

Puécko, Daniel

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Management in the Central and Eastern European transitional countries

*Daniel Pučko**

Individual articles published in JEEMS and elsewhere analyze individual aspects of the management process and its changes in different transitional countries. There is a certain lack of an overall overview of what has been achieved in the last decade in the management field in the companies in the region. This issue seems to be a topic that should be discussed by many researchers and acting managers. Mass media often raise the question of what is the quality of acting managers in companies in the transitional countries. The answers given are usually not founded on firm empirical evidence. Certainly one might argue in an indirect way that a better macro economic performance of a country could prove that also the management quality in that particular country is better. I would prefer to discuss the management quality issue in a more direct way.

It is not unknown that management could be defined in different ways. Management means managers in organizations. Management means a scientific discipline. Management means a process which is present in any organization. My intention is to discuss the management from the latter aspect. The management process could be defined as a set of activities directed at combining resources efficiently and effectively in order to attain the organization's goals (Barney/Griffin, p. 8). Managers carry out the management process. This process is divided into steps in many ways. Let us use here two classifications of its subparts. The first offers the management process as a set of management functions, i.e. planning, organizing, leading, and controlling (any other enumeration of management functions will probably include at least these four functions!). The second classification differentiates the management process by areas of management, i.e. marketing, finance, operations, human resources, and others. While approaching the management process along these two classifications we can ask ourselves what one could assess about the management quality levels in companies in the European transitional countries nowadays?

It is beyond my capabilities to discuss the overall quality level of the management processes in companies in all transitional countries. Therefore the

* University of Ljubljana

discussion will rather be limited to the situation in my country. But at the same time I am asking the colleagues researchers and managers to clarify situations in their countries.

Planning

Planning as a management function has been indispensable in companies in the last decade, especially in the process of strategic (operational) company restructuring. Strategic planning has been a very much needed concept in the last ten years in companies. Nowadays top management teams practice strategic planning approaches in their companies in a great majority of companies. The empirical research implemented during the year 1997/1998 in the Slovenian middle and large enterprises shows that 51.1% of the firms plan strategically for a period longer than 4 years, 42.5% for a period between 2 and 4 years, and 6.4% do not plan strategically. The quality level of strategic planning processes might be assessed as relatively good. This assessment is based on the evidence that there is less than one tenth of the "old" companies (i.e. those which had existed before the transition started) at the end of the nineties which are still in crisis, 21% are in their revival phase and the rest of them already perform quite well (Pučko/Edwards, 1999, p. 84-85). FDI contributed to an upgrading of strategic planning processes in relevant companies. Nearly half of the middle and large size companies implement different forms of co-operative strategies with partners from Western Europe and this stimulates strategic planning processes in the Slovenian companies, too. Methods and tools which are used in the strategic planning processes are certainly not very sophisticated, and one would expect significant improvements in the future.

Annual planning or budgeting is well in use in middle and large Slovenian enterprises. According to the findings of an empirical research (Pučko, 2000) all the enterprises in the sample did have their annual plan in 1999. All managing directors considered annual planning as very important (52.4%) or important (33.3%), and an average importance was assigned to annual planning by only 14.3% of managing directors. Nobody assigned a lower level of importance (i.e. not important or not important at all) to this management function. There are perceived weaknesses in annual planning activities. Less than one half of the firms prepared their annual plan for the year 1999 in due time. Most firms had their sales plan and production plan. Around three quarters of the companies had the purchasing plan, personnel plan and pro forma income statement, balance sheet and flow of funds statement. All other kinds of annual budgets were often not present. Today the quality level of planning instruments used in annual planning is not very high (i.e. forecasting methods, planning standards, flexible budgeting approaches, planning directives, etc.). Only 38.1% of the firms have an annual planning manual.

Organizing

Organizing as a management function still seems to be a subpart of management where weaknesses prevail in companies. Prevailing organizational structure of large Slovenian enterprises is still functional (Hočevar, Jaklič, Zaman, p.212). The same is the case in Croatian enterprises and it is valid even for the diversified companies (Galetić, Tipurić, p. 151). Research shows that no important changes have taken place in the organizational field of companies yet. Organization is obviously a serious weakness of enterprises. Only 13.2% of managing directors of small enterprises', 8% of middle and 16.7% of large enterprises assess the organization as a competitive advantage of their firms in Croatia (Galetić, Tipurić, p. 156). Enterprises are mostly slow and inflexible. Modern organizational structures, such as project or matrix structure, well established profit centers or strategic business units, etc. are applied in a marginal number of larger companies. Decentralized organization, flatter organizational hierarchies, leaner structures, flexible networks and other modern developments in the organizational field are still missing in companies. It seems that managers often still lack managerial knowledge in this management field.

Leading

Leading as a management function is without doubt changing the most together with the changes in top management teams. The available research findings prove that there were significant changes in top management teams in the Slovenian enterprises in the last decade. Nearly two thirds of the managing directors were replaced in the first half of the nineties in the "old" Slovenian enterprises (Pučko/Lahovnik, 1997, p.363). Most top managers now belong to the age bracket of between 36 and 45 years. Their age structure might be assessed as relatively young. All these changes have contributed to the changes in the quality level of leading as a management function in Slovenian enterprises. Managers' values have been changing slowly. They still differ noticeably from the value systems of Western European entrepreneurs and managers. Personal objectives of the Slovenian managers match better with the personal objectives of the managers in Western Europe. Older managers still possess fears, values, stereotypes, mentality, old habits and entrenched behavioral patterns which mean obstacles for effective leading. On the other hand there is a significant number of younger managers who "do not carry the baggage" (Vlachoutisicos, p. 492) from the previous socialist system. It could not be denied that Slovenian managers in general still have skill deficiencies related to needs of operating in the market environment, for instance, appropriate knowledge in the field of marketing, finance, human resource management, and strategic management as well as regarding international management and command of foreign languages. The stated weaknesses are more emphasized by older than younger managers. Motivational and reward

systems in enterprises are still very old fashioned, not focused on rewarding individual performance. Managers' compensation systems are not developed very well. There are many complaints in the firms that the communication system is very poor. Managers still do not perform well their function of being an effective coordinator and change agent in organizations.

Controlling

Controlling as a management function is not neglected in companies. The research findings prove that nine tenth of top management teams in the Slovenian enterprises use a certain system of tactical feedback control and a quarter even the feedforward type of control. Three quarters of the firms apply periodic control. Two thirds use variance analysis. 50% of the middle and large size Slovenian firms have a controlling department (Pučko, 2000). Managers are surprisingly less satisfied with their managerial controlling systems than with their planning systems. Their control systems are not timely (in 60% of the firms). The control systems are established in the responsibility centers in not more than one third of the enterprises. Less than one quarter of the enterprises have defined so called controllable variables in their responsibility centers. The highest quality level is achieved in controlling production, less in controlling sales. Direct labor cost, production overhead, distribution cost, promotion etc. are controlled very poorly. Managers describe their control reports as not being standardized enough, not timely enough, not relevant enough, not frequent enough and not properly focused on controllable variables in responsibility centers. On assessing controlling from the behavioral aspects one might state as weaknesses a low level of self-control in companies, subordinates' fears linked to control, superiors that are not inclined enough to consider the proposed measures by their subordinates, etc. Evidently the controlling field allows for numerous improvements.

Marketing

Marketing is an important management task. How much and how well is it carried out in companies after a decade of transition? Evaluating the marketing quality level in companies one should differentiate between "old" enterprises, newly founded enterprises during the transition period and FDIs. Research findings offer evidence that newly founded enterprises are the most market oriented in Slovenia. FDIs have not made a significant move towards a marketing orientation, while "old" enterprises lack a marketing orientation the most (Rojšek/Podobnik, p. 103). In marketing terms enterprises are focused predominantly on products, offering "the best products", instead on customers. There are only 30% of enterprises which are focused on customers (Rojšek/Podobnik, p. 100). Enterprises carry out mostly quantitatively oriented market research (market potential, market share, etc.) and still neglect qualitative oriented approaches to market research (buying motives and

behavior, market segments, trademark perceptions, etc.). Enterprises still expect from a market research to produce an answer “to how much” instead of the answer “to why”.

The main obstacles to more intensive marketing approaches in Slovenia are identified as top managers’ personalities, their values and convictions, organizational structures of enterprises, a lack of capabilities and skills for a high quality marketing activities, and the climate in enterprises which does not stimulate a needed participation. A peculiar research finding should be mentioned here, valid for the year 1996, stating that those “old” middle and large manufacturing enterprises in Slovenia which were more market oriented, achieved a lower level of financial performance (Rojšek/Podobnik, p. 110). Such a finding was certainly not expected. The explanation for it is probably linked to methodological weaknesses of the research.

Operations management

The management of operations should be the most developed management area in the enterprises in the transition countries. The production function was appreciated already in the socialist era. In spite of the stated fact the management of operations is confronted with many weaknesses today. The enterprises’ restructuring processes brought a long lasting problem of the poor production capacity usage in the majority of enterprises of Slovenia. Apart from a low volume of production production managers deal with many severe problems. The degree of automation in production is still a weakness in spite of the fact that this degree is not low anymore (Rusjan, p. 18). IT has been penetrating in the production management processes relatively intensively. 42% of firms are equipped with CAD, 54% with CAM, and 73% with computerized production planning and control. In spite of these stated shares the Slovenian production managers share the prevalent opinion of inadequacy of current information systems in production.

There are many business firms which have introduced ISO standards and TQM approaches. JIT, business process reengineering and programmable, flexible automation, outsourcing, lean production, elimination of non value added activities are also concepts which enterprises are starting to apply, but the majority of them have not had any significant achievements in this regard yet. The Slovenian enterprises established many long-term relationships mostly with the Western European partners, but the quality of these relationships is still in many cases on a low level (Rusjan, p.22).

A low level of the workers’ motivation in production is a serious managerial issue. It could be even said that at present the production function in Slovenia is not able to compete effectively for a high quality personnel. A certain lack of knowledge and skills are present in the production as a logical consequence.

Financial management

The area of the financial management in the Slovenian enterprises is probably one of the managerial areas where the difference between the quality level in the enterprises in developed market economies and in the Slovenian enterprises is the biggest (Mramor, p. 226). The process of the relevant knowledge and experience acquirement takes a relatively long period of time. There will be many financial experts in the Slovenian firms that will never adapt to new demands. The main criteria for financial decision-making in the country is still not very clear (it is still not the maximization of the owners' value). Capital budgeting methods are in use. There are even many applications of these methods. The weaknesses are linked to neglecting the proper cost of own capital and not explicitly taking risk into account in the relevant decision-making. The risk is properly included in capital budgeting in around one third of the companies (Mramor, p. 228). There are just a few business firms that analyze the issue of optimal capital structure. The majority of companies use too much of their own capital. The ways how the companies are financed in a long-term are much different from those which are in use in developed market economies. The financial planing in the Slovenian firms in a long run as well as in a short run has still serious weaknesses. 84% of the firms prepare cash flows (Mramor, p. 241), but the quality level of this planning is low. Financial managers are not very familiar with the analytical methods known in the financial management theory and therefore they are not in use.

Human resource management

Human resource management as a management area has not been developed satisfactorily in the Slovenian enterprises. One can still find predominantly still approaches to personnel management in the firms that consist of carrying out traditional legal and administrative activities connected with employees, of developing traditional rewarding systems and communicating manners, of dealing with working conditions, and other tactical issues. It is fair to say that elements of the leadership model are present too (Lipičnik, p. 72). An orientation to leading, solving work problems, labor productivity and training are emphasized in these approaches quite heavily. The enterprises that are more market oriented try to implement elements of the financial model too. Systems of rewards, work measuring instruments and government regulations of salaries and wages are in the focus within the latter approach. The approaches of real human resource management which would focus on strategic issues, changes, comprehensive problem solving, developing different reward systems that stimulate creativity and work performance, developing labor flexibility, and the individuals as well as their needs are still not management reality in the Slovenian companies.

Management processes differ in the Slovenian enterprises from those in the socialist era. Management practices are becoming more similar to management processes in the enterprises in market economies. They are not completely comparable yet. They will become less different in the future, but probably never quite similar.

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