

## Modes of Restructuring. Empirical Research in Czech Industry

The processes of adaptation and restructuring of industrial enterprises are of crucial importance to their successful transformation of the countries of Eastern Central Europe into free-market economies and democracies. This process is taking place in the context of global economic changes caused by the emergence of supranational free trade areas and economic blocs, transnational corporations and strategies. In the long run, these global trends will result in the replacement of the dominant Taylorist industrial production paradigm. For this reason, western structures of industrial production and work are of only limited use as models for societies in transition from a command to a market economy.

The research group *Transformation und Globalisierung at the Wissenschaftszentrum Berlin für Sozialforschung (WZB)*<sup>9</sup> seeks to answer the following questions: Which forms of firm and plant organisation have come into being and are proving successful? What consequences do these new structures and institutional arrangements have for management and working conditions? Which social inequalities and forms of power all established as a result of competition shaped by strength, by changing political structures, and by modern processes of individualisation and dissociation?

The research group's approach is a synthesis of industrial sociology and cultural sociology. A holistic concept of action is adopted which includes the concepts of self-understanding of the social actors in their his-

torical and social contexts. From the perspective of problem-solving, both the systemic order of technical and bureaucratic rationalisation and the social actors' patterns of interpretation and decision-making are analysed, showing the firm as a social construction of reality in a historical situation.

This cultural approach in the field of transformation in Eastern Central Europe was the main theme of a conference held at the WZB in June 1994. The participants agreed that culture must be seen as a basic feature determining the process of modernisation. The new global model of production places high value on qualified work and strong social networks as factors of productivity.

The high esteem of professionalism in connection with specific solidarity patterns forms the core of an Eastern European working culture, which, in the research group's opinion, constitutes a comparative advantage under the conditions of a globalising world economy. The cultural aspects were also the subject of the conference *Communication and Co-operation in Joint Venture Firms*, held in Prague in autumn 1994 in co-operation with the Sociology Department of the Philosophy Faculty of Prague's Charles University. Joint ventures were chosen for discussion because they play a central role in the transformation process as transmitters of innovation. Participants included German and Czech social scientists together with managers from Czech mechanical engineering and automotive industries in particular. The industrial specialists' reports of their experiences in multicultural organisations showed that the presence of foreign partners on site supports tremendously the exchange of know-how, experience, and – last but not least – the constitution of trust relationships among the partners. From the Czech point of view, the benefits of joint ventures were seen in the transfer of foreign investment, management know-how and in access to the EU and world markets. For the foreign firms, the advantages are the highly qualified specialist workers and engineers, deinstitutionalised deregulated regulations and access to the Eastern European market. An important result of the conference was the evaluation of the behavioural patterns of foreign partners in Czech firms. Three typi-

<sup>9</sup>) The research group is part of the *Technology-Work-Environment-section* of the WZB. The group started in 1994. The WZB is a publicly financed non-profit corporation researching developmental trends, problems of adaptation, and possibilities of innovation in modern democratic societies. Work at the centre interlinks basic research and practical relevance following a multi-disciplinary approach and often has internationally comparative dimensions. The results are communicated to scientific and policy-making communities.

cal forms of behaviour could be identified: American partners prefer a very instrumental style of co-operation which sees on-site presence as unimportant. French partners were the subject of complaints about their extremely bureaucratic and centralised practices. The example of a German-Czech joint venture showed relatively extensive agreement. One reason may be similar labour and industrial traditions – namely a high esteem of professionalism and consensualism. Here, the problems regard primarily the recognition of these abilities and competence, which are often underrated by German partners. The Czechs' respect for their German partners' competence is often not reciprocated. These examples show that the cultural dimension is of great, but often underestimated importance. This is especially the case for joint ventures as new forms of business in a more competitive and integrated global economy.

The research group aims at an intercultural comparison of different types of industrial restructuring. Using qualitative methods, different forms of enterprises are analysed in the mechanical engineering and automotive industry. A distinction is made between foreign direct investment in the forms of joint ventures and greenfield site investments on one side and those 'autochthonous' firms restructured by Czechs without foreign input, on the other. The first team analysed a Czech-German joint venture and a Hungarian-German greenfield site investment belonging to the same German company. The second team has started research in co-operation with a colleague from Charles University on one of the biggest Czech mechanical engineering concerns in the Czech-Bavarian border region.

From the Czech point of view, one main reason for merging to form a joint venture was the commitment of the German partner to preserve the company as an independent manufacturer in all its core functions, with a product of its own and a separate trade mark. For the German partner, the locational advantages of the Czech Republic and the access to the new markets in Eastern Europe were considered more important in the context of the concern's global strategy. Regarding the different expectations on both sides, the concept for restructuring

the company must be seen as a result of the struggle for the survival of existing and still workable structures, practices and potentials on one side and the transfer and implementations of western concepts on the other. One matter in dispute was and still is the degree of autonomy and integration of the Czech company within the German company.

This case study shows clearly that a simple direct transfer of western models of production to former socialist countries is not possible. The western production model itself is in the process of transformation; furthermore, the historical and socio-cultural structures demand specific adjustments. Consequently, the German company is using the restructuring of a company in a former socialist country as an experiment and a test-case for new models of production in different cultural contexts. As it was, however, this intended process could not be controlled completely. The premises of the western plan for reconstruction, for example the prejudice of dysfunctional socialist firms, had to be revised. Structures which were at first rejected as obsolete and in conditions of deficit, were necessarily retained and proved to be functional after all. As the retention of these "old structures" proved to be more useful, the implementation of new "western" structures was revoked. The management learned that the reliable concepts of the German company could not guarantee the successful adaptation of the Czech company to the new conditions of the world economy. The application of western concepts, some of which may quickly become obsolete, would lead to a technocratic mode of modernisation and the destruction of reliable knowledge of production.

Based on a process of learning, a concept of modernisation was developed which aimed at a consequent break with the Taylorist paradigm of industrial production. Modernisation was not restricted to certain fields and functions, but was effectuated both on the firm as a whole and its external interfirm relations. Elements of the reorganisation are the model of a 'fractal factory', the implementation of teamwork, the development of networks of suppliers and the integration of system suppliers in the factory (via settling on the plant's ground and inclusion in the entrepreneurial process).

These measures confront the joint venture with great challenges to its social integration. Traditional structures and practices have to be synthesised with new forms of organisation. The resulting conflictive dynamic has to be transformed into a 'conflictive cooperation' to set free extra synergies. A precondition for the successful realisation of this is the competence of reflexive organisational learning.

In the case of an "autochthonous" company – a traditional mechanical engineering concern – the restructuring process has proceeded in at least two stages. In the course of the privatisation and decentralisation initiated by the Czech government, the concern has been transformed into a joint-stock company. All individual companies – at the moment more than forty – form a conglomerate of autonomous subsidiaries within the framework of a holding. The privatisation policies of the state worked as an exogenous impulse which forced the individual companies to take measures for the development of new markets and to ensure competitiveness. The exceptional scope of action available to the subsidiaries had several advantages from the concern's point of view. Considering the lack of proven methods of management under market principles, only smaller business units were transparent in their activities and thus controllable. In addition, this offered incentives to managers to test and develop independently new methods of leadership in an experimental manner. This process of the concern's internal dissociation into a number of entrepreneurial units externally instigated by the privatisation policies caused a segmentation into those companies that were able to survive autonomously and those that were not. However, after only a short period the restructuring by straight principles of market economy reached its limitations: The destruction of internal concern relations with regard to supplying and buying began to jeopardise the existence of companies which were already developing successfully. The second, actual phase of internal restructuring started in around early 1995. It was initiated by the first re-merger of two subsidiaries, at first still as legally autonomous companies within a consortium. But *de facto* the consortium is acting under one management. The merger stems not only from

the necessity of preventing the destruction of a production chain which would jeopardise the survival of the two companies but also from the independent concern strategy. Concurrent to addressing the direct financial interests of the holding, the group is realising the plan to integrate a couple of industrial core activities plus their suppliers under its control. From this perspective, the support of unprofitable, but irreplaceable subsidiaries and the rather aggressive expansion of the concern is reasonable. The contemporary initial restructuring demands stronger control of the subsidiaries. In addition to the financial controlling, the main instrument of the holding in the phase of privatisation, the holding intensifies methodological controlling to harmonise the subsidiaries' actions and to homogenise their image.

During the privatisation period, the first steps in the direction of a technological rationalisation, i.e. the modernisation of machines and equipment, were made. The second phase of restructuring is being accompanied by the first attempts at holistic reorganisation, the aim of which is to free up the human resources blocked by the socialist production regime.

On the tide of restructuring, a radical reorganisation and reduction of the number of autonomous subsidiaries will follow analogue to the already realised merging of two metallurgical plants. In addition, the new subsidiaries have to be integrated in the concern. In contrast to the politically initiated transformation which resulted in "greater autonomy" for the units, the actual phase of restructuring undermined partly the radical market-oriented logic of action to serve and reanimate the synergies still latent in the networks of traditional exchange relations in- and outside the concern. Its strategy follows the principle that the survival of Czech industry depends on a concentration of industrial potentials to a degree that makes it possible to withstand international competition. Only a minority of Czech industrial firms would survive as single enterprises on the market. Were there to be no such concentration, then the Czech Republic would lose her historical status as a leading industrialised nation.

The creation of the new organisation of work is being accompanied by a change of

management form and function. Leadership by instruction and control through higher authorities in the vertical line is being increasingly replaced by horizontal co-ordination based on co-operation and communication. In this way, not only specialist qualifications but also social competence on and among all levels are gaining importance. Even though Czech management still has problems with the demands made on them by the new roles, generally the new managerial competence of executives can be assessed positively. The problems that do arise seem to be caused not so much by the abilities of the Czech managers or by a possible lack of willingness to adapt to new challenges, but rather by the structures of work organisation themselves. The openness of the new organisational structures tend to increase the insecuri-

ties in decision and action instead of diminishing them. Besides, through the reduction of hierarchies, managers have less possibility of promotion. The insecurities in this new concept of organisation with regard to the careers of managers lowers their motivation and diminishes the attraction of the industry for junior executives. In the firm of the autochthonous type, new organisational patterns have not been totally or simultaneously implemented throughout the company as in the joint venture but only partially and parallel to the still operating traditional organisation. The insecurities and demotivation of the managers are therefore much weaker in this case.

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