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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.
Editorial - Enterprise Restructuring and Sources of Competitive Advantage in Transforming Economies

The papers in this issue address the questions of restructuring, fragmentation and downsizing, and sources of competitiveness. Previous versions of the first three papers were presented at the 15th Colloquium of the European Group for Organizational Studies in Warwick in July 1999. The fourth paper analyses factors influencing competitiveness of Slovenian firms.

Enterprise restructuring, downsizing and downscoping have been frequently used in market economies since the mid-1980s (Freeman and Cameron, 1993; DeWitt, 1998; Legatski, 1998). Increasing competition among firms, downturns of business prospects and need for improving performance drive companies toward different means of restructuring. There is no general agreement on terms to be used in this area of studies. As Legatski (1998, p.254) has put it: „a wide range of activities, such as rightsizing, resizing, restructuring, delayering, and reengineering, have been addressed under the general rubric of downsizing.” Following the classification schema of the author we shall use restructuring in a broader sense, including enterprise fragmentation, downsizing, downscoping, downscaling and changes in organizational forms as well.

Enterprise fragmentation refers to splitting the assets of enterprises into smaller organisational bundles (see Ed Clark). Downsizing will be used as reductions in the size of a firm’s human or capital resources in response to the presence of both environmental and organizational decline (DeWitt, 1993). We refer to downscoping and downscaling as to possible strategies within downsizing: the first related to decrease in level of diversification while the second refers to reduction of slack resources (Legatski, 1998).

Enterprise restructuring, fragmentation and downsizing are frequently observable forms of organizational changes in transforming economies (Clark and Soulsby, 1999). Emerging market economy conditions force owners and managers of enterprises toward more effective structures of business activities. However the reasons for structural changes are much more complex in these economies and can not be simply described as adaptation to market forces (Lang, 1998). The historical legacies of state owned enterprises have to be taken into consideration in order to understand properly the requirements for restructuring in the context of transition economies.

Formerly state owned enterprises had to perform not only economic but social functions as well. In many cases they were responsible for running recreation facilities, schools and sport clubs as well. Separating the economic and social functions is one important element in enterprise fragmentation (see Ed Clark). The failure of market as transaction governing means in socialist economies
forced enterprises to diversify their activities towards production of tools, parts and perform auxiliary activities as well. While outsourcing and concentration on core activities became a standard practice in market economies, the typical answer of enterprises in socialist countries were to make nearly everything inside the company. The waves of outsourcing and concentration on core activities in transforming economies may be understood as actions of formerly state owned enterprises to reestablish the balance between „make or buy”(Balaton, 1996). The transformation period in many counties is parallel with serious economic recessions. Loss of former markets, disturbances of coordination and lack of investment funds are general reasons for recession (Kornai, 1993). Recession in itself contributes to downsizing decisions in many companies. Need for improved efficiency under the conditions of increasing market competition is also among the explanatory factors of restructuring and downsizing decisions of enterprises in transformation economies. This factor has a similar effect on enterprise level decision making than in matured market economies.

Each of the first three papers places enterprise restructuring into the macro-level socio-political and economic conditions of transformational economies. There are however important differences in the contexts of the papers. Ed Clark’s paper deals with fragmentation of Czech enterprises. Czechoslovakia turned back to the orthodox Stalinist system after the unsuccessful reform of 1968. The state-level planning system did not leave possibility for even limited market economy conditions. After the socio-political changes of 1989 and 1990 enterprises had to face the market economy conditions within a short period of time. Lack of knowledge in enterprise management under conditions of market competition together with influences of past history and embeddedness in local societies made it rather difficult for enterprise managers to make radical restructuring decisions.

Two papers in this issue analyse enterprise restructuring in China. Hassard et al. focus on experiments with new enterprise structural forms and management systems. These experiments build on the practice of Western countries in developing holding forms and corporate governance systems. A major intention behind these changes is to develop clear-cut authority and responsibility systems, and separate the political, social and economic functions of state-owned enterprises. Pressure from the emerging market economy conditions are strongly present in these endeavours. Possibilities for radical changes are limited by the prevailing political interests of maintaining stability and the ruling position of the Communist Party.

Yongping Chen’s paper discusses the experiments of two Chinese state owned enterprises with downsizing. After providing a description on the driving forces the author analyses the process and outcome of downsizing. To improve flexibility is an important motive behind the restructuring decisions. The
influencing factors of the new economic management system parallel with path-dependency connecting enterprise managers to the values and norms of the previous system create contradictory situations for decision makers.

The three papers mentioned share the view that changes at enterprise level have different phases and they are connected to alterations in the macro-level political, social and economic conditions. Ed Clark identifies four phases in the Czech transformation process due to the interplay of enterprise-specific and general societal level factors. The Chinese transformation processes have the specific characteristic that they are undergoing within the same political system. The reform process shows different focal issues during the last twenty years (see Yongping Chen). The initiative for enterprise level changes comes from the central level political decision-makers and they set the limits toward transformation. Maintaining the existing political system and avoiding political instability is a major criteria for allowing changes in enterprises. The two papers show that there are only limited possibilities for implementing reforms as there are no solutions for the social and political consequences within the existing system.

In the fourth paper Maja Makovec Brencic analyses factors influencing firm competitiveness. The author relies on the resource-based view, and makes distinction between price and non-price factors of competitive advantage. The analysis of 122 Slovenian companies shows that both price and non-price factors contribute to competitive advantage on international markets, but non-price factors seem to play a major role in gaining them.

Karoly Balaton

References


Enterprise Fragmentation in the Czech Transformation: Emerging Patterns of Dependence and Independence

Ed Clark**

This paper examines the process whereby the former state-owned enterprises in the Czech Republic have been fragmented and repackaged into privatised and private firms. By studying the process in two local communities, this research enriches the statistical picture compiled by economists working within a neo-classical paradigm. The findings highlight the diversity of fragmentation patterns and the role played by community, enterprise and management factors. They throw doubts upon the claim that fragmentation has in any simple way created new, independent entrepreneurial firms. The processes of fragmentation do however point to the emergence of distinctive forms of local economic organisation.


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Introduction

Building a market-oriented system out of the economic structures of state socialism has been one of the main challenges confronting the former communist countries of Central and Eastern Europe. The size of this challenge was at its greatest in the former Czechoslovakia, where the forces of centralisation, following the post-1968 re-imposition of economic “normalisation”, had reinforced the economic tendencies of Stalinist planning to organise production in increasingly large industrial structures (see Kornai 1980; Rychetník 1981). By 1989, some 700 industrial enterprises, many with multiple plants in a variety of locations (Vyrobní Hospodařké Jednotky or VHJs), employed on average more than 3,000 staff (e.g. Jeffries 1993: 248; Mejstřík 1993: 125; Myant 1993: 158; Lízal et al. 1995: 219).

As Czechoslovak command-economic structures were dismantled, to be replaced by more market-oriented institutions, the initial number of enterprises expanded rapidly through processes of splits and break-ups (Charap/Zemplinerová 1993). Lízal et al. (1995: 226) claim that by the end of 1991 the 700 state-owned enterprise structures had spawned 1,855 independent post-communist companies. In June 1991, the Czechoslovak Ministry of Privatisation published lists for the Czech Republic, enumerating some 3,500 enterprises - nearly 5,500 for the whole of Czechoslovakia (see Mládek 1993: 132; also Kotrba 1995). Moreover, Dlouhý/Mládek (1994: 158) report that in December 1993 over 7,500 “units” of property (not all “industrial”) had been transferred to the National Property Fund (NPF) as part of the process of large privatisation. A cursory examination of such statistical details reveals very little consensus over quantitative patterns in this multiplication of economic units and even less examination of the diversity within them.

The rate of enterprise fragmentation – as I shall call this process of splitting the assets of the former state-owned enterprises (SOEs) into smaller organisational bundles – can be understood as an indicator of the success of economic transformation at the level of the local productive unit. Economists argued that breaking up the old industrial monopolies enabled the achievement of a variety of desirable organisational and management changes through the effective decentralisation of economic action. Such benefits included greater levels of price and cost consciousness, more awareness of markets and customers, the reduction of wasteful administration costs and the improvement of management incentives, innovativeness, and entrepreneurialism (see, for example, Myant et al. 1996: 182-183).

1 The cited numbers of enterprises and their size vary from source to source, largely because of ambiguities in the administrative structures of central planning in 1989. This figure specifically refers to industrial enterprises employing over 25 people.
Economists have typically examined enterprise fragmentation by turning to orthodox neo-classical economic reasoning: it is a process that denotes significant moves towards a more liberal business environment, whose Western-style constraints force economic actors to undertake rational restructuring. Yet the construction of theoretical explanations of microeconomic processes by resorting to a predominantly economic syntax and drawing on a macro database – particularly if officially compiled for government purposes – is fraught with problems of validity. Such pictures tend to neglect any complicating, ambiguous or obfuscating processes that are the product of social, personal and political factors at the micro level and lead in practice to diversity of pattern. The conceptual tools of transition economics predispose research towards examination of a narrow range of economic factors and its vision is stubbornly resistant to counter-evidence (e.g. Myant 1999: 146-148).

In this paper, I focus on the micro realities of enterprise restructuring, as experienced within six formerly SOEs, typical in many ways of Czech organisation. These enterprises have dominated the social and economic life of managers, employees and their families in two communities in the Czech Republic. My aim is to explore the patterns of enterprise restructuring in their local contexts as revealed in the processes whereby pre-1989 enterprise assets have been split off to create new socio-economic structures. By doing so, I examine the economic and organisational implications of enterprise fragmentation, whether the creation of multiple economic fragments has actually been associated with the multiplication of new, independent and competitive firms. By taking such an angle, detailed case research is an important complement, and at times antidote, to the more generalising research of transition economists. Close observation of actual processes of enterprise fragmentation within their socio-economic contexts can enable a more discriminating understanding of how macroeconomic processes and pressures are fashioned and adapted by motivated social actors in their local social circumstances.

The paper is divided into four sections and a conclusion. The first section sets the scene by describing the essential structural features of state-owned enterprises as complex, multifunctional collections of assets, and develops the conceptual framework for examining fragmentation as socio-economic process. This leads to a section outlining the research and the case enterprises in their local contexts. The third section presents evidence of the fragmentation patterns observed in the two communities and arguments to explain the findings in terms of the earlier framework. The fourth section considers the implications of the findings for the development of local economic structures, before the paper draws some general conclusions.
Enterprise restructuring: the historical and social context

While enterprise restructuring has taken place within the particular historical context of Czechoslovak State socialism, transition economists have focused specifically upon the contemporary relationships between ownership change, enterprise restructuring and the development of market-economic business conduct. The transferral of state assets into private hands has been taken as the prerequisite for the effective restructuring of the SOE. Within a neo-liberal framework, prior privatisation was thought to ensure that enterprise restructuring was conducted according to the wishes of concrete owners with a utility maximising incentive to organise their acquisitions efficiently (see Frydman/Rapaczynski 1994: 46ff; also Myant 1993; Richet 1993). The view that the prior repackaging of large SOEs into more attractive bundles was necessary to entice private (especially foreign) investors (e.g. Carlin/Landesmann 1997; Hirschhausen 1995; McDermott 1997; Myant 1993) has been a minority influence, but the neo-liberal view has been embodied in Czech rapid mass privatisation policy. Despite the prominence of neo-classical policy advice, an explanation of the realities of enterprise restructuring and of the main obstacles it confronted requires a greater understanding of the nature of the organisational form inherited from the pre-1989 command-economic hierarchy.

Within state socialism, SOEs - be they VHJs or the large subsidiary production units – had objectives beyond the familiar economic functions of production of core goods and services. As economic systems, they developed high degrees of autarchy, creating many internal ancillary activities like maintenance, design, repair, technical support, personnel and so on (cf. Richet 1993: 231). However, unlike market-economic industrial companies, SOEs also served political and social functions. In their political structures, they provided on-site mechanisms through which the Communist Party could maintain surveillance over production processes, the labour force and the management cadres. Simultaneously, SOEs were the conduits for the delivery of many of the State’s social and welfare benefits – including health, housing, child care, holiday, recreation and sports (see, for example, Commander/Schankerman 1997; Soulsby/Clark 1995). These triple functions were defining features of the industrial organisational form.

As a consequence of their status as “multi-functional units” (Hirschhausen 1995: 57), the larger SOEs tended to be integrated into the social and political structures of their local communities – the more so in small communities dominated by large enterprises (see Clark/Soulsby 1998). Despite the powerful centralised pull of command-economic formal institutions, Czechoslovak managers, like those elsewhere in the region, had to engage in informal practices, bordering on the deviant (cf. Clark/Soulsby 1999a: 83ff.). For example, to solve supply and production problems inherent in the command
economy, they cultivated institutionalised practices such as vertical and horizontal networking, thereby creating “… tight social and economic links between suppliers and customers, firms and banks, as well as firms and their localities” (McDermott 1997: 74).

In this socio-economic context, the success of SOEs was measured not only in terms of their economic prowess, reputation, exporting ability and product quality - though these were certainly matters of local pride. Enterprises were also judged by their ability to attract and allocate decent housing, to draw state money towards the region for cultural, sports and recreational facilities, to offer good levels of in-house education, child care and medical services, and to provide for their employees and their families highly subsidised holidays and sanatorium breaks in their own camps, hotels and parks in peaceful beauty spots. In accumulating these facilities, enterprise managers fulfilled the political objectives and social norms of the dominant communist ideology.

Following the collapse of communism and its institutional rules and yardsticks and the acceptance of industrial capitalist aspirations, social and productive assets in the prevailing structural combinations became subject to Western rules of technical efficiency and formal rationality. Imported standards of market-economic accountability and the discipline of capitalist accounting transformed overnight the value and meaning of the SOE as an asset structure. The new economic philosophy emphasised de-monopolisation, focus on core activities, decentralisation of control and the flexibility and economic advantages of smaller, more mobile firms. Post-communist managers keen to survive or prosper in the transitional environment ignored at their peril the new economic precepts: to maximise returns, to minimise factor costs, to reduce administration costs and to ensure streams of income from all "assets".

A central restructuring problem was how to break down the existing asset structures and reassemble them in new combinations that would satisfy the guardians of the new economic discipline (compare Stark 1997). The multifunctional SOE inevitably became subject to two processes of fragmentation. Economic fragmentation has resulted from the application of Western market logic to the facilities and services that had been accumulated to promote autarky in production, many of which had become inefficient, unprofitable and peripheral to the enterprises' main economic activities. The repackaging of these economic liabilities into smaller independent units was an opportunity to inject these activities with their own market-economic rationality. Social fragmentation refers to the spinning off of social facilities, some of which (e.g. holiday camps) could be redefined as economically viable assets using the same principle. Most, however, had little or even negative market value and remained unreconstructed enterprise liabilities, alongside other social property such as houses, schools and kindergarten.
In terms of theoretical simplicity, it is attractive to explain enterprise restructuring by presuming that economic actors take decisions by applying a fixed rationality of utility maximisation (cf. Etzioni 1988) within the constraints of the contemporary economic and institutional environment. However, as we shall show below, this assumption does not entirely accord with observations of management conduct. Studying the enterprise within its community permits the construction of a more finely grained account of fragmentation patterns. Figure 1 offers a highly simplified diagrammatic representation of the theoretical reasoning behind the socio-economic perspective adopted in this paper.

The diagram highlights three sets of important factors: those relating to the role of human agency, those referring to the influence of “external” macro constraints and those referring to “external” local (community and enterprise) influences on fragmentation. At the heart of the argument is the proposition that actual decision-making practices reflect the varied objectives, values and motives of these key stakeholders in the enterprise. As a result, the fragmentation and repackaging of assets are likely to take different courses in different enterprises at different times. The creation of independent economic units may ensue from classical rational-economic motives, as embodied in decisions by concrete private owners to streamline assets and activities in order to be more cost-effective, efficient or profitable. However, as the author demonstrates later, this does not exhaust the rationales for restructuring assets and liabilities. The conduct of socially located economic actors is the critical explanatory factor, because socio-economic action always takes place within an environment, which it enacts, resists, or adapts according to the degree to which external factors are felt as constraining or facilitating.

Figure 1 therefore also points to the importance of the environment of enterprise restructuring, conceptualised as three analytically distinctive sources of influence. First, the transformation context has macro economic and institutional features, which vary according to the particular phase of transition (see below). The micro-landscape of the business environment has two dimensions. On the one hand, the socio-economic community is important in the consciousness of enterprise management because of the enterprise’s historical centrality in local matters. On the other hand, the enterprise itself is the socio-economic location of strategic decisions and its experiences and traditions inevitably influence managers as participants in the organisational process. Each of the three contextual factors has both contemporary and historical dimensions. In particular, the institutional, management and cultural legacies of the former command-economic structures, of the SOE and of enterprise-community linkages constitute social resources upon which post-communist decision-makers can draw in order to manage the process of enterprise restructuring within the ambiguous context of the economic transition. Historical legacies have a specially enduring influence on current thinking, loyalties, commitments and practices when the decision-makers are
former *nomenklatura* (cf. Clark/Soulsby 1996). The discussion of the empirical cases of enterprise fragmentation, below, explores the complex, interwoven nature of contextual and human agency factors outlined in this framework.

*Figure 1: Factors in the Process of Enterprise Fragmentation*

Two Czech communities and six enterprises

The author has been conducting research in the two Czech industrial towns of Volna and Jesenice\(^2\) since 1992, during which time a wide variety of materials have been collected. First, official documents published by both the town authorities and the former SOEs have been assiduously amassed. Second, questionnaires were sent during 1998 to senior management contacts in each enterprise in order to assemble a “factual” picture of fragmentation and repackaging of assets – the key source of many of the quantitative data presented below. Third, and most important, are the qualitative materials accumulated through intensive interviews with major players in the two towns, in each case starting from detailed work in each community’s largest pre-1989 SOE (see Clark/Soulsby 1999a). Additional respondents include the enterprise

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\(^2\) All names of towns and enterprises have been anonymised in this paper. Confidentiality has been an agreed condition of most of the research upon which this paper is based.
### Table 1: Privatisation and Restructuring of the Six Enterprises

<table>
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<tr>
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<th>JESENICE</th>
<th>VOLNA</th>
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<tr>
<td>Employment 1989</td>
<td>7,000 † 4,000 † 1,600 500 † 5,600 1,700 †</td>
<td></td>
</tr>
<tr>
<td>Employment 1997</td>
<td>3,000 ‡ 1,800 ‡ 800 450 3,600 712</td>
<td></td>
</tr>
<tr>
<td>Privatisation involvement</td>
<td>1st and 2nd waves 1st wave only 2nd wave and public auction Restitution &amp; private sale 1st and 2nd waves Restitution &amp; public auction</td>
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<tr>
<td>Privatisation problems</td>
<td>35% shares withheld for foreign capital in 1st wave Ownership widely dispersed Unrealised foreign interest (1992); 2nd wave shares withheld for foreign capital Restitution squabbles 20% shares unsold and dispersed ownership after 1st wave Unrealised foreign interest (1992); restitution problems; auction results contested</td>
<td></td>
</tr>
<tr>
<td>Organisation Structure 1997</td>
<td>Holding company Holding company Core production in divisions, services outsourced Functional Core production in divisions; services in daughters Divisional form</td>
<td></td>
</tr>
</tbody>
</table>

* Akciová společnost (a.s.) is a publicly quoted joint-stock company. Společnost s ručením omezeným (s.r.o.) is the private limited liability form. They are partly defined in terms of minimum asset value.

** Each enterprise had to contribute 3% of its shares to the Restitution Fund to cover restitution claims that were not realisable in terms of property.

† Information refers only to enterprise activities based in the respective communities.

‡ These figures include all those employed by the daughter companies.

directors of the other main enterprises, the founders of new private firms, the post-communist mayors, their deputies and local government employees. The
resulting sample comprises 55 respondents from Jesenice and 30 from Volna. Neither the respondents, nor the enterprises nor their communities can, in any accepted statistical sense, be called “representative”, though their state socialist and post-communist experiences would be recognisable by most Czechs as more or less typical of their kind.

The economic and social welfare of the 23,000 population of Volna (1989) had been assured by the presence of two SOEs, Vols and Zakov. Vols was by far the largest and most influential, having been established in 1948 as a heavy engineering enterprise whose expansion was strongly supported from the centre as a strategic economic operation. The private predecessor of Zakov had been nationalised in 1948 and had grown through the expansion of its traditional range of small metal products. Jesenice is the home of the other four enterprises, though there were other medium sized SOEs in the district. Zachem was a member plant of the pharmaceutical industrial branch, while Jekuf was constructed by the nationalisation in 1948 of a private travel equipment firm. However, it was the activities of the other two SOEs that led to the reputation and expansion of the town. Vojenz was a successful manufacturer of military equipment for Soviet bloc allies, while Jesenické Strojírny (JS) grew rapidly because of its role as a supplier of heavy construction machinery.

Jesenice and Volna are in many ways typical products of economic growth under state socialist policies of rural industrial development, and their welfare became dependent on the success of the dominant enterprises (see Clark/Soulsby 1998). The social, economic and political importance of the largest enterprises – Vols in Volna, JS and Vojenz in Jesenice – were not just a question of their size. Their location in strategic industrial branches was crucial, because such enterprises attracted significant funds for both economic and social-cultural construction. In the ongoing political negotiations between the district and the central Party organs for local development, these enterprises were themselves critical resources. They built their own blocks of apartments and had usage rights over state-owned apartments. Directly or indirectly they each contributed to the construction of sports facilities, cultural centres, hotels, recreation and holiday camps, kindergarten, schools and training centres, polyclinics, cinemas and so on, whose administration they undertook as a duty. After 1989, the six enterprises have had different restructuring and privatisation experiences, as summarised in Table 1, below.

**Patterns of economic fragmentation**

The remainder of this article presents the complex picture of the new asset combinations consciously fragmented and privatised from the initial property of the six state enterprises. The findings actually understate the degree of overall enterprise fragmentation. First, the table makes no reference to former enterprise social facilities that have ended up in the hands of non-economic
agencies. Although the SOEs had had *de facto* control of social assets, in 1990
many were deemed to be the legal property of the state. Even when social
property did belong to the SOE, it often had little market value and high
maintenance costs. Many social facilities have therefore been fragmented and
redistributed to other agencies such as the municipality, the state, voluntary
clubs, trade unions and private individuals. Second, the data take no account of
any further splits that may have taken place within the separated structural
fragments. Detailed knowledge of one of JS’s fragments – Montáze Jesenice –
confirms that significant “secondary” fragmentation was normal. Third, because
of incomplete information, various small leasing and renting activities of the
SOEs can only be acknowledged rather than counted. Despite these
shortcomings, we can discern a number of patterns and processes of enterprise
fragmentation by using tabulated data supported by qualitative materials.

**The broad patterns**

Five of the six SOEs had themselves been formed as fragments of larger VHJ
structures. Given the above caveats, the six former SOEs have broken into 60
economic-structural fragments, each with its own legal status (see Table 2). The
fragments vary in size, and the vast majority of fragments (52 of the 60) were
formed within the respective towns and most of these actually continued to
operate on the same premises as before 1989. The overall ten-fold increase in
organisational units conceals real and significant patterns. For example, the
logical expectation of a relationship between original SOE size and number of
fragments created is not straightforward. Despite the largest SOE (JS) spawning
most new companies and the smallest (Jekuf) the fewest, Vols, the second
largest, has split off only half as many as Zachem, though it was three and a half
times larger. Nor does the application of business-economic logic by itself
explain the findings. For example, the highly integrated nature of JS’s main
turnkey business was not, apparently, a barrier to its high propensity to
fragment. These observations underscore the importance of considering other,
perhaps less obvious, factors.

In order to explore these variations within the theoretical framework presented
in Figure 1, the argument below examines the role played by two broad sets of
factors. First, I shall show that different patterns of fragmentation were
associated with the changing nature of the dynamic transitional context of each
enterprise, emphasising the systematic influence of transitional phases. Second,
I shall consider the importance of micro socio-economic processes in creating a
diversity of restructuring pattern and process within the six enterprises. At an
‘objective’ level, this highlights variations due to enterprise-specific factors
(such as historical legacies and organisational culture) and ways in which the
enterprises are embedded in their local communities. But at the heart of this
theoretical interpretation are the roles enacted by enterprise managers with
ultimate restructuring responsibility. It is their decision making conduct, guided
by values and motives, that have mediated between the transitional business context, the local socio-economic environment and the eventual patterns of fragmentation observed.

**Table 2: Primary economic fragmentation (1990-1998)**

<table>
<thead>
<tr>
<th>JESENICE</th>
<th>VOLNA</th>
</tr>
</thead>
<tbody>
<tr>
<td>JS</td>
<td>Vols</td>
</tr>
<tr>
<td>Vojenz</td>
<td>Zakov</td>
</tr>
<tr>
<td>Zachem</td>
<td></td>
</tr>
<tr>
<td>Jekuf</td>
<td></td>
</tr>
<tr>
<td>New companies formed in the community</td>
<td>18</td>
</tr>
<tr>
<td>New companies formed elsewhere</td>
<td>0</td>
</tr>
<tr>
<td>Total economically active fragments</td>
<td>18</td>
</tr>
</tbody>
</table>

**The phases of transition**

As new institutional principles and structures began to transform the socio-economic system of Czech post-communism, industrial enterprises and their managements had to select ways of responding to these changing circumstances. The transition environment has not been an unambiguous, unitary factor in the story of enterprise restructuring, because, by definition, its characteristics have unfolded in relation to economic and institutional change. As the transformation has proceeded, enterprises and their managers had to cope with new and changing conditions. In retrospect, the transition business environment can be analysed in terms of a series of interwoven and overlapping phases, each defined by key economic and institutional features. Although any attempt to splice a continuous process into distinct “stages” has to be handled with sensitivity, the evidence of fragmentation gives some *prima facie* support for conceptualising four discernible phases up to 1997.

During the first year of the transition, the government had to work largely within the existing institutional framework, while preparing for fundamental changes in legal, social and economic structures. This was a period of *continuing state regulation*, for the government was the only major source of important economic initiatives. The first round of enterprise fragmentation falls within this period, and, in keeping with the phase, took the form of imposed state decisions to create new enterprises from the larger SOEs. Thus in 1990, four of the SOEs were told to spin off a total of nine new state enterprises, mostly large, core production or service plants (see Table 3). In each case, these
new enterprises continued to be major suppliers of materials, components or services to their former mother companies.

Table 3: Fragmentation and transition phases

<table>
<thead>
<tr>
<th></th>
<th>JESENICE</th>
<th>VOLNA</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>JS</td>
<td>Vojenz</td>
</tr>
<tr>
<td>State-enforced separations (1990). All a.s.</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>‘Shock’ &amp; Pre-privatisation restructuring (1991-1993 approx.)</td>
<td>ALL 5</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>a.s. 2</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>s.r.o. 3</td>
<td>-</td>
</tr>
<tr>
<td>Post-privatisation independence (1994-1998 approx.)</td>
<td>ALL 12</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>a.s. 9</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>s.r.o. 3</td>
<td>0</td>
</tr>
</tbody>
</table>

At the same time, property rights over social facilities were clarified and this resulted in the forced (but rarely contested) separation of many facilities over which enterprises had exercised *de facto* rights of control. Thus state housing was legally placed on the books of municipalities. Sports stadia (football, ice hockey, athletics etc.) and recreation facilities (such as swimming pools) had often been built through schemes (like the ideologically inspired Akce Z) jointly managed and funded by local authorities and large enterprises, and their operations had been effectively administered through enterprise structures. What one JS manager called a “mess of ownership” was sorted out in 1990 by the assertion of state rights over these assets and allocating them to voluntary sports associations and social clubs.

The second transitional phase of shock (see Myant 1999; 1993) resulted from the economic liberalisation programmes through which the government released price and trade constraints. Jekuf, with its predominantly domestic orientation,
was the only enterprise to escape the painful consequences of the simultaneous collapse of the Council for Mutual Economic Assistance (CMEA). The collapse of military markets (accelerated by new government policy) affected the heavy engineering products of Vols and JS, but forced Vojenz to close down three-quarters of its production capacity. Zachem lost its core production as a result of being exposed to global competition for its hitherto protected pharmaceutical products.

Overlapping with the period of shock was the start of the privatisation process, involving restitution, and small and large privatisation. From 1991 onwards, in this privatisation phase, most large SOEs had to devise privatisation strategies using the well-documented methods (e.g. Kotrba 1995; Dlouhý/Mládek 1994; Mládek 1993). Privatisation took place over a variable period, its length depending on enterprise-specific circumstances. While Vojenz was privatised in a two-year period (1991-1993) – the only enterprise to sell all its shares in the first wave – Zakov had to wait an agonising seven years. The start of privatisation coincided with the shock reverberations and led to patterns of fragmentation aimed at consolidating the basic strength and minimising the inherited weaknesses of the SOE.

This voluntary creation of new fragments led to a very different pattern from the large plants and factories detached through state regulation. In order to survive, enterprise managers turned to those economic and social assets that could be transformed into economically viable and productive assets. The closure of whole production lines at Vojenz and Zachem released a lot of factory and office space as well as machinery. For these enterprises, it was critical to find ways of making their unused assets pay, and they did so by leasing, renting or selling them. Zakov, which had enjoyed a strong reputation in the manufacture of certain sports equipment, lost its extensive Russian markets virtually overnight. Senior managers persuaded a group of enthusiastic employees to lease property as a private firm and continue production of these products. Moreover, most enterprises were more or less forced by these circumstances to consider (often disadvantageous and demeaning) commercial arrangements with foreign partners in order to utilise their technology and labour force.

In Phases 2 and 3, then, enterprises typically spawned small private firms (see Table 3), whose previous functions had been the provision of peripheral services (see Myant 1999: 152-153). For example, seven of the ten new economic units separated from JS during its privatisation (1991-1994) were regional sales offices, training facilities, and hotels. A further two were ‘sink structures’ or ‘residual enterprises’ (Carlin & Landesmann 1997: 87) - one aggregated poorly performing social assets, the other organised the completion of an inherited CMEA investment project from which trade credits had in 1990 been withdrawn. The final fragment was a production plant that had been at the heart of JS’s most profitable pre-1989 business in Russia – a business in deep
economic trouble by 1993. Similarly, Vols split off canteen services and supplier of technical gases, while Zakov sold its energy generating plant as a management buy-out.

The fourth phase was characterised by the enterprise completing the privatisation process. Like Phase 3, post-privatisation has no specific starting time. For example, Jekuf, Zakov and Zachem arrived in this phase too recently to make any reliable observations. In the first two cases, privatisation was delayed by restitution complications, while the latter’s problems came from the National Property Fund’s insistence on attracting foreign capital. The approach to fragmentation by the three remaining former SOEs – coincidently the three biggest – has been very similar.

Since privatisation, each of these three enterprises has moved towards the adoption of a holding company form and the creation of new daughter (subsidiary) companies. Only Vols has refrained from making this ultimate of decentralising moves (see Clark/Soulsby 1999b). Between them they spawned twenty six wholly or majority owned subsidiaries with legally independent status (Table 3), eighteen of which have taken the joint stock company form, 15 of which were core production facilities. Again, Vols is the exception - having retained its divisionalised structure, it has separated only one core production subsidiary. During this period, the fragments have been relatively large and have tended to include the key production and service plants, leaving the holding company structure as a strategic management centre.

This analysis suggests that patterns and types of fragmentation are related to the dynamics of the transition process, but, given the variations identified, it also demonstrates that the external economic and institutional conditions are by themselves an insufficient explanation. We now turn to consider how patterns of enterprise fragmentation were influenced by factors originating in the local circumstances of the enterprises and by the ways in which managers have attempted to control the process from within.

**Local influences: enterprise, community and management factors**

The patterns of fragmentation varied quite sharply between the six individual enterprises and between the two communities, and these variations can be associated with a complex set of local circumstances. This section considers three analytically separate but empirically interrelated processes: the particular legacies and problems of each enterprise; the impact of local community factors; and the role of enterprise managers as key decision-makers mediating the pressures arising from the national and local transition environments and the internal organisation.

In each SOE, special circumstances framed the decisions to fragment. For example, the low propensity for break-up in Jekuf and Zakov was in part related to their relatively small starting size, but more than anything else restructuring
was affected by their own experiences of privatisation. Both enterprises had a distinctive pre-war history of private family ownership, which marked them out from the other enterprises that had been assembled through nationalisation of corporate units and/or built up anew. The post-communist development of both Jekuf and Zakov was systematically drawn out by contested restitution claims, during which process it was difficult for managers to make decisions to change enterprise asset structures. Even thus constrained, the General Director of Zakov was able to exert some control over the restitution proceedings in order to further his ambition to privatise Zakov for his own benefit. Since the restituent was unable to raise money to buy Zakov as an ongoing concern, the General Director directed the claim towards those assets that had been leased to former employees to continue production of sports equipment (see above). In doing so, he was able to deflect attention away from the enterprise’s main production assets, and, after a long tussle, he took over ownership of Zakov with a successful auction bid in 1998.

At the other end of the scale, Zachem had by far the highest rate of fragmentation (see Table 4), again a consequence of its particular exigencies mediated by management decision-making. As a result of the economic and institutional shocks, its core production programmes had been decimated by the loss of key markets. Further, the privatisation of Zachem was delayed by the government’s expressed desire to find a foreign owner – the enterprise was withdrawn from the first wave and the NPF held back more than 50% of its assets from the second wave. In these circumstances, Zachem’s long-suffering “interim” management consciously adopted a policy of allowing small independent firms to lease or buy its plant and premises in order to outsource its own production needs, to redeploy its own labour force and thereby to reduce costs. From the senior managers’ perspective, this recombining of assets in small on-site packages was crucial to the medium-term survival of the enterprise.

The restructuring and fragmentation of Vojenz is a very specific story, because its post-communist travails were founded on its pre-1989 industrial success. A senior manager commented that they had “lost everything”. From being a fully independent and autarchic enterprise in 1989, its military production – formerly 75-80% of its capacity - was stopped and the enterprise had to cut its work force, close plants and develop new products. The lack of voluntary separations during the early period (Table 3) is a direct consequence of this corporate catastrophe – assets and activities that might in other circumstances have become fragments were in fact simply written off and shut down. With so much vacant capacity, Vojenz’s management adopted a policy, like Zachem, of mass renting of factory and office space, and with government financial help, acquired the patent and plant for a modern automotive component. The enterprise re-organised its remaining civilian production into divisions and entered the first wave of privatisation. Its apparent success in the first wave was
tempered by the fact that 90% of the shares had been bought by individuals, leaving it in a control vacuum with no new sources of capital. Only through the increasing financial and management participation of a foreign partner did Vojenz finally develop a strategic direction and, in 1996 it adopted a holding company form, which spun out seven new daughters.

These enterprise-specific stories conceal a larger pattern that can be seen in Table 4. Collectively, the four enterprises in Jesenice have a rate of fragmentation more than twice as great as the two enterprises in Volna, suggesting that enterprise restructuring may in some way be affected by the community itself. It is possible to explore these effects more closely by concentrating on the fragmentation of Vols and JS, the leading enterprises in the two communities. The case of Vols and Volna is particularly informative of the ways in which a close enterprise-community relationship – typical of many “industrial villages” forged in the heat of communist industrialisation – has continued to influence enterprise-level decision making (see also Clark/Soulsby, 1998). When the centre assigned new social assets to Volna – a typical “communist town” - they were placed under Vols’ stewardship and at Vols’ disposal. As the enterprise and town had grown up together, it is not surprising to find respondents agreeing that “Volna is Vols”.

<table>
<thead>
<tr>
<th></th>
<th>JESENICE</th>
<th>VOLNA</th>
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<tbody>
<tr>
<td>Number of SOE</td>
<td></td>
<td></td>
</tr>
<tr>
<td>employees per local</td>
<td>JS</td>
<td>Vols</td>
</tr>
<tr>
<td>fragment (by</td>
<td>Vojenz</td>
<td>700</td>
</tr>
<tr>
<td>enterprise)</td>
<td>Zachem</td>
<td>850</td>
</tr>
<tr>
<td></td>
<td>Jekuf</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Total</td>
</tr>
<tr>
<td></td>
<td>388</td>
<td>700</td>
</tr>
<tr>
<td></td>
<td>444</td>
<td>850</td>
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<td>94</td>
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<td>-</td>
<td></td>
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<tr>
<td></td>
<td>392</td>
<td></td>
</tr>
<tr>
<td>Number of SOE</td>
<td></td>
<td></td>
</tr>
<tr>
<td>employees per local</td>
<td>JS</td>
<td>Vols</td>
</tr>
<tr>
<td>fragment (by</td>
<td>Zachem</td>
<td>700</td>
</tr>
<tr>
<td>community)</td>
<td>Jekuf</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Total</td>
</tr>
<tr>
<td></td>
<td>312</td>
<td>700</td>
</tr>
<tr>
<td></td>
<td></td>
<td>730</td>
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<td></td>
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<td>392</td>
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</table>

The consequences of such embeddedness for restructuring decisions cannot be underestimated. Throughout the interviews from 1992 till 1998, Vols’ post-communist senior managers have consistently espoused and enacted values and practices that are reminiscent of their state socialist obligations as former nomenklatura managers. At times dubbed with the epithet ‘pink’, these managers found it impossible to contemplate decisions that cut across their genuinely felt duty to Volna and its residents. The data on the fragmentation of Vols are consistent with this strong reluctance to inflict social and economic damage to Volna. Despite its formal market-economic rhetoric, the enterprise
has maintained much of its social and economic property intact. It still owns and finances its recreation and holiday areas, its hotels and its culture house, but has complied with state rulings about its housing and sports facilities. Vols’ economic fragments have been on-site, very small service suppliers, and only one of these was separated before December 1993. Exceptionally in 1994, Vols split off one of its main production plants as a daughter company, but even this was symptomatic of Vols’ gradualist philosophy of restructuring. This plant had been under serious threat of closure following the shocks of 1990-1991 and Vols’ senior management had nurtured it through these hard times and until its recovery was complete.

Vols’ low rate of fragmentation results from maintaining social and cultural assets as a community obligation and repackaging viable economic assets and peripheral small services rather than offloading these liabilities without social consideration. This argument highlights the dynamic between the three local factors identified in Figure 1. It shows how enterprise-specific characteristics (e.g. history, traditions) and Vols’ relationship with its social community (e.g. high embeddedness and strong social expectations) have been reflected in managers’ values and in their restructuring decisions.

In the case of JS, enterprise traditions and pre-1989 management experiences within the context of Jesenice served to effect a lower rate and different pattern of fragmentation. As a SOE, JS had had a reputation for structural experimentation and innovation, as illustrated by frustrated attempts to decentralise in the late 1960s. In contrast to Vols, JS’s new senior management team consisted of former middle managers rather than former senior managers. Commonly known as aspirants to senior management before 1989, they were anxious, following their appointment, to prove their abilities as modern market-economic managers. They immediately appointed a strategic management team under the leadership of the very individual who had been the inspiration for decentralisation efforts twenty years before. The process of voluntary fragmentation started as early as July 1991 and continued apace through to January 1995, when the completely privatised company adopted the holding company form. The enterprise’s progressive management culture and the managers’ post-communist ambitions spurred JS’s managers to adopt radical restructuring policies, while its lower degree of socio-economic embeddedness (there being three other significant providers of social facilities and employment in Jesenice) left their restructuring decisions less constrained by extra-

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3 In the climate of the economic reforms of the Dubček era, JS designed decentralised, divisionalised structures. However, the spread of economic normalisation in the early 1970s, in the wake of the 1968 Warsaw Pact invasion and the institution of the Husák regime, brought such experimentation to an abrupt end (see Clark/Soulsby 1999b).
organisational social commitments. Any residual disagreement over fragmentation among top managers was resolved by a more expedient appeal to the material and non-material benefits that could be acquired by participating in the multitude of boards of directors that sprung up to direct the new holding company and its subsidiaries.

This attention to local factors in the explanation of the fragmentation process highlights the contrast between the conservatism of “limited small fragmentation” of Vols and the radicalism of “extensive large fragmentation” of JS. It points to how the particular patterns of fragmentation in all six enterprises were significantly influenced by a combined effects of enterprise-specific and community factors, mediated through the values and motives of the key decision makers.

**Emergent patterns of economic organisation**

Social fragmentation has been quite extensive in most enterprises and has had a major impact on the local social system. Much of this has been forced through State direction, which has reallocated housing and sports facilities, for example, to new non-economic owners. Where social assets have not been fully separated by management decision, this is usually because managers have not been able to realise an acceptable market value or because external factors (such as a restitution claim) have limited their authority to dispose of property. The significant exception to this pattern is illustrated by Vols, whose socio-economic embeddedness in its community made many social fragmentation decisions unconscionable.

The quantitative increase in legally independent economic units with origins in the assets of former SOEs is irrefutable, but local qualitative materials raise significant questions about the actual extent of their strategic and operational independence. From the limited evidence of six former SOEs in two communities, it is possible to deduce the outlines of four emergent structural patterns of economic organisation, all of which imply a greater tendency towards continuity than change in relations of vertical dependency. On the one hand, *functional* (e.g. Jekuf) and *multi-divisional* structures (e.g. Zakov, Vols, and Zachem) are still normal organisational forms, suggesting little change in the independence of enterprise parts.

On the other hand, managers of the larger enterprises have all expressed the desire to move towards a *holding company* form, a pattern adopted by JS and Vojenz. Evidence of how this form operates within JS – the earliest and most developed example in 1997 – indicates that the creation of formally and legally independent companies within a holding company format does not in itself constitute a move towards the market-economic ideal of multiple, autonomous and competitive firms. Indeed, deeper examination of management processes
within the seventeen independently registered daughters attests to strong resonances with the past. The holding apparatus has a re-formed appearance, with rules and regulations defining the operational independence of subsidiaries, and therefore qualifies as a mechanism of greater institutional legitimacy in the post-communist world of business. But, its actual functioning is, in the words of one senior manager, like a “feudal system”. Prior social ties between managers and enduring technological links between the daughter companies are sufficient to reproduce strong ties of dependence between the new units and the centre. The new corporate system therefore continues to coordinate more or less the same core activities in ways that are informally and operationally reminiscent of the days of the SOE.

The discussion above reveals a fourth structure, which we might call a satellite form. Zachem, in particular, and Vojenz to a lesser extent, have created a large number of small firms through leasing or selling on-site property. On the surface, these “peripheral” businesses offer evidence of more competitive, entrepreneurial and dynamic industrial structures, especially when one considers the myriad post-1989 small firms able to function using former SOE assets. However, far from demonstrating the social construction of independent market-oriented entrepreneurial businesses, for the most part these firms offer small components, energy, design services, canteen services, cleaning services and security services, and are heavily dependent on the former SOEs of which they had been sections. The prognosis for these firms and the economic structures that they create is only as good as the health of the former SOEs with which they are so closely linked through their production, service and, often, social ties.

Conclusions

The fragmentation of enterprise assets has been an important feature of the emergence of new economic structures from the structural legacies of state socialism. Instead of adopting the generalising statistical approach of transition economists operating within the neo-classical paradigm, this paper has examined the actual processes of fragmentation of six former SOEs grouped within two industrial towns. The picture that emerges is one of diversity in the patterns and types of structural fragmentation. Enterprise fragmentation can be understood as occurring within the wider process of economic and institutional transformation, which set constraints on and opportunities for restructuring different enterprises.

With respect to enterprise restructuring, the transition process in the Czech Republic can be seen as passing through a sequence of four overlapping phases, each associated with different types of fragmentation. In the early phase of continuing state regulation, fragmentation was forced upon the enterprises, often in spite of internal opposition. The fragments created were usually large,
subsidiary plants that had been major suppliers or recipients of materials or semi-products. In most cases, these new production units were located in other districts. The first wave of voluntary fragmentation arose as a response to economic and institutional shocks. These fragments were far smaller and tended to involve peripheral economic services and social facilities – effectively, bundles of liabilities or assets of marginal value, the separation of which served to make the main production assets look stronger and more viable. This trend continued during the next phase in order to make the core enterprise look more attractive and modern for privatisation. The most significant wave of voluntary fragmentation arose after privatisation had been settled. This mostly took the form of large corporate separations of core production assets and reflected the pronounced move towards the holding company structure.

Although the break-up of the former SOEs has been contextualised by the general exigencies of the macroeconomic transition, its variations can only be understood with reference to a range of local factors, all of which are ultimately filtered through the decisions of key stakeholders. The study of fragmentation at the local level emphasises the important role of enterprise traditions and legacies in shaping the possibilities of and limits to the process. The pattern and type of fragmentation have been related to the nature of the core business before 1990, to the traditions and values of enterprise management and to the contemporary goals and motives of powerful managers. In turn, these enterprise and management processes are interwoven with the socially accepted role and functions of the enterprise in the local community, indicated, for example, by the degree of socio-economic embeddedness.

The argument presented in this paper suggests that the extent of fragmentation presented through national economic or industrial-sector statistics may not offer a reliable measure of the structural changes in, or health of, the emerging economic system. The findings from local socio-economic research indicate that enterprise fragmentation has not really created the desired expansion of independent, competitive entrepreneurial firms. Indeed, the modes of and motives for enterprise fragmentation observable within local economies may serve to reproduce familiar patterns of vertical dependency in different organisational combinations. More worryingly, by tying the fate of many newly created businesses to the success of their former parents, the emergent economic organisation may institutionalise an industrial fragility to add to the well publicised financial frailties of the privatised Czech system.

Acknowledgements

The research reported in this paper was only possible because of the contributions of various individuals. Anna Soulsby has worked as a research colleague since the start of the projects from which materials have been collected. I am also grateful to Miloš Keřkovský, Sylva Pešková, Subodh Kumar, Janusz Milerski (Faculty of Business and Management, Technical
University of Brno) and Pavel Krhánek for their invaluable help as colleagues, organisers, translators and interpreters of culture.

References


In Search for Enterprise: State-Sector Reform and Societal Transformation in China

John Hassard, Jackie Sheenan, Jonathan Morris, Xiao Yuxin

With special reference to the steel industry, this article draws upon a political-institutional perspective to examine the progress made in the most recent round of state-enterprise reform in China - the introduction of the Modern Enterprise System and Group Company System. This reform programme is intended, by 2010, to transform 156 of China's largest state-owned enterprises (SOEs) into internationally competitive corporations which, while still remaining in overall state ownership, will much more closely resemble typical Western corporations in their structures and processes, with Boards of Directors accountable to shareholders rather than being subject to the political authority of the Chinese Communist Party (CCP).


** John Hassard (*1953), Professor of Organizational Analysis, Manchester School of Management, UMIST; Jackie Sheenan (*1966), Lecturer in History, Department of History, Nottingham University; Jonathan Morris (*1958), Professor of Human Resource Management, Cardiff Business School, University of Wales, Cardiff; Xiao Yuxin (*1964), Lecturer in Operations Management, Sunderland Business School, Sunderland University. Main research interests of all authors include enterprise reform and economic restructuring in China.
Introduction: Researching new models of enterprise reform

The Modern Enterprise System (MES) and Group Company System (GCS) reform programmes, begun in 1994 and 1992 respectively, are designed to achieve the "corporatization" of SOEs that in the pre-reform era were social and political as much as economic entities. The reform programmes are being piloted in 156 medium and large state enterprises in China, including a number of large steel corporations. 56 of these enterprises are piloting the Group Company System (developing a parent holding company and a large group of subsidiaries, which will have a high degree of management autonomy from the parent), and 100 are involved in the MES programme. In fact, though, the 56 GCS pilots are also undertaking MES reforms internally, so that in effect there are 156 national MES pilot enterprises (Hassard and Sheehan 1997). In addition to these, other firms, including one in the sample, have been selected as pilot enterprises by their provincial governments. Indeed, as it is judged to be an effective strategy for reform, MES-type restructuring is taking place in many companies that are not officially included in any pilot project. This pattern is familiar from previous rounds of reform in China, where "experimental" blueprints have tended already to become general in industry by the time they are formally adopted as official policy, the Contract Responsibility System (CRS) of the 1980s being a case in point (Chen Derong 1995).

The MES reform programme as officially defined consists of three main elements: reform, reconstruction, and restructuring (gaige, gaizao, gaizu). The main elements of the programme are: the clarification of property rights; clearer definition of rights and responsibilities; the separation of government and management functions; and the development of "scientific" enterprise management. In practical terms, the realization of the programme's aims will involve the adoption of new enterprise management mechanisms, technical transformation and improvement, and the reorganization of property rights and assets (Hassard and Sheehan 1997). In general, the GCS programme is intended to create large companies capable of competing in world markets by reorganizing their resources, assets and structure, while the MES is intended to introduce to Chinese SOEs modern management mechanisms and more elements of the Western company system, which is seen by many in China as something which has enabled Western companies to fend off government interference more successfully than their Chinese counterparts. Reducing government interference in enterprise management is thus a primary aim of the MES (Hassard and Sheehan 1997). Another important aspect of the programme is the removal, or at least the substantial reduction, of the social-service burden on enterprises, which is now seen as a major obstacle to SOE profitability and international competitiveness. Traditionally large SOEs in China have been "societies in miniature" (xiao shehui) responsible for the cradle-to-grave welfare of all employees and their dependents. In theory, this significant welfare burden is now to be transferred to local government, but in practice, as will be
discussed below, this is proving extremely difficult to negotiate, and in only one case in our sample has significant progress been made in this direction). Ultimately, the reforms should enable SOEs to compete within China and abroad on a "level playing-field" with regard to other firms.

Research methodology

The article is based predominantly on evidence from four rounds of field visits to state-owned steel companies undertaking MES/GCS reforms. These rounds of interviews were conducted on a yearly basis during the period 1995-1998. Ten companies were visited, most on more than one occasion. In the majority of cases, the researchers were allowed to observe operational processes and conduct semi-structured interviews with senior executives, group level managers and engineers. Interview information was collected by way of hand-written notes, although on a few occasions permission was granted for the sessions to be tape-recorded. In addition, one member of the research team (a Chinese national with contacts at each company) arranged a personal "familiarisation meeting" at each plant one month in advance. The reasons for these visits were mainly twofold - first to collect information that would inform the subsequent interview sessions, and second to allow ‘sensitive’ data – on productivity, performance and manpower levels etc - to be double-checked for accuracy. In addition, the researchers conducted a series of semi-structured interviews with specialists on enterprise reform and economic restructuring in various universities and ministries, plus field visits to companies in other state-owned sectors. In all, 43 interviews were completed during the period of research. Of these interviews, a sub-sample of eighteen have been used as the basis for the present article (see Appendix 1 for details).

A political-institutional perspective

In line with kindred research on enterprise reform in China (see Chen Derong 1995, Child 1994, Guthrie 1999), the analysis in the present paper is informed by an institutional perspective. On focusing on the political roles played within organizations, the local community, and the State, this perspective could more accurately be described as ‘political-institutional’. Such a perspective is appropriate, we feel, because institutional analysis can be related readily to the study of state-enterprise relations in socialist economics. As both Stark and Nee (1989) and Chen Derong (1995) have pointed out, in contrast to earlier theories of totalitarianism and modernisation, institutional analysis presents a clear orienting framework for analysing the economic transition towards a market economy. The primary objective is to understand those regular institutional patterns that explain how economic mechanisms work in reality. Moreover, rather than attempt to understand specific features of a system in reform, institutional analysis attempts to comprehend system processes as a whole.
Thus, through our interviews, we have attempted to discern how the organization and management of China’s SOEs is conditioned by the institutions of that country, especially those of local government and the State. As Child (1994) has noted, Chinese enterprise management reflects institutional politics in ways that are specific to the PRC, with the specificity growing closer the more the enterprise is tied by ownership and control into the state institutional structure. Such processes are particularly apparent in the non-marketized part of the state sector, which remains to a considerable degree incorporated into the state administrative apparatus. In the present paper we focus on how political-institutional forces influence organizational and management behaviour in those SOEs undergoing MES/GCS reforms. We feel that the emphasis in the ‘old’ institutionalism (see Di Maggio 1988, Di Maggio and Powell 1991) on the role of power and political processes in the shaping of organization, is crucially relevant to comprehending the ‘real’ situation in which state-sector Chinese management currently finds itself.

The context: Enterprise restructuring in the state sector

Traditionally all state enterprises in China, even relatively small ones, aimed for total vertical integration. Since the early 1990s, though, in the interests of specialization, efficiency, product diversification, and clarification of company functions, the steel-making SOEs in our sample have been engaged in a process of industrial fragmentation, mainly separating off all component parts which are involved in their core line of production (i.e. iron and steel) from others which may be engaged in completely unrelated lines of business, working towards the model of a parent holding company with a range of more or less autonomous subsidiary companies. The core iron and steel subsidiaries are to maintain a fairly close relationship with the parent company, although still enjoying some degree of management autonomy, while the other sub-companies, including social-service companies, will have a much higher degree of autonomy from the parent company. The formation of sub-companies serves a number of related purposes. The sub-companies are intended to spread responsibility for results throughout the group, to provide more opportunities for gaining access to capital, especially overseas, and to absorb surplus labour from the core iron and steel businesses. Dividend income from sub-companies (or profit quotas) can be used by the parent company to help cover social welfare costs where these have not been transferred to local government; in addition, since the relationships within the group are now to be governed by market principles, sub-companies will be expected to pay for the provision of social services by the parent company.

All sub-companies will eventually be formed into shareholding or limited-liability companies which will be responsible for their own profit and loss, and which will be able to attract outside investment, borrow from banks, and enter
into joint ventures with foreign companies in their own right; this ability to attract much-needed outside investment is a primary reason for their formation. A distinction is made between shareholding companies, which are destined for an early stockmarket listing and whose shares can be bought by anyone, including individuals, and limited-liability companies, whose shares can only be bought by institutional investors. These "public-oriented legal persons" (Keun Lee 1996) might be state-owned banks or insurance companies, other SOEs, or state trade unions. In some cases "triangular" debt owed to government bureaux, state-run banks and suppliers has been converted into shares to aid corporations so indebted as to be virtually insolvent in Western terms. Creditors have accepted these arrangements as there seemed little likelihood of recovering any of their money unless some sort of debt write-off was undertaken to enable the corporation to continue in business (Interview 3 1996; Interview 1 1998). Some core iron- and steel-making sub-companies are to remain exclusively funded by the parent company, and the parent company almost always retains a controlling stake of at least 51%, and often much more, in its sub-companies. However, we found examples of parent-company stakes of less than 51% in one of our case-study corporations, while individual shareholdings could total as much as 20% (Interview 2 1998).

Sub-companies are responsible for their own profit and loss (although the latter responsibility is sometimes phased in over a period of several years, with a sliding subsidy from the parent company to offset losses which is gradually reduced to nothing). The parent company is only responsible for the money that it has invested in the sub-company, although, as mentioned above, some sub-companies at this stage of the reform are still exclusively funded by the group corporation. In principle sub-companies can decide on their own staffing levels and appoint their own managers (apart from the top one or two posts) without the approval of the parent company. In practice, however, they are expected to consult with the parent company over any large reductions in their workforce. Sub-companies are allowed to recruit new staff from outside the group, but clearly there is also pressure on them to take up the slack where redundant workers in other parts of the group are in need of new posts (Interview 2 1996). More will be said about the question of surplus labour in SOEs later.

The degree of control which sub-companies have over their production targets varies depending on whether the group company is their main customer or whether they sell most of their production outside the group (Interviews 1 and 2 1996). In general they are free to look for markets anywhere, but where they provide a key input to group steel production (such as an iron-ore mining sub-company), the group's orders must be met before production can be sold outside to the highest bidder. Inputs can in theory be bought in from any competitive supplier, but in practice many of our informants observed that it was common for sub-companies to choose to work mainly within existing group relationships whether seeking markets or materials. The parent company was still admitted to
have considerable influence over most sub-companies whatever the regulations on corporate structure and governance might say on paper (Interviews 1 and 3 1996). The parent company must be informed of all sub-company investment decisions, and must give permission for any investment above a certain amount; at one steel corporation for which we have figures, the investment ceiling for sub-companies is RMB 30 million (about £2.25 million).

Below we draw upon a political-institutional perspective to comment on several key aspects of the MES and GCS programmes as these have developed to date in the Chinese steel industry. Attention is paid not only to the questions of relations between state organs and enterprise structures and processes, but also to the issue of shareholding and the problem of surplus labour, as these are important and politically problematic areas of reform at present.

MES and GCS reforms in practice: A political-institutional view

China has won praise for its gradualist, pragmatic reform path since 1978, particularly in comparison with the countries of Eastern Europe and the former Soviet Union (EEFSU) (Child 1994; Nolan 1995). But successful though it has been to date, the reform programme has now come to the point where all the relatively easy and less controversial steps have been taken. Still to be tackled are much more difficult and politically sensitive issues such as employment restructuring, ownership, and SOEs' relationships with central and local government. The very nature of the SOE in pre-1978 China means that this stage of reform is inextricably bound up with other wide-ranging reforms such as the abolition of subsidized housing and the effort to set up an urban welfare state in China under local-government auspices. It is also occurring at a time of economic difficulty throughout the region. Some of the corporations in our study are finding themselves having to compete for domestic business with Japanese and Russian firms as these seek new markets to replace those lost in Southeast Asia, at the same time as they themselves are having to look for new export markets for the same reason; the resulting price competition has reduced profit margins which were often not generous to begin with (Interview 2 1998).

Aside from these unexpected external factors, institutional problems of ideology and politics are still hindering further progress in state-enterprise reform. Change has generally gone furthest in those areas that are purely internal to the corporation, although even here the influence of existing power structures remains strong in many respects. Superficially at least, MES enterprises in China do now more closely resemble typical Western corporate structures. The steel corporations in our sample now generally have a Board of Directors chosen by shareholders which selects the general manager. But for large, state-owned steel-makers, in most cases the sole shareholder is still the state, which means that in practice candidates for the Board are recommended and appointed by the government, i.e. the CCP, just as top enterprise managers always were
before the reforms. It was admitted in two of the corporations we visited that changes in corporate structure were still more form than substance to date, with the ideal of shareholder control falling prey to continued direct government interference. The reportedly high level of government interference in the appointment of Boards of Directors thus has so far negated one of the main purposes of the MES programme, the separation of government and management functions. There are no indications that this problem will be resolved in the near future.

Similar problems have arisen with attempts to alter the distribution of power within the enterprise. Before the reforms, institutional power mainly rested with the so-called "old three committees", the party branch, management, and the official trade union. Under the MES, these are to be replaced by the "new three committees": the Board of Directors, the Board of Supervisors, and the Shareholders' Congress. If it were carried out as intended, this reform would directly attack the vested interests of many in the old structure, notably the party and the official trade union, generating resistance. Under the MES, the Board of Directors ought to be the highest level of decision-making, but this was always the role of the party in the past, and the party is proving reluctant to give up its power. Many enterprises, including some in the steel industry, have therefore fudged the issue by appointing the branch party chairperson as chair of the Board of Directors as well, so that the same person can give orders wearing either "hat". Similarly, existing managers have been transformed into a new "Board of Directors" by a stroke of the pen, and party and union organizations have also found a place on the Board of Supervisors, allowing power to remain in essentially the same hands within the enterprise but under different titles. The question of how to break up the old vested interests in state-owned industry has been described to us as a "forbidden area" of reform, since it touches on the question of the role of the CCP in a mixed economy and the ‘proper’ limits of its political-institutional power.

Far from operating on a level playing-field, SOEs in China are still subject to varying treatment from central and local authorities according to their particular status and history, as well as being affected by regional policy variations (Solinger 1996; Goodman 1997). The crucial role of local government can be seen in the very selection of SOEs as reform pilots. One corporation in our sample was co-opted as a national GCS pilot against its own preferences (Interview 5 1996), and several have been compelled by local government to absorb into the group smaller, loss-making companies which would otherwise have gone bankrupt, throwing their employees out of work (Interview 5 1996; Interview 2 1998). The finances of these autonomous sub-companies are kept separate from those of the parent company, so only limited financial help will be forthcoming from the parent if the sub-companies continue to make losses. Therefore little benefit is gained from this shifting around of unprofitable enterprises by anyone except local government, which divests itself of the
responsibility for the small enterprises' losses and has wage payments guaranteed by the group corporation (late payment or non-payment of wages being a major cause of labour unrest in China in the 1990s (Sheehan 1996; 1998)). Local government also tends, for obvious reasons, to favour those enterprises under its control over those which come directly under the authority of a central government department or bureau, leading the latter to complain that they need more "government interference", not less, as long as they are not competing on equal terms in a well-established and properly regulated market economy (Interview 1 1998).

**Shareholding: Privatization by any other name?**

At the firm level, many state-sector managers are prepared to discuss quite openly the extent to which their subsidiary companies, welfare services, company housing etc. have been or will be privatized, but the word is still seldom heard in the speeches of the top party leadership, except in assertions that privatization is not an option for China's largest state-owned corporations in the foreseeable future. Despite the announcement by President Jiang Zemin at the 15th CCP Congress that all but about 500 of the largest and most strategically significant SOEs would henceforth have to make their own way in the market, and would face merger, bankruptcy or closure if they could not make a profit, any degree of privatization of elements of the largest state-owned corporations remains extremely controversial even as it begins to happen on the ground. Thus some of the group corporations in our sample are finding that they have successfully carried out their internal corporate restructuring to establish viable sub-companies with their own "legal-person" status, only to face difficulty in getting permission for the listings which would bring in vital new funds for investment. Where listings (on the Hong Kong, Shanghai and Shenzhen exchanges) have taken place, they have often been of sub-companies that cannot be identified as part of the parent corporation from their names. One of our case-studies has taken a different tack, gaining permission for a listing of just two of its more than a dozen core iron-and-steel sub-companies, but under such a general company title that any and all of the other elements of its steel-making operations could be added to the listing in future (Interview 2 1998). In part this course is intended to avoid too ambitious a listing at a time of great volatility in the region's stock-markets, but in the main it is a product of central-government reluctance to countenance creeping privatization in some of its most strategically and ideologically significant corporations.

**Surplus labour and political stability**

In May 1997 the State Commission for Economic Restructuring (SCER) predicted that 15-20 million surplus workers in the state sector would lose their jobs by 2000, and in turn estimated the total number of surplus workers in SOEs
at 54 million, close to half of the total work-force. The proportion of surplus labour in SOE workforces varies across enterprises and is affected by factors such as enterprise size, industrial sector, and geographical location. Our case-study enterprises initially planned to reduce their core work-forces by between 15 and 50% during the period of the Ninth Five-Year Plan (1996-2000) (Interviews 2, 3 and 4 1996), although at least one has since extended the deadline to 2003 (Interview 1 1998). This level of surplus employees is in line with the findings of other surveys of the same sort of large SOE (Kuehl and Sziraczki 1995: 75). Clearly the numbers involved are substantial, and the problem of how to deal with such a high level of overmanning is one which still largely falls to SOEs themselves to solve (Lin and Sziraczki 1995: 28), with only limited help from local and national government.

The corporations concerned need to make these cuts in the workforce to reduce their costs and improve their productivity in order to compete both nationally and internationally. It is no exaggeration to say that the continued success of the present reform programme depends on the reductions going ahead, yet, at the same time, the single overriding priority of the central government is still the maintenance of social and political stability in China (and of course the maintenance of its own power), and this is already being threatened by state workers' reaction to downsizing and the threat of redundancy. SOE managers are fully aware of the tremendous responsibility they bear in this area, and they have prepared as best they can to achieve the very large-scale redundancies required while keeping serious unrest and resistance to a minimum. The watchword for this part of the reforms is "making a channel before the water comes"; in other words, have acceptable destinations ready before workers lose their existing jobs.

China still cannot really be said to have a functioning labour market to date (Warner 1995: 161; Child 1994: 162), despite the increased flexibility which both enterprises and individuals have gained in an era of widespread contract employment and some enterprise autonomy over the recruitment of employees. Some large SOEs have been replacing contract workers at the end of their contracted period of employment with otherwise redundant permanent workers from within the group (Interview 2 1996), but given the relatively small proportion of such contract employees in the state work-force as a whole (Warner 1995: 161), this is not a viable method in itself of making the large cuts in core employment which are planned. Aside from this minority of less-securely employed workers, none of our case-study corporations has yet been prepared to force out any employee who was not willing to go. Instead they have sought to develop internal labour markets that will offer retraining and re-allocation within the group to workers, or will help them to find alternative employment or self-employment outside the group. Workers are being shifted out of overmanned core production units and into new sub-companies set up for the purpose of absorbing surplus labour (Kuehl and Sziraczki 1995: 66; Hassard
and Sheehan 1997: 92-93; Interviews 1 and 3 1997). Many large state-owned corporations now typically contain within them sub-companies running such businesses as shops, hotels, restaurants and travel agencies, as well as social-service companies and companies engaged in any kind of manufacturing or service provision where profits can be made. Considerable numbers of workers are involved in these shifts: in one of the large state-owned steel companies studied by the authors, the number of employees transferred out of core iron- and steel-producing units into sub-companies now exceeds the number remaining in iron and steel production by 40% (Interview 4 1996).

Some large SOEs have set up labour pools for surplus employees where they can undergo re-training for vacant posts elsewhere within the group (Interview 1 1996). Surplus workers may remain in the group labour-pool for up to two years, but ultimately their employment can be terminated by the corporation if no suitable post is found for them within that time (Hassard and Sheehan 1997: 93). Alternatively, they may retain their employment status within the enterprise once the two-year period in the labour pool has passed, but instead of continuing to receive their basic salary, they are only paid the monthly amount calculated by the local government as the minimum necessary to cover basic living expenses (Interview 3 1996). This is an example of the proliferation of different forms of employment status within the firm through which unambiguous dismissal of surplus workers is being avoided. One of our case-studies has an alternative system whereby redundant employees are transferred to an in-house "job-centre" which provides retraining and job information. The company will be responsible for three years' basic living expenses for these staff and they will be offered two alternative posts within the firm, but if they turn both of these posts down, the company will have no further responsibility for them (Interview 2 1998). Again, compulsory termination of employment is implicit in this scheme, although it has not yet happened to any employee.

In many large SOEs a range of employment forms has thus been developed which includes not only permanent waged employment, retraining and redeployment within the firm, voluntary severance, and early retirement, but also stages in between. At one of the large steel plants visited by the authors, surplus workers' options include "retirement within the company", in which they remain in post with no annual increases in pay; alternatively, they may remain in post without pay but retaining their status as an employee of the unit. This retention of a formal link with the work-unit has security benefits for the workers concerned, allowing them, for example, to remain in unit-owned housing at low rents while obtaining work elsewhere or becoming self-employed. The alternative to retaining such a link is known as the "two don't look fors" (liang bu zhao), meaning that the worker will not look for any further help from the unit, and the unit has no further call on its former employee. The various forms of employment status now in existence in the state sector account in part for the discrepancy between China's official urban unemployment rate
(which still stands at around 3.5%), and the much higher figures routinely given by academic analysts and even the official trade unions in China, which include the large numbers of workers who have retained some sort of formal relationship, paid or unpaid, with their work-unit but are not actually going to work. Estimates for the proportion out of work based on this definition range from 8% to 15%, with even higher local rates cited in parts of the northeast which have concentrations of large and loss-making SOEs.

Besides creating vacancies elsewhere within the enterprise for surplus workers and restricting entry from outside the group, large SOEs are also attempting to increase the number of workers exiting from the group (Kuehl and Sziraczki 1995: 68). One major method of doing this is to encourage and facilitate early retirement (Interview 2 1996, Interview 2 1998). In some cases employees taking advantage of early-retirement schemes can receive a lump-sum investment from the group company in order to help them start up their own business. To make voluntary severance for workers of any age more attractive to those wishing to change jobs or go into business on their own, the requirement on these employees to pay back the costs of their training if they leave the corporation has been removed (Interview 3 1996). Inevitably, companies have found that it is not necessarily the right employees, from the enterprise's point of view, who volunteer for this sort of scheme, and some have had to introduce various incentives to ensure the retention of key technical personnel in particular (Interview 3 1996). To help absorb the increasing numbers of redundant SOE employees, some cities have reserved certain new jobs or self-employment permits, or even entire lines of work, for them. In Beijing certain occupations, including accountants, secretaries, bus-conductors, and sales-clerks, have been reserved for permanent city residents rather than rural migrants in an attempt to vacate tens of thousands of posts for laid-off urbanites. The municipal government has also reserved 20,000 taxi licenses for laid-off workers, asking bankrupt SOEs in the capital to submit lists of recommended workers for this scheme. Beijing's programme in turn is modelled on that of Shanghai, which has pioneered efforts to help surplus workers from SOEs go into business on their own by easing registration procedures and offering tax holidays to new small businesses. This type of programme, however, conflicts with the new market ethos which dictates that the established working class must now compete with migrants from the countryside for the available work, and there is thus conflict among policymakers about how far the old state-sector workforce can or should be protected from the rigours of the market.

Although the institutional role of government in determining SOEs' levels of employment has been reduced under the reforms (Hay et al 1994: 130-131), local governments and labour bureaux do still have some influence or authority in some respects (Lin and Sziraczki 1995: 17), and some managers in large SOEs continue to complain of government interference in areas where they have
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autonomy on paper. Large SOEs are still sometimes compelled to employ workers (often those laid off by other enterprises) whom they do not need or want, or loss-making enterprises are merged with more successful ones against the latter's will in order to safeguard jobs in the struggling firm (Kuehl and Sziraczki 1995: 65; Interview 4 1996). Some enterprises seem better able than others to fend off unwanted impositions of this kind by local government, either because of variations in policy between different cities or regions, or because of the particular circumstances of the enterprise concerned and its past relationship with local authorities (Interviews 5 and 6 1996; Solinger 1996).

Since 1995 the Labour Law has, however, shifted some of the responsibility for helping the unemployed to find work onto local government institutions rather than leaving enterprises to bear the whole burden (Interview 3 1996). The national government in 1997 also introduced a period of one to three years' compulsory training for all new entrants to the labour force, a measure intended to ease employment pressures.

Labour unrest and the threat to stability and reform

The caution exhibited to date by management in large SOEs when dealing with workforce reductions is understandable. The prospect of labour unrest fuelled by discontent over job losses and other aspects of China's economic reforms is a real one, and in fact such unrest is already beginning to occur, although it is much more common among the ex-employees of small and medium SOEs that those of the large corporations with which this research is mainly concerned. Lacking the resources to "make the channel before the water comes", smaller SOEs tend instead to make abrupt announcements regarding merger or bankruptcy which are received by their workers with anger and resentment, and which not infrequently result in street protests and factory sit-ins (Morris et al 1998; Sheehan 1998). Incipient unrest is not confined to the employees of small SOEs, however. Core, permanently-employed state-sector workers were traditionally regarded as the least restive segment of the Chinese working class under CCP rule, but by the end of the 1980s this had changed. State workers were in the vanguard of the 1989 democracy movement as a newly aggrieved group suffering significant relative deprivation under the reforms and angry in particular about high levels of official corruption and inflation (Walder and Gong 1993; Sheehan 1998), and there is every likelihood of further protest from them as the long-perceived threat to their vital interests posed by economic reform finally materializes.

Managers in these large state-owned corporations have thus put considerable effort into justifying the planned reductions and persuading workers to accept them. Firstly, they stress the new opportunities available to some workers in the new reform environment. This is more than institutional propaganda: the chance to change jobs, and in particular to set up in business independently, is
genuinely welcomed by some state employees. Success stories of former SOE workers making their fortunes are widely publicized in an attempt to overcome workers' fears of losing the security of permanent state employment, with some success (Interviews 2 and 4 1996). It is plain to all involved, however, that not everyone who leaves state employment is going to do better elsewhere (Warner 1995: 162). The managers' task then is to convince employees that some have to leave the enterprise if any are to prosper, as in the new "market socialist" environment enterprises cannot continue to carry present levels of surplus labour indefinitely while attempting to restructure themselves to compete in national and world markets (Interviews 1, 2 and 4 1996). This approach seemed initially to have been relatively successful, if not in whipping up real enthusiasm for down-sizing among state employees, then at least in engendering a mood of resigned acceptance of the end of the "iron rice-bowl" for some (Interviews 2 and 4 1996; Warner 1995: 132).

However, in the last two years unrest has become so widespread, if still mainly local and sporadic, that it has become one of the major concerns of the top leadership and threatens to cause a significant slowing in the implementation of many reform programmes, such as planned housing reform. In internal discussions, laid-off workers have been identified as the third most serious threat to political stability in the People's Republic, after separatists in the Muslim northwest and the Tibetan independence movement, with the resort by workers to the organization of independent unions a particular cause for concern. Local governments are coming under even greater pressure from the centre to provide alternative employment or retraining and emergency living allowances to unemployed workers in order to stave off more widespread unrest, and have been particularly warned not to divert government money intended for these purposes to other uses. Local governments are even authorized to make extra payments to workers in areas or at enterprises with a particular record of unrest, setting a dangerous precedent of rewarding those who make the most trouble (Sheehan 1996: 555). Large state-owned corporations are thus more aware than ever that, at least until a reasonably complete, functioning alternative welfare system is in place, they will not in fact be able to expect society to absorb the large proportion of surplus labour within their workforces.

Most of our case-study corporations are still only at the stage of holding preliminary discussions with local government about divesting themselves of their welfare responsibilities. If the transition from enterprise-based to local-authority welfare proves a successful one in the only case-study city where this has been attempted to date, it might encourage other local governments to work more actively in this direction. But at present, many of the firms in this study are quite pessimistic about the prospects of freeing themselves of this historical burden, both because of the simple inability of society to cope with such a transfer in this period of regional economic crisis, and also because of
resistance from their own staff, who fear a reduction in the quality of their schools, for example, if these are taken over by hard-pressed local authorities who already have "their own" schools to fund and look after (Interviews 2 and 4 1998). A number of our case-study corporations contain within them some of the best schools in their area, nationally recognized for their quality, and thus it is understandable that despite their awareness of the economic burden which running such services constitutes on a modern industrial corporation, employees are still reluctant to see their firms abandon what has often been very successful social provision.

Conclusions
This paper has examined the development of MES and GCS reforms in the steel industry through a perspective that highlights the associated political-institutional relationships of communities, enterprises and organs of the state. This perspective has offered a lens for interpreting and explaining the relative inertia experienced in the latest stages of enterprise restructuring and economic reform. Our data suggest that devices such as internal labour markets and local labour pools appear to offer a socially accepted pattern, possibly informally institutionalised, for dealing with the problems of downsizing.

Faced with the scale of such difficulties as the surplus labour problem, it is easy to become perhaps over-pessimistic about the prospects for reform. Given China's record to date of gradual, pragmatic transition away from a planned economy, in contrast to the "big bang" approach of many EEFSU countries, the recent signs of slowing of reform in response to rising labour unrest may actually be encouraging ones, as they show, institutionally, that the national leadership has recognized the scale and seriousness of the problems reform has engendered and is now proceeding more cautiously. It is also true to say that China since the early 1980s, after its post-Cultural Revolution peak of youth unemployment which coincided with the early-1980s recession, has had a very good record in job creation, particularly in the non-state sector. However, the unusually high growth rates which have enabled this job creation to take place have been slowing for several years and are likely to be further reduced by the regional economic crisis (and also by 1998’s natural disasters in the provinces worst affected). In addition, the number of redundant workers who will have to leave the state sector in the next few years is without precedent.

The SOEs in our sample are faced with a frustrating dilemma. Above all, if they are to be able to complete their restructuring and technical transformation in the next few years, they need to make very large reductions in their core workforces and in order to lower costs and raise productivity. There are substantial markets within China presently filled by imports which could be tapped by these large corporations if the investment were available to enable them to restructure their production accordingly (Interview 2 1998). Yet the
requirements of further state-enterprise reform are now in sharp conflict with the
government's top priority of political and social stability and the avoidance of an obvious change in the ownership status of the largest state-owned
corporations, and the SOEs in our sample are presently unable to do much more
except reform internally as far as they are able while waiting for a change in the policy environment which would enable them to take the next steps.

References


Sheehan, J (1996), "Is there another Tian'anmen uprising in the offing?" Jane's Intelligence Review 8, 12: 554--556.


Appendix 1

Interview 1 1995 was conducted on 30 August 1995 with a senior academic expert on management and fiscal science based in Beijing.

Interview 2 1995 was conducted on 1 September 1995 with a senior specialist in economic management at a leading Chinese Communist Party academic institution.

Interview 3 1995 was conducted on 4 September 1995 with an economic specialist working in the Metallurgical Industry Ministry in Beijing.

Interview 4 1995 was conducted on 4 September 1995 with a senior member of staff specializing in research and development at a large steel corporation in Beijing.

Interview 5 1995 was conducted with several senior managers from a non-steel state-owned corporation near Beijing.

Interview 1 1996 was conducted on 6 August 1996 with two group-level directors at a large steel corporation in eastern China.

Interview 2 1996 was conducted on 7 August 1996 with two group-level managers responsible for Human Resource Management and the plant CCP Party branch respectively at the same east China steel corporation.

Interview 3 1996 was conducted on 9 August 1996 with an engineering specialist and former group director of a long-established steel corporation in west-central China.

Interview 4 1996 was conducted on 14 August 1996 with a group-level manager previously responsible for enterprise restructuring and now working in economic research and development, and another senior member of the economic research and development institute of a large steel corporation in central China.

Interview 5 1996 was conducted on 15 August 1996 with a senior academic management specialist from a University of Metallurgical Science and Technology in central China.

Interview 6 1996 was conducted on 19 August 1996 with senior group-level managers from a large steel corporation on China's eastern seaboard.

Interview 1 1997 was conducted on 15 August 1997 with the chief engineer and manager of a large steel corporation in Beijing.

Interview 2 1997 was conducted on 25 August with senior group-level managers from a large steel corporation in southwest China.
Interview 3 1997 was conducted on 27 August with several group-level managers from a large steel corporation in south China.

Interview 1 1998 was conducted on 4\textsuperscript{th} August 1998 with several top managers of the steel-works visited for Interview 3 1996.

Interview 2 1998 was conducted on 11\textsuperscript{th} August 1998 with two senior managers from the steel-works visited for Interview 4 1996.

Interview 3 1998 was conducted on 14\textsuperscript{th} August 1998 with a group of top-level managers from the steel-works visited for Interview 6 1996.

Interview 4 1998 was conducted on 7\textsuperscript{th} August 1998 with two senior managers from the steel-works visited for Interview 2 1997.
This paper reports case study research findings on recent employment restructuring practices in the state sector under the transition context of China in the mid-1990s. The research focuses on the drive, process, and outcome of downsizing with respect to labour flexibility in the two state-owned machinery manufacturing companies from the management perspective. By employing the Western downsizing approaches as developed by Cameron’s (1994), empirical findings on downsizing in the two studied Chinese state firms are examined and analyzed. The research concludes that downsizing is a necessary but not sufficient policy. Massively laying off staff does not come without costs. To the contrary it generates new personnel problems such as unwanted quits and drain of human capital that are critical for the continuous business process of the downsizing firm.


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Introduction

The 1990s witnessed a wave of organisational downsizing around the world (Cameron, 1994; Wardell and Towers, 1997; OECD, 1998). In the West, downsizing has become almost a way of life for majority companies (Mishra et al, 1998). It is claimed that “downsizing set the tone for the modern employment contracts" for most of the 1990s (Business Week, 1998: 93). Currently, one of the most striking employment changes in the West is the replacement of permanent by temporary and part-time jobs in the name of flexibility (Siebert, 1995; Osterman, 1994; Wood, 1989). Another significant change is that for the first time downsizing was not limited to the blue-collar workforce but started to affect white-collar workers in the mid-80s as well and that on a large scale, too (Freeman, 1994; Cameron, 1994; Mishra et al 1998). These developments in the West clearly show that the crucial question is less how downsizing is done, but rather whether to downsize or not.

In the Transition Economies of Eastern Europe, increased market competition and the harsh economic climate have led companies to downsizing as part of the cost reduction strategy for survival and continued operation. Thus, for example, Poland experienced massive layoffs in the early 1990s by which it was hoped that former employees would set up companies that could act as subcontractors to their old company which in turn would see less workers on the payroll while providing more flexibility (Redman and Keithley, 1998). Another reason for downsizing was to stimulate employees’ efforts and motivation by exposing them to market discipline (ibid.).

More recently, downsizing has come into fashion in China, too. Yet, this policy took off in 1997 only when the Party Congress made it the national guideline for medium- and large-sized state firms1. To date, reports about layoffs in Chinese downsizing state firms can be found in the domestic and international media (e.g. Economist 21st 1998: 63; Beijing Review, 1998; People’s Daily, March 24, 27, 1998, August 8, 16, 19, 29, 1998, Oct. 4, 1998). Within a short period of time, and as an unprecedented experience, many state workers have seen themselves redundant for the first time2. Downsizing not only led to massive layoffs that pushed unemployment to a record high3, but also gave rise

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1 The Chinese President Jiang Zeming in his speech to the 15th Party Congress in October 1997 proclaimed an overhaul of state firms by downsizing redundant workers in order to rejuvenate the state sector in the end of the century.

2 It was reported that in 1997 around 11.51m workers were laid off, of which 7.87m were from state firms. Additional 3.5m workers would be laid off in 1998 (Beijing Review 1998: 18).

3 By 1997, officially registered urban unemployment rate climbed to 3.1 percent, the highest since 1990. If included unregistered jobless in both rural and urban areas, unemployment rate rose to 26 percent in 1997 (see, Yang Yiyong (1997).
to enormous physical and psychic traumas to the new class of “unemployed” job losers while state assistance is lacking.

The following study attempts to (i) describe the downsizing process within the environment of a Transition Economy, and (ii) to analyse the process from the management perspective. It is an empirical study based on the case of two machine tool companies still part of the state sector. The following questions shape the analysis. 1) Under what circumstances was downsizing initiated? 2) How was downsizing executed? 3) What effects has downsizing had on the firm, especially with respect to labour flexibility?

The evidence presented in this paper is based mainly on an empirical case study conducted in the early 1998 in Wuhan. The two machinery enterprises were chosen for an investigation because they moved to downsizing very recently in 1997 in response to the government call for a deepening reform. In order to gain greater insight into the downsizing process, a case study research method was used to collect empirical data, by employing face-to-face semi-structured interviews with general managers, personnel managers, production managers, as well as the government supervisory officials. That was complemented by an extensive analysis of documentary materials of the investigated firms, such as company’s brochures, annual reports, newsletters, and government policy documents.

The selection of the two SOEs in the manufacturing industry was based on two considerations. First, the manufacturing industry had long been regarded as the backbone of economy by the government thereby asking for the dominance of the state. Second, and related to the first, most SOEs in the manufacturing industry are gargantuan, with a strong reliance on the state support of input supply and output procurement. As the recent reform exposes SOEs more closely to market forces, the reliance on state support, e.g. subsidies, became increasingly unaffordable. The move to downsizing is illustrative of the withdrawal of the state and the introduction of market mechanisms in SOEs. It can be expected that downsizing in SOEs in this industry have profound impacts on personnel management in companies.

The main body of this paper consists of four parts. It starts with a brief literature review of downsizing in relation to flexibility (part I). The second part presents empirical downsizing practices in the two studied state firms in China’s machinery industry, with referring Cameron’s (1994) framework reviewed in the part I. This is followed by a discussion of problems associated with downsizing (part III). The paper ends with concluding remarks (in the part IV) with respect to our general knowledge on HRM and downsizing.

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4 Wuhan is the largest city with seven million citizens in central China, and the capital of Hubei Province.
I. Downsizing and flexibility: An overview

In the management literature, downsizing is a widely used term with broad connotations. Downsizing, when seen from an industry level perspective, usually involves managerial actions of mergers, acquisitions, joint ventures, and market strategies of focus or diversification (Caves and Porter, 1976; Porter, 1985; Duffy, 1990). Dewitt (1993, 1998) distinguishes three types of actions that a downsizing firm normally takes in response to the industry’s constraint shift: retrenchment, downscaling, and downscoping. Retrenchment refers to “shrinking” firm’s attempt to maintain and strengthen its market position through centralisation and specialisation of production (Dewitt, 1993). In contrast, downscaling and downscoping represent ‘partial exit’ strategies by which a shrinking firm gives up competitive space and leaves gaps for incumbents or new entrants to pursue. The three identified downsizing actions “can be viewed as alternatives along a broad strategic choice continuum ranging from staying in to leaving an industry” (Dewitt, 1998:59).

From a strategic choice perspective, downsizing can be seen as a managerial response to drastic changes in the business environment. Child (1972:2) defined strategic choice as “the process whereby power-holders within organizations decide upon courses of strategic action.” And “such action could be directed towards different targets” (Child, 1997: 45). For instance, external oriented actions may include a move into or out of given markets, or secure a favourable transaction term of the organization with external partners. Whereas internal actions may involve an attempt, within the limits of resource availability and indivisibility, to establish a configuration of personnel, technologies and work organization that is both internally consistent and compatible with the scale and nature of the operations planned. In this sense, Freeman (1994) perceives downsizing as a process of organisational change towards either convergence or reorientation. By convergence, downsizing implies incremental change and adaptation of a relatively long time span, whereby the current way of doing business is reinforced or ‘…a desire to do the same things better’ (Freeman, 1994: 216). Reorientation, on the other hand, involves ‘simultaneous and abrupt shifts in strategy, power distribution, structure, and control systems’ or doing different things in the organisation (Freeman, 1994: 215). Here, downsizing is seen as organizational changes purposely initiated by management in order to contain costs, to enhance profit revenue, or to bolster competitiveness.

More often, downsizing is carried out at the organisational level as a cost reduction strategy when the firm encounters severe economic hardship. Cameron (1994: 192) defines downsizing as ‘a strategy (intentionally) implemented by managers that affects (a) the size of the firm’s workforce, (b) the costs, and (c) the work processes’. Accordingly, Cameron (1994) identifies three types of implementation strategies of downsizing: workforce reduction, work redesign, and systemic change (see Table 1). The workforce reduction
strategies focuses mainly on eliminating the number of employees, while the work redesign strategies focuses on reducing work in addition to or in place of reducing the number of workers. In contrast, the systemic strategies stress not just changing the size of the workforce or the work, but also changing the organisation’s culture and the attitudes and values of employees. Obviously, each type of downsizing consists of a set of different actions that can be executed in a different manner. For most downsizing firms, the three identified implementation strategies are not necessarily mutually exclusive since the primary goal of downsizing is to improve ‘organisational efficiency, productivity, and/or competitiveness’ (Cameron, 1994: 192). It can be implemented either as a defensive reaction to market share decline or as a proactive strategy to enhance organizational performance (Miles and Snow, 1978).

Table 1. Three types of downsizing strategies

<table>
<thead>
<tr>
<th>Focus</th>
<th>Workforce reduction</th>
<th>Work redesign</th>
<th>Systemic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Headcount</td>
<td>Jobs, levels, units</td>
<td>Culture</td>
<td></td>
</tr>
<tr>
<td>People</td>
<td>Work</td>
<td>Status quo</td>
<td></td>
</tr>
<tr>
<td>Quick</td>
<td>Moderate</td>
<td>Extended</td>
<td></td>
</tr>
<tr>
<td>Payoff target</td>
<td>Short-term payoff</td>
<td>Moderate-term payoff</td>
<td>Long-term payoff</td>
</tr>
<tr>
<td>Inhibits</td>
<td>Long-term adaptability</td>
<td>Quick payback</td>
<td>Short-term cost savings</td>
</tr>
<tr>
<td>Examples</td>
<td>Attrition, layoffs, early retirement, buy-out packages</td>
<td>Combine function, merge units, redesign jobs, eliminate layers</td>
<td>Involve everyone, simplify everything, bottom-up change, target hidden costs</td>
</tr>
</tbody>
</table>

Source: adapted from Cameron (1994): 197.

In recent years, organisational downsizing goes hand by hand with the managerial effort to pursue labour flexibility in organisations (Nelms, 1997; Smith, 1994, 1997; Asian Business, 1996), or ‘becomes a way of life for managers as they continuously seek ways to do more with less’ (Freeman, 1994: 197).
234). Usually, management tends to downsize the number of permanent workers who are surrounded or replaced by a growing presence of a large number of contingent workers subject to market fluctuations. Subsequently, the constant hiring and firing policy toward the contingent workforce signals what can happen to the shrinking permanent workforce if one shirks in his job. The workplace reality is therefore increasingly segmented by a large proportion of the workforce that is either under-employed (part-time), or over-employed (for instance, core workers), or trapped in unfavourable job situations (e.g. temps). Frequently, peripheral workers function as a buffer for a shrinking number of core workers (Atkinson, 1984). Apparently, downsizing, when coupled with flexibility, will lead to intensified work, and tighter labour control.

Flexibility represents the ability to change or react with little penalty in time, effort, cost or performance (Upton, 1994). Here, flexibility of labour has numerical and functional dimensions. In brief, numerical flexibility is the ability of management to vary the amount of labour input at short notice. This can be done either externally by the use of temporary workers, or internally by modifying working time patterns to work pressure. Functional flexibility concerns the versatility of employees to work within and between jobs. This can involve either vertical integration of tasks (i.e. job enrichment) or horizontal integration (i.e. job enlargement). From the management perspective, both the types of labour flexibility serve to contain costs, to fully utilise labour, to accommodate fluctuations in production and service circles. And they have become one of three primary objectives of downsizing: higher productivity, better stock performance, and more flexibility (Cameron, 1994; Dewitt, 1998; Mishra et al, 1998).

To sum up, organisational downsizing often occurs when firms encounter harsh economic climates. The purpose of downsizing is to cut off costs and boost organizational efficiency, competitiveness, and flexibility. Downsizing usually involves similar workforce reduction tactics such as transfers, outplacement, retirement incentives, and layoffs. Workforce reductions will then affect ‘work processes, wittingly or unwittingly’ (Cameron, 1994: 193), further leading to some kind of work redesign (such as restructuring or eliminating work, abolishing hierarchical levels, merging units, or redesigning tasks). All in all, downsizing is more or less related to reduction of the size of the workforce and reflects a shift of the frequently prevailing organisational ethic that “bigger is better”. To put it differently, the business cycle risk is shifted to the workforce, as opposed to the past in which due to permanent employment, the economic risk was borne exclusively by the firm and its management.

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5 It is observed in the US and in the EU as a whole that the growing number of people are hired and let go on a contingent basis (OECD, 1998: 160-63; Smith, 1997).
The following mainly takes organisational approaches as developed by Cameron (1994) to examine downsizing in the two chosen Chinese state firms, in referring to other relevant perspectives when necessary. Before the analysis will take up the problem of downsizing in the two selected companies, a short overview on the economic reforms is needed in order to understand the economic problems and institutional constraints that shape the downsizing policy.

II. Downsizing in China’s machinery industry

Background
Prior to 1978 market reforms, China’s heavy industry expanded under a well-shielded environment (Child, 1994). The dominance of state-owned machinery manufacturing firms in the industry was particularly emphasised as it regarded as the mainstay in the economy (Murakami and Liu, 1996). Yet, from 1992 onward, the country’s machinery industry encountered increasing challenges under a changed business environment. First, the state gradually reduced the scope and number of products regulated by state plans, while the majority of production was exposed to market transactions outside the state plans. Second, the domestic machinery market was increasingly opened to international competition under the framework of the “open-door” policy. Subsequently, a large amount of imported machinery goods poured into China that took over 43.29 per cent of the domestic market during 1990-95 (IIER, 1997: 84). As a result, 30 percent of the Chinese machinery industry’s capacity turns out to be idle in the sea of imported goods (IIER, 1997: 90). The excess production capacity in turn triggers off intense price competition that drove the profit margin of the industry to a history low record (IIER, 1997: 86). Thus, it is unsurprisingly that the growing number of SOEs incurred operational losses. The total amount of losses in state-owned machine manufacturing firms rose to RMB7 5700 million yuan in 1996, accounting for 39 percent of total profits and taxes they delivered to the state (IIER, 1997: 86).

In order to reverse the trend of the growing operational losses in SOEs, the government has taken many reform measures to rejuvenate the state sector. These include profit retention, profit taxation, the contract management system, and corporatization (see Table.2). Among the reform measures the implementation of the contract management system and recent corporatization

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6 By 1996, the government mandatory purchase order in large-sized power station manufacturing and some key components of car manufacturing accounted for less than 5 % of the total sales turnover (IIER, 1997).

7 RMB: the Chinese currency Renminbi.
are particularly significant and still under practice in many large SOEs. They deserve a further discussion here before proceeding to examine the two selected SOEs in the machinery industry.

**Table 2. Chronology of selected reform measures on SOEs, 1978-1997**

<table>
<thead>
<tr>
<th>Year</th>
<th>Event Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1978-80</td>
<td>Launch of economic reforms and ‘open door’ policy</td>
</tr>
<tr>
<td>1982</td>
<td>Workers’ congresses set up in 95% of large state firms</td>
</tr>
<tr>
<td>1983</td>
<td>Profit retention and bonus payment scheme introduced</td>
</tr>
<tr>
<td>1984</td>
<td>Substitution of profit remittance for profit tax</td>
</tr>
<tr>
<td>1984</td>
<td>New law on enterprise management in urban factories</td>
</tr>
<tr>
<td>1985</td>
<td>Enterprise Responsibility Contract System introduced</td>
</tr>
<tr>
<td>1986-87</td>
<td>Labour contract and wage reforms put into practice</td>
</tr>
<tr>
<td>1988-92</td>
<td>Wide spread implementation of Contract Management Responsibility System</td>
</tr>
<tr>
<td>1990-91</td>
<td>Policy of economic retrenchment, i.e. contractual monetary and fiscal policy</td>
</tr>
<tr>
<td>1992</td>
<td>Deng Xiaoping’s south China tour on renewal of economic reforms</td>
</tr>
<tr>
<td>1993</td>
<td>Establishment of modern enterprise system (i.e. corporatization), in line with socialist market economy. Labour contract coverage extended</td>
</tr>
<tr>
<td>1996</td>
<td>Mergers, acquisitions, start as do cases of bankruptcy</td>
</tr>
<tr>
<td>1997</td>
<td>Downsizing and layoffs</td>
</tr>
</tbody>
</table>

*Source: with reference to Warner (1995)*

The Contract Management Responsibility System (CMRS) was formalised in the mid-1980, yet widely implemented in large SOEs only after 1987. It was essentially a kind of target management or management by objectives (MBO). The CMRS was designed to change the hierarchical bureaucratic relationship between the state and the enterprise into a contractual one in which the government and management are linked by the contract. It involves ‘the specification of items such as the amount of profit remittance, investment and technical innovation targets and the tying of wage bills to total profits’ (Fan, 1994). However, the CMRS failed, as this study will show, to deter
management from pursuing their individual interests (e.g. through externalising operational costs with less or no distraction of depreciation costs). Frequently, it encourages short-term behaviour at the expense of long-term growth, as there was no hard budget constraint that had to respect (Pan, 1994).

From 1994, new approaches were sought for reforming SOEs, especially at local levels. These include mergers, leases, corporatization, worker and management buyouts, and bankruptcies (World Bank, 1997). These new reform measures were attempted to change the corporate governance structure: 1) to clarify asset rights, and assignment of liabilities; 2) to provide a reasonable balance of interests among owners, creditors, and managers. The former requires a clear separation: legally and operationally, between the government (as owner) and the firms (as business entities). The latter embraces a western corporate business system so that the owner can select a board of directors which, in turn, oversees the daily operations of the professional management.

These new approaches to reforming SOEs, however, pose a dilemma for the Chinese government: Those who could serve as professional managers know which assets or firms can quickest and at low costs turned into a profitable business. For this reason they will offer lease contracts for part of all state controlled industrial assets only. Subsequently the government succeeds in leasing out the most valuable assets, but gets stuck with those assets that can be turned into profitable business at high costs only – or for which there is no demand. The effect then is that the government owns fewer industries, something that is aimed at. The few in its hand are those which run the highest losses which need to be financed by the general taxpayer. In addition, corporatization has also induced management to maximise intra-firm consumption by offering rewards and welfare benefits for all employees including themselves at the expense of outside shareholders and the state budget. In the end, state enterprise assets would gradually siphoned into private pockets, leaving the government to assume the liabilities for the worst cases (World Bank, 1997). This is a widely known phenomenon in Eastern Europe.

One often overlooked reason for the unsatisfactory SOE reform lies in the fact that most SOEs, especially in the heavy industry, tended to grow to a large size and embraced a comprehensive scope of social service functions (such as housing, hospitals, schooling, and kindergartens) (Murakami and Liu, 1996).

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8 It was reported that asset stripping and excessive wage compensation are widespread in Chinese state enterprises. A 1994 survey of 124,000 state enterprises found that asset losses and unaccountable expenses accounted for 11.6 per cent of the assets of the firms sampled. One estimate puts the annual loss of state assets at RMB 30-100 billion yuan, or 2-9 per cent of annual capital investment by state-owned units. Half of the new limited liability companies established in Sichuan and Shanghai in the past few years are in the financial sector, which suggests the widespread creation of “shell” companies to drain assets (World Bank 1997).
These social and welfare provision activities considerably constrain the enterprise to realise its commercial goals in the face of competition from non-state firms (Wood, 1994). Such social function characteristics make the application of any reform measures particularly void in this industry. Without transfer of pension, health, and education obligations from state firms to government bodies, state firms cannot be turned into competitive ventures. Recently, some local governments are taking major steps to relieve enterprises of these social burdens by taking them off. But such developments are fragmented, and uneven across regions and industries. In most cases, the firms are still strangled by excess workers that are tightly cemented in their employing organisations. Although a labour contract system was introduced in 1984, management autonomy to alter the size and composition of the workforce is still circumscribed by internal and external constraints in the firm. SOEs are still responsible for re-deploying their surplus labour by creating new jobs for them or pay them wages off position (Fan, 1994). This personnel system restricts the enterprise management to adjust manpower, and to develop labour flexibility.

Apparently, downsizing is needed to sort out redundant workers in SOEs. Downsizing whether initiated by mergers or not is seen as an effective way for getting rid of excess labour. The central government particularly advocates downsizing as an effective means to raise labour productivity. Thus, when the Congress of the Communist Party in 1997 claimed to overhaul the management of SOEs and made them profitable within the century, increasing productivity by putting an end to the omnipresent overstaffing stood at the core of the discussion. Prime Minister Zhu Rongji too asserted in his inaugural speech at the National People’s Congress (1998) that laying-off redundant workers would be one of the main reform measures toward SOEs. He articulates three concrete steps for downsing: laying off so as to divert redundant workers out; reducing personnel so as to increase efficiency; and implementing re-employment project within the enterprise. In response, governments at the local level quickly started to force the SOEs under their jurisdiction to implement the downsizing strategy. This reform policy background should be kept in mind as the two selected SOEs are presented in the following section.

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9Some municipalities in Shanghai, and in Wuhan, for instance, are pooling pension obligations across firms and earmarking payroll taxes for pension, unemployment, and health insurance. Some local authorities are taking over schools and hospitals previously run by enterprises. Another way to reduce the budgets necessary for social benefits is to reduce housing subsidies by either raising rents or selling company’s houses to employees (Beijing Review, 1988).
The two downsizing companies investigated

Case study 1: the BG. The contemporary BG is a specialised industrial boiler manufacturer that was originally set up by the central government in Wuhan in 1956. It had been a state-owned enterprise before it was restructured into a quasi-standardised corporation in 1994. Four years later, i.e. in early 1998, one of the BG’s thirteen sub-companies was split off to form a joint stock company with foreign partners consisting of investors from Hong Kong and France, as well as of seven domestic financial investment companies as a joint domestic partner. It was hoped that the newly formed Sino-foreign joint venture would firstly bring in sophisticated technologies and managerial know-how to consolidate its market position and, secondly enjoy the favourable policy applicable only to foreign investors. As required, a new internal governance structure in the newly formed joint venture will have to be created in light of the *company law*[^1]. By the time of investigating, the new governance structure was not yet implemented. The rest of the BG will, however, remain under the old governance structure, i.e. being subordinate to the local Machinery Bureau.

The main products made by the BG are special industrial boilers of various types, and boiler-related components. These special industrial boilers are mainly supplied to equip domestic power generation stations, sugar processing factories, cement manufacturers, and paper manufacturers, with few exports to the third world countries in South Asia, Latin America, and Africa. In 1997, the BG had sales turnover of RMB 680 million yuan, employed 6,100 workers. The sales revenues accounted for 15-16 per cent on domestic boiler markets, down by 10 per cent over the past five years due to intensified competition since 1992. The BG is now left behind other three leading domestic boiler manufacturers in China.

Case study 2: the WM. The WM is a machinery manufacturing company that was established by the central government in Wuhan in 1958. Since then it had been the largest state owned heavy machine tool manufacturer in China under the parallel administration of the local Machinery Bureau at both the Province and the Municipality level. It did not change its ownership and governance structure until 1996 when it was restructured into a corporation in which the liabilities to state banks were turned into equities of the company. Essentially, it remains a state firm without significant changes in property rights in the sense that ownership titles were switched from one state agency (Machinery Bureau) to another (state banks).

The core business of the WM is manufacturing and supplying mother machine tools and lathes of various types to industrial clients that range from machinery, mining, metallurgical industry, transportation, energy resources, and aerospace.

[^1]: The company law was promulgated in 1993 and came to effect in July 1, 1994.
industry. These machine tool products are mainly supplied to meet domestic demands, with some product and components exports to international markets, mainly in the Middle East, and South Asia. Some of its main products (such as a 16 meter-long super-sized lathe) are of strategic importance in technically equipping other industries that require state financial support, i.e. subsidies for maintaining the production. Due to its unique nature of the products in the national economy, the state still provides necessary financial support, i.e. subsidies, albeit declining. Meanwhile, the WM is under great pressure to become a profitable business entity.

The WM has 5 processing plants, 4 assembling plants, a heating treatment plant, and two auxiliary service subsidiaries that all employed 4,600 workers in 1997 (while 7,441 employees on the payroll). The sales turnover reached RMB104.42 million yuan in 1997, yet its balance sheet was registered with a deficit of 17.14 million in the same year. The operational loss was mainly ascribed to losing of domestic clients who turned to buying imported machines since 1992. As a result, the WM remained persistently in the red for five years since then. Reducing the scale of losses thus becomes a central task of management under the CMRS that was signed between management and the local government supervisory agency.

The above descriptions clearly shows that the two studied firms faced increasingly market competition and government pressures for efficiency gains before they moved to downsizing.

**The process of downsizing implementation**

In the face of market competition and government pressure, both the BG and the WM employed more workers than productively necessary. Initial effort to reduce redundant workers in the BG was pushed ahead in the early 1995 through encouraging early retirement among elderly workers. In the WM, attempt to cut down the overstaffed workforce was made in 1992 as the ‘optimal labour reorganisation’ scheme (Warner 1995) was introduced in the company to sort out redundant workers. Yet, a large-scale of collective layoffs occurred in both the companies in 1997 only when the central government called for downsizing as a means for efficiency improvements in the state sector.

Need for manpower downsizing was further justified by the use of certain efficiency criteria for personnel required. The BG claimed to apply five criteria in calculating the scale of redundant workers for laying off in 1997. These criteria concern: i) efficiency of working hours in relation to total output; ii)
empirical calculation; iii) responsibilities and duties (e.g. in personnel department); iv) position-matches (such as cargo drivers that can be decided by the number of trucks); v) ratio determination (such as a fixed proportion of cooks to total number of employees). In this way, 1,201 workers were made redundant and laid off in the company, that accounted for 20 per cent of the total employees before downsizing in 1997. In the WM, the scale of layoffs was determined in light of production tasks in relation to market demands, by taking account of projected profits and workload, with reference to the average industry output. Here, several indicators were claimed applicable in calculating the number of employees needed after downsizing. One most important indicator applied was the aggregate profit index on the industry average. The profit index was then decomposed into each plant where the entailed number of employees were calculated out and selected. In this way, 2,233 workers were calculated as redundant employees subject to laying off, accounting for 30 per cent of the total employees before downsizing in 1996 (see Table 3).

### Table 3. Workforce Reduction in the BG and the WM in 1997 (in person)

<table>
<thead>
<tr>
<th></th>
<th>Pre-downsizing</th>
<th>Post-downsizing</th>
<th>Laid off workers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>employee size</td>
<td>employee size</td>
<td>number</td>
</tr>
<tr>
<td></td>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
</tr>
<tr>
<td>BG</td>
<td>6,100</td>
<td>4,899</td>
<td>-1,201</td>
</tr>
<tr>
<td>WM</td>
<td>7,441*</td>
<td>4,600</td>
<td>-2,233</td>
</tr>
</tbody>
</table>

Note: *the number includes 608 old employees that reached legally retired age in 1997.

Despite the claimed economic criteria applied in sorting out redundant workers, identifying target workers for leaving poses particularly challenges to management. Not only have workers formed psychological contracts with each other during the past stable working environment, but also the applied criteria for manpower cutting are hard to operate objectively. In practice, two types of vulnerable workers were subject to laying off during downsizing in both the companies: 1) elderly workers, and 2) poor performers. The former was based on the employee’s age or length of service, whereas the latter had its ground in individuals’ job performance or disciplinary behaviour. Any employee who met one of the criteria set out was encouraged to leave. While the ultimate decision to lay off senior workers was subject to department managers’ deliberate calculation, taking into account most likely adverse effects of layoffs on production.

Some government policy restrictions were imposed on management when identifying layoffs in the both companies on social grounds. First, according to
the government layoff policy, a married couple, when working in the same company, would not be laid off simultaneously. Even if one partner was already laid off in other state companies, the spouse should be exempted from laying off in the company under the same jurisdiction. Second, retired army veterans were exempted from downsizing even though they were unqualified and poor in performance during downsizing. This type of personnel was assigned into the state sector by the local government as political tasks that are only applicable to state companies. This can be seen as continuity of the past personnel legacies in the state sector. Particularly in the WM, the non-layoff policy was also extended to those rural recruits who were employed under the so-called *employment inheritance system* (see Korzec, 1994). This inheritance system holds in the WM that the father, who retires early and settles back in the countryside of his origin, can appoint one of his adult children to take his employment in the company.

During downsizing, elderly workers were most likely to be targets of sacking, although key elderly employees with specific skills were persuaded to stay for a longer service. In the BG all those aged over 50 (for the male) and 45 (for the female) were subject to laying-off during downsizing, while in the WM the targeted elderly workers were five years older than their counterparts in the BG. In both the companies investigated, aged workers got early retired, either ten years earlier (in the case of the BG) or five years earlier (in the case of the WM) than the legally set retirement age. Poorly performed young workers were sacked as well, but they made up minority. In the BG, for example, 88 per cent of the layoffs (i.e. 1,056 elderly employees) were early retired, the remaining 12 per cent (i.e.150 young workers) were laid off as vacancy waiters. The same trend was reported in the WM where 75 per cent of layoffs took the form of early retirement, and the remaining 25 per cent as vacancy waiters. Eventually, laid off workers were among one of the four types of employees: 1) the elderly; 2) the physically weak; 3) female during child breast-breeding period; 4) poor performers resulted either from their poor adaptability or persistent undisciplined behaviour (see Table 4). Not only elderly and weak worker became the target of downsizing, the female at the time of child breeding, as well as the injured were not exception from downsizing. Except for the first three types of laid off workers that can be objectively justified during downsizing, the last one is subject to substantial management personal judgement and arbitration.

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12 Child-breeding female workers were temporarily laid off at the time of child breast-breeding. According to the state regulation concerned, childbearing women are entitled to a leave of absence for 2 years, with the payment of 75% of their full-time wage rates by the employing company.
Table 4. Criteria and compensation for layoffs in the WM & the BG in 1997

<table>
<thead>
<tr>
<th>Criteria for laying off</th>
<th>Layoffs &amp; compensation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Criterion</strong></td>
<td>WM</td>
</tr>
<tr>
<td>1) performance</td>
<td>Under-performed, unskilled, undisciplined</td>
</tr>
<tr>
<td>2) age &amp; seniority</td>
<td>≥50 for female or 55 for male</td>
</tr>
<tr>
<td></td>
<td>≥20 for female, or 25 for male (i.e. years of service)</td>
</tr>
<tr>
<td>3) physical</td>
<td>The sick, injured, disabled employees</td>
</tr>
<tr>
<td>4) sex</td>
<td>Female workers during the child breast-breeding</td>
</tr>
</tbody>
</table>

Accordingly, layoffs took two forms: *internal early retirement* and *vacancy waiters*. The early retirement applied to senior employees or the elderly workers who reached a certain age limit that was yet lower than the legislatively set retirement age standards. In other words, both the companies adopted ‘first-in-and first out’ downsizing strategy towards senior employees who had served for 25 years (for the male) or 20 years (for the female). It should be noted that the elderly worker and his length of service might not exactly intersect at the same age, although both were most likely close to pensioners’ age set by the law. The second form of layoffs is vacancy waiter. As the term tells itself, vacancy waiters are assumed be re-employed preferentially by the company as long as vacancies arise. Moreover, the downsized companies are obliged to help vacancy waiters in finding a paid job elsewhere.

In the absence of social security systems, the two downsizing firms had to provide certain amount of living expenses for layoffs. The amount of living expenses provision was differentiated, however, between early retirement and vacancy waiters. In both the studied companies, the early-retired workers were better compensated than the vacancy waiters. In addition to receiving standard compensation by their company, the early-retired employees could receive extra subsidies to offset inflation. When they reach the legal age of retirement, they will be shifted to newly created pension agencies that are administered by the
local government. Before they become real pensioners, the early-retired workers would be on the payroll list of the company that remains obliged to pay their pensions. In exchange, the early-retired workers disclaim their rights to reemployment in the company. In other words, the company had to buy out superfluous employment positions at the cost of continuing to pay living expenses and pensions for the early-retired workers.

In comparison, the vacancy waiters were relatively young and physically strong (e.g. a youngest one aged 21 in the BG), they are expected and encouraged to take up paid-jobs elsewhere as a complementary source of income. Since they were assumed as laid off workers temporarily and are supposed to be re-employed by their company in the future, vacancy waiters (including breast-breeding females after expiration of the paid absence of two years) are therefore insufficiently compensated for leave (see Table 4).

It should be noted that all the laid off workers were not directly released to markets. Instead, they were all kept inside the company as required by the government due to the lack of social security system in society. Except for those who found jobs elsewhere after downsizing, most of the layoffs sunk into the company’s internal labour pool and live on living expenses paid by their company for at most two years\(^{13}\). As a condition for the receipt of living expenses, both types of layoffs are obliged to contact their employer once a month so that their company is informed whether there is change in their employment status.

In addition, vacancy waiters living on their company were required to register with the local Labour Bureau for obtaining an officially endorsed unemployment card. With an unemployment card, layoffs are entitled a priority for reemployment in the former company or elsewhere, or pursuing self-employment (Beijing Review, 1998). Moreover, all the layoffs living on company payments also need to pay for their individual parts of the pension premium, unemployment insurance, and housing funds\(^{14}\). The company would keep on paying the remaining parts for them, i.e. a certain proportion to the total wage bill in the company set by the local government. Obviously, downsizing in the absence of social insurance support poses tremendous difficulties to management in executing the downsizing in the firm.

At first sight, downsizing seemingly proceeded more deeply in the WM than in the BG in terms of layoff scale and percentage. With a close look at the workforce composition after laying off, it is found that downsizing in the WM

\(^{13}\) After two-year dole on the company, layoffs will be shifted out to unemployment insurance agencies administered by the local government.

\(^{14}\) The proportion of individual payments to these funds was set at 3% of their monthly wage incomes received from their company in 1998.
failed to touch managerial employees as much as was the case in the BG. A higher proportion of managerial and administrative employees remained in the WM than in the BG after downsizing (see Table 5). In the BG, elderly managerial personnel were also subject to downsizing. It was stipulated that middle-level managers aged over 56 during downsizing were compulsorily left off their positions, either as non-managerial staff or as early-retired workers. Consequently, 150 elderly managerial and technical personnel were laid off, accounting for 15 per cent of the total layoffs in 1997. Among the sacked managerial personnel 50 middle managers took the form of early retirement. By so doing, downsizing on other types of personnel was perceived much easily to carry out with less resistance from workers.

Table 5. Workforce profiles after downsizing in the WM and the BG in 1997

<table>
<thead>
<tr>
<th></th>
<th>WM</th>
<th>%</th>
<th>BG</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production workers</td>
<td>2,000</td>
<td>43.48</td>
<td>3,000</td>
<td>61.24</td>
</tr>
<tr>
<td>Technical personnel</td>
<td>403</td>
<td>8.76</td>
<td>300</td>
<td>6.12</td>
</tr>
<tr>
<td>Managerial and</td>
<td>1,002</td>
<td>21.78</td>
<td>405</td>
<td>8.26</td>
</tr>
<tr>
<td>administrative</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Auxiliary workers</td>
<td>1,000</td>
<td>21.74</td>
<td>650</td>
<td>13.27</td>
</tr>
<tr>
<td>Marketing &amp; service</td>
<td>395</td>
<td>4.24</td>
<td>544</td>
<td>11.20</td>
</tr>
<tr>
<td>Temporary workers*</td>
<td>110</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total employees on jobs</td>
<td>4,600</td>
<td>100.00</td>
<td>4,899</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Note:*temporary workers were not counted on the payroll.

Clearly, the once-and-for all workforce reductions in both the companies reshape the profile of the remaining workforce after downsizing action. In the BG, almost all the elderly workers were laid off, with the remaining workforce becoming much younger (averaged at 35) than before downsizing. The same change also occurred in the WM, only with a slight age difference imposed on elderly employees between workers and managerial cadres. While all the old workers aged 50 for the female and 55 for the male were called for early leave, managerial cadres retired early at the age 55 for the female and 60 for the male. In consequence, the remaining workforces become much younger. As one of the interviewed personnel managers points out:

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15 The differentiated treatments to early retirement can be explained by the legacy of old personnel system by which employees were divided into workers and cadres in line with the bureaucratic hierarchy (see Korzec, 1992).
“Right now, it is rare to find elderly male workers aged over 50 in our production plants, except for a few elderly key workers with critical skills. None of the female workers aged over 40 is working in the first line of the production. Young workers become the overwhelming majority”.

In summary, the two state companies studied are operating under the increasing pressure of market competition within the changed context. They share similarities in governance and market declines while differing in employment and compensation. The main criteria used for the selection of layoffs were age and performance, supplemented by physical state and sex. Some other social and political criteria were applied as well to prevent specific groups from downsizing policy. There are some overlaps among these imposed criteria, with each one being related to others in some manners. Layoffs were most likely among those elderly workers with low skills and poor physical conditions. Yet, young employees were not exceptional if they were identified by management as the unskilled, and the undisciplined, or child breast-breeding female during downsizing. In either case, laid off workers have a poor labour market prospect after downsizing. This can explain why most of the layoffs were kept in the company’s internal labour market pool instead of releasing to markets, although both the companies had incentive to terminate labour relations with layoffs by strongly encouraging vacancy waiters, for instance, to find jobs elsewhere.

**Effects and payoffs of downsizing**

Besides quick workforce reduction, the two companies investigated receive immediate payoffs in labour productivity, work organisation, and corporate structure. By referring to Cameron’s (1994) downsizing framework outlined in the first part of the paper, this section will examine these impacts in sequence.

Improved labour productivity. Improvement in labour productivity was achieved immediately after downsizing was executed in 1997. A salient upturn was registered in both the companies in terms of sales turnover and profits and taxes relative to the reduced workforce over 1996 and 1997 (see Table 6). When assessed in terms of sales turnover per worker, the WM saw a noticeable rise of 67 per cent, while the BG received 40 per cent of increase over previous year.

The extent to which labour costs of production were reduced with mass layoffs, higher labour productivity could be a logical result. Empirical findings from the two cases confirm that the shrunk workforce after downsizing worked with the same number of machines generated more outputs than the past. Although labour productivity improvement measured by these two indicators is open to question, it is clear that efficiency gains were achieved in both the firms after downsizing. The interviewed managers in the two companies all acknowledged that downsizing was indispensable for efficiency improvement.
Table 6. Labour productivity improvement after downsizing 1996-1997

<table>
<thead>
<tr>
<th></th>
<th>BG</th>
<th>WM</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1996</td>
<td>1997</td>
</tr>
<tr>
<td></td>
<td>(1)</td>
<td>(2)</td>
</tr>
<tr>
<td>Sales turnover</td>
<td>600</td>
<td>680</td>
</tr>
<tr>
<td>(million yuan)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit and tax</td>
<td>25</td>
<td>30</td>
</tr>
<tr>
<td>(million yuan)</td>
<td>101.06</td>
<td>104.42</td>
</tr>
<tr>
<td>Employees</td>
<td>6,100</td>
<td>4,899</td>
</tr>
<tr>
<td>(in person)</td>
<td>7,441</td>
<td>4,600</td>
</tr>
</tbody>
</table>

Note: * The number includes 608 newly retired workers living on external pensions administered by the local government.

Increased flexibility in work organisation. With downsizing substantially reduced workforce, flexibility of the remaining employees is sought and achieved in the two firms investigated after downsizing. Currently, work is flexibly organised along the functional or numerical dimension, and employees are flexibly staffed to take job tasks on production need. Particularly, laid off workers are occasionally re-employed as a personnel buffer against production fluctuations. Here, several forms of flexible working practices can be observed in the two downsizing companies (see Table 7).

Table 7. Summary of flexible working practices achieved in the BG and the WM after downsizing in 1997

<table>
<thead>
<tr>
<th>Flexible working practices</th>
<th>BG</th>
<th>WM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Part time &amp; over time working</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Contingent labour</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Teamwork</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Job enlargement</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Job rotation</td>
<td>+</td>
<td>+</td>
</tr>
</tbody>
</table>
Part-time and overtime working

Although both the studied companies follow five working days per week as required by the Labour Law, part time and overtime working are under wide practice in response to product market fluctuation after downsizing. Often, extra-working hours are required of the existing workers during a production peak, even though an expected extra payment is not ensued as expected. When production turns to a slump as the result of a drop in market demands, less working time (such as half a day working) applies, leading to less wage incomes than usually to employees. Sometimes, idle working time during the business slump period is spared to do cleaning or simple maintenance tasks (such as cleaning machines). This type of work is beyond the scope of the job description, and was undertaken by temporary workers in the past. Here, flexible-working arrangements are dictated by production requirements or market demands. It often goes together with flexible payments based on output-related performance.

In the WM, an interval working shift is introduced to adjust personnel to work task fluctuations after downsizing. This form of flexible work arrangement is mainly practised at the workplaces such as in repair plants, and in assembling plants, where work tasks are contingent on unpredictable demands of clients. If work is performed by a team, whose members' performance is hardly metered individually and separately identified from others, an interval working shift applies among all team members on an equal footing to avoid further streamlining of redundant members. This kind of interval working shift takes turn every half a year or a season, thereby each team member taking a turn for rest and work. Essentially, the interval working-shift turns out to be a kind of part time working practice. It is indicative of more personnel remained than necessary in the workplace that should be laid off from an efficiency perspective.

The internal labour pool as a personnel buffer

As indicated, laid off workers in both the companies were not immediately released to external labour markets\(^{16}\) during downsizing. Instead, they were kept inside and administrated in an internal labour pool in the company’s labour market. In the WM, 500 layoffs were registered with the company’s personnel department and sunk in the internal labour market pool. Layoffs in the internal labour market pool are occasionally used as a personnel buffer working part time against production fluctuations. This has become possible because the downsizing company continues to provide basic living expenses to laid off workers as long as they remain unemployed. In return, layoffs are obliged to

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\(^{16}\) Layoffs from the company’s collective plants are not entitled to entry into the internal labour pool since they were never counted as state employees by their employment status.
offer temporary service to the company as a personnel buffer. The functioning of the internal labour market pool as personnel buffer should be assessed with caution. First, the set-up of internal labour pool was mainly to administer layoffs that could otherwise be released to the labour market in the presence of well-developed social security systems. Second, not all of the layoffs are willing to provide temporary personnel service for their company. Temporary workers are continuously hired from external labour markets (in the case of the WM) to undertake some unexpected tasks or dirty work that is unwillingly taken by layoffs.

**Teamwork**

Teamwork emerges in both the companies as some job tasks are sharing horizontally across prescribed job boundaries after downsizing. Employees are strongly encouraged to take more responsibilities and work in co-operation with their colleagues in a team. To some extent, flexible work practices of this type can be ascribed to change in rewarding systems that embrace incentives for task sharing. Management in both the companies acknowledges that workers are willing to take more work tasks, because more work tasks imply higher income under the performance-related payment system.

**Job enlargement**

Job enlargement is now experimented in certain categories of jobs after downsizing. In the WM, for instance, bench workers or fitters are encouraged to undertake a job of grinders, while in the BG, repair workers take the job of bench workers or fitters. Therefore, job descriptions are no longer narrowly defined as the demarcation line between job boundaries becomes increasingly blurred. A limitation on job enlargement is that most employees lack necessary skills to take up a enlarged job. Such skills require extra training that is often unavailable in the two studied companies after downsizing. Another limitation on job enlargement is that most job enlargement arrangements are overwhelmingly restricted to job-related components, without the empowerment of workers with respect to planning, maintenance, and quality control. Very often, managerial authority is still concentrated in hands of the functional department management.

**Job rotation and internal mobility**

Another significant change in work organisation is that employees are willing to undertake jobs across plants or departments. This job rotation across different functions become possible because most attractive job positions are now open.

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17 The BOLILER-Group plans to train 100 workers to enable them cope with versatility of multi-skills in five years after downsizing.
to employees for competition based on their skills and past performance. For instance, 40 middle managers aged 50 were laid off from their managerial positions in the BG in 1997 that were then open to competition for new staffing from within. Along with job rotation, there is a rise of internal labour mobility across functions and administrative hierarchy. For instance, in the WM, an excellent outperformed worker can be promoted to the plant’s supervisor, and unqualified technical personnel are assigned a production job in plants. This represents a big stride in breaking job ownership that prevailed in work organisations. Most significantly, laid off managers in the BG are willing to take up new jobs in production plants. Obviously, job rotations along a downward mobility across functional departments become acceptable in the downsized companies as long as it is required by production requirements.

In summary, functional and numerical flexibility is sought and, to some extent, achieved among the remaining employees after downsizing. Moreover, additional numerical flexibility is also explored among laid off workers that sunk into the company’s internal labour market pool. As shown above, flexibility remains obviously primitive and, to some extent, is restricted by workers’ insufficient skills. Thus this points to the need of extra training for upgrading employees’ skills.

Intensified work and tightened labour discipline. Along with flexibility at the workplace, work is intensified and labour control tightened. Three work-related results are achieved after downsizing, according to personnel managers interviewed in both the companies. These effects concerns: shirking behaviour, labour discipline, and values regarding work.

First, the phenomenon of work shirking has considerably diminished, as the prevailed ‘one job shared by three while no body taking responsibility’ was effectively eliminated by downsizing. Instead, each employee is given a separate assignment and responsible for the ultimate work results. Intensified work can in part be attributed to flexible compensation that links payments more directly to individuals’ performance after downsizing. It is also partly ascribed to the threat of job-loss pressure suspending on the workers that elicit their commitment to work. The interviewed personnel manager seems very happy with this result, he said: “our employees are striving to compete for more work tasks from their colleagues. Since more work will bring them more bonus payments in a piece rate.”

Second, a significant improvement is recorded in labour disciplines. As compared to the past, employee absenteeism has almost disappeared immediately after downsizing. Instead, all the remaining employees are punctual to work, and the incidence of early leave without a prior notice has become the thing of the past. Particularly, one’s duty negligence caused by his arbitrary absence from the job during the working time is eliminated. As the threat of an another round downsizing is suspending, most of the remaining
employees work under pressure. They recognise that their personal fates are closely linked to the prospect of the company. The personnel manager comments on this change:

Our workers treasure and value their employment positions much more than ever before. They are often told that their employment opportunities were bought out at the expense of their colleagues who now remain unemployed. They know how costly unemployment would be if they had not worked hard. If there is no job tasks for employees, they will turn to learning additional skills that might be required some day in the company.

Third, some obvious changes have occurred in employees’ work values with respect to differentiated rewarding and job choices. Wage differentials are acceptable among employees that reflect differences in individuals’ performance. And workers are willing to perform different job tasks assigned to them, regardless of employment status associated with job tasks. Right now, the entire workforce is called employees, without a distinctive status divide between workers and cadres, which only remains visible in personal files. Most noticeably, laid-off workers start to undertake some jobs that were left to temporary workers in the past. In the BG, temporary workers are no longer hired any more after downsizing. This is a contrast to the WM where hundred temporary workers are employed continuously. Another positive by-product of the downsizing is that most of the employees have stronger wishes for acquiring new skills either via training or by self-learning during spare time.

In short, downsizing enables management to experiment with various forms of flexible practice at the workplace. With flexibility sought by management, work becomes intensified and labour disciplines tightened.

Change in corporate structure and business orientation. Most significantly, downsizing led to restructuring of organizational structure in both the companies investigated. It is observed that the two downsizing companies either re-configurated their corporate structure or re-oriented their business focus or scope, or the combination of the both. Behind the corporate restructuring is the penetration of market pressure into the entire company.

In the BG, the corporate organisation underwent drastic restructuring after downsizing. First, quasi-market price mechanisms were introduced into the corporate internal transactions so that all of the company’s 13 subsidiaries should become financially accountable. Most remarkably, one of the 13 sub-corporations was split off to form a joint venture with foreign investors.

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18 Every Chinese adult has a personal file that records his/her history and administered by the state agencies.

19 Subsequently, the shares of the newly formed joint venture will be listed on Shenzhen Stock Exchange in B share (i.e. in foreign exchange) open to overseas investors.
immediately after downsizing in the early 1998. The joint venture was successfully created largely because: 1) the BG had enjoyed an advantage of its products in environmental protection\(^{20}\), and 2) it had a stock of advanced equipment and machine tools imported from Germany. By forming a joint venture with foreign investors, the BG is entitled to receive preferential treatments of Sino-foreign joint venture policies (e.g. income tax rate levied on joint-venture is as half as that of on the SOE, i.e. 15 per cent as opposed to 33 per cent.

Second, each subsidiary has established a marketing department responsible for getting more market orders on competition. Accordingly, all internal activities are justified for accountability on the market ground. The parent company, i.e. the BG, no longer maintains a marketing department. Instead, a multi-functional management centre has been set up to co-ordinate internal and external transactions of subsidiaries. Subsequently, the remaining departments are accordingly required either to change their functions and orientations or had to be demolished. For instance, the technical and engineering department (staffed with three hundred employees) was enhanced in function by integrating R & D with quality control. Some of R & D activities were contracted out, or jointly undertaken with external experts invited as consultants. A personnel department and a financial management are centralised in the parent company, namely the BG.

Comparatively, the WM failed to launch dramatic corporate restructuring as in the BG during and after downsizing. With persistent losses incurred in operations, the WM reoriented its business strategy toward focus as well as diversification (see Porter, 1985). A focus business strategy was reformulated with the aim of consolidating and refining the core business in machine manufacturing, while externalising auxiliary activities from the main body of the organisation. One noticeable stride with respect to diversification was to enter into the service sector for export and import trading. The move to diversification was based on the WM’s autonomy over export and import granted by the central government since 1987. Such the autonomy over international trading is not common to the majority of manufacturing enterprises in China. With the rights to exports and imports, the WM hopes to spur revenue growth through the access to international markets. Here, the diversification strategy is essentially built on deliberate management efforts to exploit the company’s internal comparative strengths.

Accordingly, the corporate structure was redesigned: First, the core business was separated from the remaining, with the main body of the WM concentrated

\(^{20}\) For instance, its industrial boilers could use sugar stalks as fuel materials, instead of coal. In addition, the products of the BOLILER-Group were designed by Germany, Britain, and Japan and mainly supplied to growing domestic markets.
on machinery manufacturing. Meanwhile, the auxiliary body that mainly comprises trading, plus service facilities (such as company-run kindergarten, employee hospital, canteens, bathing rooms, restaurant and hotels) were all split off and operated as semi-independent accounting entities. Then, all the personnel and staff were realigned with the changed corporate structure through job-skill matching and relocation based on internal competition for available positions. By doing so, the personnel size in each department was streamlined and internal personnel mobility prompted. Obviously, the mixed strategy combining business focus and diversification was pursued in order to avert risks of over concentration in one industry after downsizing. Such action should also be seen as management’ attempts to reverse persistent operational losses of the company in the machinery industry.

Although differing degree of corporate change and orientation in the two studied companies, it is clearly that corporate restructuring was driven mainly by management’s attempt to explore internal comparative strengths that each downsizing company possesses within constraints of business environments. One change common to the both companies is that market pressure has penetrated into the entire corporate organisation; another change is that the use of labour is increasingly flexible and linked to organisational efficiency.

III. Summary and Discussion

The downsizing processes documented in the two companies investigated above clearly share some fundamental characteristics in common (see Table 8). First, both the firms belonged to large-sized manufacturing companies in terms of employment by the Chinese standard. Second, they both were initially set up by the central government in the same city and almost around the same year in the 1950s. Thus, they long operated under the state planning system, and inherited identical institutional legacies from the past. Thirdly, they both were corporatized recently into joint stock companies and exposed to market forces. Yet, the state (or via its agencies) retains the right to dispose of the property while encouraging private actors (e.g. in the BG) to exercise the agency’s rights as shareholders. Fourthly, both firms are currently operating under the increasing market pressure, and no longer enjoy the guaranteed sales channel to domestic clients regulated by state plans. With the state product quota system demolished in the 1990s, they had to seek orders facing competition. From 1992 onward, both the companies adjusted its excess production capacity to their shrinking market shares, and eventually stepped up to downsizing in 1997.

Despite similarities, some salient differences stand out upon a close check. First, the two studied companies had different employment systems during downsizing in 1997(see Table 8). The BG adopted a legally recognised labour contract system that covered 100 percent of the workforce, while the WM implemented an employment-specific labour agreement that lacked a legal
enforcement base when breach occurred. The difference in employment systems implies, as was shown above, different job security or freedom left for employees during downsizing. Although both the types of employment systems marks a departure from the lifetime employment, management’s discretion over

*Table 8. Characteristics of the BG and the WM*

<table>
<thead>
<tr>
<th></th>
<th>BG</th>
<th>WM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age and location</td>
<td>1959, and Wuhan urban centre</td>
<td>1958, and Wuhan urban center</td>
</tr>
<tr>
<td>Ownership &amp; governance</td>
<td>State-owned, and corporatized recently</td>
<td>State-owned, and corporatized recently</td>
</tr>
<tr>
<td></td>
<td>with participation of foreign investors</td>
<td>with state being a majority controller</td>
</tr>
<tr>
<td>Products</td>
<td>Industrial boilers of special types</td>
<td>Heavy machine tools, lathes of various</td>
</tr>
<tr>
<td></td>
<td></td>
<td>sizes</td>
</tr>
<tr>
<td>Sales revenues (1997)</td>
<td>RMB 680 million yuan</td>
<td>RMB 104.42 million yuan</td>
</tr>
<tr>
<td>Profit and tax (1997)</td>
<td>RMB 30 million yuan</td>
<td>RMB -17.14 million yuan</td>
</tr>
<tr>
<td>Product markets</td>
<td>100 percent domestic, with market share of 15-16 %</td>
<td>Mainly domestic, with limited exports to the Middle and South Asia</td>
</tr>
<tr>
<td>Number of employees (1997)</td>
<td>6100 on the payroll, 4900 on working positions</td>
<td>7441 on the payroll, 4600 on jobs</td>
</tr>
<tr>
<td>Labour contract coverage</td>
<td>100 percent coverage, with varying duration</td>
<td>Without individual labour contracts except for a collective one</td>
</tr>
<tr>
<td>Employee income (on Average in 1997)</td>
<td>RMB 9600 yuan for employees on jobs</td>
<td>RMB 6000 yuan for employees on jobs, 3300 yuan on the payroll</td>
</tr>
<tr>
<td>Wage system and Compensation practices</td>
<td>Post, skill, service, bonus, plus subsidies</td>
<td>Post, skill, and service, without bonuses</td>
</tr>
</tbody>
</table>
personnel recruitment and selection is impinged upon by continuity of the government administrative labour assignment.

Second, remuneration differed markedly. Although both the companies adopt a similar post/skill wage system in which job position and individual’s skill carried main weights, the annual incomes per employee in the WM was below two-thirds that of in the BG in 1997 (see Table 8). The lower remuneration level in the WM was attributed to the absence of bonus payments to employees, which was linked to persistent operational losses in the company. In contrast, higher remuneration levels allowed management in the BG to implement internal wage differentials that could be high as RMB 1000 yuan between production workers and non-production workers. In the WM, wage differentials among employees were kept as low as possible because of already lower remuneration on the whole. The top manager interviewed acknowledges that the average annual wage incomes remained unchanged since 1994. Therefore, real incomes of the WM employees were on the decline if considering inflation during that period of time. Accordingly, noticeable difference exists in the compensation of layoffs between the two studied companies, as shown above. In general, layoffs were better compensated in the BG than in the WM, just corresponding to the different wage incomes as rewarded to the remaining employees in both the companies. This was so because the downsizing companies had to compensate layoffs out of its own wage funds that were linked to the firm’s performance. The compensation was particularly lower for vacancy waiters in the WM. As the personnel manager argues in the interview, “when workers on the job could not be rewarded sufficiently, let alone to ask for decent compensation to laid off workers.”

Thirdly, some changes occurred in corporate structures of the two studied companies during and after downsizing. The changes, as revealed above, however, penetrated into the two downsized companies unevenly and differently. While the BG pursued an out-sourcing strategy by seeking a joint venture with foreign investors, the WM adopted an in-ward perspective on exploring its internal comparative advantage by separating its core business from the remaining. In the former case, the entire corporate structure was reconfigured and realigned to some extent after downsizing. In the end there was an enhanced accountability among the subsidiaries, both financially and managerially. For the latter case, namely, the WM, the corporate structure was streamlined and de-coupled, with a complementary body split off the business core. There was no empirical evidence on changes at the level of functional departments.

Despite obvious achievements outlined above, downsizing failed to resolve all the problems confronted the two studied case companies. In the area of human resource management (HRM), downsizing has given rise to new problems, or reinforced existing problems.
One of such problems is the rising labour turnover that leads to the drain of skilled workers from the organisation during and after downsizing. In both the studied companies, the most mobile workers were found among the newly recruited employees who were either young technical personnel, or managerial staff. Comparatively, production workers and administrative staff remained stable. Since voluntary leaves tended to be relatively skilled young employees with a high education attainment, there are certain rules and procedures that govern voluntary leaves in both the companies before and during downsizing. For instance, not all the voluntary leaves were encouraged. Conversely, most of the voluntary leaves were often persuaded to stay with their companies if their skills and expertise is particularly needed in the organisation. Despite this, loss of skilled workers was on the rise. In the WM, for instance, the number of technical employees dropped from 1,100 in 1988 to 403 in 1997. The majority of technical employees left the company just before downsizing started. And most of them took voluntary leaves and found a higher paid job in the private sector. Here, downsizing served as a driving force that pushed away key talented employees out of the organisation. The loss of best people led to the shortage of technicians in the WM. This, in turn, severely affected its product quality and competitiveness.

The same brain drain problem is observed with the early retirement scheme. Particularly, some old employees with specific skills are most likely willing to become early retired. There are two key reasons for unwanted leave: First, the income difference is not more than 25% between those working and those without; second, there might exist attractive employment opportunities elsewhere for them to take up immediately after early retirement. By doing so, they increase their total monthly income. Thus, it is difficult for the company to predict what types of employees will take advantage of an early retirement offer or buy-out package. This means that it is uncertain of what type of relevant knowledge, what organisational memory, and which critical skills will be lost to

\[21\] Voluntary leaves have to pay their individual part for pension premium, and other compulsory funds set by the government. The type of voluntary leaves was called ‘post reservation while stopping wage payment’ by their previously employed organization. Some of the voluntary leaves maintained labour relations with their company in name and paid fees (individual pensions 3%, and housing funds, 5%) for their pensions and housing funds on their individual part. The company paid the remaining majority part (26 % for pensions, 5 % for housing funds). In practice, both the company and employees disclaimed employment obligations to each other. They were called ‘Liang bu zhao” (i.e. employee and employer do not have an obligation to each other). However, the majority of redundant workers at that time stayed with WM.
the organisation when employees leave. In other words, here management faces the problems of adverse selection effects (Baron and Kreps, 1999).

Along with the losses of talented employees is the declining capacity of the downsized company to attract and recruit newly qualified employees from labour markets. This declining ability is particularly pronounced in SOEs because they cannot compete very well for talented personnel on the labour market, due to their lower wage level relative to the private firms. Both the downsized companies acknowledged a declining number of new entrants recently recruited from local universities. Drain of skilled employees, coupled with a declining number of new entrants, poses a threat to the survival of the companies under currently intensified competitive business environment. It also undermines the long prospect of the company’s development. In order to cope with the shortage of skilled employees, the WM, for instance, had to rely on the company-run technical school to meet its technical personnel needs by lowering entry quality.

Another problem, related to first one, is the declining commitment of the downsized companies to training investment. Frequently, the increasing drain of skilled labour, associated with rising labour turnover, encourages the downsized companies to withdraw, rather than to increase its training commitment that is a key to boosting businesses after downsizing. Lack of training opportunities, in turn, pushes more workers to leave the company. This self-enforcing circular process leads to critical acquisition and selection problems. In the two studied companies, both the internal (i.e. in-house) and the external training (i.e. contracted out to local universities) were cutting off for cost-savings after downsizing.

Thirdly, downsizing failed to change management behaviour. As indicated, downsizing was mainly targeted at elderly or poor performing young workers, to less extent to middle managerial personnel (in the case of the WM). It did not touch on the top management team members (including a general manager, Party secretary, and deputy managers) that were all appointed by the government supervisory agencies. Moreover, management performance was subjected only to annual appraisal conducted by the local municipal government’s Organisation Department. From the views of personnel managers, and others interviewed, the top managers remain conservative, lacking of spirit of venturing and innovation after downsizing. In the eyes of personnel manager at one company investigated, top management tends to be more bureaucratic than entrepreneurial. He expressed:

“As a result of downsizing, employees value their employment positions with high commitment and high morale. Management should take this opportunity to make a stride and explore new frontier of the business. However, our top
management is engaged in routine tasks, cultivating good personal relations with the government supervising agency”.

Frequently, internal attrition arises among top management. That is, top managers themselves do not always get well with each other because of difference in their personality and leadership style. Essentially, they are agents of the state (i.e. the principal) with different, most likely conflicting, personal goals and desires that are not often in line with the interest of the company, or vice versa. When conflicts occur, for instance, between the general manager and the Communist Party secretary, nobody may want to yield in and leave room for the other. Most likely then, they apparently stay together peacefully while struggling underground for the control of managerial power. As a strategy, both the general manager and the Party secretary keep silent, not reporting directly to their supervising agency while privately cultivating personal relations with government officials. They fear that any formal report about their coalition attrition might discredit their leadership capacity and personal reputation. What they are most likely to do is to adopt a ‘wait-and-see’ strategy, until the supervising agency discovers that a change of leader composition is indispensable. Under these circumstances, they put aside management tasks that may jeopardise the interest of the company. In the words of the personnel manager interviewed:

What the top managers most wish to see is worsening of the company’s situation. Its collapse or bankruptcy might provide them an opportunity for a new appointment in another comparable organisation at the same hierarchical level or above. What they most unwilling to see is the state of no vigour yet no death at sight in the company.

Clearly, the management appointment and appraisal by the government cannot fully solve the principal-agent impasse under the CMRS. Conversely, it provides a unique fertile soil on which the top managers can cultivate good personal relations with the government supervisory agencies during their term in order to secure a better bureaucratic position after the termination of their contract. In summary, downsizing gives rise to the leakage of human capital from the two downsized companies. The loss of human capital resulted from both the growing labour turnover during (even before, i.e. earlier movers) downsizing and the declining capacity of the organisation to attract new skilled entrants from labour markets after downsizing. In addition, the downsized companies suffer from the increasing loss of organisational memory and competence that disrupts the continuous business process of the firms. On the other hand,

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22 One extreme example is that the general manager often invites local officials to tour abroad financed by the company.
downsizing failed to generate sufficient pressure on the top management for a sustainable efficiency gain commitment. Instead, top managers continue to engage in internal attrition for bureaucratic control or promotion, rather than concentrate more fully in daily management. In other words, top managers enjoy secure managerial jobs, independent of their performance once they possess a privileged bureaucratic position in the state sector.

IV. Concluding remarks

In the transition to market economy, SOEs in general and the two investigated manufacturing enterprises in particular, encountered severe challenges of losing market shares and skilled personnel, due to the increasing competition on domestic markets. Downsizing is for the first time becoming a hammer wielded by management in SOEs as a means of reducing labour costs, improving efficiency and tightening labour discipline. Despite this, downsizing was mainly implemented as a defensive reaction, rather than proactive response to market share decline in the industry, with the government push and support.

As the empirical findings show, and Cameron’s (1994) approach to downsizing allows us to explain, downsizing in the first place substantially reduced the workforce in a very short time. Subsequently, the downsized companies received a quick upturn in their profit revenues. Most significantly, downsizing led to the development of flexible labour practices among the remaining employees, whereby work becomes intensified and strict labour discipline is imposed. Moreover, downsizing gives rise to changes in corporate structure and business orientation. All these achievements could be perceived as positive outcomes associated with downsizing.

What distinguishes the downsizing process in the Chinese state sector from the West, as well as from other transition economies, is that the move to downsizing in the two studied state firms was mainly driven by the government. Second, the state managers adopted the “first-in and first-out” downsizing strategy with elderly workers as a main target category. Thirdly, mass layoffs during downsizing were not directly released to markets. Instead, they were sunk into the company’s internal labour pool and lived on the payment of their companies. It is clearly that the practice of downsizing in the two Chinese state firms was shaped by two factors, the path-dependency of the past institutional legacies and market pressure of the ongoing changes in the business environment.

Despite the achievements of downsizing, the two studied companies are still facing critical challenges. Externally, intensified competition forces state firms to lower cost, and quick respond to market changes, while the underdeveloped social infrastructures (such as unemployment insurance, and pensions), as well as the continuous government intervention in the personnel area, constrains
managerial discretion in the adjustment of the workforce to fluctuations in markets.

Internally, most severe challenges come from the management of human resources in the downsized companies. As observed, the increasing labour turnover, coupled with the declining capability to retain and attract new qualified personnel from external labour markets, led management to reduce its training commitment to employees. This would further push more and more the best employees away when they envisaged less and less promotion and training opportunities in the future. Here, training is obviously becoming an important rewarding component for employees. The availability of training functions as an effective means of attracting and retaining skilled employees, in addition to contribution to their flexibility and competence that is a source of the firm’s competitive advantages.

All of these problems can be largely ascribed to the top management behaviour characterised by bureaucracy instead of entrepreneurship under the changed business environment. Downsizing did not impinge on vested interests of the top managers. Instead, it might enhance top managers’ bargaining power in their negotiation with the government supervisory agencies. Usually, top managers still take directives from above seriously, rather than concentrate on markets and employees’ long-term well-being. In this sense, downsizing provides an opportunity for managers in the state sector to exploit labour flexibility under the authoritarian management regime supported by the state.

From a broad institutional perspective, one might expect that by bringing back market forces in, downsizing breaks up the tale of tripartite-coalition of the government, management, and state workers that has been upheld as the state socialism so long symbolically. Downsizing in the first place marks a withdrawal of the government from the coalition. On the other hand, downsizing represents a new gesture of the government to reform SOEs by pushing state workers to markets. From the management perspective, downsizing is a double-edged knife: repressing labour for the cost-effectiveness while introducing antagonistic labour relations in the workplace. From the workers perspective, downsizing has profound implications beyond job insecurity in the state sector. It has rendered state workers disenchanted from the lifetime employment system in SOEs. Frequently, the unskilled, and elderly employees suffer most from downsizing, whose interests are lacking protection from the company-based unions. Particularly, the expected role of trade unions acting as a countervailing force towards management is purposely curtailed by the state. On the other hand, downsizing triggers off labour mobility. As observed, young skilled workers tend to leave the downsized companies to look for better jobs elsewhere, and their leaves pose a dilemma for the downsized organisations to catch up with their rivals.
Nevertheless, downsizing has posed challenges that are just emerging in society. Not only is such radical labour reform a culturally and politically sensitive area of management, but also the consequence of downsizing that has incurred mass layoffs and unemployment poses a threat to the government and leads traumas to workers. For the government, by pursuing labour market practices it marks a retreat from its past long-lasting commitment to the full employment policy guaranteed to all able workers. This perilous break-up from the orthodox ideology thus stirs up a political debate on the nature of labour, namely, the status of workers, in the socialist country that might further undermine government legitimacy. For ordinary workers, by introducing labour market policies into the enterprise it implies employment insecurity that threatens their stable jobs and incomes. It is not surprise that strong resistance to change arises when workers lost their jobs for the first time in their live (Cheng 1989). The resistance is most latent in SOEs, whose employees are most likely adversely affected and “whose major stakeholders are not always supportive of (and are sometimes outright hostile to) such reforms” (Shenkar, 1991: 1). This calls for more research on downsizing from the workers perspective.

Whatever challenges remain after downsizing, costs are critical for state firms to survive today’s competition first, and then gain a competitive advantage for tomorrow in present China. A long-term prospect for SOEs to catch up their rivalries lies not only in cost effectiveness, but also resides in their organisational capacity to develop human capital, and more importantly, to retain it for a flexible utilisation. However, the persistent drain of human capital revealed in our two downsized state firms has substantially undermined the long-term competitive advantage base of the companies. Downsizing cannot reverse the trend, rather reinforce it.

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Analyzing Competitive Advantages on the Basis of Resource-based View: The Concept of Price and Non-price Factors*

Maja Makovec Brenčič**

In the paper the author analyses the contemporary issues of gaining competitive advantages (CAs) at the firm level. The basic purpose of the paper is to develop theoretical and empirical analysis of non-price (invisible, intangible, non-traditional) factors (sources) of firm competitiveness. In author's opinion non-price factors present the base of vital importance for a successful firm performance nowadays. The paper introduces a research of the selected non-price factors (human resource, knowledge, innovation, quality, environment and location, time) in the Slovenian export manufacturing companies, which showed that the concept of price and non-price factors of CAs can be accepted as a contemporary mechanism of defining sources of CAs at firm level.

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1. Introduction

One of the fundamental questions facing contemporary firms is how to gain and maintain CAs on international markets. Looking back into the works of Penrose (1959), Lippman and Rumelt (1982), Nelson and Winter (1982), Wernerfelt (1984), Barney (1986), Conner (1991), Peteraf (1993) and others, or contemporary resource-advantage theory developed by Hunt (1995a, 1997a, b, c) and Hunt and Morgan (1995, 1996), the resource-based view provides an acceptable framework for developing and defining CAs. The concept of defining resources as tangible and intangible entities that enable a firm to produce products or services which can be successfully implemented on the markets, gives firms a reliable mechanism for understanding which of the many resources are important in terms of gaining CA. Even more, in my opinion resource-advantage theory represents the most acceptable way to define CAs on international markets nowadays. The main reason for this is the importance of intangibles/invisibles - non-price factors - which differentiate the position and implementation of CAs on markets. Non-price factors, based on competencies and skills, are the most important sources of CA of the firm. From this point of view we can define some of the many sources of CA which directly and indirectly influence the position and performance of the firm on international markets. In the paper I divide these sources into six groups: human resource, knowledge, environment and location, time (flexibility), innovation, quality. All factors are interdependent, directly and indirectly influence each other and also the implementation of CA on the markets. Among these factors human resource is the most important, central factor (human resource theory; Pfeffer, 1994 etc.) which influences the effectiveness of all other factors. Each of the factors is defined and measured by several variables based on resource-advantage theory of competition.

It is a well-known fact that today the so-called price factors (as basic factors of production) are spread around more evenly than they used to be (I do not deny that endowments of basic production factors still influence CAs, but with a less direct role than in the past). Nevertheless we all are also aware that non-price factors severely influence the position and implementation of CA of the firm – at present and in the near future the non-price factors are to become even more important in gaining and maintaining advantages than the basic price factors. However, it also holds true that attempts to prove their increasing importance are scarce. The reason for this is not hidden only in the problem of their definition but also in the fact that they are hard to measure, vary enormously and develop constantly. Furthermore, today we do not raise only the question of what CAs consist of but also what competitive advantages actually are. In terms of their definition and measurement there is still no prevailing definition or variable most appropriate for their measurement, which is understandable due to their dynamic development. Probably one of the reasons for this lies in the increasing influence of non-price factors.
All mentioned above presents the main reasons for measuring the influence of the non-price factors on CAs in export firms. I carried out the research in Slovenian export manufacturing firms. The main purpose was to verify the concept of price and non-price factors of CA based on the issues of resource-advantage theory and to measure the influence of the selected non-price factors on the advantages implemented on the international markets. Despite the measurement limits (limited number of variables and factors included in the research, problems of defining the dependent variable (CA) etc.), the research brought some interesting (mostly expected) results and showed that the concept of price and non-price factors of CAs can be accepted as a contemporary mechanism of defining sources of CAs in export firms.

2. Theoretical Background

Despite the constant presence and influence of non-price factors in international business only late 70-ies made their role more visible in the studies of export strategies and competitiveness of firms. The NEDO report 1965 (Hughes, 1993), Piercy (1982), Aldington Report (1985), European Management Forum (1984) etc. started to analyze price and non-price competitiveness of exporting firms. The classical competitiveness studies (cost competition) were upgraded step by step by non-price issues of competition, including marketing intangibles associated with added values of various kinds. The NEDO report for example mentioned non-price variables such as design, quality, delivery, selling, styling, speed, after sales service etc. Even before, in early 70-ies Kravis and Lipsey (1971) in their classic study of international competitiveness came to the conclusion that »relative export prices lost their force in the real marketplace because of the surrounding factors which reduce the impact of price«. Therefore non-price competitiveness became one of the most important ways of gaining success on international markets. This does not mean that price factors have not played an important role in international competition, but much less than in the past. Since products on markets became more and more differentiated (rather than substitutable), customers started to rank product factors such as quality, delivery, timing etc. much higher in competition than the price. Therefore »the distinction between price and non-price competitiveness became basic for the discussion of export strategy« (Piercy, 1982) - and gaining competitive advantage.

In 90-ies and at the turn of the millennium non-price factors have played even more important role than before. Their variety and the dynamic development of new or differentiated non-price factors make them not only hardly recognizable but often inimitable. The influence of trustworthiness, tacit knowledge, other specific knowledge embedded in human resource, flexibility, unofficial information, relationships with suppliers, customers etc. are important factors of export competitiveness. Their role in the contemporary theory of CA can be
best explained with the issues of resource-based view developed by Barney (1991), Conner (1991), Grant (1991), Peteraf (1993), Oliver (1997), and others, especially with the recently developed resource-advantage (R-A) theory of competition (Hunt (1995a,b; 1997a,b,c); Hunt and Morgan (1995, 1999)). The recent (R-A) theory can theoretically ground the concept of non-price factors, because it expands the view of resources and includes all intangible entities in the firm - from specific skills, dynamic (distinctive) capabilities to specific resources. Therefore it does not ground only the theory of relationship marketing (Hunt, 1997a) but it (despite the inward focus) also provides a framework to analyze performance on international markets (Broderick et al., 1998).

Transparent issues of R-A theory can be seen in the following figures, which show the contemporary mechanism of gaining and maintaining CAs, developed by Hunt and Morgan (1995, 1996). Following these issues the concept of price/non-price factors can be in may opinion defined as a modern concept of competitive advantages at the firm level.

*Figure 1: A Schematic of the Resource-advantage Theory of Competition*

Source: Hunt and Morgan, 1996.
The definition of the non-price factors originates in their nature (Itami and Rhoel, 1987; Hall, 1991,1992; Barney, 1991 etc.): majority of them are invisible and intangible; hard to evaluate and accumulate; they are usually rare or specifically developed within the firm or group of firms; inimitable; without real substitute; hardly mobile (or immobile); they are capable of simultaneous multiple uses; they are both inputs and outputs of business activities; they present the base for sustainable CAs. But to become a source of CA they must be valuable or enable creation of value (Fahy, Smithee 1999), otherwise they are not a potential source of advantage (Barney, 1991).

It is extremely difficult to classify or divide these factors in any way. Not only because of their variety but also because of their constant development and dynamic differentiation. Barney (1991) accepts the categorization of resources of the firm as physical capital resources, human capital resources and organizational capital resources; Hall (1992) defines them as resources which are assets (patents, copyright, registered designs etc.) and skills (know-how, culture); Andriani and Hall (1998) speak about regulatory, positional, functional and cultural intangible resources etc. So far no unified or prevailing categorization of the sources of CA has been verified which is understandable.
due to dynamic developments of firm capabilities, skills and constant differentiation of resources. Therefore I categorized non-price factors of CA in six most important groups as shown in the following figure.

3. The Research Framework

After the pilot research and testing of questionnaires the research started in October 1999, when questionnaires were mailed to 321 export manufacturing companies in Slovenia. Manufacturing and exporting were two criteria for the sample frame. (The majority of companies had over 70% of sales in exporting in 1998). With the response rate of 38% (122 questionnaires) at the end of January 2000 the research was completed.

The structure of the respondents by the industry was as follows (see Table 1).

Table 1: The Structure of the Respondent Companies by Industry (Manufacturing)

<table>
<thead>
<tr>
<th>Manufacturing</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food, beverages and tobacco</td>
<td>6</td>
<td>4.92</td>
</tr>
<tr>
<td>Textiles and textile products</td>
<td>22</td>
<td>18.03</td>
</tr>
<tr>
<td>Leather and leather products</td>
<td>4</td>
<td>3.28</td>
</tr>
<tr>
<td>Wood and wood products</td>
<td>4</td>
<td>3.28</td>
</tr>
<tr>
<td>Paper, publishing and printing</td>
<td>6</td>
<td>4.92</td>
</tr>
<tr>
<td>Coke, petroleum, products and nuclear fuel</td>
<td>0</td>
<td>0.00</td>
</tr>
<tr>
<td>Chemicals, products and man-made fibers</td>
<td>10</td>
<td>8.20</td>
</tr>
<tr>
<td>Rubber and plastic products</td>
<td>4</td>
<td>3.28</td>
</tr>
<tr>
<td>Other non-metal, mineral products</td>
<td>4</td>
<td>3.28</td>
</tr>
<tr>
<td>Basic metals and fabricated products</td>
<td>19</td>
<td>15.57</td>
</tr>
<tr>
<td>Machinery and equipment nec.</td>
<td>17</td>
<td>13.93</td>
</tr>
<tr>
<td>Electrical and optical equipment</td>
<td>19</td>
<td>15.57</td>
</tr>
<tr>
<td>Transport equipment</td>
<td>0</td>
<td>0.00</td>
</tr>
<tr>
<td>Other manufacturing</td>
<td>7</td>
<td>5.74</td>
</tr>
<tr>
<td>Total</td>
<td>122</td>
<td>100.00</td>
</tr>
</tbody>
</table>

The questionnaire consisted of nine sections considering factor groups, and two open questions about CAs of firms and their export performance. The majority of questions were measured by Likert scale (1 to 5), answered either by top

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1 Because of relatively low response rate (by number of the respondents) in a certain industry the statistical analysis was made for the whole manufacturing sector and not for a separate industry.
executive in marketing or sales. The basic research question was what (and to what extent) are the influences of the selected price and non-price factors on competitive advantages of export firms. According to this research challenge I developed and tested the following basic research hypotheses:

H1: The price and non-price factors of CAs are interdependent.

H2: The selected non-price factors (human resource, knowledge, quality, environment and location, innovation, time (flexibility) have in this contemporary marketing environment stronger influence on CAs than the price factors.

H3: Non-price and price factors influence CAs separately (as a single factor) and as a group (price and non-price).

3.1. Non-price Factors and Their Measurements
All variables defining a selected factor were developed on the grounds of R-A theory and export competitiveness of a firm. For each of the variable there is either theoretical or empirical test in the literature, which proves its importance or connection to CA theory and export success. With this eclectic approach I combined the factor defining variables in the measurement framework.

The human resource factor was measured through several variables (majority is based on R-A and HR theory): rareness, inimitability, substitutability and immobility of HR in a firm (Prahalad, Hamel, 1990; Barney, 1991; Conner, 1991; Pfeffer, 1994); motivation and goals of HR (commitment to international business) (Buckley et.al, 1988); corporate culture (Barney, 1986, Hall, 1991, 1992; Bharadway et al., 1993); flexibility and adaptation of HR to environment changes (Dyer, 1993; Hall, 1993); capabilities of management (Dierickx, Cool, 1989; Day, Nedungadi, 1994; Mahoney, 1995). Knowledge was measured by the share of tacit knowledge in a firm (Teece, 1998; Andriani, Hall 1998; Dyer in Singh, 1998), by the share of accepted codified knowledge in industry (Teece, 1998; Andriani, Hall, 1998) and by the assessment of the importance of knowledge for product development (Hall, 1993). Innovation was defined by the share of the profit invested in R&D (IMD (Institute for Management Development); WEF (World Economic Forum); Belcher et al., 1996; Shapiro, 1989), by the number of registered patents, trademarks, labels, know-how (Shapiro, 1989; Hall, 1993; Huseman, Goodman, 1999), by the structure of innovation (technological, organizational, managerial etc.) (Zahra, 1999), by the assessment of innovation capabilities in a firm and by the development of formal and informal networking with customers, suppliers and others (relationship marketing theory; Gummesson, 1994; Broderick et al., 1999).
Environment and location (localization) were measured by adaptation to environment obstacles; and by the level of localization of home based capabilities and skills (Porter, Dunning, Teece, 1998). Quality was defined by the quality of the product and its reliability (Hall, 1993; Rao, 1998; Gale, 1994) and by the quality as a constant process within and outside of a firm (Cole et al., 1993; Feigenbaum, 1992/93). Time (flexibility) was defined by the responsiveness of HR to changes (flexibility of HR in a firm); and by the time reagibility of all the processes in a firm (Vives, 1990; Glazer, 1991 etc.).

3.2. Price Factors and Their Measurements
Price-factors (production factors: labor, capital, land) were selected and defined on the grounds of long prevailing cost competitiveness theory (Kravis, Lipsey, 1971; Balassa, 1985; Tyson 1984; Thurow, 1992 etc.). All three factors were measured in their relative sense – by the comparison of the costs of their major competitors on the most important market.

3.3. Dependent Variable = Competitive Advantage (CA)
The limitations referring to selected factors and their variables were not the only ones. Even bigger challenge represents a definition of CA – how can we define it as a dependent variable. According to prevailing export theories and R-A theory I defined CA as a dependent variable with three variables:
- By the share of exports in total sales (Kravis and Lipsey, 1992; Aaby and Slater, 1989 etc.);
- By the market share on the most important market (Buckley et al., 1988; Diamantopoulos, 1999 etc.); and
- By the return on equity (ROE) (R-A theory).

4. Results of the Statistical Analysis
The analysis brought some interesting results.
Firstly, positive and statistically significant correlation between separate non-price (knowledge, innovation etc.) and price factors showed their dependency and their unconditional linkage (see Table 2). Only in the case of correlation between LO/LC, LO/HR, LO/TI and TI/PP we cannot find statistically significant dependency². All correlations are thus positive and the majority is

² According to the statistic results location was among all factors the most difficult to evaluate and shows some discrepancies in their understanding and meaning - despite the fact that pilot testing did not show any problems in the evaluation of this particular factor.
also statistically significant. This means that we can accept the first research hypothesis (H1) and define the interdependency among selected price and non-price factors.

Table 2: Correlation between Price and Non-price Factors

<table>
<thead>
<tr>
<th></th>
<th>KN</th>
<th>HR</th>
<th>IN</th>
<th>QY</th>
<th>TI</th>
<th>EN</th>
<th>PP</th>
<th>CC</th>
<th>LO</th>
<th>LC</th>
</tr>
</thead>
<tbody>
<tr>
<td>KN</td>
<td>1.000</td>
<td>.651</td>
<td>.672</td>
<td>.483</td>
<td>.121</td>
<td>.227</td>
<td>.269</td>
<td>.319</td>
<td>.086</td>
<td>.367</td>
</tr>
<tr>
<td>P*</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
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<td>P*</td>
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</tr>
</tbody>
</table>

*Sig. 2-tailed; P ≤ 0.05

Non-price factors: KN-knowledge; HR-human resource; IN-innovation; QY-quality; TI-time; EN-environment; LO-location. Price factors: CC-capital costs; LC-labor costs, PP-price of the product.

Secondly, the statistical analysis also proved that non-price and price factors influence CAs in all three cases of the selected dependent variables (see Table

\[\text{PP is here defined as a price factor to control the understanding of price vs. non-price issues of competitiveness.}\]
3). I could not weight the contribution of price or non-price factors directly, because of the lack of some variable data. However, the analysis proved that:

- The firms, which evaluated non-price factors above and price factors below the average, gain higher CAs on international markets (see Table 4 a, b, c; arithmetic mean comparison).

- All correlations between non-price factors and dependent variables are positive whereas the correlations between price factors and dependent variables are negative or none (see Table 3). But we can only accept statistically significant correlation between knowledge and export share. All other correlations were statistically insignificant.

- According to open question (“Quote your most important source of CA in a firm?”) the quality of the product was ranked before the price of the product in 86 % of the cases.

All these results show that H2 can be accepted although we cannot directly measure the influence weight of the non-price or price factor group to CAs.

Table 3: Correlation between Price and Non-price Factors and Dependent Variables (CA)

<table>
<thead>
<tr>
<th></th>
<th>KN</th>
<th>HR</th>
<th>IN</th>
<th>QY</th>
<th>TI</th>
<th>EN</th>
<th>PP</th>
<th>CC</th>
<th>LO</th>
<th>LC</th>
</tr>
</thead>
<tbody>
<tr>
<td>EXPORT 98</td>
<td>r</td>
<td>.172</td>
<td>.088</td>
<td>.144</td>
<td>.140</td>
<td>.071</td>
<td>.125</td>
<td>-.140</td>
<td>-.039</td>
<td>.097</td>
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<tr>
<td></td>
<td>P</td>
<td>.031</td>
<td>.169</td>
<td>.058</td>
<td>.064</td>
<td>.219</td>
<td>.088</td>
<td>.064</td>
<td>.338</td>
<td>.147</td>
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<tr>
<td>ROE</td>
<td>r</td>
<td>.138</td>
<td>.233</td>
<td>.135</td>
<td>.223</td>
<td>.142</td>
<td>.171</td>
<td>-.045</td>
<td>.117</td>
<td>.029</td>
</tr>
<tr>
<td></td>
<td>P</td>
<td>.068</td>
<td>.055</td>
<td>.073</td>
<td>.007</td>
<td>.063</td>
<td>.033</td>
<td>.314</td>
<td>.104</td>
<td>.377</td>
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<tr>
<td>MARKET SHARE</td>
<td>r</td>
<td>.110</td>
<td>.118</td>
<td>.073</td>
<td>.271</td>
<td>.129</td>
<td>.110</td>
<td>-.025</td>
<td>-.064</td>
<td>.135</td>
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<td></td>
<td>P</td>
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<td>.139</td>
<td>.250</td>
<td>.005</td>
<td>.116</td>
<td>.158</td>
<td>.408</td>
<td>.278</td>
<td>.107</td>
</tr>
</tbody>
</table>

P – Sig. 1-tailed; P ≤ 0.05; r – correlation coefficient; ROE – return on equity; MARKET SHARE – market share for major product group on the most important market; EXPORT 98 – the share of exports in total sales; all data for 1998
Table 4a: The Importance of Price and Non-price Factors According to the
Export Share

<table>
<thead>
<tr>
<th>GROUP</th>
<th>KN</th>
<th>HR</th>
<th>IN</th>
<th>QY</th>
<th>TI</th>
<th>EN</th>
<th>PP</th>
<th>CC</th>
<th>LO</th>
<th>LC</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.00</td>
<td>5.3158</td>
<td>4.8947</td>
<td>4.4737</td>
<td>6.2105</td>
<td>5.8421</td>
<td>3.2105</td>
<td>6.1579</td>
<td>4.8947</td>
<td>3.5789</td>
<td>5.5789</td>
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<tr>
<td>2.00</td>
<td>5.6977</td>
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<td>4.9302</td>
<td>5.9535</td>
<td>6.0698</td>
<td>4.3023</td>
<td>5.9535</td>
<td>4.6047</td>
<td>4.1328</td>
<td>5.4186</td>
</tr>
<tr>
<td>3.00</td>
<td>5.9298</td>
<td>5.3966</td>
<td>5.1207</td>
<td>6.3621</td>
<td>6.2241</td>
<td>4.2857</td>
<td>5.8276</td>
<td>4.5614</td>
<td>4.1679</td>
<td>5.1552</td>
</tr>
</tbody>
</table>

Groups:
1. Export share 0-40 % (of total sales in 1998)
2. Export share 41-70 % (of total sales in 1998)
3. Export share 71-100 % (of total sales in 1998)

Table 4b: The Importance of Price and Non-price Factors According to the
Return on Equity

<table>
<thead>
<tr>
<th>GROUP</th>
<th>KN</th>
<th>HR</th>
<th>IN</th>
<th>QY</th>
<th>TI</th>
<th>EN</th>
<th>PP</th>
<th>CC</th>
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<td>3.5500</td>
<td>5.9500</td>
<td>4.6875</td>
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<tr>
<td>2.00</td>
<td>5.8519</td>
<td>5.4198</td>
<td>5.1235</td>
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<td>6.2099</td>
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<td>5.8889</td>
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<td>4.1605</td>
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</table>

1 - Firms with ROE below the average in the industry
2 - Firms with ROE above the average in the industry

Table 4c: The Importance of Price and Non-price Factors According to the
Market Share

<table>
<thead>
<tr>
<th>GROUP</th>
<th>KN</th>
<th>HR</th>
<th>IN</th>
<th>QY</th>
<th>TI</th>
<th>EN</th>
<th>PP</th>
<th>CC</th>
<th>LO</th>
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<td>4.6250</td>
<td>4.2250</td>
<td>5.3000</td>
</tr>
</tbody>
</table>

1. Firms with the market share below the average share on the most important
market (in the industry or product group)
2. Firms with the market share above the average share on the most important
market (in the industry or product group)

Thirdly, I developed a factor analysis (PAF method; OBLIMIN rotation). Five
non-price factors out of all non-price variables were defined (they account for
58.4 % of the total variability): innovation/time (flexibility); knowledge; quality; location and human resource (see Table 5). The latter (indirectly) proves the understanding of non-price factors as the sources of CAs in firms; all the factors defined by factor analysis (with the exception of location and export share/ factor 1) show positive and statistically significant correlation between CAs (see Table 6). Again further analysis showed that companies which evaluate the factors (non-price factors) above average, realize higher CAs on international markets. This again proves the acceptance of H2. On the other hand the multiple regression analysis did not bring the expected results – the influence on CAs can be proved only for two out of five factors defined by factor analysis (factor 1 (innovation/flexibility) and 2 (knowledge)) (see Table 7). The reason for such a result can be hidden in the dependency of the variables of the non-price factors. Some variables cannot influence only one factor, but also several other non-price factors.

Also we cannot deny the influence of separate factors on CAs nor their group influence (price/non-price) (see also Table 2, 4 a-c). According to this fact H3 can be also accepted.

Among interesting results of the analysis was also the fact that 81 % of the companies claimed that their CAs are sustainable, which shows surprisingly high level of understanding of CAs in firms.
<table>
<thead>
<tr>
<th>Variables of non-price factors</th>
<th>Communalities</th>
<th>Factor 1 IN/TI (Flex)</th>
<th>Factor 2 KN</th>
<th>Factor 3 QY</th>
<th>Factor 4 LO</th>
<th>Factor 5 HR</th>
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<tr>
<td>Rareness&lt;sup&gt;4&lt;/sup&gt;</td>
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<td>.085</td>
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<td>-.024</td>
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<tr>
<td>Inimitability of HR</td>
<td>.170</td>
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<td>.860</td>
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<td>-.003</td>
<td>.053</td>
<td>.012</td>
<td>.788</td>
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<td>.396</td>
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<td>.026</td>
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<td>.620</td>
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<td>Substitutability of HR</td>
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<td>-.032</td>
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<td>.011</td>
<td>.011</td>
<td>.551</td>
<td>.016</td>
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<td>.358</td>
<td>-.063</td>
<td>.793</td>
<td>-.169</td>
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<td>-.047</td>
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<td>-.072</td>
<td>.015</td>
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<tr>
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<td>.081</td>
<td>.974</td>
<td>-.010</td>
<td>-.058</td>
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<td>.254</td>
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<td>.151</td>
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<td>.153</td>
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<td>.212</td>
<td>-.039</td>
<td>.130</td>
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<td>.530</td>
<td>.157</td>
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<td>.139</td>
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<td>-.062</td>
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<sup>4</sup> The variable *rareness* was excluded from the analysis, because of low weight and undefined allocation on factors.
Table 6: Correlations Between Factors (of Factor Analysis) and Dependent Variables

<table>
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<tr>
<th></th>
<th>Factor 1</th>
<th>Factor 2</th>
<th>Factor 3</th>
<th>Factor 4</th>
<th>Factor 5</th>
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</tr>
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<td>r</td>
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<td>.348</td>
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<td>P</td>
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<td>.000</td>
<td>.019</td>
<td>.391</td>
</tr>
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<td>r</td>
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<td>-.024</td>
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<td></td>
<td>P</td>
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<td>.000</td>
<td>.009</td>
<td>.402</td>
</tr>
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<td>Market Share</td>
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<td>.244</td>
<td>.234</td>
<td>.009</td>
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<td></td>
<td>P</td>
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<td>.012</td>
<td>.016</td>
<td>.469</td>
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</tbody>
</table>

Sig. 1-tailed; \( P \leq 0.05 \)

Table 7: The Results of the Multiple Regression Analysis

<table>
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<th>Constant</th>
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<th>Factor 3</th>
<th>Factor 4</th>
<th>Factor 5</th>
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</tr>
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<td></td>
<td></td>
<td>P</td>
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<td>.003</td>
<td>.465</td>
<td>.949</td>
<td>.116</td>
</tr>
<tr>
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<td>b₁</td>
<td>0.051</td>
<td>0.051</td>
<td>0.017</td>
<td>-.002</td>
<td>-.007</td>
</tr>
<tr>
<td></td>
<td></td>
<td>P</td>
<td>0.027</td>
<td>.016</td>
<td>.368</td>
<td>.919</td>
<td>.761</td>
</tr>
<tr>
<td>Market Share</td>
<td>24.074</td>
<td>b₁</td>
<td>2.435</td>
<td>3.139</td>
<td>2.699</td>
<td>.498</td>
<td>2.102</td>
</tr>
<tr>
<td></td>
<td></td>
<td>P</td>
<td>.457</td>
<td>.283</td>
<td>.338</td>
<td>.854</td>
<td>.548</td>
</tr>
</tbody>
</table>

Sig. 1-tailed; \( P \leq 0.05 \); \( b₁ \)- partial regression coefficient

5. Conclusion

The explanation of the most important results of the research leads us to some important conclusions about gaining CAs on international markets. Firstly, the concept of price and non-price sources of CAs is a sensible and acceptable mechanism for development of CAs in exporting firms. Secondly, the empirical analysis showed that firms differentiate between price and non-price factors of competitiveness which makes the concept and its issues theoretically and empirically acceptable. This also means that R-A theory of competition gives rational contemporary base for the definition of CA sources. For example, for Slovenian export manufacturing firms turned out that those firms which understand the meaning of non-price factors and invest and develop them gain higher CA; better position and performance on international markets; and therefore better export results. This gives us a good reason to accept the concept of price and non-price factors as an up-to-date concept of gaining advantages in export companies. Also we can say that both price and non-price factors
contribute to CA on international markets, while according to the research we can prove that non-price factors play a major role in their gaining.

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Analyzing Competitive Advantages on the Basis of the Research-Based View


Analyzing Competitive Advantages on the Basis of the Research-Based View


The excellent series "Economies and Societies in Transition" continues with a major contribution to the analysis of dramatic transformations taking place in the latest decade, in post-communist countries, that of Ole Nørgaard.

His book’s basic ambition is to explain the causal relations between democratization and economic institutions change in these countries. The explanatory approach of the study starts from two questions. The first one is why some, but not other countries have been able to establish economic institutions that are conductive to economic growth, welfare and consolidation of democracy? The second question is why some countries were better and faster in disentangling economically dysfunctional institutions and replacing them with those of a market economy, stimulating for growth, welfare and democracy consolidation? The initial answers to these questions became the two major assumptions of the book. The first assumption is that economic institutions determine economic growth and welfare, but politics mediates this determination. The second one is that even though the market economy is the most efficient economic order so far invented, its performance is also determined by politics (there is no market economy, in general).

In the core of his study, Ole Nørgaard places the economic institutions' changes. These changes are seen as interweaving with two associated outcomes of the reform: economic growth and welfare on one hand and democracy, on the other hand. This is in fact, the basic explanatory model of the entire study. This model is detailed at two analytical levels: the first one focuses on the structural variables exogenous to the reform process (the initial conditions and the external environment) and the second, on the reform strategy.

As the author repeatedly says, the mentioned explanatory model has the ambition of being applicable to all democratic systems, East and West, North and South. 20 post-communist countries, not tormented by war and divided in three zones (countries belonging to the former Soviet Union and Mongolia; the Baltic states; Central and Eastern Europe countries) were selected as empirical base of the study. The reasons of selecting them are the following: 1) all pass a "natural experiment", unique for the social sciences; 2) prove to confront the same constrains and dilemmas as other countries with emergent democracies and markets (from Eastern Asia, Latin America and Africa) and 3) are strongly
differentiated through initial conditions and external variables of their institutional change.

The book’s structure is designed in such a way that serves the mentioned methodological framework. The eight chapters’ content is shortly presented bellow.

The first chapter, “Emerging Democracies and the Market” is dedicated to the study’s basic assumptions, goals and definitions. The main conclusion of this chapter is that the success of a country’s economic development does not depend so much on its global resources (as the standard textbooks argue), but on its institutional infrastructures that favor production (over corruption). Thus, the author sets in the core of his approach, the paradigm of institutional change.

The second chapter, “Finding the building blocks and Draft Designs” exposes the basic concepts and definitions, the research design that guided the subsequent search for causal models. If the institutional change is the basis of a society’s development success, then, logically, the author considers institutions as the rules of the game in a society. Starting from this, he develops the conceptual building blocks of the answers to the two questions concerning the differences in economic institutions’ change in 20 post-communist countries. These concepts reflect the system of economic institutions change determinants: the initial conditions, external environment and affiliated political interest and actors; the opportunity space following the demise of the old regime; political institutions and state capacities; the reform outcomes. In explaining the system of these determinants, the author employs the comparative method, using the fundamental hypothesis that the intra-system relationship between variables is identical across the “most different systems” and that the generated partial theories hold universal value across time and space. In other words, the specific development patterns can be drawn from other cases across time and space. The focus of this approach is on nomothetic variables, assumed to be universally valid in time and space.

Chapter three, “The Research Agenda: Old Ideas in New Bottles” identifies the alternative approaches of the issue under study. The basic concept of this chapter is transitology. Transitology is perceived as a result of intersection between post-sovietology, development studies, political theory and economic theory. The author describes the ways of approaching the institutional change in post-communist countries in these theories. Post-communist transition differs from other major shifts from one type of society to another one at least through the following properties: 1) is a total transformation of all aspects of society; 2) demands simultaneous democratization and marketization; 3) it is nonviolent. Through a synthesis of alternative approaches employed by the three types of capitalism when changing economic and political institutions (Anglo-Saxon, West European and East Asian) the author offers a guide of strategic options for
post-communist countries’ reformers. The reform’s main dilemmas are still the following: “Shock therapy or gradualism?” and “Competition (between elites) or participation”? The issues related to the reform’s scope, phasing and pace get specific solutions, based upon the answers to these dilemmas.

In the forth chapter, the “Institutional Strategies and their Outcomes” are analyzed. Institutional strategies are defined as choices related to the institutional reform’s scope, phasing and pace. A strategy’s success is measured mainly through its capacity of generating changes with minimum of social costs. The issue of measurement is essential in this chapter. The designs an excellent apparatus, measuring “the transition indices” used by EBRD and World Bank. Based upon these indices the post-communist countries are divided in four echelons. Most of them are moving forward, but with different phasing, scope and pace. The scope and pace of the reforms largely meet the theoretical expectations, according to which stabilization and liberalization (phasing) are primarily associated with fast pace and with comprehensive institutional changes. The reform costs analysis (inflation, decrease of GDP, increase in poverty and in inequality) led to three causal models. When dealing with institutional strategies, these models take into account: 1) the social costs; 2) elites interests; 3) the correlation between elites interests and social costs.

The fifth chapter, “Context or Institutional Strategies: The Role of First Order Initial Conditions”, describes the context of institutional strategies from the “first order initial conditions” perspective. Shortly, these are the structural legacies of the incumbent socialist system that differentiated post-communist countries in the process of institutional change. The author identifies two structural factors coming from the socialist pattern of development: “distortion” (change constrains) and “modernization’ (change opportunities). They are measured with nine variables. After processing the data about these variables, the author describes four “clusters” of countries, having different levels of distortion and, respectively, modernization. Then the two factors are used as independent variables in order to predict the reform pace and scope inflation, GDP and poverty.

Chapter six approaches the “Transcending the Structural Constrains of Socialism”. The author explains why some countries were granted better opportunities that enabled them to transcend the structural constrains of socialism, while others failed to avail themselves of opportunities provided by favorable initial conditions. The goal of this chapter is to discover the resources that increase the countries’ opportunities to overcome the structural constrains embedded in their initial conditions. These resources were found when analyzing the 1) dynamics of civil society’s institutions and popular mobilization; 2) elite continuity and 3)-democracy and liberalism.

In the seventh chapter, “The Agents of Institutional Change” are analyzed. Overachievers are compared with underachievers for the purpose of explaining
why some countries have been able to change their economic institutions more than predicted, while others have not. In the case of overachievers the success was a consequence of a specific combination of factors, such as: previous statehood, contagion of ideas from a close neighbor, the existence of a change team and the vision of UE membership.

The eighth chapter, “Emerging Markets – and Democracy” turns back to the basic concepts of the book, this time having the context understood. Essentially two issues are analyzed: 1) the impact of alternative strategies on democracy’s consolidation and 2) the study’s conclusions applicability on other regions and types of transitions. Post-communist transition is an extreme form of changes happened in other regions and regimes. Three main lessons could be learned from it: 1) The economic and social costs generated by the first order initial conditions in conjunction with institutional strategies constrain the actors options for institutional strategies. 2) Fast and comprehensive reforms are followed by economic growth and poverty decline only in the presence of democratic conditions. 3) The most important lesson of the study is that there is no a universally applicable pattern of economic reforms. The dual goal of democracy and market asks for taking into account the specificity of the major effects of economic reform in each country on democracy.

The book ends with the issue of further research need. The author shows he omitted some factors influencing the capacity of institutional change and which are on his agenda for future research. In our view, the most important of them is the social capital of each country.

From a theoretical perspective, Ole Nørgaard’s book is a major contribution to development of transitology in general, of post-communist one, in particular. From a pragmatic perspective, it is an essential and challenging lecture for political scientists and politicians, economists, sociologists, civic actors, public servants and officials from international institutions. If all of those involved in the battle for democracy will read this book, the democracy will be less threatened. Through his study, Ole Nørgaard is a great defender of democracy.

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Die wissenschaftliche Begeisterung für die Entwicklung im Osten Europas ist vorüber. Nüchterne Analysen haben wieder die Oberhand gegenüber postulativen Einschätzungen gewonnen.


Ein knapper, grundlegender Artikel von den Herausgebern leitet den Band ein. „Organizing Diversity: Evolutionary Theory, Network Analysis, and Post-socialism“. Er weist die eindimensionale Sichtweise auf die Erbschaften zurück, derzufolge diese lediglich als den notwendigen Transformationsprozess obstruierende Elemente zu betrachten sind. „Instead we aim to highlight the dual potential of legacies to block and to support transformation“ (6). Vielfält statt Suche nach ‚one-best-way-Lösungen‘ produziere bessere Adaptionen an den rapiden Wandel, so die Autoren.

Dem programmatisch gehaltenen Einleitungskapitel folgen dann drei eher allgemeine Kapitel von David Stark, „Recombinant Property in East European Capitalism“, von Gerald A. Mc Dermott, „Renegotiating the Ties that Bind. The Limits of Privatization in the Czech Republic“ und Gernot Grabher, „Adaptation at the Cost of Adaptability? Restructuring the Eastern German Regional Economy“.

Dann wird in empirisch sehr gehaltvollen Kapiteln über neue Unternehmensformationen in Rußland, in Ungarn (2), in Polen, der tschechischen Republik und in Ostdeutschland berichtet. Dabei werden die Vielfalt der organisatorischen Formen und deren unterschiedliche Antworten auf unterschiedliche Umweltkontexte herausgearbeitet, wird der Einbettung der Formen in lokale und regionale Kontexte nachgegangen. Die räumliche Referenz ist dabei in der Regel die jeweilige nationale Ökonomie.

Kapitel über die politische Steuerung der Transformation bilden den dritten Teil des Buches. In ihm charakterisiert Peter Rutland die Antinomien der
osteuropäischen Privatisierung, behandelt Wolfgang Seibel die Treuhandanstalt als staatlichen Steuerungsversuch der ostdeutschen Restrukturierung und berichten Chris Pickvance und Hellmut Wollmann über die Transformation lokaler Verwaltungen.

Insgesamt handelt es sich um ein nütliches Buch für die Spezialisten der Transformationsforschung, das einige über den Zeitpunkt seiner Entstehung hinausweisende Einsichten enthält und folglich nicht so schnell veralten dürfte, wie viele andere empirisch orientierte Momentaufnahmen zur mittel- und osteuropäischen Transformation.

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News / Information

Commercial and Non-Commercial Sectors in Russia: Looking for Collaboration – A Research Note

Peculiarities of Russian social policy of the transitional period are caused by many factors influencing on success of carrying out socio-economic reforms. These are the following.

First. In Russia today system of mutual relation between various objects and subjects of social policy is not formed yet: in the Russian society at the end of 1990s many important socio-economic processes connected to social adaptation of all groups of the population to carrying out economic reforms, to opportunity of transferring individuals and whole groups from one social layer, social group to another with minimal losses, are not institutionalized;

Second. Society preserved significant social rudiments of previous socio-economic formation, which continue to influence present situation in the country and, as a whole, course of socio-economic reforms. The fact of preservation and continuity of certain social institutes formed by state bodies within the framework of paternalistic model of social policy, interaction of these structures with “ward” groups of the population is undoubtedly positive factor of the society development. It adds some stability, healthy conservatism to social development. However it is necessary to understand that under absolutely new economic conditions the continuing interaction between subjects and objects of social policy should accept new forms, should be estimated by new criteria, should put other aims and solve other, rather than at the previous stages of socio-economic development, tasks.

Third. During the last years of economic reforms number of categories of the population already formed the feeling of social responsibility promoting achievement of self-maintenance by the majority of low income groups of people and self-maintenance plus responsibility for solving wider circle of social problems by middle and high income groups of people.

At the same time Russian social policy, we believe, up to the present moment continues to be mainly based on paternalistic principle with regard to many different groups of people, and not just socially vulnerable, unable to self-maintain. Thus, not only the population still treats the state as a source of addressless social guarantees, but also the state continues to carry out redistribution processes without considering real characteristics of financial situation of people. There is a significant overexpenditure of budget means for maintenance of middle and upper class people’s standard of living,
unreasonable granting of privileges to groups of the population who in fact do not have actual rights to apply for such support of the state.¹

Fourth. Absence in the Russian society of interaction between different groups of people, between structures, sectors while solving essential social problems. During the time of Soviet Union the state was solving most of the social problems basing on principles of etatism, that is putting all social sphere, its resources and responsibility for social maintenance of all categories of the Soviet citizens under governmental control. However being a totalitarian country, the state was not interested in real attraction of wide layers of the population to self-management, to active creative public activity. Totalitarian state was afraid of occurrence of real social organization of people, fairly believing that being self-organized on the basis of solving certain social problems, the public can transfer its activity into political sphere.

Thus formation of mechanisms of effective interaction between all sectors of economy in solving social problems, creation of adequate economic and legal base of formation of new subjects of social policy in modern Russia are seeing as important ones. In this connection development and introduction of mechanisms of regulation of activity of commercial and non-commercial sectors aimed at stimulation of their activity as subjects of social policy becomes especially urgent.

Main ways of regulation of participation of NGOs in solving social tasks are first of all those that concern the development of normative base of their activity. It is on the basis of normative base the status of NGOs, framework and forms of activity, possible mechanisms of cooperation with various state institutes (bodies of authority, official bodies and organizations, financial and supervising structures), other subjects of social policy are defined.

Legal mechanism is the most important tool of activization of activity of the whole social sphere, including NGOs. In absence of an appropriate legislative base NGOs cannot conduct effective activity, cannot adequately carry out functions of one of the subjects of social policy, cannot fully realize opportunities of partnership relations with state structures, can not productively cooperate with commercial sector, their international contacts are complicated etc.

¹ According to Russian legislation, two thirds of population of the country has a right to receive social payments and privileges. In Russia there are about 150 kinds of social payments, privileges, grants, budget subsidies working for more than 200 various categories of population (veterans, children, invalids, students etc.). Percentage of people having right to receipt social guarantees, privileges and payments is about 68 %, that means almost 100 millions people can apply and they do apply for them, and most of the privileges are given on categorial principle. Extensive net of social payments and privileges which has been formed within former system, during the time of reforms was complemented by new categorial privileges and privileges given in separate regions to various categories of population.
On the initial stage of revival of NGOs in Russia\(^2\) (first similar structures begin to occur in the second part of 1980s) process of institutionalization of this sector proceeded in conditions of complete legal mess, when there was no special legislative document regulating their activity. Thus establishment of non-commercial sector in our country went in parallel with formation of legal field of its activity. Today it is possible to speak about quite detailed development of the given legal field, however still number of questions requires some to be solved. For example, regulation of activity of sponsors and charitable donators, coordination of legal rules of regional and federal legislative documents etc.

Second tool that is available for state bodies is a financial mechanism of functioning of organizations and establishments of the third sector. The financial mechanism of stimulation by the state of activity of NGOs in Russia is realized in two basic forms:

1. Direct receipt of financial or other resources given from budgets of various levels to organizations of the third sector for solving tasks of regional social policy;

2. Granting various financial privileges to both organizations of the third sector and commercial structures participating in financing of non-profit organizations.

It is possible to say that in Russia the financial mechanism of stimulation of activization of activity of the third sector exists, however requires significant updating and perfection. In particular, we believe, that updating of mechanism of financing of social projects and programs used in foreign practice should be used but with an indispensable condition of adaptation to the Russian realities, in particular, practice of social orders.

Third group of tools for stimulation of NGOs activity is non-financial levers of activization of non-commercial sector (conditionally can be named as organizational or marketing tools).

First form of these tools is the inclusion of NGOs in the system of monitoring of activity of commercial and state structures, of quality of goods and services produced by them. In this connection it is necessary:

Expansion of rights of organizations of the third sector to represent interests of consumers mentioned by law of Russian Federation “About protection of rights of consumers” about explanation to consumers their rights and ways of solving conflicts, about participation in development of requirements to safety of goods (works, services), about check of observance of rules of trade and about

\(^2\) Here we talk about revival of NGOs in Russia, not about occurrence of these organizations in 1980s of the XXth century, because in pre-revolutionary Russia (especially in the end of XIXth – beginning of XXth centuries) system of public charitable establishments was already created and actively functioned.
realization of an independent expert appraisal. For Russia question of formation of an adequate attitude towards protection of rights of consumers is quite crucial;

Inclusion of representatives of the third sector into structure of commissions estimating and approving social projects, financed from the budget;

Granting NGOs right to participate in certification of services; opportunity to create associations and associations for such purposes.

Second form in a line of organizational tools available for the state is attraction of NGOs to large marketing actions in sphere of culture, tourism, sports etc. State bodies in this connection can:

Include NGOs, most actively participating in formation of positive image of city, region etc. into appropriate projects and programs financed at the expense of the budget;

More actively develop systems of competitive revealing of the most worthy applicants for realization of city’s and regional projects (this system can work both within the framework of a social order and outside of it);

To realization of large marketing actions (organization of anniversaries, festivals, sports competitions) is expedient to involve volunteers, who are easier and better to look for among members of NGOs.

Examined here ways and particular tools of activity of the state on more active involving of NGOs into solving social problems in Russia requires further study within the framework of general strengthening of bases of state regulation of social sphere.

New way of attraction of sponsor's means for society’s social problems solving

Use of sponsorship as an additional tool of redistribution processes in the Russian society requires some modification of governmental management structure.

Basic scheme of this activity in Russia, we believe, could look as follows. The state, first of all its bodies of management of subjects of the Federation and municipal bodies of authority, for solving certain social problems and

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4 For example, within a framework of St.-Petersburg program “Culture and children” in 1999 eight organizations solving various tasks are being financed at the expense of the city budget. Total sum of budget means is 2 200 thousand rubles. NGO “ Union of creative museum workers of St.-Petersburg”, which carries out a project “Museums – to children” within the framework of a city program (50 thousand rubles were given for this project), is also included into the financing plan.
realization of socially important measures should more actively carry out competitions between governmental and non-governmental organizations and establishments, public organizations, charitable funds for getting social orders and performing measures within the framework of this orders. Carrying out these days competitions on placing city and municipal orders are financed only from the budget, that is today competition is a mechanism of realization of programs of social policy working without trying to attract sponsors, that does not any more answer economic realities of Russian Federation.

Distribution of means of sponsors within the framework of a social order should be oriented on solving the most urgent local, city, regional tasks. Important is the development of procedure of realization of competition (tender) which, from our point of view, should include the following measures:

Definition on a basis of an expert estimation of the most essential and urgent social tasks of an area or separate social group of the population;

Choice of organization (any organizational-legal form), offering the best way of solving the most urgent problems. Definition of such organization is carried out on a basis of expert opinions on quality of offered services, on profitability of its production and on degree of adequacy of the offered decision;

Development of a system of privileges for sponsors involved in financing of the offered project. Representatives of bodies of authority and expert representatives of NGOs take part in realization of this group of measures;

Organizations of wide notification of potential sponsors about an opportunity of participation in realization of a social program which has received approval from a commission of experts, about an opportunity of financing a project and about privileges given to sponsors. For this block of measures bodies of management of that subject, at which level it is supposed to realize a project that has received an approval, are responsible.

Attraction of sponsors into participation in competitions and tenders aimed at support of social programs is an essentially new element of financing of the social sphere. Within the framework of such mechanism of financing there is a rational redistribution of means intended for realization of social programs, not through traditional budget process of financing, which assumes presence of significant costs of redistribution, but directly from “financier” to a “one being financed” with minimization of losses on support of a management apparatus doing budget redistribution of tax receipts.

Within the framework of this scheme total amount of receipts into budgets of regional and local level decreases, but at the same time there is a significant economy of public funds on financing of social programs. It connects with a point that such financing is carried out directly within the framework of offsets of tax receipts to commercial structures, if they take part in the offered scheme of financing of social projects.
The offered scheme is a new form of realization of a public choice, as it allows tax bearers themselves to determine social programs, most interesting from their point of view, and to sponsor those, which are the most important for them and are more real to be successfully realized.

Gordin V., Khoreva L., Sirotiouk N.

♦♦♦

A Parametric Model of the Competitive Abilities of Firms and Personnel Management Therein – A Research Note

This contribution is intended to introduce in a concise form, the characteristics of the Parametric Model of the Competitive Abilities of Firms. The Model is conceived as a complex whole, based on modern conceptions of management, which, apart from Material and Financial Resources, consider Human Resources to be one of three fundamental resources for the development of firms, and an area in which firms may achieve a Competitive Advantage. The Parametric Model is designed to demonstrate the criteria, measurable indices and management tools of the competitiveness of firms.

Preamble.
The questions related to the competitive abilities of enterprises are, with regard to the transformational processes of the economies of Central European countries, and the on-going restructuralisation of individual enterprises and their management, key issues. Seeking to define the limiting factors and operationally to grasp the instruments whereby the competitive abilities of enterprises can be measured and managed, are actual tasks faced by academics, as well as by the practitioners who currently manage these enterprises.

Definition of Competitiveness of Czech Firms, Criteria, Parameters, Management Tools.

Competitive Ability may be defined as the fundamental condition for a firm’s existence, its ability to maintain and expand the wealth (property) of the owner(s). If one is to achieve the competitiveness of firms by means of the instructions and responsibilities of Strategic Management, we must be able to define the following three elements of the management system of firms:

- The Criteria governing the competitive ability of the firm.
- The Parameters (measurable indices) of the competitive ability of the firm.
- The Management Tools governing the competitive ability of the firm.
Only on condition that these three elements of the management system are clearly defined, can we grasp the sense of competitive ability as an approved characteristic of a firm’s management, which means that we can analyse them, evaluate them, manage them, and craft solutions aimed at improving them.

**The Competitive Ability Criteria** of a firm may be generalised as follows:

- The firm is able to effectively produce for the goods and services market (customer market).
- The firm is able to effectively gain financial resources from the capital market (investor market).
- The firm is able to effectively gain workers from the labour market (manpower market).

**The Competitive Ability Parameters** of a firm may be posited, as long as we define the measurable indices for each of the above-mentioned **Criteria**:

- The Goods and Services Market:
  - The quality of the product (measurable, or quantifiable index in relation to the needs of the consumer, alternatively, in relation to products of relevant competitors).
  - The price of the product (measurable, or quantifiable index in relation to products of relevant competitors, alternatively, in relation to the firm’s own costs).
  - The customer relationship, (measurable, or quantifiable index of the level of customer service and services provided to customers).

  These parameters may be measured by means of quantitative data or evaluation scales, alternatively, by the procedure known as "Benchmarking".

- The Capital Market:
  - Measurements quantifying growth in the firm’s property, (measurable indices are Net Profit; EPS; ratio indices such as ROA, ROE, ROI, MVA.)
  - Measurement quantifying growth in the Investors Capital, (the measurable index is EVA = Economic Value Added).
  - Achieved results for shareholders, (the measurable index is TSR = Total Shareholder Return).

The most concise index of a firm’s efficiency when measuring growth of Capital or Property is considered to be the Economic Value Added (EVA) index, which is defined as Net Operating Profits After Tax minus Costs of Capital Used: EVA = NOPAT – (c x Capital).
A further significant index is that which shows the value achieved for shareholders (TSR), which is defined as After Tax Profits plus Dividends minus Capital Costs.

These parameters may be measured by means of quantitative data or evaluation scales, alternatively, by the procedure known as ”Benchmarking”.

- The Manpower Market:
- The level of wages and salaries achieved and rewards for workers in the firm, (measurable indices in terms of the region, profession, etc.).
- The level of the Employee Social Policy of the firm, (measurable indices in terms of relevant data in the region or branch).
- The level of Employee Social Security of the firm, (measurable indices in terms of relevant data in the region).
- The level and quality of Employee Personal Professional Development Programmes in the firm, (measurable indices in terms of relevant data in the region or profession).

These parameters may be measured by means of quantitative data or evaluation scales, alternatively, by the procedure known as ”Benchmarking”.

**Non-specific Indices of the Competitive Abilities of a Firm.**

Apart from these specific indices of the competitive abilities of firms, it is necessary to take into consideration several further non-specific indices, whose influence functions across the whole firm:

- The firm’s image, (measurable indices in terms of relevant subjects in the region, or a wider environment/sphere).
- The firm’s relationship to the Environment, (measurable indices in terms of relevant subjects in the region, or a wider environment/sphere).
- The relationship the firm has to the economic and social development of the region, (measurable indices in terms of the region).

These parameters may be measured by means of quantitative data or evaluation scales, alternatively, by the procedure known as ”Benchmarking”.

**Management of the Competitive Abilities of Firms, Measurable Indices, and Management Tools.**

The **Parametric Model** of the Competitive Abilities of Firms is conceived as a complex whole, and is based on modern conceptions of management, which, apart from Material and Financial Resources, consider Human Resources to be one of three fundamental resources for the development of firms. In this sense then, the area of **Human Resources Management** may be considered to be an organic part of the firm’s management systems aimed at achieving competitive abilities and advantages under the conditions of a global economy.
For any discussion of the **measurable indices** of the competitive abilities of firms and **management tools**, it is necessary to demarcate the level of generalisation with which we shall want to evaluate these characteristics. Should we also want to evaluate a firm from within, we must then define the fundamental parameters influencing its **efficiency**, i.e. the technical and technological levels, the level of the management processes, the level of the Information Systems, the level of Human Resources management and finally, the level of the Management. These parameters can be specified and conditions can be set for their measurement or evaluation. This approach then opens the way for the subsequent definition of the appropriate **Management Tools** of the competitive abilities of firms.

_Aleš Gregar, The Faculty of Management and Economics, The Tomas Bata University in Zlin_

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- Besonderheiten des Management- und Geschäftsprozesses von Familienunternehmen
- Erfahrungen über die Entwicklung von Familienunternehmen in der EU und in anderen Ländern

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