

Kewell, Beth

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Hidden drivers of organisational transformation in Poland: Survival networks amongst state owned and privatised firms in the early 1990s*

Beth Kewell**

Three historical case studies from Polish manufacturing industry are used to evaluate the rise of survival networks in Poland during the early 1990s. The article poses the question of whether survival networks represented a hidden driver of organisational transformation and change in post-Communist Poland? In transition economies such as Poland, survival networks appeared to be governed by interwoven ex-communist elites' and entrepreneurs, of which nomenklatura managers were the dominant group. The paper argues that survival networks may have provided the organisational architecture needed to reinforce elite governance of industry and commerce.

Drei historische Fallstudien aus der polnischen Industrie sollen den Anstieg von überlebenden Netzwerken in Polen während der frühen 90er veranschaulichen. Der Artikel hinterfragt, ob die überlebenden Netzwerke einen versteckten Einfluss auf die organisatorische Transformation und die Wende im postkommunistischen Polen darstellten. In Transitionsökonomien wie Polen schien es, dass überlebende Netzwerke von miteinander verflochtenen exkommunistischen Eliten und Unternehmern geleitet würden, von denen wiederum Manager der früheren Nomenklatura den grössten Teil ausmachten. Im vorliegenden Aufsatz wird die These aufgestellt, dass die überlebenden Netzwerke die notwendige Organisationstruktur für die Verstärkung der elitären Steuerung von Industrie und Handel geschaffen haben.

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** Beth Kewell, born 1970 (College). Senior Lecturer in Organisation Studies at Bristol Business School. Main research interests: Organisational Change in Eastern Europe and the Management of change in UK Public Services.

1. Introduction

The post-communist states of Eastern and Central Europe and Russia have reached an important stage in their maturity as transition economies. This has given rise to a series of retrospective commentaries on the industrial legacy of restructuring and privatisation policies across the region (see for example: Winiecki 2000; Moers 2000; Barjak 2001; Bornstein 1999). In this paper, the aim is to contribute to a second area of retrospective thought, which involves retracing the origins of business networking and evaluating its historical significance, as a form of organizational change. So far, this has ostensibly focused on changes within Russia's old industrial complexes (Huber and Worgotter, 1998) and, more recently, on a comparative evaluation of privatisation and elite governance in Hungary and Russia (Dinello 2002).

This work shows that in the early 1990s, the post-communist economies of Eastern Europe and the former Soviet Union experienced a transition crisis, within which 'survival networks' formed bridgeheads between private enterprises, former state owned firms, suppliers, entrepreneurs, and foreign investors, private and state owned financial institutions (see in particular: Grabher 1993; Huber and Worgotter 1998). In Russia, survival networks were strongly associated with the rise of ex-communist nomenklatura managers as the owners of privatised enterprises and new businesses (Huber and Worgotter, 1998). The paper argues that similar network coalitions emerged in the late 1980s as important drivers of private and state sector entrepreneurship in Poland (Bloch 1989; Stanizikis 1991).

The Historical Background

Between 1988 and 1993, economic liberalisation in Poland promised reform but instead engineered subtle changes in the control of financial institutions and industry by ex-communist elites, of which former nomenklatura managers emerged as the dominant group (Bornstein, 1999; Glasman, 1994; Balcerowicz and Gelb, 1994; Berg and Sachs, 1992; Stanizikis, 1991). Stanizikis (1991) claims that this led to the emergence of disproportionate and corrupt 'combinations' of capital and power. Stanizikis (1991) and Bloch (1989); also uphold that, in the final months of communist rule, state finances were illegally channelled into private enterprises owned by former members of the communist party and the nomenklatura. Neo-classical 'shock therapy' reforms only served to accentuate and fortify elite governance and what Stanizikis (1991) has described as a culture of 'Political Capitalism'. This meant that business networking in Poland evolved within a complex 'quasi' institutional setting in which embryonic markets, networks and elements of old hierarchies co-existed but where this trinity was increasingly dominated by the nomenklatura (Bornstein, 1999; Glasman, 1994; Balcerowicz and Gelb, 1994; Berg and Sachs, 1992; Stanizikis, 1991).

Theoretical Background

The theoretical background for the paper is mainly drawn from 'institutional analysis' and specifically, the study of markets and hierarchies (Grancelli 1995, Williamson 1975, 1991).The discourse of 'societal effects' also provides a background note. This literature emerged in the 1980s and early 1990s to contest the 'one best way' rational choice approaches to management (Porter, 1990). At the same time, Rose (1985) and Sorge (1991) set out to challenge the efficacy of Hofstede's (1980) analysis of national culture, branding it stereotypical, and ethnocentric.

The article explores links between elite power and network governance. Following a brief note on methodology, the article then considers qualitative case studies of organisational change from three traditional sectors of Polish industry: manufacturing, food and raw materials processing.

The analysis of the case study evidence builds on observations of network development in post-Soviet Russia, wherein; Huber and Worgotter (1998) identified conflicting tensions between two dominant forms of elite business networks (one reactionary, the other progressive). However, it is not the intention of this article to test Huber and Worgotter's observations as a hypothesis. Instead, the aim is to provide qualitative snap-shots of organisational life as it was experienced at the case study firms during the early 1990s. The empirical observations upon which the paper is based are thus strictly historical in nature. This said, the case studies presented here do provide some understanding of how senior managers from the same industrial region of Poland interpreted the changes brought on by transition and its nascent effects on organizational behaviour and inter-firm co-operation.

2. Institutional Complexity and Network Development

Organizational research in post-communist Eastern Europe has tended to focus on two central issues: the transformation of hierarchies into markets (Grancelli, 1985, Williams 1975, 1991) and the organizational effectiveness of western privatization methodologies (Radice, 1996; Child, et al. 1993; Stark, 1992; Stark and Nee, 1989). This body of knowledge has, for the most part, been preoccupied with the search for institutional patterns that confirm the predominance of one form of organisation versus another (See for instance Radice, 1996; Child, et al. 1993; Stark, 1992; Stark and Nee, 1989). The organizational and neo-cultural complexities of change were, however, often undervalued, and this lead to a rekindling of interest in the notions of 'societal effects'(Rose 1985; Sorge 1991; Grancelli 1995; Radice 1996) and 'convention theory' (Wilkinson, 1997, Glasman 1995; Nolan 1995; Granovetter 1985).

The societal effects thesis argued that while modes of transitional organisational appeared acultural, their diffusion was contextually driven and conditioned by

social specificity and the pervasiveness of hidden 'institutions' (Sorge, 1991; Rose, 1985; Maurice, et al. 1980). Societal effects theorists argued that institutions were not hermetically sealed within a single national culture but acted instead as the 'unseen hand' guiding economic transactions and 'rational choice' within pan-national industrial systems (see for example: Sorge, 1991). Convention theorists contributed further by acknowledging that 'fads and fashions' might also overtly influence rational choices (Abrahamson, 1991) over the selection, design and deployment of new technologies and managerial innovations (Ray 1995, Grabher 1993). Tacit or unconscious factors, such as an awareness of underlying relationships of trust, subordination, power and control were also viewed as essential to understanding organizational change and the persistence of old behaviours, and constructs (Granovetter, 1985). Convention theorists also acknowledged the importance of local grassroots business networks in motivating economic regeneration (Grabher, 1993; Brunner, 1993; McDermott, 1993).

The Organization and Governance of Business Networks in Poland

Using concepts refined from institutional thinking and convention theory, Stanizikis (1991) provided a breakthrough theoretical analysis of post-communist grass-roots business networking in Poland. In this work, elite control of networks was found to be pervasive, irrespective of whether business transactions took place within hierarchical 'command' settings, illegitimately within the 'grey economy'¹ or as part of trade within embryonic laissez-faire markets. Stanizikis's observations were confirmed and developed further in work by Ray (1995) and Wnuk-Lipinski (1995).

In the Polish context, business networks represented multi-relational organisational forms, which occupied spaces between entrepreneurs in embryonic market sectors and hierarchies *but remained closer in proximity to the latter* (Williamson, 1991; 1975). Networks in Poland formed around centralist power bases (Granovetter, 1985). Through over representation in political systems and business environments, nomenklatura elites perpetuated a stronghold on institutions, trust relations and thus, how they were regulated and enacted (Stanizikis 1991; Granovetter 1985; Michels, 1949). Business networks emerged from this scenario as both environments dominated by political gamesmanship, and settings within which powerbrokers could safely interact with the grey economy whilst protecting allegiances to inherited communist

¹ The 'grey economy' is the description used to denote quasi spaces within the command system where legitimate (and illegal) trade took place between the nomenklatura and private sector entrepreneurs. See: Bloch, A. (1989): Entrepreneurialism in Poland and Hungary, Telos, 79.

institutions (Dinello 2002; Grancelli 1995; Glasman, 1994; Ray 1995; Stanizikis, 1991, Bloch 1989).

The Wider Picture

The literature suggests that Poland's experience was mirrored in other former communist states, indicating a pattern that was both institutionalised and convergent (Radice 1996). In post-socialist and transitional economies generally, there were inevitable overlaps between old and new industrial orders (Ray, 1995; Grancelli, 1995; Gowan, 1995). Ex-communist elites were well placed to bridge the gap between old and new systems by mobilizing economic and political assets. Mobilization occurred within and at the behest of organisations but elite forces were most powerful when attempting to mobilize the cumulative assets of networked enterprises and their stakeholders (Grabher, 1993; Stanizikis, 1991; Bloch, 1991).

Indeed, Huber and Worgotter (1998, pp.85-86) contend that elite controlled 'survival networks' in Russia provided a safe haven for firms, which saw "Little future for themselves in competitive market conditions, indeed they are formed with the explicit goal of isolating participants from market competition". This evolution was perhaps to be expected given the quasi nature of the transitional environment and a unique, paradoxical alignment of neo-communist, centralist and market institutions.

Buyer-seller behaviour within these survival networks drew regressively on institutional power-bases formed during the soviet era but also showed traces of entrepreneurialism. Forms of managerial behaviour remained characterised by marginal acceptance of responsibility, defensive posturing, information containment, minimal downwards communication and practices designed to maximise political and economic leverage (Child and Markoczy, 1993; Pearce, et al. 1993). Observations of similar behaviour traits were documented in other types of post-communist societies and can be explained both in terms of contingency responses and institutional viscosity (Clarke and Soulsby, 1995).

Integration into international business networks was self-limiting in situations where survivalists predominated, as they were inherently less open to the absorption of new behavioural practices and organizing principles. Huber and Worgotter (1998) saw 'entrepreneurial networks' as being cut from new rather than old cloth and populated by opportunistic firms. Survival and entrepreneurial networks differed in composition, signalled different managerial attitudes towards foreign investment, and thus embodied different sets of trust relations. Internal struggles for power within survival networks were considered to be a major disincentive to outsiders. Technological obstacles may also have hampered integration (Ray, 1995).

Collaboration with foreign investors within survival networks carried the hallmarks of managerial 'rent-seeking' or, the search for a long-term

paternalistic guarantor (Maruyama, 1993). Entrepreneurial networks consisted of actors who were prepared to disengage from rent seeking and embrace changes in managerial behaviour. Firms, which were active within entrepreneurial networks, were more open in their dealings with foreign investors but were politically marginalized as a result.

Entrepreneurial networks were, nevertheless, few and far between. Huber and Worgotter (1998) found evidence that business networks using mixed modes of governance were better placed to survive as they were lead by individuals with a historic power base. The emergence of these networks was, nonetheless, subject to regional differentiation, and the concentration of large-scale enterprises versus small entrepreneurial firms within the micro economy (Ibid.).

The work of Huber and Worgotter (1998) provides an illuminating account of enterprise change in Russia, but does their typology extend to Poland? The next sections of the paper document the case study research I carried out in Poland, which both confirms and adds to Huber and Worgotter's typology, and, in doing so, sheds light on the capacity for organizational change and renewal amongst survivalists.

3. Methodology

The three case study vignettes illustrated here are taken from in-depth fieldwork in Lublin, Poland. Fieldwork visits to the Lublin region took place as part of a wider programme of doctoral research (1992-97). It is acknowledged that this data is historical.

A cross-sectoral analysis of available economic data was performed in order to identify an appropriate sample of case studies. Case studies offer the potential for examining theoretical principles in detail and enlarging their relevance within a restricted social setting or time span (Mitchell, 1986; Gummesson, 1991). Initial rounds of visits were made to firms in several industrial and agrarian regions of Poland. Lublin in the Southeast was chosen as the location for in-depth case research because of its history of dependence on labour intensive industries, low-technology manufacturing, food processing and agriculture. A sample population of 15 firms was eventually narrowed down to four companies, which were visited at six to nine month intervals in 1993-94. As Table 1 illustrates, this sample was selected because each company was comparable in terms of history, size and production orientation.

A total of 30 in-depth interviews were conducted by the author through an interpreter, using a technique for minimizing cultural and linguistic asymmetries devised by Clarke and Soulsby (1995). Background information on each company, including financial data, was collected using a structured questionnaire, which was then translated into Polish. There were significant obstacles to accessing archival documents held by each company created by

language barriers and what others have described as an entrenched culture of secrecy within management (Maruyama, 1993).

The questionnaire was semi-structured and focused on asking managers to describe the history of what were then recent events, focusing on their views of privatization, involvement with overseas investors, restructuring, employee relations and functional changes within management. Tape-recorded interviews were analysed in relation to unstructured field notes (Bryman, 1989; Burgess, 1984). The interviews were taped and then analysed using content analysis. Descriptive coding was then performed in order to discover the typicality and coherence of the themes, issues and events discussed by interviewees (Bryman, 1989; Burgess, 1984).

Table 1: Case Study Sample

	Firm A	Firm B	Firm C
Established	1895	1978	1989
Location	Lublin	Lublin	Lublin
Sector	Food processing	Tobacco	Manufacturing/assembly of farm equipment
Average employment in 1989	815	1015	783
Type of production	Low order technology processing operation.	Low to medium tech processing operation.	Low to medium technology assembly operation.

The issue of networking arose as a major theme within the interviews. It was commonplace for managers to evaluate change in relation to externalities, including interactions with competitors, suppliers, customers, overseas buyers, local politicians, state officials and foreign investors. A strong impression was given that personal affiliations, goodwill and mutual reciprocity were crucial to the functioning of business relationships.

4. Research Findings

The case study vignettes illustrated below are condensed from in-depth doctoral research. Descriptions of events and incidents provided by respondents during interview are presented here in narrative form (Sayer, 1984). Data is necessarily constrained and not generalizable. The case study vignettes serve an exploratory purpose, rather than as apposite reflections of theory. Management themes are considered in preference to the study network of configurations per se. The analysis therefore focuses on evaluating the scope of managerial leverage (bargaining power) within the confines of pre-existing trust relations, elite networks and social relations of the firm.

Firm A

This case study describes the recent history of business dealings at a state-owned sugar refinery based in Lublin, southern Poland. Interviews with managers from Firm A indicated gradual organisational change was taking place within normative patterns of behaviour, both in terms of cognition and action. Most respondents demonstrated a tacit awareness of the need for change. There was, nevertheless, strong evidence to suggest that familiarity with market-orientated concepts was superficial amongst some managers. Implementation was thus limited to rudimentary changes in hierarchy and functionality. Production methods were improved but this was contrasted by adherence to entrenched attitudes towards the management of the labour force within shop-floor production. Opportunities for business growth were identified but progress towards maximising Firm A's presence within the market was constrained by rent-seeking behaviour. Managers at Firm A expressed their intention to maintain financial subsidies from government while simultaneously looking to attract international businesses as clients and possible short-term foreign investors.

In the spring of 1992 an agreement was reached to allow five refineries, including Firm A, to be privatised. Nine refineries had already been transformed into privately owned employee-managed firms. A ballot of the workforce at Firm A indicated that there was wide spread employee support for privatization. Managers privately favoured the idea of modernizing the company while remaining as a 'corporatised' entity within the state sector. This would allow Firm A to abolish the Worker's Council, restructure and at the same time continue to draw on state subsidies.

While managers at the plant were intent on using leverage with ministerial officials to achieve this end, an appetite for new business contrasted this form of rent-seeking behaviour. Firm A's General Manager expressed his intention to engage more aggressively in marketing products and developing a brand image for the firm:

"We would like to pay more attention to the way the products look, to make the packaging more attractive, and also improve the cases (cartons) the candies are packed in. The company is trying to introduce some changes to the look of the product, and using new materials, especially the imprints (lettering). We stay in very close contact with the sales department who take orders from our customers and so we have a very good idea of what we need to manufacture, on the next day".

There was a strong perception that Firm A's future was in producing sugar for the food processing industry. Firm A had developed a marketing strategy to take advantage of the influx multinationals into food production and retail (Central European Weekly, 1994). A newly appointed Director of Marketing engaged in developing personal contacts with potential multinational clients. Managers

invested considerable time and resources in securing a contract with a Spanish multinational for up to 20 percent of annual sugar production. The contract included guarantees that production facilities would be extensively modernised. New plant and equipment were purchased using a mixture of government aid and local finance provided by a state owned bank. Capital investment focused on bringing in new technology. Hygiene standards were improved in line with guidance set by multinational food producers. Nevertheless shop-floor workers and supervisors were given only limited access to re-training.

A new organisational chart was drawn-up and restructuring focused on implementing a programme of voluntary redundancy. The workers council was replaced by a management board, which included representation from the Inter-Ministry Committee for Restructuring the Economic Environment of Agriculture (or INCREEA). Trades Union representatives also sat on the board but reported at interview that they felt marginalised within processes of decision-making and were disappointed with the outcomes of management led changes:

“The decision to privatize the company which took place two years ago was a turning point for the company. Prior to that the workers council was made up of 15 representative of the workers and when the change took place the workers council was transformed into the board of directors. The trade unions and the workforce received only two seats and that meant taking away a lot of negotiating power from the workers and this changed the structure of the company. The workforce were quite aware of giving up power, but they where hoping that the benefits would somehow make up for the loss of power...The workers thought that privatization would tighten discipline, taking into consideration lay-offs. They were aware of the bad negative side effects to the workforce, that would happen as the privatization process went on, but they were also hoping that because of all the negative side effects the company would be doing much better and the company would be profitable and the workforce would be able to participate in that process. But unfortunately the workforce regrets the decision, and the problems that the company and the workforce have are enormous and they feel that the atmosphere has not been healthy and they regret the decision”.

Management promotions took place internally and were secretive. New appointees were sent to the Lublin Business School for re-training, but this privilege did not extend downwards to technicians and shop-floor supervisors. A range of functional changes were made which made it possible for Firm A to routinize information handling by setting-up tracking and monitoring systems. The introduction of formal mechanisms of supply-chain management helped reduce waste and improved the quality of raw materials used in production. Nevertheless, there was only limited evidence that managers accepted collective responsibility for their actions. Management-led change also appeared not to

have lessened an ingrained culture of blaming individual workers for production failures. Management communication skills and understanding of employee relations issues remained poor. While a raft of changes had been introduced, Firm A remained under ministerial governance upon exit from field. The fabric of social relations within the firm had altered but without effective accountability safeguards or the extension of opportunities for job enrichment to employees.

Firm B

This case study describes a series of events in the early history of a licensing agreement between a multinational tobacco corporation and a state-owned tobacco refinery, situated in Lublin, southern Poland.

The case of Firm B echoes many of the conflicts and clash of managerial cultures, which are widely known to ensue within joint ventures between multinational corporations and Eastern European firms (Child and Marcozy, 1993). Managers at Firm B responded defensively to pressures from the multinational partner to introduce changes in procedures, shop-floor supervision and waste-management. They also proved to be unwilling to assist in 'hands on' problem solving. Information was treated secretively and not shared appropriately with staff from the multinational company. Production values were extremely low, as was the quality of management supervision on the shop floor. Human resource practices were found to be virtually non-existent and a coercive culture of blame and retribution was used to instil worker discipline. Employees were perceived by staff from the multinational firm as more receptive to change than their line-managers and supervisors. As a consequence, improvements in production were achieved through shop-floor change and employee enrichment at the point of production, rather than in the context of top-down managerially led intervention, which proved difficult to implement.

Before the collapse of the tobacco trade within the Council for Mutual Economic Assistance (CMEA) in 1991, tobacco was an important export commodity to the Soviet Union. Throughout 1970s and 1980s ministry of Agriculture provided substantial capital investments and encouraged tobacco refineries to strike-up joint ventures with Western cigarette manufacturers (Rainnie and Hardy 1996). A strong precedence for collaboration with multinationals already existed within sector but previous ventures had taken place under the direction of central government.

The privatization of the tobacco sector began in July 1993. A conservative estimate of the time suggested that the revenue from the privatization of tobacco would exceed 500 million USD. Nationally, there was considerable grassroots discontent amongst peasant farmers and some trades unions to the prospects of

multinationals buying-up the tobacco sector (Business News From Poland, 1994a; b).

As a state enterprise Firm B employed 1000 permanent and seasonal workers in Lublin. During the 1980s, Firm B embarked on expansion plans, which led to the opening of a second production facility in the town of Krasynstaw, near Lublin. By all accounts the Krasynstaw operation was technologically superior to the Lublin plant.

In 1992, Euro Tobacco expressed its intentions to begin manufacturing tobacco products in Poland. Discussions with the Ministry of Privatization and Treasury officials highlighted the possibility of using Firm B as a brown field site for its new manufacturing operation. Following a series of high-level meetings, a preliminary licensing agreement was signed between the Euro Tobacco and government officials. Euro Tobacco viewed Poland as its largest potential growth market in Europe. The western investor's long-term aim was to acquire the plant at a rock-bottom price and transfer production from its factories in the UK and Germany. The decision was made not to invest significant capital into the licensing agreement with Firm B while it remained in state-hands. Once under ownership of the multinational, the Krasynstaw plant would be sold at market rate to a commercial investor in order to claw back some of the costs of modernizing the Lublin plant.

Several interviewees from the multinational partner described Firm B as excessively hierarchical and bureaucratised. A great deal of management activity seemed to involve political gamesmanship and jockeying for position around the General Manager, who acted as the single authority figure within the company. Collective management responsibility was minimal and garnered little evidence of an acceptance of the need for change.

The General Manager of Lublin plant was key figure in the industry who enjoyed access to high office but who was sensitive to rivalries with larger state-owned tobacco producers and cigarette manufacturers in northern and southern Poland. Interviews with the General Manager and other members of his staff indicated that collaboration with Euro Tobacco was regarded as a status issue. Firm B's unions were described as being more hesitant about take over prospects but this was counter-acted by the support of local dignitaries who saw Euro Tobacco as potential long-term mass employer. Euro tobacco played along with this but disclosed at interview plans to bring in labour saving equipment and Just-in-Time (JIT) production methods, which meant that, in the long term, they were looking to significantly reduce the workforce.

A pilot-manufacturing unit was set-up by Euro Tobacco staff at Firm B. The project endured technical failures early on and some unexpected difficulties hampered progress. For example, Euro Tobacco had planned to use Polish tobacco in cigarette manufacturing but the quality of local produce was found to

be very low. The secondment of workers from Firm B to the pilot project created significant management conflicts. Managers from Firm B were reluctant to send their best workers. Shop-floor staff and technical workers demonstrated an uneven range of skills and abilities. Better workers were often under-utilised. Workers seconded to Euro Tobacco were taken out of the host environment and retrained in the UK. While this was highly expensive, it was widely believed by Euro Tobacco staff that a break in cultural continuity was essential if the benefits of training were to be maximised:

“We’ve tried to make recruitment as scientific as possible and to minimize the subjectivity of the recruitment process. We’ve brought in what we call the ‘Puffer Machine’, which is basically a diagnostic skills machine tester. What you are actually doing is checking people’s ability to think logically. What we’ve had at Firm B is pressure to recruit certain people, because they’ve been with the company a long time or they’re related to someone who works there. But this time round partly because the technology is that much more sophisticated and the whole operation has expanded immensely we’ve had to be a lot firmer. I got the feeling that at the end of the day it actually helped them out of a hole because they were able to say: ‘look you know, despite what I may have hinted in the past these people from outside they’re insisting on this’”.

The knock-on effect of Euro Tobacco’s programme of retraining and job enrichment was to fundamentally alter social relations within Firm B. Retrained staff was not easily absorbed back into the firm. Petty jealousies were commonplace. The pilot manufacturing operation also highlighted serious deficiencies within Firm B’s labour relations policies. A lack of routine waste-management, stock-control and shop floor monitoring practices meant that individual workers were regularly accused of theft or made to pay for damaged items. A culture of intimidation and reprisals was used to ensure worker compliance with management directives. Staff at Euro Tobacco described how suggestions for improving shop-floor conditions had been met with resistance from management:

“I mean the objective was to try and draw in the local management so that they can eventually take over from our expatriates based there. It’s not ideal to have expatriates; they’re expensive for a start and our ultimate objective is to have our local partners take the full responsibility for fulfilling the terms of our local agreements which basically boils down to producing cigarettes for us and to agree quality standards, to an agreed price. But we are finding it very difficult in Poland to get the local management to take responsibility. They’re quite happy for our people to come in and run the business. They are extremely reluctant to take responsibility for anything. Of course salaries are extremely low in Lublin and there is no real incentive for them to take on increased responsibilities. The real problem comes back every time to senior managers not wanting to get

involved and manage their business properly. But then you come to managers from the old communist school who just can't or won't adapt".

The General Manager had to be present at all negotiations and was unwilling to devolve decision-making to line-managers and supervisors. On exit from field, the privatization processes had stalled nationally. The licensing operation was facing an uncertain future. Euro Tobacco had also begun to look at other brown field sites as alternatives centres of production.

Firm C

This case study describes the events leading to the breakdown of a licensing agreement between an Italian consortium of agricultural equipment manufacturers and a supplier in Poland. Managers at Firm C had run an export business for many years and were sophisticated 'wheeler-dealers' and nomenklatura managers. As a successful export company, Firm C was able to broker capital investment funds from both state financial institutions and private backers. Firm C was in a strong bargaining position with both potential foreign investors and state banks. Firm C set out to maximize the company's position with state financiers but at the same time wanted to tap into new seams in domestic and international market places.

Managers at Firm C embark on an astute programme of organisational restructuring which evidences a capacity for entrepreneurialism. The transfer of know-how did not, however, follow a one-way channel from multinational to host. While some new ideas were learnt through contact with the Italian multinational, the Polish partners initiated independent forms of managerial innovation and change.

During the 1980s Firm C had built up a successful manufacturing export business to southern Europe and Scandinavia. Firm C first began to consider the possibility of collaborating with a consortium of Italian investors in 1988. Under the terms of a licensing agreement, Firm C would assemble 20 000 6-horse power tractors but the management sought assurances that this would not reduce the company to a skeleton operation: '

"The final goal was to manufacture at least 80 per cent of the tractors here in Poland and the rest of the tractors would come from Italy. The parts would also come from Italy. But you've probably noticed that the deal was rather one sided. The Italians were manufacturing the parts and sending them here. The Polish side was expected just to assemble the tractors! In my view a lot of mistakes were made during the negotiations of the deal. But then it was 1988 and the economy was centrally planned. It was a real challenge to go into business with foreign investors. So in the end it turned out to be a positive experience in getting to know a foreign investor. I think that our potential success was just beginning in 1988 and our early experience at dealing (sic) with very advanced

methods of management, marketing and sales techniques is why we are successful right now. Yes, I think it all started for us back in 1988”.

The Treasury prepared the groundwork for the privatization of Firm C in 1990. While Firm C would be a relatively attractive prospect to a foreign buyer, quality assurance remained a key issue. Further development of the export side of the business would be dependent on Firm C achieving ISO 9000 accreditation. Necessary changes were made on the shop floor and in the management of production.

Negotiations took place to establish Firm C as a joint venture with its existing Italian investment partners in 1991. Extensive restructuring and mass redundancies were proposed. The Polish partners had felt pressured by the Italians into making difficult decisions they would have to justify to a disillusioned workforce and they were unhappy about the mistrust enforced redundancy had created within the company.

The Polish partners put forward a solution, which involved dividing the Firm C into two parts. A subsidiary firm was created as the sole supplier to Firm C of key assembly components. The subsidiary company then employed a large percentage of the redundant workforce. The managing director of the subsidiary company was an ex-director of production at Firm C who maintained very close links to the General Manager. The split enabled the restructuring of Firm C's assembly production in-line with Western batch production methods and flexible manufacturing. A new deal was done with the Italians partners but with additional investment capital provided by local Polish state-owned vehicle maker. Moreover, the Polish Treasury was insistent that the Italian investors should not hold more than 10 percent of company stocks. A state-owned investment bank was brought-in to underwrite the venture.

Firm C's General Manager remained in post but new appointments were made to the management board from outside of the company. Key members of staff were sent for re-training at Lublin Business School. Ancillary services were contracted out, while the company's social housing and empty factory units were sold-off. By 1994, tensions were beginning to surface between the Italian and Polish partners regarding the development of a future business strategy for the venture. The Italian partners were willing to offer additional finance for the development of two new models of tractors but were increasingly seen by the Polish partners as a hostile partner. On exit from the field, the Polish partners were considering abandoning the venture with the Italians and were seeking instead to attract alternative investment from state banks to finance the re-integration of the subsidiary company with Firm C alongside plans to buy-up local dealerships.

5. Discussion: Changes in Managerial Behaviour

Exerts from the research in Poland have been necessarily restricted here to three case studies, which are entirely historical and limited to the early phase of the transition process. The study was also small scale, specific to one region, and did not set out to evaluate firm behaviour in other industrial districts of Poland. It should also be acknowledged that the case study data was confined to snapshots of firm behaviour rather than being part of a longitudinal evaluation. Cultural and linguistic barriers acted as additional layers of filtration.

The case studies may confirm observations of behaviour traits consistent with firms in Russian survival networks, as documented by Huber and Worgotter (1998). The data also suggests that firms placed within survival networks were, at this time, engaging in moderate forms of entrepreneurial behaviour. The case studies also highlight the extent to which survivalists utilised 'Historic power bases to exploit opportunities' to fortify entrenched relationships of power and elite governance whilst at the same time cultivating ties to foreign investors as powerful 'outsiders' (Huber and Worgotter, 1998:87). Relationships with outsiders were necessarily constrained and conditioned by the existence of embedded mechanisms of elite organisational governance, which codified managerial behaviour and galvanised attitudes towards trust (Granovetter, 1985).

Firms A, B and C were similarly reliant on supply chains which pre-dated economic deregulation and entry into the privatization process. At Firm B, a vital opportunity to integrate with suppliers and forge stronger alliances with wholesalers was overlooked because of the inability of senior managers to embrace opportunity seeking. By contrast, in the cases of Firms A and C, there was evidence to suggest that managers increasingly saw the consolidation of supply chain management as part and parcel of raising quality, strengthening market position and gaining access to western clientele. Managers at Firm C had also reached the point at which they were considering vertical integration with suppliers, thus creating a regional monopoly for the company.

The new found openness toward opportunity seeking shown by managers at Firms A and C was, nevertheless, counterbalanced by the desire to affirm ties to state financial institutions. Managers at both companies expressed preferences for investment from domestic banks and viewed foreign direct investment as an additional but untrustworthy source of 'patronage'. Mistrust of foreign investors was evident at Firms B and C. Managers at Firm B were described as resistant to change, particularly in relation to shop-floor supervision and the recruitment and selection of workers. At Firm C, mistrust arose from differing perceptions amongst the Italian and Polish partners of the merits of further co-operation.

Managers at Firm A appeared not to see a contradiction between engaging in competitive practices and remaining as a 'corporatised' business within the state-owned sector of industry. Managers appeared resistant to the idea of full privatization because of fears that government subsidies would be lost. While this was undoubtedly the case, it was also clear that corporatization had greatly enhanced managerial control within the firm. Privatization was viewed by the trades unions at Firm A as way of breaking managerial dominance and returning the enterprise to participative decision-making through employee share ownership. Firm A was not, however, unusual and fits in with similar examples of conflicts arising from differences in trades union and managerial attitudes toward privatization documented by Rainnie and Hardy (1996).

6. Theoretical Implications

By concentrating specifically on low-order technology sectors, the aim of the research was to document evidence of change in managerial behaviour against the backdrop of 'embedded' elite controlled networks and thus inherited understandings of the value of obligations, reciprocity and exchange. It was assumed that inherited modes of organisational governance would be reflective of the soviet-type model of enterprise behaviour widely described within the literature (Child and Marcoczy, 1993; Burawoy and Hendley, 1992) but might also exhibit signs of neo-communist values and constructs (Walder, 1986; Grancelli 1995).

The case studies offer reinforcement to this literature but also evidence the belief of convention theorists that managerial adaptation and change was conditioned by embedded social relations, pre-existing relations of trust and in particular, the ability of key actors to broker transactions within networks. In Poland, nomenklatura managers became pivotal actors within in these networks and were, the early 1990s, clearly shaping the future direction of industrial reform at the micro level. Some commentators regarded this phenomenon as transitional and subject to a 'time lag' but this under-estimates the extent to which oligarchical control was a deep-seated societal trait, which predated communism (Walder, 1986).

Both communism and laissez-faire capitalism were inadequate devises for rectifying the imbalances inherent to societies traditionally dominated by ruling elites. Policy-makers largely ignored the 'third way' solution, which focused on developing a social-democratic framework for industrial reform (Gray, 1995). As a result, enterprise cultures emerged in the early 1990s as both centralist and entrepreneurial but few checks and balances existed to safeguard employee rights.

Organisational change and renewal was shaped as much by interaction between participants in these networks as it was by exposure to Western management

practices. Organisational governance at this time in post-socialist Poland may therefore have been simultaneously reflective of old and new orders, reflecting fragments of both Western and Eastern European value systems. Elite business networks thus provided a catalyst for the development of overlapping 'quasi' management cultures. For example, while old order rent-seeking behaviour ultimately shaped relationships with foreign investors at Firms A, B and C, this did not prevent actors within the case studies from adopting new management ideas and constructs and thus developing the capacity for organisational change and development.

Nonetheless, while new ideas entered the vocabulary of management and attract a symbolic relevance, the transcendence into practice was tenuous in some functional areas, specifically employee relations (Child and Markoczy, 1993). In so doing, the case studies also challenge the efficacy of the 'one best way' approach, as local managers clearly used insights into Western management techniques to develop independent courses of action.

7. Conclusions

In this paper, I have returned to historical data of organizational change from the transition in Poland. The aim of the paper was to review the significance of networking, as an organisational driver of change. The role of elite governed 'survival' networks was clearly very important and there appear to have been elements of symmetry between network development in Poland and in Russia (Huber and Worgotter, 1998). The case studies also highlighted the extent to which inherited legacies of nomenklatura control shaped some of the tensions, which lay beneath the adaptation of managerial behaviours and strategies of change.

Nonetheless, it is recognised that there is a need to update the empirical work cited in this paper, which only reflects a partial sequence of events in the early phase of the transition process. The transition process has, itself, moved on considerably since my PhD research was completed. Future research might concentrate on evaluating whether there has been a contingency adaptation of elite governance within network environments? This research could also usefully map the proliferation, differences and similarities of survival and entrepreneurial networks across Poland, and perhaps engage in a comparative assessment of the role of networks and coalitions in regional economic regeneration.

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