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## THE „ENTITELMENT MENTALITY“ AND LEGITIMACY OF PRIVATIZATION IN INDUSTRY

The case studies of two industrial firms<sup>1</sup> provide information on the employees' attitudes toward privatization as recorded at the time of the survey in February 1993. Privatization is perceived as a legitimate process (see Dahrendorf, 1959; Habermas, 1976) by the respondents<sup>2</sup>. The change of the ownership, so far, has not disturbed the social stability of the production institutions under survey. In the following text, we will consider the question: „What will influence the legitimacy of privatization in the next stage of economy transformation?“

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<sup>1</sup> The subjects of our study were two former state enterprises. The both of them have been privatized during 1992. They were private joint-stock companies at the time of the research in February 1993. The subject of the first case study was a machinery producing company. We will name it „Mechanica corporation“. It has been privatized through the voucher method. The second joint-stock company was privatized at the auction. The consumer goods factory under our study (we will name it „Domus factory“) is a part of it. The first case study was made by Petr Mareš, the second case study was made by Libor Musil.

<sup>2</sup> The overwhelming majority of the interviewed considers the extrication of industrial enterprises from the government influence and their transfer to private hands to be proper. Part of them, most frequently blue-collar workers, have altered their original statement and express more sympathies for the idea of mixed economy with certain elements of limited dirigisme. The intention behind this attitude is to prevent extensive dismissal of workers. The interviews with the employees somewhat ambivalent, but on the whole positive, attitudes toward the privatization of their firm. On the one hand, especially blue-collar workers, but also managers of lower levels, express their fears that the result of privatization and the transition to market economy will lead to the loss of employment security. The fear of employment insecurity, hypothetical, as it is so far, is counterbalanced with the belief that the capitalization of industry will bring along an increase in wages and in the employees' standard of living. The interviewed expect privatization to bring along „organizational changes of decisive nature“ which will lead to positive changes in their firm's position in the market and, subsequently, to the improvement or, at least, preservation of the employees' social status.

## Rejected Past and Anticipated Future as Sources of Legitimacy

The legitimacy of privatization is of two sources. In relation to the past it stems from the passionate rejection of the dirigistic economy of the socialist state whose organization did not permit industrial workers to accomplish their aspirations in the sphere of life standard. In relation to the future it emerges from awakened expectations.

The rejection of the dirigistic economy has been a powerful impetus to the preference of market economy after 1989, similarly as the social instability of the Depression in the 1930s was an impetus to reject the market. We may say that the legitimacy of privatization among the employees of both examined manufacturing institutions is of similar roots as was the legitimacy of nationalization of industry in the period after 1945. The interviews with the employees of both enterprises indicate that it is the desire to reach certain standard of family household that leads to the consent to hand over the particular enterprise to the new owners.

No matter how powerful a source of the legitimacy of privatization the rejection of the dirigisme in economy may be, its strength is fading away gradually under the influence of doubts over the insufficiently penetrating and too protracted realization of the expectations. Even though the attitude of the blue-collar workers toward privatization is affirmative, a certain degree of impatience and caution appears. The workers often observe that „nothing much has changed in their factory so far“ and that „it should probably improve“. Both firms have been privatized only recently. Therefore, the doubts are, so far, subdued by the notion „that it is going to take a long time“. A question arises if this „excuse“ by the protracted process in reorganization of the firms' life is not going to lose its force when there are further manifestations of economic unbalance, sales problems and possible reduction in the number of employees.

### „Entitlement Mentality“

Relative social peace in both firms is due to their ability to secure sales and to offer relatively stable employment. How will the employees react if the economic position of their employer sways again as in 1991? The answer to this question requires a detailed insight into the prevailing form of the employee participation in the life of their firm. We assume that the employee participation can take on – typologically – two basic forms. The participation can be either „direct“ or „indirect“ (representative).

The so-called „direct participation“ is based on „pulling“ the employees into the process of decision-taking about strategic, technical, and other questions including the personnel ones. This type of participation fortifies the employees' responsibility for the execution of the decisions in the making of which they took

part (see Ouchi, 1981; Gregor, 1993). An attendant mark of this type of participation in the firm's life is that employees display less intensive dependence on the trade union representation. The employees feel responsible for previous decisions of their firm thus perceiving economic difficulties and social instability of the firm more as a challenge to search for new solutions than as a reason for expressing dissatisfaction with the conduct of the management and the owners.

The so-called „indirect“ or representative participation is based on the institutionalization of associations of executive workers in industry. An example of the representative participation are the collective negotiations of the unions with the employers, government or other political subjects. Indirect participation appears in bureaucratically structured organizations where the cooperation is based on the separation of decision-taking and execution. Consistent separation of the functions implies a relative sharp social distance between the management and other employees. This distance and the following distrust becomes an impetus for establishing associations of employees. These associations defend the social interests of the members through their representatives – negotiators. In bureaucratic institutions with prevailing indirect participation forms, the employees perceive economic difficulties and the following social insecurity as a threat to their position and as a reason for expressing dissatisfaction with the conduct of those who are in the decision-taking position.

The employees' participation in the life of industrial enterprises during the 1980s can be characterized as that of an instrumental attitude of the employees toward the enterprise, minimal participation of the employees in the decision-making process, minimal sense of responsibility for determining the working objectives, „conspiratorial“ technological independence and a passive attitude toward the unions<sup>3</sup> From the functional point of view, the unions became part of

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<sup>3</sup> The research carried out in Czech industrial institutions in the 1980s displayed (see Gregor, 1993) a conspicuous tendency toward the bureaucratization of firms' organization. Decision-taking was highly centralized. A worker was considered „good“ if he fulfilled the tasks planned by the organs of the departmental ministries, did not discuss or demand anything, did not suggest anything, manifested his political loyalty, and did not draw attention to himself. The decisive form of the employee participation in the life of the state industrial enterprises was the tacitly tolerated independent choice or original completion of technology. Workers respected the tasks assigned from the top, but, with silent approval of their firm's management, they did not observe technological and safety regulations. While fulfilling the planned jobs they followed the principle: „Do whatever you want as long as you fulfill the plan. If an accident or injury occur then you are to blame because you disobeyed the technological regulations.“ This rule was advantageous to the management of the firms, because it enabled them to ensure the fulfillment of the production plans. These plans were impossible to carry out if the employees observed the technological and safety regulations. The workers then offended against the formalized regulations on a mass scale, while the management was not responsible for any possible failures. This „tacit agreement“ was reasonable also for the employees because it enabled them to acquire full wages for „fulfilling the plan“. Most employees accepted these relatively disadvantageous conditions of the „contract“ because they conceived their job in industrial enterprises as the only available source of

the enterprise administration. The case studies of the Domus Factory and Mechanica Corporation revealed similar tendencies at the beginning of the 1990s.

The relationship of the majority of the interviewed toward their enterprise is markedly instrumental. The employees, similarly as in the past decade, expect their firm to guarantee a stable job. That, however, has ceased to be a matter of course owing to the changing situation in the labor market (with the unemployment rate in the Czech Republic ranging in 1991 and 1992 between three and four percent of the population fit for work) and to the uncertainty of the sales situation in the whole national economy. Yet the employees often express themselves as if a stable job were their „entitlement“ guaranteed by the management of the firm.

The employees feel responsible for fulfilling the given task. At the same time they expect the firm to provide them with conditions necessary for continuous work and to remunerate them for the fulfilled job with a wage which will at least compensate the inflation rate. They perceive the trade unions as „the last instance“ in whose activities, in the same way as ten years ago, they are not willing to take active part. The trade unions are still considered to be a specialized office of the company management. The idea that the unions should provide social services (holiday vouchers, cures at spas, loans, sickness benefits, etc.) is subsiding. On the other hand, the interviewed emphasize that the unions should guarantee their interests against the licence on the part of the owners and the management.

The employees' participation in the life of the enterprise is, on the whole, minimalist and purely instrumental. They perceive their job with the firm as a status connected with a set of „entitlements“. These entitlements should imply a certain standard of social security in their eyes. They assume that „a worker should be provided with everything“ so that he might earn his due wages within his capabilities. However, he should not take over the responsibility for the

providing for the family household. Through its economic policy the state guaranteed - in exchange for ideological loyalty - stable jobs. Attaining stable wages was conditioned by fulfilling the plan. In the situation where there was no alternative to earn one's living otherwise (the private sector was practically non-existent and in all other state enterprises the remuneration regulations were exactly the same), the employees in the state enterprises tried to search for a way to fulfill the plan regardless of the risks of punishment for „the lack of technological discipline“, even regardless of the fact that in case of injury they would not get - owing to „their own negligence“ - any due financial compensation. In this way they got what they expected from a job in an industrial enterprise above all - the wages.

The above mentioned form of bureaucratic organization was connected with a formal type of representative participation. Formal rituals of the trade union life were performed in the state enterprises. As a matter of fact, the unions functioned as distributors of the state guaranteed social security. Their important task was to manifest the existence of genuine defence of the employees' interests. Yet there was minimum of any real chance of public articulation and effective enforcement of the employees' interests. The attendance at the trade union rituals was one of the basic forms of manifesting the employees' ideological loyalty permitting a „trouble-free existence“. That explains why there was mass presence at these rituals. Its consequence was the aversion toward any organized meetings. These were perceived as empty and tedious rituals manipulated by the power elite.

„matters of the management“. Specialized performance and the fulfillment of prescribed duties is the only active form of participation which the employees considered legitimate. The employees of both the firms under survey accept the bureaucratic model of organization. Hence they passively prefer representative forms of participation in the decision-making process. Frequently, they are not familiar with the organizational models based on the idea of participation in the decision-taking process. If they are introduced to these models during the interview, they usually reject them.

If the above cited hypothesis that the inclination toward the representative, indirect participation strengthens the tendency toward confrontation of the employees with the management and the owners holds true, then the mentioned dates signalize a latent presence of social conflicts in the surveyed firms. There is a distance between those who make decisions and the executive workers in both firms. In both firms the employees rely on „the last instance“ of the unions, which means on the indirect forms of participation. Possible economic instability will be, therefore, perceived more as a signal to dissatisfaction than a challenge to active search for solution. Moreover, this tendency is fortified by the the notion that it is the duty of the management to satisfy the employees' claims to stable jobs and wages whose purchase power is not reduced by inflation. What will happen if the owners and the management of the firms are not able to satisfy the „claims“?

The answer depends on our ability to predict (at least hypothetically) the future development of the employees' relationship to both of the firms. On the basis of our data it seems possible that the development of the employees' participation in the Domus Factory and Mechanica Corporation could – within the overall prevailing tendency toward bureaucratic organization and indirect participation – take different courses. The reason for the differentiation could be two factors: 1. a different organizational tradition going back to the period prior to the World War II, and 2. a different way of privatization of the two firms.

### The Corporate Tradition

Prior to the 1948 nationalization, the organization of the Mechanica Corporation was based on allowing the maximum possible autonomy for individual production units. These units entered into mutual business relations within the firm. The production strategy of the firm was directed in compliance with the idea that the production diversification would facilitate the company's easier adaptation to the sales ups and downs in the individual sections of its production programme. Many steps of the present management have been clearly inspired by this tradition.

There has been an evident tendency in the *Mechanica Corporation* toward decentralization. The top management has undertaken a number of organizational steps that could reinforce the possibility of the employees' direct participation. The top management has introduced a system of stimulation through profit shares. Some entrepreneurial activities have been transferred to decentralized units (divisions), a new wage system is being established implying certain autonomy of remuneration within these units. The conception of the *Mechanica* top management is that the decentralization might increase collective responsibility on the side of the autonomous division managements for the development of the whole firm. A computer system of management with an analogous philosophy is being prepared, through which managers of all levels expect their autonomy in the sphere of information to be increased. Another element tending to the model based on direct employee participation seems to be the so-called „management through projects“. The model is based on the conception of flexible teams. The teams are set up ad hoc from specialists of various professions regardless of their organizational classification. They represent a kind of „deviation islands“, from which the idea of overcoming the split between decision-taking and performance might spread through the enterprise. The influence of the „deviation islands“ is, however, blocked by the employees' tradition derived from the generally acknowledged idea of bureaucratic organization. The organizational changes directed toward higher autonomy of the units have not been accompanied by the intersection of organizational philosophy which would cast doubts on the established ideas on separating the decision-taking from performance. The employees have not been confronted with the models of assessment and activities which would be based on the principle of equality of the proposed opinions and ideas of all the people engaged in the discussion concerning the projected plan.

Manufacturing, technological and organizational conception of the *Domus Factory* has been derived from the tradition of a joint-stock company, established in the 1920s. The strategy of the firm was influenced by the idea of the so-called „welfare housing“, a modest but dignified standard of living for people from lower social strata. This conception was made possible through serial production of unified and, thus, cheaper goods. Thanks to the agreement between this conception and the postwar strategy of the so-called socialist large-scale production, the prewar tradition could influence the conception of the *Domus Factory*, which was built in the 1960s. The *Domus Factory* conception was based on the idea of large-scale, unified, production-line work. Monotonousness of the routine operations became one of the factors leading to the appearance of considerable distance between decision-making and execution. In case of large-scale production, the preparation of the manufacture and the projects of technical innovations take place outside the large-scale production. The workshop foremen and the workers get just the models and techniques which they can modify to a minimum degree only. Direct participation is very difficult under these conditions.

Different traditions of both firms are also reflected in the employees' ideas of what a „good manager“ should be like. From the point of view of the employees of both firms, a good management is the that capable of securing sales and work. However, the employees of both firms differ considerably in their ideas of the type of manager capable of securing the expected stability of employment. In the *Mechanica Corporation*, the managers are praised for structural and systematic way of thinking, flexibility, adaptability, courage to make changes, high intelligence, and the ability of quick reactions. In the *Domus Factory*, the employees stressed more the willingness of the management to deal with the solution of the problems emerging in the plants, the ability of acting authoritatively so that the workers' discipline is secured and the indifference of the lower management defeated. The employees of the *Mechanica Corporation* derive their requirements rather from the management's ability to respond to the market situation. While the employees of the *Domus Factory* praise more the managers' ability of controlling the internal situation in the factory. The model diversification of a „good“ manager is probably due to the influence of the older traditions. In the *Mechanica Corporation*, the already mentioned prewar tradition of the internal management autonomy and the orientation toward the production adaptability to the market fluctuation is still effective. In the *Domus Factory*, however, the predominant notions are those derived from the practice of the standardized socialist large-scale production for which the stability of external conditions for entrepreneurial activities was symptomatic.

In spite of the overall tendency preferring the bureaucratic model of organization and indirect forms of participation, the tradition of the *Mechanica Corporation* increases the probability that elements of direct participation in the organization of autonomous divisions will appear. The tradition of large-scale production increases the tendency toward the bureaucratization of the decision-making process in the *Domus Factory*.

### **The Manners of Privatization**

The *Mechanica Corporation* was privatized through the voucher method. Thanks to that, its dominant owners are the so-called Privatization Investment Funds (PIFs). They operate in the security market and influence the management of joint-stock companies in the name of their individual shareholders.

In the *Mechanica Corporation* the owner is often perceived as an inscrutable element, which can restrict the managers' activities. The managers express fear of the „blind interest of the shareholders in dividends“ and of clashing the owners' „short-term interests“ with the „long-term interests“ of the firm's management. Part of the management does not consider the PIFs to be legitimate owners, or, as



the case may be, the management conditions their legitimacy by their actual approach toward the Corporation. The managers share the opinion that the PIFs made too many promises to their members which they will have to fulfill now at the expense of the corporation development. The fear of the PIFs is also connected with the expectation of their dilettante interventions into the manufacturing and business designs of the management. What is the cause of these attitudes?

At present, seven PIFs constitute the deciding shareholders. Four large PIFs own the controlling block of shares. What is important for the development of the relations between the management and the owners is that by law a single PIF cannot own more than 20 % of the company shares. Thus, if they are organized well enough, the individual shareholders and the owners of the employee shares could compete with the majority position of the PIFs, because they own about 25 % of the shares. The trade unions, supported by the management, have organized the individual voucher shareholders and the owners of the employee shares. Hence they succeeded in establishing a group of shareholders with the influence of about 23 % of the company shares. This association of shareholders is represented by a managing board in which the representatives of the lower management of the company exercise significant influence.

Such an ownership structure development corresponds with the intentions of the *Mechanica Corporation* management. The management intended to preserve its dominant influence in the strategic decision-taking, which could not be attained through a direct purchase of the corporation. When setting up the privatization project the management expected that through the voucher privatization it could achieve the dispersal of the shares among a great number of individual owners. The management counted on the possibility of organizing them in order to counterbalance the influence of the large PIFs. This plan has been implemented. The association of individual shareholders is an institution embodying a common interest of the management and the employees who hold the shares. The management can influence the firm's strategic decision-making with the help of the association of the individual shareholders. The employees got rid of their fear that the PIFs would aim at a complete reorientation of the production programme of the firm jeopardising thus the stability of the employment structure. The employees, together with the management, found a way how to stand up effectively to such an attempt.

The mentioned community of the joint interests of the management and the employees expressed by the association of individual shareholders allows for the participation of the employees in the decision-making. The managers, in their own interest, will probably use the association as a channel for spreading out strategic information. In this way they will increase the possibility that the individual shareholders' decision-making will be in compliance with their intentions. The negotiations of the association of individual shareholders will probably become an opportunity for discussions between the managers and the employees and a way to reduce the distance between both groups.

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Something similar is quite unlikely in case of the Domus Factory. The joint-stock company, part of which is the Domus Factory, was privatized by means of auction. Hence, its ownership structure is distinctly different. The controlling block of shares (64.5 %) has been acquired by a group of six companies' managers. In the voucher privatization the individual shareholders gained 10 % and the PIFs 13 % of the shares. The remaining shares are in the possession of municipality (4.3 %), of restituted (3.8 %), of the State Restitution Fund (3%) and of the owners of employee shares (1.5%). The company is thus controlled by a group of six managers who, at the same time, are the owners of the dominant block of shares. The management has gained influence over the strategic decision-taking without having to link its interests with anyone against the influence of the PIFs. This fact strengthens the tendency toward centralization of the Domus Factory and weakens the possibility of cultivating direct participation of employees.

The fear of the split between the factory development interests and the short-term interests of the shareholders does not occur in the Domus Factory owing to the personal union between the majority owners and the top management. Yet, the lower management feels too powerless in relation to the strong position of the top management which is, in comparison with the past, fortified by its position of the owner. Hence, among the lower level managers, there is a growing feeling similar to that of the blue-collar workers. The fear of the owners' licence often suppresses the attempt at a conceptual and daring approach aimed at solving the problems of production organization. Such a tendency has been evident also among the individuals who have expressed explicit and expert opinions of some strategic issues. A passive wait-and-see attitude without taking risks is more evident than the courage to put forward new ideas. Maybe, this tendency cannot be linked together solely with the influence of the ownership structure. Many years of centralized decision-making and unified, routine, large-scale production required obedient fulfilling of the superiors' orders rather than initiative and venture. That has led to the loss of the sense of responsibility for the firm's destiny in a considerable number of managers. Such a tendency has survived, rather than created by the personal union of the majority owners and the top managers. In addition to this, in the Domus Factory it is not counterbalanced by the tradition which explicitly (in a written form) urges the technical staff and the lower level managers in the Mechanica Corporation to rely on their own prudence and responsibility.

## Two Possibilities of the Future Development

Common to both the surveyed enterprises, there is a tendency toward respecting bureaucratic forms of organization. The employees of both firms manifest their „claims“ on the firm and perceive their participation in the life of their firm instrumentally. Yet, within this tendency there are evident differences. The tradition of autonomous divisions in the *Mechanica Corporation* and the need of its management to link their interests with those of individual shareholders support decentralization efforts and the appearance of the elements of direct participation. In the *Domus Factory* the tradition of large-scale serial production and the personal union of the owners and the top management fortifies the bureaucratization of the organization and the unwillingness of both the workers and the lower management to take over responsibility for the firm's fate.

If this development of organization in both firms was of an invariable tendency, then the established differences could lead to the appearance of two models of relationship between the management and the employees. In the *Mechanica Corporation* it would probably strengthen the inclination toward perceiving the problems of the firm as a challenge to resolve the situation in the interest of the firm's survival. In case of the *Domus Factory* it is probable that the employees would react to the economic instability of their firm with the sentiments that the management „did not meet their rightful“ expectations. The employees would then be willing to force the „social considerations“ through a collective action. For this purpose they could use their trade union organization which they so far (?) „keep in reserve“ without taking active part in its activities.

Instrumental participation is a factor that could reduce the potential of a social conflict within both indicated trends of the organizational development. It is because its consequence is a considerable individualization or privatization of the employees' interests. Both case studies prove that a number of employees of both firms react to the signals of social uncertainty and to the attempts at wages differentiation with envy and mutual rivalry rather than with the inclination toward actions of workers' solidarity. Therefore, the „individualism“ of the employees in the Czech industry must be taken into consideration as a factor softening the course of a possible industrial conflict.

On the basis of the acquired data it is impossible to assert that the development of both the firms will necessarily take the indicated course. Different trends observed in these two different firms with different traditions and different structure of owners could be labelled as two hypothetical models of the development in the employee participation in the life of industrial firms. It is also possible to express the hypothesis that the trend observed in the *Domus Factory* will probably prevail in the Czech industries. We think that this trend will be supported by the above mentioned tradition of expecting „innovations from the top“ fortified by the dirigisme of the socialist era and a marked orientation toward instrumental participation, increased by the privatization of interests which had

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been accompanying several decades of „civil hibernation“. It is necessary to add that this hypothesis applies only to larger industrial enterprises privatized at the beginning of the 1990s. It is impossible to predict the development of smaller firms in the private sector on the basis of the data obtained from the presented case studies.

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