Firm Ownership and Work Motivation in Bulgaria and Hungary: An Empirical Study of the Transition in the Mid-1990s

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Working Paper Number 205
May 1998

Comments Welcome

Presented in the Davidson Institute Research Workshop Organizational Change in Transition Economies
Ann Arbor, Michigan
September 26-28, 1997

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Firm ownership and work motivation in Bulgaria and Hungary: An empirical study of the transition in the mid-1990's

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Manuscript based on a paper presented at the
'Organizational Change in Transition Economies' Workshop.
1. Introduction

This chapter deals with the transition from a centrally planned to a market economy in Eastern Europe of the 1990s. From the numerous publication which have appeared on this topic (e.g. Saunders, 1993; Shen, 1993; Jackson & Bilsen, 1994; Gross & Steinherr, 1995; Wilkens, 1997; Zecchini, 1997) it has become clear that the transition is a complex process many facets of which are still poorly understood. Transition is often approached from the perspective of macro-economics and conceived as a matter of economic policy. Although differences of opinion exist regarding the sequence and speed of interventions, and about the optimal 'mix' of policy ingredients (e.g. Milor, 1994; Campbell, 1995; Murrell, 1995; Aslund, 1997), there is a general agreement among experts that measures such as macro-economic stabilization, price liberalization, privatization, economic restructuring, industrial policy, regional policy and institutional reform are indispensable to bring about the desired change (EBRD, 1994; Blanchard, Froot & Sachs, 1994; Jeffries, 1996).

Privatization, the subject of this chapter, plays a key role in this context. It is considered as a prerequisite for economic reform, since private ownership constitutes a base for the expression of economic interests and the administration of incentives (North, 1992; Somogyi & Torok, 1993; Estrin, 1994, 1997; Laffont, 1996). Private ownership is expected to lead to greater efficiency and competitiveness, and thereby to higher levels of firm performance (Pollitt, 1994; Steinbacka & Tombak, 1995). The key factor is worker motivation, which is supposed to be influenced by incentives. Some authors therefore expect privatization to help in overcoming the core deficiencies of the former planning system, that is the lack of incentive and motivation (e.g. Frydman & Rapaczynski, 1994).

There have been many studies of privatization, ranging from national or sectoral analyses to case studies of single companies (e.g. Whitfield, 1992; Saunders, 1993; Estrin, 1994; Frydman & Rapaczynski, 1994; Bishop, Kay & Mayer, 1994; Nishimura, 1995; McFaul & Perlmutter, 1995; Dobrynski, 1996; Pringle & Rondinelli, 1997). The available evidence does not only cover Eastern Europe but also China and western countries such as the United Kingdom, Spain and New Zealand. The results show that there are large differences in the approach taken to privatization and that the effects depend on many factors. Among these factors are the
form of privatization (de novo, auction, small scale, mass), the speed and duration of the privatization process, who becomes the new owner (employees, managers, stock holders), the existence of a capital infrastructure, the number of private and public firms on the market, the relationship between the formal and informal sector, the level of competitiveness, overall economic health, the distribution of social benefits, etc. It appears that the observed effects also depend on the criteria chosen by the researchers. Thus, diverse results are found depending on whether they use social and economic variables, analyze firm-level or state-level outcomes, and short-term or long-term effects. It is clear that the expectations regarding the costs and benefits of privatization are not always fulfilled. This is particularly true for general conditions of transitions present in Central and Eastern Europe.

These outcomes remind one that the transition process is not merely an economic affair. Other factors must be considered as well. From an institutional point of view one would emphasize cultural and historical factors (Shen, 1993; Nolan, 1995; Delorme, 1996), and hypothesize that the success of privatization would depend on the degree to which it can be reconciled with persisting practices, and on the opportunity for existing institutions to redefine their role under the new circumstances. From a sociological perspective one would highlight the role of social classes, and see privatization as an arena for a power struggle between old and newly emerging classes. From a psychological perspective one would look at people's attitudes and behaviors, and expect that the effects of privatization depend on people's capacity to effectively change their motivation and work activity.

In this chapter we adopt a psychological perspective. We focus on facets of employee motivation, assuming that a moderate to high level of motivation is a necessary (though not sufficient) condition for successful organizational performance and change. Of course, individual behavior is not only a determinant of organizational processes and outcomes. It is also determined by what happens in the organization and in the society at large. Thus, the transition process can be seen as a recursive causal chain, in which human activity is being shaped by earlier events and is shaping subsequent events.

The study reported here is based on the belief that empirical research on the interaction between the macro and the micro level, embracing economic as well as behavioral indicators, is of importance for improving our understanding of the successes and failures of transition processes. We concentrate on the relationship between firm ownership as an economic factor
from the macro level, and a number of behavioral factors from the micro level. Of focal interest is work motivation, but we will also look at a number of related variables, including job satisfaction and self-reported performance. Our main objective is to investigate whether changes in firm-ownership have an influence on motivation, since that might affect subsequent work performance and firm outcomes. More in particular we are interested in finding out whether privatization does indeed have the motivational effects mentioned in the economic literature, and whether it can be expected to facilitate the process of transition.

2. Firm ownership and organizational behavior

There is a vast literature demonstrating the relevance of the work situation for people's work motivation, as well as the causal link between work motivation and satisfaction and performance. Research on the so-called 'Job characteristics model' (Hackman & Oldham, 1980) has convincingly demonstrated that job factors such as autonomy, skill variety, task identity, task significance and feedback contribute to higher work motivation (e.g. Fried & Ferris, 1987; Glisson & Duric, 1988). Other studies (e.g. Ten Horn, 1983) have pointed at the role of the opportunities to satisfy personal needs at work, such as the needs defined by Maslow (1954): growth, esteem, belongingness, security and physical needs. Leadership styles and behaviors also play a role, as do employment variables such as level of pay and career opportunities. In another perspective, proposed by Locke & Latham (1990), motivation is mainly influenced by goals to be achieved, as well as by feedback on performance and rewards.

Researchers conceive of work motivation in different ways, depending on the particular theoretical framework chosen. We prefer to define it as "a state of readiness to perform work-roles as offered by the job or the organization" (Roe, in preparation), and consider job involvement (Lodahl & Kejner, 1965) and organizational commitment (Steers, 1977) as indicators of motivation. Many studies offer evidence for a relationship between these two motivation variables and a wide range of outcome variables. Thus, job involvement and organizational commitment relate negatively to turnover and absenteeism, and positively to job satisfaction and performance (e.g. Shore & Martin, 1989; Ingram, 1991; Martin & Hafer, 1995; Keller, 1997; see also Griffin & Bateman, 1986; O'Reilly, 1991).
Looking at firm ownership from the perspective of organizational behavior, one would expect a number of differences between privately owned and state-owned organizations. E.g. private firms, relying on the market for profit and survival, may be expected to give their employees feedback on performance and reward them accordingly. State-owned firms, on the other hand, are likely to emphasise rules and instructions instead of outcomes, and to reward employees according to their position or the display of loyalty to the management. Thus, one would expect employees in privately owned organizations to be better motivated than those in state organizations. Moreover, state organizations are typically structured in a rigid, mechanical way, based on political hierarchy, and exhibit a far-reaching division of work. Thus, compared to private firms, one would expect to find jobs with less autonomy, variety, task identity and task significance, and hence lower work motivation. On the basis of leadership styles one would come to similar predictions. Generally speaking, private organizations would be expected to offer a more stimulating environment to their employees, and to evoke higher levels of motivation and performance than state organizations. A fortiori one would expect privatization, i.e. the change from state to private ownership, to have a positive effect on employee motivation and behavior.

Remarkably enough, the research literature contains very few studies about firm ownership and organizational behavior. Most studies deal with employee- or management-ownership (e.g. Ben-Ner & Jones, 1995; Paul, Edabi & Diltz, 1987) and have little bearing on the differences between state and private ownership. A rare study addressing the issue directly was reported by Bourantas and Papalexandris (1993) on employees in the public and private sector in Greece. In line with the foregoing this study shows marked differences in organizational commitment, general satisfaction, positive reward, and organizational performance in favour of the private firms. The authors also report somewhat more productive leadership in the private firms. A study on privatization in a British firm (Nelson, Cooper & Jackson, 1995) points at the importance of the changes process implied in privatization. It demonstrates some change in job satisfaction over time reflecting the stages of the change process rather than a difference between the ownership forms.

Some economic and sociological studies approach the issue in an indirect manner. They suggest that firm ownership has a relationship with firm governance, which in turn affects employee behavior. For instance, Mann, Lenway and Utter (1993) - reporting on privatization in
Hungary, Poland and Czechia - postulated a causal link between privatization, governance and performance, based the management of incentives within the firm. Another illustration can be found in research by Kornai which reveals a pattern of governance prevalent in former Communist Hungary and other state-owned economies (see Kornai, 1992). He describes how 'soft budget constraints' incited enterprise managers to pose excessive demands on state bureaucrats, which subsequently lead to a chronic shortage of goods and services. This situation is known to have been a source of worker opposition and dissatisfaction (Héthy & Makó, 1989). However, more recent research, focusing on the relationship between firm ownership and governance in post-Socialist Poland, Czechia and Hungary (Chavance & Magnin, 1996) failed to confirm the expected link between the two. Similarly, Koopman & Heller (1998) reporting on six case studies in Hungary conclude that privatization itself does not produce changes in organizational structure, decision-making, leadership and human resources management. According to Estrin (1997; p. 19) "Initial studies have found very little evidence that privatised firms behave very differently from their state owned counterparts".

Of marginal relevance are studies of management buy-outs in Western countries (e.g. Thompson, Wright & Robbie, 1992) which have looked into the effects on the firm. These studies suggest that management buy-out can lead to greater motivation among the new owners, positively affect social relations among senior managers, improve decision-making, and contribute to culture change (Green & Berry, 1991). Unfortunately, impacts on employees have not been covered in this research.

We must conclude that at this moment there is not much evidence showing that employees in state and private organizations differ in work motivation or related behaviors, nor that privatization is a cause of change. Below we will describe a recent study carried out among Bulgarian and Hungarian employees, which directly addresses the link between firm ownership and employee behavior, and tries to deepen our understanding of how privatization affects organizational behavior.

3. Aim of our study

The aim of our study is to clarify the relationship between firm ownership and employee
motivation, as well as number of other behavioral variables, during the economic transition in Central and Eastern Europe of the 1990's. The research questions we will try to answer are the following:

1) Ownership. Which differences exist between people employed by organizations with different forms of ownership with respect to their work motivation and related variables?

2) Transition. How do the differences between people employed by organizations with different forms of ownership evolve over time?

3) Privatization. How does privatization influence work motivation and related variables among employees?

Since the literature fails to provide clear evidence on these matters we have decided to abstain from formulating hypotheses, and rather do an exploratory study regarding the ownership-motivation relationship, the changes in this relationship during the transition process, and the effects of privatization. The fact that no hypotheses are given, does not imply that we don't have any expectations concerning the outcomes of our study. As has been made clear above we assume that employees in private firms will display a higher level of motivation than employees in state firms. The same holds for the other variables which will be specified below. As for the changes over time we expect an upward trend, reflecting the improving social and economic circumstances during the transition process. While such an effect seems likely for people in all types of firms, we expect it to be stronger in the privately-owned firms. Our expectation concerning privatization is that the employees concerned will exhibit a growth in motivation and related variables, greater than that in the state sector. However, we are aware that these expectations may appear to be wrong and that the reality of the post-Socialist countries may reveal other links between ownership and employee behavior.

4. Method

Our study analyzes data from two panels of Bulgarian and Hungarian employees, collected in
May 1994 and November 1995. The research reported here is part of a larger study on work motivation and quality of work carried out in Bulgaria, Hungary and the Netherlands, during the period 1994-1997. The countries were originally selected because of their difference along geographical dimensions (Bulgaria: south-east, Hungary: central, the Netherlands: north-west) and their stage in the transition process (Bulgaria: late starter, Hungary: in-between, the Netherlands: full market-economy). The data from the Netherlands will not be included in this study.

The research design used in our study is the following. In answering the first two questions we will treat firm ownership as an independent variable. A distinction will be made between four types of ownership, i.e. state firm, domestically owned private firm, foreign owned firm/joint venture, cooperative. We will use seven dependent variables, all related to work motivation. Apart from job involvement and organizational commitment, which were already mentioned, we include two variables that can be considered as 'proximal precursors' of work motivation, i.e. responsibility and meaningfulness (Hackman & Oldham, 1980), as well as two variables that can be seen as 'proximal outcome' variables, i.e. job satisfaction (Cranny, Smith & Stone, 1992) and expenditure of effort (Roe et al., 1997). Finally, we will also look at the employees' self-reported work performance. In our analysis we will compare the employees from the four ownership classes with regard to all dependent variables, using all data from the 1994 and 1995 waves.

In answering the third question we confine ourselves to employees who continued to work for the same firms in the same jobs. We make a comparison between those who reported their firm to have changed ownership from state to private to those who remained employed by a state firm. The dependent variables are the same as mentioned above. People working in cooperatives were not included in this analysis.

In order to interpret the differences found between ownership categories, we have also made an analysis of other variables, pertaining to the respondents' working conditions, living conditions, biographical characteristics, and firm characteristics. We will only report on those factors in which differences or changes were noted.

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1 The study was carried out by the authors under contract ERB-CIPACT 930356 with the European Commission.
Our data were gathered in samples of Bulgarian and Hungarian employees. These samples are approximately representative of the overall occupational population in the respective countries with regard to gender, job level and economic sector (industry and service), and geographic area, except for rural areas. The data were collected in two waves, with an interval of 18 months, using the same panel of respondents. The first administration of the instruments took place in May 1994, the second one in November 1995. Some information on the composition and size of the samples is presented in Table 1.

Here Table 1

The instruments used for collecting our data were part of a larger questionnaire which was administered by interviewers. The linguistic equivalence of the instruments has been ascertained by means of cross-translation in the preceding construction phase. The same is true for the psychometric properties of the scaled variables (see Roe et al., 1997). All scales have multiple items and use a Likert-scale format. The scores are considered to represent measurements on an interval scale. To facilitate comparisons the raw score scales were transformed to a C-scale format; this means that the scores range from 0 to 10, and 5 is the scale's midpoint.

Table 2 provides summary data on the scale length (number of items) and the alpha's found in the main study\(^2\). It appears that the alpha's range from .57 to .81, with a median value of .72. These levels of homogeneity are satisfactory for an analysis as presented here.

Here Table 2

Firm-ownership was measured by asking respondents to describe the ownership of their firm, using the following categories: (1) state owned; (2) privately owned; (3) joint venture; (4) foreign owned; (5) cooperative. In the analysis of differences between ownership categories we have combined the response categories 3 and 4 into a single category. In the analysis of privatization the firms moving from category 1 to categories 2, 3 or 4 have been coded as

\(^2\) The alpha's were calculated in a subset of the total samples which was held apart during scale construction. They are free from capitalization on chance.
privatized.

Our measure for Responsibility was composed of items by Hackman and Oldham (1975), taking into account the study by Idaszak and Drasgow (1987). Meaningfulness of the work was measured by a scale especially constructed for the present study (Roe et al., 1997). The scale for Job involvement is based on Lodahl and Kejner (1965), and Ten Horn (1989). The scale for Organizational commitment contains items taken from Porter and Smith (1970), Buchanan (1974), and Cook and Wall (1980). For measuring Job satisfaction a scale developed by Ten Horn (1989) was used. It also contains 'faces'-scales (see Kunin, 1955; Dunham & Herman, 1975). The scale for Expenditure of effort was constructed for the present study. The same applies to the scale measuring performance. It was especially developed because the cross-sectional nature of the study precluded the use of objective performance data or supervisory ratings. The items ask the respondent to compare his/her performance with that of other employees, and to report on signs indicating a good or bad evaluation. The scale covers aspects of task performance as well as role performance. A precise description of the instruments is given in Appendix 1. For more information on psychometric properties we refer to Roe et al. (1997).

As the main method of analysis we used analysis of variance. In answering the first two questions we did a multivariate analysis of variance on all dependent variables, using ownership as independent variable. The multivariate analysis was followed by a univariate analysis, and contrast effects were ascertained to assess the differences between the ownership types..Given the exploratory nature of our study, and the small number of cases in some cells, the significance level was set at alpha = .10 in all cases. In answering the question about the differences between ownership types we used the samples of 1994 and 1995, and considered them as replications. For answering the question about the changes over time, we compared the results of the 1994 and 1995 samples, identifying the differences between them. The third question was answered by means of analysis of variance for each of the dependent variables. We used a two-factor design with 'Time' (May 1994 v. November 1995) and 'Privatization' (absent v. present3).

3 Here 'absent' means that subjects remained employed by state firms, while 'present' means that they reported a change from state-ownership to some form of private ownership (categories 2, 3 and 4 as mentioned on page ..).
as well as their interaction. Time is treated as a within-subjects factor, while privatization is a between-subjects factor. For the latter analysis we only used data from subjects who had the same job and continued to work for the same firm.

5. Results

Ownership

Are there differences between firms with different types of ownership with respect to employee motivation and related variables? The results regarding this question are summarized graphically in Figures 1 and 2, and presented in numerical form in Tables 3 and 4. More detailed information (means, standard-deviations, Ns) are given in Appendix 2. Let us first consider the findings from 1994 as given in Figure 1 and Table 3. Considering all dependent variables simultaneously we can note that there is a significant difference between the four ownership categories for both the Bulgarian and the Hungarian sample. Employees seem to differ indeed in their work motivation and performance, but the pattern is not exactly as one would expect. Employees in state firms have scores as high as employees in private firms with either domestic or foreign ownership on most of the variables. Yet, there a few deviations from this rule, and there are interesting differences between the two countries which deserve a closer look.

Here Figure 1

Here Table 3

According to the univariate tests for Bulgaria the differences between the ownership categories are not significant for job involvement, organizational commitment, and effort, but they are for experienced responsibility, meaningfulness, satisfaction, and performance (Figure 1). By 1994 the employees of the Bulgarian state firms attain higher scores on almost all dependent variables than the employees in other types of organizations. The exception is job satisfaction. On this variable the state employees score significantly lower than other employees. The employees of
foreign firms and joint ventures show a significantly higher level of meaningfulness in their work compared to other employees. Another finding is that the greatest contrasts exist between the cooperatives and the other firms. The employees of the cooperatives score higher than the other employees on all variables; the differences are statistically significant for four of the dependent variables, i.e. experienced responsibility, meaningfulness, effort and performance.

Here Figure 2

Here Table 4

The results for Hungary are noticeably different, in the sense that a significant effect of ownership is only found for job satisfaction, with the highest scores for Hungarian private firms and the lowest for the cooperatives. However, the fact that the employees of the state firms do reach similar scores on the other variables can be seen as a confirmation of the Bulgarian results.

Let us now turn to Figure 2 and Table 4 and ascertain how the ownership categories differ by the end of 1995. Again we can note that there are significant differences according to the multivariate test, but now the two sets of data look somewhat different from before. For the Bulgarian sample the overall pattern has changed, the relatively high scores for the employees of the state firms and the cooperatives having faded away. According to the univariate tests there are significant effects for responsibility, satisfaction and effort, but, as before, not for meaningfulness and performance. The effect for responsibility is based on lower mean scores for state employees and higher scores of employees of foreign firms and joint ventures. For job satisfaction the same applies. The lower satisfaction scores among state employees appears to persist.

The Hungarian data of 1995 show significant univariate effects for involvement, satisfaction and performance. Remarkably enough involvement appears to be higher in employees of state firms and cooperatives. With regard to satisfaction and performance the state employees score as high as the employees of the private firms. Moreover, substantially lower scores are found for the cooperatives.
What is not apparent from the figures is that there are differences in the variation of scores between the ownership categories. Typically the private firms show a greater variance in job involvement and organizational commitment, as well as in most other variables. In the 1994 data greater variances are mainly found among the employees of the foreign firms and joint ventures, while in 1995 the domestic private firms show the greatest variation. This tendency is visible in both countries, but more markedly in Hungary.

In answer to our first question we must say that there is no evidence showing that, on the whole, employees of state firms are less well motivated and perform less well than employees of private firms with either domestic or (partial or full) foreign ownership. With regard to the motivational variables, job involvement and organizational commitment, the employees of state firms score as high as, or even higher (Hungary 1995) than, the employees of other types of firms. However, there is evidence of a lower job satisfaction in state-owned firms and higher satisfaction in privately owned firms, and especially foreign firms and joint ventures. The expectation that private firms would display better results than state firms is thus not borne out by the data. The circumstances offered by the state firms obviously enable people to make sense of their work and to maintain a reasonably high level of work motivation. But with respect to satisfaction the state firms do less well, and the tide may be turning in favour of the private firms, especially the foreign firms and joint ventures. The picture does show some changes, in the sense that the 1995 data generally show relatively higher scores for firm with foreign ownership. What we had not expected is that there is greater variance among the firms with private ownership. This may mean that some firms with domestic and/or foreign ownership do indeed have better motivated personnel, while others have less motivated employees.

**Transition**

How do the differences between people employed by organizations with different forms of ownership evolve over time? To answer this question we compare the means of May 1994 and November 1995. As we can see from Figure 1 the Bulgarian data reveal a slight upward tendency in responsibility and job involvement, as well as in effort and performance.
Meaningfulness, commitment and satisfaction are stable, though. An interesting change concerns the relative position of the ownership categories: while the mean scores of the foreign firms and joint ventures become higher, the differences between all four categories become smaller. As Figure 2 shows there are hardly any changes in Hungary: both the overall level of the scores and the pattern of the ownership types remain pretty much the same.

As for the variation within the ownership categories, there is a general tendency for the variance to drop in Bulgaria, while there are several increases in Hungary. By 1995 the greatest variance in both countries is found among the employees of domestic private firms.

Thus, our question concerning the general impact of the transition process, cannot be answered in a straightforward way. The pattern is different in the two countries. For Bulgaria a slight improvement is found, with decreasing differences between the four ownership types, and a more favourable position of the private firms. In Hungary no changes are observed. The greater variance in the firms with private ownership may obscure the developments somewhat.

Privatization

Does privatization produce changes in employee motivation and related behaviors? We compared the scores of those employees who continued to work for the same state firms to those who worked for firms that were privatized during the 18 month period covered by our study. The results are summarized in Figure 3 and Table 5 for Bulgaria and in Figure 4 and Table 6 for Hungary. Detailed information is given in Appendix 3. Figure 3 shows a number of differences between the scores from 1994 and 1995. For the employees in the privatized Bulgarian firms the means for responsibility, involvement, commitment, satisfaction and performance appear to have increased, while those for meaningfulness and effort have declined. Most of the effects are small and there are slight changes for the employees in the state firms as well. Table 5, containing the results of the analysis of variance, makes clear that none of the differences is statistically significant, except for responsibility. Privatization seems to produce higher responsibility for employees, but does not influence motivation or any of the other variables.

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4 Figure 3a also presents information on the changes during transition, discussed. Here a more limited data set is used, since only employees who continued working for the same state firms are included.
Again, the results for Hungary appear to be different. Here we find a pattern opposite to our expectations. As Figure 4 shows, the employees of privatized firms display a drop of mean scores on all variables, except for performance which goes up. Apart from responsibility and performance, this pattern contrasts to that of the state employees, Table 6 gives the statistical evaluation of these differences. It appears that the motivational variables, job involvement and organizational commitment, show a significant decline in mean scores with privatization. The same is true for meaningfulness and effort expenditure. The upward tendency in performance is statistically not significant.

We must conclude that our data do not support the expectation that privatization leads to a rise of work motivation or related variables. In Bulgaria we note an positive effect on responsibility only, not on any of the other variables investigated. In Hungary we find negative effects on meaningfulness, job involvement, organizational commitment, and effort.

6. Discussion

It appears from the previous section that the relationship between firm ownership and employee motivation is not as simple as one might expect or hope. We noted that employees of private firms are not better motivated than those of state firms. We also failed to find much effect of transition and privatization. As for the other variables we did not find the expected effects either, although there are some exceptions, such as the greater satisfaction among the Bulgarian
employees of private firms. In this section we will look for explanations of these results. We will first try to interpret the findings by relating them to data about working conditions from the same study. Consequently, we will raise some thoughts about how people at work are affected by the transition process. Next, we will discuss some implications of privatization by placing it in the context of organizational change. We will also take a look at privatization from the perspective of socio-economic policy, trying to explain the differences between the countries. Finally, some words will be said about the very notion of ownership and the difficulty of understanding what privatization actually means.

**Working conditions**

Using other data from the project on which this study is based, we were able to compare ownership categories with respect to working conditions and verify the assumptions made in the beginning of this chapter. The analysis makes clear that we were right in some respects and wrong in others. The assumption that private ownership leads to more feedback about one's work and more incentives seems to be correct. State employees get less feedback from their superior than employees in private firms. Since their firms are economically in bad shape, they receive less pay. It is also true that their work shows less variety and is more controlled by rules. However, we were not correct in assuming that private firms would offer more interesting jobs, with less division of tasks. Actually, jobs in the foreign-owned firms are rather similar to those in the state firms in this respect. In both, autonomy is lower than in the domestic private firms and cooperatives. Our expectations about leadership are partly borne out by the data. In Bulgaria state firms seem to have poor leadership compared to private firms, both with respect to person-oriented and task-oriented leadership. In Hungary no such differences are found. Furthermore we noted that in Bulgaria physical conditions are typically better in private firms, while in Hungary the state firms and foreign firms do better. Social climate appears to be more favourable in the private firms with domestic ownership.

A facet of work we did not consider beforehand, but which seems to be very important for motivation is the opportunity the job offers for satisfying personal needs, especially higher-order needs of Maslow: the needs for growth, esteem and belongingness. In earlier analyses (Zinovieva, Roe & Ten Horn, 1993; Zinovieva, Ten Horn & Roe, in press) these factors have
been found to be quite influential, more than job content and material conditions. It appears that on these factors state firms differ from private firms. Although the differences are small, foreign firms offer somewhat less opportunity for growth and belongingness.

Another domain which we did not consider in advance is that of labour relations. Most conspicuous about it is the virtual absence of labour unions in the private firms. This implies that employees of private firms have little opportunity to collectively influence firm policy and defend their interests. On the other hand, private firms appear to offer more room for influence at the shopfloor level. Compared to state firms employees in private firms receive more information on daily issues and policy matters from their boss, and they are given more opportunity to participate. This pattern of participation, found in both countries, is more common in firms with domestic ownership than in foreign-owned firms and joint-ventures. For obvious reasons cooperatives are strongest in employee participation in decision making. Our findings partially resemble those by other researchers, who studied Polish state and private firms. Belka (1995) found state firms to experience greater economic distress, and private firms to follow a "hire-not-fire" policy and to give less influence to employees. Havlovic and Moore (1997) found a higher level of industrial democracy in state firms. However, the greater incidence of shopfloor participation in private firms was not reported before.

Combining all evidence we must conclude that there are similarities as well as differences between state and private firms. With respect to extrinsic factors private firms perform better. That is, they offer their employees better material conditions, greater job security and more career opportunities. In addition, social climate and leadership tend to be more employee-oriented, particularly in Bulgaria. On the other hand private firms, especially the foreign ones, offer jobs that are intrinsically somewhat less attractive, and they expose their employees to greater change. Also, they give less room to labour unions, but have a more participatory management style. As Bulgarian and Hungarian employees assign more weight to satisfaction of higher order needs, this evidence indeed helps to explain the results found in answer to our first question, i.e. why the employees of state and private firms did not show the expected differences in work motivation and related variables.
Life amidst transition

To understand the results concerning the general effects of transition one must take a different perspective and focus on changes over time. During the years of transition there are many changes affecting people's experience and behavior at work. E.g. state employees witness a drop in status, less submissiveness among clients, less work to do because of market shrinkage, less sanctions from superiors, less regularity in salary payments, and so on. Moreover, employees in all sectors face some kind of change at their work place, be it a change in position or job, a change in leadership, downsizing or organizational restructuring. They also suffer from high inflation, new taxes, curtailment of health and social services, crime, job insecurity, and uncertainty about future developments in general, just like others in society (Roe, 1994; Genov, 1996). All this evokes insecurity, anxiety and stress, distract attention from the work role, and makes people look for other sources of income and security. And if transition does not bring the improvements hoped for, people become disappointed or hostile.

Although responses like these are common in Eastern Europe (see e.g. Balawajder & Popiolek, 1993; Ratajczak, 1995), there are also differences dependent on the stage and success of the transition. For the Bulgarians the stage studied was the first one with some economic advance since the beginning of the changes. Many people saw some improvement in their income and developed some optimism about the future (Genov, 1996). It seems that the growing optimism outbalanced their negative experiences, at least in the domain of work. The fact that we have to do with a general tendency is underlined by the decreasing differences between the four ownership types. The Hungarians, being ahead in the transition process and experiencing the pains of austerity and structural reform (Héthy, 1995), show a less positive response. The greater variance in several variables suggests that people are affected differently by transition, some enjoying improvements and others suffering from deterioration.

Privatization as organizational change process

In interpreting our findings on privatization, it is important to note that the transfer of ownership rights is just an episode in a longer lasting process of organizational change. One cannot expect it to take effect on the firm and its employees immediately. The build-up of a new governance
structure, the installment of a new management, the implementation of structural change, the
introduction of marketing methods, the change of personnel management practices, the
retraining of managers and employees all take time (cf Tung & Havlovic, 1997). The speed at
which this happens may differ, of course. Firms with foreign ownership may change faster since
they can rely on models from their parent organization (e.g. Ferencikova, 1997), especially in
the fields of finance, marketing and production. The advantage of foreign firms may be offset,
however, by a greater risk of 'cultural misfit'. Imported methods of management, especially in
the field of personnel, may match less well to local values and traditions, and therefore evoke
resistance among the employees (Erez & early, 1993). In our study we do find evidence of a
higher level of change in firms with foreign ownership, which may indeed be indicative of faster
change.

Moreover, privatization often is not the actual beginning of organizational change, since
preparations have occurred before the transfer of property rights takes place. Estrin & Hare
(1993) distinguish a pre-privatization phase which includes e.g. downsizing, breaking-up
corporate structures, and marketization (see Koopman & Heller, 1998).

A consequence of the foregoing is that some firms classified by our respondents as being
'state-owned' may already have undergone noticeable change, while many of the 'privatized'
firms are still in an early phase of change. This may have reduced the contrast, and implies that
stronger effects may appear at a later moment. Looking at our data in more detail, it is
noteworthy that privatized firms are seen as more similar to state firms than to private firms. In
addition, we have studied changes in an 18-month interval, which is relatively short. As time
proceeds one would expect the discrepancy to become greater.

The question remains whether in the longer run privatization would on the whole have
positive effects on employee motivation and performance. There are at least some reasons why
such effects may not generally occur. First, it should be recognized that each of the phases of
change following privatization may be more or less successful. Organizational change processes
sometimes fail to bring the intended outcomes or produce adverse impacts. The particular
approach followed may evoke scepticism of resentfulness among employees, and hamper good
performance. Secondly, not all privatized firms achieve economic success. Private ownership
may indeed stimulate competition, but competition does not ensure success. Depending on the
market constellation, some firms have success while others do not. In fact, the chance to fail is
one of the distinctive characteristics of the market economy. Since poor company performance is likely to affect employees by the way of feedback, remuneration, and career opportunities, work motivation in private firms may partly be lower rather than higher in state firms. This may, in fact, explain the greater variance we observed in private firms. Limited economic success can also account for other findings such as the declining satisfaction and performance among the employees of the Hungarian cooperatives.

In the third place, one should be aware that people's work motivation does not exclusively depend on the current situation. Motivation may to some degree reflect former working conditions, and be based patterns of behavior learned in the past. Our research on work motivation in Bulgaria and Hungary has shown that workers in these countries are not very sensitive to the actual working conditions to which they are exposed. We have noted a tendency among workers to work for their own interests rather than those of the firm. This 'egocentrism at work' (Zinovieva et al., 1993) can be considered to be a remainder from a period in which employment and pay were guaranteed regardless of performance, and in which work was organized on the basis of political hierarchy and bureaucratic plans. It was a way for people to make sense out of their working life, which seems persist during the times of transition.

Thus, people's response to privatization depends on many factors. Some may follow the pattern from the past, i.e. isolate themselves from the changes and emphasize what they find important rather than what the firm wants, accepting better payment without working harder. Others may be responsive to the extrinsic conditions and get more involved. Yet, most employees will respond more favourably if privatization improves their work intrinsically as well. Of course, people will also evaluate the new ownership - who the "new" owners are, which interests they pursue, what changes they bring - and respond to what the changes imply for themselves and the way in which they are implemented. Looking at our data we find some promising differences between privatized firms and firms with stable ownership. Greater feedback, less routine duties, better social climate, and more participative leadership are certainly strong points to which employees will respond positively in the long run.

The wider socio-economic context

As we have noted in the introduction privatization does not stand on its own, but is part of a
wider process of societal transformation. This process is very complex indeed. It consists of steps forward and backward, made by various actors with opposing interests, and it is a mixture of reform, stagnation, restoration, and decline (Roe, 1994). In earlier years there have been clear signs of resistance to change among members of former elites. Initially, managers of state enterprises have effectively opposed to privatization, or engaged in pseudo-privatization (Oechslin, 1991). Nagy (1993) mentions the role of institutional rigidity and resilience. Resistance to competition and increase of efficiency, and opposition to diminishing state influence may effectively nullify the potential effects of privatization. The result of all the interacting forces may be a mixture of inconsistent and conflicting structures, the operation of which is difficult to predict (Moore & Havlovic, 1995; Roe, 1994).

Privatization, being part of this overall transformation process, is difficult to isolate and study on its own. Unlike in Western countries, where many external circumstances remain the same, the effects it has on organizations and people cannot be clearly ascertained. In our analysis we have noticed that some changes in privatized firms (e.g. the increase in involvement and performance in Bulgaria) also occur in state firms. In Hungary privatization seems to add to the hardship of working life. Privatized firms, particularly those with foreign ownership, seem to put additional demands on people, making them work harder, and invoking more stress. In this context lower intrinsic motivation does not come as a surprise.

Looking at privatization from the perspective of macro-economic policy one should take into account that the countries of Eastern Europe have followed different policies of privatization (Estrin. 1997; Nishimura, 1995; Kotba & Svejnar, 1994), including restitution, small-scale privatization, mass privatization and stock auctions. There have been notable differences between countries in the timing of privatization. The two countries covered in our study also differed in their privatization policy. While Hungary used small-scale privatization and sold stock to foreign countries, Bulgaria opted for a mass privatization program involving coupons and investment funds. Hungary was well-prepared for small-scale privatization and started the process in the early ’90s, while Bulgaria launched its mass privatization scheme only in late 1995. We believe that the differences observed between the two countries can be attributed to these differences in stage of transition and approach to privatization. The Hungarians, being ahead in the transition process and experiencing limited returns, show rather negative responses to privatization. For them, the working conditions in foreign owned firms are not more
attractive, or even less, than in other firms. The Bulgarians, on the other hand, are positive in their response to privatization. Their reaction to foreign ownership is also more favourable. Since, as we have noted, the period covered in our study is the first showing some improvement since the start of the transition process, we are inclined to consider this to be a 'honeymoon effect' which is likely to disappear in future years.

Ownership and privatization

Finally we should take a critical look at the notions of firm ownership and privatization themselves. Like other researchers we have treated ownership as a categorical variable, distinguiishing state from private ownership, and differentiated private ownership in domestic, partly foreign, fully foreign, and cooperative ownership. We have operationally defined privatization as a change from state ownership to private ownership, excluding cooperative ownership. However, recent research (e.g. Stark, 1994; King, 1997) has shown that in Eastern Europe other types of ownership exist and that changes in ownership are often not as clear-cut as the notion of privatization would suggest. For instance, private firms may be owned by individual shareholders, other companies, banks, and the state, whereas banks are partly owned by other banks and the state. Mutual and circular types of ownership (A owning B, B owning C) have also been found. Chavance & Magnin (1996) speak of 'entangled ownership' (propriété enchevêtrée). King (1997) discusses a number of specific types of entangled ownership, and show that managers are often key players among the owners. The respondents in our study may not have been aware of the precise types of ownership, but may rather have acted upon more general information about who the prime owners were. Yet, we found evidence of the complexity and dynamics of firm ownership as some firms who had been private in 1994 were reported to be state-owned again in 1995. This phenomenon appeared to be stronger in Hungary.

Whether a more precise categorization of ownership types will show distinct impacts on the firms, seems doubtful to us. Having in mind that some management buy-outs and take-overs had speculative purposes, we would expect that a more refined approach would blur rather than clarify the effects. As we see it, ownership per se is less important than firm governance, control and especially management. After all firm success is determined by people effectively using resources in producing and marketing services and products.
7. Conclusion

The evidence presented in this study suggests that we may have to revise our ideas about the differences between state and private ownership and the effects of privatization. State or private ownership as such may not have much impact on managerial practices and employee behavior (Estrin, Schaffer & Singh, 1995). Privatization does not automatically lead to changes in policy and management, and does not have an immediate impact on peoples' expectations and behaviors. Rather than to conclude that firm ownership is of no consequence for the functioning of firms, we are inclined to emphasize the necessity to consider a range of other factors and to include them in further research. Here we think of the way in which organizations are structured, the design of jobs, management-employee relationships, and personnel management policies. We believe that private ownership can result in higher motivation and better performance, provided that organizations are structured in less mechanistic ways, employees are given more meaningful and responsible jobs, and authoritarian management practices are abandoned and replaced by democratic methods. Especially important is to recognize employees needs to manifest and develop themselves in work and to improve jobs intrinsically. Furthermore, personnel management policies should aim for the optimization of performance, competence and employee well-being. The introduction of performance management systems built upon the assignment of clear goals and responsibilities, feedback on performance, and incentives may be the core of such policies, but the other elements would certainly be important as well.

We would like to add that organizations in the public sector stress can profit from organizational improvements as well. Since not all state organizations will be turned into private firms there is a definite need to make those remaining more effective and turn them into more congenial work places. The way to realize such changes is very much the same as those mentioned for the private sector.

Research on organizational and management factors will not only to improve our understanding of how privatization affects employees, but also to help in enhancing motivation and removing existing barriers to individual and organizational performance, thereby contributing to
more successful transition in the future.
References


APPENDIX I

Scales used to measure the dependent variables

The following description of the items is based on Extended Delft Measurement Kit for Quality of Work Life (EDMK) (See Roe et al., 1997).

**Job involvement** (5-point scales)

- For me hours at work really fly by.
- I feel depressed when I fail in something connected with my job.
- I am deeply involved personally in my job.
- In this job I am concerned whether the work is done well or not.
- I would stay overtime to finish a task even if I am not paid for this.
- I don’t care much about what happens in my job.

**Organizational commitment** (5-point scales)

- I feel a sense of pride in working for this organization.
- In my work I like to achieve something for the organization, not just for myself.
- The offer of a bit more money with another employer would seriously make me think of changing my job.
- I really care about the fate of this organization.
- I don’t really feel a part of this organization.
- I am very upset if I notice that our organization has a bad name elsewhere.

**Meaningfulness of the work** (5-point scales)

- My work gives me the feeling of contributing to something useful for many people.
- I do not find anything worthwhile in my work.
- Doing my every day work duties I get the feeling my life is meaningful.
- The sense of my life is connected to the work.

**Responsibility** (5-point scale)

- I feel a very high degree of personal responsibility for the work I do on this job.
- Whether or not this job gets done right is clearly my responsibility.
- Most people of this job feel a great deal of personal responsibility for the work they do.
- Most people on this job feel that whether or not the job gets done right is clearly their own responsibility.
**Job satisfaction** (5-point scales)

- What would your present job look like compared to the job you would like to have (if you had the choice)?
  - very bad - bad - indifferent - good - very good

- If you had to choose again between taking your present job or not, what would you do?
  - I would certainly take the job again
  - I would probably take the job again
  - I would not be too sure
  - I would probably not take the job
  - I would certainly not take the job again

- You see a number of faces here. Put a cross below the face that expresses best what you feel like, when you go to work in the morning.
  - Faces' scale (female faces from 1 = smiling to 5 = sad)

- Put a cross below the face that expresses best what you think all in all about your job.
  - Faces' scale (male faces from 1 = smiling to 5 = sad)

- I am not satisfied with the job I have.
  - Completely right
  - Mainly right
  - Partly right, partly wrong
  - Mainly wrong
  - Completely wrong

- Would you recommend your job to a good friend?
  - Yes, certainly
  - Probably
  - I hesitate
  - Probably not
  - Absolutely not

**Expenditure of effort** (5-point scales)

- I usually put a lot of effort in my work.
- My job is very demanding.
- In doing the work I employ my capacities to the full.
- I see no need to strive for the maximum results in my work.
- The largest part of my energy is spent on my work.
- I do my utmost to excel

**Performance**
I am known to perform better than my colleagues.

I think I deserve a very good evaluation by my boss.

Compared to the standards I usually get good results from my work.

My achievements are usually better than those of others.

There are no or few complaints about the quality of my work.

If there are some difficult things to be done, they are usually given to me.

My colleagues often ask me for advice about difficulties in their work.

My colleagues make me doing some of their work, saying I know better.
### APPENDIX 2

Means, standard-deviations, and Ns according to ownership for Bulgaria and Hungary, 1994 - 1995

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### APPENDIX 3

Means, standard-deviations, and Ns for stable-state and privatized state firms for Bulgaria and Hungary (period 1984-1995)

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Figure 1a. Mean scores for Bulgaria 1994
Figure 1b. Mean scores for Bulgaria 1995
Figure 2a. Mean scores for Hungary 1994
Figure 2b. Mean scores for Hungary 1995
Figure 3. Mean scores Bulgaria 1994-1995
Figure 4. Mean scores Hungary 1994-1995
Table 1. Sample composition and sample sizes for Bulgaria and Hungary, 1994-1995
(between brackets percentages of valid cases)

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* p ≤ .10  ** p ≤ .05  *** p ≤ .01

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Results of Multivariate Analysis of Variance.

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