# *Internal Barriers in the Transition of Enterprises From Central Plan to Market*

*By: Charalambos Vlachoutsicos*

Working Paper Number 248
July 1999

# Internal Barriers in the Transition of Enterprises from Central Plan to Market

*by Charalambos Vlachoutsicos*

July 1999

*An earlier version of this paper was presented in the*

*THIRD INTERNATIONAL CONFERENCE ON ENTERPRISE IN TRANSITION*

*Conducted by the University of Split - Faculty of Economics on May 27-29, 1999*

*at Sibenik Croatia*

## ABSTRACT

While a number of transition countries have been able to make significant progress with macroeconomic stabilization, little is being done to understand and to address the horrendous difficulties and barriers that attend the process of transition at the level of the enterprise. Not knowing what to change and what to leave in place -either because of its intrinsic value or because of its impenetrable and unyielding nature- exacerbates the complexity of the challenge.

The purpose of this paper is to present the insights revealed by our study on the barriers obstructing the transition of enterprises from central plan to market.

Stakeholders' fears and institutional uncertainty seem to be the major impediments to the transition of enterprises from central plan to market. It is the fears of “being independent and self responsible, not having the protecting ‘umbrella’ of the state”, of ignorance of markets, of “too many fast changes”, of “losing one's own job” and most importantly the fear of “losing power and status”. These fears are derived from a deep suspicion of the consequences of any change. Thus workers fear the loss of job and of the enterprise umbrella, managers fear the loss of power and status and boards fear financial losses and loss of ownership.

The insights gained apply to most transition countries. Differences from country to country are a matter of degree.

The degree of effectiveness and stability of the market economy to which the system is transforming will greatly depend on the degree of transmutation of local social value systems to the new values and practices, which market oriented systems will be able to contain and integrate. Efforts to introduce management techniques suited to a market economy will almost certainly fail, unless the techniques chosen from the arsenal of contemporary market oriented management methods, complement and build upon local traditional managerial values.

Successful transition might hinge more upon overcoming internal barriers of enterprises, than upon any other single factor of this complex and arduous process.

Local as well as western managers and investors should spend time and efforts to understand the concealed logic of the barriers encountered during the implementation of each change. They should address the fears of individual stakeholders (employees, potential partners, clients, suppliers and public officials) with whom they are dealing. They should be mindful of how deeply certain attitudes may be ingrained and should not overlook the value of experience, existing skills and of the prevailing managerial behavior that can be usefully built upon; they should expect to work hard and long at change before it really occurs.

Keywords: barriers, transition, enterprise, communitarianism, resistance

# Internal Barriers in the Transition of Enterprises from Central Plan to Market

Charalambos Vlachoutsicos[1]

## 1. Introduction

Transition countries still face enormously demanding challenges that encompass political volatility, legal and institutional uncertainties regarding ownership and governance, rampant inflation, cash flow blockages (e.g., the non-payment for goods delivered to customers and the wide spread unavailability of bank and trade credit), the appearance of technologically and financially superior global competitors from outside the region, lack of skills and of experience for operating in a market economy and workers and managers who are frightened, suspicious, and hostile to the monumental change required.

Never before has the pressing need been more widely recognized for transforming managerial practices in transition countries from those employed in centralized, command economies to those appropriate for a competitive market-driven business environment. While a number of transition countries have been able to make significant progress in dealing effectively with price liberalization and macroeconomic stabilization, little is being done to understand and to address the horrendous difficulties and barriers that attend the process of transition at the level of the enterprise.

In order to learn how dynamics of transition might relate to underlying conditions, it is of great importance, to study the process of transforming managerial practices

[1] Charalambos Vlachoutsicos is Special Advisor to the Managing Director of Commercial Capital Inc., the vehicle of the Commercial Bank of Greece for venture capital investments in Balkan and Black Sea area countries, Senior Research Fellow at the Hellenic Foundation for European and Foreign Policy and Visiting Professor at the Athens Laboratory of Business Administration.

inside enterprises. Not knowing what to change and what to leave In place - either because of its intrinsic value or because of its impenetrable and unyielding nature- exacerbates the complexity of the challenge.

Each transition country's business environment is affected by inherited economic, systemic (organizational), legal and political structures as well as cultural and social factors and determines the conditions, barriers, constraints and opportunities, under which managers must operate.

Economic factors refer to the problems and opportunities created by the collapse of the economic system in transition countries and their influence on each economy. Acute shortage of convertible currencies, deep and prolonged recession, high and persistent inflation, lack and exorbitant cost of capital and stifling taxation, are among the most important macroeconomic barriers to transition[2].

Systemic factors affect the outcome of efforts to create legal and institutional frameworks compatible with the effective functioning of a market economy.

Political stability and wide social consensus for transition are fundamental prerequisites for sustained economic transformation. Internal, external and ethnic conflicts cause serious problems to the economy of each country and as happened in Yugoslavia, tend to result in isolation and collapse. Finally a suitable infrastructure related to transports, communication and energy, is also crucial for successful transformation.

Barriers to alleviate the overall ambiguity, and confusion over ownership, privatization, labor's rights and obligations, private property and laws on foreign investments still manage to delay, if not stall transition.

Limited skills of managers in market economy related knowledge, like marketing, finance and business strategy, as well as international experience, and command of foreign languages determine what managers can accomplish in the volatile conditions of transition countries.

Fears, values and entrenched behavioral patterns, determine the willingness and readiness of managers and workers to implement change and transform their enterprises. Stereotypes, ideology, mentality, old habits, and persistent values of the old system fuel resistance to new ideas. Conflicting and constantly shifting rules of the game, and corruption crate additional barriers to transition. Finally the degree of continuity of business- and political elites in Soviet and post-Soviet times in a particular country or region seems to be directly relevant to the kinds and persistence of the particular resistances to transition encountered[3].

The purpose of this paper is to highlight some of the barriers that emerge inside enterprises in their effort to transform their orientation from plan to market, to shed some light on attitudes and values as factors affecting the process of transition inside enterprises and finally to venture some guidelines and conclusions.

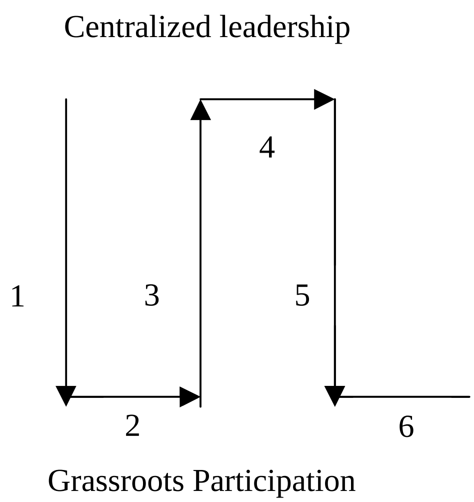
## 2. Background and Sources

Previous literature on internal barriers to change from plan to market, giving more emphasis to individual or micro level of enterprises, is limited. International Organizations such as UNECE, EBRD, World Bank, and EU mainly emphasize the role of macroeconomic factors for effective marketization and change in transition countries. We have used the following previous literature and studies as main sources for our analysis: Vlachoutsicos and Lawrence (1990) in their research inside Soviet state enterprises found that managerial practices developed on the basis of the principles of Soviet democratic-centralism, which are very different from the systems practiced by western management. Thus, they observed a decision making process that alternated between top - down phases, lower level discussion, bottom-up proposal formulation, top deliberation and decision and top down commands. The alternation between bottom-up and top-down communication made it possible to reconcile grassroots participation with centralism (see Exhibit).

[2] See Pavic 1999
[3] Hanson 1999

EXHIBIT

Diagram of the Decision Process in Soviet Enterprises[4]




1. TOP DOWN - The leader clearly poses the goal and specifies the targets to be gained.
2. DELIBERATION - Wide and open participation of all levels of the hierarchy, down to the workers.
3. BOTTOM UP - Submission of grassroots proposal to the leader.
4. DELIBERATION - Careful review of the proposal by the leader.
5. TOP DOWN-Decision and clear instructions by the leader.
6. IMPLEMENTATION - Unified and committed.

Within the enterprise, this decision process plays itself out between the leader and all subordinate levels of the hierarchy down to the workers. Its grassroots participative side offers the clear advantage of achieving a considered and committed decision. What may not be so clear, but is equally valuable, is that its centralized side offers the strength of focused and disciplined leadership with faithful execution.

In another study, Aguilar, Loveman and Vlachoutsicos (1994), the main managerial challenges to implement change inside enterprises in Central and Eastern Europe are discussed. By using field interviews of 250 practicing managers, the authors found that the most effective method for improving performance of enterprises in Central and Eastern Europe, is by persevering with patience, to set realistic goals, explain the need for change to those involved and those affected, motivate stakeholders of each particular change, train those who will implement change and support efforts

[4] See Vlachoutsicos "Key Soviet Management concepts for the American reader", in Lawrence and Vlachoutsicos, 1990, p. 77.

requiring performance. The success of change in Central and Eastern Europe will depend on management's ability to reach through their organization's fears, suspicions and defenses and to tap into the latent energy that lies within.

An article by Vlachoutsicos and Lawrence (1996) which deals with managerial learning in Russia.[5] The authors realize that Russia needs the managerial learning required in order to support a massive wave of entrepreneurship, and for the creation of the two most essential instruments of market economies: distribution and credit organizations. Also Russian managers need to be familiarized with management skills and techniques relevant to dealing with the challenges of a competitive market. By using a number of interviews as the main methodological tool, it was revealed that joint problem solving constitutes an effective tool for the transfer of new managerial methods and techniques. Therefore, in order to establish the most suitable methods for each case, it is of paramount importance that western managers study and understand the inner logic of traditional local managerial values and practices.[6]

The insights revealed during the pilot workshop "Grasping the Logic to Bridge the Gap: Increasing the professional effectiveness of western consultants and management educators in Russia" chaired by this author and conducted by a team of Western and Russian faculty at Bor; near Moscow, from Dec. 1 until Dec. 6 1996, are directly relevant to this study. The workshop at Bor, sponsored by the World Bank through the National Training Foundation of the Russian Federation, was perhaps the very first attempt of its kind to reveal and analyze the complex factors which are seriously inhibiting effective interaction in the transfer of market-economy management know-how to Russian managers and teachers. An unusual and important feature of the workshop was that participants were invited to contribute to the development of guidelines on new approaches to the critical transfer process. The workshop was implemented as a pilot project.

Fourteen specialists attended the workshop. The participants came from the EU (France, Italy, Greece, UK) and North America (USA and Canada). Their collective expertise covered management consultancy, management education and business investment. Approximately half the participants had professional experience of the

[5] See Vlachoutsicos and Lawerence (1996)
[6] See also Kharkhordin and Gerber (1994)

Soviet Union (mainly as students and/or as business representatives).

A major aim of the workshop was to present the Russian perspective; another was to synthesize the knowledge of the faculty with the practical experience of the participants. The thrust of the workshop was to:

- Isolate the stumbling-blocks which impede interaction between foreign professional and their Russian counterparts
- Unravel the inner logic of Russian management practices
- Develop guidelines to significantly reduce mutual misperceptions in business exchange and know-how transfer

The central focus of the workshop was on economic, social and cultural aspects, including values, beliefs, habits, unwritten norms and other 'soft' factors that affect the thinking, learning habits, feelings, behavior and practices of Russian management practitioners and professionals in their interactions with their Western counterparts. The workshop also included an assessment of management development in Russia, contrasting Western and Russian managerial practices, experiences and expectations.

It is possible to classify the key problem areas highlighted at the workshop under the following headings:

I. Mutual mistrust and suspicion;

II. Lack of understanding of the particular pressures on, and special priorities of Russian managers;

III. Lack of appreciation and understanding of each other' s way of working (including team working) and goal-setting;

IV. Lack of knowledge of each other' s mentalities, systems and procedures;

Finally the insights presented in this paper also draw on the author's extensive, direct, personal experience in planing, negotiating and conducting business, direct investments as well as research in this region.

**Summary of key insights**

1. A central insight to emerge from the workshop is that Westerners have generally not been successful in managing effective relationships with Russian counterparts because they *have failed to understand russian expectations and align them with their own*. Management educators do this repeatedly by not building russian

expectations into their training needs analysis and therefore not into the actual programs. Western firms seldom meet russian expectations as to what is to be taught about Western management methods and business principles.

2. Russian staff feel very strongly that they are both undervalued and underutilized; as such they are deprived of making a significant intellectual contribution to the Western firm that employs them. Consultants do this by hiring otherwise talented Russians, but using them *mainly as mere facilitators* to progress the company business.
3. The atmosphere of working relationships is antagonistic and negatively reinforced by perceptions that Western consultants and trainers do not have much interest in understanding the 'Russian mentality' and by the severe disparities in remuneration.
4. In order to achieve a productive and successful cooperation, relationships between Russians and their Western counterparts must be based on *equivalence*.

   By equivalence we mean the mutual recognition that, while inputs of each side in terms of know-how, experience and resources might well differ in kind, they are *of equal relative importance*.
5. Not only there is a gap between Western and Russian managers, but also a very similar gap between Russian managers who operated before the collapse of the Soviet system and post-Soviet managers who have a direct stake in their country' s transition to the market economy. The similarity between these gaps renders the insights revealed in the Bor workshop directly relevant to grasping the inner logic of some of the barriers to the transition of enterprises from plan to market.
6. The relative severity of the gap is determined by the degree of Russian and Western partners misunderstand each other' s frame of reference as well as by more elusive factors such as degree of personal affinity and competence as intercultural communicators. The gap in understanding causes misconceptions which render business cooperation as well as the effective transfer of know-how very hard, if not impossible.

**Conclusions**

The Bor workshop provided an illuminating opportunity for Western and Russian management specialists to gain a clearer idea of the nature of communication barriers in the contexts of business development and management education programs (see appendix two).

For example our study revealed that many of the values and managerial practices seem to be rooted in the Russian Collectivist Value System (RCVS). Collectives are an organizational form largely unique to Russia. They are closely-knit work groups bound together by shared values and mutual support. This leads to the conclusion that the degree of effectiveness and stability of the particular form of market economy to which the system of each transition country is transforming will greatly depend on the degree of transmutation of local traditional value systems to the new values and practices which each country will be able to contain and integrate. It is therefore important to realize that the main challenge in the process of transformation is to distinguish what to change and what to leave in place-either because of its intrinsic value or because of its impenetrable and unyielding nature. Therefore it is imperative to identify and select the specific form of market economy best suited to the particular social, cultural, systemic and economic situation prevailing in each country.

Gacs and Cooper at IIASA (1997), conducted country, topical and enterprise case studies to explore the impediments to exports that small transition economies face once the initial systemic changes towards switching to Western type market economies have taken place. Studies were conducted in eight countries in transition: Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Romania, Slovak Republic and Slovenia. The results indicated that adjustments at the enterprise level and of microeconomic policies (activities of government that alter resource allocation) influence export performance more than macroeconomic state intervention.

Wright, Hoskinsson, Filatotchev and Buck (1998) interviewed managers from more than 300 privatized enterprises in six major industrial regions in Russia. The managers were surveyed about the market orientation plans they developed and established in order to effect the transition and to survive as enterprises. Their findings confirm ours that managers and directors of privatized Russian enterprises face enormous challenges in revitalizing their businesses to compete in both the domestic and global markets. Survivors must pursue new strategies for revitalization. Foreign investors, similarly, must examine the assets and liabilities of entering the Russian market. Although wholly-owned new ventures and acquisitions have merit under certain circumstances, joint ventures and strategic alliances with Russian partners appear to be the strategy that most fits the current situation for industrial firms.

The conclusions of these studies could be applicable in a number of ways to other East European transition countries with similar cultures as for many decades they have been subjected to the straight jacket of the Soviet managerial system and its practices.

Finally the central source of this paper is a study on obstacles of economic cooperation among BSEC[7] countries[8], which has been directed by this author and relevant findings of which are presented herein. This study was based on individual interviews of managers of state- and privatized state-enterprises as well as post-communist entrepreneurs engaged in manufacturing.

One of the aims of the interviews was to obtain information about specific instances in which efforts to marketization were successfully carried out and instances where such efforts were unsuccessful or prevented.

More specifically, the study was based on field interviews of 30 managers from state and post state owned companies and of 30 post-communist entrepreneurs in three European transition countries; the largest one: Russia, the smallest one: Albania and a medium one: Bulgaria. In each of the three countries were conducted twenty long individual semistructured interviews, ten with managers from state and post state owned enterprises and ten with post-communist entrepreneurs).

Managers interviewed were also asked to provide background information about their firms and to comment on the principal barriers to effective transformation of their companies providing information on the role of the business environment and on the attitudes of people inside their company concerning marketization.

They were also asked to describe at least one "successful"[9] and one "unsuccessful" effort of transformation, providing specific information about the process of decision making applied (managerial practice, company policy on decision making) and the people involved in making the decision, in carrying it out, and those being affected by its results

---

[7] The Black Sea Economic Cooperation founded in 1992 with headquarters in Istanbul.
[8] Vlachoutsicos and Liargovas 1997
[9] The words "successful" and "unsuccessful" are put in quotation marks as a long time is needed in order to be able to establish accurately whether in fact a change has been successfully implemented or not. Thus often an effort originally judged as successful in fact fails and vice-versa.

as well as the duration of the effort, and the principal reasons for its success or failure.

Finally, they were asked to comment on their specific experiences regarding the principal current barriers to effective marketization of their firms, industry and country as well as on the most important facilitators to getting changes to occur successfully.

## 3. The business environment

Among the most often cited barriers of enterprises in transition countries to transition from central plan to market are those that are related to the business environment of each country.[10] The business environment -including economic, legal, political and infrastructural considerations- must be such so as to permit and motivate the new, desired entrepreneurial and managerial practices. It formulates the situation (constraints and opportunities) in which managers and enterprises must operate.

The macroeconomic system is decisive for the creation of the necessary business environment. Deep and prolonged recession, high and persistent inflation, lack and/or exorbitant cost of capital and stifling taxation, are among the most important macroeconomic barriers of performance and ergo of competitiveness in the arena of the international market.

## 4. Skills and Knowledge

A large number of respondents pointed to the managers' lack of skills and knowledge as major barriers to the transition of enterprises from central plan to market. The degree of knowledge and skills of managers determine what they can accomplish. Business strategy, marketing, finance, strategy, human resource management, international trade experience and command of foreign languages were singled out as the internal functions in which managers in transition countries were most deficient.

As two respondents from Bulgaria explained:

> *Lack of experience and knowledge in a market economy environment, and especially in the marketing field, is one of the most persistently recurring reasons for failure. Professional incompetence is the principal obstacle.*

> *Lack of training of managers is another problem. There are no management studies at University level. There are only economics courses. Therefore managers do not apply the western practices of managers. They learn by doing. The old management structure is reluctant to accept the change. We need quality at the western European level but our conditions are at the eastern level. Having started to deal directly with foreign partners, we realized our weak points, poor quality.*

> *Lack of professionalism is the problem. We still have people from the party. Or from the secret services. Even in financial markets people without professional experience and education.*

The above can be complemented with the following comment made by an Albanian respondent:

> *At the beginning of the 1990s, there were about 27,000 students in all various branches of the Albanian system of higher education, a small percentage compared to the rest of Europe. There was a total vacuum of market oriented experts in such branches as administration, management, finance and banking, marketing, micro-macro economics, justice, and social and labor psychology.*

The ability of managers to develop the necessary skills and knowledge is constrained in a number of ways. One of the more serious of these is the enormous time pressure under which most managers are operating in trying to cope with the

[10] See appendix one for an outline of the findings from all sources of the study.

many rapid changes taking place. Another is lack of the fees required in order to pay for high quality management training.[11]

The lack of suitably qualified managers in transition countries should not be taken to imply that there were no managerial abilities under the central planning system. Although it is true that many decisions were taken by the Party, it was impossible for the central planners to take the bulk of managerial decisions and to communicate the requirements to enterprise management in a suitably desaggregated level. [12] Also, both output plans and inputs, though decided above, were often implemented on the basis of information and proposals submitted by enterprises. Central planers did not have all the information required when taking decisions so that a great deal of decision making power was de facto decentralized to the level of the firm. A variety of innovations in product design and in methods of production were initiated at the enterprise level. Furthermore, in matters relating to the supply of inputs, there was much scope for manager's initiatives.[13] In fact, enterprise managers rather than market oriented managers, responsible to customers and stockholders for competitive and profitable business, were admirably adapt and effective "shortage" managers, mostly dealing with the hazardous and complex task of obtaining for their enterprises the inputs needed in order to be able to meet the production plan imposed by their superior ministry. These managers, however, had to function without effective systems of incentives and rewards, where the enterprises were not responding to customer preferences and where there was no competition between producers of the same goods or services. Therefore, their skills had to be more political than managerial.

This is what a Russian respondent commented:

> *The work of the managers was left to their subordinates. Among the people, it was a status symbol to do practically no work whatsoever. Few of the men in power had traveled to foreign countries other than Communist ones. They could seldom read a foreign language and*

[11] See Aguilar, Loveman and Vlachoutsicos (1994), Kornai, (1980) also Lavigne (1995).
[12] For a detailed analysis of the nature of management in eastern Europe under the legacy of the central planning, see United Nations Commission for Europe, Trade Division (1992)
[13] According to Vlachoutsicos and Lawrence (1996), Russian managers did an effective job of providing leadership up and down the organizational hierarchy. They had also developed extraordinary skills at

*thus had all sorts of mistaken conceptions of the world around them. They were the objects of endless mockery by the general public, especially in the later years of the Breznev era, but they had little inkling of this and would scarcely have understood the jokes in any case. They put the breaks in any attempt by their subordinates to introduce reforms, although these were seldom of major import, until it was too late to do anything. The life they lived was a lie. They sank the Soviet Union.*

The above led us to the following insights regarding managerial education and skills in transition economies: First, there is a shortage of managers with such skills as marketing, sales and capital accounting, all of which are indispensable in meeting the challenges of the open competitive market. Second, the distinctive - management system practiced during the Soviet era has left its imprint on present managerial "mentality" values and practices in Eastern Europe and the CIS. This imprint proves very hard to erase.

Because of the very different managerial values and practices in most transition countries, Western managers often face serious difficulties in understanding, communicating and cooperating with their local counterparts effectively and vice versa. Some efforts have been made to overcome these challenges through briefing programs for Western managers[14]. However, developing such programs is especially difficult since Western experts and local managers have limited knowledge of each other's managerial experience and culture.

This situation has major implications for Western professionals charged with delivering the know-how and for sponsoring institutions as well as for local business or other organizations and their staff who are supposed to be the ultimate beneficiaries.

The following remarks by Russian and Bulgarian responders are characteristic:

*However, western "mentality" is also an obstacle to change when*

---

coping with persistent supply shortages.

[14] Our seminar "Grasping the Logic to Bridge the Gap" mentioned above tried to meet this challenge.

*investors or economists want implement changes over there by "shock therapy", it reminds the old Stalinist mindset of "cleansing society by liquidation of bourgeois elements.*

*There is a communication gap between native and foreign businessmen. The general attitude is that foreign businessmen may have skills and knowledge but they cannot understand the peculiarities of the Eastern European economies and markets.* [15]

*The ignorance of the inner structure and product policy of the big industrial enterprises runs to wrong decisions, which is often the cause of the arrogance of the western managers.*

The above can be complemented with the views expressed by A. Kennaway:[16]

*Milliards of hard currency have been provided by western aid agencies. The money has largely gone in ill-thought-out loans and investments in projects that will not be carried out properly and also in the payments to consultants, mostly westerners who are not given the right terms of reference either at home or by the supposed beneficiaries. Nor do the westerners understand Russian conditions well enough. Finally, their reports are often not followed through and their audit is inadequate to see whether they are effective or not. The bureaucracy of western aid agencies is shameful; some of them give the impression that their main purpose is to spend the money allocated to them rather than to be concerned about the usefulness of the work. Furthermore there is growing evidence of collusive, personal, corruption between western aid executives and consultants on the one hand and the local representatives, officials and Ministers on the other.*

---

[15] Still, many interviewees consider the communication they have with foreign businessmen important and believe that they can profit from their experience.

[16] See Kennaway (1995).

Adapting the education package for both local and Western managers is not an easy task. The gaps in the curriculum have led to missing concepts. "Efficiency" for example means something very different to a manager seeking only to comply with a centrally imposed plan than to one seeking to boost profit and market share in a competitive business environment. Although language adapts rapidly, missing concepts and, as a result, missing or misused words still seriously impede speedy and effective transfer of knowledge and skills.

## 5. Attitudes and Values

Attitudes and values determine the willingness of people to implement changes and transform their enterprises. Among the most often cited factors of unwillingness of people in transition countries to implement change, are fears and uncertainties, attitudes and "mentalities", ideology, social and cultural values (i.e. collectivism), unreceptiveness to new ideas and last but not least, corruption.

Several generations of living and working in a hierarchical, command society have resulted into a managerial mindset that is very different from that required to function effectively in an openly competitive business setting. This managerial mindset is derived from persistent values and habits of the past, of intense discomfort when taking initiatives and responsibilities, all of which deprive people to admit the new market reality, as indicated in the following remarks by Russian, Bulgarian and Albanian respondents:

> *The psychology of the people and old stereotypes are very important barriers to transition from central plan to market of enterprises in BSEC countries. These barriers are unfortunately wide spread in all post communist countries and can be called unwillingness of people to admit the reality if the reality asks for more effort and responsibility.*

> *The principal obstacle to change in managerial practices in this firm is the employees mentality, their lack of entrust to improve their work.*

*The principal barrier is unwillingness of the staff to change their stereotypes. They wanted to continue working in the same way as before. This was due to the people 's psychology and their mentality formed in the past decades.*

*Unfavorable attitudes from the employees' side, but those are normal reactions to change (people are reluctant when changing the production, the rhythm).*

*In socialist conditions people used to say the following slogans "whether you stay, whether you lay-you will be paid your salary". Now we have to strongly fight with such point of views.*

Ten years after the collapse of the socialist planned economies and the commencement of the process of transition towards market based economies, the mindset and behavior of people in transition countries are still affected by important elements of the past. This for example, is reflected in the behavior of managers related to layoffs. Firing employees in order to reduce costs is a practice unthinkable in the framework of the communitarian concept of each enterprise's workers collective which, in contrast to Western labor unions, includes *everyone* working in the enterprise, irrespective of their position, i.e. from unskilled industrial workers and clerks to top management.[17] In their identities as members of the workers collective, all members perceive themselves, and are recognized by superiors, subordinates and by society at large, as equals[18] and as integral and inextricable parts of the enterprise, *entitled*[19] to their employment in the enterprise.

As a matter of fact an unforeseen consequence of the process of privatization in most transition countries has been that the threat outsider stockholders pose to old management and to the workers' continued employment has served, in many cases, to

[17] See Slider, (185).

[18] With the bureaucratization of the Soviet system, this "equality" became increasingly fake and perverse and therefore did not generate the pluralism, individuality and creativity it might have, had it been genuinely applied.

[19] This particular feeling of entitlement is comparable to the feeling of Western stockholders about their rights on the company of which they own large blocks of stock. As mass privatization proceeds this feeling is converting from political entitlement to participate in the making of enterprise decisions to economic entitlement to own part of the enterprise.

reinforce the solidarity between old management and workers'[20]. Fear of the future and of the new and unknown Russian or foreign owners of the enterprise, further reinforces this solidarity. In the 1995/1996 research project "Russian National Survey" designed to track down the fortunes of privatized enterprises and directed by two US advisers to The Russian government, Harvard economist professor Shleifer and Joseph Blasi professor at Rutgers University's Institute of Management and Labour Relations, revealed that two-thirds of general managers interviewed said that they and their employees would oppose selling a majority of shares in the enterprise to an outside investor even if he would bring the entire amount of capital necessary to modernize and restructure the firm.[21] Workers remain loyal to the old management by supporting it with the vote of their stock in exchange for being kept on the payroll, and thus continue to receive whatever fringe benefits, services and care enterprises still provide. Through this tacit understanding management can fence off outsiders, consolidate its position and preserve its clout as leader of an enterprise employing many workers, whose interests local, regional and federal governments cannot politically afford to ignore.[22]

Here is what a Russian respondent remarked:

> *Refusal of many employers to play part in the dismissal of people, is derived from the communist mentality that wages must be differentiated according to employees' years in firm, and not according to their competence and knowledge.*
>
> *Managers still spend much more time negotiating with the government than taking care of their own business.*

[20] See Hanson, (1995).
[21] Blasi, Kroumova and Kruse, (1997).
[22] Clarke, 1994, pp. 178, 181. See also *The Financial Times*, 6 September 1996, p.10. It has been observed to this author by Professor Phil Hanson, University of Birmingham, that it remains difficult for outside investors with a potential for strategic control to acquire a controlling stake. Small outside investors who allow insiders to retain control, pose no threat. Nevertheless, some strategic, outside investors, are gaining control of firms here and there. Continued low share prices relative to earnings or assets suggest that, for the most part, corporate control once in power, remains hard to contest. See also Pecherytsyn Alexander "Ownership Type And Companies' Performance In Ukraine", Third International Conference on Enterprise in Transition, Sibenik Croatia, May 27-29 1999 by the University of Split - Faculty of Economics.

Fear and institutional uncertainty are in our view the major impediments to the transition of enterprises from central plan to market. It is the fear of “being independent and self responsible, not having the protecting ‘umbrella’ of the state”. It is the fear of ignorance of markets, the fear of “too many fast changes”, the fear of “losing one's own job”, the fear of “increased unemployment” and most importantly the fear of “losing power and status”. These fears are all derived from a deep suspicion of any change and from a risk aversion well justified by the overall institutional ambivalence and uncertainty and the high volatility prevailing in most transition countries. Uncertainty of future economic contingencies and rules of the game is amplified by infrastructural weaknesses and by an undeveloped market culture.

Thus workers fear the loss of job and of the enterprise umbrella, managers fear the loss of power and status and boards fear financial losses and loss of ownership.
Here is what a Bulgarian manager remarked:

> *The manager is ready to adopt and realize changes, but the Board of Directors is not going to take the risk. They are reluctant, slow and unwilling to adopt change.*
>
> *We are at the threshold of changes but they are of real importance only to owners and are connected with the battle to be on the Board.*
>
> *A major problem in the process was the resistance of some of the managers because of the fear of losing their positions.*
>
> *The uncertainty of people increased in all areas. Uncertainties about the future make some people care more about relations with their managers than about the quality of their job.*
>
> *This psychological barrier cannot be overcome only with training or a lecture or discussions and brain storming at managers 's meetings. It needs the overall environment and conditions to work unilaterally in the same direction.*

Transition to a market economy "requires a comprehensive policy encompassing the whole spectrum of government responsibility, be it in political, legal or economic spheres"[23].

Obviously, under the present volatile macro economic and political environment prevailing in most transition countries such fears are perfectly justified and it would be naive to expect that fundamentals can change soon. Nevertheless, many of the specific changes which are required for the survival of enterprises, have no bearing on manpower requirements and some actually help save jobs. In this sense workers' fears are not always realistic.

We have no evidence that workers are provided with the facts necessary in order to evaluate each specific change on its merit. What seems to be the prevalent feeling is that every change means loss of jobs. Hence any change is undesirable. This belief builds a major a priori resistance towards new methods, rendering fear of unemployment the key to the negative attitudes and behavior of workers vis-à-vis whatever specific changes they are called upon to implement. Turning workers of an enterprise into owners (stock distribution or options) was originally envisaged as a core way to motivate workers. In some cases workers were pacified, not because this acted as a motive for harder work, but because erroneously they thought that being stockholders, they cannot be dismissed.

Communitarian mentality is another factor often cited as a serious impediment to change.

The following remarks of two Russian managers and one Albanian are characteristic:

> *The principal obstacle to change in managerial practices in my firm and in industry as well as in the whole economy is the mentality of workers.*

> *Decisions were made under asphyxiating pressure of workers collectives even if*

[23] See Danielyan, 1999.

*some measures were not efficient for the future of the company. For instance, the workers collectives required that the company hires only from within in spite of the fact that, for some jobs, it was necessary to hire from outside the company on a competitive basis.(i.e. with higher pay than the workers).*

The Russian Communitarian value system constitutes a coherent pattern of values and prescriptions of behavior. It is an enduring feature of Russian life which has predated communism. During the Soviet era it was applied throughout the Soviet Union as well as in the countries in the Soviet block. Albeit in varying degrees it still persists as a potent social force throughout the CIS and the countries which were part of the Soviet Block[24]. As mentioned *everyone* working in an enterprise, irrespective of their position, are considered as equal members of the workers' collective. For this reason, workers have a strong feeling of entitlement to participle in the decision making process of the enterprise. This entitlement is recognized by all superiors including the general director[25].

Risk-aversion and unreceptiveness to new ideas, rules, behavioral patterns and managerial practices in enterprises in transition countries also constitute important barriers to successful transition from plan to market. These barriers can be mainly attributed to fear caused by uncertainty about the future, and the difficulty of many managers to find productive functions for themselves in the new market environment.

The ineffectiveness of state bureaucracies is displayed in their inability to address urgent social and economic problems. Without a coherent and well- functioning institutional system, good intentions can rarely be implemented. There is no certainty and considerable vacillation about the role government should play in the transition process, and about the kind and extent of regulatory and monitoring fiscal instruments the government should use for promoting technological efficiency and productivity, as well as about the appropriate incentives individual enterprises and other parts of the economy should be provided with.

---

[24] See Vlachoutsicos (1998).

[25] See Gouchtchina Vera "Business Ethics In Russia: Sociocultural And Historical Background And Problems Of Teaching" and Rodin Oleg A. "Managing Corporate Culture Change In Enterprise In Transition", Third International Conference on Enterprise in Transition, Sibenik Croatia, May 27-29 1999, University of Split - Faculty of Economics.

Networks forged by the old centralized system of management remain by and large still in place and continue to act as the main coordination mechanism between different levels of management in the evolving institutional framework. Traditional practices of intervention of the central government in the local management of the economy persist because of the inherited central planning culture, and the inherited operational rules and patterns of governing, but also because the network of the old management nomenclature has by and large not changed yet. Managers and policy-makers have been nurtured in the previous system. With a few exceptions they still succeed in keeping young professionals with new knowledge out of influential positions and by and large manage to preserve the old management system and its practices.

A strong centrifugal shift of political and economic power is occurring. A new consensus is gradually emerging on the importance of regional self-management. Wavering central governments are obliged to increasingly concede more power and responsibilities to regional and local authorities. However, control of financial resources is not being relinquished by the center at a corresponding rate. In this respect it is noteworthy that as the economies of transition countries, albeit at widely different speeds, are being marketized, an increasing amount of economic power in the form of valuable natural resources that under the old system belonged to the state, is now moving to the regions, communities and private enterprises. Further more new wealth is created[26]. This shift of financial power gradually increases the possibility of regional government to finance the improvement of their local economies and thus be able to address their mounting social, economic, political and environmental problems.

As known, other major barriers to transition of enterprises from central plan to market are corruption, fraud and organized crime at all levels of elites and of public authorities: federal, regional and local. Sadly this phenomenon has done a lot to discredit the concept of democratic capitalism. In fact some regions have come to resemble criminal fiefdoms.

[26] This is so because real estate, which during the communist era was worthless, large chunks of it being owned by the regions, towns and enterprises, now constitutes an increasingly valuable asset.

The following statement by a Bulgarian respondent is characteristic:

> *One of the main problems is corruption at customs offices. Public servants' salaries are extremely low and therefore they try to increase their income by creating obstacles (bureaucracy, delays) and then solving them at " a fee ".*

Similarly to the above, Vladimir Shlapentokh (1996) wrote in a recent paper:

> *The corrupted character of law enforcement forces is of special importance since it deprives Russian citizens of the hope of finding help from the courts in their fights against criminals and corrupt bureaucrats. Yuri Luzhkov, the Moscow Mayor, openly accused his own police of corruption and inefficiency. The privatization of the Russian army has created a virtual norm of behavior among generals, officers and soldiers in the illegal trafficking of weapons and thefts of equipment. This implies that the scope of legal activity conducted by the state machinery has diminished radically, while the number of illegal deeds performed by bureaucrats has increased.*
>
> *.... Practically, already by 1995 most active people in the country voluntarily or not, have been linked directly or indirectly either to corrupt officials or criminal organization or both. Business in the country is practically impossible without the support of corrupt bureaucracy and criminal organizations. The activities of these two classes of people are now in Russia no less "normal" than the activities of people who do violate the law.*

The phenomenon of corruption in transition countries is very complex and as such has multiple aspects, not all of which might be undesirable. Therefore its elucidation requires a great deal of separate research which due to the nature of these activities is very hard to conduct. Therefore, our study can only deal with it unsystematically. Corruption thrives when both public officials and private agents have little to fear. The subordination of the police and, to a large extend the courts to business criminal mafias has instilled a total lack of faith in law enforcement[27]. Precisely this is the situation in most transition countries where a power vacuum is being created as old political power structures cease to exist and new ones have not as yet been put in place. Extremely low salaries of public servants render illicit income a sine qua non for their survival. In most countries such income represents their main incentive to remain in public service. Therefore, using the term "corruption" for such activities in many cases distorts and does not reflect reality in transition countries.

Also, privatization of state monopolies often proceeds without appropriate consideration of ways to create genuine competition in each sector of the economy. Therefore private monopolies by creating instant millionaires invite organized crime to gain a stranglehold on crucial areas of the economy.[28]

Organized crime is closely intertwined with and overlaps state corruption. By leaving the legality of private business practices unmonitored, new avenues for criminality have opened. Current and former public officials often facilitate or participate in organized crime. Russia's Mafia is not a single organization but as many as perhaps 3,000 to 4,000 different groups employing many thousands of people.[29]

In Ukraine organized crime and corruption present one of the greatest dangers to national security because they have penetrated, and intermingled with, the state apparatus at all levels. Organized crime in Ukraine has also forged links with international crime and is attempting to gain control of the import-export system, and is penetrating privatization and banking[30].

## 6. Conclusions and Proposals

In this paper, we explored and investigated the main barriers to transition of enterprises in transition countries from central plan to market.

[27] See Satter, 1999
[28] See Vlachoutsicos and Lawrence (1996)
[29] See World Bank, World Development Report (1996)
[30] See Krawciw (1996)

Our study has revealed that one of the main reasons for the slow progress of transition economies might well be that programs and incentives that fostering reforms at the individual enterprise level have been neglected. There is a lack of concrete incentives[31] indispensable to create the motivation and impetus required for state of privatized enterprises to overcame the multiple barriers in order to transform into viable market oriented firms, and for managers to transform themselves from shortage-focused managers operating in a planned economy, to profit-focused managers operating in a competitive market economy. There is also a lack of effective training programs. Developing such programs is especially difficult, since Western teachers of management and local managers have a very limited base of shared management knowledge and organizational culture. The example of state enterprises in Russia which function as collectives, is typical, of the basic differences existing. Their efforts to introduce management techniques suited to a market economy will almost certainly fail, unless the particular techniques chosen complement and build upon local traditional managerial values and practices.

The gap in understanding extends to western governments and other organizations providing assistance to transition countries and causes misconceptions which render the effective transfer of knowledge and know-how as well as business cooperation very hard, if not impossible. The need to deal with this gap becomes increasingly necessary.

Westerners dealing in post-communist countries invariably encounter attitudes and behavior, which appear “strange” and/or “ignorant” and/or “incompetent” and often even *against* the best interests of the person concerned. Experience indicates that invariably there is a sound “inner” (concealed) logic, which dictates such attitudes and/or behavior.

[31]Source: Cirman A., Ferligoj N., Prasnikar, Janez A.: "Risk Taking And Managerial Incentives During The Transition To A Market Economy: A Case Of Slovenia" and Ursic Dusko: "The Heart Of Organizational Changes In Slovenian Enterprises", Third International Conference on Enterprise in Transition, Sibenik Croatia, May 27-29 1999, University of Split - Faculty of Economics.

Instead of succumbing to the natural propensity of feeling frustrated and/or irritated and/or contemptuous when encountering such behavior, Westerners are well advised to perceive such behavior as a signal indicating that they do not understand important aspects of the specific situation.

Therefore, before passing judgement, it is indeed worthwhile for them to spend the time and effort required to grasp the "inner logic" behind each case, which invariably will enhance their understanding and thus their ability to cope with the implications of the gap as well as to develop effective working relationships with their local colleagues, clients and partners.

Experience further indicates that the "inner logic" in most cases arises from an amalgam of:

- shortage of means and/or
- pride i.e. "face-saving" mechanisms aiming to conceal shortage and/or
- fear of loss of status, power or influence.

Therefore, in each instance, the quest to grasp the "inner logic" should start with seeking answers to the following questions:

1. What product or service is scarce in the particular case?
2. Which aspect of the particular situation and/or behaviour and/or articulation could be perceived by the individual/s concerned as shameful or inhibiting?
3. How could the situation be perceived by the individual/s concerned as a threat to his/her/their status, power or influence?

Thus a better understanding of the inner logic of the puzzling ways transition countries often go about addressing the challenges of transition would undoubtedly assist the joint development of effective programs and solutions. Taking into consideration the low credibility of declarations and promises in these countries, developing programs involving joint concrete problem solving teams and task forces rather than teaching or lecturing, seem to be a more effective way to transfer managerial knowledge as well as to bridge the gaps.

Our study revealed that generalizing about the features of local managers and of entrepreneurs is misleading. In recent years a whole new class of local managers with a direct stake in the market economy towards which their country is striving has been developing who do not carry the baggage and do not identify with the managerial values and practices of the command economy. While sharing the same traditions and being subjected to the same environment as Soviet Era managers, a widening gap between values, "mentality" and managerial practice is opening. In any case until some measure of political and economic stability can be established, old attitudes and habits are apt to persist.

We also found that whereas managers of state and of privatized enterprises being directly confronted and having to cope with the increasing pressures of the emerging market economy on their enterprises, realize more and more the necessity of fundamental change helping their enterprises survive, workers perceive change primarily as a threat. At the core of workers' resistance to change lies their pervasive, often unjustified fear of redundancy. Thus, contrary to prevalent thinking, it is not managers but workers who resist change most.

These conclusions apply to all transition countries. Differences from country to country are a matter of degree.

As mentioned it is important to realize that before passing judgement on individuals or groups resisting and thwarting change inside enterprises in transition countries, one must realize that there is an inner logic behind resistance and, more importantly, that in more cases than not, this inner logic is sound under the specific conditions prevailing.

Therefore, in state and in the privatized enterprises which still receive direct or indirect subsidees from the region and/or the state, securing workers consensus by spending time and effort to explain changes before they are decided is a sine-qua for successful implementation of any change. In fact, managers in such enterprises usually have neither the institutional authority nor the effective power to implement changes against workers' will. Whether new policies or new ways of doing things will be successful or be carried out at all, has been shown to hinge largely upon whether both managers and workers can be persuaded to agree with each particular change and to actively cooperate for its successful implementation.

Therefore local as well as western managers and investors should spend time and efforts to understand the concealed logic of the particular barriers encountered during the implementation of each change. They should thus address the fears of individual stakeholders (potential partners, clients, suppliers, employees and public officials) with whom they are dealing. They should be mindful of how deeply certain attitudes may be ingrained and should not overlook experience, skills and prevailing managerial behavior that can be usefully built upon; they should expect to work hard and long at change before it really occurs.

The author believes that before the insights of this study can be fitted into an integrated coherent approach to understand and deal with the problems of enterprise transition, extensive additional quantitative and qualitative research needs to be conducted.

Finally this author is convinced that successful transition hinges more upon meeting the challenge posed by internal barriers of enterprises, than upon any other single factor of this complex and arduous process.

## APPENDIX ONE

# Outline of Findings from All Sources of the Study

*Statements made by managers interviewed on barriers, factors and actions influencing the process and/or the outcome of changes of managerial practices in transition countries.*

I. Insights on external barriers influencing transition of enterprises

A. Problems

1. Sluggishness of the process of change
2. The collapse of the Soviet empire resulted in the breakdown of traditional external markets (suppliers and customers) and of the financial reliability of local clients
3. Insufficiency, and unsuitability of the Soviet era legal framework for market-economy system
4. Lack of clarity of vision of which form of market economy to adopt and of direction towards achieving it
5. No clear legal process for mortgages and/or for bankable guarantees in business and investment transactions
6. Bureaucratic delays in issuing laws and decisions
7. No coherent policy of protection of local industry from imports
8. The change-averse role of Trade Unions
9. Monopolistic State Banks
10. Monopolistic suppliers of goods and services
11. Stifling taxation systems incompatible with market economy
12. Essential infrastructure not operative as still functioning as mostly socialist state enterprises (transportation, communications etc.)
13. Problems created by the monumental change required in order to convert the macroeconomic system from plan to market and by the social consequences of this conversion

14. Conflict of interests between state officials and managers of enterprises
15. Interference in the management of state enterprises by superior government authorities
16. " Ministries are still rigid and uncooperative and complicated to deal with "
17. Slow and non-transparent decision making process
18. Lack of experience in the process of privatization at all levels
19. High cost of unfavorable social implications confuse ultimate aims of change
20. Poor economic situation of customers prevents normal function of market
21. Superior authorities are still main initiators of whatever changes occur
22. Supervising authorities inexperienced and often indifferent to implications of transition to the survival of enterprises
23. Perennial shortage of all inputs and mainly of liquid capital, cripples the effort to transform managerial behavior
24. Overhang of heavy old and new debts among enterprises exacerbate liquidity crunch
25. Exorbitant cost of capital
26. Shortage of convertible currency exacerbates the need for foreign investments
27. High inflation
28. Prevailing lack of competition as markets are still largely dominated by monopolies or oligopolies
29. Lack of financial assistance (incentives) enabling enterprises to meet the cost of changes

B. Insights on external barriers for effective transition

1. Holistic, global nature of the process of change (interdependence of factors)
2. Demand in a competitive market serves as the most effective propeller of change in enterprises

3. Transformation of general political and economic environment from central plan to market, gradually influences and changes the outlook and business mentality of managers and workers
4. Importance of realistic evaluation methods of local assets for joint venture agreements
5. Application of many alternative forms and methods of privatization
6. Support of changes (incentives, financing, know-how, training, monitoring) requires commitment of the state bureaucracies
7. Monitoring of the implementation process of each change
8. Study, understanding and consideration of local macroeconomic conditions, culture, mentality and relevant institutions by foreign investors

II. Insights on internal enterprise barriers

A. Problems

1. Stubborn old structures
2. Difference between private and/or privatized businesses and state enterprises in ability to change (small companies change easier)
3. Erosion of qualified personnel of state enterprises to the better paying private sector
4. “Speculating” about the privatization of a state enterprise causes uncertainty and fear of new owners' priorities
5. Physical strain on managers ill equipped to cope with the distinctive problems of competitive markets
6. Top management is too absorbed by daily routine, acute shortage of financing and power struggle and therefore does not have time to address strategic issues
7. Shortage of qualified personnel to implement and to handle change
8. Complicated organizational structures of many hierarchical levels
9. Heavy accumulated debt of enterprises

10. Lack of feeling of responsibility to get work done quickly and properly
11. Low awareness of quality
12. Lack of up-to-date information and know-how
13. Problems in internal flow of communication because information still considered as power
14. Varying and conflicting interests of workers
15. In many cases workers back their managers' maneuvers to avoid change fearing that it will threaten their jobs
16. Power of top management limited by resistance of middle and lower echelons
17. Favoritism at all levels of hierarchies
18. Inability of enterprise to meet the financial cost of change
19. Reluctance to assume risk of change
20. Lack of incentives to stakeholders (workers, managers, stockholders) to support and implement change
21. Western capital is very hard to attract and to absorb effectively
22. Suspicion of suitability of change: "Change for the sake of change"
23. Changes can also have unforeseen negative side-effects
24. Ignorance of local structures, cultures and values by western investors
25. Failure to implement changes required to adapt to the market starts becoming reason for management to have to step down
26. Most changes are costly and therefore usually enterprises cannot afford them

B. Guidelines

1. Make workers and managers realize there is no way back to the old system
2. Major incentives for change are:
    a) Competition as initiator of change
    b) Need for survival recognized inside enterprise
    c) Financial incentives to management, workers and stockholders (profitability rewards)
3. Importance of networking with authorities

4. Importance of study and correct reading of market
5. Get good local and/or foreign consultants
6. Restructuring of enterprises into smaller financially independent business centers
7. Decrease span of CEO's control
8. Importance of suitable committed foreign partner.
9. Joint ventures help enterprise enter foreign markets
10. Before calling outside experts prepare enterprise: rally for change and bring outside experts only when consensus of change has been achieved and the atmosphere is positive
11. Organize personnel training and establish permanent relations with technical educational institutions
12. Demote employees who resist
13. Introduce performance evaluation
14. Introduce profit sharing as an incentive
15. Substitute gradually the old management/leadership from within, with new qualified management which is supportive of change
16. Introduce an acceptable process for layoffs
17. Interdepartmental coordination (foster lateral integration)
18. Improve internal communications by " liberating " information
19. Focus on profitability
20. Introduce clear uncomplicated, transparent and reasonable process for management buyout
21. Lease some production units to foreign companies
22. Implement the changes required, step by step
23. Realize that change takes time

III. Internal Enterprise Human Aspects and Factors

A. Problems

1. The overwhelming majority of companies studied, are judged by researchers to be "change friendly" when it comes to intention. However changes stall when it comes to implementation
2. Lack of systematic approach to change
3. Psychological barriers (feelings of intimidation, uncertainty and fear)

4. Social and cultural barriers i.e. egalitarianism
5. Persistent values of the old system i.e. collectivism, and stereotypical thinking
6. Attitude of people towards change
    6.1 Attitude of top managers: most changes are seen as "unnecessary extravaganza"
    6.2 Attitude of middle managers: Resistance and ability of middle and low management to thwart change
    6.3 Attitude of workers
        6.3.1 Fears of losing job and status as members of the enterprise
        6.3.2 Decreasing identification (and therefore loyalty) with the enterprise
    6.4 Attitude of workers collectives: their power in privatized enterprises is becoming considerably smaller than in state enterprises
7. Managers older than 50 years old, usually do not get involved in change

B. Guidelines

1. Formulate a clear vision of the enterprise
2. Avoid rigidity in changes but do not compromise on essentials
3. The most effective means to achieve change is to involve all people affected by it. Suggested steps:
    a) Set realistic goals
    b) Secure financing to cover cost of change (if any)
    c) Explain need for change to everyone needed to make it happen
    d) Motivate all stakeholders and explain advantages of change
    e) Require and evaluate performance
    f) Train
    g) Support involvement
    h) Be patient but persevere
4. Convince owners, managers and workers (address fears and suspicion)

5. Harmonize priorities of stakeholders
6. Establish personnel policy and wage system with categories, where every employee can see and affect his carrier path
7. Create a reward system for those with innovative ideas
8. Acknowledge the expertise and abilities of older managers
9. Redistribute authority among middle and lower managers
10. Establish programs for continuous Training
11. Create Innovation Teams
12. Replace unsuitable and unwilling personnel including managers
13. Create a Special Department of Staff which finds jobs for redundant employees enabling them to leave at their own volition

## APPENDIX TWO

**Key problems identified by faculty and participants at the Bor seminar "Grasping the Logic to Bridge the Gap", which act as barriers to effective interaction between Russian and Western managers, consultants and trainers.**

The following list of problems is not exhaustive, but does capture the central areas of concern which habitually inhibit unity of purpose between local managers and Western counterparts, consultants and trainers, creating friction in interpersonal relationships rendering interaction ineffective and causing a high failure rate of Western management consultancy assignments

A. Main problems as perceived by Russian staff

- Difficulties in clarifying goals jointly
- Failure to take local staff through the processes
- Denying local staff ownership of the terms of reference of problems
- Mismatch of management concepts and terminology
- There is a sense of accumulated frustration with Western consultants due to their misunderstanding of local approaches
- "Western trainers usually being knowledgeable about one particular topic, but lacking a wider intellectual perspective"
- Western firms do not encourage local employees to grow
- "Western trainers are inflexible; they cannot or will not adapt their materials and teaching style"
- Western trainers, especially if they are young or without direct management experience, do not automatically win the respect of Russians
- Local staff are denied access to information
- "Western managers impose their views; they do not listen"
- "Western consultants do not understand local social and cultural responsibility"

- "Western consultants do not understand that Russians will work for an idea"
- Russians do not like the "I' m here to help" approach
- Western consultants need to spend more time on site in order to understand the client
- Western consultants are often perceived as patronising
- An inclination to use local staff only as facilitators and not as analysts
- Reluctance to promote local staff
- Perception that Russians are regarded as professionally inferior by consultants (discrimination)
- Severe imbalances in remuneration between local staff and Western employees for the same work
- Westerners do not appreciate how much they must learn about transition countries before and during the assignments
- Reluctance to trust the abilities and potential of local staff (i.e. give them opportunities to demonstrate their expertise, knowledge, commitment, etc.)
- Western consultants cannot cope with the complexity of transition countries
- Western consultants cannot cope with the emotional dimension of local life
- False assumption that, because a particular method of procedure works elsewhere, it can work in transition countries
- Western tendency to make things more complex and arcane than the need to be, on the one hand, or oversimplify, on the other

B. Main problems as perceived by Western staff

- Problem of making Russians see Western-type companies as teams and not as entities in which the boss is in effect an autocrat
- The experience gap (lack of background, know-how, unfamiliarity of procedures, limited knowledge of each others' world) is at least as serious as any structural gap
- Problems in developing team-work approaches and using delegation of authority as a managerial tool
- Russians do not always grasp that foreign companies have radically different approaches to business (some operate tight corporate guidelines, others emphasize personality)
- Russians are inclined not to make a distinction between a manager and a leader
- Local managers do not know how to work with consultants and expect them to be able to solve problems for them

- The danger of building up local expectations about the effectiveness of consultants
- Russians expect to learn very fast about the workings of the market economy when they work for a foreign organization
- Tension between hard facts and the soft approaches
- Tension between long and short- term goals
- Russians are as yet little experienced in understanding organizational dynamics
- Russians are inclined to discuss principles at length and wrongly assume that practicalities can be dealt with quickly
- Senior managers in local enterprises will be knowledgeable about their functional area, but may not have enough information on overall performance (i.e. lacking information from the top)
- The abiding conviction of locals that local problems are unfathomable to foreigners

## References


Aguilar, F., Loveman, G. and Vlachoutsicos, Ch. *The Managerial Challenge in Central and Eastern Europe as Viewed from Within*. Harvard Business School Working Paper 95-041, 1994.

Bertaux, D. "L'approache biografique, sa validite methdologique, ses potentialites." *Cahiers Internationaux de Sociologie,* 67 (1980).

Bertaux, D. and Kohli, M. "The life story approach: continental view." *Annual Review of Sociology*, 184(10)

Blasi, J. Krumova, M. and Kruse, D. *Kremlin Capitalism: The Privatization of the Russian Economy,* ILR Press/ Cornell University Press, 1997.

Clarke, S. *Privatization: The Politics of Capital and Labor. 1994 from* White, Stephen et al (eds). *Developments in Russian and Post-Soviet Politics*, Durham, NC, Duke University Press, 1994.

Crabree, B. and Miller, W., ed. *Doing Qualitative Research Multiple Strategies*. Sage Publications, London, 1992.

Danielyan, Emil, "Post-Soviet 'Super-President' versus democratic transition", Prism 02/26/1999, No 4, Part 2, p. 3.

Easterby-Smith, M., Thorpe, R. and Lowe, A. *Management Research: An Introduction*. Sage Publications, London, 1991.

Gacs, J. and Cooper, R. *Trade Growth in Transition Economies: Export Impediments for Central and Eastern Europe*. IIASA, 1997.

Gummesson, E. *Qualitative Methods in Management Research*. Sage Publications, Newbery Park, 1991.

Hanson, P. *The Russian Economic Crisis and the Future of Russian Economic Reform,* paper delivered at SAIS, February 1999.

Hanson, P., Peter Kirkow, Douglas Sutherland and Tamara Troyakova *Kaliningrad and Primorskii Krai*, unpublished paper, 1999.

International Institute for Applied Systems Analysis, *Study on International Trade as experienced in the STEs of Central and Eastern Europe, 1997.*

Kennaway, A. *Strategic Problems of Economic Reform in Russia. A View from Abroad.* Conflict Studies Research Center, The Royal Military Academy, Sandhurst, 1995.

Kharkhordin, O. and Gerber, T.P. "Russian Directors’ Business Ethic: A Study of Industrial Enterprises in St. Petersburg, 1993." *Europe-Asia Studies*, 46(7) (1994).

Kirk, J. and Miller, M. *Reliability and Validity in Qualitative Research.* Sage Publications, Beverly Hills, 1996.

Kornai, J. *Economics of Shortage,* North Holland, Amsterdam, 1980.

Krawciw, N.S.H. *Ukrainian Security Policy.* Center for Strategic and International Studies, The Washington Papers 167, 1994.

Lavigne, M. *The Economics of Transition, From Socialist Economy to Market Economy.* MacMillan Press, London, 1995.

Lawrence, P. and Vlachoutsicos, Ch. "Joint Ventures in Russia: Put the Locals in Charge." *Harvard Business School Review* (1993).

Pavic, I. *Large Croatian Enterprises - Problems of Restructuring,* paper presented at the Third International Conference on Enterprise in Transition, Sibenik Croatia, May 27-29 1999, University of Split - Faculty of Economics.

Salavrakos, I. *The Black Sea Economic Cooperation (BSEC): Problems and Prospects of Integration with the Global Economy.* Institute of International Economic Relations, Occasional Paper No. 10, 1997.

Satter, D.,"The Human Rights Situations in Russia", Prism, 02/26/99, No 4, Part 2, p.4.

Shlapentokh, V. *Russia - Privatization and Illegalization of Social and Political Life.* E80, Conflict Studies Research Center, The Royal Military Academy, Sandhurst, 1996.

Slider, D. *Reforming the Workplace: the 1983 Soviet Law on Labor Collectives.* Soviet Studies, Vol. XXXVII, no. 2, April 1985.

Vlachoutsicos, Ch. *The Russian Communitarianism: An Invisible Fist in the Transformation Process of Russia*. The William Davidson Institute at the University of Michigan Business School, Working Paper Number 120, 1998.

Vlachoutsicos, Ch. and Lawrence, P. "How Managerial Learning Can Assist Economic Transformation in Russia." *Organization Studies*, 17(2): 311-325 (1996).

Vlachoutsicos, Ch. and Lawrence, P. "What we don’t know about Soviet management." *Harvard Business Review*, pp. 82-86 (1990).

Vlachoutsicos, Ch. And Liargovas P., "Obstacles of Economic Cooperation Among BSEC countries, Hellenic Foundation for European and Foreign Policy, 1997.

World Bank, World Development Report (1996)

Wright M, R.H. Hoskisson, Igor Filatotchev and Trevor Buck, "Revitalizing privatized Russian enterprises", Academy of Managerial Executive, 1998, Vol. 12, No 2.