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## Introduction

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## Research Problem, Basic Concepts and Methodology

Ivo Možný

### 1.1 CONCEPTUALIZATION OF THE RESEARCH PROBLEM – SOCIAL AND ECONOMIC CONTEXT

The political, economic and social changes that have been taking place in Central and Eastern Europe since the fall of communism reveal a unique scope and dynamics. They are fascinating in terms of practical implications as well as an intellectual challenge. They offer us the chance of testing sociological theories *in vivo* in a large-scale social experiment.

We who live in the region have not only a unique opportunity as sociologists to watch at close quarters the theory of social change being verified but also – and perhaps less agreeably – an opportunity as citizens to experience the actual impact of these changes first hand. This is the second time within one generation that the Czech people have had to bear the brunt of the costs of a nearly total transformation of ownership rights: the 1950s saw the mass expropriation of private property, today a far-reaching privatization and restitution process is under way in the Czech Republic. We have then much more at stake than a merely theoretical interest in the transformation.

In its wide-ranging research programme the **United Nations Research Institute in Social Development in Geneva** has been following social developments in Eastern Europe. Within this framework, the Institute initiated this comparative study of the social implications of changes in ownership in post-communist countries. For the purpose of this comparison three countries – Poland, Hungary and the Czech Republic – have been selected. All are neighbours of Western Europe. Here the process of change from the centrally planned economy to a market system has been the most dynamic and undoubtedly authentic.

We have been aware since the very outset how difficult it is to contribute to a description of such a total social change. Its participants and actors have too

much at stake to be open to our investigation. The changes are too comprehensive to be captured in a single study. The changes are still too far away from their conclusion for their true destination to be fully grasped. We ourselves are too immersed in the changes to be sure that our report would be free from all bias.

All the difficulties of compiling a report for an international audience are further exacerbated by the problem of communicating across the old Iron Curtain. We have found it difficult to formulate our conclusions in a way to make our message comprehensible to those without our own social experiences. While attending international conferences on the changes in the postcommunist countries, we have repeatedly observed that Western sociologists are often not fully aware of this difficulty. Ignoring the novel cognitive approach provided by the downfall of the Iron Curtain, Western sociologists tend to grasp the changes through their own conceptual networks without realizing that the tacit assumptions, on which all the terms and statements are based – even in the objective language of science – greatly differ in Western and post-communist societies. The same words tend to express different experiences and realities. If reality is indeed socially constructed then we are in a position to assert that the same words cover basically different constructs.

The vantage points adopted by participants and outside observers are often so distant from one another that they hamper communication. Contemporary sociology has been built on the reflection of many processes which were abandoned by the development towards despotic socialism. After a half century of social life without the sovereignty of private ownership and a normally functioning market, and with limitations on the power of money, an omnipotent party at the helm, a weak legal system, and the total occupation of public semantic space by the Party, a society has established itself here which defies description in terms compatible with those of a society formed in a different way. Mind you, this is not a problem of translation. Concealed behind it is a much more profound problem, the issue of language as a petrified social experience reflecting actual structures of relevance.

A difference in approach came to light as early as the first meeting of our international research team. This resulted in problems in selecting the basic perspective. The Western participants tended to conceive the research project in terms of worker participation in the processes of revolutionary changes of ownership. Our Polish colleagues who have had their own experiences to draw from gave unequivocal preference to the perspective of social or industrial conflict. We, and to a certain extent Hungarians, had the tendency to perceive the entire change in terms of adaptation.

This is only natural. Western observers with long experiences of market economies and the capitalist mode of production are inevitably thrilled by the exciting opportunity to learn how worker participation, surely an important is-

sue, will develop under the newly arising conditions of private ownership of the means of production. The Poles could hardly understand this position: after all, they owe the change to the twenty years of tough industrial conflict. This conflict continues to simmer even under the new conditions, and the rhetoric of worker participation which has for years been used to cover up the very existence of an industrial conflict in their country is now received with suspicion. For reasons we could only speculate on the Czech population has been consistently avoiding conflict and, as confirmed by our own research, workers in privatized factories have no special interest in participation. They want their factories to be run by a management that would guarantee them jobs – and wages that keep pace with inflation. How to manage it is management's business – full stop.

The Czech population has shown sufficient patience and understanding in temporarily having to tighten their belts. In January 1991 (price liberation), when the purchasing power of their wages plummeted within a month by as much as a quarter, social peace was preserved in the Czech Republic and workers did not resort to strikes. This could possibly be explained by enthusiasm after the fall of the communist regime. But Czechs did not resort to strikes even two years later, in January 1993, after the introduction of a 23 per cent value-added tax sent prices rising by as much as 10 to 20 per cent once more. The Czechs seem to be coping well with difficulties of this kind thanks to their ability of active adaptation to unfavourable conditions, a quality brought to perfection during the years of communist rule.

Naturally it is impossible to claim with any certainty that they will manage to avoid conflicts even during the third anticipated impact, the end of full employment. As revealed by our investigations, at the time of our research – the turn of 1992 and 1993 – layoffs and unemployment loomed large as a threat posed to all workers and employees. Given that the transformation of this neglected economy is taking place in the heart of Europe which itself has an average unemployment rate of around 10 per cent, most Czechs agree that full employment is unsustainable in the long run. Some of the big state enterprises whose privatization will have been completed by the end of 1993 are expected to start going bankrupt, bringing massive layoffs.<sup>1</sup>

Nonetheless, at the time of our research the economic situation favoured adaptation to new conditions. The unemployment rate in the Czech Republic amounted to 2.7 per cent, while the price increases of January 1993 were soon offset by growing wages – real wages for the first three months of the year rose by almost 10 percent. Foreign trade turnover was balanced and the central

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<sup>1</sup> It does not mean that there is any connection between privatization and the poor state of these factories: the factories still not privatised are vulnerable open to bankruptcy for the same reason. However, at the time of sending this book for print (February 1995), the expected chain of bankruptcies has not yet occurred.

bank's hard currency reserves registered a slight increase. The Czech Republic's state budget, conceived as balanced, showed a surplus at the end of the first three months of the year, and inflation was arrested at a 0.5 percent growth rate in March.<sup>2</sup>

The most important event, the separation of Slovakia and the formation of a new Czech Republic on January 1st 1993, passed off incredibly smoothly. The anticipated harm to the economy which was feared by supporters and opponents of the country's division alike, never materialized. Nothing dramatic happened in January save for a nationwide debate on a suitable colloquial name for the new state that was handed all of a sudden to the Czechs.

In February 1993 the Czechoslovak currency was separated. Citizens could exchange at any post office as many Czechoslovak banknotes as they wished for the same banknotes with a stamp on them which made them legal Czech tender. Half a year later the new currency would appear without anyone suffering a financial loss.

In March the government was in a position to state in its quarterly economic report that the much feared 40 per cent decline in trade and cooperation between the Czech and Slovak Republics simply did not happen. Wherever problems did arise Czech enterprises usually managed to make up for the loss of Slovak markets by finding outlets elsewhere – in spite of the ongoing recession in the European Community and the growing problems posed by the protectionist measures imposed by the European Community member states and neighbouring Austria.<sup>3</sup>

The government did have to go back on its original prediction that in 1993 the economy would bottom out and the process of economic growth, as expressed by the basic GNP indicator, would take off. But the government did not have to back down completely. At the end of the first three months of the year economists predicted that the decline in industrial production would be halted, even though no economic growth could be expected in 1993.

Public opinion polls confirmed that over half of the population maintained a steady trust in the government. The ruling coalition parties, which have assumed responsibility for the division of the country, enjoyed the same support with which they had won the elections in June 1992, even though the emotional shock of the breakup of Czechoslovakia had begun to wear off.

True to the traditions of a corporativistic state, collective bargaining on wages and working conditions is still being carried out at the level of a central

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<sup>2</sup> These trends from Spring 1993 (the time the field work of this study) has not changed substantially up until now (February 1995)

<sup>3</sup> There are indications that this process was made easier thanks to the country's previous experience in coping with the shock caused by the collapse of the former COMECON where former Czechoslovakia sold for years some 70 per cent of its exports. In 1990 we had to find alternative markets for these exports.

tripartite commission (trade unions, employers, government) and wage bargaining is usually trouble-free. Although an entirely legal and politically legitimate element of industrial conflict, the strike now seems to have been dropped from the list of methods of applying pressure in the country. Even major threats to strike are very rare.

When we sum up all the macro-economic indicators of the transformation process and compare them with the bleak outlook Czechoslovakia faced before the changes were launched, we begin to be tempted into believing in a *Wirtschaftswund* or economic miracle. After all, the external economic conditions turned out to be worse than we could have bargained for: the war in the Persian Gulf, the economic recession in advanced Western countries, the breakup of the country....

But the term “economic miracle” has never been used in our country and everyone seems to be afraid even to think of it. None of the problems we have succeeded in tackling so far (hyperinflation, devaluation, mass unemployment, strikes, social unrest, the threat of the restoration of the old regime under a new name) have been completely warded off and vanquished. No one can guarantee that some of these threats might not still be lurking just round the corner. A magician may have pulled a rabbit out of his hat but he cannot bring himself to believe it is a real and live rabbit – it is not yet safely in the frying pan.

When discussing the underlying concept of the Czech research project we have agreed that we will proceed from the term “participation”, as suggested by the project's initiator and coordinator. If it proves to be viable or if we eventually discover behind it conflict or adaptation or anything else – that would be the outcome of testing the research hypothesis and not its vantage point.

However, we needed one more key term: *legitimacy*. The participation of workers in the decisions of owners is impossible where the legitimacy of ownership is not beyond question.

The legitimacy of ownership has a substantial explanatory power in attempts to understand the reactions of non-owners. As shown by recent Polish history, illegitimate ownership provokes industrial conflict. Our history demonstrates that this is not necessarily so. If an illegitimate owner is strong enough so that a challenge of the legitimacy of his property rights has no chance of success, and if he is at the same time sufficiently benevolent and rich to corrupt the non-owner to such an extent that acknowledgement of the status quo would be more rational than conflict itself, then the result is adaptation. This was the case of the old regime in former Czechoslovakia. But that regime collapsed precisely because it had exhausted all its resources and power and could neither prevent nor convincingly win a conflict.

With this in mind, our perspective has been based primarily on these terms: legitimacy, participation and adaptation.

## 1.2 BRIEF VOCABULARY OF PRIVATIZATION WITH AN EXPLANATION OF THE MAIN TERMS USED

At the beginning of 1990 Czechoslovakia faced completely unprepared a situation unparalleled in its history. Just a month earlier no one predicted the total, overnight collapse of the Soviet empire. It was suddenly necessary to devise a method of finding owners for the entire national economy: the new post-communist state no longer wanted to be the owner. Everything, from the smallest corner shop to industrial giants with dozens of thousands employees, had been in the possession of the communist regime. And the communist state ceased to exist.

The grandiose process of founding owners for the entire national economy made it imperative to devise new methods, to establish new institutions and to coin new terms. A brief vocabulary of terms used in the privatization process seems to be appropriate at this point. It is beyond our capacity to explain the complex mechanism of such a huge operation, regulated by numerous laws and performed by many (mostly instrumentally established) new institutions. With unavoidable simplifications we can only offer a short description of a dozen of the some key concepts of the Czech way to privatization for an outsider:

**Voucher privatization** is the main method of mass privatization in the Czech Republic. By this method every citizen could become a share holder of companies and factories formerly owned exclusively by the state. It is being realized in two "waves" of about 1.5 thousand privatized enterprises each. Any adult Czech (in the first wave any Slovak, too) can for a symbolic price covering administration buy a booklet of vouchers. By using this vouchers he can order sharers of all enterprises privatized in the "wave". The price of the shares is established in several "rounds" depending on demand. Those interested in taking part in privatization who do not feel fit for selecting which enterprises to invest in may place their vouchers in a *Privatization Investment Fund*.

The **Privatization Investment Fund** (PIF) is an investment fund which creates a portfolio of shares bought with the vouchers of its clients in different privatized enterprises to maximalize the profit and minimalize the risk for its clients. One Privatization Investment Fund could buy up to 20% of shares in any privatized enterprise. There has been established over 400 Privatization Investment Funds in the Czech Republic and they compete (using mass publicity campaigns) for clients.

**Restitution** is another form of privatization. Any Czech citizen (or any former Czech citizen, a Czech emigree) who was once an owner (or is the legitimate descendant of a former owner) of a property nationalized by communists after the Communist Coup in February 1948 could reclaim his ownership. He is entitled to get it back. To prevent later claims by former owners to property pri-

vativated in another form, 3% of any enterprise privatized in all other forms of privatization is compulsory transmitted into

The **Restitution Fund**, which is a state fund responsible for satisfying all claims in restitution.

The **National Property Fund** is a fund in which all property of and profit from privatization is concentrated.

The **Privatization Project** is a project conceiving a form of privatization (voucher method, public contest etc. or its combination) for a given privatized enterprise. Any person or group of persons could submit to the National Property Fund one (or more) projects for privatization of any Czech enterprise. If more than one privatization project is submitted for a single factory, the National Property Fund selects the best one in a public contest. If there is only one privatization project for a given enterprise, National Property Fund can negotiate with the author(s) for partial modifications in the project – namely to change the share of different privatization methods projected for a given factory.

Any privatised enterprise could be (wholly or partly) **sold in sold for vouchers to individual owners of vouchers, public auction, sold in a direct sale, sold to employees in employees participation shares, sold to PIF (maximum 20% of shares), transferred into municipal ownership or returned to the original owner or to his legitimize descendants in restitution of his or her property**. The ways in which these forms of privatisation have been used and combined are regulated by a complex system of laws and directives. We shall see a difference between two concrete privatisation projects of the two factories in our study.

### 1.3 METHODOLOGY

The key methodological notion of the research project is to verify the social implications of the transformation of ownership relations in two case studies involving selected industrial plants and their immediate surroundings.<sup>4</sup>

#### 1.3.1 Two industrial plants *MECHANICA CORPORATION* and *DOMUS FACTORY* examined – criteria of choice, form of privatization, brief description of the regions

Two medium to upper-medium level industrial plants have been selected for our case studies (in the Czech economy these are plants employing two to five thousand people). The plants were selected to represent the two most wide-

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<sup>4</sup> Concrete observation on a micro-level was supplemented with a parallel macro-study examining the economic and social transformation of the Czech Republic at the end of 1993, the subject of a parallel research project (cf. Janáček 1993).



spread types of successful privatization projects: one based on the voucher method and the other based mainly on a direct sale.<sup>5</sup>

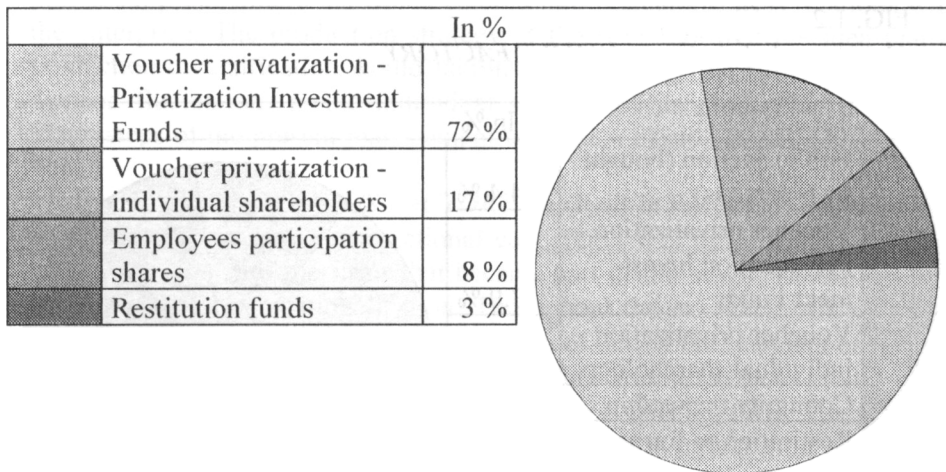
A plant to be called “*MECHANICA CORPORATION*” (4,500 employees), transformed in Spring 1992 into a state owned joint-stock company, was transferred to private ownership in the first wave of voucher privatization at the end of the same year. As a result, the *Privatization Investment Funds* (PIFs) became its predominant owners. The PIFs began to operate in the security market in the name of their individual shareholders in May 1993 one or two months after we had investigated *MECHANICA CORPORATION*. The real power of the new ownership was expected in the year 1994 and later. They will exert strong influence over the management of joint-stock companies. PIFs have gained 71.8 % of *MECHANICA CORPORATION* stock. At present, seven PIFs constitute the majority of share-holders. Three of them have been launched by big banks. About 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. Individual owners of investment vouchers have secured 16.9 % of the shares. In addition, 8.25 % of the property is represented by employee shares. This means that if the individual shareholders and the owners of the employee shares organize themselves, they could compete with the majority position of the PIFs, because together they own about 25 % of the shares. At the time of our research, the trade unions, supported by the management, were trying to organize the individual voucher shareholders and the owners of the employee shares. They succeeded in establishing a group of shareholders which exerts influence over about 23 % of the company shares. This group of shareholders is represented by a managing board in which the representatives of the lower management of the company exercise significant influence.

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<sup>5</sup> The term “successful” here does not naturally mean that *the enterprises* under study were successful. By studying these two enterprises in the first three months after the change in ownership nobody could say whether this or that enterprise would be a success story or whether it would end in a bankruptcy after another year (or in a month). We consider a successful *privatization project* one where the complex process of the transmission of the ownership reached its end and the new owners in a combination given by the project started to exercise the ownership rights with the continuity of effective management uninterrupted. Today, two years later, both companies are going strong, reasonably successful.

FIG. 1.1

The share distribution – *MECHANICA CORPORATION*



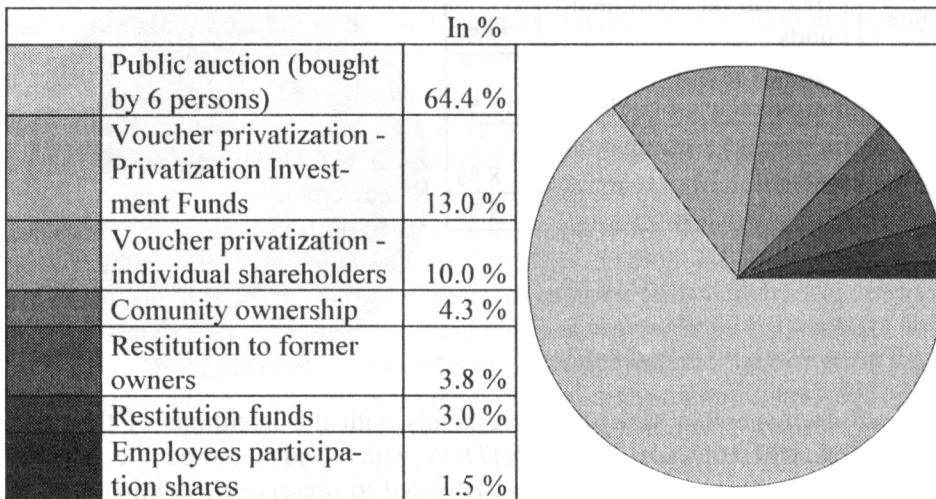
Such an ownership structure corresponds with the intentions of the management of *MECHANICA CORPORATION* which had authored the winning privatization project. The management intended to preserve its dominant influence in strategic decision-making, which it could not attain through direct purchase of 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 these owners in order to counterbalance the influence of the large PIFs. This plan has been only partly successful: 72% of shares in PIFs hands is perceived as threats to the independence of management decision-making.

The second joint-stock company, a division of which is called *DOMUS FACTORY* in our study, has a distinctly different structure of owners, because its privatization project was conceived in a different way. *The MECHANICA CORPORATION* has been too big a bite to be swallowed by former managers through purchase at public auction. To the contrary, in *DOMUS FACTORY* the controlling block of shares (64.5 %) has been acquired by a group of six persons, who became owners at an public auction. In the voucher privatization, individual shareholders gained 10% and the PIFs 13 % of the shares. The remaining shares are in the possession of the municipality (4.3%), the so-called restitutions (former owners – 3.8%), the State Restitution Fund (3%), and the owners of employees shares (1.5%). One of the smaller plants, representing

about 1% of the value of the enterprise, has become independent through full restitution.

FIG. 1.2

The share distribution – *DOMUS FACTORY*



Owing to this form of privatization, the joint-stock company, a part of which is the *DOMUS FACTORY*, is controlled by a group of managers who own the dominant block of shares. They are managers and owners as well. One of the owners is also a member of the top management of the *DOMUS FACTORY* (a vice-director). In this way the management has gained influence over strategic decision-making without having to link its interests with the interests of the individual shareholders against the influence of the PIFs. Because of this, the organization of the *DOMUS FACTORY* has been developing, as we shall see later, in a different way than the organization of the *MECHANICA CORPORATION*.

### 1.3.2 Traditions of the surveyed firms and continuity of the managerial elites

The ability of both surveyed firms to concentrate their capacity and to retain their viability in the rapidly changing conditions of the current domestic as well as international markets is influenced to a considerable degree by the continuity of organizational and technological traditions established before World War II.

Prior to the 1948 nationalization, the organization of the *MECHANICA CORPORATION* was structured so as to allow maximum possible autonomy for individual production units which entered into mutual business relations within the enterprise. The production strategy of the firm followed the idea that this production diversification would facilitate more easily the firm's adaptation to demand fluctuations in the individual sections of its production programme. Many steps of the present management have been clearly inspired by this tradition.

Even though the *DOMUS FACTORY* was built in the 1960s, its manufacturing, technological, and organizational conception was influenced by the tradition of the largest of the firms that became part of the newly established enterprise after the 1948 nationalization. Throughout the existence of the resulting state-regulated "national enterprise", the son of one of the founders of the original joint-stock company (which was established in the 1920s to produce furniture with modern industrial technology) has been working there. His father was a co-author of the firm's original strategy. The son is now a joint owner of the controlling block of shares and the Chief Executive of the whole joint-stock company.

The strategy of the firm originally incorporated the idea of "social housing" (a modest but dignified standard of living for people from lower social strata) which had certain common features with the postwar conception of socialist mass production of uniform furniture aimed at securing "equality at a minimum level". Owing to this concurrence, the original factory tradition has survived to the present. Up to now the enterprise has cherished a manufacturing conception in which three elements still play a key role: 1. offering goods to the lower social strata; 2. production on a large-scale making maximum use of standardisation; 3. combining the mechanical production line work with skilled handicraft of special decorative elements.

The transmission of the described traditions may not have been possible without the personal continuity of the managerial elites in the surveyed firms. The continuity is clear enough in the case of the *DOMUS FACTORY*: The "junior" in the former private firm became the most influential man in the joint-stock company. Five of his collaborators, with whom he conceived the firm's investment policy in the 1970s and 1980s (when he was not allowed to stay in the leading position in the firm) , made their way to the management of the company. Today they are the joint owners of the decisive block of shares and are holding key positions in the management of the joint-stock company and its plants. One of them, the last "communist" managing director of the whole stock company, became the managing director of the factory under study. In spite of strong political pressure in 1990 in favour of his dismissal, he has succeeded in preserving his influence owing to the effort of the already mentioned joint-stock company's Chief Executive (the "junior" of the firm before privatisation). The

Chief Executive, as a person punished by the communist “normalization” in the 1970s and 1980s and a son in the family of the founders (“the capitalist”), could well afford to protect him.

The dominant position of the group of six owners of the furniture goods factory ensures the continuity of the prewar traditions relatively easily. In contrast, the ownership structure of *MECHANICA CORPORATION* complicates preservation of such continuity, because it diminishes the dominant influence of the managerial elite in the firm's decision-making. The proponents of the traditional conception of the firm's manufacturing and organizational strategy have succeeded in enforcing their influence prior to 1989. The present Chief Executive of the joint-stock *MECHANICA CORPORATION* was elected to his position by an overwhelming majority of the employees in 1990, in spite of the fact that, as a marketing manager of the state enterprise, he was one of the pre-1989 managerial elite (and naturally a member of the communist party).

This man also played a key role in the process of privatization of the firm. Apart from other things, it was thanks to his influence that the transformation of the *MECHANICA CORPORATION* became a classical example of the privatization process in which the main role has been played by the management from the very beginning. The management had the whole privatization process under control without aiming at securing direct ownership of the corporation. A question arises whether the management will be able to reconcile the idea of the dominant influence of the management in the strategic decision-making with the majority ownership rights held by the PIFs.

One of the decisive issues for the *MECHANICA CORPORATION* in the first years following the privatization will be how to harmonize the interests of the management, inclined to setting up the firm's position on the traditional principles of the firm, with the interests of different groups of owners. The *DOMUS FACTORY* will have to deal with the consequences of the investment strategy applied in the socialist planned economy. During the 1970s and 1980s, the joint-stock company, of which the factory is a part, had built a completely new factory at a remote site. It has been necessary to pay for the investment costs from the profits of the *DOMUS FACTORY*. In view of that fact, a part of the lower management found it expedient to exploit the transformation process in the economy and make the factory independent, thus relieving it of its unwanted “economic burden”.

However, it was the managerial elite that had conceived the investment projects during the 1970s and 1980s. Because the top managers succeeded in retaining their influence over the process of the enterprise transformation into a private joint-stock company, they maintained enough power to block aspirations of some of the factories become independent, out of which only *DOMUS FACTORY* would be likely to stand up economically. The managerial elite suc-

ceeded in keeping the enterprise whole, and established a relatively highly centralized regime in order to preserve the economic stability of this whole. The management therefore can redistribute the profit among the individual factories. This fact has probably hindered the solution of centrifugal tendencies within *DOMUS FACTORY* by establishing a more independent structure of the "filial" divisions. So the tension between the continuing efforts to centralize the joint-stock company and the efforts of the *DOMUS FACTORY* to gain higher degree of autonomy has been preserved. The tension is kept high by the fact that the factory is situated in a town which is short of resources for infrastructural development. Hence some of the employees, who live in the neighbourhood, consider the existence and the activities of the joint-stock company as factors that weaken the development potential of their community.<sup>6</sup> The profit outflow from the region is experienced as a factor reducing not only their wages, but also investments in the region, and the standard of living of their families.

The development in *MECHANICA CORPORATION* has been different. In contrast to *DOMUS FACTORY* joint-stock company, *MECHANICA CORPORATION* is heading towards decentralization. This is due to a different philosophy of the management which is based on the prewar tradition of higher autonomy of smaller organizational units. The effort to follow the tradition has been manifested by the management's attempt at making the whole enterprise system more dynamic. The top management has undertaken a number of organizational steps with the aim of increasing the employee participation. According to the notion of the top management, decentralization as well as profit sharing should increase the sense of collective responsibility among division managements for the development of the whole firm. This strategy is in concordance with the fears of the top management of *MECHANICA* that PIFs as majority owners could damage the firm by insisting on immediate short-term profits. A decentralized structure is considered to be more resistant to such an influence. A question remains whether the management will be capable of backing this effort by a corresponding change in the culture of the company.

The plants were selected so that their home districts represented different social backgrounds. *MECHANICA* is based in a district with a longstanding tradition of capitalist entrepreneurship. This tradition has been revived quite remarkably in spite of the forty-year long break. Since 1990 this has been one of the districts with the most dynamically developing private enterprise in the Czech Republic and the lowest rate of unemployment (1.7 per cent in May 1993) even though until 1990 a substantial portion of the district's industrial production used to be exported to the COMECON markets which have since

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<sup>6</sup> Local taxes are paid according to the site of the joint-stock company, i. e. not to the community where the division (the *DOMUS FACTORY*) is situated.

collapsed. On the other hand, *DOMUS FACTORY* is situated in a district which was industrialized during the socialist era and which has since retained a semi-agricultural character. The unemployment rate there is above the nationwide average in the Czech Republic and the transformed welfare institutions are in the greatest demand here.

Needless to say, the choice of the two plants for our case studies was not entirely in our own hands. Much depended on the consent of their managements. It proved to be extremely difficult to obtain consent of the management for free access to the plants and to persuade the managers of the just privatized firms to cooperate and instruct their personnel to provide access to company information for the purpose of our studies. This is understandable. All the managers had been elected to their posts (by the workforce) only very recently and their authority has not yet been firmly established. Property rights and powers in the plants had been reshaped just recently and were still uncertain. Privatization has opened up a potential of obtaining vast private property and it has not yet been quite certain who will eventually get the real hold in the factories, in which form and how much control they will exercise. With assets worth billions of crowns represented by the enterprises under privatisation with thousands of employees (and with all the laws so recently approved, so imperfect and full of loopholes) the management felt nervous and did not want anyone to see its cards.

Even in companies where fair play is the rule of the game, nervousness still seems to be prevailing because of the uncertainty of the market undergoing transformation of all rules, limits and externalities. Permission was asked to carry out our research mostly in enterprises that find themselves in a critical situation, that are vying for new markets within a completely changed business climate (brought about by the Czech companies switching from the COMECON markets to the ones in the European Community member states and those of other free world economies) where bankruptcy was a very real possibility.

Despite all of these problems (after a series of refusals) a promise of cooperation in the project was granted by the two above-mentioned plants. We believe that these are representative of the two most widespread types of privatization (one by a voucher method and the other one by a direct sale predominantly) and – according to our expert knowledge – the two most typical reactions to it.

What we seem to be lacking in our selection of plants though is an unsuccessful response to the ongoing political-economic change. A type of plant apparently in a state that has usually been called here pre-privatization agony (and post-privatization havoc). This often means that a substantial share of the plant has been just privatized by the most direct of methods, that is through theft. Nobody will therefore be surprised that under such circumstances access to such plants has been denied. Indeed we could hardly expect to be given the chance of

peeping under the lid of this process. Sociological research cannot compete with criminal investigation authorities even though the latter have likewise been trying to shed light on such processes mostly unsuccessfully.

However, as indicated by macro-economic data quoted earlier this particular mode of privatization does not constitute a mainstream method of the process in the Czech Republic. Seen in this light, we are confident we can be reasonably satisfied with the choice of our plants.

### **1.3.3 Implemented study and research technique**

The research project was conducted by a team of eight researchers as a series of relatively independently conceived studies. The results of these studies were included into a research report, with the five most mature of them creating the five following chapters of this book. We had two months for preparation of the field work (contract signed November 1992, enterprises for case studies agreed January 1993, field work in February till April 1993). Since we all shared a common terrain of these studies (two selected plants and their districts) the authors of the individual studies had to cooperate very closely indeed. The results of their studies inevitably had to interpenetrate and overlap to a certain extent even though we have tried hard to prevent that by fostering close cooperation, and systematically discussing all of the results.

Understandably, this book is definitely not a monograph on the social consequences of a change in ownership, a huge historical process taking place in all post-communist parties in these years. The working assignment for our research team was to investigate in a relatively short time these consequences by two case studies of randomly selected industrial enterprises and by case studies in special issues in the social environment of this enterprises, namely the changes in facilities of institutionalized social support, like the health-care system, and the social support for those suffering hardships as a consequence of the socio-economical change (i. e. workers made redundant and unemployed).

We are publishing here the main results of our work as a contribution to the record of processes and changes during the initial months after privatisation which are quickly being turned into a historical events. Different chapters have reached different levels of generalisation and different scope in theoretical reflection. We are fully aware that in no case can we aspire to a broad generalisation of our results and we know that the theoretical framework used here is only tentative and in need of further development. However, we are convinced that even the results of our attempt to throw a little light on one small facet of the privatization can be of use when published – at least to establish some more ground for critical evaluation and comparison with better established investigations.



### 1.3.4. Topics of studies, research techniques and samples

The individual studies were directed at the following objectives and contributed to the following chapters:

A. Study of the process of changes of ownership and the interrelated changes in the production programmes and internal organization of the *MECHANICA CORPORATION* and *DOMUS FACTORY* between 1990 and 1992. These studies covered a basic description of both plants and an analysis of their current economic and personnel situations. Information was gathered by semi-structured and unstructured interviews with managers and leading workers in both plants and interviews with well-informed people without an official status. Auxiliary sources of information included questionnaires on the plants' economic situation, issues concerning their personnel policy and mobility in the plants' management after 1989, documents which both plants filled in, plus an analysis of minutes from management meetings and other internal documents. The results of this study were used as a base for all following topic-aimed studies, presented as **Chapter 2** to **Chapter 6** in this research report.

B. Studies of the legitimacy of transformation as seen by employees in both plants and their attitudes towards participation in the ongoing changes and especially other developments of the factories involved. Relevant information was collected in 72 semi-structured interviews in the *MECHANICA CORPORATION* and 40 similar interviews in the *DOMUS FACTORY*. Respondents to these interviews were chosen from the categories of workers, white-collar employees and lower management by random selection. This was done in a multiple selection process (organizational unit and respondents within). Selection was based here on the payroll lists of workers. This random choice was additionally expanded so that the final set represented workers of all the main professions proportionally according to their length of employment in the plant. In the workers category special efforts were made to maintain a proportion between qualified and unskilled labour. The second source of information for this study were deep interviews with directors and managers of these plants. This picture was further supplemented with interviews with three old workers who remembered the history of the plants. **Chapter 2** and **Chapter 3**.

C. The study of trade unions. Attitudes taken by employees to trade unions were naturally studied through interviews designed to examine participation and the legitimacy of transformation. Furthermore, another special study of the situation of trade unions organizations in both plants was conducted. Sources of information were unstructured interviews with trade union leaders and studies of documents of trade union organizations in both plants. Moreover, a series of interviews were conducted with employees geared to reveal directly their attitudes towards and expectations of the trade unions. These results were used in **Chapter 2** and **Chapter 3**.

**D. Studies of the gender aspect of the change in ownership.** The gender aspect was specifically examined in all the studies. In some processes, especially in the careers of employees who have left the plants during the change of ownership, this aspect has proved to be particularly relevant. See **Chapter 4**.

**E. Drop-outs in ownership transformation.** This study followed the careers of those who have left the plants either because of being dismissed, due to voluntary departure after receiving financial compensation, or because of being crowded out by bullying or taking the initiative themselves and changing jobs to seize the opportunity of better pay or free enterprise. Information on this set in both localities came from a research survey of an 150 sample of structured and partially semi-structured interviews (77 from *DOMUS FACTORY* and 73 from *MECHANICA CORPORATION*). Respondents were visited in their homes. See **Chapter 4**.

**F. Local health and social welfare institutions.** This study was carried out in the district where the *DOMUS FACTORY* is based. Sources of information were unstandard interviews with workers of the established, reformed and newly emerging institutions of health and social welfare and an analysis of their documents and activities. See **Chapter 5**.

**G. Long-term unemployed in a semi-rural county.** Based on 159 interviews with people selected from a list of long-term jobless in the district where the *DOMUS FACTORY* is located. See **Chapter 6**.