

Balaton, Károly

**Article**

## Editorial: Enterprise restructuring and sources of competitive advantage in transforming economies

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## **Editorial - Enterprise Restructuring and Sources of Competitive Advantage in Transforming Economies**

The papers in this issue address the questions of restructuring, fragmentation and downsizing, and sources of competitiveness. Previous versions of the first three papers were presented at the 15<sup>th</sup> Colloquium of the European Group for Organizational Studies in Warwick in July 1999. The fourth paper analyses factors influencing competitiveness of Slovenian firms.

Enterprise restructuring, downsizing and downscoping have been frequently used in market economies since the mid-1980s (Freeman and Cameron, 1993; DeWitt, 1998; Legatski, 1998). Increasing competition among firms, downturns of business prospects and need for improving performance drive companies toward different means of restructuring. There is no general agreement on terms to be used in this area of studies. As Legatski (1998, p.254) has put it: „a wide range of activities, such as rightsizing, resizing, restructuring, delayering, and reengineering, have been addressed under the general rubric of downsizing.” Following the classification schema of the author we shall use restructuring in a broader sense, including enterprise fragmentation, downsizing, downscoping, downscaling and changes in organizational forms as well.

Enterprise fragmentation refers to splitting the assets of enterprises into smaller organisational bundles (see Ed Clark). Downsizing will be used as reductions in the size of a firm's human or capital resources in response to the presence of both environmental and organizational decline (DeWitt, 1993). We refer to downscoping and downscaling as to possible strategies within downsizing: the first related to decrease in level of diversification while the second refers to reduction of slack resources (Legatski, 1998).

Enterprise restructuring, fragmentation and downsizing are frequently observable forms of organizational changes in transforming economies (Clark and Soulsby, 1999). Emerging market economy conditions force owners and managers of enterprises toward more effective structures of business activities. However the reasons for structural changes are much more complex in these economies and can not be simply described as adaptation to market forces (Lang, 1998). The historical legacies of state owned enterprises have to be taken into consideration in order to understand properly the requirements for restructuring in the context of transition economies.

Formely state owned enterprises had to perform not only economic but social functions as well. In many cases they were responsible for running recreation facilities, schools and sport clubs as well. Separating the economic and social functions is one important element in enterprise fragmentation (see Ed Clark). The failure of market as transaction governing means in socialist economies

forced enterprises to diversify their activities towards production of tools, parts and perform auxiliary activities as well. While outsourcing and concentration on core activities became a standard practice in market economies, the typical answer of enterprises in socialist countries were to make nearly everything inside the company. The waves of outsourcing and concentration on core activities in transforming economies may be understood as actions of formerly state owned enterprises to reestablish the balance between „make or buy” (Balaton, 1996). The transformation period in many countries is parallel with serious economic recessions. Loss of former markets, disturbances of coordination and lack of investment funds are general reasons for recession (Kornai, 1993). Recession in itself contributes to downsizing decisions in many companies. Need for improved efficiency under the conditions of increasing market competition is also among the explanatory factors of restructuring and downsizing decisions of enterprises in transformation economies. This factor has a similar effect on enterprise level decision making than in matured market economies.

Each of the first three papers places enterprise restructuring into the macro-level socio-political and economic conditions of transformational economies. There are however important differences in the contexts of the papers. Ed Clark's paper deals with fragmentation of Czech enterprises. Czechoslovakia turned back to the orthodox Stalinist system after the unsuccessful reform of 1968. The state-level planning system did not leave possibility for even limited market economy conditions. After the socio-political changes of 1989 and 1990 enterprises had to face the market economy conditions within a short period of time. Lack of knowledge in enterprise management under conditions of market competition together with influences of past history and embeddedness in local societies made it rather difficult for enterprise managers to make radical restructuring decisions.

Two papers in this issue analyse enterprise restructuring in China. Hassard et al. focus on experiments with new enterprise structural forms and management systems. These experiments build on the practice of Western countries in developing holding forms and corporate governance systems. A major intention behind these changes is to develop clear-cut authority and responsibility systems, and separate the political, social and economic functions of state-owned enterprises. Pressure from the emerging market economy conditions are strongly present in these endeavours. Possibilities for radical changes are limited by the prevailing political interests of maintaining stability and the ruling position of the Communist Party.

Yongping Chen's paper discusses the experiments of two Chinese state owned enterprises with downsizing. After providing a description on the driving forces the author analyses the process and outcome of downsizing. To improve flexibility is an important motive behind the restructuring decisions. The

influencing factors of the new economic management system parallel with path-dependency connecting enterprise managers to the values and norms of the previous system create contradictory situations for decision makers.

The three papers mentioned share the view that changes at enterprise level have different phases and they are connected to alterations in the macro-level political, social and economic conditions. Ed Clark identifies four phases in the Czech transformation process due to the interplay of enterprise-specific and general societal level factors. The Chinese transformation processes have the specific characteristic that they are undergoing within the same political system. The reform process shows different focal issues during the last twenty years (see Yongping Chen). The initiative for enterprise level changes comes from the central level political decision-makers and they set the limits toward transformation. Maintaining the existing political system and avoiding political instability is a major criteria for allowing changes in enterprises. The two papers show that there are only limited possibilities for implementing reforms as there are no solutions for the social and political consequences within the existing system.

In the fourth paper Maja Makovec Brencic analyses factors influencing firm competitiveness. The author relies on the resource-based view, and makes distinction between price and non-price factors of competitive advantage. The analysis of 122 Slovenian companies shows that both price and non-price factors contribute to competitive advantage on international markets, but non-price factors seem to play a major role in gaining them.

*Karoly Balaton*

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