. This paper forms part of a wider research project addressed the formation-process involved in the creation of UK-Czech JVs. A multiple case study strategy was adopted as it encourages the use of mixed-methods. Data were collected using semi-structured interviews, a questionnaire and company documentation. The main factors which influenced the choice of the case study strategy were:

- the complex nature of the information required from the companies
- the need for flexibility in allowing respondents to place emphasis on aspects which he/she deemed to be of importance and relevance, and less emphasis on those aspects which held little relevance

Table 2: Companies and industrial sector

Group	Code	Sector
Manufacturing firms	Man1	Automotive Components
	Man2	Automotive Components
	Man3	Castings
	Man4	Quarrying
	Man5	Automotive Components
Services	S1	Financial Services
	S2	Architects
	S3	Insurance
	S4	Consumer Products
Project Specific	P1	Construction
	P2	Construction
Marketing	Mk1	Software
	Mk2	Electronics
	Mk3	Software
	Mk4	Building materials
	Mk5	Building materials

- the population of British firms engaged in JVs, as identified , was sufficiently small to overcome some of the practical disadvantages such as cost of travel and data-overload.
- evidence of growing 'questionnaire fatigue' amongst the Western business community in CEE

An earlier survey in the research project identified the population of UK-Czech JVs (Davies et al. 1994). 19 *bone fide* JVs were identified of which 16 (84%) agreed to participate in the research. It was noted earlier that the British have been reluctant to invest in the Czech Republic in the first half of the decade in comparison with other countries.

The data were collected during the summer of 1995 in the UK and Czech Republic with British managers who were directly involved with the set-up of the JV. The sample covered a number of different industries as shown in Table 2.

The interview data were transcribed verbatim and analysed with the assistance of the NUD.IST software.

Findings

Motives of the choice of the JV factors are separated into organisational, partner related and exogenous factors. Organisational drivers to establishing a JV are those directly associated with the implementation of the investing firm's strategy. Examples are to gain resources not possessed by the firm, reduction of cost or to develop synergies with the partner company. Partner related motives are those which do not eminate directly from the implementation of the firm’s strategy, but recognise the role of the JV partner in the choice of structure. Exogenous motives are those factors external to the firm such as political, industrial or social factors in the Czech Republic. Table 3 shows the profile of motives in each case.

Organisational Drivers

Organisational drivers, which refer to motives relating to the implementation of a firm's strategy were divided into five categories: Resource Seeking, Synergies, Economic, Competitive and Historic factors.

Resource / Asset Seeking

The JV is a means of acquiring or gaining access to another firm's resources. The skills and resources that the investing firm may wish to access are: physical assets, staff, knowledge or commercial relationships.

Table 3: Case profile of motives

Code		Industry	Phys Assets	Staff & Skills	Local	Commercial	Synergies	Cost	Risk	Control	Local supplier	Historic	Partner	Motivate staff	Isolate	Indemnities	External
Man 1	R	Auto components	L,P,E	Eng.		✔			<acqui	Thr' mngt		✔	✔		✔		
Man 2	R	Auto components	L,P,E	Eng.		✔				Thr' Mangt			✔		✔		
Man 3	R	Castings	L,P,E	Eng.				<acqu		>arms					✔	✔	
Man 4	R	Quarrying	Quarry			✔		<capital	<acqui	allowed full control							
Man 5	R	Auto components	L,P,E	Eng.													
S1	U	Financial services			✔							✔					✔
S2	U	Architect			✔												
s3	R	Insurance		Specialist	✔		✔										
s4	U	Consumer products			✔												
p1	U	Construction	L		✔		✔		<greenfield			✔					
p2	U	Construction	L	Specialist			✔										
Mktg 1	R	Software		IT skills				No additional costs	✔				✔	✔	✔		
Mktg 2	R	Electronics	Premises	Technical	✔					> arms		✔					
Mktg 3	U	Software		IT skills		✔							✔				
Mktg 4	U	Building materials	Premises		✔	✔				>over tech							
Mktg 5	R	Building materials					✔			> over tech							

L,P,E: Land, plant and equipment; R: JV partner in related in activity; L: Land; U: JV partner in unrelated activity; ✔ :Present as a motive

Physical assets

Physical assets sought by the British firms in the study include land, plant, equipment and premises. The importance of physical assets varied across the four groups of companies. For manufacturing firms the JV was predominantly used as mechanism for gaining access to, or acquiring, land, plant and equipment. It was reported by these companies however that the manufacturing capacity provided by the Czech partner was not 'ideal' for the British companies and required inputs of technology, modernisation and restructuring of premises, workplace and practices. Integral to manufacturing capacity was access to, or acquisition of labour. Unemployment levels in the Czech Republic in the early years of transition were around the 3% mark. A greenfield investment may not have been feasible for the manufacturers since the labour market was rigid and immobile. On the other hand, although the JV speeded entry into the market in the short term, it did not necessarily facilitate activities in the medium term due to the costs (both financial and time) of restructuring.

For the most part, the type of physical resources sought by the Service firms were premises from which to operate. For the two Specific Project firms securing access to land for development constituted the very logic of the JV: without that land, the JV would not exist.

In the case of the Marketing firms, the JV partners did provide premises, but these were less fundamental to the logic of the JV than for the manufacturing JVs. For example, the JV created by Mk2 inherited premises from the Czech parent but these were found to be ill-suited to the activities of the JV and the company subsequently sought a new site.

Staff and skills

Staff and skills were also key resources sought by the British investors. In a number of the Marketing JVs, the Czech partner provided staff with specialised technical know-how or expertise (for example, in areas such as I.T. applications skills). Czech personnel were used to adapt Western technology to local needs, providing solutions for Czech customers. This was also evident in the Service industry: S3 for example was able to provide the JV with staff with experience in the Insurance industry. Additionally, the Manufacturing companies reported that one of the attractions of the Czech Republic was its engineering excellence (although it might be argued that this is a national characteristic, rather than necessarily a characteristic of the partner company).

General knowledge of culture and business environment

Tapping into local market and cultural knowledge was one of the main reasons that the British firms chose the JV particularly as investors perceived high levels of uncertainty about the cultural and political environment in the transition economies. One of the foremost benefits provided by a local partner was the knowledge it could provide about that environment.

Of particular importance to the British firms was the need for assistance in navigation through the maze of bureaucracy. The Czechs are traditionally a highly bureaucratic people and the legacy of communism left a complex set of procedures for operating a business. Obtaining planning permission in Prague for example required some 37 permits and without local assistance, functioning as a business was almost impossible. The British companies reported that local partners needed to both know the system but also be able to operate within that system. This inevitably meant having good 'connections' with officials and bureaucrats.

Need for knowledge of the local bureaucracy was both short and long term in nature. In the short term, relevant knowledge was required for the initial start-up of business activities: registration of the business, renting of premises etc. This was the case with S2 who was offered a contract at short notice and required the assistance of a local to establish an operating firm. In other cases however, the survival of the JV required that regular contact be maintained with local officials. This can be seen in the construction industry where P1, whose JV is with the local City Council, referred to the difficulty of accomplishing anything without the goodwill, active involvement, and blessing of the latter.

An extension of general cultural knowledge is specific knowledge about a particular market. Given the proximity of the State and industry in the communist regime, in the early 1990s commercial relationships were still closely equated with bureaucratic relationships. Knowledge of 'who is who' and 'who knows who' was particularly important. A 'sound' bureaucrat in a Ministry could greatly enhance one's business opportunities.

The need for local knowledge was much stronger in the Services and Marketing groups than was the case for the Manufacturing companies.

Commercial relationships / Market access needs

In some cases, association with a particular Czech company gave the British investors distribution networks or, more often, existing commercial relationships. In the automotive components industry, these existing commercial relationships were key factors in the decision to use a partner.

Three firms used their JV partner to provide access to markets further East in the other CEE countries and Russia, although at times these hopes were dashed: Mf3 for example believed initially that its partner would give it access to the

Russian markets, but this in reality, did not materialise due to the collapse of the Russian defence industry.

Synergies

Another reason that investors chose to work with a partner was to develop synergies between the firms. Synergies occur where the benefits of collaboration outweigh what each partner could achieve individually. An example of such a synergistic effect can be seen in the case of P2. The JV partner owned land and had vital contacts in the local bureaucracy. P2 on the other hand, had development and design expertise. Individually these assets and competencies were of limited value: without planning permission, the value of the land was not high. Through collaboration, synergistic effects can be seen such that the value of the land is higher when the resources are combined rather than when they are not.

In fact, the complementarity of requirements between the Czech and British firms was integral to the logic of a number of the JVs. In general, the British furnished management skills, marketing knowledge and technology, whereas the Czech firm contributed land, labour, local marketing knowledge and management potential

It is a fine line that distinguishes the 'need for resources' categories outlined above and creation of synergies between firms. Creating synergies suggests that the firm could not develop the advantages alone, or at least not without substantial costs. The potential of developing synergies between Czech and British firms is high as, in most cases, each firm is able to make a specific contribution to the JV, whether it be in terms of assets, management skills or market knowledge which the other firm could not provide. Knowledge of a particular economic environment may be of little use on its own, but is invaluable when combined with technological skills.

Economic

The third category in the organisational motives for JVs is 'economic'. The firms approached the costs of doing business differently and each firm had its own cost, risk and control reward model. In all cases, cost was a significant consideration in the JV decision. However, from the sample, it is clear that companies had different perceptions of these issues. Three separate issues are considered: cost, risk and control.

Cost

The 'cost' of the investment was perceived differently by firms. Some firms considered the JV to be an increase in cost from a trading relationship. Mk1 only agreed to increase its participation (from using an agent to becoming a JV) because the increase did not incur additional costs. On the other hand, Mf2 chose not to set up a greenfield operation as it was costlier than a JV and Mf3 selected the JV option, because it was not regarded as expensive at the time.

Risk

The issue of risk is multi-dimensional: the firms' perceptions of the risk of a JV were influenced by the alternatives available. JVs were perceived to be lower risk options compared with the wholly owned subsidiary to some firms. Mf3 rejected the wholly-owned option considering it too big a risk and Mf4 was also unwilling to fully acquire its partner because it was unsure of the political and economic conditions in the Czech Republic. Risk reduction was also a motivation in the services industry: S4 saw the JV as a safe option and considered itself not in the business of risk.

By contrast, firms more accustomed to arm's length relationships perceived the JV as an increase in risk. Mk2 and Mk1 both used a distributor initially in the Czech market because it was low risk and only increased their investments when (amongst other things) they had gained experience in the market.

Control

The third facet of economic motivations was the need to exert control over the investment. The control which the JV afforded was perceived in two ways for those firms which cited it as a motivating factor. Firstly, some firms compared the JV to a franchising and distributorship relationship. In the uncertain environment, the JV was seen to offer a greater level of control, and hence security, than would have been necessary if investing in a more certain environment. Mk4 for example, usually franchised in foreign markets: however, it believed that there was insufficient experience of this mode of operating in CEE. Despite this company's minority share in the JV company, it felt by internalising the JV within the boundaries of the parent company it could exert better control over the business.

From the other perspective it was noted that as the contribution of managerial skills was inherent in the logic of the JVs in order to assist the Czech firms restructure and transforming itself to compete in a free market economy. Whilst a number of authors have noted this, it would appear that this is a particular feature of East/West JVs.

Competitive

The Czech industry structure and the competitive environment also influenced the choice of the JV where the British investors may have preferred total ownership. In some cases, the JV conferred benefits that would have been unavailable through other entry modes. The JV allowed British firms to gain status as "Czech" thus allowing better access to the local market. This was particularly so for the automotive components firms with respect to commercial relationships with VW/Skoda. As part of the much publicised JV between the German car giant VW and the largest Czech car manufacturer Skoda, the German company was required to give commitments to the Czech government to support and develop the local components industry. VW had made assurances to the Government that it would use Czech suppliers. JV status was thus important in allowing two British firms to 'become' Czech so as to develop supplier relationship with VW/Skoda. The JV thus improved their competitive position in a manner that would not have been possible had they operated on a stand-alone basis.

Historic

Investment decisions are not always decided on a case by case basis and certain firms had a policy of operating JVs in foreign markets. Four of the firms reported that they regularly used JVs in foreign markets. This type of motive can be regarded as a "rule of thumb" or heuristic. Others however reported that their Czech JV was a departure from their 'normal' mode of operations given the particular set of environmental circumstances of the Czech Republic.

Partner related factors

Firms do not operate in an environmental vacuum and strategic method has to be mediated by environmental circumstances: the British investors were rarely able to act entirely in their own interests when collaborating with a partner. It may have been anticipated, for historical reasons, that the British investors would be able to exert power over the local firm. This is partially due to the context of rapid privatisation, the collapse of domestic and traditional markets to the East and the need of local firms for technology and capital. However, in a number of respects, the partner exerted a firm influence on the JV choice.

Firstly, in a of number cases involving large well-established Czech firms, the British parent companies were only one among several potential "suitors" of the Czech firm. As part of the privatisation programme, managers and officials from local government and the National Property Funds had to decide which route a company should take to privatisation. In conditions where there was a high level of competition between potential investors, the Czech firms were unwilling to be subsumed (through a full acquisition) or to participate together on a trading basis. They wished to maintain a degree of autonomy whilst still receiving injections of capital and technology. The JV was not so much a matter of choice for the British firm, but perhaps the only feasible option.

In two cases, (Mk1 and Mk3), the ultimate choice of the JV was the result of the Czech partners' desire to strengthen and formalise an existing trading relationship. Whereas the British parent was content with the original distributorship agreement, the Czech partner wanted to increase the collaboration between the firms and so pushed to regularise the relationship into a JV. This type of drive towards the JV has particular significance in the Czech Republic. In both cases, local Czech parent companies, against the background of privatisation, were keen to lay off staff and reduce costs. The JV was a means of detaching a department from the Czech parent and transferring the costs of that department onto the investor.

Another partner-related motive for the choice of the JV was the desire to motivate local staff through local ownership. This was particularly important where the Czech management was providing knowledge-based skills such as applications technology. In cases where the local staff were to manage the day-to-day running of the JV, part-ownership was perceived to be a mechanism for motivating the staff to work in the interests of the JV. In the case of Mk2, the local owners were formerly part of the computer department of an existing firm and between the three of them raised sufficient capital to invest into the JV. This gave the partners a financial interest in making the company work.

A crucial driver influencing the choice of the JV, which is highly relevant in the countries of CEE, was the need to isolate discreet parts of existing firms. Large, highly integrated manufacturing companies, had little chance of survival when faced with open competition as many of their divisions were loss-making. In order to participate with the desired part of the Czech firm, the British investors believed that the JV was the only feasible investment option as a full acquisition would have to encompass the whole of the firm. In these cases, the acquisition was unfeasible both in terms of size of the partner firm, but also the potential for future development. This use of the JV has been referred to as ‘cherry-picking’.

In the case of Mf1, only one division of its Czech partner's firm was profitable and the Czech firm insisted that that the JV be used to subsidise the less profitable parent company. Basically because of the privatisation process, the Czech shareholders recognised that the value lay in the part of the company of interest to the UK parent and for the rest of the company to survive, there needed to be some subsidy from the financial performance from one part into the other.

By forming a JV, the Western firms were able to work with the parts of the local company that had potential without being involved with the larger parent company, thus focusing the investment.

Exogenous factors

The prevailing socio-political climate also shaped the choice of the joint venture. By their nature, such factors are idiosyncratic and are not generalisable across the sample.

External funding. For one of the firms, the choice of the JV was partially influenced by external funding available. The JOPP scheme is an EU (PHARE) funded programme which assists companies wishing to JV to research the feasibility of the scheme. The money is only available if the investing company wishes to form a JV: acquisitions or licensing agreements are not covered. It is interesting to note that only one of the firms in the sample used the JOPP funding.

Protection from future indemnities. In the case of Mf4, the JV was selected to protect the indemnities against past environmental damage. The joint venture deliberately chosen because the investing firm wanted the government to stay in and pick up any past liabilities. The JV provided a vehicle that allowed Mf4 to avoid paying for past environmental damage. Many of the firms in the Czech Republic, as well as in the other countries of Central and Eastern Europe have appalling environmental records as the previous regimes showed scant concern about pollution or the environmental effects of heavy industry. An additional factor was that the JV partner had been closely involved with the Russian defence industry. The firm clearly felt that the infancy of democracy in the Czech Republic and the close presence of Russian troops was a delicate political situation. More generally, one of the risks for Western firms was the prospect of assuming financial responsibility for the clean-up of past environmental damage. Whilst only one firm cited the need to keep the government involved in the investment as the foremost reason for the choice of the JV as a structure, a number of firms saw settlement of the past liabilities as a crucial issue to be resolved during the negotiation phase.

A further socio-political motive for the choice of the JV was the *goodwill* that association with the partner company could convey. Working with a local firm through structures such as the JV could prevent accusations that the British investor was exploiting local assets. Collaboration with the local firm was seen to be expedient in some instances overcoming some of the ill-feeling that may be attached locally to the investment, an example being P1's Technology Park. Collaboration with a local council reinforced the beneficial nature of the project to the local community as a whole, rather than a Western firm buying and exploiting the land.

Managerial implications

The findings of the current paper are based on a relatively small sample size and hence its finding must be treated as exploratory. Nevertheless, the small size is consistent with the findings of other researchers who in the region who have identified only a limited number of JVs (Fahy et al. 1998; Ali/Mirza, 1996).

There are clear reasons why a Western firm might wish to establish a JV with local firms. These have been summarised in the present paper in terms of organisational motives. These include resource seeking activities, synergies, economic factors and historic factors.

Of particular importance to the British managers was the need for the long term co-operation of a local trusted partner was seen especially in terms of plotting a course through the complex and unwieldy Czech bureaucracy. This inevitably required a partner who not only had a good understanding of the structure of the bureaucracy but also connections in it. Such relationships are unlikely to be tapped into in an arm's length relationship.

The is perceived by managers as a mid-point between full acquisition and arm's length-based relationships. Thus for some firms, the JV was used instead of an acquisition in order to minimise the risk of large capital investments. On the other hand, other managers found that in the environment of the Czech Republic, it was prudent to assume more control than usual as the country's patents and proprietary legislation was still untested.

Although there might be theoretical benefits to the investing firm, the experiences of British managers in the present study suggest that such benefits might not be accrued in practice. For example, in many cases the quality of the resources acquired (such as plant and equipment) was sufficiently high to allow the investor to operate effectively. High levels of additional investment, both financial and in time, were required to transform the facilities to allow them operate effectively. This might hinder the potential for the JV to be used a mechanism to allow rapid access into a market.

However, there are also strong external factors which influenced the decision to joint venture. Whilst it may have been anticipated that Western firms would be in a position to exert power over their CEE counterparts, the evidence from this study shows that, in a number of cases, it is the local partner which in reality played a substantial role in the selection of the final entry mode choice. In some cases the choice of the JV was in fact imposed upon a somewhat reluctant British firm. In other cases, the choice of the JV was a carefully negotiated trade-off between the competing desires of the two firms. In a single case, the JV status was selected specifically to protect that firm from future indemnities. The role that the local partner plays in the choice of the JV has been neglected by the mainstream JV literature which has concentrated largely on the benefits accruing to the foreign investor. The qualitative analysis of motives of the JV has illustrated clearly some of the characteristics of the Czech environment in the early days of transition which had a definite impact upon the choice of mode of governance.

It is interesting to speculate whether this is situation where the investors were directly involved and able to exert real influence on shaping the future industrial structure of the country.

Conclusion

The qualitative analysis of the motives for JVs presented in this paper provides an insight into the effect of reform and transition on entry by structuring the motives. It is clear that the choice of the JV is multidimensional, influenced by a wide range of motives. None of these motives alone provides a sufficient explanation for the choice of the JV over and above other investment option. Rather, the choice of the JV is the outcome of 'bundles' of motives: that is, the combination of both organisational, partner related and exogenous motives which provides the logic for the JV.

The paper finds some support for each of the theoretical explanations for JVs outlined. From the economic perspective the JV is the mid-way point between the market (arms lengths agreements) and the hierarchy (full acquisition). It is also used as a means of protecting proprietary knowledge, without the risk involved in a full acquisition.

The JV was perceived as a way of overcoming the firms' lack of knowledge of the local environment in line with the *organisation learning* theoretical perspective. Knowledge deficits were in terms of local culture, contacts in government and bureaucracy and contact with local buyers. Firms perceived that such knowledge could not be acquired externally either due to costs or because of the fact that such knowledge is difficult to codify. Organisational development was not a feasible option due to time constraints. In this manner, the JV confers advantages of cost and speed over other forms of market entry.

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Book Review

Martin Myant (ed.), Industrial Competitiveness in East-Central Europe, Edward Elgar, Cheltenham, UK and Northampton, MA, USA.

When investigating highly relevant issues of East-Central European economies, this book looks beyond the topics that are commonly found and thoroughly, albeit sometimes one-sidedly, discussed in many other “area studies”. The editor and the contributors – drawn mainly from the Czech Republic, also with contributors from Germany and the Slovak Republic, with support from a well-spent Phare ACE grant – make their point right in the Preface by asserting that “The key question is not whether the bare bones of a market system have been created, but whether foundations have been laid for sustainable growth and rising living standards.” With this assertion, the book challenges the conventional view that is also entertained in debates in the EU and in the OECD on policy options for the transformational economies, namely that the countries concerned, once having gone through the recommended path of stabilization, fast privatisation, comprehensive deregulation and abolition of subsidies, should experience little problem when facing competitive pressure within the European Union.

It is the concept of competitiveness that has been put in the centre of the studies that eventually make up a worthwhile reading volume. With competitiveness in the focus of interest, these studies raise some concerns regarding whether the economic systems that have been created on what was left behind the collapse of planned economies provide sufficient basis for growth and development in the years to come.

Myant, the editor of this volume, argues that becoming “The Tigers of Tomorrow” may be too much to expect from Central-East European countries when one looks at their growth potential. This leads to a possible critique of some of the transformation strategies adopted in these countries, with a highlight on the more substantial focus on the institutional framework that can effectively promote growth, which in turn calls for a more active role for governments.

This concerned view gains support from a multi-dimensional study co-authored by Zeman, Rodová and Souček on country-competitiveness, which considers several indicators – from GDP per capita through unit labour costs to export performance. The same study also looks at management strategies – unfortunately only in one country, the Czech Republic – with findings that these strategies, if any, are often less than impressive. Vintrová and Chvojka then take up the themes of macroeconomic structural transformation, and financing of restructuring at the level of the firm, respectively. Amongst their many insights, both point to sometimes striking differences between countries that might be tempting to be seen indistinctively. The relationship between investment and restructuring is the subject of the analysis by Ujházy and Zeman, who make a compelling case against, and offer explanations for the lack of, the generalized link between investment level and economic growth rate. These comparative chapters are followed by three country-studies on Slovakia, the Czech Republic, and (East) Germany, by Outrata, Myant, and Fleischer and Hornschild, respectively.

Myant concludes the volume by arguing against a naïve and narrow view of what transformation should entail. In fact, this last chapter amplifies the message of the whole volume that, no matter what optimists may declare from time to time, “transformation” (often labelled as “transition” in a simplistic and misleading view of what has been happening in the region) is far from over just when some basic elements of a market system have been established, and even then one can make predictions of only limited value as to where these countries will further evolve to.

The studies included in this volume are rich not only in relevant statistics and overviews of recent trends, but also in important insights and far-reaching conclusions. This work is undoubtedly an important contribution to our understanding of post-communist transformation, and provides guidance for thinking about the future. Policy makers at national and EU levels thus should also consider the book as a valuable source for shaping policies for sustainable growth in Central-Eastern Europe.

Zoltán Antal-Mokos, Budapest University of Economic Sciences and Public Administration

News / Information

Conference Report

Financial Development in Eastern Europe: The First Ten Years

at

Klaffenbach Castle, 3-4 February 2000

This conference on financial sector development in transition economies was convened by Adalbert Winkler, who continued the tradition of convening international conferences organised through the various appointees to the Commerzbank-Visiting-Chair of Money and Finance at Chemnitz University. Some fifty researchers from universities, research institutes and international financial organisations, central bankers and practitioners in the consulting business discussed the extent of monetisation, the intermediation role of financial institutions, economic and monetary policy and financial crisis in the transition economies of Central and Eastern Europe. The meeting was organised in seven sessions over two days. The afternoon of Friday 4 February provided comfortable room for intense discussions, framed by discussion panels.

During a one-hour introductory presentation, *Lajos Bokros*, director at the World Bank and formally Hungarian finance minister, father to Hungary's Austerity Programme of 1995, assessed up-to-date experience with financial sector development in the region by grouping individual economies according to their achievements in that field. In the most advanced reformers, Poland, Hungary and Estonia, foreign involvement in the banking sector is high, the quality of assets is good and corporate governance as well as regulation compare well to Western standards. Subsequently, capital markets are fairly large and liquid, pension reforms and fund management to supplement banks and bourses are at an advanced stage. Perhaps surprisingly, the Czech Republic was grouped with Slovenia, Latvia and Lithuania as 'intermediate reformers'; Slovakia, Croatia, Bulgaria and Romania were coined as struggling with the double legacy of their socialist past paired with insufficient or even bad reforms. In Ukraine and Russia, as 'reluctant reformers', banks are largely in private hands, yet almost all are insolvent. The quality of banks' portfolios is very poor and corruption, crime and cronyism are rampant and financial liberalisation has not started yet. Furthermore, non-bank financial intermediation is almost non-existent. *Bokros* concluded his lecture by assessing the agenda for the next decade of transition with the most important fields of reform being the three pillars of enhanced corporate governance, increased competition and more prudential regulation and supervision. He stressed that the latter are to some extent substitutable.

The second session, chaired by *Friedrich Thießen* from TU Chemnitz, analysed the structure and sources of finance for economic activity. *Simon Commander* from the EBRD analysed the rise of money surrogates and non-conventional transactions in the goods markets. Today, mostly Russian and Ukraine markets rely heavily on barter trade. The underlying question of research conducted by the EBRD on innovation in money surrogates is concerned with why the usual market price mechanism does not serve to govern the adjustment of output according to demand. The origins of barter are traced back to the state's reluctance to enforce timely cash payments for tax and utilities, in part motivated by an unwillingness to let poorly performing firms fail. Subsequently, the scope for moving away from non-monetary transactions is constrained to fiscal and structural reforms, namely the non-acceptance of in-kind and late payment by budget and quasi-fiscal institutions as well as a reduction of social and political costs of firm exits and restructuring. A monetary solution would rather result in inflation and hence further 'barterisation' and deterioration in the fiscal position. *Jens Köke* from the Zentrum für Europäische Wirtschaftsforschung, Mannheim, and *Tanja Salem* from the Centre for Transition Economies, Leuven, undertook the task of assessing the effects of different modes of corporate finance on corporate restructuring, i.e. investment and downsizing, both measured in employment. Using a large data set on medium-sized and large enterprises from ten transition economies, they determine that the potential for internal finance is limited; Hungary, Poland and the Baltic States are the most advanced and economies in South Eastern Europe the least advanced ones. In terms of structure, skill-intensive sectors exhibit relatively greater potential for internal finance (high number of *de novo* firms) and sectors with sizeable export activities can rely on access to both internal and external finance. Not surprisingly, countries and sectors with relatively greater access to finance (be it external or internal) relied more on revenue-enhancing investment. Countries and sectors with typically higher debt and interest burden faced larger pressure to downsize to improve efficiency, indicating a hardening budget constraint (with the notable exception of the Czech Republic).

The Thursday early afternoon session, chaired by *Klaus John* from TU Chemnitz, was concerned with banks and capital markets as financial intermediaries. *Claudia Buch* from the Institut für Weltwirtschaft, Kiel, reviewed the experience with foreign banks in transition economies. The widespread fear, that domestic banks would not be able to withstand intensifying competition due to inherited problems ('bad assets') and less experience (the learning curve) could be rejected: "the entry of foreign banks has not caused large-scale banking failure". Quite on the contrary, it increased overall banking efficiency. In particular, the analysis showed that foreign banks followed some form of 'sequencing', by which they initially followed their foreign corporate clients into the region to slowly expand in small market niches and to finally obtain shares in markets with domestic firms and in the deposit business. The

Hungarian case highlights that competitive pressure on incumbent banks increased only gradually, giving domestic banks time to adjust. Still, *Buch* argued in favour of some compensation of domestic banks for truly inherited ‘bad loans’ before all entry barriers can be removed. *Rüdiger von Rosen* from the German Financial Equity Institute stressed the decisive role of capital markets for growth and structural adjustment in Central Eastern Europe. This is especially relevant in view of the typical reluctance of banks to finance venture capital in the most dynamic, technological, sectors as well as providing an alternative to often insufficiently developed banks. Both reasons are likely to remain relevant for the foreseeable future, considering not least that the development of Western banking sectors took decades. Today, stock exchanges in Central Eastern European economies have grown to significant sizes. For further qualitative development, the import of human capital and know-how via education of staff by Western experts, organisational and technical support as well as legal advice will prove to be more decisive factors than the import of foreign capital.

The late afternoon session on Thursday, chaired by *Jens Hölscher* from the University of Brighton, assessed the properties and implications of financial crisis in post-socialist transition economies. *Werner Neuhauß* from the Kreditanstalt für Wiederaufbau (KfW) provided an overview of the engagement of the KfW in the region. The institution’s strategy features support for new financial institutions, which target small and medium enterprises as well as the promotion of development banks. The particular importance of small and medium enterprises in the region lies with their dynamic role in economic growth and structural adjustment within an unstable financial surrounding. Yet, their access to the financial markets is constrained by their typical lack of collateral, in Central Eastern Europe predominantly real estate. Here, the KfW not only tries to convince domestic banks to service that market but also provides additional finance for banks at reduced rates. Strict rules and tight supervision of banks as well as the firms involved guaranteed a profitable engagement despite the lack of financial stability. *Janos Vicze* from the National Bank of Hungary analysed the financial crisis in Central and Eastern Europe in light of the existing theoretic models. He developed an own specification of an escape clause model to assess which financial crisis in the region can be explained by a deterioration of fundamentals and which were triggered by other reasons. His presentation provided an extensive evaluation of financial sector development and crises where they happened in Russia, Bulgaria, the Baltic states, Romania, Slovakia, the Czech Republic, Hungary, Poland and Slovenia. In his conclusions, he made a case for a burden sharing between (international) creditors and debtors in case of a crisis (‘bail-in problem’). *Zbigniew Polanski* from the National Bank of Poland stylised the Polish case as a role model for economic transition and financial institution building without bank or currency crisis. The striking stability of Poland’s financial sector despite a very large and still growing current account deficit can be traced back to numerous factors. There has to be mentioned Poland's long standing history of economic reforms, the clear vision of goals and the strategy of reforms, the sound sequencing of individual reform steps, powerful supervisory institutions and tough regulation predominantly in financial markets as well as timely reacting macroeconomic policies. In particular, the transition from a rigid currency peg during monetary stabilisation to a flexible exchange rate regime today in line with gradual capital account liberalisation played an important role in stabilising the markets. During the Russian crisis in 1998, Poland was the least affected transition economy, the central bank even reduced interest rates.

The first Friday morning session, chaired by *Hubert Gabrisch* from the Institute for Economic Research Halle, was intended to discuss such aspects of financial sector development in transition economies, which play an important role in the advisory task of international financial institutions. *Gerwin Bell* from the International Monetary Fund, after briefly dismissing recent calls for a paradigm change in the Fund's agenda, focussed on the link and causality between the financial sector and the macroeconomy, especially of course macro adjustment programs as promoted by the Fund in transition economies. Stressing that financial crisis typically do not emerge without clear disequilibria in macroeconomic fundamentals, he supported the view that engagement of foreign banks tends to be supportive for financial sector development. IMF experience clearly shows that whilst the benefits of financial liberalisation typically outweigh the dangers in terms of stability and the danger of crisis, there is no place for complacency with respect to reforms of the financial sector. In formulating macroeconomic reform programs, particular emphasis has to be placed with their effects on the financial sector. *Christof Rühl* from the World Bank, concerned with the 'bail-in problem', stylised the Mexican, Asian and Russian crisis as examples where private international investors, despite the obvious risks involved, were able to escape the crisis without much costs due to the bailing out activities of international financial institutions. Relying on these institutions, private capital keeps flowing into emerging markets at ever growing amounts, a clear case of moral hazard. Hence, investors can rely on receiving risk-inflated interest rates quite independent of whether a crisis occurs or not. Reviewing experience with crowding-in in the test countries of Pakistan, Romania, Ukraine and Ecuador, he concluded that a possible solution could involve the introduction of collective-action clauses into loan contracts to make restructuring a desirable option long before extraordinary circumstances leave no choice. "No longer would the only alternative be paying off creditors in full with official funds or enduring a costly, extended interruption to market access". So far, however, not even the Bretton Woods institutions embrace this alternative and US American - style bonds, in contrast to the more flexible UK - style issues, do not allow any renegotiation - clear fields for future reform. *C.P. Zeitinger* from Internationale Projekt Consult elaborated on his experience with institution-building in the micro-finance sectors of CIS. The usual problems associated with business in the region, e.g. criminality and dishonesty, payment morale and the Mafia, proved to be of little relevance: “working with small scale debtors still produces comfortable returns”, arrears rates turned out to be very favourable, collateral also existed to a sufficient value. Dealing with the middle class typically allowed to “fly below the radar of the Mafia”. Interestingly, the small and micro enterprises paid back their loans even in the midst of the Russian financial crisis - an indication for *Zeitinger* that the small scale market provides a less risky business than the usual larger scales as typically targeted by international development and commercial banks.

The late morning session, chaired by *Wolfram Schrettl* from the Deutsches Institut für Wirtschaftsforschung, Berlin, laid out the agenda for a panel discussion on the central banks’ views on monetary policy in an unstable financial system. *Peter Bofinger* from the University of Würzburg opened the discussion by assessing, in an analytic manner, the two extreme options of exchange rate policy for transition economies in general and the EU accession countries in particular. He made a clear case for some form or other of currency peg and dismissed (theoretical) advantages of fully fledged flexible exchange rate regimes for these economies. He held the determination of exchange rates to be to some degree a random process, econometric evidence can show that there does not exist a systematic relationship between the usual fundamentals and the exchange rate. Furthermore, *Bofinger* stressed the often neglected relationship between a rigid exchange rate regime, interest rate parities, hence capital inflows and the problem of sterilisation for domestic policies geared towards a further reduction of price inflation. Assessing regime-options for each of the EU accession economies, he in particular expressed his concerns with Poland’s path of inflation targeting paired with a (practically) free floating exchange rate. In this conjunction Japan was a point of reference. The panellists *Peter Backé*, Österreichische Nationalbank, *Polanski* and *Vincze* largely agreed with *Bofinger’s* case against an unmanaged free floating exchange rate. Yet *Polanski* reminded the conference delegates that Poland made positive experience with a practically unmanaged free float of the Zloty in the most recent past and particularly during the Russian crisis. *Vincze* suggested a more gradual view, incorporating both, inflation and exchange rate targets: as monetary stability sets in, Hungary plans to shift step-by-step from the contemporary exchange rate target to a more domestically oriented monetary policy. He held the abandonment of any exchange rate motive as a sign of maturity to enter the European Monetary Union. *Backé* critically assessed the existing framework for eventual European Monetary Union membership as lacking provisions in case of currency crisis, lacking a scenario of an emerging system of parallel currency and, remarkably for a central banker’s view, that the inflation criteria might be “unduly constraining for catching-up economies”.

The final Friday afternoon session, chaired by *Reinhard Schmidt*, University of Frankfurt, incorporated the commercial bank's view on financial development in the region. The contribution of *Monika Schnitzer* from the Ludwig Maximilian University, Munich, took issue yet again with the possible trade-off between (foreign) competition and stability of the banking sector. By distinguishing between the long and the short term, she held that at least in the long run, competition can be expected not only to promote stability, but least as importantly also efficiency. Today, financial sectors in the region are largely 'overbanked' but 'underserviced'. In respect to measuring competition, the particular structures in Central and Eastern Europe suggest to focus on how heterogeneous banks really are, the degree of market segmentation and the relationship between bank and firm managers. Hence, competition can be enhanced even by further consolidation, paired with the pressure for higher efficiency by the entry of foreign banks. The panellists, *Jürgen Conrad* from the Deutsche Bank Research, *Harald Eggerstedt*, Commerzbank and *Martin Holtmann*, Russia Small Business/IPC) discussed this thesis against their individual professional background in the region. *Conrad* asked for more country specific analysis rather than the up to date often biased cross-country analysis in assessing financial development and competition in the financial sector in Central and Eastern Europe. *Holtmann* informed the delegates about his experience with the promotion of inter-bank competition in Russia. Here, interest rates did come down and more clients or client groups have been serviced by that industry already before the financial crisis broke out. In contrast to the discussion during the conference up till then, he however held that the entry of foreign banks could in so far be detrimental to domestic financial development, as these banks often tend to 'skim off' the best customers, leaving the less interesting 'crumbs' to domestic competitors. *Eggerstedt* broadened the discussion by focussing on the puzzling observation that the securities markets were not really taking off in the region and suggested that this might be rooted in a typical sequencing in financial market development.

The conference closed with concluding remarks by all panellists of the afternoon. Some controversial issues remained unresolved which was in line with the conference convenor's intention, *Adalbert Winkler,* by inviting a divers audience such as theorists from academia, representatives from international financial institutions and commercial banks as well as consultants to Chemnitz University. A volume with the proceedings of the conference, in particular incorporating the panel discussions, will be published in due course.

Johannes Stephan, Halle Institute for Economic Research

Jens Hölscher, University of Brighton

Calls for Papers

IACCM Annual Meeting from 29-30 September 2000 in Zagreb

As always we call for original papers reflecting the aims of the Association and the interest and the specialism of ist members. All papers for presentation will be issued at the beginning of the conference in the form of proceedings.

After all presentations the International Editorial Board of the Journal of the IACCM will select the best papers to publication, subject to recommended revision, in the journal.

Papers may be in German or English.

Deadlines

Registration for the conference: **15.05.2000**

Submission of abstracts: **16.06.2000**

Full paper: **01.09.2000**

Should you have any further questions please do not hesitate to contact us:

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V. Chemnitzer Ostforum

21. - 23. März 2001

"Personalmanagement im Transformationsprozeß"

„Die Mitarbeiter sind unsere wichtigste Ressource“, solche oder ähnliche Aussagen erhält man heute permanent von Unternehmen. Doch wie sieht es mit den Mitarbeitern aus, wenn Unternehmen in grundlegende gesellschaftliche Transformationsprozesse eingebunden sind? Wie gestaltet sich das Verhältnis von Führungskräften und Mitarbeitern, welchen Einfluß haben Gewerkschaften und andere Verbände in Zeiten radikalen Wandels? Wie erfolgt die notwendige Personalanpassung und welche Rolle spielt die Personalentwicklung? Welche Beiträge kann ein Personalmanagement leisten, das selbst vom Umbruch betroffen ist? Welche Rolle spielen Expatriates und welche Beiträge zur Bewältigung leisten in westlichen Unternehmen bewährte Managementkonzepte und -instrumente? Zu diesen und anderen Fragen sollen Beiträge eingereicht werden, die sich auf eines der folgenden sechs Themenfelder beziehen sollen:

1. Personalführung, Personalentwicklung
2. Personalbeschaffung/-auswahl, Anreizsysteme
3. Industrielle Beziehungen
4. Restrukturierung, Personalanpassung
5. Organisationsentwicklung und Kulturwandel
6. Institutionelle und personelle Aspekte des Personalmanagements

Kurzfassungen der Beiträge (500 Wörter), inklusive Name(n) des/der Autors/Autoren, akademischer Grad/Position, Name der Institution, Adresse, Telefon- und Faxnummer, Email-Adresse sowie das Themenfeld auf das sich die Kurzfassung bezieht, senden Sie bitte an das Organisationskomitee (1 Ausdruck und 1 Diskette).

Die Kurzfassungen müssen bis zum **31. August 2000** bei uns eingetroffen sein. Alle Autoren werden bezüglich der Annahme/Ablehnung ihres Beitrages bis zum 31. Oktober 2000 benachrichtigt.

Der Konferenzbeitrag beträgt 250 DM. Teilnehmern aus osteuropäischen Staaten werden im Rahmen der Möglichkeiten der Konferenzbeitrag sowie die Reise- und Aufenthaltskosten erstattet.

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V Chemnitz East Forum

21 - 23 March 2001

„Human Resource Management in Transition“

“Employees are our most important resource”, such are the statements one hears from enterprises today. However, how about the employees if enterprises are involved in fundamental societal transformation processes? How is the relationship between executives and other staff organised? To which extent do unions and other associations have influence in times of radical change? How does the necessary adjustment of the staff take place and which role does staff development play? Which contribution can human resource management make which is undergoing a process of transition itself? Which role do expatriates play and which contributions do established western management concepts and instruments render in coping with transition? Conference contributions on these and other topics should focus one of the following areas:

1. Personnel management and staff development
2. Recruiting and personnel selection, incentive systems
3. Industrial relations
4. Restructuring, personnel adjustment
5. Organisation development and cultural change
6. Institutionell and personnel aspects of HRM

Abstracts of paper presentations (500 words) should be sent to the organising committee (1 printout and 1 file on disk). Abstracts should contain author(s) name(s), title/position, institution, address, telephone, fax number and email address and the area the paper is referring to.

Abstract submissions should be submitted by **31 August 2000**. All authors will be notified of the acceptation/rejection of their abstracts until 31 October 2000.

The conference fee is 250 DM. As far as possible participants from Eastern Europe countries will receive their conference fee and their travel and accommodation expenses refunded.

For further information, please contact:

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Preis für die besten Beiträge junger Wissenschaftler

Best Paper Award for Young Scholars

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Wir fordern junge Wissenschaftler auf, Beiträge einzureichen. Vermerken Sie dazu auf Ihrem Konferenzbeitrag, daß sie sich für den Preis für das beste Papier bewerben möchten.

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RENT XIV Research in Entrepreneurship and Small Business
November 23-24, 2000 in Prague

Networking since 1971

Most European countries are increasingly hard pressed to address the issues of growth, productivity, unemployment and global competitiveness in the information integrated, significantly global environment. Small and medium enterprise (SME) cooperative networks provide viable and complementary alternatives to traditional economic patterns and offer new solutions and perspectives on the crucial problems of long-term economic health and sustainability.

Usually the workshop welcomes papers on any aspect of Small and Medium Enterprises (SMEs), Entrepreneurship and Regional Economics. However, the world in which entrepreneurs and SMEs operate has changed fundamentally in the era of Internet, global markets and the New Economy of networks. We have therefore selected NETWORKS to become the central focus of our discussions in Prague:

The above themes could be expressed through the following specific topics of interest:

- SMEs and the Internet
- SME Networks
- E-business and E-engineering of enterprise
- From MBA to E-MBA education
- Regional advantages of SMEs
- Inter- and intra-company organization
- SME financing and capitalization
- Knowledge management for SMEs
- SMEs in post-communist economies
- EU, SMEs and public policy
- Initial public offering (IPO) management
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- High-technology regions and “silicon valleys”

Deadline for three page abstracts in English (including full address, telephone, fax numbers and Email address): **July 1st , 2000.**

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Fourth International Conference
Enterprise in Transition - Competitiveness, restructuring and growth
May 24-26, 2001 in Split

The Fourth International Conference on Enterprise in Transition will focus on the problems of enterprise competitiveness, restructuring and growth.

In addition to the discussion of the transition from a socialist toward a market economy, we would like to encourage and invite authors to consider the issues relating to the growth and development of enterprises and economies in transition. Such an orientation of the Conference encompasses many different research themes, which reflects our comprehensive approach to transitional problems, which have been key features of the Conference from its very beginning. Some of the issues we propose for discussion are:

Competitiveness:
- Determinants, indicators and measures of competitiveness;
- Technology, technical progress and competitiveness;
- Industrial policy and international competitiveness;
- Competitive strategies of contemporary enterprises;
- Management systems and enterprise competitiveness.

Restructuring:
- Company restructuring in the context of the process of globalisation;
- Privatization and restructuring of state-owned enterprises;
- Innovation, networks and entrepreneurship;
- Regional development and restructuring of local economies;
- Industrial restructuring and its effect on development.

Growth:
- Financing entrepreneurial growth and SME development;
- Direct foreign investment and its effects;
- Implications and effects of cooperation with the EU on growth in transition economies;
- Sustainable growth: a green paradigm for the countries in transition;
- Models and theories of growth for countries in transition.

Deadlines:

Abstract submission deadline: **30th August 2000.**

Paper submission deadline: **31st December 2000.**

Contact

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