

# JEEMS

Journal of East European Management Studies

Thomas Steger | Rainhart Lang  
Irma Rybnikova (eds.)

Special Issue

Management in CEE Countries  
between 1996 and 2016

Emerging and Enduring Issues



Nomos

## **Special Issue**

# **Journal of East European Management Studies**

**JEEMS**

**Editorial Committee:** Prof. Dr. Thomas Steger, Prof. Dr. Rainhart Lang, Dr. Irma Rybnikova

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## **Management in CEE Countries between 1996 and 2016 — Enduring and Emerging Issues**

This special issue of JEEMS is indeed special. It is not just longer than special issues of the past but also deals with a special topic as it sheds light on the past two decades of JEEMS with a collection of articles, each representing one year of this period.

This special issue pursues three main objectives. First, it should give an overview of research on post-socialist organizations and management in Central and Eastern Europe (CEE) throughout the transformation process. Secondly, it aims to elaborate on the extent and variety of contributions to CEE management research published in JEEMS during the past two decades. Finally, it will present dominant as well as underrepresented topics, theoretical and methodological approaches, and countries addressed, explored, and used as examples in this time span.

Throughout the years since the fall of the Berlin Wall, numerous projects and publications have focused on research on CEE Management. A considerable number of researchers from both Western and Eastern countries, thus insiders as well as outsiders, have been involved in studying changes in organisations and management in CEE countries with the intention of understanding the specific developments of management practice and structures under the conditions of fundamental societal and organisational change.

This said, it must be stated that with respect to both authors as well as institutions, a clear dominance of Western perspectives is visible in the literature on CEE management. In many situations, this has also led to some highly questionable lines of argument, particularly related to modernization theory-based assumptions of simplified East-West oppositions. Since its foundation in the mid 1990s, a central aim of JEEMS has been to provide a platform and opportunity for indigenous Eastern authors to publish and disseminate their findings and knowledge while, at the same time, not discriminating against Western authors and, thus, setting fertile ground for intensified scholarly discussions. Unique contributions to the field were made by scholars who were born and socialized in CEE countries and later migrated to Western countries bearing and transferring intimate knowledge of the field via improved access to publication opportunities in Western institutions. In our special issue, these colleagues are represented by Marin Marinov and Svetla Marinova (1996), Snejina Michailova (2004), Dorota Dobosz-Bourne (2005) and Yuliya Ponomareva (2015).

The selection of articles in this special issue is not representative of the geographical or institutional heritage of our authors, nor do we just look at most cited papers. Instead we pursued the idea of mirroring the broad scope of topics,

countries, authors, and approaches published in JEEMS in the past and also include papers that dealt with particular trends in CEE management research in this time frame and had a considerable impact on the field. Moreover, our selection of articles remains somewhat biased as, firstly, JEEMS has always been clearly dedicated to behavioural-oriented management research and has neglected submissions from various other fields, e.g., econometric or macro studies. Secondly, the decision to publish papers in JEEMS is not based solely on academic excellence alone but is also triggered by the wish to promote studies that can be characterised as novel and unorthodox in terms of country or methods (e.g., Llaci & Kume 1997, Geppert 2002, Grancelli 2011, Vissak & Zhang 2016).

When looking at the topics of the articles in this special issue, we see that they are mostly related to some typical post-socialist legacies. Worth mentioning here are (a) the important role of the state, namely through state ownership in the early years of transformation, (b) the importance of social security issues and motives of workers as well as their respective expectations of company management, (c) the importance of hierarchy and informality within enterprises, both also characteristics of East European national cultures, and (d) the importance of networks and network ties within and between companies. These legacies, the challenges of societal transformation towards capitalism, and the subsequent integration in a globalised world economy have formed some typical patterns of an emerging East European capitalism, with consequences for management agenda and management practices. The obviously persisting differences between CEE countries are related to the different states of transformation and the respective development of institutions of the new capitalism.

Accordingly, several illustrative lines of development may be found in the articles in this special issue. It started, for instance, with privatisation (Marinov & Marinova 1996), system change and new institutions (Catana et al. 1999) as typical topics in early years, followed by rather classic topics ranging from institutionalisation processes (Geppert 2002, Karhunen 2008), and the development of governance structures and networks (Buzady 2005, Prašnikar et al. 2014), to special management problems in often neglected branches (Karhunen 2008, Grancelli 2011). Another line links several culture studies dealing with national cultural differences and cultural change (Robinson & Tomczak-Stepien 2000), and intercultural conflicts (e.g., Suutari 1998) in early years, followed later by some more specified studies on the interplay of national culture and organisational learning (Škerlavaj et al. 2013), culture and trust (Kovac & Jesenko 2010), meaning creation (Serdukov 2012) and symbolism and sensemaking (Clark & Soulsby 2009) in later years. A third line can be traced from studies on management transfer from Western countries and the respective resistance in CEE (Catana et al. 1999), followed by studies about management learning (Michailova & Husted 2004) and foreign direct investment activities from CEE



to other countries (e.g., Kalotay 2003), to particular studies about the re-transfer of successful practices from CEE (Dobosz-Bourne 2006) and cases of internationalisation in less developed countries (Vissak & Zhang 2016).

While the above-mentioned issues represent a shift within some broader topics such as ownership and restructuring, culture, or management transfer and learning, some other issues like changing and emerging management practices mirror an enduring interest in (general) management practices and instruments (e.g., Stanojevic 2001, Dörrenbacher 2007) or management behaviours (e.g., Ponomareva & Umans 2015). Despite the influence of new or transferred management practices, these studies also point to the stability of practices and behaviours often in line with the cultural and institutional legacies of CEE countries.

Regarding the theories and conceptual approaches, the selected articles also demonstrate a clear development from more traditional approaches like Hofstede's national culture concept, Mintzberg's concept of decision making, theories of structural inertia, or more implicit perceptions of ownership, privatisation or governance based on property-rights or principal-agent assumptions towards alternative approaches that combine theoretical concepts to better address the special situation of organisations and management in transformational settings. The latter can be found, for example, in contributions from Geppert (2002), who combines theories of organisational learning and institutionalism with the enactment approach of Weick, or from Serdukov (2012), who analyses some sense-making processes in an emerging group of entrepreneurs and managers based on the theory of social representation. Another typical trend found in the material is an increasing interest in studies based on a process view using process theories (e.g., Robinson & Tomczak-Stepien 2000, Dobosz-Bourne 2006, Karhunen 2008, Clark & Soulsby 2009, Serdukov 2012, Vissak & Zhang 2016).

The importance and fruitfulness of a process approach in studying stability, change, and the emergence of new patterns of management in transformational societies is also highlighted by a clear (methodological) focus on qualitative case study approaches that are used in more than half of our selected articles, though surveys or quantitative analyses based on secondary data played an important role. Both also allow some cross-country comparisons to be found in contributions by Kaloty (2003) or Škerlavaj et al. (2013).

Looking back on two decades of JEEMS, a certain enduring interest and, thus, dominance of studies about Russia (e.g., Suutari 1998, Michailova & Husted 2004) as well as about the countries more advanced in the transformation process such as Poland (e.g., Robinson & Tomczak-Stepien 2000), Hungary (e.g., Buzady 2005), and Slovenia (e.g., Kovac & Jesenko 2010) is evident. Other countries have attracted increased interest in more recent years (particularly Serbia) while others have declined in quantitative terms (particularly East Ger-

many). With the selection of articles for this special issue, we tried to somewhat counterbalance this picture by giving room to a large range of countries.

Nevertheless, some issues remain underrepresented, both in JEEMS as well as elsewhere in CEE management publications. These include studies dealing with critical issues (e.g., social inequality, processes of inclusion and exclusion), gender studies (an exception is Llaci & Kume 1997), or research from generally underrepresented countries and regions (an exception is Vissak & Zhang 2016). Against this background this special issue should also remind us to make enduring efforts to ensure that JEEMS continues to enhance and promote activities in and papers from these areas, in accordance with our editorial mission.

Many more words could be written about management research in and about CEE countries since the early 1990s, but we will leave the stage free for eminent scholar James March from Stanford University to do so. In 2002, he was interviewed by Miklos Dobak and Karoly Balaton. His words from then will open this special issue.

We hope you enjoy reading this look back at two decades of JEEMS!

*Thomas Steger, Rainhart Lang, Irma Rybnikova*

## **Dedication**

**More than two decades of JEEMS would not have been possible without the continuous and tremendous efforts and support of Rainer Hampp, who was the publisher for this whole period until the end of last year.**

**We owe him so much and, consequently, dedicate this special issue to him!**

## Interview with James G. March\*

*Miklós Dobák, Károly Balaton*

### Stanford, January 16<sup>th</sup> 2001

Q: Last year you were awarded the title of Honorary member of the European Group for Organizational Studies (EGOS). How could you characterize your connections to European organizational scholars?

J.M.: As you know, my closest relations over the years have been with Scandinavian students of organizations. In the rest of Europe, I also have, I think, good relations, including close connections to a number of colleagues and friends, particularly in the western parts of Europe. My relations with colleagues in Central- and Eastern-Europe are less dense, but I have relations I value with you and your colleagues in Hungary, as well as less elaborated contacts in the Czech Republic, Poland, Bulgaria, Romania, Croatia, and Russia. These contacts are important to me. They provide the multi-national perspective that is essential. On a more concrete level, I think the post-Soviet history of the eastern parts of Europe have created natural experiments in organization studies. It is in most respects a hard time to live, but a great time for learning about organizations.

Q: How useful are Western management and organizational approaches in studying Central- and East- European organizations?

J.M.: Any decent organizational theory or management theory has to attend to historical, cultural and institutional differences in the institutions we study. Moreover, research traditions differ. There's a difference in the kind of research or the research orientation between the average European scholar of organizations and the average American scholar. These are also very substantial differences within Europe, English writers are really quite different from the French, for example. And a real community has to attend to all of these somehow. As far as applying things, it's sometimes true that research that is developed from your own culture turns out to be less useful than research that is developed from another culture about you. One classic case is De Tocqueville's analysis of American institutions in the nineteenth century. This advantage of outsiders stems partly from the fact that their observations are less redundant with what is already known and partly from the fact that they often proceed from a different basic framework, one that illuminates different aspects of the hypenomena of interest. So I would expect western approaches to be valuable for example in Hungary, and Hungarian approaches to be valuable in the US. I am an enthusiast for diversity. But perhaps you had something else in mind.

\* Reprint from JEEMS, Vol. 7, Issue 1, 2002.

Q: The role of historical contingencies versus adaptation to emerging conditions?

J.M.: I think adaptation to emerging conditions occurs in the context of history and cannot be separated from it. Adaptation builds on history. So you cannot really have a theory of adaptation without embedding it in what's gone before. That's how it works.

Q: We talk about Western approaches very often in our conversations and of course in business as well. Sometimes it's also a question of globalization in organization theory, isn't it?

J.M.: I think we should always strive is to have a global theory, but we'll never succeed. The tension between idiosyncratic institutional, historical and cultural factors and our desire to have an overall, overarching theory is a good tension. I have been reading a book on Hungarian history. It's a fine book, and it's an extraordinary history. Modern Hungary is embedded in that history. That's very important. At the same time, our job is to struggle to find some things that extend across different histories. factors. So whenever people start having global theories we need to say 'well, you have to worry about institutions, history. And whenever people emphasize historical and institutional idiosyncracies, we need to say 'Let's make it more general.'

Q: How does knowledge creation and distribution work in modern organizations?

J.M.: I'm a little nervous about the word 'knowledge' because it's a popular word that has become fashionable without any precise understanding of what it is or how we can talk about it. If you speak about 'knowlede' softly, I suppose knowledge creation and knowledge distribution is pretty much my focus these days. But I don't often use the 'knowledge' term because I think it's been corrupted by the way people use it. It has become too popular.

Q: And how do you see the future of this 'knowledge theory'? Is it much more a fashion or does it have any lasting relevance?

J.M.: Well, a large part of it is fashion. Certainly. And there are all manner of books about 'knowledge' that don't say anything. But I think the pursuit of knowledge, and through knowledge of intelligence, represent enduring problems. The word itself is unimportant. When I talk about the problem of exploitation and exploration, I'm really talking about knowledge creation. And when I talk about diffusion of learning, then I'm talking about knowledge distribution. And I think that we will come to learn a little bit about those things. I would be hesitant to give any very precise consulting advise but I wouldn't at all be hesitant to talk to people who work in the field and say 'Here is something we know'. Consider a very specific example, what I consider the most important theorem from so-called 'bandit' problems. 'Bandit' problems involve a version

of exploitation and exploration. Probably the most important theorem from that research is one that shows that the optimal rate of exploration depends on the time prospective, that is how far ahead you look. The further ahead you look, the more exploration you should do. Now sometimes that's obvious but it's extremely important. And the problem for most organizations is that they don't look very far ahead. As a result, they often underexplore. Because they have a short time frame. They also have short, well, I call it 'space horizon'. Part of the organization is learning. It learns on the basis of feedback about how that part is doing. Of course, what it's doing has consequences for other parts of the organization, but those consequences are less salient. These 'spatial' perspectives tend to be local, rather than global. As a result, tend to invest too little in exploration from the point of view of the whole system. I think I can explain that to a business person. They'll understand it. And they can then apply that to their specific situation. I could not apply it to their specific situation. I can say that here is a phenomenon and these are the implications.

Q: You mentioned consultancy. Knowledge management in practice is a high issue. Every consultant would like to introduce a new term. We are talking about consultants who "Talk funny and make money". But on the other hand they have real influence on business. How do you see the role of these consultants, and consulting firms in the knowledge world, and in general?

J.M.: The "Talk funny and make money" description is one that I wrote, but the main point of that article was that consultants have a very important role. It's not quite the role that we sometimes assign to them. Their role in solving the specific problems of businesses is relatively modest. Without knowing the context they can't do much. They spread ideas around as "disease carriers". But when they spread ideas, of course, the ideas change. For example, ideas like 'Total Quality Management' have been spread by consultants. But when we study TQM, it seems to be rather different in different organizations. Consultants spread the rhetoric and some procedures, but then the organization takes over. That's useful. But it's important to recognize that what is happening is the stimulation of some kind of change, not any specific, well-defined change. 'Total Quality Management' is quite different in different organizations and in different countries I'm sure. I assume it exists in Hungary, but if I went into a Hungarian firm, it would look different from what I might find in an American firm. If I go to different American firms, TQM looks different. The other useful thing that consultants do is to say things that are not really quite true, but look at the world in a way different from the way a manager looks at it. The perspective may not be precisely applicable, but it stimulates the manager to think differently. In this way, the consultant acts in much the way a theorist does to provoke a manager to think in a different way and to organize his own rich contextual knowledge (which the consultant does not have) in a new way.

Q: There is a way of argumentation that business consultants contribute to the standardization of procedures and the standardization of solutions by taking solutions from one company to another. Is that true?

J.M.: I think that's a reasonable statement if you qualify it somewhat. Remember, I said consultants are aids to diffusion. And diffusion is a homogenization process. But what we observed in organizations is that when you transfer something, it changes. It is transformed at the same time. So generally you don't get homogenization. You homogenize some of the terminology. You homogenize the symbols. But you usually don't get very great homogenization on other things. The words 'Total Quality Management' spread and everyone has 'Total Quality Management' by now.

But what different organizations have are quite different things. So the rhetoric spreads more easily than the content typically, although I can think of situations where it's the other way around. A situation where it's the other way around is, you can remember, from twenty years ago in Hungary. A lot of management techniques spread in Hungary but they had to be distinguished from capitalist techniques. They had to have Marxist-Leninist type of labels on them. So you got Gvishiani's book, a thoroughly informed western book on management, couched in Marxist-Leninist terminology. In that case, the labels didn't diffuse but the ideas did.

Q: Maybe you know that Lenin was the first to support the translation of Taylor's books.

J.M.: Marxism was quite consistent with those parts of management theory that emphasized rational planning. Operations researchers in the Soviet Union had no difficulty at all talking to operations researchers in the U.S.

Q: It may be interesting for you why the activity of the consultants is important for us. In Hungary, as well as in other Central-European countries, there was a real lack of market oriented knowledge. And the consultants from McKenzie to KPMG played a very important role in bringing in these ideas. That is the reason why everywhere in Eastern European countries it was a really important question.

J.M.: It has to be true. You don't have to go that far from here. If you look at start-up companies here, they were typically started by people who haven't the remotest idea what a market is. They know nothing about how to run a company. They go to consultants who tell them 'You have to have this, you have to have this, you have to have this.' They go to one consultant to get their human resource department set up, and they go to another consultant for their accounting system, and so on. Of course, what happens is that the consultants give them some packages and gradually they learn how to work around those or through those. But without that help they'd be lost. They couldn't communicate to any-

one. When I'm a board member of a company, I have to have someone give me a list of things I'm allowed to do, that I'm not allowed to do, and that I have to do. There are manuals where I can find these. That kind of knowledge is extremely important. Take a Hungarian, or American or French firm trying to operate in China. The first thing they do is to try to find somebody who can tell them the 'rules' of operating in China.

Q: You mentioned that understanding how to achieve organizational effectiveness is a tough question. I ask it because every manager would like to have a successful organization, business excellence etc. And sometimes the consultants manage to create a much more effective organization. So my question is why do you think that organizational effectiveness is a tough topic. I have seen about five hundred items in the Socrates library program related to it.

J.M.: I don't object to the word 'effectiveness' or to the idea that there are some things that make organizations more effective. My objection is much more narrow and addressed primarily to scholars. I think it usually is a mistake for scholars to try to study performance as a dependent variable. Determining the factors that produce differences in organizational performance requires data we usually do not have and experimental controls that we almost never have. There are too many variables and too few data points. The variables are not under experimental control but are themselves endogenous. Since apparently successful practices are imitated, their visible effects are eliminated. If you look at the history of research trying to say something about ultimate organizational performance (profit in the case of business firms), that research has been almost entirely disappointing. Partly this is because there is a good deal of knowledge that has already been put into the system. If we could persuade someone to organize in a clearly stupid way, it would show up in the data. But nobody organizes in a clearly stupid way so it doesn't show up. Suppose for example that you wanted to understand the effect of participation and decision making by teachers on the retention of teachers and on turnover. That is essentially impossible to study in the field. There may be an effect but you never see it, and whatever you see is produced by so many factors that you cannot untangle them. Despite this, there is a lot of pressure on consultants and professors to answer questions like that. Consultants want to be able to say: If you organize in this way, you will have higher profits. In standard scholarly terms, they cannot have a valid basis for making such statements, but the market compels them to try.

Q: But the company manager pays for the consequences. They pay a lot of money. And they ask 'What have you done for me?'

J.M.: I think you should not work for those managers. But consultants, like so many of us, have to make a living.



Q: What is your present research interest and what is your opinion about the current management and organization theory?

J.M.: My present research interests are not much different from the research interests of my whole life. I've been mostly interested in how organizations adapt to their changing environments, either by calculated rationality or by learning or by selection, whatever. So that's where I am now. I think if I had to say what things at the moment most interest me, they are, first of all, the various aspects of the balance between exploitation and exploration – the way in which organizations develop what they already know and discover what they might come to know. How they balance those two activities against all kinds of pressures. And secondly, I am interested in trying to develop a somewhat richer theory of the diffusion of knowledge.

Q: How do you see the future trends of organizations?

J.M.: The one thing that you can forecast about the future is that your forecast will be wrong. Most people in forecasting are doing either one of two things. Either they are taking things that have already happened and say they will happen some more, or they are take their wish list, what they hope will happen, and announce that it will happen. I don't think either of those are very good prediction devices. Most of the interesting things that have happened in the past in organizations, the big things that have happened, none of us predicted. So why would it be different in the future?

Q: How do you see the role of information technology? Sometimes there are people who talk about chaos that will happen and other people believe in order. Order versus chaos. It's a really interesting question. It is a very interesting question for us in Central and Eastern Europe because here the gap is smaller compared to West-European countries and to America. Maybe it is not the latest technology but three to five years old technology. So in Hungary it's an interesting question for us what is our expectation: chaos or rather order? We know that Orwell wrote about that very well and sometimes people are afraid of the future – the socialist order comes back or something else?

J.M.: I think we can have vague kind of speculations about that. I would think that one of the first steps one ought to take, but we don't take, in understanding what the impact of information technology will be is to try to understand what it has been and why it has been what it is. Everyone agrees that it has an enormous impact. But I don't think we have a very clear notion of how that impact has happened or what exactly that impact is. One of the arguments for example is whether on balance all the money spent on information technology has produced a return equivalent to what it has cost. There are serious people trying to study it who say that the gains from information technology are very substantially less than the total costs of it. They are not referring to social cost, they are talking

about money, about financial cost. And this enormous amount of investment has really not had anything like a return equal to the cost. Now suppose that's true. Then our job is to explain why it spreads, why is it that so many people use it. And will that help us understand what will happen in the future? I think the kind of question you were asking, the Orwellian question, is a very important one though I don't have any idea about how to go about talking about it. When I was younger and more daring I said. Modern electronics and information technology in general will force us to have less privacy and as a result of less privacy, we would have to change our moral code. Because our moral code is built fundamentally on the ability to conceal many of the things we do. A whole set of rules, the rules that could not be satisfied, so we satisfy them publicly but not privately. I argued that if you increase the domain of what is public, then the rules would have to change. I suppose there are a few signs that that speculation has proven to be true, but I don't think the confirmation is very conspicuous. What I think is impressive in many ways about the whole debate over privacy is the extent to which people are clever in sustaining privacy. So, although it looks like you get much less privacy, I'm not sure it's quite like that.

Q: It is a bad feeling that we can not make a forecast for two or three years, when we are talking about information technology. But for other parts of business or another part of management we can create a much better forecast. However it is much less possible to create a forecast for tree to five years.

J.M.: We are getting to be a little bit more sophisticated about what the market is, the people, about little gadgets, but it's hard for me to comment because I live in this very funny culture around here where newspapers have headlines on the front page about some new product that might seemingly revolutionize something although probably you'll never hear about it again. The visions about the future become news and they never become reality. We can't even decide whether information technology will lead to more centralization or more decentralization. Part of the problem stems from the inadequacy of concepts like centralization and decentralization, but part of the problem is that we simply don't understand the processes of social change.

Q: What about the changing role of management education?

J.M.: I think that any time you're in the world in which things are changing management education has to go to the fundamentals. You cannot train a manager now for the details of management. He will learn that when he gets there, and it will change several times during his career. So my management education looks like a highly intellectual training in fundamentals.

Q: You said basic fundamentals. What fundamentals do you mean?

J.M.: The basics of economics, social life, psychology, the basics of computers, mathematics, and languages. And what drops out of that? Probably the more applied domains that are linked to specific practices.

Q: But it does not always depend on us, teachers, because sometimes students would like to learn about the American practices.

J.M.: Yes. But they adapt and you just have to resist them. They don't know. They are right in the sense that somehow they have to sell their services to somebody and that somebody will say 'Well, you don't know anything about accounting' So they should know something about accounting. So give them a textbook to read before they go to talk to somebody. But I wouldn't waste much educational time. But it is easy for me to pontificate. No one has asked me to design business education.

Q: It is not so easy to define what is basic either because it will also change. I remember that twenty years ago we taught the classics of organization from Taylor to James March for a semester. And now it's a question for us, for example, to teach the post-modern or not. Is it basic or not.

J.M.: I think that's an interesting intellectual formulation of the problem, so I would teach some of that. Not because it's current, but because ideas of social construction and technology are important. If you want you can teach it using Plato. I don't think you have to use so called 'modern terminology' which tends to be a little tortured. The essence of my strategy is that what you would teach people is reading, writing and arithmetic.

Q: That doesn't change.

J.M.: That doesn't change. And you teach some attitudes. I would say now the biggest problem with contemporary business education is that we don't teach an attitude that says you have to learn continuously. Education does not stop when you walk out the door. Education is a permanent thing. So what we should be doing is preparing people for permanent life of education. The notion that you continue to read, you continue to try to solve problems.

Q: To what extent are you involved in teaching? Do you teach PhDs or graduate students, do you lecture?

J.M.: My life is mostly teaching. I no longer give large lecture courses, but I spend most of my time trying to communicate a few ideas. The particular format or content may be important but they are really ideas about life. I had lunch today with a film maker. And we have been talking about the possibility of producing a film that would essentially focus on what I talk about on my leadership course. What I told this film maker was I was not interested in a film that was oriented particularly to business. I wanted to talk about the ideas and I hope the ideas underlying leadership, the ideas underlying life.

Q: Is it a kind of challenge for your ideas, or is it fun?

J.M.: If you are thinking about using a new medium, you should stand back and ask 'What can this new medium do that I couldn't do before'. And my answer may be 'nothing' and then I will say 'No, sorry, I won't do it.'

Q: We hope we shall see that film. Thank you very much for the interview.

## Characteristics and Conditions of Entrepreneurship in Eastern Europe\*

Marin Marinov, Svetla Marinova\*\*

*Establishing of new small businesses is an intensive process in the whole of Eastern Europe. As they are new, most of them are in the introductory phases of their existence (survival, consolidation and control). Contemporary industrial and market structure in the countries of Eastern Europe provides entrepreneurs with many opportunities for niche company creation. However, many problems exist related to the lack of resources (mostly financial), inadequate knowledge and skills in management and marketing needed in market economies, insufficient availability of business support organisations combined with inappropriate understanding and attitude among managers in the newly created businesses towards the existing business support organisations.*

### Introduction

Economists consider four major strategies for entrepreneurial development: "capital", "nuclear", "evolutionary" and privatisation of state enterprises (Brunner, 1993). The application of a certain strategic approach depends on the current conditions of the economy and the governmental attitude and goals for development of entrepreneurship. Analysis of entrepreneurship using this approach focuses on the macroeconomic and political conditions for creating and developing new ventures. It considers the state as entrepreneur without considering the entrepreneurial characteristics and requirements of the individual entrepreneur and the entrepreneurial support system.

Entrepreneurial success depends on the pursuit of opportunities, and the organisation and implementation of resources. If resources are understood not only as those currently controlled by an entrepreneur, but also as the ones owned by other people, the chances for a new venture success increase. However, the key factor here is how to convince the possessors of resources not only that it is an opportunity for the entrepreneur, but for them as well.

A key change in Eastern Europe is the replacement of the previously imposed dominant value system by multiple value options. This availability of overwhelming variety of options in Eastern Europe at present creates some problems for entrepreneurs. They are mainly related to identifying the appropriate opportunities. Establishing conditions for individual entrepreneurial activities through

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realising market opportunities based on motivation, drive and ability mobilises resources for such a purpose. This could be the basis for the effective and efficient implementation of a certain macroeconomic entrepreneurial strategy encompassing focuses on the development of businesses with present comparative advantages creating islands of excellence and reducing the state ownership and control on the productive assets of the economy.

The transfer of ownership from state to private is the key issue of the transition from centrally planned to a market led economy. The practical achievements in this aspect, however, are unsatisfactory and disappointing in the global context of Eastern Europe. Some of the main reasons for these can be found in the change of ownership and the respective development of entrepreneurial system.

This paper reviews the entrepreneurship development in the context of Eastern Europe from a theoretical perspective. It explores the dimensions of some key factors in shaping small and medium enterprises (SMEs), the characteristics and requirements for the different types of entrepreneurship, the tasks and role of entrepreneurship for closing the structural gap in the economy that could speed up the East European transitional processes, and the conditions for entrepreneurial revival in Eastern Europe. Using a dynamic vs. a traditional entrepreneur comparison, the article relates its theoretical analysis to the experience of an SME new venture in Bulgaria.

### **Key Factor Characteristics of Entrepreneurship in Eastern Europe**

The tradition of support for small business creation and development was severely suppressed with the establishment of communist regimes in all Eastern European countries and consequently it could not promote and push forward the development of private SMEs (See Table 1). The past experience and traditions in entrepreneurship are nowadays difficult and painful to resurrect and start functioning effectively and efficiently. The distribution of political power is a gradual process, as the gap between central planning and market driven decentralisation is still very significant. Governments favouring centralisation resist radical change and delegation of authority to regional and local governments, as the old societal structures continue to be decisively powerful.

The monopolistic positions of industrial "giants" in Eastern Europe have been shaken in the recent years through the processes of restructuring and privatisation, but they still dominate the national output and highest contribution to GDP in almost all of the Eastern European countries. Consequently, small businesses and entrepreneurship are presently with low economic power and too vulnerable in the turbulent economic conditions.

Establishing institutions to support the development of small businesses is a serious task and a big challenge that will take a long time. The existing network of private and restructured former public institutions forming the small business

**Table 1: Key Factors for Entrepreneurial Development**

Key Factors in Shaping SME's Policy	Dimensions of the Factor in Eastern Europe
The length of tradition of support for SMEs	None in the period of at least 45 years
The relative distribution of political power between central, regional and local governments	Presently unclear, historically exclusively concentrated in the central governments
The strength of the existing SME sector	Mostly weak, financially unstable and insignificantly developed
The balance of industrial and political power between large industry and SMEs reflected in their company orientation	The cases are different in various countries, but as a whole power still stays in large industries
The overall economic and social rationale for business policy development	Development of small private businesses is considered to be of significant importance in the economic restructuring of Eastern European countries, still the restructuring processes are not well supported with national programmes
The basic ideology of governments	The processes of restructuring have been slowed down with the forming of socialist governments in many Eastern European countries following the election victory of socialist (former communist) parties in the last elections.

Source: Based on the idea for the content of the key factors for entrepreneurial development by Haskins, G. *et al* (1986)

support network in Eastern Europe is far from being sufficient and adequate. The indispensable for the creation and development of market economy financial sector is still emerging. There is little evidence for coherent local and regional strategies for small private business creation and development. Very little has been done in these aspects on central government level.

As stated by Dubravcic (1995) the change of ownership of economic assets is a part of a global entrepreneurial system that includes risk taking and profit seeking agents as well as help in their entrepreneurial efforts by an adequate and well developed business support structure, basically a financial market structure.

The types of entrepreneurship related to the needs of small private business creation and development in the conditions of mature transitional economies, having the characteristics described in Table 2, were non-existent in the centrally planned economies of Eastern Europe during the communist rule.

The types of entrepreneurship presented in Table 2 can be domestic or foreign. As a result of the systematic destruction during the communist regime of the entrepreneurial system domestic entrepreneurship (productive and financial) is cur-

rently in poor condition in Eastern European countries and is unable to fully benefit from the availability of existing opportunities.

The rudimentary financial markets, the main private business support institutions, cannot provide the necessary assistance for entrepreneurial development in Eastern Europe. Foreign entrepreneurship, to date mostly financial, does not fully exploit the emerging opportunities in the region due to political and economic instability, lack of legal guarantees for investment, high inflation that in some countries is beyond control. The strong positions of the former nomenclatura, socialist (former communist) governments in many Eastern European countries, the existence of powerful Mafia and lobbying groups that influence the revival of entrepreneurship raise additional problems and barriers for entry of foreign entrepreneurs both productive and financial. The financial business support structures mainly consist of state owned institutions that do not favour the development of private small businesses. As the economic conditions are bad countries' internal investment funds are scarce and this limits the performance of domestic financial managerial entrepreneurship. Therefore, for the whole region it is mainly foreign through investment funds and international financial institutions.

### **Goals of Entrepreneurship in Eastern European Transition**

The experience to date in transitional reforms of post-communist economies in Eastern Europe indicates that “macro stabilisation will be difficult to achieve... in the absence of adequate micro adjustment” (Svejnar, 1991) and that institutional reforms and privatisation are insufficient for efficient and effective economic restructuring without entrepreneurship (Acs and Audretsch, 1993) aiming at successful new venture creation.

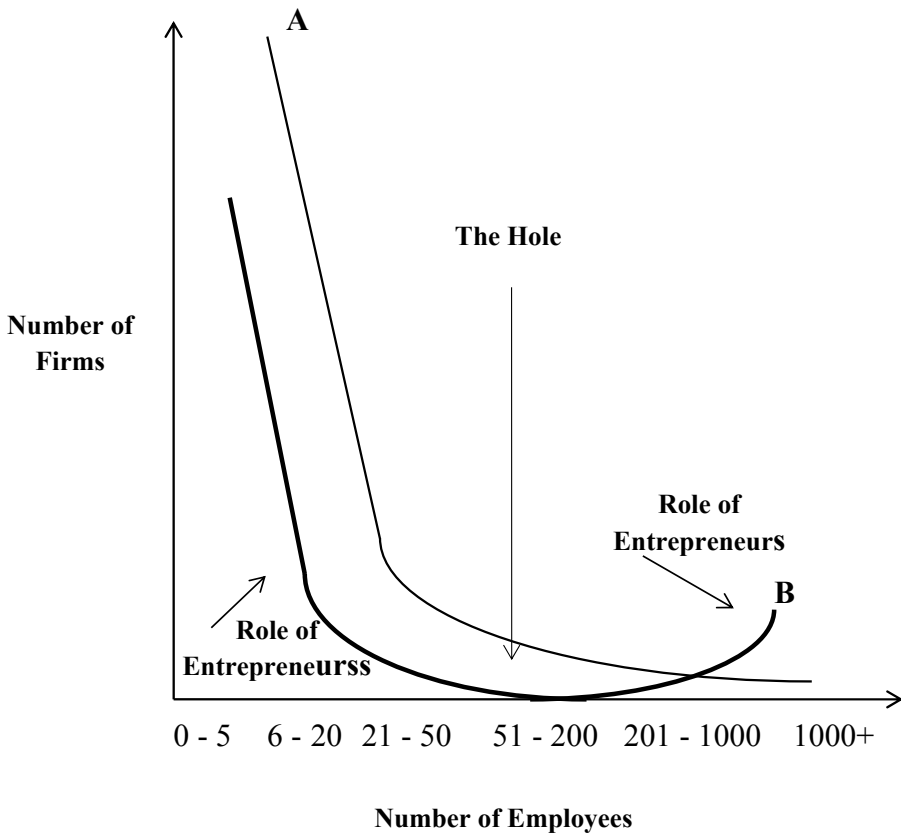
Pre-transition comparative research in the economic structures of capitalist economies and planned communist economies identifies the existence of a “hole” in the latter economies (see e.g. Gibb, 1993; Vahcic and Petrin, 1989). The “hole” represents a remarkable absence of small firms in the economic structures of economies of Eastern Europe. Gibb (1993) gives another interpretation of the hole comparing the market economy distribution of firm size (curve A) with the corresponding distribution in the transitional economies (curve B) – see Figure 1. The characteristics of firm size distribution, expressed by curve B, are inherited from the years of communist megalomaniac economic development, characterised by severe restrictions on the development of small private businesses and lack of property rights guaranteeing such development.



**Table 2: Characteristics and Requirements for types of Entrepreneurship in Eastern Europe**

<b>Type of Entrepreneurship</b>	<b>Features of Entrepreneurship</b>	<b>Necessity for Innovation</b>	<b>Importance of Risk Taking</b>	<b>Significance of Profit Making</b>
Productive [Owner(s) of small businesses are often also manager(s)]	<p>Develop from successful single proprietorship by hiring additional workforce.</p> <p>Financial markets supply funds from savers to provide productive entrepreneurs with capital.</p>	Very big	Crucial	Crucial
Financial	Savers who chose among the variety of opportunities differing according to their attitudes to risk taking and eagerness to fortune making	Very big	Crucial	Crucial
Productive Managerial	<p>Deciding on education and employment opportunities and acting in direction of creating and improving position in the enterprise.</p> <p>Risk and awards are related to career development and income increase and not to the amount and value of assets.</p>	Crucial	Very big	Crucial
Financial Managerial (Managers in the financial institutions)	Agents acting as intermediaries of financial markets offering investment opportunities for savers and funds to productive entrepreneurs for creation and development of private businesses	Very big	Very big	Very big

**Figure 1: Size of Firms (Number of Employees)**



The macroeconomic role of the entrepreneurs in Eastern Europe is presented on Gibb's model of the structural gap in Figure 1. Graphically expressed, their role is to gradually change the form of curve B so that it can be transferred in curve A. In real dimensions this task is interpreted with the increase in the number of firms with size from 0 to 50 employees, mostly through creation of new private ventures and restructuring of large state-owned firms to overcome their significant absence in firm size 51 to 250 employees.

The latter firm size group is seen by Banasch (1990) as the major route to small business development in the industrial and service sectors of Eastern European countries. Banasch's suggestion is appropriate for the conditions in the region where the most significant obstacle to new firms set-up of 51 – 250 employees size is the scarcity of financial resources, mostly concerning domestic entrepreneurs. On the basis of the entrepreneurial task in macro aspect, tasks on micro level can be broadly defined. Their successful implementation can result

in macro restructuring of the transitional economies in Eastern Europe. The entrepreneurial task on micro level can be summarised as follows (Tyson *et al.*, 1994):

- Entrepreneurs have to play active roles and implement the processes of privatisation and restructuring of state-owned companies. The realisation of these tasks needs a broad range of activities. Entrepreneurs have to divide large firms in smaller more efficiently functioning and giving better effects enterprises. By doing this the scarce resources could be freed up and utilised in a better way, existing excessive diversification can be reduced, better and more effective configuration of related businesses can be created. In the meantime the entrepreneurs have to restructure and reorganise the smaller privatised firms in order to create appropriate managerial network in the restructured enterprises, stimulate the development of managerial skills needed in a market economy, invent new incentive schemes, introduce total quality management, make the reorganised companies innovative, flexible and globally orientated to the market.
- Entrepreneurs have also to start from scratch new modern small businesses that will contribute to “filling in the hole”. As Arzeni (1992) shows the average employment share of small firms in Eastern Europe is 3 per cent because in 1980s two completely controversial processes took place in the market and centrally planned economies. While the small-firm share of employment in the developed Western economies has recently increased considerably (see e.g. Duche and Savey, 1987; Storey and Johnson, 1987), that share has been decreasing till the start of transition in the former centrally planned economies (Carlsson, 1989). Although this negative trend has been successfully reversed in most Eastern European countries the bulk of the job for the fulfilment of the second task of micro character still has to be done.
- Entrepreneurs have to help the process of global change of the characteristics of the industrial structure of the economies of Eastern Europe. Such a shift must result in fundamental industrial restructuring replacing the excessive dependence of the economies upon outdated heavy industries with more balanced industrial structures resulting from the development of industries where individual countries can gain comparative advantage. Through the exposure to new markets the influence of market forces have already created conditions for such changes, as prices of goods have been permitted to reflect their actual supply on the world markets. The pricing policy, related to the situation on the domestic markets, faces the restriction of the very small purchasing power of the domestic customers. Entrepreneurs will have to find a good answer to this complication as well.

Regarding the operational activities needed for the start-up of a new venture or restructuring of an existing business the principal entrepreneurial tasks at any

stage are: production/operations, finance and marketing (Arendarsi and Mroczkowski, 1994).

*Production/Operations:* The environmental characteristics and their restrictions are the most important factors that determine the particular kind of business to pursue, especially if it is of a bigger size. In Eastern Europe as well as in Western countries, previous experience and business contacts play crucial role. This is especially true for businesses with international markets, trade and service companies. The recession in Eastern Europe is forcing more thought and creativity into the production/operations task. The manufacturing start-up firms in manufacturing usually have to restrict their activities by applying low-cost, low-technology production processes because of the lack of sufficient capital and significant difficulties in obtaining modern equipment and technology. Some help in this aspect has been provided by foreign entrepreneurs usually resulting in creation of international joint ventures.

*Finance:* Initial capital is needed for the establishment and early development of new ventures and often for the restructuring of existing businesses. Studies in many Eastern European countries have revealed the extreme significance of own capital for start-up businesses. Bank credits have had very limited role as well as the financial help through various foreign investment funds. New ventures are usually undercapitalised due to the macroeconomic specifics accompanying recession (high inflation, high interest rates, constantly decreasing availability of domestic credit opportunities). Some of the new ventures act as competitors from their birth which decreases their chance for profit as competition has kept prices down despite the contrary effect of recession. The global evaluation of the financial task of entrepreneur in Eastern Europe gives it complicated and controversial description which significantly hampers its fulfilment.

*Marketing:* The recession in Eastern Europe has created hard time for the new private companies since their pricing policy is severely restricted by their undercapitalised conditions. The underdeveloped and unsuitable for market economy infrastructure in the region has created many problems with distribution of products for most new private businesses. In some countries, like Bulgaria, the wholesale and retail systems undergo very significant changes and this process creates additional burden for entrepreneurs. For many new private businesses the most important customers are state-owned companies, that being bigger and stronger, enjoy strong bargaining power, especially when supply is provided on highly competitive basis. This makes the respective small businesses substantially dependent on the condition of the public sector that in most of the countries is poor or very poor. Such entrepreneurs have to cope with very sophisticated problems. Consequently the worsening health of the state-owned companies can produce equivalent result in otherwise healthy private firms. Being new and small, the established private businesses are generally of local importance oper-

ating within the boundaries of a single town or smaller part of it. In such cases the owners of the businesses often act as distributors and retailers (small firms on family basis in agriculture are good examples). International markets are usually regarded by small venture start-ups as a potential for the expansion of their markets, creating an international joint venture or seeking additional opportunity for technology transfer and source of credit.

### *Conditions and Requirements for Entrepreneurship in Eastern Europe*

Using the model developed by Hatton and Raymond (1994) (See Figure 2) the overall evaluation of entrepreneurship in Eastern Europe can be based on elements of which it consists. The variable *environment* represents the variety of all internal and external factors actively and potentially relevant in the process of business decision making. *Strategy* is regarded as a pattern in a continuous stream of decisions (past, present and future) that is expressed in two aspects:

- guides the progressing adaptation to and influences on the environment of a business;
- forms the business internal policies and procedures (Miles and Snow, 1978; Mintzberg, 1978). *Task* and *technology* are conceptually almost inseparable. The *task* represents the major objective of the business, and the *technology* provides a detailed description of how this objective can be realised. The *structure* of a business includes the official organisational hierarchy and lines of communication, as well as the existing informal structure and actual lines of communication during the functioning of this business. The *individual*, a controversial variable, is analysed by the authors in the aspects of bureaucratic orientation and degree of strength needed for higher order.

Analysing the entrepreneurial model, presented in Figure 2 with the use of information given in Table 3, both entrepreneurial and administrative aspects of the organisational activities of small private businesses are considered. The original idea of the model is to provide guidance for entrepreneurial decisions from the start-up phase of a small business combined with the analysis starting from the outermost layer of the model and progressing toward the centre.

The environmental characteristics for small business creation and development in Eastern Europe are assessed as very complex and dynamic. The reason for complexity, both for domestic and foreign entrepreneurs is the fact that the macro environmental characteristics lack as elements the necessary institutional business support infrastructure. For a domestic entrepreneur crucial from a financial point of view is the insignificant amount of domestic investment funds and the willingness and availability of supply through financial help provided by foreign investment funds and the international financial institutions. The reality is that the supply of finance is far less than the existing demand. Macro environment is characterised with significant volatility caused by the processes of politi-

cal and government instability in most of the countries in the region. In most of Eastern European countries governments change often and each comes with new programme for the restoration of the entrepreneurial system. This hampers the restructuring process and causes continuous changes in the legislation and institutional structure, delaying the appropriate re-establishment of the indispensable for the market economies entrepreneurial system.

The overall existing economic system also changes as result of the restructuring processes, transfer of ownership of productive assets and liquidation of the existing state owned enterprises. Many niches in the existing markets are available that creates good opportunities for entrepreneurial development in Eastern Europe. However, many problems exist, related to both macro and micro specifics of the environment. They are caused by the need for integration of the new start-up businesses in the existing economic structure that itself undergoes considerable changes continuously since the beginning of the transitional process.

Considering the characteristics of the environment it is of fundamental importance for the entrepreneurial development in Eastern Europe that the determining business characteristics match the environment and the market specifics in the best possible way. The problem of the most significant importance of Eastern European markets is the small purchasing power of the individual industrial customer. The high inflation causes high level of interest rates on loans that cools down the ambitions of the less enthusiastic and risk adverse entrepreneurs. From strategic point of view a new venture comes into existence after the analysis of all aspects of the environment. The niche strategy is very suitable for small business creation where economies of scale cannot be exploited because of the limit of market for certain products or services and the theoretical optimal size of an enterprise is not achievable. The existent economic structure in Eastern Europe provides opportunities for many industries to specialise on product/service and market basis to serve well targeted market segments. If based on a well developed niche strategy a small business start-up is expected to have better chances. Most successful small private businesses in Eastern Europe, created during the transitional period, can be identified as niche enterprises.