

# **Ex-communist change masters ???**

## **(The Czech case)**

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## Preface

This thesis has been written in order to complete my studies in Business Administration at the Erasmus University. The subject of this paper, the change process in the Czech Republic, was to a certain extent a logical result of my major interests during the last 4 years. After living in the Czech Republic for quite a while and getting in touch with the Czech citizens, I really wanted to get some better understanding about the current situation in the Czech Republic. That is why I valued my opportunities to work in Pardubice (Czech Republic) and study at the Vysoka Skola Economicka (Prague University of Economics) during my studies at the Erasmus University. This and my internship in Pardubice in the years 1995-1996 resulted in some understanding of the Czech case. But this was not enough; I still wanted to know more about the current situation in the Czech Republic. I wanted to check my own presumptions formed during my life in the Czech Republic and get some broader overview of the problem of current transformation in the Czech Republic.

Most researchers dealing with transformation processes are mainly talking about *economic* transformation. I already knew for a long time that this approach does not offer insights into the *real* problems and issues of the current situation in the Czech Republic. For a good understanding of the current situation in CZ, the communist past and the influence of this on actors in society should be taken into account. This approach, however, is clearly lacking in lots of reviews of the Czech transformation. Some exceptions are formed by the analysis of people like Clark & Soulsby (management in quasi-state companies) and Grabher and Stark (networks in Middle European societies; mainly the Hungarian case). These researchers belong to the few people using some kind of network-or actors' approach. This last approach (actors' approach) is very appropriate for reviewing the Czech case, as can hopefully be seen in the rest of this paper.

Another way of analyzing the Czech situation will be offered in this paper. This is by using an actors approach. Because of this actors' approach, a very important part of my research was formed during field research. About 14 Czech and foreign actors in the change process have been interviewed during this field research. This included university teachers, state officials, Czech and Dutch managers.

The question marks behind the title can be interpreted in several ways. One of them has to do with the fact that the Klaus government was at first really considered to consist of "change masters". Currently, lots of people think that Klaus made a lot of mistakes. This however is not that easy to conclude; I will show later on that change is simply not possible when only the cognitive part is changed.

The people also have to change. Another interpretation of the question mark is that the Czechs could still develop into change masters in the future; whether this will be the case depends on the future developments.

Working on this thesis has given me a much better understanding of the Czech situation; I hope this also counts for the people reading this thesis. I would like to thank all people who helped in one way or another during the research or the writing of this paper.

Lichtenvoorde, 13th March 2000.

## Acknowledgements

This thesis is for everyone who is interested in the Czech Republic, transformation and organisational processes in post-communist societies. I hope that the information in it contributes to a mutual understanding between Czechs and expatriates and lead to some improvements in organizational processes.

Special thanks to Dr. Slawek Magala for being my coach during the writing of this paper. Martijn van Vliet and Jos Schreinemakers for checking my thesis and giving some useful advice for improvement. Because I only interviewed for one month, I did not have much time for doing so. That is why I am very grateful towards Rob Daniels, Jaroslav Hrubes and Maarten Edixhoven for arranging some interviewees. And of course all the interviewees for their cooperation, openness and useful information. John, Timothy and Tom for checking my English writing after the thesis had been completed.

This thesis could and would not have been written in case I had not been given the opportunity to get in contact with the Czech Republic. Because of this, I would also like to thank all the persons who played some major role in this and contributed to my wonderful periods in the Czech Republic. These are mainly persons of Nedcon Magazijninrichting BV and Nedcon Bohemia s.r.o; the companies through which I made the first contacts with the Czech Republic.

Some special role in not only my contact with and in the Czech Republic but also in my personal development has been played by Ing. L.P de Jong CPIM, former logistics managers and current board member of Nedcon Magazijninrichting BV. I can never thank him enough for his all-time-coaching and faith in me since the start of my internship for the HEAO around may 1995. Another special person for me is my very good Czech friend Radek Petráň. I want to thank him and Marcella for being my host during the month of August 1999.

I also thank all the other friends I met in Pardubice and Prague for all the precious moments. Robert, Mathijn and Peter for being there. And last, but not least, I would like to thank the most important persons in my live, my parents, for their everlasting support.

## Table of contents

Preface	1
Acknowledgements	3
Table of contents	4
Executive summary	6
<b>Chapter One Introduction and Research methodology</b>	<b>8</b>
1.1 Introduction	8
1.2 Problem definition	10
1.3 Goal	11
1.4 Sub-questions	11
1.5 Research scope	12
1.6 Type of research	12
1.7 Research methodology	13
<b>Chapter 2 Market economy and communism</b>	<b>16</b>
2.1 Introduction	16
2.2 Communism versus market economy	17
<b>Chapter 3 Actors in transformation process</b>	<b>21</b>
3.1 Introduction	21
3.2 Cognitive integration theory	21
3.2.1 Cognitive versus social	23
3.2.2 Game versus play	23
3.2.3 Weak signals	24
3.2.4 Degrees of change	24
3.2.5 Social aggregate versus configurations	26
<b>Chapter 4 Towards a network perspective</b>	<b>27</b>
4.1 Introduction	27
4.2 Social and cognitive networks	28
4.3 Allocative and dynamic efficiency	29
4.4 Compartmentalization	29
4.5 Loose versus tight coupling	30
<b>Chapter 5 Organizational processes in Czechoslovakia under communism (1948-1989)</b>	<b>31</b>
<b>Chapter 6 Organizational processes in the Czech republic (1989-1999)</b>	<b>37</b>
6.1 Czech mentality	37
6.2 Transformational processes in Czech society after November 1989	41
6.2.1 Transformation general	41
6.2.2 The first years after the Velvet Revolution	42
6.2.3 Corruption and tunneling	47
6.2.4 Transferring knowledge	48

6.3	Institutional players in the transformation process of the Czech Republic	49
6.3.1	State institutions	49
6.3.2	Government and politics	50
6.3.3	Legal framework	52
6.3.4	Role of the west / EU	53
6.3.5	Impuls99	54
<b>Chapter 7</b>	<b>Management of companies in the Czech Republic</b>	<b>56</b>
7.1	Quasi-state companies versus foreign owned companies	56
7.2	Problems of present contemporary state firms	60
7.3	Barriers for Dutch firms	60
7.4	Czech management	61
7.5	Management quasi-state organizations	64
7.6	Flexibility of workers	65
7.7	Second economy	66
<b>Chapter 8</b>	<b>Reflection on the Czech case</b>	<b>69</b>
8.1	Introduction	69
8.2	Degrees of change: the Czech case	70
8.3	Bottlenecks for a constructive transformation process	73
<b>Chapter 9</b>	<b>Conclusions and recommendations</b>	<b>75</b>
9.1	Conclusions	75
9.2	Recommendations	79
9.3	Further research	81
<b>Sources</b>		<b>82</b>
<b>Enclosures</b>		<b>84</b>
-	Articles	
-	Summaries of most interesting interviews	

## **Executive summary**

When conducting some reflection on the concepts market economy and Russian communism before 1989, it becomes clear that some main difference between both economies is formed by the fact that the first simply deals with more optimal ways of organizing. The communist era was influenced a lot by “old” ways of organizing that were based on hierarchy and the “one best way to organize” idea. There were no incentives for improving the ways of organizing, which resulted in some freezing of ways to organize in Czech organizations. This is not the case in a market economy. In such an economy, the context is created for actors to take part in organizational processes in most optimal ways. This view can be used to improve the transformation process in the Czech Republic: this change process should be aimed at improving the organizational processes between actors instead of developing some structure for a market economy.

The transformation of the Czech Republic during the last decade has been influenced in great extent by the communist past of Czech citizens. These actors are still influenced a lot by the compartmentalization and the hierarchical structures of communist Czechoslovakia. Czech citizens have enough knowledge for organizing in western ways, but do not apply it enough. The main problem of current situation in the Czech Republic is to change the structure of society; to reach some switch from “one best way to organize” towards “there is no one best way to organize”. Another desired switch is the one from reactivity to pro-activity. In this context, it is very important to develop some context for organizing in plural ways and reducing equivocalities when necessary.

For doing so, following should be clear. First of all, the organizational context has to promote pro-activity. The perceived role of government has to change. Government is not responsible for citizens’ lives, the citizens’ themselves are. As soon as citizens get really aware of this, the fundamentals for change are there. Only at that stage, the beginning of the real transformation can start. This means that the Czech actors have to get used to organize in fundamentally unknown new ways of organizing. For doing so, there has to be some switch in mentality and organizing capabilities.

This learning process can be completed faster in case the organizing capabilities and mentality of societies that are dealing with plural ways of organizing are transferred to the Czech context. This by means of expatriates or Czech citizens who worked or lived in Western Europe or another capitalist society for some time. Most suitable are Czechs familiar with both the Czech and foreign ways of organizing; expatriates often do not have enough knowledge about the Czech case. This often has some negative impact on the ways of organizing between expatriates and Czechs; expatriates sometimes simply do not

understand the Czech situation enough. But Czech citizens familiar with capitalist ways of organizing are rare. Therefore, till now lots of expatriates are working in foreign companies in the Czech Republic.

The fact that expatriates are working in foreign firms and that they promote western ways of organizing by Czech employees lead to current situation of foreign companies being more successful than local companies in the Czech Republic. Another reason for the success of foreign companies is because these companies already have a market for their products. Not only in the Czech Republic, but also abroad. The current quasi-state companies in the Czech Republic lack these markets. Because of too high expectations of own capabilities, most state companies stopped their business with the foreign trade organizations. Last but not least, foreign companies have multiple channels for getting their money for investments. Quasi-state companies lack these sources.

For improving the current situation, it is at first necessary that organizations can count on being paid. The laws concerning payments have to be changed accordingly. As long as this is not the case, the bad attitudes concerning payments will form a major bottleneck. After this, Czech citizens got to take the responsibility for their own lives. They have to learn organizing in western ways. This means the switch from reactivity to pro-activity, getting the capabilities to organize in plural ways. Experiences in foreign firms till now show that this switch is possible, but it takes a lot of time and patience. Czech citizens grown up in communist times find it very hard to get used to western ways of organizing, let alone the application. Role of government should not be to change society, but to support actors in society to organize in plural ways. The right structure for doing so has to be developed and governmental employees have to develop some service attitude against citizens. The reputation of Czech government is decreasing; citizens do not have enough faith in government anymore. This might also be the reason why impuls99 (new public interest group in CZ) does not desire to go into politics; this group wants to reach Czech society for initiating some change. This intention of the group might be reached exactly because it does not have links with Czech government (yet).



## **Chapter 1    Introduction and Research methodology**

### **1.1    Introduction**

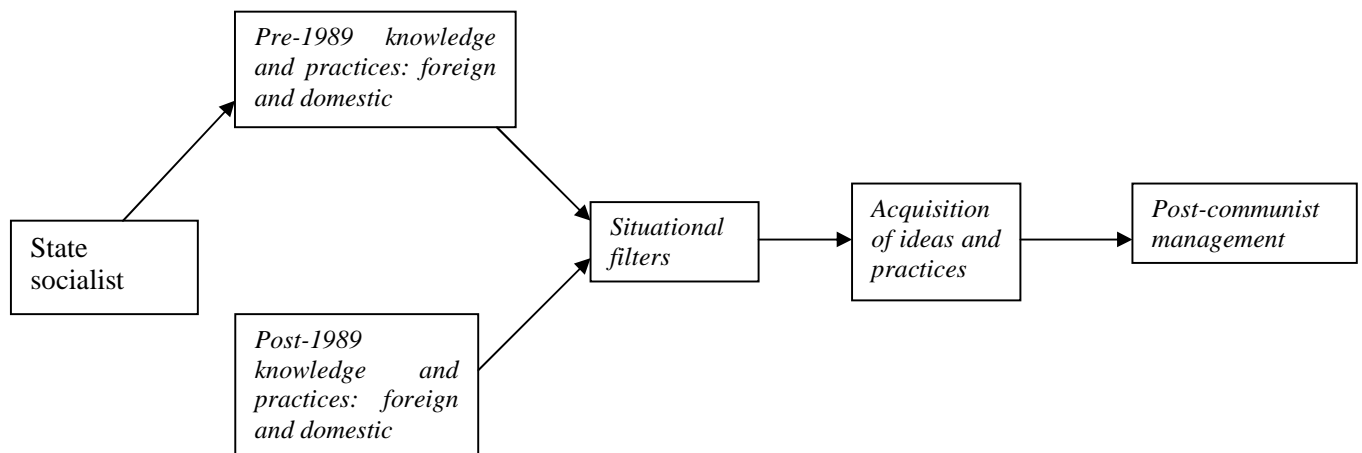
Around the year 1989, several communist powers in formerly communist countries ceased to exist. This was also the fact in Czechoslovakia, where the so-called Velvet Revolution in Prague led to a quite quick fall of the communist regime. Together with this process, there were started some broad purges against everything that had to do with the communist regime. The Czechoslovak government therefore planned quite soon after the Velvet Revolution to implement significant changes in the republic. Because of the fact that it was not considered to be good to go on with communist ways of organizing, the whole change process after 1989 was aimed to reach some form of market economy in the former Czechoslovak republic. To reach this goal, there was for instance the intention of lowering the influence of former nomenklatura (communists) in the Czechoslovak (later: Czech) society, privatizing former state companies, attracting foreign investments and issuing new laws.

But when the changes of the last ten years (the 10 years after the Velvet Revolution) are viewed in critical ways, my personal opinion is that the so-called transition of the last years was not very successful. Although there was some intention to prevent former nomenklatura from getting influential positions in government (positions), many of them have found their way into the former State Companies. Therefore, influence of these people has been quite significant during first years of transformation. Although this is not always a bad influence, the intention of government to decrease their influence clearly failed. The voucher privatization is still praised by many people, but in fact most companies are still under State control through the banks, which are the owners of biggest part of Czech industry and in which state has a big stake. Foreign investments are, in my opinion, still far too little. Therefore, I would like to speak about the “virtual reality” of Czech society when making a comparison between the political concerns and the real situation.

Part of the discrepancy between the real situation and the “planned” situation can be explained because of the fact that the changes in the Czech Republic, and changes in general, can rarely if ever be planned and controlled. But changes can be steered to a certain desirable state of affairs. In my opinion, this can be reached either by forming the correct structure, establishing or introducing the right attitudes and/or by reducing equivocalities (see Weick, page 3). The reason why changes in CZ went wrong is primarily because of the fact that one of these variables did not take place. Therefore, different actors in the “game”

still played their own part to reach their own concerns, wishes and demands. Their own past and capabilities had a big influence in this.

The change processes in the Czech Republic during the post-communist era are and will therefore be influenced by the communist past of different actors in CZ to a great extent. Maybe even because of the Czech habits and ways of organizing (see later in this paper), the current reality and future reality of the Czech Republic in the next few years will largely remain overshadowed by the above-mentioned virtual reality. There will always exist some discrepancy between the real and the planned situation, but this is now the case to a large extent in the Czech Republic. The Czech society might have been able to remove the communist regime in a very short revolution at the end of 1989, but most of the Czech people grew up in communist times and therefore still think, act and live in communist ways. Structures might be changed in a fortnight, but people cannot. Therefore, organizations in the Czech Republic will probably keep many communist characteristics during the next few years. Post-communist management consists of some mixture of pre-1989 knowledge and practices resulting from state socialist past and the post-1989 knowledge and practices resulting from changes in local context and inflow of western ways of organizing:



Source: “ Organizational Change in Post-Communist Europe, Ed Clark & Anna Soulsby, Routledge studies of societies in Transition, 1998, page 199.

Although there have been lots of effort in Czech society since 1989 to move to a market economy, this has not yet been accomplished in the Czech Republic. I would rather say that at present, the Czech society consists of some odd mix of the bad parts of communism connected with the bad parts of capitalism. Whether the Czech society will be able to move to some kind of market economy within the next couple

of years largely depends on the role and willingness of different actors. Till now the Czech society still has far too much communist aspects to speak about a market economy.

## **1.2 Problem definition**

Does an analysis of the transformation process in the Czech Republic viewed through an actor- and network approach offer possibilities to get some better insight in and /or requirements for improvements for this process? Does this lead to some better insight in improvement processes in general?

The above mentioned problem definition can be divided in the next main questions:

1. Which characteristics were specific for organization processes in Czechoslovakia during the communist regime?
2. Which transformation followed the fall of communist in the Czech Republic?
3. Which influence has the communist past of Czechoslovakia on the transformation processes i.e. the ways of organizing in post-communist Czech Republic?
4. Which dysfunctionalities and forms of destructive behavior of actors can be seen in transformation processes in the Czech Republic?
5. Which improvements or changes could facilitate transformation processes in the Czech Republic and help to reach a better liaison between organizational processes in the Czech Republic and the post-communist context?

### 1.3 Goal

The general goal of this *explorative* research is to make some analysis of the organizational change processes in the Czech Republic. This by means of an historical analysis of the organizational processes in Czechoslovakia during the communist era and an analysis of the post-communist transformation process by means of an actor- and network approach. Because of the actor's approach and the fact that I am mainly interested in different point of views on the transformation processes, the open interviews with different actors about different subjects concerning transformation are a very important part of my research. During these interviews, I checked my own presumptions and knowledge gathered during the desk research and my own experiences when studying and working in the Czech Republic. The open interviews, which were mainly focussing on organizational processes with mainly Dutch and Czech managers of firms in Prague, were aimed to get a better understanding of the impact of changes and the way people dealt with these changes after the Velvet Revolution.

### 1.4 Sub-questions

The following sub-questions can be formulated in order to answer the main questions in a gradual way:

- Does a de-reification methodology offer a theoretically robust way to view the transformation processes in the Czech Republic?
- Which theories labeled as network- or actor approach can be used?
- Does an analysis of transformation processes in the Czech Republic on the basis of an actor- and network approach offer tools to reach some improvement in the transformation processes in the Czech Republic?
- Which actors can be singled out for a successful progress of transformation processes in the Czech Republic?
- To what extent has the behavior of these actors been constructive or destructive for transformation processes in the Czech Republic?
- Do the aspects of market economic thinking which received the most attention of reformers and scientists in the Czech Republic until now, actually matter as being the most important aspects of the whole transformation process (when taking the Czech mentality and current context into account)?

## **1.5 Research scope**

Concerning my research, I will focus only on the Czech Republic. Further more, I will try to focus as much as possible on the essential parts of the communist era, influence of these on the different actors in the Czech Republic and the resulting ways of organizing in the post-communist Czech Republic. One aspect not to be neglected and connected with the communist era and organizational processes is the Czech mentality (see for instance the book “ Czechs and Balances”<sup>1</sup>). Concerning the theoretical backgrounds, I will mainly focus on explaining and analyzing the “problematique” by means of a network-and actor approach. Last but not least, I will certainly not consider unimportant characteristics of the transformation process too deeply.

## **1.6 Type of research**

Research for the most part consists of a theoretical and a practical part. The theoretical (part of) research focuses on the process and product of knowledge development within the area of research. The goal is to develop new theories and insights. The practical research on the contrary is focused on problems of an organization for which and in which the research will be conducted. Practical research is mostly aimed at solving some problem, creating a new situation or introducing new or even better ideas for new developments.

When taking the above mentioned into account, I can tell that my research has been practically focused to a great extent. Although the approach taken was very scientific and theoretically correct, both concerning the interviews and the desk research, the main aim of this thesis has been and will be to get a better insight in the transformation processes in the Czech Republic between 1989 and 1999. This will give some ideas for improvements in these processes. Further more, I hope that this thesis will help the managers and other interested people reading this to improve their understanding about organizational processes in the Czech Republic in general and/or the influence of the Czech mentality and history. The theoretical and scientifically correct approach has therefore mainly been a “means” for reaching the “ends”: this hopefully very practical and clarifying report about the development of organizational processes in the Czech Republic between 1989 and 1999.

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<sup>1</sup> “Czechs and Balances, a nation’s survival kit”, Benjamin Kuras, Baronet. Prague 1998

For the theoretical and scientific backgrounds of this thesis, I used at least the following sources:

- Literature from libraries in Rotterdam (Erasmus University) and Prague (VSE, Charles University, CERGE)
- My own general knowledge gathered during my studies at the HEAO-Arnhem (specialization Logistics and Economy), Erasmus University Rotterdam (Business administration, specialization “Managing Change”) and the Prague University of Economics
- Information from the Internet
- Case-studies

By means of information gathered during my theoretical research (mainly desk research) and subsequently conducted interviews with mainly local and foreign management in the city of Prague, I analyzed the situation in the Czech Republic during the last decade. For this, I also used information gathered by means of personal observations during my internship in Pardubice (8 months), studies in Prague (4 months) and living in Prague (7 months). During these periods, I lived some months with Czech friends, had discussions with university-teachers, expatriates of foreign firms, municipality officials and the like. Due to this, I received a clear understanding of the situation in the Czech Republic. This not only concerns the subject of this thesis but also for instance the Czech culture in general and the role of Czechs and foreigners in the first and second economies.

## **1.7 Research methodology**

The methodology followed for writing this thesis can be classified to be mainly post-modernist. Multiple sources were used during the desk and field research. This by reading books and (news) papers, getting information from the Internet and conducting interviews in Prague. These interviews were all open interviews of about one hour, some taped but mostly hand written notes. When starting the interviews, I already knew quite a lot about the transformation process through books, practical experience and information from the Internet. This was an enormous advantage, but at the same time I had to deal with the danger of having wrong presumptions about the whole “problematique”. That is why the first interview was very open. During this interview, the interviewee, who was a Czech civil servant who lived abroad for more than a decade, had some very rough explanations about the subject of this thesis. I took a

“process-consultant” role; mainly listening, checking the presumptions once in a while, but mainly just listening to the story of the interviewee. This “process-consultant” role was the role that was taken during most of the interviews: mainly listening to the “reality” of the interviewees, continuously checking my presumptions, the “realities” of other interviewees and asking some new questions or more information concerning certain issues. In this way, I had the opportunity to check and adjust my own presumptions, gather a lot of additional information and make use of the different positions of the interviewees.

After conducting the interviews in Prague, I started with handling and analyzing the data gathered during these interviews. This was done by making reports about the interviews (mostly already done the day after I conducted the interviews) and writing interesting quotes on index-cards. These index-cards were sorted by subjects, after which I had some categories. These were for instance the categories “organizational processes before Velvet Revolution”, “Velvet Revolution”, “Transformation process”, “Government”, etc.

David Erlandson et al.<sup>2</sup> gives some conditions for reaching trustworthiness: Credibility, transferability, dependability and confirmability. Credibility can be reached for instance by means of triangulation, peer debriefing and member checks. For this thesis, triangulation was reached by getting information from books, articles, the Internet and interviews. There were many member checks during the interviews. The peer debriefing was also executed. I hope I reached triangulation by explaining developments in time, giving some information about interviewees when quoting them and giving some examples from my own experience. Concerning dependability and confirmability, I can mention that according to me these criteria are also reached quite well. I am quite sure that same subjects would yield similar measurements when interviewed under the same conditions and the interview findings are mainly the product of the focus of the inquiry. Therefore, I am convinced trustworthiness of this thesis is rather high, and I hope that any potential reader reaches the same conclusion.

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<sup>2</sup> “Doing naturalistic inquiry , a guide to methods” , Erlandson et al., Sage Publications,inc., 1993

The research has been conducted in some phases, some of which were parallel. Therefore, it is better to see these phases as sub-processes, which were the following:

Phase/ sub-process	Result
1A. Desk research concerning (the organizational processes in) the Czech Republic, as well before as after the Velvet Revolution.	Broadening my knowledge about (organizational processes in) the Czech Republic.
1B. Desk research concerning change strategies and change theories.	Broadening the knowledge about change and organizational processes
2. Describing the aspects of the communist era in the Czech Republic between 1948 and 1989, which can be important for getting a better understanding of current bottlenecks concerning organizational processes in the Czech Republic.	Improving the insights in the influence that the formerly communist era has had and still has on organizational processes.
3. Explaining the impact of communist era and post-communist context on organizational processes in post-communist CZ.	Improving the insights in and understanding of the ( bottlenecks in ) organizational processes in the context of post-communist CZ
4. Checking the information gathered during desk-research and getting the “facts behind the figures” by means of interviews with actors in Prague	Checking and correcting the presumptions and information gathered during the desk research
5. Writing the thesis with conclusions and recommendations for the future	Conclusions and recommendations which can be used for improvement of theories concerning changes and the insights in (influence of formerly communist actors on) organizational processes in post-communist CZ and can be a good base for further research concerning these subjects



## **Chapter 2                      Market economy and communism**

### **2.1 Introduction**

*When reflecting on the transformation process in the Czech Republic, one of the first aspects to take into consideration is in which context the far-reaching changes in this relatively young republic can be placed. To get some answers to this question, I will first give some of my own reflections and/or interpretations of the concepts market economy and communism. After this, chapters 3 and 4 will consider some theories concerning the actors- and network approach. Chapter 5 and 6 will deal with some relevant information and an analysis of the influence of formerly communist actors on transformation processes in the Czech Republic. The information and points of view described in Chapters 3 and 4 will serve as some background information and a context in which the transformation process can be viewed.*

*This thesis will mainly deal with two aspects of current transformation process, namely the following:*

- 1) On the one hand we have the situation that the former communist era still has its impact on the post-communist reality. Almost all the people who are currently working in Czech organizations grew up with communist ways of organizing. On the other hand, however, the Czech society now has to deal with*
- 2) The post-communist reality.*

*These two aspects are connected with each other in present times: Formerly communist actors are still actors in current change process. This results in some mixture of communist and post-communist practices. As will be seen in the rest of this thesis, the present reality in Czech society consists mainly of communist aspects of organizing.*

This chapter will deal with my interpretation of the expressions “market economy” and “communism”. These expressions are used quite often in normal conversation, without reflection on the meaning of both expressions. Although there are a plurality of aspects characteristic for both expressions and, besides, there can be seen a lot of different hybrids of both expressions, these expressions are often subject to a large extent to reification. Such a reification leads, according to Jonker (90:57), towards a *appearance of touchability and objectivity* which results in an *operational fixation*:

*“With this, I mean the tendency of lots of people to prefer the daily, the more or less concrete, but taking too little time for reflection and taking some distance.’ This can lead to the fact that people get locked in a singular, one-dimensional or homogeneous reality, which even can get some characteristics of a self-fulfilling prophecy. Because of this, we keep turning in the same circle: “ It is possible that in practice many advisors do not work **with** a certain metaphor but **on** a metaphor.” (Jonker, 90:69)<sup>3</sup>*

It might be good to keep this vision of Jonker into account when conducting an analysis for getting a better understanding of the transformation processes in the Czech Republic. In this case, we have to take some distance from the expressions “market economy” and “communism” and conduct some kind of reflection on these expressions.

When doing so, it is good, by taking the post-communist context in the Czech Republic into account, to think about the following questions:

- Which aspects can be assigned to these expressions?
- Which of these aspects are characteristic for a market economy and which for communism?

By means of getting some answers to these questions, it might be possible to view the transformation processes in the Czech Republic in another, maybe even better, way. It offers pretexts to analyze the changes of the last decade and to give some recommendations for future.

## 2.2 Communism versus market economy

When talking about communism, it can be noticed that different actors in different countries have given various meanings to this expression. For this thesis, it is important to have some knowledge about the way communism was implemented and understood by the top supporters of the postwar communist parties (the so-called “nomenclature”) in Eastern Europe before 1989.

In chapter 5, I will try to demonstrate that communism as it existed in the Czech Republic before the Velvet Revolution was mainly aimed at preserving power relations. There was some elite who tried to keep power in their hands. This was reached mainly through using power, for which the so-called *militia* was established. Another important characteristic from the communist regime before '89 was the fact that the Russian Economy was compartmentalized<sup>4</sup> from the rest of the world. This not only because of the physical borders to keep the people within their own countries (for instance the Berlin wall), but also by means of mental borders. By means of all kinds of arrangements, not only the flow of people but also the distribution of goods and services were hindered.

The Russian type of communism used all available ways of organizing, which can be classified as modernistic. This is also expressed in the fact that much of the organizational practices in the former

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<sup>3</sup> Jonker, J. *Met mate te meten*. Culemborg: Lema, 1990

<sup>4</sup> See Chapter 4.1.4.

Czechoslovakia were very hierarchical and can be classified under the machine metaphor of Morgan<sup>5</sup>. In the Russian variant of communism there was, or better: was supposed to be, only “one best way to organize”. Everything and everyone had to live with this.

But of course, the Russian model was not the only aspect that determined the success or failure of communism in Czechoslovakia. Another not to be neglected aspect was the human one; the Czechoslovak culture and mentality of people. This aspect of course had some major influence on the development of communism in Czechoslovakia. One major difference between Czechoslovakia on the one hand and countries like Poland and Hungary on the other, was that the latter were already utilizing entrepreneurship on a much wider scale during the communist era. An example of this was the so-called “Goulash reform” in Hungary.

When taking the characteristics of communism as they were utilized in Czechoslovakia during the communist era, it can be seen that there was no ideal situation. Because of the compartmentalization<sup>6</sup> of persons, goods and services, the most optimal resources that were in some or maybe even most cases available outside the borders of the communist countries, could not always be brought into the system. That is why the “herbies”<sup>7</sup> within the communist era could not always be supported and brought to a higher and better level. Another major disadvantage was the suppression of initiative, the “motor” of development in Western European society.

This situation of suppression of initiative and compartmentalization from better ways of organizing was not there in Western European societies. In these societies, there was and is some open economy in which different actors are supported as much as possible in acting in constructive ways. Actors are free and are supported as optimally as possible in optimizing organizational processes. This organizing has been defined as “A consensually validated grammar for reducing equivocality by means of sensible interlocked behaviors”<sup>8</sup>

Not allocative but dynamic efficiency is the motor of market economic thinking and acting. Furthermore, resources from outside a certain context can be brought within this context to push the own organizational process to a higher level.

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<sup>5</sup> Gareth Morgan, *Images of organisation*, Sage Publications, 1997, pages 11-31

<sup>6</sup> See chapter 4 about network approaches

<sup>7</sup> Eliyahu M. Goldratt, *The goal*, Het Spectrum/Marka, 1996, chapter 13; some pathfinder story...

<sup>8</sup> Weick, *The social Psychology of Organising*, McGraw-Hill, 1979

My vision on the role of government is to set conditions for actors to take part in several organizational processes in most optimal ways. Some ways for doing so are:

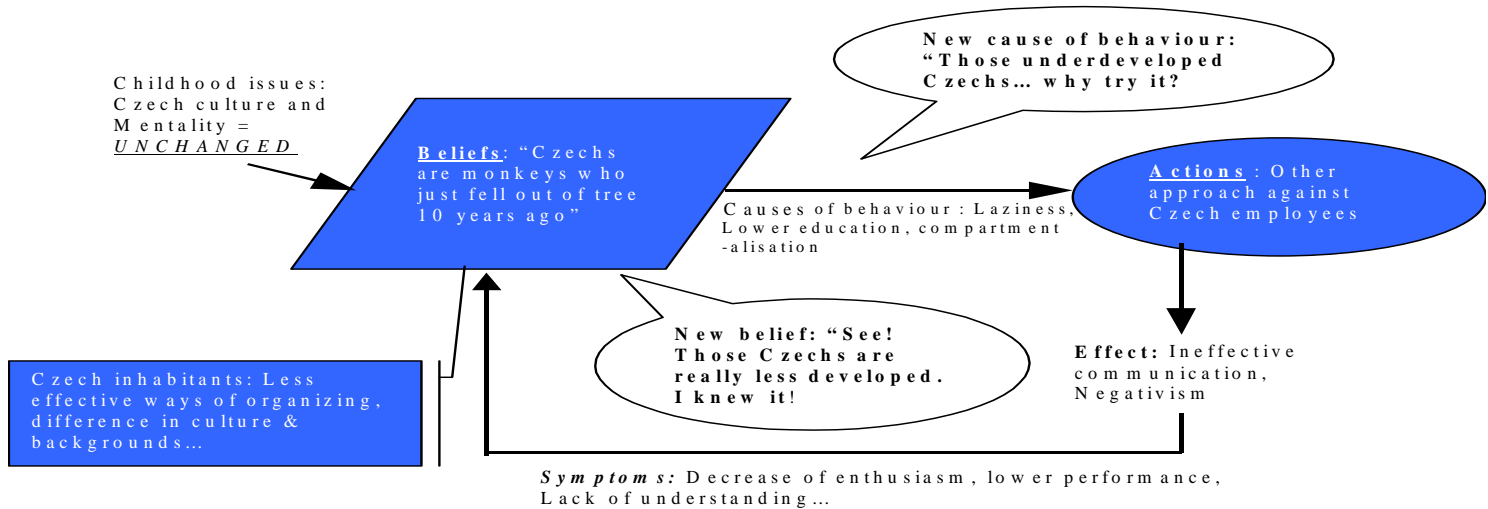
- Creating and maintaining needed institutions
- Creating possibilities for employee-mobility and flexibility
- Rewarding constructive behavior and punishing destructive behavior
- Being supportive to organizational processes

Although the Velvet Revolution was not aimed at establishing a market economy but more at just reaching a democracy, it is clear that some changes in the Czech Republic have to take place to at least improving the current situation of businesses. To reach this, it will be necessary to set conditions under which organizational processes can take place in better ways. And that is exactly the context of this paper: not the development of a market economy, but more the notice that, whatever the end situation of economic system will be, for a more optimal change process it will be necessary to improve the ways of organizing in the Czech Republic. To do so, more changes in both social and cognitive aspects of Czech society have to take place in the near future.

One notion I would like to stress already in beginning this paper is the fact that Czechs are certainly not less capable in conducting businesses than inhabitants of Western European countries. When interviewing, I got a response like “ Some Western managers treat us like we are apes who just jumped out of the trees some years ago”. This point of view is regrettably there quite a lot with people not being familiar with the Czech case, probably also with the Hungarians and the Poles (c.f. personal conversation with Dr. S. Magala, Erasmus University Rotterdam).

This might result in some sort of self-fulfilling prophecy:

**The cognitive feedback loop: a self fulfilling prophecy in a "monkey-attitude" about Czechs...**



In case you might think that the problems of the present times in the Czech Republic are due to the fact that the Czechs are stupid<sup>9</sup>, just imagine yourself having to live in a completely different society from this moment. I will show that the current non-optimal situation in the Czech Republic can be explained to a large extent by the former communist context and habits. These are still incorporated in the minds and deeds of current actors organizing in the Czech Republic. After having lived in the Czech Republic for quite some time, I can only fully agree with Czech managers stating that Czechs certainly should not be underestimated. What I do regret is that although Czechs are really intelligent people and have the capabilities to organize in the same ways as for instance the Dutch, they often do not use them. The how and why of this will be discussed in the following chapters of this paper.

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<sup>9</sup> Own remark: For Czechs, this word probably sounds assaulting. But it is just an expression even I sometimes used for certain actions (or better: non-actions) of Czech people (generally the ones in quasi state businesses). When not knowing the backgrounds and culture, it just appeared to be so stupid to me that Czechs in quasi state businesses are not taking initiatives, not being proactive.

## **Chapter 3            *Actors in the transformation process***

### **3.1      Introduction**

I gave some further insights about the subject of this thesis in chapter 2 and stated there that for a further development of the Czech Republic a further optimization of organizational processes is necessary. Quite generally speaking, this concerns the issue of actors with origins in a compartmentalized reality having to switch to a more plural open system reality. Actors lacking the knowledge and capabilities to “play” in an open system have to get support. This means that this actor (whether described as the weakest link, bottleneck, Herbie or pathfinder<sup>10</sup>) in a manner of speaking has to walk in front. This Herbie has to be supported by stronger actors (in this case: actors with more knowledge/capabilities) to improve himself. When improvement of the weakest is reached, it will most likely lead to improvement of the total system. Improving the weakest link is usually more optimal in open systems: only in open systems, the “fittest” knowledge and capabilities can be applied. For example: As from 1989, capabilities of Western managers can be imported more easily from the Western European countries. This often happens by means of expatriates who teach the local Czechs for instance how to reduce equivocalities in better ways.

Another aspect, which has to be taken into consideration, is the *willingness* of the actors to reduce equivocalities<sup>11</sup> within a certain configuration to get more optimal results. When reading the rest of this paper, it will be clear that whatever willingness there may be, equivocalities are mostly not reduced by the Czech ways of organizing. This has a lot to do with Czech culture and communist ways of organizing, which will be explained later on.

### **3.2      Cognitive integration theory**

In order to obtain a better understanding of the processes taking place in the Czech Republic, it is good to look at these processes through several methodological lenses. One of the ways for getting a better understanding of the development of the Czech Republic after 1989 is to use the theories developed by the Erasmus Research Group. They developed an actor approach and named it the “cognitive integration theory”. In this theoretical framework, it is assumed that there is some combined action between social

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<sup>10</sup> Eliyahu M. Goldratt, *The goal*, Het Spectrum/Marka, 1996, chapter 13; some pathfinder story...

<sup>11</sup> Weick, *The social psychology of Organising*, McGraw-Hill, Inc., 1979

and cognitive aspects. This supports the assumption that the realities around us proceed from processes of social construction. This in contrast with the other definitions of reality:

- Reality as objectivity / given
- Reality as subjectivity
- Reality as inter-subjectivity

The actors related to the transformation processes in the Czech Republic are of course included in various types of configurations. The relations and interactions between different actors differ in relation to the social contexts in which they take part. The Erasmus Research Group with their configuration approach introduced the expression *multiple inclusion*. This means that actors take the experiences and meanings learned in other interactions with them. When speaking about multiple inclusion, the introduction of interactions from one context to another one is not partial as assumed by Weick with his expression “*partial inclusion*”, but complete. This multiple inclusion can lead to conflicts, which will often result in some change. Furthermore, the concept of multiple inclusion is one way to explain how learning experiences are transferred from context to context. Or in other, maybe better words, from actor to actor. “*In the short run, repression of multiple inclusion might suggest stability but, in the long run, prove detrimental to learning and development*”<sup>12</sup>

There are a lot of different actors and institutions involved in the transformation processes in the Czech Republic. This concerns not only the Czech inhabitants; the role of foreign actors and institutions has become and will become bigger and bigger. Some of the actors, configurations and/or institutions to be distinguished at the close of 1999 are the following:

- Prime minister Klaus, expatriates, Czech managers in foreign companies, Czech managers in quasi-state companies, social stratification groups (old/young; nomenclature /non-nomenclature; etc.), Government, quasi-state companies, foreign companies, FTO's, Impulse '99, labor organizations, local government, EU, banks, entrepreneurs, inhabitants.

Because of the multiple inclusion, a lot of actors are included in more configurations. Example: Some Czech managers, expatriates, bank employees and entrepreneurs belonging to the Impuls99 group.

Besides the expression “multiple inclusion”, the Erasmus Research Group developed and used some other expressions which are related to an actors approach. This concerns at least the following expressions: Context, cognitive versus social, rules of the game, game versus play, critical incidents, weak signals, antagonist. For this thesis, I will certainly use the expressions cognitive and social, game and play, weak

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<sup>12</sup> Anne Marie van Dongen, *Culture as Method*, Eburon Delft, 1997

signals, degrees of change. These definitions will be explained a bit now. For a more thorough and better understanding of these terms, the reader should read more in-depth books from the Erasmus Research group.

### 3.2.1 Cognitive versus social

Mr. Bolk states in his dissertation that expressions like “individual”, ‘group’ and ‘organization’ should be considered to be processes (89:24). As organizational-theoretical pre-condition, Bolk assumes a one-to-one relation between cognitive and social-structural aspects of the organizing behavior of man.

He summarizes his theoretical stance in two assumptions (89:36):

- 1) “**Social-cognitive configurations** are characterized, when studied as an instantaneous record, by a matching between a **relatively stable interaction pattern (who)** and shared **cognitions (what)** or definitions of reality)
- 2) Inclusions typify the extent to which one thinks and acts in terms of definitions of reality ‘of’ configurations. ‘Inclusions’ therefore correspond on theoretical grounds with the level of commitment to the interaction processes which go together with social-cognitive configurations <sup>13</sup>

In the current mainstream of knowledge in Western Europe, the modernist way of thinking, there is one essential aspect of organizing that is often neglected: the human aspect. The cognitive integration theory, which can be typified to be a social constructionist theory, gives this human aspect the attention it deserves. As seen here, it gives attention to the interrelationship between social and cognitive aspects of the processes of organizing.

### 3.2.2 Game versus play

For a better understanding about the ways people organize, it is very useful to know the difference between “game” or “playing a game” and “play” or “playing”: “*Game* “ or “*playing a game*” means a social activity, during which actors operate **within** given rules for the organizational process. We have to our disposal some pre-coding of meanings that can occur. We use rules that we assume to be known. “*Play*” of “*playing*” on the other hand means a social activity, during which the rules of the organizing and construction process are made and can be changed by the involved actors during the play. During the activity, it will be agreed what will be the play and how it will be played <sup>14</sup>.

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<sup>13</sup> Van Dongen C.s., *Een Kwestie van verschil*, Eburon Delft, 1996, page 89/90

<sup>14</sup> Van Dongen C.s., *Een kwestie van verschil*, Eburon Delft, 1996, page 100



These two expressions have been used during my interviews for labeling the ways of organizing in the Czech Republic and checking whether these expressions could be used to make certain organizational processes discussible. This has proven to be possible. Further more, these expressions are used in chapter 5 (and 6) of this thesis, when I am discussing the work mentality of Czech workers.

### 3.2.3 Weak signals

Another “tool” for reviewing the change processes in the Czech Republic is the so-called “weak signal”. These weak signals can develop towards a new dominant reality: “ *In the center, a lot of approaches of sense meaning are thinking in terms of ‘shared meaning’ or the existence of consensus. Such a point of view does not do justice to the daily practice in the sense that by this no or little hold is given to situations in which it is characteristic that “non-dominant” or ‘weak’ signals of sense meaning slowly develop towards “dominant” or “strong” (better: strong esteemed) meanings and replace them* ”<sup>15</sup>. It is very interesting to see that weak signals start to be really weak and develop over time towards a dominant reality. But for this, the weak signal has to be noticed by other actors and these actors have to use this weak signal in their (sense making).

### 3.2.4 Degrees of change

The totality of change processes in the Czech Republic are sometimes called transformation and sometimes called transition. In order to get a better understanding of the context in which the changes in the Czech Republic take place, it would be good to have some overview of what these expressions mean and when each expression should be used. When knowing the difference between transition and transformation, the change process can be better understood. Besides, some better approaches towards the change processes in the Czech Republic might be possible after a good reflection on the changes by keeping the “degrees of change” at the back of our mind.

Van Dongen et.al.<sup>16</sup> explain 3 degrees of change, which are the following:

- 1) Improvement as a change of the 1<sup>st</sup> degree, because we maintain the definition of what the organization is. These are changes *within known construction rules*
- 2) Transition/ conversion as a change of the 2<sup>nd</sup> degree, because we put one definition of organizing against the other and create the possibility to choose. It concerns a situation in which one goes from a knowable definition (and connected construction rules) towards a known, new definition.

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<sup>15</sup> Van Dongen C.s., *Een kwestie van verschil*, Eburon Delft, 1996, page 40

<sup>16</sup> Van Dongen C.s., *Een kwestie van verschil*, Eburon Delft, 1996, page 231

- 3) Transformation/evolution as a change of the 3<sup>rd</sup> or N<sup>th</sup> -degree, where we search for a form of organizing that we did not have before and from which we do not know what it might look like. Here one goes from a knowable definition (and ditto construction rules) towards an unknown definition (and rules of the play).

These degrees of change are connected with a certain context; the content (what), persons (who) and time span (when / during which period). Whether a certain change has to be regarded to be a 1<sup>st</sup>, 2<sup>nd</sup> or N<sup>th</sup> – degree change depends on the context. Furthermore, I do not totally agree with the label “improvement” for 1<sup>st</sup> degree changes, because I do not think it will be possible to label changes solely as “improvement”; in my opinion these changes can also be a “deterioration”. I will try to make it clear in the next chapters.

The degrees of change will be used in the following chapters for the analysis and reflection on the change processes in the Czech Republic during the last decade. Some links with the network theories of Grabher and Stark will be made; it will be shown that the expressions game and play are also valuable in this approach. If Grabher and Stark had used the distinction between degrees of change in their books and paper about transformation, the results of their work would probably be even better. This is for the reason that it gives some tools for analyzing the transformation process through other methodological lenses. Some other important role of the degrees of change will be formed when finishing this thesis with conclusions and recommendations. I will give some examples of how the change processes can be conducted in future. This depends to a large extent on the desired and possible degree of these changes. One thing is quite clear already at this stage: regardless of the path to be followed, it would be very good for a more efficient and effective change process in the Czech Republic to have some reflection on the change process until now and further discussions about where to go. Means for doing so are the initiatives of Impuls99 (chapter 6.3.5) or other initiatives like the international conference from the Academy of Business and Administrative Sciences (ABAS), which will be held on 10-12 July 2000 in Prague (<http://www.sba.muohio.edu/abas/>). By means of these kind of initiatives, equivocalities about the change processes can be removed. The less often multiple realities exist, the less there will be spilling of energy and frustration about undesired results. I strongly support this kind of initiatives (as can be seen on the Internet page of Impuls99); according to me this can lead to reformulation of the change processes and/ or finally bring about the desired changes in society.

### 3.2.5 Social aggregate versus configurations

When these actors form some groups, this might result in networks. This partly depends on whether the actors are loosely or tight coupled. Therefore, another part of the results of the Erasmus Research Group can be used for explaining the development and results of networks. These are the theories concerning aggregates and configurations. According to the definition of the aggregate, the interaction between elements is not there or, if there is some, it is not essential (De Laat & Maas, 93:28). On the contrary, in configurations, we **do** have a continuing, strong interaction pattern. On my opinion, these configurations with tight-coupled links can be considered as constituting a network. These networks can be focused mainly on the cognitive aspect or the social aspects, but in all cases both cognitive and social are there. The next chapter will deal about the theoretical aspects of a network perspective.

## **Chapter 4**                      ***Towards a network perspective***

### **4.1 Introduction**

The results of the research of the Erasmus Research Group as discussed in the previous chapter resulted in some good tools to analyze and intervene in organizational change processes. Because the levels of analysis are on configuration and actor level, the evidence and explanations of the current situation in the Czech Republic can be better discussed and understood by various actors involved with the transformation processes. When I want to get a thorough understanding of certain processes, I almost always prefer the actor's approach above so-called macro-level approaches. This is also the case for the subject of this paper: for building this "house" (this thesis about transformation in the Czech Republic) I would rather have "bricks", "cement" and other small parts rather than only some "components". It provides me with more flexibility and possibilities to build a nicer "house" because I do not have to change components and the final result is less clearly pre-defined. For this reason, my preference concerning theories to use for this paper lay at the actor's approach based theories.

But I still want to mention some network-approach from David Stark and Gernot Grabher. These persons have conducted some good research about transformations in Middle-and Eastern Europe. Their network-approach can be seen in the book "Restructuring Networks: Legacies, Linkages, and Localities in Post socialism" or on the Internet: <http://www.soc.cornell.edu/public/dcs2/orgdiv.htm>.

Although I am not interested in a complete network approach, some of the arguments of Stark & Grabher are very interesting and good for understanding the Czech case. Further more, these researchers also discuss some interesting expressions I would like to mention here. After explaining these expressions a bit, I am **not** going to use them in a network approach, but scan their methodology for an actor's approach for my analysis of the Czech case.

Grabher and Stark<sup>17</sup> argue the following:

- Although institutional homogenization might foster adaptation in the long run, the consequent loss of institutional diversity will impede adaptability in the long run. Limiting the search for effective institutions and organizational forms to the familiar Western quadrant of tried and proven arrangements locks the post-socialist economies into exploiting known territory at the cost of forgetting (or never learning) the skills of exploring for new solutions;

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<sup>17</sup> <http://www.soc.cornell.edu/public/dcs2/orgdiv.htm>

- Institutional friction preserves diversity; it sustains organizational routines that might later be recombined in new organizational forms. Resistance to change, in this sense, can foster change; As has already been alluded to, we shall see that legacies are not simple residues of the past but can serve as resources for the future.
- The lesson to be drawn from evolutionary theory is that competition in free markets does not necessarily favor the fit and more efficient form of organization: market competition is not an optimizer (Barnett 1995). Fitness depends on the environment, and the environment may change during the course of the selection process (Carroll and Harrison, 1994). Thus, even if the selected characteristics of an organizational form were the "fittest," they would be so only in regard to a particular, economic, political, and cultural context; they would not be the fittest for a changing or a different context. In place of the search for the "best" institutions to manage the transition, we might do better to reorient our analysis to identifying the types of organizational configurations that are better at the search.

## 4.2 Social and cognitive networks

Stark's <sup>18</sup>opinion about networks is that these networks between different actors are positive. This might be true for countries like Hungary (where most of his research took place) or Poland, but certainly not for the Czech Republic. The kinds of networks in the Czech Republic are mostly aimed at short-term thinking and are usually an impediment in establishing long-term market mechanisms. In the Czech Republic, you can see some kind of cognitive network when looking at the ownership structures between state, national property fund, banks and quasi-privatized firms. These cognitive networks are clearly destructive: Because of the cognitive links between these configurations, there are also some social links that are destructive. Configurations are so dependent on each other that it is impossible to dispose of certain unprofitable parts of organizing without affecting the healthy parts of organizing. As can be seen in the rest of this paper, the dependability of quasi-state firms on government in order to survival is now much greater than it was in the past. Some reasons for this are the disappearance of the major role of FTO's in networks with foreign customers and the new role of money in society.

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<sup>18</sup> David Stark & László Bruszt, *Postsocialist Pathways, Transforming politics and property in East Central Europe*, Cambridge University Press, 1998.

### 4.3 Allocative and dynamic efficiency

Grabher and Stark argue that the trade-off between allocative and dynamic efficiency constitutes a fundamental tension in the current transformation in Eastern Europe. This tension has been described in economic literature as ‘a conflict between short-term “static efficiency” and long-term efficiency’ (see Eliasson 1991; Nelson 1991; Dosi 1991). Murrell (1991) argues from empirical data that state socialism was no less efficient in allocating resources than capitalist societies. Where it lagged behind was in dynamic efficiency, in its capacity to promote innovation. I can fully agree both to the argument of Grabher and Stark and the argument of Murrell. As will be seen in the rest of this paper, short-term thinking is still prevailing in current times.

### 4.4 Compartmentalization

Grabher and Stark introduce the expression “compartmentalization”. This can be used for analyzing and explaining the current situation in the Czech Republic; not only in a network perspective, but also in an actor perspective. As Grabher and Stark state:

- Compartmentalization buffers the various sub-populations from each other and, hence, allows less efficient ones to coexist with the currently most efficient ones without being exposed to selection immediately. Although compartmentalization detracts from the fitness of the entire system, the sum of the subsystems keeps ready a broader spectrum of answers to environmental challenges and, thus, ultimately arrives at an even higher level of fitness (Weizsäcker and Weizsäcker 1984, p. 188)
- The principle of compartmentalization suggests that it is not simply the diversity of organizations but the *organization of diversity* that is relevant for the recombination of organizational forms in Eastern Europe.
- The superior efficiency of the Western branch plants could lead --due to a lack of compartmentalization-- to a further crowding out of other organizational forms.

As will be seen in the rest of this paper, this compartmentalization had some very negative impact on the capability of Czech citizens to organize. Furthermore, it is already clear that the Western branch plants are more efficient than the quasi state firms in present times. According to me, quasi state firms can do much better if the right management is introduced. But for now, the Western branch plants are the clear winners.

#### **4.5 Loose versus tight coupling**

Another expression used by Graber and Stark is “loose coupling”. Weick (1976) introduced this expression in his book “social psychology of organizing”. Grabher and Stark give some advantages of loosely coupled networks, which according to me also refers to loosely coupled actors or configurations:

- 1) If the elements in a system are loosely coupled, then any one element can adjust to and modify a local contingency without affecting the whole system. Loose coupling thus lowers the probability that the network will have to (or even be able to) respond to every minor change in the environment.
- 2) Loosely coupled networks preserve many independent sensing elements and therefore "know" their environment better.
- 3) In loosely coupled networks where the identity and separateness of elements is preserved, the network can potentially retain a greater number of mutations and novel solutions than would be the case with a tightly coupled system. As such, loosely coupled networks "may be elegant solutions to the problem that adaptation can preclude adaptability" (Weick 1976: 7). When a specific network fits into an ecological niche, adaptation can be costly because resources that are useless in the current environment might deteriorate even though they could be crucial in a modified environment.
- 4) Finally, it is conceivable that loose coupling preserves more diversity in responding than do tightly coupled networks and therefore can adapt to a considerably wider range of changes in the environment.

## **Chapter 5                      Organizational        processes        in        Czechoslovakia        during communism (1948-1989)**

As stated in chapter 2, I do not wish to assume that communism was bad by definition. In my opinion, it is more the setting in which Russian communism developed and the authoritarian forms of organizing chosen in this setting that determined its collapse. In the following paragraphs, some aspects of Czech society under communism will be discussed.

The Czechoslovak society during communist times can be divided into subgroups. One way of doing so is the following:

- 1) Industrial workers/ agriculture (80/85%)
- 2) Teachers / “intelligentsia” or educated professionals ( 5-10%)
- 3) Top communists (About 5 %). About half of this group were good managers.

This division is useful for making clear that only a small part of society was ruling during communist times. Further more, it can be seen that only half of the ruling class consisted of good managers. The rest of it consisted of just good networkers. Another distinction is the one made by Vladimír Benáček, who distinguishes two “incompatible and in many respects antagonistic social groups” <sup>19</sup>: The *operators* and the *nomenklatura*. He offers an approximate list of occupational activities to distinguish between the two groups and gives a table with the differences between these two groups:

**Table 9.1.      Characteristics of two types of entrepreneurship in Czechoslovakia**

Characteristics	Capitalist Roots (Operators)	Socialist Roots (nomenklatura)
Type of market environment	Perfect competition	Imperfect competition
Attitude to market	Market development	Market suppression
Communist Party support	Negative	Positive
Size of activity	Small business	Corporations
Main fields activity	Small-scale services And exchange	Corporate sector, material production, banking
Contacts with state bureaucracy	occasional (through bribing)	Daily (through subordination)
Original source of power	Bargaining skills	Politics, personal networks
Source of main income	Shadow or illegal	Official remuneration
Fringe benefits	None	various (housing, car, travel, etc)
Execution of power	through skills and cash	through bureaucracy, Remuneration, and pull
Social prestige	Low	High
Risk-taking	High	Low
Level of education	Low	High

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Source: *Restructuring Networks in Post-Socialism*, Grabher and Stark, page 222



He also mentions some similar characteristics of both social groups. For this paper, the following might be interesting to know:

1. Collusion with bureaucratic networks
2. Barriers against the entry into the group by outsiders
3. Position of a social minority with class distinctions (Mr. Benáček estimates the operators may have accounted for 10 to 15 per cent of employment; the nomenklatura, for 4 to 8 per cent.)
4. Higher-than-average income
5. Accumulation of money (cash, bank deposits, and convertible currency holdings) or wealth (real estate)
6. Feelings of being an overworked elite with natural privileges
7. High degree of pragmatism and adaptability and a propensity to tolerate or use unethical principles as their means
8. Admiration of the Western (mainly lower-middle class) life-style
9. Persuasion that the state-owned physical and financial capital administered by them on an employee contract basis is identified so much with them that they can use it as their own property and appropriate a part of the accrued profits or wealth.

Vladimir Benáček labels the remaining group of ‘non-committed’ citizens or workers who do not belong to the operators or nomenklatura as outsiders. He distinguishes two subgroups with serious potential for recruitment of entrepreneurs:

- 1) A large subgroup of professional workers of technical orientation (engineers, computer whiz kids, workers in applied sciences, etc;) whose ambition to be independent can be strong
- 2) Low-ranking managers (e.g.; foremen, heads of small teams) whose ‘higher’ position in socialism was generally not associated with privileges.

Although the group of outsiders, about three quarters of the society, may have contained at least as many potential entrepreneurs as the other two groups, few outsiders went into business. This occurred because the mechanisms of career building were such that only a fraction of the talent had the opportunity to enter the ranks of Nomenklatura <sup>20</sup>.

I will not mention the rest of the findings of Mr Benáček here, but can strongly recommend his contribution in the book of Grabher and Stark. Because this contribution deals with the second economy in the Czech Republic, I will mention some of his findings and conclusions in chapter 6.4.7 of this paper.

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<sup>19</sup> Grabher and Stark, *Restructuring Networks in Post-Socialism*, Oxford University Press, 1997, page 221

<sup>20</sup> Grabher and Stark, *Restructuring Networks in Post-Socialism*, Oxford University Press, 1997, page 222

One conclusion that can already be made here is that in Western Societies there are of course also some classes in society. Also here you have some people who will have more chances for being accepted and getting absorbed by the elite. But there is a big difference between the West and the practices that were common in former Czechoslovakia. In the latter, it did not matter as much whether or not you had enough capabilities; what did matter was whether you accepted the communist system or not. Those who did not were neglected by the system, which made it harder and in most cases impossible to have a successful career. In this way, the ‘fittest’ often did not get a chance of arranging organizational processes.

This matter of the ‘fittest’ can be discussed here taking into regard one of the arguments of Grabher and Stark mentioned in chapter 4.1.1. They conclude that also in free markets, it is not necessarily the ‘fittest’ who will be favored. And, “even if the selected characteristics of an organizational form were the ‘fittest’, they would be so only in regard to a particular economic, political and cultural context”.

I do not agree with this conclusion; according to me the ‘fittest’ is exactly the organizational form that can survive in any context by adjusting to it under any circumstances. For doing so, the actors taking part in the organizational processes have to be able to play, to adjust to changes. And that is what I mean with ‘fitter’ actors; these actors that are more capable of surviving not only in regard to a particular context, but also in a changing or different context. Although it might not always be the case that free markets select the fittest, I am sure that market competition often selects fitter actors than the former communist era in the countries of Middle Europe could ever do. These ‘fitter’ actors have more possibilities to get themselves selected and have the possibilities to import management practices of other societies.

During communist times, the ways of organizing were based on hierarchical styles of organizing. The managers of the companies were not real managers in the Western meaning, but just plant supervisors. They got orders from above and just had to fulfill these orders. Furthermore, the companies were all fairly large. There were almost no small companies and there was very little personal or business initiative. Before ’89, there was a planning department from the state that made 5-year plans for the production companies. Developments and housing for the population were all political concerns.

Grabher and Stark give some good insight into the networks that existed in Czechoslovakia and most likely still exist in the Czech Republic:

- “In Czechoslovakia during the 1970s and 80s, under the umbrella of meso-level "Industrial Associations," constituent suppliers and customers, managers and workers, state bank branches, firms and local Party members formed alliances to gain privileges from the center and created informal compacts of economic co-ordination to limit and adjust to the uncertainties of an economy of shortage.<sup>16</sup> McDermott argues that, over time, these informal networks became institutionalized, though not necessarily legally recognized, and became the frameworks to define and renegotiate claims to individual units of the large state-owned corporations”

These so-called “old guys networks” played a very important role. So, the way to manage state enterprises was largely based on networks, on the exclusive links with state institutions. Guidance of these state enterprises can be explained by the following quote: “...*So the boss in fact was not so much the boss. In fact, very often he was not allowed to make internal decisions...So he was limited, he was restricted, he was not the fully responsible person in fact*”. (L.Cervenka, Unilever Prague)

Although my own opinion was that there was not enough research and education during communist times, my respondents strongly reject this premise. They told me the following: “*During communist times, large amounts of money were invested in research, education and family welfare. But the problem was...lack of implementation. Most companies did not have enough money to implement the results of R & D because of too little cash flow as a result of the inefficiency*” (P.Senych, country chairman Shell Czech Republic). So again, the knowledge was there, but it was not applied. Except in one function: The army. This is a typical sector, which had enough money, which resulted in a high application of the results of research and development. Czech army equipment was exported and sold in the West a great deal.

So there was generally a lot of research but very low application of it during communist times. Besides this, the knowledge from outside the communist era was usually not applied. Managers who wanted to put Western ways of management into practice in Czechoslovakia run the risk of being imprisoned or losing their job. For this reason, there was some mental compartmentalization from the West. These two reasons clearly contributed and might have resulted in the lower success of communism compared to market economy.

Supply of materials was not that good during communist times; lots of products were simply not available or were only available to a party member. If you wanted to build yourself a cottage, there was no place to get bricks. Therefore, you obtained the bricks through a friend working at a construction site. This friend would steal the bricks for you and you would do a counter service for him in return. When something was broken, it was quite common to use materials from work and repair it whilst at work.

I already mentioned the fact that Russian type communism was based on the “one best way to organize” idea. This was also incorporated in the school system: “*Schools here teach you the one truth. And your task in school is to learn in order to introduce the truth. The teacher has the truth and you give the teacher the truth...People are not brought up in school to debate. You are not supposed to do so. If you come with an idea which is different from the teacher’s, you totally forget it cause it is wrong. Certainly, it will not help you to get good marks to come with funny ideas from the side*” (L.Cervenka, Unilever Prague).

Of course this is also the case in Western European societies, but not to such a large extent as in the Czech Republic. Besides, the Western European students have the advantage that in Western European society

most organizations do work in pluralistic ways. That is why students will learn to think and act in pluralistic realities more easily at the organizations they start working.

Social security was relatively good during communist era. Enterprises built lots of facilities for personal welfare and social purposes. The factories owned holiday camps, kindergartens, crèches and the like. Employees could make use of these facilities virtually free of charge. Facilities that were not free were mostly subsidized to a great extent. Furthermore, water and energy were supplied free of charge.

Ideology and slogans formed another important part of Russian communism. Like one of my Czech respondents told me:

*“The communist society made use of lots of slogans. In the past, it was important to be loyal to the ideology; experience was not important. It was an environment of lots of slogans and lack of training. There was a development plan for the different positions people would get in the future and there were (lots of) layers in the companies” (J.Hrubes, works manager, PTZ factory, Unilever CR)*

Under communism, there was a different feeling of ownership. I already was aware of this when I saw the action of a Czech guy in Prague. This individual (who lived in Germany for 6 years) was always very careful with his own and his friend's properties. But when walking through a public building and finding a door closed, this same guy kicked the door with his foot (a la “karate kid”) until it opened... After this, I wondered why he did this. Now I know why: during communism, state property was from everybody or, to say it in another way, this property was not from anybody. Therefore, the only property to take care of was your own property and that belonging to family and friends. All the other property was state property and because of this not important to take care of. This feeling still exists.

Another essential problem of social society was the fact that the productivity of a worker was low, since he did not have any interest in the end product. Many workers were working efficiently only 1 to 2 hours a day, the rest of it they were not productive. But for this 1 to 2 hours a day, these workers got a good salary. Worker mentality was not that good during the communist times; the workers did not feel that the work really belonged to them. There was some general resistance against the rules of the foreign rulers. During communism, there was a saying that was very widespread through society and reflects the reality of Russian communism in the Czech Republic. This saying was as follows: “we **pretend** to work and they **pretend** to pay. Or, in the words of a Czech manager working for a Dutch firm in Prague: “ ... *This pretending, this mutual compromise, in fact this was the historical compromise that lasted 20 years... at least 20 years based in this regime. They pretended to pay, they pretended to guide, to lead, and we pretended that we worked. And in fact they did not lead and we did not work. First you make figures, and this is most important, and*

*then this reality is not so important. **Perception is reality.** So it was very much rooted, [that], so, the cheating, the pretending was very much a part of the managerial style. It was probably necessary for the managers to have this capacity...” (L.Cervenka, Unilever CR,s.r.o.)*

In this context, it was logical and maybe even constructive to arrange matters by neglecting the system. That is why the habit of Czechs to do so was possibly good in that period. This changed after the Velvet Revolution: suddenly the people had the opportunity to really organize in more efficient ways. For doing so, they have to get used to reducing equivocality and communicating with each other about actions to be taken.

The above mentioned characteristics of the communist era suffice to get some better understanding of characteristics of the current organizational (change) processes in the Czech Republic. I will now continue by giving an overview of the organizational processes in the Czech Republic in the last decade. Here, matters like the Czech mentality, aspects of the transformation process, institutional players and management in current Czech organizational forms will be discussed.

## **Chapter 6                      Organizational processes in the Czech Republic in the last decade (1989-1999)**

### **6.1 Czech mentality**

When talking about Czech habits, it can be said that some part of these habits were caused by and during the communist regime. This of course also had some impact on the current mentality. The other part is explained by the development of the culture before the Russian invasion of the Czech Republic on 25 February 1948. Last but not least, the present situation in the Czech Republic has an impact on the way people act: social is always affected by cognitive and cognitive is always associated with social<sup>21</sup>.

As already stated before in this thesis, the organizational processes in the Czech Republic were very hierarchical during communist times. Furthermore, it was very much based on the “one best way to organize”. *Pretending was reality* in many cases. It was often very constructive to organize something between each other while neglecting the system. This is because lots of products were not available through normal channels, sometimes stealing was the only way to obtain certain products. Therefore, it was quite normal to steal. In fact, it was not ‘stealing’ in communist society. This habit could cause misunderstandings when Czechs went to other countries: “*So, you do not steal from your friend, but stealing from the factory you work in was considered quite normal. When someone came from the Czech Republic [to Canada], I gave him this advice: once he starts working, he should know that if he takes home a piece of wire, that it is theft in [Canada]*” (E. Outrata, President Czech Statistical Office). Evidence from both personal experiences and my own interviews show that this attitude of “borrowing” materials from the company is still there in present times. When approached with Western attitudes, an expatriate seeing some employee stealing will most likely immediately sack this person. This is quite a pity; the better approach, taking into account the fact that stealing was “normal” in previous times, would be to have a talk with the employees (before) and warn them not to steal anything from the company. The employee has to be reminded that stealing is **not** normal anymore. I honestly believe that this approach will be enough for handling this matter: in most cases, one warning will be enough.

Another part of the Czech mentality is formed by the development of the culture before the Russian regime. This is, to a quite large extent, influenced by the Hapsburg period. In order to get a better understanding about the Czech mentality, it is recommended that one read a book about Soldier Švejk:

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<sup>21</sup> Van Dongen C.S., *Een kwestie van verschil*, Eburon Delft, 1996

*“ This soldier Švejk is a character in a Novel written by Mr. Hacek. Soldier Švejk is a Czech soldier who served in the Hapsburg Army. He is an archetypal Czech...He is **the** information-source to understand how Czechs reason...This soldier said ‘yes, yes, yes’ and meanwhile he did exactly what he wanted. That is typical for the mentality of a Czech. Czechs say yes but meanwhile they do whatever they want. And meanwhile everything is arranged among themselves”* (Frans Hoekman, Start Prague)

My Czech respondents agreed to this. They told me that Czech people would mostly try to get around the rules. They learned that there is a difference between the formal legal system and the actual one. This is also a result from the past: in communist times, people simply had to get around the rules to arrange something for themselves. This tendency is very destructive in the present times.

The medium/average Czech has some kind of “wait and see” attitude, they are more relaxed than the Poles or the Hungarians. Currently, the people seem to be interested only in the short-term effects. Some opinions of Dutch managers in Prague about Czechs:

- Czechs have very few creative abilities;
- There is a very strong collective feeling at work;
- There was (and is) mostly some negative vision on the concept of boss and one’s own initiative;
- Czechs are **prepared to talk** about other things **but not to do** them

Or, in the words of a high ranking Czech state official who lived in Canada for about 10 years: *“There is a tendency ...in this country of overemphasizing from emotional themes. Identifying oneself with a slogan as opposed to an action; and particularly ...if you see a problem, not going and doing something about it, but talking about how awful it is. I am...all these people from the country complaining about how all the governments are awful but they do not help them in this...and the other things...Well, fine. Maybe they are awful and maybe they should vote for somebody else, okay. But in the meantime, why do we not get together and do something about it”* (E.Outrata, President Czech Statistical Office)

Current work mentality is not that good. At present, there is a feeling like “ we want more, but it cannot go at the expense of my private time”. There has been some switch from working for the community to working only for themselves. During communist times, the people were mainly free time oriented and used to the government taking care of them. This idea was in the beginning also extended towards capitalism. But slowly people discover that it is different: “The only person taking care of me is myself...” But there surely still are people who are still counting on the state. Like one of my Czech respondents told me: *“ In the last 5 years, people in [our company] got a good salary...But when [our company] offered some of the people a flat for low rent, these people simply responded they were low on money. This can be explained by the fact*

*that people now still think the state is responsible for arranging people's lives*" (A.Jirousek, Supply chain director PTZ, Unilever CR).

When reading the above-mentioned characteristics of Czech mentality, you might understand that these characteristics had major impact on the chances of success of Russian communism. This might even mean that the failure of Russian communism in Czechoslovakia is due to a certain extent to the Czech mentality. Just take a look at a statement made by a Czech manager in Prague about the Germans:

*"...Look at Germans, they were doing well under both systems; it was an old story, that they were doing well both under one system and under another system...Because they had some qualities, some features like being hard working, being disciplined, organized. So all these features had an impact and are important regardless of the system"* (L.Cervenka, Unilever CR)

These differences apply not only between the Czech Republic and the Western European societies, but also between the several Middle European societies. This might even be one of the reasons why countries like Poland and Hungary are more successful with their transformations:

*"Compared with the surrounding countries, say Hungary and Poland, there is a much lower sales mentality here, [here they are] much lesser extroverted, much more introverted...they have lesser initiative, much less initiative. I very often hear from colleagues working in Poland or Hungary that they had to hold people back. And this is about the opposite here, here the expatriates are held back"* (Frans Hoekman, Start Prague).

When putting it very generally, my own opinion about the current problems of Czech society is that this is to a large extent a problem of switching from reactivity to pro-activity. Of people who were not used and, maybe more important, not allowed to act proactively in the previous context. Now suddenly they have to act pro-actively and to be competitive. This opinion I have is supported by the following quotes of respondents I interviewed:

- *"According to me, the technologic knowledge was there but the ability to use it was not available"* (A.Jirousek, Supply Chain Director, PTZ, Unilever CR)
- *"Academically, our people certainly know everything which has to be known about management. But that is not the point. Actually ...that is the negative point...we have got a minister of finance who is a very good economist but does not know anything about managing. I really wonder how he came to get ahead around here. And it goes all like that"* (E.Outrata, President Czech Statistical Office)

But this switch from reactivity to pro-activity is often quite difficult to establish. This can be seen in the next chapter, in which some opinions and statements of Dutch and Czech managers about management in the Czech Republic are being mentioned. Here, it can be seen that the Czech people often have troubles owing to the fact that the old way of thinking is still predominant in their minds. But it can also be seen there that it is in fact possible to switch for the people concerned. In order to do so, there is one very



important factor to be established, and that is proper management. Proper management often means that this management should not consist solely of ‘formerly communist actors’. This and other issues will be discussed in the next chapters of this thesis.

## 6.2 Transformational processes in Czech society after November 1989

### 6.2.1 Transformation general

...And then there was the transformation. This transformation started almost immediately after the Velvet Revolution. Although very few people knew where to go, the transformation process itself was quite clearly aimed at establishing some sort of a market economy. The process that took place during the first years was influenced a great deal by the ideas and backgrounds of only one actor: Prime Minister Vaclav Klaus. Mr. Klaus, a graduate from the Vysoka Skola Ekonomicka (University of Economics, Prague) was and is a very good economist. Regrettably, he is (as are almost all Czech people) quite technocratic. Together with his Government, he almost exclusively looked at the cognitive part of transforming. I fully agree with one of my respondents stating: *“I think Klaus was not the right person for the change process in the Czech Republic. The change process was not fulfilled in the right way. Klaus is good in “economic things”, therefore he was the right person for the financial ministry. But it was not good that he became a Premier, since for this position you also need knowledge about law, social knowledge, etc.; this knowledge needed for the position of premier was not there with Klaus... During '91 until '93, the group led by Vaclav Klaus had no real competitor, there were no alternatives. It would be better if there were some 2 or 3 (strong) parties with different points of view”* (J.Pokorny, Project Manager, PTZ, Unilever CR)

Another destructive aspect of Klaus's way of governing was the fact that he was only interested in economics, mainly macro economic indicators. Besides this, Klaus followed a so-called “laissez-faire” policy, which was probably the worst policy to follow with Czech citizens. Further more, Klaus had no real competitor. Because of this, there were no (good) alternatives to choose from. This lack might have been destructive for the change process after 1989; there were simply no better alternatives to choose from.

During the first years of transformation, the policy of Klaus's government was very well known and results seemed to be very good...until it became clear that the economic view of Klaus remained perception and the reality was much worse. Of course, the cognitive part of transforming society is very important. For a successful transformation, a great deal has to change. Legislation has to be put in place, laws have to be developed to support the process. Up until now, there is still a main obstacle because of big faults in laws.

But at present, it becomes more and more clear that the cognitive part is not the most important and most difficult part of transformation: the human part was too much neglected during first phases of

transformation. When taking these social aspects of transformation into consideration, it can be concluded that the actual transformation will take much longer than (originally) believed by the Czech government and the European Union. The actual transformation in the Czech Republic will take a few generations, it will take this much time because of the fact that the whole society has to change. There was a big turnaround in people's mindset after the Velvet Revolution. People now receive information and act according to it. But many people are not able to do so. Most of these can be found in the group of people who were born and grew up in communist era. Taking into regard that about all people currently working in Czech organizations belong to this group, it is not difficult to see that it will take longer than 10 or 20 years to transform society. I will offer some deeper understanding of the transformational processes in Czech society after November 1989 in the rest of this chapter.

### **6.2.2. The first years after the Velvet Revolution**

At the end of 1989, most middle-European countries belonging to the former Soviet Union experienced a revolution that resulted in separation from the Soviet Union. In countries such as Poland, people were protesting on the streets for months. In the Czech Republic, "Something" happened in a very short period: *"The Velvet Revolution went very fast in the Czech Republic. It started on 17 November. Between 17 and 24 November, the revolution spread really quickly. There was only a very small group who thought everything should stay the same. The other part of society agreed that something should happen, although nobody knew what should happen. After 17 until 24 November, 'normal' life started again..."* (J.Pokorny, Project Manager, PTZ, Unilever CR)

There was not that much resistance of Czech inhabitants against the communists. Jan Urban, a former dissident and till recently publisher of the now bankrupt magazine called "Transitions", is as cynical as some of his old dissident comrades. He quotes ex-dissident and present president Havel who concluded: *the labour union Solidarnosc in Poland had ten million members, we had ten million ears.* Urban continues: *"Those ears listened to Radio Free Europe and the Voice of America. Always at home, always safe...I asked some older friends later whether somebody could remember a meeting where it was decided what we wanted after communism. Nobody could. We only knew what we did not want [anymore]..."*<sup>22</sup>.

As Jan Urban already stated in his interview with "De Gelderlander", Czechs just did not know what to do after communism. According to me, they still do not know. Although it can be concluded that the Velvet Revolution was generally aimed at freedom or democracy, the results of this revolution were much wider. Suddenly, the Czech society became part of a much bigger open system. Further more, the worth of goods and services were quantified. And, to further complicate matters, the Czech actors brought up in

communist society had to get used to being responsible for their own lives. And this was and is exactly one of the big problems of the present situation: *“...So they have the advantages, they have the profits, they want to have share profits as they have being in capitalism. But they do not want to bear the responsibility”* (L.Cervenka, Unilever CR,s.r.o.). Another problem was that the Czechs were not so urged to change as the citizens of other Middle European countries. This might be explained by the relatively good position of the Czech Republic after the Velvet Revolution: *“...Problem of Czech Republic was that they had too easy a start. They had a feeling that they were doing well. And there were also a lot of excessive expectations from the so-called Czech way to the future and...If you look now, in '99, the Czech managerial class, all Czech managers, all big Czech managers failed basically. All Czech big state companies are failed and together with them what has failed is the so-called Czech managerial style”* (L.Cervanka,Unilever CR,s.r.o.)

This failure of the Czech managerial style is quite logical: after the Velvet Revolution, lots of former managerial practices continued to exist. But lots of them have the characteristics of ‘flowers of Catherine’<sup>23</sup> in current times: they are not needed anymore and are in most cases even very destructive for current organizational contexts. This accounts for instance for the pretending: *“Now, you imagine that these managers, these business units are suddenly exposed to the reality of the market. They simply...well, they can lie, they can pretend, but well, the **reality is reality finally**”* (L.Cervenka, Unilever CR, s.ro.).

As can be seen through the whole of this thesis, the main problems of current society are those ‘flowers of Catherine’ - aspects of organizing that might have been constructive during the communist era survived the Velvet Revolution and are now destructive for the development of Czech society.

One of the factors that contributed to the survival of certain organizational practices might have been the way the former Nomenklatura developed after the Velvet Revolution. After the Velvet Revolution, there was some law preventing these former Nomenklatura from getting employed in influential governmental positions. The list of controlled positions was not used for this. But there is a law that excludes functionaries of the communist parties, former agents of the secret service and members of the so-called workers militia. These people are excluded from positions of responsibility in civil service, not of employment, but from positions of responsibility. A lot of these former nomenclatures went to the current quasi state companies. Most people who are successful in quasi state businesses now in the past had high positions in ministries and the like. They made use of their contacts, learnt quickly how to change their behavior and gained lots of property. So, while the former communists were less fortunate in countries like Poland, this was not the case at all in the Czech Republic.

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<sup>22</sup> “Charta ’77, de club met de 10 miljoen oren”, De Gelderlander (Dutch newspaper), 28 September 1999

<sup>23</sup> Flower of Catherine: something that was needed in a certain context, still exists, but is not necessary anymore given the changes in context.

Or, in the words of my respondents:

- *“Nobody knows what happened to these people...that balloon did not break, it just became deflated. It is deflating slowly and has just spread a little. And nothing happened [with them]...You ask yourself which gap existed between the party, so the people practicing the dictatorship, and the citizens. And this appears not to be so much...at all...after communism, most of these people just stayed in position or moved to businesses”* (F.Hoekman, Start Prague)
- *“ The Klaus government tried to kick out the ex-communists. But it actually helped them to start businesses. Because of their contacts, the ex-communists were a lot sharper and were first to start thinking about the future. They had the information and former contacts to get a good start “* (A. Jirousek, Supply Chain Director, PTZ, Unilever CR).

So currently, lots of former nomenclatures are working in the quasi state organizations, where they follow the old ways of doing business, which was basically based on supply. It will be clear that the Government in this way did not reach its goal of decreasing the role of the former nomenklatura in Czech Society. These people now often have influential positions in the quasi-state organizations, while the development of exactly these organizations play a very important role in the current change processes.

An important step after the Velvet Revolution was the restitution of some of the property from the state to the original owners. An example of property restitution after the Velvet Revolution is the Lucerna Theatre at Vodickova Street in the center of Prague. This theatre once belonged to the family of Vaclav Havel. After the theatre was restituted to Vaclav Havel, the president sold it. Currently the theatre is used for all kind of parties, for example, an 80's party on Saturday nights.

Although the restitution itself can be considered to have been very successful, the consequences were not always as good. One of the examples I can give here is the following: I know a Czech man who used to live in the grounds, which originally belonged to his family. He showed me a very big area of woods, fields and the like just outside Prague. He must have had spent some wonderful time there while growing up. But then there was the Velvet Revolution and resulting restitution of property. All the confiscated property was restored to his uncle, who immediately threw the man's grandmother, mother and him off his property. Now, same man has to live on about \$300 a month while his uncle has lots of property and more money than he can ever spend...and this is only one of the many instances in which the results of restitution were not that positive. In several cases, the restitution resulted in the richer people becoming even richer and the misuse of regained properties.

After the Velvet Revolution, almost all the organizational forms in the Czech Republic changed dramatically. The former 100% state governmental organizations were divided in the following organizational groups:

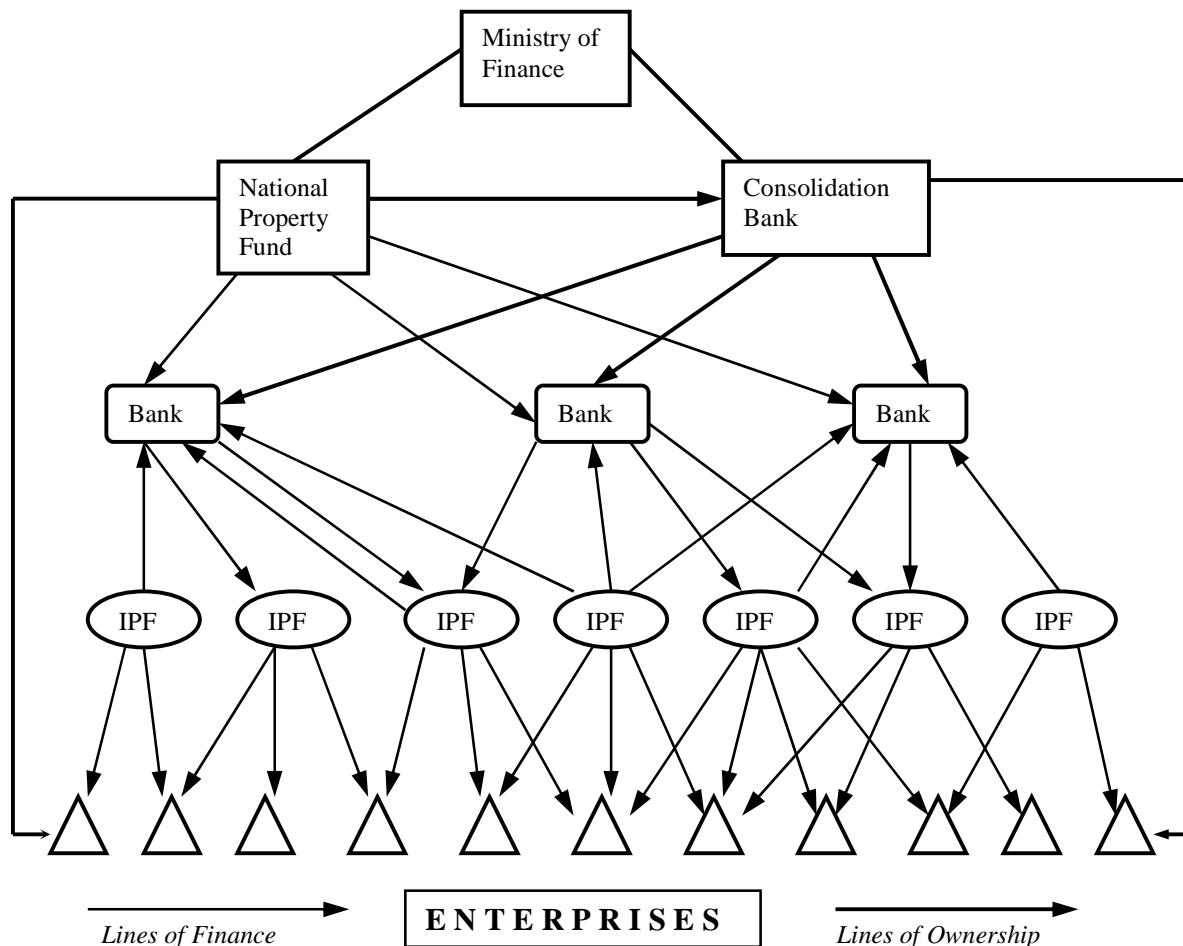
1) Private companies, which

- A) Started producing. Mostly with a short term perspective and lack of investments. Mainly smaller companies with less than 100 employees
- B) Made as much money as possible out of the business
- C) Received money and closed the company

2) State companies

3) State institutions

The second group of state companies developed into the current quasi-state companies. Mostly owned by investment funds, while a large part of them is still owned by the state through the Consolidation Bank and the National Property Fund. David Stark and László Bruszt made a diagram of the links between the following actors and configurations: quasi-state enterprises, IPF, Bank, Consolidation Bank, NPF and Ministry of Finance. This diagram works as follows<sup>24</sup>:



As can be seen in this diagram with networks of ownership and finance in the Czech Republic, there are many cross-links of finance. These cognitive and social links result in some very destructive mutual financial dependence. This dependence prevents actors belonging to the networks from taking tough measures. When certain configurations in the chain are doing badly (as is the current situation), the whole network is losing out.

For a proper development of Czech society, the cross-links of finance need to be abolished. The banks have to become independent and make their own way without influence of the Government:

*“If the government wants to find a sustainable solution to the economic mess in which it finds itself, it will need commercially run banks that can kick industry into shape- not politicized ones that encourage delusions of Czech grandeur”*<sup>25</sup>

The private companies that started producing are not members of the above mentioned networks. They are currently quite successful. At least, as well as companies can be in the current context. But also in this kind of organizations, many improvements are possible. One of these changes is connected to the change from short term into long term vision; a switch in focus from allocative efficiency into dynamic efficiency. Another way to improve is to look at Western ways of organizing; this was not possible because of the compartmentalization between 1948 and 1989. This will be seen further on, when the management in present quasi-state companies is discussed in further detail.

In the first phase of transformation, in Klaus’s era, people really generally believed that you could make something decent out of those companies. But now it’s slowly becoming clear that this is often not possible. Most Former State companies are slowly disappearing and most probably will ultimately form a very small part of the future of industry in the Czech Republic. This is mainly caused by the habits of Czech citizens working in these former state companies: *“ The middle-age people still often find excuses why they are not able to deliver. They were not forced to improve situations during communist times. They are mostly employed in the old type of companies which are still owned by the state and some Czech businesses”* (P.Senych, country Chairman, Shell Czech Republic).

In chapter 6.4.5 the organizational processes in former state companies will be discussed further. Although these processes had a major influence on the bad condition of Czech business environment at present and caused many companies to collapse, the healthy companies also have problems at current times. Because

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<sup>24</sup> David Stark and László Bruszt, *Postsocialist Pathways, Transforming politics and property in East Central Europe*, Cambridge University Press, 1998, page 160

<sup>25</sup> *Sins of the fathers*, Business Central Europe, November 1998

of the environment, the good entrepreneurs with good products also can go or already went bankrupt: their suppliers fail to deliver or their customers do not pay. This results in the bankruptcy of in essence healthy organizations.

### 6.2.3 Corruption and tunneling

There were also some corruption scandals (like the corruption at SPT Telecom / ODS <sup>26</sup>) and lots of tunneling stories in the years after the Velvet Revolution. As can be seen in the enclosures, the tunneling was exactly what Dusan Tríska (former adviser of Minister Václav Klaus) expected when coupon privatization was still on the drawing board. But it was expected to happen in the privatized companies, not in the state-owned ones <sup>27</sup>. But it did: while the state and state-owned banks still owned large stakes in the former state companies, their assets were being stripped off. Fund managers of investment funds found that nothing in the law prevented them from transferring money from the company wherever they wanted. Concerning this, it can be mentioned that nobody knows how much of the corruption and the tunneling really happened. Another conclusion can be that it was most likely far less than people think. But like one Czech manager I interviewed stated, perception is reality. But on the other hand, reality is also reality.

Or, to say this in more general words:

1. If men define a situation as real, it is real in its consequences;
2. If men define a situation differently, it is real in its consequences<sup>28</sup>

Although the corruption and tunneling were not that much of a real problem for Czech society, it prevented the Czech citizens from looking at the real problematique: “ *And so somebody had to steal them and so we start chasing thieves around the world instead of doing something. Again, people, instead of looking where the problem is, [...], are looking for who stole it from us. But there was nothing there in the first place. A few tricksters managed to make money out of nothing*” (E.Outrata, President Czech Statistical Office)

I think this is again some issue of taking responsibility: Czech citizens still do not take responsibility for organizational mistakes. It is almost never *me* but always *they* who made the mistakes. Therefore, it would not be the responsibility of the citizens to take some responsibility and conduct some action.

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<sup>26</sup> *Bribe claim in Telecom deal*, Prague Post, Jan-Feb 1999 (??)

<sup>27</sup> *Privatisation guru foresaw tunneling*, Prague Post, January 1999

<sup>28</sup> Anne Marie van Dongen, *Culture as Method*, Eburon Delft, 1997, page 157



#### 6.2.4 Transferring knowledge

As I discussed in chapter 3.2, actors can transfer their learning experiences from one context to another context. This is however not always the case, since there are at least two pre-conditions that have to be there for knowledge transfer to take place:

- The actors have to get the possibility for inclusion in another configuration/context;
- Actors have to really use the knowledge from the other context offered to them by other actors.

We already saw that during communist times, the Czech society was to a large extent compartmentalized from the Western European societies. There were very few contacts with the outside world, which resulted in few chances for learning experiences by means of the multiple exclusion effect. And even if there was a learning experience, actors who wanted to apply them in the Czech Republic did not get a chance to do so. Therefore, the most optimal ways of organizing were often not realized in the Czech Republic: there was simply not enough variety in choice, only the so-called “one best way” which was often not the best at all.

After the Velvet Revolution, this whole situation changed: while Czech Society had at first to deal with the “one best way of organizing”-approach, they now had to deal with an open system in which there were multiple possibilities to organize. This situation calls for a completely different approach of actors in society. The Czech mentality of saying “yes” but doing something else in meantime might have been constructive in previous time, but this is clearly not the case in present situation. Because of this, the overall Czech mentality had to change a lot after the Velvet Revolution. This was the situation for about all the organizational processes that took place in Czech society. Like a teacher of the Vysoka Skola Ekonomicka v Praze (Prague University of Economics) told me: “ *the main problem of the transition was to change the structure of society*” (Doc. Ing. P.Doucek,VSE Prague) . In order to do this, Western ways of organizing have to be introduced in Czech organizational processes as efficiently as possible. Ways for doing this are to either employ expatriates in organizations in the Czech Republic or to use the knowledge and experiences of Czechs with foreign experiences. This will be discussed further in chapter 6.4.1.

### 6.3 Institutional players in the transformation process of the Czech Republic

#### 6.3.1 State institutions

After the Velvet Revolution, the role of the state changed dramatically. As a consequence of the fall of communism in the Czech Republic, the state did not have to deal with orders from Russia anymore. Besides, the stake of the state in former state companies had to decrease. Although it is common knowledge that this stake of the state in former state companies is still too much, it is a lot less than in former times. State institutions got other duties and competencies and state officials had to learn new skills. For a market economy, actors have to get supported. While in former times the actors had to serve the state, currently the state should serve the actors. This demands some switch in mentality of civil servants, which is not always as easy for a lot of current state employees. One of my respondents said the following about the customer service of state officials towards the companies and society:

*“They just rule themselves, they do not perceive their mission as something they do for the society, they decide for themselves, so they do not, in practice they do not take into account the opinion and feeling of society enough. So, it is this unbearable lightness of deciding. There is missing link between the political decisions and the impact on the business. So it is very clearly missing. So the old tradition of ruling without seeing the consequences is still here”*  
(L.Cervenka, Unilever CR, s.r.o)

So at this point, some major changes are clearly necessary. This has partly to do with learning experiences (which take time to take place), but also with the attitude of civil servants. This attitude is quite easy to be changed, as long as the people are aware of the need to change and are prepared to make the change happen.

The changes of the last decade also demand some other ways of communication. This asks for new ways of communication and other channels and actors to communicate with. Development of this will take time and lots of effort from the parties concerned: “ We are now in the transition from the old, from the previous, to the new. But there are still not established ways of communication, of channels of communication between the industry and the policy makers, they perceive them as excessively independent. So they are still not used to this”  
(L.Cervenka, Unilever CR,s.r.o.)

So the communication channels are still not there. One of my respondents mentioned that in some instances the communication is even worse: while during communism there were at least some ways of communication, these are also gone now. So also this aspect of life has to be rebuild almost from scratch.

### 6. 3.2 Government and politics

One of the most important aspects in the transformation process of the Czech Republic is formed by the political situation in the Czech Republic. For a successful transformation process, it is important that the government be supportive of organizational processes. Up until now, this has not been the case. This at least because of the following issues:

- 1) Governmental jobs pay less than jobs in business. Therefore, the best people often start working in business or are bought away from politics by business.
- 2) Governmental workers also have to learn
- 3) Connected to 2): here, the inflow of foreign knowledge is even less than in business life

It is quite well known that there is still too much Government bureaucracy at present. An analysis of the non-governmental National Training Fund carried out in 1998 revealed serious deficiencies in the areas of organizational structure, human resources, effectiveness and preparedness for EU membership. Furthermore, it confirmed that the Czechs lacked any organized approach for dealing with the change process. The main reasons for the poor state of the Government's work force are owed to the fact that many qualified workers leave civil service, there are no standardized training programs and there is a lack of personal motivation, responsibility and dependability. This can all be seen in the article "overhauling the Czech civil service"(Prague Post, February 3-9, 1999)

This article continues with following conclusions:

- The average monthly wage in the private sector is 13,490 crowns, compared with 11.840 crowns in the public sector. This, and the lack of a consistent system of career advancement and work evaluation, leads to "zero interest by new specialists" ;
- The legislative department is hopelessly short of people, as this work requires lawyers with five to seven years of experience ;
- There are initiatives for preparatory courses at Czech universities. These will also include psychological preparation for the service. *State workers must realize they are here for the people and not the other way round ;*
- The NVF study revealed serious shortfalls in the government bureaucracy's organizational structure. Because of the lack of defined job qualifications and rights, nobody is empowered to make key decisions except high-ranking administrators.
- There is a lack of mid-level bureaucrats to facilitate communication between local districts and the central authority. This means that about 90% of all decisions are currently made by only 6% of the ministry staff ;

- Past attempts to improve organizational structure have been *all talk and no action*. Economic problems had priority, while state administration came second or third. Part of the problem resulted from the new regime *inheriting* a *hierarchy* that was developed under communist regime; i.e. a centrally planned economy.<sup>29</sup>

I do not want to give my own opinion about the following, but one of my respondents told me that during communist times the less capable people went to civil service: “ *During communist times, everybody had to have a job, even the lazy people and people without enough skills. Most of these people ended up in civil service. They still act with lots of bureaucracy, state officers behaving in the old fashion, lots of trouble to get permissions. The state does not serve business, they want business to do what they like to see*”. (P.Senych, country chairman Shell Czech Republic)

I do not know to what extent this quote can be regarded as truth, but if this was the case it will definitely have an impact on the current changes in the Czech Republic. But even if this quote is not true, it is most likely that the less capable persons are working in state institutions. Wages in private enterprises are much higher for the right persons, so these will prefer to work in private organizations above working for the state.

Another Czech manager told me that Government seems not to be aware of their role and still has a lot to learn. He said that the Government would not be able or willing to really improve the problems of the country. I will talk later on about my meaning concerning the ability of the Government to really improve the current problems of Czech society. For now, I would like to mention some aspect connected to *willingness*: like every configuration or (group of) actors in society, the Government also has certain interests. On higher levels, the votes of society seem to be a very important interest. This prevents the Government to a certain extent from taking some tough measures that have to be taken in the next period. Like one Dutch manager of a recruitment firm in Prague mentioned, the ‘clean hands policy’<sup>30</sup>, is now considered to be only another power game of the Government. Another consequence of interests is that they very likely lead to the situation that certain actors or groups of actors are helped sooner (or better) than others. As one of my respondent told: “*Yes, it is very clear, there is no sense of urgency in their approach and it might be, you might say...let’s be more sophisticated in explanation of this delay. There **MIGHT** be a political interest in not having a very clear transparent framework. It might be **better for some local**...this might be an **intended approach**. Very often, very often...some political interest of some part of local business*” (L.Cervenka, Unilever CR,s.ro.)

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<sup>29</sup> *Overhauling the Czech civil service*, Prague Post, February 3-9, 1999

<sup>30</sup> *Clean hands: we mean it this time*, Prague Post, January 20-26, 1999,A4

Another important issue concerning government is the support and trust of the citizens towards Government. Especially during the transformation stage of the present times, it is extremely important that the citizens have faith in the politicians and be supportive of governmental actions. And this is exactly one of the problems of the present times: The support of citizens for government is decreasing. People get sick of the power games played in politics: “ *Right now, most people are disgusted with political life since it is mostly politics and not really finding or implementing solutions*” (A.Mikova, Financial Controller, Unilever CR, s.r.o.)

And this disgust of the power games is not the only reason why support for changes in society is decreasing:

*“ The people in the Czech Republic experienced the last years that they worked the same, got more money, can travel free, can buy all kinds of goods (mostly imported from the West) and now suddenly the Government wants to shut down state businesses. This probably would cause a lot of unemployment, and people will not accept this...the closing down of non-profitable businesses should have been executed right at the beginning of the process. At that time the people were eager to get to a [market economy] and were still prepared to make offers to get there. This situation has changed now, because they saw mainly the bad parts of the market economy”* (P.Senych, country chairman, Shell Czech Republic)

The non-supportive attitude of citizens towards Government and the political games played in Government are very destructive for a proper development of the Czech Republic. For a successful change of society, it is very important that there is some (non-) coordinated action. As stated above, uncoordinated action is hard to reach in Czech society at the moment. Therefore, there most likely has to be some kind of organizational initiative to establish coordinated action in the Czech Republic. Government can not fulfil this role now. But maybe some other organizational institutions can: the non-governmental organizations like the just established Impulse99.

### **6. 3.3 Legal framework**

Quite generally speaking, it can be concluded that the legal framework necessary at present is completely different from the one necessary during the communist regimes. Therefore, the whole legal framework had to be reframed after 1989. In doing so, the Czech law-enforcers had to deal with matters such as the following:

- a) Consistency of new laws with European Union laws;
- b) Old “law system” being completely irrelevant for the present situation;
- c) Rapidly changing society.

This coupled with the fact that lawyers also had to learn made the task of implementing a Western European type law system extremely difficult. Until now, a large amount of legislation has to be changed towards a more Western style one.

Probably the clearest problem of the present law system connected to the capitalist context is the fact that there are no appropriate laws concerning payments. This together with the bad debts situation of many domestic firms (the quasi-state companies) results in some real pressing and serious problem for organizations doing business in the Czech Republic. The same situation was there in the Slovak Republic till recently, but fortunately this country now has finally dealt with this. But in the Czech Republic, this basic framework for capitalism is still not there: *“I received a call from my Slovak colleague and he said that in Slovakia they adapted quite drastic measures for payment. ...So it is still not here in the Czech Republic, where it is still that habit of ‘we pretend to work and we pretend to pay’.”* (L.Cervenka, Unilever CR, s.r.o.)

Unfortunately, this is just one of the problems of current law system in the Czech Republic. Like almost everything in Czech society, the law system also had to become accustomed to another (economic) reality. This of course asks a lot from the people who have to deal with it; they also have to learn and get used to another way of handling matters. And even then, development of a proper law system will be difficult. Western society also needed time to develop their law system.

#### **6. 3.4. Role West / EU**

Some of the Czech respondents reacted about the role of the European Union. The first comment about this is the fact that the EU might not have seen clearly enough the fact that former communists got into power again after Velvet Revolution because they were so flexible and accommodated faster to the changes. They also stated that the European Union is only talking about the cognitive aspects of civil society. It discusses too little about the human aspects, like moral and personal development: *“Most important, for example, is it so important to have an act, to have a law, as opposed to having the actual functioning of the body”* (E.Oustrata, President Czech Statistical Office)

I can agree with the last statement, but do not see the role of the EU in developing the human aspects. As stated before, I think the problem of Czech society is basically the difference between reactivity and pro-activity. This can be changed by the influence of some group(s), but I think this should be other ones than

the EU. A perfect example is the current Impuls99 movement, which can play an important role in this issue in the (near) future.

### 6. 3. 5 Impuls99

Montesque made a distinction in following powers Legislative power, executive power and jurisdictional power. At present times, we also have the Media Power. In present plural societies:

- a) People are quicker, more direct and more individual to approach
- b) People are easier, but less connected
- c) Support is offered more quickly, but also decreases quickly.

Central control or power of politics is eroding, politics is becoming less and less powerful. Therefore, public interest groups and/or media get a bigger role in reaching society.

One of the public interest groups, which might have some good impact on Czech society, is the new public interest group *Impuls99* founded at the end of July 1999. This group of Czech intellectuals published an appeal to Czech society calling on politicians and the general public to address important issues and finally do something about the problems of Czech society during the first decade after the Velvet Revolution of November 1989 <sup>31</sup>. More information on this group can be found on the group's Internet site: [www.impuls99.cz](http://www.impuls99.cz). This site in Czech, English, French and German includes a list of signatories, a copy of the group's manifesto, press clippings, and more. Besides, the visitors of this site have the opportunity to sign the manifesto.

The opinions of this Impuls99 group are various:

- “What makes me feel good, or positive, is for instance that new initiative Impuls99. That is, say, the new Charta '77....” (F.Hoekman, Start Prague).
- “Impuls99 has good intentions but will not have a lasting impact ” (former Culture minister Pavel Tigrid in Czech daily *Mlada fronta Dnes*).

My own opinion about Impuls99 is that it might have a very strong impact on Czech transformation. I agree with the Dutch recruitment manager saying that Impuls99 is something like the new Charta'77. This Charta'77 was also formed by intellectuals and eventually helped or even initialized change in Czech society. I think Impuls99 can do the same, especially when they can reach Czech citizens and foreign actors. While Charta'77 did not have many means to use media, impuls99 has the opportunity to do so.

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<sup>31</sup> See enclosures, “Impulse 99, An invitation to all members of Czech Society”).

Another advantage is formed by the possibility of using the Internet, through which lots of actors (both Czechs and foreigners) can be reached. I also disagree with some actors stating that impuls99 should form a political group: in the current situation, politics is not the proper place for people who really want to reach the citizens. This opinion is supported by some quotes from my research, for example: “ *the problem is there is an enormous difference between what politicians say and what they do. To the point of this cynicism; eating up the whole political spectrum. And nobody has been doing what he was saying here, ever...it does not mean anything, it is shouting slogans which nobody believes the other side will fulfil*” (Czech civil service manager). Getting into politics would more or less equal the loss of credibility of the impuls99 group. By staying out of politics, the Impuls99 group keeps its credibility and by this has (more) chance for really reaching the public. In this way, the current “weak signal” of the impuls99 group might lead to new dominant reality.



## **Chapter 7                      Management of companies in the Czech Republic**

### **7.1        Quasi-state companies versus foreign owned companies**

In Taoism, it is believed that it can never be told whether a certain change is a positive or a negative change. I fully agree with this; in my opinion this depends on the context (like for instance the time-span taken into consideration, the different aims of different actors at certain moments, etc.). This can also be told about the so-called coupon privatization in the Czech Republic. For a more thorough explanation of this coupon privatization, the reader just has to get some book about Czech transformation at the library. For now, I would only like to mention that this coupon privatization was considered to be very successful in first years of transformation. But later on in the process, it appeared that this way of privatization was not really successful at all. Some - in my opinion quite small - reason for this was the fact that some persons only bought the companies to “tunnel” them. But the main reason why the coupon privatization was not successful is formed by the fact that most of the companies being privatized were in fact not privatized at all. Because of the Czech coupon privatization which was actually no privatization at all, most Czech companies became something in between: quasi-state companies which were owned indirectly by the state through the banks. Therefore, at this time the private companies in CZ are mainly small entrepreneurs and foreign companies (which started their businesses in CZ after 1989).

By now, it can be concluded that the foreign companies are in most cases more successful than the domestic Czech firms are. This is at least because of following reasons:

- Heritage of communism; actors grown up in communist times working in state companies
- Short expression/survival vision of the former state companies
- Bad payment policies and
- Resulting from this : Bad debts

Probably the best proof of the fact that foreign involvement is good can be seen at the Skoda factory in Mlada Boleslav. This company was an average company just after the Velvet Revolution. But soon after, the Volkswagen Company got involved. The Skoda workers got management attitudes of the West absorbed in their minds. Skoda Mlada Boleslav now produces high quality cars like the Skoda Felicia and the Skoda Octavia and is currently one of the biggest exporters in the Czech Republic. The success of Skoda is even so big that the Volkswagen Company currently is making plans to upgrade the Volkswagen brand to make room for positioning the Skoda brand on the level where Volkswagen is at the moment.

With the current situation of bad debts and bad paying mentalities without proper laws, lots of quasi state companies are running into the danger of going bankrupt. There are several ideas to prevent bankruptcy of the former state companies, one of which is the idea of minister Grégr of Industry to renationalize the former state companies. This measure will probably not be efficient enough in my opinion: A renationalization of the now quasi state companies is a measure on the cognitive level, while the solution for the problems lies more on the social level. This is because, for the success of Czech industry (or maybe better: industry in the Czech Republic), a change in mentality/culture is necessary. This mentality shift is possible, which can be seen in the foreign companies that are now already established in the Czech Republic.

One of the reasons why these foreign companies are doing better than the domestic ones is the fact that these firms often got better work environments. The simple fact that these companies start in nice new buildings or paint the old ones already make people less ignorant in some cases. Another aspect that contributes to the success is the long-term vision of foreign companies, which includes training of employees. This training contributes to more capable employees. These capabilities are improved further because of the fact that these firms make use of expatriates who are multiple included in both the Czech society and Western European society. Concerning this, there are two main approaches followed by the foreign companies:

- 1) Companies which started with top management from the Czech Republic and later on switched to help or participation from expatriates ;
- 2) Companies that first started with expatriates and currently appoint Czechs out of middle management to higher and top management positions.

When looking at these approaches, it can be seen that in each case expatriates are appointed to work in the Czech Republic for some time. These people can transfer their knowledge to their Czech colleagues. When conducting my interviews, it was very striking that not only all expatriates but also all the Czech managers working for Dutch firms agreed that this transfer of knowledge was very important and valuable. Just one of these statements: “ *change in the foreign owned companies is much more pervasive because the melting pot is much wider, much wider...truly multinational. It is the difference between looking from the inside and from the outside. State owned companies; yes, they are exposed to this. But from outside, they view it from outside, they learn from us...it is much faster in our case, the transfer of this.... Yes, it is extremely helpful. It is extremely necessary. So, really to be exposed to...* ” (L.cervenka, Unilever CR, s.r.o.).

But this transfer of knowledge is not always as easy. Although the Western European managers get multiple included by starting their work in the Czech Republic, they are raised in other contexts than the Czech inhabitants and therefore often have lots of trouble understanding the Czech situation. Some opinions of Czech managers:

- “ *Co-operation between locals and expatriates is some question of trying to find some balance. Opinions are sometimes mixed, sometimes there is, not arrogance, but rather some lack of understanding between local management and expatriates. Another problem is language*” (A.Jirousek, Supply Chain Director, PTZ,Unilever CR)
- “*Expatriates miss the link with the past of communism. They do not know the starting points and do not know the background experiences of people. In the past, Czechs were forced to improvise and limited in their freedom. Because of this lack of a link to the past, expatriates **might** make many mistakes...*” (J. Hrubes, Works Manager, PTZ,Unilever CR)
- “ *It takes long to pass Western Management techniques on to the people in quasi state companies. In such a company with 10 to 15 thousand people it takes long before something from the top reaches the work floor through middle and lower management*” (R. van Oijen, Vice-Chairman of the Board, Nationale Nederlanden, Prague).

Another reasons for the success of foreign companies in CZ is simply because of the heritage of communism: while the present state companies often have to deal with the least capable persons (like for example the former nomenclature), this is not the case for the foreign companies. The last simply select the most capable persons, which often means that persons above a certain age (about 35 or 40 years) or certain questionable background are not employed. Or, in the words of a Dutch manager of a recruitment agency in Prague: “ *It was mainly about mentality. So these companies mainly looked at very young people with no or barely any experience because these people were still easy to form. And it is true that these people did not have that much experience, but this did in fact not matter that much. Because this experience they had within communist oriented companies, this is not valuable [experience]*” (F.Hoekman, Start Prague)

By the way, both my own experiences and the experiences of other expatriates who are working in Prague now prove that young Czechs and Czechs who have worked abroad are doing quite well in the present context. Some of the quotes of Dutch managers in Prague:

- “ *I am always very charmed by Czechs who have worked in the Netherlands for a while and Dutch people working in the Czech Republic for a while. Many problems are caused because of the fact that older managers (aged > 35) never got the ability to see Western ways of organizing...this can be explained by the idea of Plato's cave : The young people now DO get the opportunity to look outside of the cave ( graduating abroad, getting information from the Internet)...I see a big difference between young managers and managers above, let's say, 32 years of age*” (M. Edixshoven, Marketing Manager, Nationale Nederlanden, Prague)

- *The next generation consists of very quick learners. Besides, most of the young people speak English (or another foreign language). The better students have studied abroad for at least half a year. Children are growing up with Internet and the like and see more from the world. This is a potentially good group* (R. van Oijen, Vice-Chairman of the Board, Nationale Nederlanden, Prague).

Another important feature Czech people should have after 1989 was knowledge about foreign languages: *“ in the beginning of the 90’s, it was a big “treasure” to have knowledge of foreign languages. In these days people who had knowledge of foreign languages and were interested in being successful had the best job chances. Other experiences were not that important at that time, mainly because of the fact that past experiences were not useful anymore”* (A.Mikova, Financial Controller, Unilever CR, s.ro.)

Although there was a considerable amount of effort to keep domestic firms in Czech ownership during the first years of transformation, it now appears that this is just not reachable. To transfer Western European managerial styles, it will be necessary to at least introduce some expatriates or young Czechs with foreign experience into the Czech firms. Some of the current opinions concerning foreign involvement are:

- *“...Have to get Western owned. This sort of companies are not used to compete, they have to learn to “play soccer”, but there is simply no time for doing so. Therefore it is necessary for a better and more optimal knowledge transfer that Western companies get involved to transfer their knowledge and experiences...Foreign top management is extremely suited to create the right circumstances for good management”* (M.den Haan, Dutch chamber of Commerce, Prague)
- *“ I think that in CZ, the impact of foreign involvement is underestimated. By this, I mean the know-how, ethics and learning experiences which can be brought over by foreign companies...I think most quasi-structured companies are now in trouble because of management”* (A.Jirousek, Supply Chain Director, PTZ,Unilever CR)
- *“There should be more foreign investment for the inflow of management and investment. Cooperation with strong foreign companies is necessary for access to foreign markets”* (P.Senych, Country Chairman, Shell Czech Republic)
- *“ But they had no idea what business was, nobody here has any idea what business is...That is the problem, you see, lack of management and capital”* (E.Outrata, President Czech Statistical Office)

This success of foreign companies also has an impact on the preferences of young academics for leaving Czech Universities. These academics in most cases simply do not want to work for the state (pays too little) or the quasi-state companies (still too much ruled in the old ways). They prefer to be employed either abroad or in foreign companies in the Czech Republic: *“ ...it are mainly international companies which are in the top 10 of companies where they want to get employed”* ( F.Hoekman, Start Prague)

So also “natural selection” leads to the fact that the less capable persons are leading in current quasi state companies. They are leading by default, due to a simple lack of competition.

## **7.2 Problems of present contemporary state firms**

One of the major problems of the present situation in the Czech Republic is formed by the fact that there is often no demand for the products of quasi-state companies. These old companies produced goods during communist times. Most of these goods were sold in the Russian markets. These disappeared after the Velvet Revolution. But also exports towards the West collapsed after communism: goods were never exported by the state companies, but always through the FTO's. These FTO's were the only companies with foreign partners. After '89, however, the self-confidence of companies was so high that they stopped delivering to the FTO's. But then they discovered it was often impossible to export without the FTO's that had foreign contacts, language knowledge and a trademark. At present, foreign trade companies have disappeared mostly. Some still exist, but their role is very different now.

It has already been mentioned in this paper that the organizational processes within former state companies are not as good as in other organizational processes in the Czech Republic. This of course has to change, but it will of course be useless in case the produced goods can not be sold anyway or when the company is not paid. In this case, all the human efforts are useless. Despite of the low demands for products of quasi state companies at present, there are still plenty of employees working there who do not work but are still getting their wage. To survive, these mostly big companies (whose contribution to GDP is still very high) have to either close or find a foreign partner.

## **7.3 Barriers for Dutch firms**

A lot of Western European companies started business in the Czech Republic after the Velvet Revolution. Although the organizational processes in these companies are often much better than in the quasi-state companies, the foreign companies still face some major barriers for doing business. A person from the Dutch chamber of Commerce in Prague told me that some barriers for Dutch companies are the following:

- Bureaucracy of Governmental institutions : Often lots of stamps and papers are needed for arranging something
- Restrictive law system for foreign investors
- Own interpretation competence of lower level governmental officials
- Lack of cash-flow of Czech companies
- Jurisdictional structure for credit non-transparent

Some of these points might be explained by considering which issues are NOT discussed and can not be found somewhere in literature. One of these non-issues *might* be the fact that governmental institutions are deliberately forming barriers for foreign investors to protect the domestic entrepreneurs. Concerning first of above-mentioned point (the bureaucracy), it can be mentioned that quasi-state companies probably do not have these problems because of the social links from the present times. Or, in the words of a Dutch manager: “ *There is a lot...not corruption, but nepotism. There is a lot of nepotism here...* (F.Hoekman, Start Prague). About the lack of cash flow of Czech companies, I can mention that most foreign firms have more opportunities to circumvent this problem than the Czech firms do. The foreign firms mostly still have some opportunity to sell their products in other countries, a possibility that is mostly not available for the domestic firms.

#### 7.4 Czech management

A Dutch manager of a Dutch insurance company in Prague perceives Czech managers and Czech managing in this way:

- Czech management is very inefficient;
- People look only to their own department and not (enough) outside this;
- Work and private matters are strictly separated by the Czechs;
- Private matters are more important for the Czech citizens;
- Czechs seem to be or are not career oriented;
- Employees and managers often stick to their task descriptions, are not customer oriented and are not sufficiently service minded.

Following my own experiences and the information gathered during my research, I can fully agree with almost all of the above mentioned points. What I question is the fact of whether Czechs are career oriented or not. In my opinion, lots of Czechs *are* career oriented, which is shown by the fact that lots of young people study a lot, (and by this) learn some foreign language and / or go abroad for some time. But I guess the Dutch manager meant to say that it *appears* Czechs are not career oriented because they do not take that much initiative. But this can, as mentioned before, explained by means of the communist era and social arguments. These habits are often very difficult to change; they are more or less incorporated in people's minds. Or, in the words of a Czech professor at a Dutch University: “*everybody above the age of about 35 years is programmed, even I am...*” ( Prof. Renner, University of Groningen)

Quite generally, the following can be told about Czech management. First of all, there are mostly lots of discussions between lower levels, but not with the higher levels. There is a lack of communication, generally, across the border, people do not talk to each other. Also trade unions are too passive and do not take enough initiatives. This might be explained by the fact that some workers are still too worried to speak up. One Dutch manager gave an example of this when he talked about some business unit manager who was very communicative. This manager went to an international meeting with him. At the meeting, this same business manager was very reserved and did not say a single word. The explanation from a Czech HRM-manager: “ *That’s how we were raised, it was better to get absorbed by the Grey masses. If you do not say anything, you can not do anything wrong*”. Or, in the words of the Dutch manager: “The fear of doing something wrong is bigger than the enthusiasm of doing something well. (H.Toch, Marketing Director, Balirny Douwe Egberts, Prague).

Formality is another ‘flower of Catherine’ that survived the communist past. As mentioned before, everything was organized very hierarchical during communist times. This hierarchical aspect is still incorporated in Czech managerial style: “*Other features of Czech management is that people are still extremely formal to each other and that it is often considered to be suspicious to show initiative in a job. Only the head of the company is supposed to show initiative*” (A.Mikova, Financial Controller, Unilever CR, s.r.o.)

Another aspect of Czech management is the fact that people like to receive orders from above and simply want to complete these orders. They are very good at completing the orders they get but take very little personal initiative and are not used to thinking on their own during their work. During communist times, it was quite normal to do only the work you had to do; no more and no less. Management simply did not appreciate it if people did more. So when people had to do 100 tasks, they often simply did only those tasks. A Dutch manager of a recruitment firm in Prague:

- “ *You have to do 100 tasks. And when you completed those 100 tasks, the work was finished. Because the boss told you to do those 100 tasks so you do those 100 tasks*” (F.Hoekman, Start Prague)
- “*He will not say: ‘Well listen, I came tot the conclusion that we do not need blue ones but red ones’. But he just says something like ‘well, the demand for blue ones is not as big as we expected...Here they would say: We follow the official line of thought developed by management, and we say Ok, and at the end they say : Yes , now you see, it does not work here. Because I could have told you, because it does not work here that way*” (F.Hoekman, Start Prague)

When talking about communication, it can be concluded that this aspect of Czech management is also still influenced a great deal by the former hierarchical past. People have a tendency to try to win the argument for the solution. Further more, they are not used to solve problems. And when they are, they will mostly not be able to solve these problems in the most efficient ways:

*“Now, they have the truth and try to persuade everybody else that their truth is the right one...at least one of the things that has come around the table is the truth, it will show itself through debate and everybody will accept it either by agreement or by force. The idea that neither is the right thing, something better will come out when we understand each other's point of view does not appear. And so our people grew up being very flexible, they can adapt to all situations, but they have very big problems running the debate on different ideas about how to do something and coming out with something that is better than everything that came in. At present, the problem is that we do not create the systems over which to improvise. And so improvise always from the base. And the result is therefore much less efficient than if there was a good working system. Now, the moment we learn to build the system, we have to import management and capital, we learn it quite quickly afterwards, no problem with that”* (E.Outrata, President Czech Statistical Office)

A lot of expatriates I talked to were complaining about the communication with Czech workers. They told me that it is quite difficult to really talk about an issue and discuss something. Like one Dutch manager told me: *“ Asking people for their opinion is new. Really getting into discussion about an issue is even newer and more unusual. And if you are that far that people give their opinion, can discuss and agree , something has to be executed. This often goes as follows: “If you agreed to put the pencil here, they still put it there...I see this as destructive for organizational processes: it is some loss of time and causes lots of negative energy. If people have some different opinion I would rather hear this beforehand instead of afterwards”* (H.Toch, Marketing Director, Balimny Douwe Egberts, Prague)

About the work mentality, it can be said that people often seem to be only interested in doing their own work and do not help each other to succeed. Further more, there is a tendency toward “problem optimization” instead of “problem solving”. By this, I mean the general tendency of Czech workers to not solve problems but deal with them in such a way that the Czech worker having the problem does not have to deal with it; sort of short-term solutions. I know from my own experiences that if Czechs have a problem, they want to try to move the problem towards colleagues on (what they consider to be) lower levels in the hierarchy. Another Dutch manager I interviewed also noticed this. He seemed to feel quite ashamed having to say the following happened at his company: *One production manager made some wrong production planning. Because of this, it would be difficult to produce the desired quantities. The reaction of this production manager was very simple: he simply just cancelled all the free hours of his employees to increase production. This meant that nobody could leave the company for some days and everyone had to help with production. Meanwhile, the same production manager went on holidays...*

In my opinion , this tendency of hierarchical thinking and passing on problems is probably quite common in Czech management. I have heard and experienced more situations in which this was the case and in which employees who were (*perceived to be*) lower level had to deal with problems caused by (people who *thought themselves to be*) higher level.



This tendency can be considered as being very destructive for the development of the organization. Problems are not solved in most optimal ways. Besides, the attitude of workers towards each other led to a bad work environment of not being co-operative.

### **7.5 Management quasi-state organizations**

Concerning management, it can be said that there is quite a huge difference between the roles of managers in foreign Western European companies and the ones in the current quasi-state companies. In the quasi-state companies, the general manager is more like a plant manager; a plant manager of a very centralized company. In international firms, he should act like a professional manager in the western sense.

It is commonly known that there are often too many people working in state companies still. Of course, there are multiple reasons why this is the case at the moment. One of these reasons is the social part; often managers do not want to fire workers who will not be able to find another job in the current work environment. I first thought that this is the most important reason for the current surplus of workers in the quasi state companies. But two of my respondents gave another interesting perspective on this matter, which is perfectly made clear in this statement: *“When people are hired in state firms, management does not care about these people any further because of the fact that nobody tells management in state companies to fire. Therefore management just keeps the people working (although they are not needed anymore)”* (Doc.Ing.Petr Doucek, CSc. , VSE)

There are lots of opinions about the problems of current quasi-state companies. Of course, there are multiple reasons for this. One of the most important reasons is considered to be the management. This management in quasi-state companies often acts for their own private purpose. There is a lack of supervision. In the words of a Dutch official in Prague: *“The biggest problem lay in the fact that there were no real owners, so top management and other employees could do whatever they wanted to do...”* ( M.den Haan, Dutch Chamber of Commerce, Prague)

As stated in the former chapters of this paper, I consider it to be very important that workers within the quasi state companies learn how to organize from the organizational environment. In order to reach this, foreign managers and domestic specialists have to get some chance to transfer their knowledge and capabilities. But this has until now been very problematic; the top managers of current quasi-state companies seldom give foreign and domestic specialists the chance to improve the organizational processes of these companies. This occurs because the management of quasi-state companies still want to

go on their own. Furthermore, this management is often afraid of change because they might lose their job after the changes.

## 7.6 Flexibility of workers

In order to optimize organizational processes, it is important to maintain and improve flexibility. Also here, much can be improved. Czechs were not very flexible during the first decade after communism. The following issues can help to explain this:

- 1) During communist times, all housing was owned by the state. During present times, this is still the case most often. Private housing often costs a lot more than state housing. Besides, the low numbers of available /free state flats can usually only be hired by the elite of society; the former top communists. Therefore, it is very hard for Czech inhabitants to move.
- 2) In first years of transformation, there was a scarcity on the labor market, there was a huge “buyer market” for employees.

This last situation is changing now; especially in the cities unemployment is rising considerably lately.

Current unemployment is the highest of in the last 5 years, which can be seen in following diagram:

<i>The growth of unemployment; April rates of unemployment – OFFICIAL rates...</i>				
1995	1996	1997	1998	1999
2.9%	2.8%	3.8%	5.4%	8.2%

This is very good for the flexibility of Czech people, because now employers are more willing to move. But unemployment is still not that high at the moment. It should be taken into regard that the above mentioned figures are official rates. So also the people who are officially unemployed but find work in the shadow or black market economies are incorporated in this figure. A successful job search depends largely on geography : The country’s 7 percent unemployment rate of November 1998 encompasses both the brisk job market of Prague at 2,3 % unemployment, Karlovy Vary at 6.5 percent and the troubled north Bohemian district of Most at 15.3 percent. Unemployment was the highest ranking in the district of Most, followed by the unemployment rate of the neighboring district of Chomutov (14 %). The unemployed are mainly unqualified workers : “ Of the people that we register as being without work, the highest number – when we talk about professions- are actually people without profession at all, in other words, unqualified workers such as cleaners for hotels, hospitals and offices, followed by former shop assistants and masons” (Josef Kott, analyst of the labor office in Most).

Besides the two issues mentioned above, there is at least one other reason that might explain the low flexibility of present times. This concerns the “social aspect”. One interviewee stated: “ *I think a very important part is the flexibility and movability of people. Czechs have a very strong habit to stick to their roots of birth, their town...even when people are losing, they tend to prefer state subsidy/support for unemployment...*” (P.Senych, Country Chairman, Shell Czech Republic). So the Czechs are just not used to leaving their town in order to get a job. This is also a result of communist era: in that period, it was simply not necessary to leave the town of birth. You would get a job anyway...

For a more optimal development of the Czech Republic, it is good when there are some possibilities for the so-called “flex-work”. This means that people work at a certain company for a certain time period, mostly employed through another organization; the flexible work agency. These agencies and the expression “flex-work” are already common currency in the Western European and American societies for decades now, but it is very new for the ex-communist societies. Often the laws for applying flexible work are not developed (enough) in the Middle European societies. This is also the case in the Czech Republic. The laws concerning temporary work are still very restricted here, although some flexible work agencies found a way around the regulations. Like one manager of a Dutch flexible work agency in Prague told me: “*at this moment, [we make use of] a gap in the legal system which does not impose restrictions for the test period of a contract*” (F.Hoekman, Start Czech Republic). This trick of the flexible work agency is good; by means of this the organizational processes in the Czech Republic can take place in more optimal ways. But it is a great pity that they can not do their job without making use of a gap in the legal system. It will be far better for the people employed through the flexible work agencies when there were established laws for conducting this kind of work. The flex workers have to get some protection by means of the legal system, which makes sure that no parties can take advantage of them/ misuse them.

## **7.7 Second economy**

Together with the changes in the Czech Republic after 1989, a new phenomenon appeared; the second economy. This second economy is most likely rather high in the Czech Republic. One of my respondents mentioned 3 categories that could be considered to exist in second economy:

- 1) Fraudulent taxes (recording less than business is)
- 2) Having business which does legal things but is not properly registered
- 3) Crime

Another way to divide the second economy is to divide it in the ‘black’ and the ‘shadow’ economies. Vladimir Benáček, member of the CERGE group of economists: “ *Activities of the black economy include violent crime, drug-dealing, theft, extortion, smuggling, and some forms of prostitution and are explicitly prosecuted by law. The shadow economy has to do with the remaining, seemingly “normal” economic activities concealed from official statistical recording. They vary from tax frauds to do-it-yourself-activities*”<sup>32</sup>

Benáček continues by mentioning some evidence for the basis on which some rough estimate of the size of Czech and Slovak shadow and black economies can be estimated. When reading these phenomena, it becomes clear that the second and black economies in the CZ have to be rather high. This leads to the conclusion that actual production must have been significantly more than officially reported. According to Benáček, at least 18 per cent, but potentially up to 35 (!!!) per cent of the labor force in the Czech Republic may be engaged in the shadow or black economy (regularly or temporarily). This could also mean that the alleged dramatic decline in the standard of living (since the Velvet Revolution) might *not* be reality. Vladimir also gives some evidence to support this, since they are inconsistent with dramatic declines in disposable income.

When talking about the black and shadow economies, I would like to mention the fact that Czech citizens taking part in these are most likely working in the shadow economies. As I see it, it is, for the most part, foreigners who lead the black economy. I have heard enough stories of foreign mobs doing their businesses outside of the center of Prague, robberies in trams and at the homes of expatriates and the like. Czechs are more in shadow economies, which is quite ‘normal’ when considering their backgrounds. As I already mentioned, it was often constructive or the only way to arrange something off the record during communist times. This ‘habit’ was supported because of the bad legal systems during the first years after the Velvet Revolution. Because of the lack of appropriate laws, many Czechs made use of the gaps in laws. This was mostly just on the border; between the legal and the criminal. One of the ways was the so-called tunneling: buying a company from the state, transferring the money to another place and letting the company go bankrupt. This tunneling was very prevalent, but only during the first years of transformation when the possibility to do so was there a lot and the legal framework for preventing it was not yet established. My respondents gave the following opinions about the tunneling:

- “...But I can understand the tunneling: if people are using the laws according to an existing standard without conducting illegal practices, why not? (A.Jirousek, Supply Chain Director, PTZ, Unilever CR)
- “ The basic problem around tunneling is that you virtually had to tunnel if you wanted to stay in business...the system was designed to tunnel...” (E.Outrata, President Czech Statistical Office)

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<sup>32</sup> Grabher and Stark, *Restructuring Networks in Post-Socialism*, Oxford University Press, 1997, page 211

Further more, one of my respondents gave some further insight about the tunneling issue concerning the former minister of finance Svoboda, who was accused of tunneling at the beginning of 1999. Everyone condemned this person for doing so. But one non-issue concerning this condemnation was the real context in which this tunneling took place. As one of my respondents stated, there was never any intention of the former minister of finance to really tunnel. He and his wife just bought some company from other people for a certain price and discovered later on that the company was worth much less than they thought in the first place. The only way to save some money and not get into huge debts was to strip the company. I do not know whether this is the real story, but it should be clear that there are of course a lot of different contexts under which the tunneling took place. It is just not appropriate to say: “tunneling is *always* planned beforehand and the persons tunneling are always bad”...

Anyway, as one of my respondents said, the tunneling is an aspect of the past. It’s better to look at the future now; hopefully, this future will be more favorable than the past decade. It’s up to the Czech citizens now...

## **Chapter 8**                      ***Reflection on the Czech case***

### **8.1 Introduction**

When reading the former chapters of this paper, a number of conclusions can be drawn. This concerns not only conclusions about the content but also about the context. One issue not discussed in these chapters is the fact of how I became interested in this subject. It might be interesting for the reader to know that I had two alternatives that interested me: the introduction and optimization of ERP-computer programs (like for instance SAP) in large organizations or the change process in the Czech Republic. I chose the latter because of my huge interest in the Czech case, but I think both subjects are very similar when looking at the processes that take place underneath the surface. Both subjects deal with change processes, both involve organizational learning and in both cases the cognitive part is neglected far too much. And in both cases, this neglecting of the human part causes some major problems. Therefore, the principle themes of both “stories” would be about the same. I tell this because I think it is more important to know the processes that are under discussion than to look only at the applications for the Czech case. Knowing the underlying aspects gives some further understanding of organizational processes in general. All the important organizational principles can be found in the organization processes I have been studying in the Czech Republic.

Another quite important part of the context is formed by my own presumptions. Although I certainly do not belong to those people having a “monkey-attitude” towards Czech society (in fact, this example is of course a little bit “overdone”), I do believe that the communist past has some influence on the current situation in the Czech Republic. It simply has to be. But the question is to what extent? And do I interpret this in right ways? As I already stated, you also have lots of dysfunctional behavior in Western European organizational processes. Some attitudes mentioned in former chapters are also there in Western Europe. It is always difficult to interpret organizational processes in the correct way. Or, to say it in Jonker’s words (chapter 2.1): if someone wants to see something happen, it might happen like some self-fulfilling prophecy. Therefore, the reader should be very careful when interpreting the social content of the chapters 3 to 6 of this paper, although I am pretty sure I made a very good overview of the organizational processes as they took place in the Czech Republic in last few years. And I am very sure that a lot of people can learn a lot and get a deeper understanding about the current situation in the Czech Republic when reading some of my thoughts and my interviewees’ interpretations about organizational processes.

In previous chapters, I gave many examples of factors in Czech ways of organizing that are destructive for the transformation process. Many of these forms of destructive behavior are of course also present in Western European society. What counts is the fact that in a competitive environment, the fittest organizational processes will survive. After having some deeper understanding about the current situation in Czech society and having an overview of the bottlenecks, it will be easier to intervene in this process. I will give some ideas here about possible ways of changing the process, but will not really work out the best ways to intervene. I simply do not have the knowledge and capabilities at the moment for doing so. Besides, the ways to intervene depend to a large extent on the wished for changes in the Czech Republic. I will give some possibilities for change to make this clear. For doing so, the degrees of change like mentioned in chapter 3.2 will be used. After this, I will discuss the bottlenecks for constructive change processes in the Czech Republic.

## **8.2 Degrees of Change: The Czech case**

As mentioned in chapter 3.2, change processes can be regarded as involving changes of 1<sup>st</sup>, 2<sup>nd</sup> and/ or N<sup>th</sup>-degree. It makes a major difference whether people want to establish a change of 1<sup>st</sup>, 2<sup>nd</sup> or N<sup>th</sup>-degree given a certain context. Therefore, it is good when people know beforehand which path they want to choose. Grabher and Stark also mention this when talking about path dependency: the possibilities for further actions and “final” results depend fully on past and present actions. I concluded in chapter 4 that Grabher and Stark would probably have made an even better analysis in their book if they had incorporated the concepts of degrees of change in their book. I made this conclusion because of the fact that I see the networks as actors or configurations and the cognitive and/or social links between them. Path dependent change processes are established through the organizational processes between them.

It is very useful when there is some agreement between (groups of) actors in a society about where to go. Therefore, it would be good if different stakeholders in Czech society could reduce equivocalities about where to go. In my opinion, it is always good to reduce equivocalities about where to go, especially if resources are scarce. In this way, resources can be used as efficiently as possible. Especially in new organizational processes, it is good to have communication about this: in these contexts, people do not know what their tasks in the total process will be. When communicating this in better ways, both before and during the process, people will know what their role and duties will be.

As already mentioned, Czech citizens do not have much trust in the government at the present time. Furthermore, it can be seen that although the Government established some legal system during the first years after communism the Czech society did not react accordingly. This situation leads to the conclusion that maybe the context should be broadened or shifted towards other aspects of society. This could be done by thinking about the possible “thirds”: which “who’s” and “what’s” are **not** taking part in the process or are even not there yet, but could play some major role in the process. Concerning the changes in the Czech Republic, there is some configuration that first was not there and (therefore) did not take part but which can play some important role in future. This is (as I said) the Impuls99 group. Other examples are yet to be established or organized public interest groups or NGO’s, both within the Czech Republic as in the rest of the world.

I already mentioned something about the decreasing role of Government in society. Although I think this is correct, I think there can be made some division in the roles Government should and should not fulfill in the present. As I see it, the Czech government is **not** responsible for changing the society, but only for supporting the society as much as possible in the change process. This means that the Government should do their utmost to make sure organizational processes can take place as optimally as possible given a certain (business) environment: for example, the Klaus government in first years of transition: I think the restitution of property and coupon privatization were basically good. The only problem and (in my opinion) big mistake of the Klaus Government was that they started the privatization before establishing the proper legal system. Another problem was that they did not only support but rather took part in organizational processes with other organizations. This led to the destructive interdependent links between banks, NPF, Investment funds and companies. And of course there was the “laissez-faire” approach of Vaclav Klaus, which was very destructive for the outcome of the change process.

When this role of the Government is taken into regard and the focus is shifted or broadened towards the who’s and what’s that are **not** considered or do **not** play any major role (yet?) in the change process, this can result in conducting some other degree of change.

Example: until now, the Czech Government is considered by many people to be the major actor for changing the structure of Czech society. This can be seen by the fact that many people blame the Government that **they** did not succeed. This can at least partly be explained by the passive role citizens played during communist times. But this view is not fair and is even blocking a constructive development of the present society. As one of my respondents already stated, Czech citizens are now responsible for their own lives. It is not enough to arrange a job while still continuing the old ways of doing business.



This practice (mainly in current quasi state companies and governmental institutions) can be named as people gaming but not able or willing to play. Instead of this, actors should bring the “third” what or who in their organizational processes. These “who’s” might be for instance the expatriates or Czechs with Western experiences to transfer the “what” of Western organizational practices. Or, to the extent that capabilities are there, it might be sufficient to only bring in “another attitude in conducting organizational processes” (the “what ”). On a higher level, this might imply that other “who’s” (like for instance newly established international NGO’s) or “what’s” (the Internet) are going to play a major role in the transformation process in the Czech Republic. Discussions between several actors in the change process will both make the “where to go” more clear and optimize the organizational processes from and between these actors.

In this perspective, the “mistakes” of the Klaus government are not to be blamed to such a large extent on the government. A citizen should think like this: **they** did not fail, but **I** failed. And there should either be some actions from the citizens or institutions to make this action happen. Since the first did not take place in the Czech Republic yet (in spite of the intention from Vaclav Havel to make it happen...), there are now finally forming some configurations to do so (like the Impuls99 Group). So probably the narrow definition of former times was not enough: for changing the Czech society, this context should be broadened and “thirds” have to get involved in the process. And in this case, some loose coupling of configurations between Impuls99 and the government are not good yet: if involved in governmental matters, the Impuls99 group will loose its credibility. But later on in the process, it is very likely that there will be more and more discussion between government and institutions like Impuls99.

As I have stated, for now it is important that the Czech actors get more pro-active and really begin to take responsibility for their own lives. Not only by arranging their own jobs (like they do now) but also by organizing in the most optimal ways. Before this will be possible and wanted by different actors in society, a lot of current bottlenecks have to be removed. In the next subchapter, these bottlenecks will be mentioned. Finally, I will end this paper by giving my conclusions. In these conclusions I will mention the ways to reach better ways of organizing in the Czech Republic. Furthermore, the research questions (chapter 1) and sub-questions will be answered as far as they have not yet been answered.

### 8.3 Bottlenecks for a constructive transformation process

The expression “bottleneck” is a quite interesting phenomenon in organizational processes. It is an excellent example of what I have previously stated, about the use of a better understanding of the processes underneath the surface. I already mentioned this by stating that the bottleneck-theory used in logistics or operations management is in fact just a theoretical way of saying, “a chain is as good as its weakest link”. Goldratt calls this link “pathfinder” in his best seller “the goal”.

Quite generally speaking, it can be said that the bottleneck or weakest link is the aspect of organizing that determines the performance of the total system. The following remarks can be made about bottlenecks:

- (some aspect of) the bottleneck eventually determines the performance of the total system
- A bottleneck has to be used or developed as much as possible
- Improvements of certain aspects of the bottleneck lead to improvement of the total organizational process

One, for me most interesting, feature of bottlenecks is the fact that the bottleneck really determines the performance of the total system. An example: a company can have very capable workers who work very hard and deliver perfect products with excellent customer service. But when the same company does not make a profit on the orders or is not paid for its deliveries (*for instance because of the lack of laws concerning payment*), all the work of the employees will be for nothing or even cause the company greater difficulty. In this example, the lack of laws or the fact that the company processes orders with losses can be considered to be the weakest link in the total process.

It has already been stated in chapter 2 of this paper that I consider a “fit” economy as being an open economy in which different actors within this economy are supported as much as possible in acting in constructive ways. Further more, it was stated that the context of this paper is the notice that for a more optimal change process it will be necessary to improve the ways of organizing in the Czech Republic. This is also the context for conducting some reflection about the changes in the Czech Republic by means of bottlenecks and weak links.

Concerning these bottlenecks, it can be mentioned that the bottlenecks also take place on several levels. Both on content and context, connected with the “who’s” and “what’s” that are discussed and the ones that are not discussed. It will be impossible for me to mention all the bottlenecks. Therefore, I will only mention some of them.

On a higher level, it can be stated that one major bottleneck is formed by the, what Grabher and Stark call, trade off between allocative and dynamic efficiency. Quasi state businesses still do not promote innovation enough. Examples of other bottlenecks are:

- The lack of appropriate laws concerning payments
- Current quasi state companies are still very large.
- The very tightly coupled networks of quasi state businesses with the state through the banks.
- There are very strong internal links in current quasi state organizations
- The mechanisms of career building are still much the same as in former times. This prevents the real managers from starting their good work there. This situation will probably not change as long as the governmental links with quasi-state companies exist and the former nomenklatura are the major managers in these organizations

Concerning bottlenecks in organizational processes, the following ones might be interesting:

- The hierarchical ways of thinking / “one best way of organizing” approach of Czech employees.
- Knowledge is still not adequately applied. This occurs because people are still not used to plural ways of organizing.
- Pretending is reality: We pretend to work and they pretend to pay.
- The on-ability of Czechs to really play
- The problem optimization attitude
- The theft within companies (which was not considered to be theft in the communist era!)

Also some attitudes imply some bottlenecks: the attitude of state officials, like the lack of good customer service towards the public or the attitude of the citizens towards Government. Or the fact that the ‘fear of doing something wrong is bigger than the enthusiasm of doing something well’, the feeling of hierarchy that is still there a lot. And of course the fact that real discussion is difficult.

After reading about the above-mentioned bottlenecks, it will be clear that a lot of improvements are possible in Czech society. This will also be shown in the next subchapter with conclusions and recommendations.

## **Chapter 9**                      ***Conclusions and recommendations***

### **9.1**      **Conclusions**

I started this thesis with the problem definition and accompanying main questions. Most of the main questions have been answered, except question 5 about desired improvements or changes in the change process in the Czech Republic. This question will be answered here. The former subchapters (about degrees of change and bottlenecks) and the sub-questions at the beginning of this paper will serve as backgrounds for doing so.

When looking at the sub-questions, it will get clear that these also have been answered in former chapters of this paper. In my opinion, a de-reification methodology indeed offers a better way of looking at the transformation process. It at least served me to get some better understanding of current situation in the Czech Republic. Some aspects of actors- and network approaches have been discussed in chapter 3 and 4. This helped me a lot for getting ideas for improvement in the Czech Republic. But only the actors involved in the process can realize real improvement. As stated before, they can use the degrees of change for doing so. Furthermore, it is very important to pay much more attention to the social aspects and the link between the cognitive and the social. Sub-questions 4 through 5 are answered through former chapters and this last chapter. This is done by mentioning the Klaus Government, Government in general, Impuls99 and other initiatives, which can be considered to be the “who’s” and “what’s” that are mentioned and the “who’s” and “what’s” that are **not** taken into consideration. The importance of these actors and role that has (not) been played by these actors has been discussed. The last sub-question is, in my opinion, also answered: I am convinced the Czech reformers paid too much attention to the cognitive aspects of transformation and far too little to the social aspects.

When reading chapter 4 through 6 and former chapter about degrees of change and bottlenecks, conclusions can be drawn. These are the conclusions about the communist era, Velvet Revolution, the Klaus government, etc. The first conclusion to be drawn is a very general one about the perception of Czech organizational processes by Western European citizens: the capabilities and knowledge of Czech people are, in my opinion, still far too much underestimated. Less optimal ways of organizing in Czech organizational processes are in most cases not that much owed to the human aspects of organizing, but more because of differences in context. When placed in the right context and given the opportunity to learn, Czechs can organize as optimal as Western European citizens.

About the communist era, the following conclusions can be made: Only a small part of society was in a position of ruling during communist times. The Czech society during the communist era can be divided. One way of doing so is offered by Vladimir Benacek. He divides the society into nomenklatura, operators and the so-called “outsiders”. This last group consists of professional workers of technical orientation and low-ranking managers whose ‘higher’ position in socialism was generally not associated with privileges. Few outsiders went into business.

In 1989, there were many revolutions in the former communist countries. This was also the fact in the Czech Republic, where the revolution was soon called the “Velvet Revolution”. About this Velvet Revolution, the following can be concluded:

- The revolutions lasted quite long in most Middle European countries. This was not the case in the Czech Republic: here, “something” happened in about 2 weeks time”. In the words of a Czech manager: “ The Velvet Revolution went very fast in the Czech Republic. It started on 17 November...After 17 till 24 November, when “normal” life started again...”
- “The labor union solidarnosc in Poland had 10 million members, we had ten million ears” (Vaclav Havel)
- “Nobody knew what we wanted after communism” (Jan Urban in “De Gelderlander”)
- The Czechs were not so compelled to change. They had the feeling that they were doing well.
- There were a lot of excessive expectations about the Czech way to the future

After communism, the society had to change. The first government after Velvet Revolution was the well-known Klaus government. The following conclusions can be drawn about the Klaus government:

- Klaus was mainly interested in economics and not enough in the social parts of restructuring society
- The laissez-faire policy of Klaus is probably the worst policy to follow with Czech citizens

The Klaus government had no real competitors during first years of transformation. This might have lead to a lack of better alternatives for transforming the economy

I concluded that the Klaus government was not solely responsible for changing the society. This change also has to be initiated from the society; the cognitive has an impact on the social and vice versa. But unfortunately, the cognitive changes in society were not accompanied by the needed social changes. This caused lots of cognitive measures to be unsuccessful; the weakest link determining the situation in the Czech Republic was formed by the social part, the practices of communist era.

A lot of changes took place on several levels of society during the last decade after the Velvet Revolution. This thesis discusses some of these changes for the transformation in general and also for the organizational processes in the Czech Republic. When reading former chapters of this thesis, the following conclusions can be made in general as regard to the transformation:

- Lots of former managerial practices continued to exist after the Velvet Revolution. This concerns the bottlenecks mentioned in chapter 7.3
- The most capable persons generally prefer to work for foreign companies. This results in the less capable persons working for quasi state companies and state institutions.
- Former nomenklatura went to former state businesses. Since the ways of organizing play major role in transformation process, the role of former nomenklatura is still too much. These people are again in most important positions of society.
- There was some tunneling in first years after the Velvet Revolution. This tunneling was probably not as much as has been assumed by lots of actors. But it had some impact of Czech society; maybe the most because of the fact that it prevented the Czech citizens to look to real problematique. Complaining about the tunneling or (currently) about government gives the Czechs some excuses to take their own responsibilities.
- Export to the West collapsed in first years after the Velvet Revolution. This because of the “arrogance” of former state companies. These companies stopped deliveries to the FTO’s. But then these companies discovered that exports were impossible without the FTO’s foreign contacts, language knowledge and trademark. But then it was too late...

There should be more flexibility in the Czech Republic. Not only social flexibility (people willing to leave their place of birth) but also cognitive (appropriate laws for flex-work). Currently, flexibility is low. The subsidies on state flats and the huge buyer’s market have caused this. There are still too many workers in lots of quasi state companies. These workers in former quasi-state companies are kept because of:

- Social considerations
- Nobody tells the management to fire the workers

The Central power of politics is eroding in the Czech Republic. Therefore, some other means for reaching society must be used. Politics is not the proper place for people who really want to reach the citizens.

Equivocalities about change process should be removed. This can be accomplished by means of the initiatives of groups like impuls99 or other initiatives. Impuls99 might have a strong impact on the transformation of the Czech Republic. The “weak signal” of this organization might develop toward a dominant way of thinking and result in the desired changes in society. The renationalization plan of

minister Gregr of Industry will probably not have a lasting impact: this measure is a measure on the cognitive side, while the solutions for the problem lie more on the social side. The only way to reach a lasting impact after renationalization is to replace current management and introduce Western ways of organizing.

The social parts of society that had to change had to do with the ways of organizing in the Czech Republic. These ways of organizing are still influenced a lot by the former communist times. About Czech management, following has been mentioned:

- Czech management is very inefficient
- Employees and workers stick to their job descriptions and they are not customer-oriented.
- Czechs are generally not adequately service minded
- Czech employees are too much focussed on their own department; they do not take notice enough of the rest of the organization. They seem to be only interested in own work.
- There is a lack of communication across the border
- Czech employees take too little initiative
- Czechs are not used to solving problems and lack capabilities for doing so

Foreign companies are in most cases doing better than the domestic state firms. This occurs because of the following reasons:

- Heritage of communism; quasi-state companies have to deal with the heritage of the past. This also counts for the foreign companies in the Czech Republic, but to far lesser extend;
- Expatriates who are multiple included in both Czech and Western European societies can teach the Czech employees to organize in plural ways;
- Foreign companies have a long-term vision. In current quasi-state companies, the short term/survival vision is prevalent;
- Quasi-state companies have to deal with bad debts. This also happens to the foreign companies, but these foreign companies still have revenues from other activities. Furthermore, they can get money from other sources more easily.

But currently, not only the Czech companies are having problems in Czech society. The foreign companies are also facing problems. One Dutch official mentioned the following barriers for Dutch firms in the Czech Republic:

- Bureaucracy of governmental institutions

- The own interpretation of competence in lower level governmental officials
- The lack of cash flow of Czech companies
- The non-transparent jurisdictional structure for credit
- Restrictive law system for foreign investors

These barriers will also form some bottlenecks for foreign companies in the Czech republic, while the first 4 barriers (all except the last one) can be considered to be a bottleneck for **all** companies in the Czech Republic.

The attitude of foreigners towards Czech citizens is sometimes not very positive. This can be explained by misunderstanding the Czech context. This attitude has to change; Czechs should be treated like normal Europeans. Surely they need to learn some things, but everyone has to. It should be taken into account that lots of Czechs still partly live in communist times. Czech employees might ‘steal’ sometimes, but in this case the ‘stealing’ is not really considered to be like that by these ‘thieves’ in lots of cases. They are not lazy when they fail to take initiatives, but just have some problems in really understanding that this is appreciated in the present times.

## 9.2 Recommendations

It should be clear that the current situation in the Czech Republic must change. The main problem is to change the structure of society. This change has to be initiated bottom-up; the citizens really have to change their attitudes and mentality when conducting organizational processes. They not only have to gather knowledge but also got to get accustomed to applying this knowledge. They must also get accustomed to organizing in plural ways, without the hierarchical context of former times. Czechs should really take the responsibility for their own lives. This demands a switch from re-activity to pro-activity: **They** are not responsible for my life, **I** am! But there’s one “but” here: but this is only possible when people are supported and are rewarded when being pro-active and taking initiative. To reach this, at least the management of quasi state companies has to change. Experience teaches that proper management can foster a change in mentality. It takes some time, but it is very much possible. Because Czechs are very capable in being pro-active and communicative; they just have to get accustomed to doing so. They must emerge from the system that still exists, a system that should have been replaced ten years ago.



Concerning current situation of Czech businesses, the following can be told. It will be very clear that current situation of former quasi-state companies is owed a lot to the fact that they are still not really privatized.

Because of the tight coupling between state and quasi-state companies, the last became “something in between”. This tight coupling between state and quasi-state companies has to be ended. When this takes place, the role of the banks will automatically shift. This is also important: *“If the government wants to find a sustainable solution to the economic mess in which it finds itself, it will need commercially run banks that can kick industry into shape- not politicized ones that encourage delusions of Czech grandeur”*<sup>33</sup>.

In my opinion, and that of many of my respondents, a **real** restructuring of both the state banks and current quasi-state companies will contribute a great deal towards an improvement of the current situation. This probably would also lead to proper management of the companies that remain in existence. The next step will be to improve the learning processes of Czech citizens and to switch mentalities. For a market economy, it is far better to have small organizational forms or at least loose coupled actors / configurations within the big organizations. With proper management also the state organizations should be able to survive. But for doing so, the company has to be split up.

Quasi-state companies have been compartmentalized from the Western world for long and now not anymore. They now got to deal with a non-compartmentalized world with plural ways of organizing. For the organizations itself, it might even have been better if they had stayed in Russian hands and could develop towards plural ways of organizing (“perestrojka”...) while being compartmentalized from the capitalist world. But since this is not the case, Czech organizations have to compete with more and more competition from abroad. For doing so, they have to get used to plural ways of organizing. Knowledge from this should be transferred either by means of expatriates working in the Czech Republic or through Czechs who got used for doing so by working in Western European/ American organizations. Therefore, following steps are needed for current quasi state companies:

- 1) The strong financial links with government and banks have to be broken
- 2) The company has to get proper management. This involves management that not only has the capabilities for managing in Western sense, but also stimulates other participants in the process for doing so.

The Government and other stakeholders in the Czech Republic have to communicate with each other for reducing equivocalities about the transformation process in their country. This is very important; it is clear that lots of people still do not know their role and where to go. The role of the government should be

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<sup>33</sup> *Sins of the fathers*, Business Central Europe, November 1998

supportive; they should not and can not be responsible for the change in society. But other initiatives can play some major role concerning this; I already mentioned the Impuls99 Group and the conference in Prague. These initiatives can never be enough at current times, every Czech mind that gets used at taking initiative is very welcome at the moment. Time will learn whether these realities are perception or reality.

There should be more possibilities for flex-work for a healthy development of Czech society. This flex-work is officially not possible yet in Czech society, only when making use of a gap in law. But this is not the way it should be; the flex-workers have to be protected by law.

### **9.3 Further research**

A complex and broad subject as the change process in the Czech Republic of course involves a lot of aspects. It was often not possible for me to get into detail about certain aspects, and I am sure there is still a lot to be investigated. Some ideas for further research might be the following:

- To what extent are differences in organizing between Czechs grown up in communist era and Western European citizens caused by present context where Czechs are living in? Or, in other words, to what extent do organizational processes of Czech citizens grown up in communist era improve when the proper context is established?
- I believe in the assumption that in this world it is in a lot of cases possible to find win-win situations. When looking at the aspects of communism and capitalism that can currently be seen in the Czech Republic, a big part of it has the character of some kind of loose-loose situations; the ‘worst of both worlds’. When transforming into a capitalist society, this will develop towards something that I would call a win-loose situation. I am convinced that there are also some good aspects of former communist era. Some further research therefore might be to find out in which way the good aspects of Czech society before 1989 and the capitalist reality of Western European Societies can be brought together in some “win-win” solution/ reality
- Which role should Government take in Czech society during next couple of years to support the Czech transformational process in most optimal ways?
- How to transfer the knowledge about organizational processes from Western European societies towards the Czech society?

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***ENCLOSURES***