

## Managerial changes in transition: Case of the Czech Republic

*M. Malý\**

The main objectives of the current research done in many transition countries in Central and Eastern Europe in the field of management are more and less the same: the assessment of managerial changes realised in this ten years period of 90-ties.

The methodological access for studying managerial development however is different. In countries with a homogeneous and relatively small sized economy it is possible, under certain circumstances, to generalize the results and draw final conclusions for the whole country. In larger economies or more complicated development the general conclusions would not fit to the high diversity of individual cases. Under these circumstances it is more purposeful to concentrate on comparative analysis of the former and present reality and point out the main areas of managerial changes that emerged during the last period.

### Strategy management changes

Company management is facing the new reality of being fully responsible for its own economic results and all decision-makings must follow primarily economic criteria. The new private owners evaluate the level of managerial work according to economic results, not by fulfilling the planned targets or social goals (e. g. full employment). Mostly “social thinking” taken as a Czech cultural phenomenon, rooted deeply in social democracy traditions (Clark, Soulsby, 1999) prevented Czech senior managers to adopt offensive strategies. Instead, defensive and passive strategies (Malý, 1996), strategies of survival, were implemented with the main social goal of employment stability. As Clark and Soulsby (1999) point out, the strategic goals were not analyzed by classic capitalist criteria of maximising revenue but by sustaining existing employment level. This myopic policy finally led to a drastic decrease of employees or bankruptcy. On the other side, the senior managers with a clear strategic view implemented from the beginning offensive or limited offensive strategies (Malý, 1996). These strategies helped them to overcome the first years of transition. The case of Škoda Czech car-maker (J-V with Volkswagen) is an example of the courage to decrease the number of employees and later on even

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\* University of Economics Prague

to increase the initially number of employees (Table 1), using an offensive strategy from the beginning of transition period.

*Table 1. Development of employment at Škoda Czech*

Škoda Czech	Year										
	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Number of employees	19,862	16,359	17,105	17,048	15,985	15,649	16,721	18,977	20,441	20,322	22,588

## Management style

Within the framework of AKTION Program (Reber, Malý, 1999) the empirical studies of leadership behaviour were carried out. In the period from 1991 to 1999 the data of the 559 respondents was collected in a time span of eight years and organized in four two-years period.

The main objective of this research was to analyze the managerial style changes using Vroom/Yetton model (Vroom, Yetton 1973). In this model the managerial styles are classified into three main groups or let us say five subgroups: autocratic AI, AII, consultative CI, CII and group decision (participative) GII styles.

The first conclusion is that the prevailing managerial style of Czech managers is an autocratic style as a heritage of forty years of the centrally command system. The second conclusion is that the Czech managers demonstrate absolutely no significant change when comparing the data of the whole period and there is also no significant change as far as participativeness and main effects are concerned.

Reorganization of the economy from central command planning to a market system did not have any substantial influence on managerial style of Czech managers. The phenomena can be explained not only by the fact that it is estimated that approx. 70 per cent of former nomenclature managers continue in their functions but as well as by high degree of conservatism. Clark and Soulsby (1999) point out a sense of resistance as one of the typical Czech values.

## Organizational Redesign

Managerial conservatism prevents Czech managers to overcome the old way of “social thinking”, a strong identification with the fate of employees (Clark, Soulsby, 1999). Many of them still don’t realize that the managerial problems are not located any more at the “input” side of the company (shortage of raw material, energy, labour force) but they were shifted into the “output” side (marketing, selling the products, profitability, low costs). Maintaining employment and strategy of survival are still the leading strategies used primarily in large-scale companies with majority state ownership.

Organizational structure of the majority of Czech companies underwent the typical development of former “centrally planned” companies from hierarchical functional structures through divisionalized, cost centres, profit centres, strategic business units and in some cases to holding structure.

The highest change took place at the corporate governance level. The former principle of “one man leadership” and “unity of command” was suddenly replaced by team management and board structure on the company top level. A two-tier system was introduced in Czech companies following the Commercial Code (managing board and supervisory board), contrary to some other “Eastern” countries like Poland and Russia, where one-tier system was implemented (board of directors). In many Czech joint-stock companies privatized mainly by voucher method, a hybrid structure was implemented. It can be labelled unofficially as a three-tier structure (senior managers, managing board and supervisory board). The basic difference is that the members of the managing board are mainly the representatives of investment funds, active in voucher privatisation and usually the most powerful shareholders of the company. The role of supervisory board is marginal without any real controlling power or any influence on appointing the managing board members. This inefficient hybrid is now slowly changing into a real two-tier system, where the senior managers are appointed to the managing board and the representatives of other stakeholders become the members of the supervisory board, including the representatives of investment funds. The OECD principles on Corporate governance (OECD, 1999), are implemented step-by-step into the Corporate governance system in Czech companies.

### **Managerial learning**

One of the most important tasks in the transition period was connected with an effort to increase the level of local managers and match it with the western counterparts. Clark and Soulsby (1999) state that central to understanding the managerial changes since 1989 has been the fact that the senior managers have been predominantly from former “nomenclatura” provisions. The structure sample of Czech managers is depicted on Table 2. The average age of managers confirms the above-mentioned situation.

There are different ways how to improve the managerial level. The classical way is to establish business schools leading mostly to MBA degree for executive managers. This of course takes some time, usually 2-3 years as part time studies. One of the most successful methods of managerial learning was the direct learning implemented in Czech joint ventures. The most successful systems are the “tandem system” and the “distant learning system” (Malý, 2000):

The tandem system is being implemented by Škoda-Volkswagen car-maker. The tandem system is organized so that every Czech mid-level manager has a

Volkswagen counterpart. They have equal authority and are responsible for the same tasks. Both must work very closely together.

The arrangement has its positive and negative aspects. The main advantage is that the tandem system is a very direct learning method. Both partners learn from each other during the actual working process. Learning is not limited to mere facts and figures but is extended to unwritten (behavior) modes encompassing broader socio-cultural areas. A tension between nationalities did not seem to be as prevalent a problem as one may have expected. Rather, a informal division of competencies is possible (as in the parenting model where certain things are decided by the mother, others by the father).

*Table 2. Age structure and educational level of Czech managers in 1999*

Educational level	Total sample		Gender		Age		
	Number	%	Male %	Female %	Total years	Male years	Female years
<b>Average</b>	231,00	100,00	87,45	12,55	44,00	43,00	44,00
<b>Elementary</b>	1,00	0,43	100,00		50,00	50,00	
<b>Vocational</b>	3,00	1,30	100,00		44,00	44,00	
<b>Secondary</b>	32,00	13,85	87,50	12,50	47,00	46,00	50,00
<b>Bachelor's degree</b>	4,00	1,73	75,00	25,00	35,00	37,00	30,00
<b>Master degree</b>	180,00	77,92	86,67	13,33	43,00	43,00	44,00
<b>Doctoral degree</b>	11,00	4,76	100,00		42,00	42,00	

Source: Trexima (2001)

Communication problems may turn out to be largest negative feature. Differences in language and cultural backgrounds of the two groups may cause confusion both up and down the hierarchy. It could happen that the two partners fail to co-ordinate their actions. As always when people have to work very closely together, the situation has the potential for conflict (which can also be seen as positive in the proper circumstances). However, the current rules may, at times, become offensive to Czech mid-level managers. Their signatures mean almost nothing if they are not confirmed by their foreign counterparts.

The distant learning system is being used in the Glaverbel Czech joint venture. Every Czech middle manager in Glaverbel has a counterpart, a similarly positioned manager at Glaverbel in Belgium. The Czech partner has the duty to consult by phone, fax or mail with his Belgian counterpart in advance of all important decisions or referrals to higher management. The two partners have to reach a consensus and then the local partner can implement the decision to submit a referral. The company thus intends to do everything possible to help its

middle management – as well as all other personnel – to undertake the gigantic move from a planned economy to a market one. Proper management is therefore guaranteed, leading to the overall success of the venture.

In-company training, used by almost all joint ventures, combined with internships in the foreign partner's subsidiaries is one of the best ways to retrain the local managers quickly and effectively. Many large Western corporations and some small companies have developed their own education, training and retraining programmes to compensate for the shortcomings to their official business school systems.

The other question is how to increase the managerial level of domestic firms. In spite of the fact that managerial know-how is one of the weakest areas of Czech managers, only about 24% of the local companies are interested in management training.

Eastern European managers have been overwhelmed by the many offers of various types of courses, short-term, mid-term, and long-term, leading to MBA. The first cohorts of students were those managers fluent in foreign languages (mostly English and German). For the most part, upon completion of their various study programmes, these managers left their local employers and applied for jobs with foreign firms. This is one of the reasons why so many domestic firms are unwilling to send their managers on this kind of retraining. Another reason could be that the programmes are too general, usually repeating very simple basic topics that local managers already know. Lastly, the language barrier often turns managers away from retraining.

## **Conclusions**

Managerial changes in strategy management, management style, organizational redesign as well as managerial learning are ranked as highly important factors in the process of increasing the managerial level in Czech Republic. This is of course not the exhaustive list of all managerial issues. The importance of one other topic is permanently growing in this region: managerial ethics. In business, as in life, our ethical principles are extremely important. They tell a great deal about who we are and what we stand for. Business ethics is of the same importance as Accounting or Corporate Finance. The challenge for the newly emerging market economies of Central and Eastern Europe is the ongoing fight for new ethical norms in business, instead of corruption and bribes. If we don't succeed in preventing the managerial and mafia coalesce in these countries, the whole efficiency of a new social order will be marginal at best.

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