

Organizational Change in Post-Communist Europe

Management and transformation
in the Czech Republic

Routledge Studies of Societies in Transition



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Organizational Change in Post-Communist Europe

Recent transitional developments in the former communist countries have aroused considerable interest among economists and political scientists alike. Yet relatively little attention has focused upon the ways in which these significant changes have impacted the micro realities of life within the transforming state-owned enterprises.

Organizational Change in Post-Communist Europe provides a unique and detailed examination of the complex processes of transformation in former state-owned enterprises in the Czech Republic. Drawing on in-depth case studies of organizational transformation, this book adopts a social-institutionalist approach to the study of organizational change, applying it in order to develop an explanation of organizational restructuring and management redefinition during the early transition period of 1990–1996. In particular, the authors highlight how these processes have been shaped by continuing historical state-socialist legacies and the powerful role played by senior managers in their efforts to fashion the new privatized organizations in their own interests.

By successfully re-balancing the prevailing disposition towards macro-economic research into the post-communist transition in Central and Eastern Europe, this volume constitutes an important work for all those interested in human resource management, organizational behaviour and the management of change. **Ed Clark** is Principal Lecturer in Organisational Behaviour at Nottingham Business School, Nottingham Trent University. **Anna Soulsby** is a Senior Lecturer in Organisational Behaviour at the same institution. Their joint work on the post-communist transition has been published extensively in European and American journals, including *Organization Studies*, *The Journal of Socio-Economics* and the *International Journal of Human Resource Management*.

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Preface and acknowledgements

Serendipity: ‘always making discoveries, by accidents and sagacity, of things [you are]...not in quest of.’

(Horace Walpole, *The Princes of Serendip*, 1754)

In November 1991, two years after the revolutionary events in Central and Eastern Europe had shaken the precarious global status quo, the authors went to Poland and to Czechoslovakia in order to complete the delivery of a postgraduate module in an MBA package. In the summer of that year, quite by chance, we had been approached by the staff responsible for British Know-How Fund contracts in Nottingham Business School at Nottingham Trent University to design and teach a module on organizational analysis at institutions in those two countries. The MBA was being used as a vehicle for passing on the conventional wisdom of market-economic management to senior academics in the two universities, with the further intention that they would establish business school-type structures through which *they* could then ‘cascade’ the knowledge to non-academics and the business community. Having delivered the first two-thirds of the module in Nottingham to twenty enthusiastic but critical Polish and Czech academics, we found ourselves in Poznań and Brno to complete the workshop elements of the module.

As part of the hospitality, our new Polish and Czech colleagues arranged visits to businesses in the respective cities. In Poznań, we were taken to two new, small service firms to meet up and coming members of the business community. Their offices were chic, equipped with expensive leather furniture and populated by young, modern, smartly dressed staff—we could have been in any bank or computer firm anywhere in the Western world. Their values and objectives were profit-focused, and the language was informed by Western business and management jargon. In Brno, on the other hand, our hosts drove us out to a huge, old-fashioned factory site, which was strewn with large, rusting metal objects which had obviously one day had pretensions to being useful industrial products. We had a long and fascinating meeting with the enterprise directors in a large boardroom, which was fitted out with the standard state socialist boardroom

furniture and decor. We mused over the latest attempt to redraw the organization chart, sympathized with the unenviable challenge of changing the enterprise's internal culture and were stunned by the routineness of the everyday economic drama of having to find new customers for products previously designed for Soviet partners. All these problems and their tentative remedies were aimed at just one thing—the immediate survival of the enterprise and its 5000 employees.

These two contrasting experiences say much about the nature of the post-communist economic transition: about the diverse problems and difficulties of small and large enterprises; the predisposition of small capital to flood into the easier industries of service provision, and the investment difficulties of manufacturing; the distinctive priorities and values of small and large business managers towards markets, finances and their communities; the different problems of foreign trade for old and new business. Yet, at the same time, there were profound similarities. Notably, in each case the senior managers had only two years before had significant managerial responsibilities under a command economy, and had to conform to the institutional requirements of their respective systems. Yet by November 1991, it was clear that, to a surprising degree, these managers had gained access to and control of the rhetoric, the words if not the meanings, of Western management discourse; and they had done so probably to the same extent that they had participated in the concepts and practices of state socialist management just two years earlier. It was this conundrum that was to drive the enthusiasm—colleagues and families might call it the obsession—for the research that has resulted in this book. How could we account for the continuing presence and importance of former state enterprise managers in the emerging market conditions that economists call the economic transition? How can we understand the apparent facility with which they were able to convert themselves almost instantly from seemingly dyed-in-the-wool *nomenklatura* communists into enthusiastic capitalists?

At the end of our teaching in Brno and just before heading off to catch the flight home, we were taken to the top of a hill overlooking the city by a few of our Czech colleagues, who said that they looked forward to our next visit to Brno. Seeing the doubt in our expressions, they insisted that we would return. Within four months, they had found a state enterprise—called Vols in this book—which was pleased to play host to the obsessed researchers we had become.

Our approach to studying the economic transition has been the product of our circumstances. One trained as a sociologist, the other educated as an historian, we both work in the field of organizational behaviour and analysis in a university business school. After initial wider reading of the emergent literature, dominated as it was by economists, we began to feel that the key questions arising in our field with respect to the transition lay in understanding the ways in which managers, as key economic actors, had evolved new values and practices, and how these extensions to their repertoires of knowledge and technique were reflected in the enterprises themselves, in their structures, their cultures and their systems. By adopting the case study approach in the tradition of business and

management research, we sought to identify socio-economic explanations which were rooted in the historical and current circumstances of societal and organizational transformation, and in the personal motives of the individuals in question. The book therefore examines the socio-economic transition from the perspective of enterprise managers, and explores the changes that have been occurring in the Czech Republic since 1989 as they have affected the enterprise. Its central concerns are with the processes of transition and transformation at the enterprise level, with questions of continuity and discontinuity with the past, with the ambiguities and uncertainties that arise within the transition process and with the management of the external and internal changes that have impacted upon economic life in the enterprise.

In sum, our intention is to contribute to the understanding of important empirical and theoretical themes. On the first front, we aim to describe and analyse the specific conditions of the economic transition of post-communist society in the early 1990s, and the resultant changes in enterprise and management patterns. Second, the book confronts two fundamental theoretical questions, using these changes in the Czech Republic as the empirical location: these are the relationship between institutional stability and change, and the social and institutional (re-)construction of socio-economic reality.

The reading for and the writing of the book has involved coming to terms with a research field that has attracted the attention of researchers working in many diverse academic disciplines and traditions—these include economists, historians, social anthropologists and sociologists, as well as other area studies specialists and (former) sovietologists. We believe that this book extends knowledge in a way which spans the interests of all these academic groups, but in terms of subject matter there are three distinctive audiences: organization and management theorists, transition economists and area studies specialists. We consider the book to be first and foremost a contribution to the theory of organization and management change and therefore we want our work to appeal to organization theorists independent of whether they are interested in post-communism. Second, the book adds to the understanding of the post-communist economic transition by examining the concrete behaviour of enterprise managers responsible for realizing moves towards a ‘market economy’. We hope that transition economists will find the evidence and arguments useful in constituting the micro foundations of their theoretical propositions, which often seem to be divorced from the real world of economic decision-making and decision-makers. Third, specialists in the Czech Republic in particular and the Central European region generally should find complementary value in our empirical findings on, for example, the lives and conduct of post-communist managers and the changing role of the enterprise in local communities.

It has been difficult to write a book that can communicate with each of these audiences in an efficient way. As a starting-point, we have assumed no awareness of the historical and contemporary Czech context, as would be likely for most students of management and organization. Thus, it was necessary

to write quite detailed contextual chapters (3, 4 and 6), which many regional specialists and some transition economists may find familiar. These latter readers may wish to skim-read only these chapters. After much thought, and again in recognition of the needs of most readers, we have decided to minimize the use of Czech terms in the writing of the book. Where appropriate, we have cited Czech terms on the first appearance in the text of a structure or institution, so that area specialists can know exactly what we are referring to, and we have compiled a glossary of the most important terms and abbreviations that occur throughout the book.

This book is the result of the collaboration of many Czech colleagues at the Technical University of Brno, in Moravia. In particular we would like to thank Miloš Drdla, Hana Škyvarová, Aleš Vladík, Mirka Čermáková, Thaddeus Mallya, Jan Hobl, Subodh Kumar, Alena Keřkovská and Irena Navrátilová, all of whom offered careful and sensitive interpretation skills which opened up the world of Czech management for our examination. Miloš Keřkovský, the first Dean of the newly established Faculty of Business and Management at the university, offered us unlimited support and has been a good friend in all aspects of our work. It is only when we hear the stories from British colleagues about their difficulties in gaining and maintaining good access to large and small enterprises that we realise how lucky we have been in having such cooperative and well-connected friends and colleagues in Brno. The quality of our research materials is a manifestation not only of the excellence of the contacts of our academic colleagues, but also of the openness and honesty of the enterprise managers who participated in the project. Each manager in his or her own way has made this book possible, providing us with research materials that have proved to be highly versatile and flexible. Although they have remained anonymous throughout, these managers are very real and vibrant people, and their enterprises are the lifeline for the future of many Czechs. Our respondents will not all agree with our composite version of events in their enterprises, and a few may be shocked by some of our inferences and conclusions; but we feel confident that each will recognize his or her version somewhere in the telling of the story.

Our first opportunity to visit the then Czechoslovakia was offered by Robin Ward, then Head of the European Business Centre at Nottingham Business School. He had thought that our work might suit the training needs of the European contract with Brno Technical University, and he continued to encourage our research until his untimely death in 1995. Robin has been sorely missed in both Nottingham and Brno. Various colleagues at Nottingham Business School have been strong supporters of our research: in particular, Francis Terry (then Head of Research), Jim McGoldrick (now at University of Abertay, Dundee) and Lynette Harris managed to organize both time and money for us to continue.

So many people in the UK have offered help in the way of vocal encouragement or introductions to important networks that it would be

impossible to thank everyone. But the following is an attempt to rebalance the books. Anna Pollert, Simon Clarke, Peter Fairbrother (all at the University of Warwick) and Paul Thompson (now at the University of Edinburgh) were the first ones to tell us that we were really doing something worthwhile, and that first encouragement was special and important; and John Child's sensitive and thorough editorship of *Organization Studies* was a significant formative influence as we struggled to pitch the reporting of the research at the right level. We have received support and advice from many colleagues in ways that may appear small to them, but were significant to us in terms of morale and confidence. George Kolankiewicz (University of Essex), then directing the ESRC East-West Programme, kept inviting us as outsiders to workshops where we met many other like-minded colleagues. We would also mention Hugo Radice (University of Leeds), Nigel Swain (University of Liverpool), Richard Scase (University of Kent), Jeff Henderson and Richard Whitley (both University of Manchester). We are especially grateful to Miloš Keřkovský (Technical University, Brno), Anne Mills (Buckinghamshire College of Higher Education), and Martin Myant (University of Paisley) for their comments on earlier drafts. The book was originally commissioned by Tony Elger and Peter Fairbrother (University of Warwick), who each read the draft manuscript minutely and whose suggestions have improved the quality and accuracy of the final version. Their encouragement and support were invaluable. Any errors of argument or detail that remain do so because of our oversight, or because we have insisted on being wrong in spite of good advice.

Finally, we are both grateful to our families, who have tolerated our many absences in order to conduct fieldwork. Chris Soulsby, Mary-Anne Clark, Joanna Clark and Tom Clark have been so supportive throughout the past six years.

Glossary of terms

a.s. *akciová společnost*, or joint stock company

CEE Central and Eastern Europe

CP Communist Party of Czechoslovakia

ČSSR Československá Socialistická Republika

CMEA Council for Mutual Economic Assistance

corporatization turning state enterprises into 100 per cent state-owned joint stock companies in order to commercialize enterprise decision making

FDI foreign direct investment

FTO Foreign Trade Organization (*Podnik zahraničního obchodu*), enterprises organizing the monopoly of importing and exporting, usually by industrial branch

IC investment company, which runs one or more investment privatization funds; often themselves owned by banks or other financial institutions

IPF *investiční privatizační fond*, or investment privatization fund, established in the privatization legislation to collect and 'spend' voucher points

kč Czech crown (currency after January 1993)

čs Czechoslovak crown (currency before January 1993)

konkurs the process of competitive appointment

Konsolidační banka Consolidation Bank, established in 1991 to take on the bad debts and rotating credits of large commercial banks and enterprises

KSC Kommunistická strana Československa (Communist Party of Czechoslovakia)

Lustration (*lustrace*) Act also known as the Screening Act, passed in 1991; it determined that people who had held certain influential positions in the Communist Party, its organs and institutions should not be permitted to hold certain levels of public office

men of '68 those individuals, usually former CP members, whose careers and lives had been affected by their refusal to sanction the Warsaw Pact invasion of 1968

milice the people's militia, which was a military-style unit based at the enterprise to defend the gains of socialist production

monobank the system of state socialist banking based on one central state bank

normalization the period following the Warsaw Pact invasion of 1968 when neo-Stalinist political and economic structures were reimposed

národní podnik national enterprise, the major legal form of state-owned enterprise until 1988

NPF National Property Fund, established in 1991 to accumulate state assets and to manage their transfer to the private sector

ODS Občanská demokratická strana, the Civic Democratic Party of the dominant political leader of the period, Václav Klaus

OF Občanské fórum, the Civic Forum anti-communist coalition forged by Václav Havel, and instrumental in organizing the Velvet Revolution

p estavba restructuring of the economic system, the Czechoslovak equivalent of Gorbachev's *perestroika*

Screening Act (1991) *see* Lustration Act

SPK Státní plánovací komise, or State Planning Commission, the economic super-ministry responsible for top economic decisions

s.r.o. *spole nost s ru ením omezeným*, or small private limited liability firm

státní podnik state enterprise, into which legal form, with greater autonomy, state-owned enterprises were transformed after 1988

TR transferable ruble, the nominal unit of account in CMEA trading

VHJ *vyrobní hospodá ská jednotka*, or production economic unit; usually the 'leading enterprise' in an industrial branch, and intermediary level of economic management in the central planning hierarchy, super-ordinate to state-owned enterprises

voucher privatization *kuponová privatizace*, the main method of mass privatization, organized as the majority part of the two privatization waves

závod plant or factory unit of organization, the lowest element in the command economy, normally with little significant responsibility

Part I

Backgrounds and contexts

1

Studying organization and management change in the Czech Republic

The Czech transition in perspective

The changes that have spread across Central and Eastern Europe (CEE) since 1989 have been as dramatic as they have been far-reaching. They raise so many practical issues at so many levels and in so many spheres of social life that the degree of interest shown by social scientists in researching the region during the early post-communist period can come as no surprise. In the former communist countries, they see opportunities for examining social change in all its richness. In a situation where the scope for research is so wide, it is our impression that social scientific interest in the socio-economic transition has been overwhelmingly dominated, in both Central and Eastern European and Western social science, by the politics and the economics of the post-communist transformation. Moreover, this concern has been played out especially at the macro level, as researchers have examined the transformation of political systems, structures and processes from the authoritarian, centralized, totalitarianism of state socialism, to the democratic, devolved, pluralism associated with Western-style societies; or considered the changes involved in the move from hierarchical, centralized, state-ownership systems of command planning, to an economy which is essentially decentralized, market-driven and founded on private property relations.

Within this context, the social transition in the Czech Republic has been of particular interest. As part of the Czechoslovak Socialist Republic (ČSSR), it approached the post-communist era from an extreme form of state socialism, having endured many years of strong, autocratic rule by a disliked Communist Party, over which time the command economy had remained fairly obdurate to market-oriented changes. However, it has rapidly developed (or redeveloped) democratic political institutions, and, alone among the former communist nations in Europe, has up to and following the June 1996 elections resisted any temptation to revive the political ambitions of the successor parties of the Communist Party of Czechoslovakia (KSČ). Equally irrefutable has been the nation's commitment to a transition towards a liberal market economy, having

accepted the application of stringent economic policies, and the adoption of radical programmes of mass privatization, at the centre of which has been the much debated voucher system. It is our contention that any explanation of social and economic processes in the ‘post-communist’ period is necessarily predicated upon a sound understanding of historical influences and legacies. The book therefore devotes considerable space and argument to the consideration of Czechoslovak state socialism in the 1980s, and the various processes of socio-economic and institutional development over the forty-one years of communism in the country.

However, history goes back and then back some more, and it is difficult to avoid being caught in an infinite historical regress in the ideal pursuit of comprehensive social scientific explanation. To remedy this tendency we have defined the limits of historical detail as 1948, when, in February, the KSČ assumed control over the political and economic levers of society—which story we pick up in [Chapter 3](#). Czech culture and traditions do have a much longer chronology, and, in contrast to their Central European neighbours, the Czech lands were not newcomers to the practices of democracy and market economics. It is therefore relevant to appreciate the broader historical context in which Czech communism was rooted.¹

The Czech Republic in the 1990s is a small nation of 10.3 million people, and its situation at the very heart of Europe has been defining of its history, as it will be of its future. It comprises two historical parts: Bohemia forms the western half of the country and abuts the new enlarged Germany to the west, Poland to the north and Austria to the south; Moravia, the eastern half, borders Poland to the north Austria to the south and Slovakia to the east. Its immediate history was closely tied up with Slovakia, with which, for most of the previous three-quarters of a century, it had constituted the single state of Czechoslovakia. The latter country was established as recently as 1918, when it was formed from the devastation of the First World War, until which time it had been a significant geographical region under the control of the Habsburg dynasty, rulers of the Austro-Hungarian Empire. Following struggles in the early seventeenth century, the Bohemian ruling class, its national leaders and cultural representatives, were eliminated, expropriated or exiled, and Czech culture and nationhood were subsumed under, and subordinated to, the monarchical authority emanating from Vienna.

During the nineteenth century, Czech industry developed rapidly, especially in the region bordering Germany, and by the end of the century the Czech lands had become one of the most advanced industrial areas of the Austro-Hungarian Empire, with a ready market for its products throughout the rest of the empire (Polišenský, 1947; Teichová, 1988, p. 17).

The industries of the Czech lands were the major supplier of industrial products to a far-flung empire with a population of 60 million. The

industries of the region prospered in this large market protected by formidable tariff barriers.

(Klein, 1979, p. 147)

Klein goes on to describe the important growth of the Czech coal, steel, textiles, brewing and sugar-refining industries, and the would-be nation's comparative advantages in the literacy and general educational standards of the region.

Czechoslovakia inherited these industrial and economic legacies on its legal establishment in November 1918. Tomáš G. Masaryk was elected the first president of the new republic, and he and his provisional government set about planning a constitutional democracy, with a strong parliament as the sovereign power. These arrangements—based on a two-house, elected National Assembly—were consolidated into the 1920 constitution of the First Republic. In addition to the Czechs and Slovaks, the newly defined boundaries included substantial minorities of Germans in the western and northern Bohemian region, Hungarians in southern Slovakia, Ruthenians near the eastern borders and Poles in Silesia (see, for example, Wiskemann, 1967; Anderle, 1979). All minorities, including the Jewish community, were ascribed social and civil rights to an enlightened degree for the time. Twenty years of political democracy and continuing economic development were brought to an abrupt end in 1938, when the growth of intense nationalism in Germany spilt over into territorial claims by Hitler on the German-speaking parts of Sudeten Czechoslovakia. The failure of France and Britain to support the small democracy, symbolized by the so-called Munich Agreement, ultimately paved the way for the military invasion in March 1939, when Bohemia and Moravia were overrun by German troops. Thereafter, the Czech lands were brought into the German Reich as a protectorate, and their natural and industrial resources were used to good effect in supplying the German war machine;² meanwhile, a puppet government loyal to Berlin was established in Slovakia (e.g. Seton-Watson, 1956, pp. 70ff; Taborsky, 1979).

Following liberation, an interim post-war 'National Front' government was established under Edvard Beneš, who had succeeded Masaryk on his retirement from the presidency in 1935, but had spent the war years in exile in London. The new government was based on principles resolved at a convention held in April 1945 in the Slovak town of Košice, when Beneš's London-based political exiles met Czechoslovak communists who had spent periods of the war in Moscow. In fact, dialogue between the two groups had taken place since 1941, though the common 'Košice Programme' for the reconstruction of post-war Czechoslovakia was signed on Czechoslovak territory (see Kaser and Zieliński, 1970; Hasager, 1986, p. 19). Beneš included communists and their sympathizers in significant positions in his National Front government, while limiting the scope of political pluralism. The Košice agreement included an extensive plan to nationalize major industries, including banking and finance. Starting in September 1945 and going through a number of phases, by early 1948 over 80 per cent of industrial assets had been confiscated (especially from Germans and Hungarians), come under

national administration or passed into public ownership—these accounted for virtually all enterprises with more than fifty employees (Hasager, 1986, p. 25). Democratic institutions were reintroduced, and in the first post-war democratic elections of 1946, the Communist Party attracted 38 per cent of the votes cast, and its leader, Klement Gottwald, became Prime Minister. But, beyond their formal democratic success, the communists had also constructed a very solid grass-roots organization: they were very strong in local government, in the police force, in the trade unions and in workplaces, where they established armed worker militia units (the *milice*) to ‘protect’ the factories. Facing pressure from Moscow to consolidate the political position of the party, and in the face of doubts about its possible success in the next elections, in February 1948 Gottwald made an effective move to seize power and to eliminate the influence of political opposition (see, for example, Seton-Watson, 1960, pp. 248ff; Taborsky, 1979; Suda, 1980; Teichová, 1988; Kaplan, 1989).

The Czechoslovak economy had undoubtedly suffered during the war, particularly in agriculture, light engineering and consumer goods, which were sacrificed in favour of the contribution of heavy engineering to the German war effort. Many factories were selected as targets for allied bombing in the latter stages of the conflict, but it is probable that Czechoslovak industry suffered far less than that of other European countries, and some parts of it may actually have been enhanced through German war investments (Kiežun, 1991, p. 270). Moreover, after the war, industry recovered far more quickly than most comparable countries. But the biases that had been introduced into the industrial structure—particularly in the development of heavy and mechanical engineering—were compatible with the economic plans of the Communist Party, based as they were on extensive, Stalinist, industrialization. In [Chapter 3](#) we explore the dominant features of the resulting economic and industrial structure during the communist era, in preparation for our more extensive analysis of the management and organization of manufacturing enterprises both during and after that period.

The four enterprises

The four former state enterprises that form the location of the research reported in the book were all, in one way or another, born out of political motivation to build a heavy mechanical engineering base to the post-war Czechoslovak economy (see [Table 1.1](#), p. 8). Each has its own unique history, yet all operated under broadly the same institutional conditions that developed under state socialism. Drawing upon both secondary sources, including internal enterprise documents, and the memories of the managers whom we interviewed, we can put together pictures of the enterprises, describing how they were influenced by the flows of history. The economic development of the enterprises has to be understood in the context of the principles and institutions of central planning, which are discussed more expansively in [Chapter 3](#).

The decision to build a mechanical engineering and metallurgical plant at Volna was taken soon after the Communist Party assumed power in Czechoslovakia in February 1948. Although the hills around Volna had been a traditional site for iron-working, which went back to the fourteenth century, these resources had long ago been considered inadequate for modern metallurgical production with its huge raw material requirements. The development of *Volnské Strojírny a Slévárny* (or *Vols*, for short) was therefore essentially a political decision, resulting from the need to develop heavy and military engineering quickly and cheaply to respond to the international post-war situation, and its location was based on social reasoning, to bring skilled, industrial employment to a rural region which had high levels of unemployment and a relatively low standard of living.

Starting the construction in 1949, Vols was inaugurated as a state-owned enterprise (*národní podnik*) and produced its earliest steel in the summer of 1951. The first industrial machines were manufactured in 1953, in the still-unfinished plant. For the near-forty years of its existence under state socialism, Vols produced metallurgical products, including steel castings of various quality and forgings of diverse weights. In its mechanical engineering activities, which use forgings and excess energy from metallurgical operations, Vols manufactured rolling mills—traditionally its most valuable product—and forming machines; the latter are in turn employed in the forging workshops. This production programme was of enormous importance to the ‘iron and steel concept’ (Renner, 1989, p. 21) of industrialization that dominated the Stalinist definition of socialist development (see [Chapter 3](#)). Vols’s industrial machinery contributed to the construction plans for Soviet military equipment such as tanks and armoured vehicles, and so enjoyed great exporting success to the socialist world. Likewise, its rolling mills, which enabled the mass production of wire and rails, were sold to developing nations of both the socialist and the non-socialist world, especially where, in the latter case, purchase was aided by politically inspired trade credits.

After 1958, Vols’s domestic markets were organized on its behalf by the lead enterprise in its industry, realizing state plans to expand particular industries or enterprises, and accounted for about 35 per cent of its production programme, while the remainder was exported primarily to socialist countries. Around 40 per cent of all output would be transported to the Soviet Union (its biggest customer); 6 per cent to other Council for Mutual Economic Assistance (CMEA) countries; 16 per cent to developing nations (like Iran, Iraq, India and Syria); and the remainder to the industrialized world. These exporting activities were facilitated by three state exporting organizations, each specializing in a different product line. Its commercial activities were straightforward, because, being based on centralized plans, all but the smallest proportion of its work was contracted for up to five-year periods, with some of the larger projects lasting even longer. These contracts were the main instruments for connecting with partners in the Soviet Union and the European socialist region.

Table 1.1 The four Czech enterprises

Feature	Vols	Montáže Jesenice	Jesenické Strojírny	Agstroj
Date established	Legally founded in 1951	Founded as <i>národní podnik</i> in 1953	Founded as a plant (<i>závod</i>) of larger national enterprise in 1948	Opened as plant (<i>závod</i>) of larger national enterprise in 1948
Location	Rural town of Volna	Large rural town of Jesenice, but dispersed workforce	Large rural town of Jesenice	Stroměsto, a large city
Industry	Heavy mechanical engineering	Heavy mechanical engineering	Heavy mechanical engineering	Mechanical engineering
Primary task	Manufacture of industrial presses, rolling mills and metallurgical products	Assembly, repair and maintenance of industrial plant and machinery	Manufacture of industrial machinery and investment plant (e.g. cement works projects)	Manufacture of agricultural machinery, metallurgical products and ball-bearings
Former markets	Mostly Soviet Union, CMEA and Soviet Third World contacts	Mostly Soviet Union, CMEA and Soviet Third World contacts	Mostly Soviet Union, CMEA and Soviet Third World contacts	70 per cent to 'Western' capitalist markets; 25 per cent to CMEA; 5 per cent domestic
Hierarchical status	National, state-owned enterprise (<i>národní podnik</i>) till 1989; then a state enterprise (<i>státní podnik</i>)	Subsumed under Jesenické Strojírny's leadership in 1958, and became a subsidiary plant (<i>závod</i>) in 1965. Became independent <i>státní podnik</i> in 1990	In 1951, became <i>národní podnik</i> , till 1958, when it took on role as leading enterprise. 1965: became subsidiary to VVV in Prague. <i>Státní podnik</i> in 1988	From 1950, <i>národní podnik</i> ; in 1983, took role as leading enterprise in branch (<i>koncerní podnik</i>). <i>Státní podnik</i> in 1989
Structure	Standard functional form	Standard functional form	Standard functional form	Standard functional form
Pre-1989 size	Large: 5600 employees	1150 as part of Jesenické Strojírny	Large: 7000 employees	Very large: 10,000 employees

Some 80 kilometres from the nearest city of any consequence, Volna in 1948 was a small, isolated village of 3500 inhabitants, whose lives were almost entirely linked with agricultural work. Since the arrival of Vols, this rural community has grown to 25,000 people, mostly in response to its expansion needs. The factory site of approximately 74 hectares is situated about 500 metres from the old village centre and dominates the south-western fringes of the town. On the cobbled track which leads to the factory gatehouse stands the statue of a socialist foundry worker, which, together with the heavy concrete symbol of Vols, is a strong iconic reminder of the important role of heavy industry in the communist bloc before 1989. The town itself is visibly divided into two architectural halves: the old centre gathers around a large square and a church, while, across a main road and behind the square, the apartment blocks of the great years of expansion point skywards, and the dull grey shopping, hotel and office facilities associated with the urban development extend blandly to the town limits. The size of the community, its relative isolation from cosmopolitan influence and the domination of the community by Vols, with its military connections, combined to give Volna the reputation of being a 'communist town', a stronghold in terms of values and ideology.

Vols was physically and socially connected to Volna in many ways (see Soulsby and Clark, 1995; Clark and Soulsby, 1998). Over the forty years of state socialism, the enterprise built many of the major social, cultural, accommodation and recreational facilities of Volna, and it also supplied, at a cost that was never calculated, hot water and energy that was surplus to production requirements. Vols provided kindergartens, crèches and holiday camps for employees' children virtually free of charge. Recreation and sports facilities, including a first-class winter stadium for ice hockey, were subsidized, as were canteen and factory grocery shops, for which Vols paid staff wages and part of the cost of the food. Reflecting a special concern, foundry workers received priority in obtaining medical assistance, which was free for all employees. Vols built a cinema, and invested in a major cultural complex comprising a huge ballroom, a discotheque and a restaurant. All, in effect, were available to everyone who lived in Volna. Beside this complex stood the enterprise's own hostel and hotel, which offered subsidized rooms for single workers, as well as comfortable apartments for visiting guests from the Communist Party. Vols owned blocks of apartments, which were rented to employees at subsidized prices and for which services and repairs were free. During the 1980s, Vols employed about 5600 of Volna's inhabitants, so the enterprise's tentacles reached into virtually every home in the region. So intertwined are the enterprise and the town that it is commonplace to hear phrases like 'Volna is Vols', and 'the factory is our life and home'.

By virtue of its production activities, its ageing technology and its symbolic role in 'socialist development', in many ways the story of Vols is also that of the Czechoslovakia as told by economic historians. Its exports to the communist bloc were successful only at a price, which the central planning procedures and bureaucracy glossed over. Vols was a massive consumer of energy and raw

materials which had to be imported, and the lack of central investment in modern technology and the resistance of the planners to real industrial and enterprise restructuring (particularly in the 1960s and 1980s) left Vols in dire straits after the events of 1989.

Unlike the other enterprises, *Agstroj* is located on the outskirts of a large city, which we have called *Stroměsto*. Since 1952, the enterprise has manufactured agricultural machinery of repute in the CEE region, which is also fairly well known elsewhere. However, its origins lie in other products, and in another era. It was the occupying German forces that first constructed an industrial plant on the present site in 1942 in order to make aeroplane engines to supply the war effort. In 1944, the site was abandoned following massive Anglo-American bombing raids which left only 10 to 15 per cent of the factory's walls standing. The liberating Soviet army returned the factory to the post-war Czechoslovak state in 1946, and the Cyrillic messages that the Red Army left on the walls were ritualistically repainted throughout the communist era. In 1947, the renovated plant began production of textile machinery and various kinds of ball-bearing, which were to become its staple product and contribution to the major economic programme of Stalinist industrialization that followed the communist take-over in 1948. At this stage, the plant was just a numbered site of a much larger enterprise known as *Vojenská Stromětská*, which had started manufacturing agricultural machinery in 1945 at one of its other sites.

At the beginning of 1950, the plant took on its own legal status as a *národní podnik*, and was baptized with the bland nondescript name 'Enterprise for Special Engineering', which typified the new kind of state-owned enterprise. In 1952, much of the production of agricultural machinery, sold under the brand name *Agstroj*, was transferred from *Vojenská Stromětská* to the new enterprise. As this activity expanded, the manufacture of textile machines was returned to *Vojenská Stromětská*, and, after 1968, the production of the ball-bearings was gradually reduced. The *Agstroj* site retained only the more specialized engineered items, and more routinized work was transferred to Slovakian sub-plants. In order to increase its autonomy, a new metallurgy plant had been established in 1963, by which time it had become virtually the only supplier of certain kinds of agricultural machinery in Czechoslovakia. The enterprise finally adopted the name *Agstroj*, so that it could benefit from being directly associated with the reputation of its products. From 1983 to 1989, its domestic commercial activities were handled by *Agrov*, the leading enterprise in the industry, which was based at *Agstroj* and organized the activities of the industry's ten or so key players.

The exporting activities of *Agstroj* were mediated by its foreign trade organization, located in Prague, whose many foreign branches acted as general dealerships and sold its machines to many clients. *Agstroj* proved to be a great success, its foreign sales spreading across more than eighty countries. In spite of the innovatory design and technology of its machinery, the vicissitudes of the socialist trading bloc meant that Czechoslovak farmers were only able to buy

between 5 and 10 per cent of the enterprise's output, having to make do with lower-quality Polish imports. Poland and East Germany, on the other hand, imported Agstroj products, with a handful going to the Soviet Union. In the 1970s, Agstroj exported 90 per cent of its production, of which 60 to 65 per cent went to non-socialist countries, earning substantial amounts of hard currency for the state. Responding to this success, the central plan supported substantial investment programmes, which included the installation of advanced West German and Italian machinery, and by the early 1980s Agstroj's production capacity had increased substantially. Its exports continued to be oriented to Western markets at a time when there was a national drive to correct the trade and currency imbalances with the non-socialist world, and thereby contributed to the Party's determination to resist dependence on Western financial institutions (see Myant, 1989, pp. 191–3). By 1989, Agstroj had regular markets in forty countries, and approximately 80 per cent of its output was exported. During these last two decades of communism, Agstroj and similar enterprises were strategically crucial to Czechoslovak economic planning.

As Agstroj grew, it developed a number of satellite companies around Stroměsto, and many of its ball-bearing operations were relocated to subsidiary plants in the large heavy industrial areas that grew up in Slovakia; even some of its new lines of agricultural machinery were grudgingly moved away eastwards. These decisions often followed the political logic of 'industrializing' the Slovak republic, and of satisfying the demands of the ruling coalition in the Communist Party, but created resentment within the enterprise's management. Taking all these activities into account, Agstroj was, at its peak, responsible for over 20,000 employees, though employment at the Agstroj site fluctuated around 10,000 to 10,500. Following legislative changes in 1988, Agstroj became a *státní podnik* (state enterprise), with formally more devolved powers and greater independence from the pared down centralized planning structures.

Stroměsto is a large Moravian city with a strong tradition in and reputation for mechanical engineering. It is the location for a number of other very large mechanical engineering enterprises, including Vojenská Stroměstská. Unlike the much smaller towns of Volna and Jesenice (see below), it had a huge central shopping centre, suburban shops and well-developed municipal recreation and entertainment facilities. Agstroj is located on a 120-hectare site some three miles from the centre, in a suburb which is dominated by its physical presence. The enterprise is surrounded by the familiar high-rise blocks of apartments, over 1000 of which it constructed and ran for its own employees. Many of its employees lived in these housing schemes, and walked to work for a six o'clock start along a complex series of criss-crossing walkways. Others would arrive using excellent local bus and tram services, which terminated outside the factory gatehouse. Like the other enterprises, Agstroj took its local social responsibilities seriously, building and maintaining facilities for the provision of a variety of social and welfare services. In addition to its housing, it ran a training college, and had a number of holiday camps and vacation hotels to which its employees

had subsidized access, as well as sports facilities and grounds across the city. The enterprise—or rather its trade union—ran a social club for workers, though it was never well-frequented because of the attractions of bars and other entertainments that were part of the large city environment.

Metal-working and engineering have had an important presence in the Jesenice region, coexisting successfully with the more traditional agricultural way of life for more than 150 years. A factory site was established as a new plant in the first flush of communist industrial development in 1948. Named after one of Czechoslovakia's new communist leaders, it belonged to a large national enterprise in Střemšín, some 80 kilometres away. Its purpose was to manufacture equipment and plant for making cement, bricks and other building materials, which were in turn so crucial for the construction industry in its strategic role to build the foundations for the socialist development of Czechoslovakia. Smaller engineering workshops, some of which dated back to the nineteenth century and the industrial expansion in the early 1900s, and which had been nationalized after the war, were absorbed into the newly created *Jesenické Strojírny* when it was declared a national enterprise in 1951.

Jesenické Strojírny increased in size and influence within its heavy engineering sector, and in 1958 was nominated to act as one of the new intermediary economic associations in the government's early attempts to 'decentralise' the economy (see [Chapter 3](#)). Jesenické Strojírny organized three large construction engineering enterprises, which complemented its own production activities. Jesenické Strojírny lost its hierarchical status when the planning structures were refined in 1965, and became one of the production enterprises of a huge, diversified engineering concern based in Prague (VUV), which took all the major commercial, financial and production decisions for its subsidiary. In 1988, Jesenické Strojírny took on the new legal status of a state enterprise, and began to operate with greater independence than at any earlier time.

Since 1948, Jesenické Strojírny had grown by both 'legal acquisition' and internal development, becoming the biggest of the four large national enterprises which dominated the town of Jesenice. By 1989, it employed over 7000 people from a regional population of about 50,000. Its size and its exporting prowess gave it enormous economic power. According to one employee, 'Nothing could happen in the region without Jesenické Strojírny'. Jesenice itself is an old industrial town in Moravia, and has an old castle and a charming though dilapidated town square. The town grew in response to the needs of the engineering and pharmaceutical enterprises that had been located on its periphery. But as the residential areas spread to accommodate the work force that migrated from local rural areas and further flung regions, the industrial sites were more fully incorporated into Jesenice proper. In the centre, many old nineteenth-century and earlier buildings decayed through lack of attention; the new housing developments, comprising the familiar concrete, high-rise blocks of apartments, likewise deteriorated. The town became heavily polluted, with the