

## **From Centrally Planned Culture to Entrepreneurial Culture: The Example of Bulgarian and Romanian Organisations\***

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*The dismantling of the socialist mode of production in Bulgaria and Romania has marked the beginning of a turbulent and unprecedented period which poses new challenges to organisations. While in the past organisations were mere extensions of the five year central plan, they now have to take responsibility for their actions in the market place. In addition, the loss of the COMECON market has exposed organisations to international competition and the need to explore global opportunities. The paper presents eight organisations which have established themselves as quality suppliers for the Western market by managing successfully the change from centrally planned culture to entrepreneurial culture.*

*Nach der Aufgabe der sozialistischen Produktionsweise in Bulgarien und Rumänien sahen sich Unternehmen plötzlich grundsätzlich neuen Herausforderungen gegenüber. In der Vergangenheit war die Planung in Organisationen eine einfache Funktion des Fünf-Jahres-Plans. Heute trägt das Management die Verantwortung für seine Entscheidungen. Der Verlust des COMECON-Marktes bedeutete außerdem mehr internationalen Wettbewerb und den Zwang, global aktiv zu werden. In diesem Aufsatz werden acht Firmen vorgestellt, die es geschafft haben, sich als Zulieferfirmen für den westlichen Markt zu etablieren und damit die Veränderung von einer planwirtschaftlichen zu einer Kultur des Unternehmertums vollzogen haben.*

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## Introduction

During the socialist era, Bulgarian and Romanian economies were modelled after the example of the Soviet Union. Firstly, a five year plan was imposed on organisations by the Central Planning Committee and branch ministries. The emphasis of the plan was on the volume and functional performance of the products, rather than the overall quality of output. Secondly, foreign trade was centralised and controlled by branch ministries and performed by a few large Foreign Trade Organisations (FTOs) which had monopoly over foreign trade activities and controlled the channels of distribution. Therefore, organisations had little concern for quality, marketing and distribution, and displayed no competitive behaviour.

When, in 1989, the bureaucratic structures of the planned economy crumbled, most of the overstuffed FTOs disintegrated. The imminent collapse of the COMECON market led to further disruptions in the performance of the majority of Bulgarian and Romanian organisations whose products were mainly designated to supply the Eastern European 'block'. The loss of state subsidies and the inability to rely on borrowing due to restrictive interest rates made organisations even more prone to disaster. With warehouses full of goods which did not have a market anymore, organisations were forced to sell at a loss if they were to survive at all. Restructuring and moving away from an centrally planned culture towards a more entrepreneurial culture has then become a question of survival.

The question which arises is whether and how Bulgarian and Romanian organisations have coped with the new challenges. The paper suggests that relatively few organisations reacted well to the change and it is important to learn some lessons from these success stories. The paper focuses, thus, on the process by which eight organisations transformed their previous 'centrally planned culture' into an 'entrepreneurial' culture, and established themselves as quality suppliers for Western organisations.

It is beyond our aim to discuss in detail the concept of culture, as other authors have already provided insightful maps of such literature (Meyerson et al. 1987; Smircich 1983). Culture is defined, for the purpose of the paper, as the constellation of behaviours, values and assumptions which are held in common by organisational members. In other words, culture represents the social glue which keeps organisational actors together. Whilst centrally planned culture is a well understood concept (Campbell 1991), the concept of entrepreneurial culture is subject to fragmentation which, according to Kuratko and Hodgetts (1995) and Wartman (1987), lacks clear conceptualisation.

To start with, most Western views of corporate entrepreneurship are predicated on a four stage model, namely, founding, growth, maturity and failure which may not be entirely appropriate for explaining the behaviour of Eastern European organisations. At founding, according to Dubini (1992), Western firms be-

have in an entrepreneurial fashion but they lose this tendency in their growth and maturity stages, becoming bureaucracies. Bulgarian and Romanian firms, however, do not follow this model. At founding the organisations studied were bureaucracies, operating in a stable, centrally planned environment and it is now, in their growth or maturity stage, that they display entrepreneurial characteristics due to the instability and unpredictability of the environment.

The empirical study of entrepreneurship as a firm-level phenomenon has come of age in very recent times (Zahra 1993). Corporate entrepreneurship research is split in two camps, one arguing for the need of positivist research, the other one arguing for the need of interpretivist research (Bouchikhi 1993). In this paper we take the latter view which suggests that the emphasis should be on empirical observation with exploratory, or preferably, grounded research rather than on testing hypotheses deduced from existing theories (Bygrave 1989). Therefore, the interpretivist stance adopted in this paper allows the researchers to explore the processes by which organisational members (i.e., top management, in our paper) make sense, construct and agree upon definitions of culture and eventually enact cultural change (Berger et al. 1968).

## **Background to the Study**

The paper focuses on the light industry as one of the traditionally successful export sectors in both Bulgaria and Romania. In-depth, semi-structured interviews were conducted with the managing directors of eight leading organisations from this sector. The criterion for choosing the eight organisations to take part in the study was their perceived ability to adapt their structure and culture to the market conditions. These organisations differ substantially in terms of nature of product, company size, market share, type of ownership and organisational structure.

The studied Bulgarian organisations will be called throughout the paper the shoes company (BS), the knitwear company (BK), the clothing company (BC) and the glass company (BG). The Romanian organisations will be called the knitwear company (RK), the crystal company (RC), the textile company (RT) and the stockings company (RS).

BS is the largest manufacturer of shoes and leather accessories for women in Bulgaria with a market share of 20% and 1600 employees. BK is a medium-sized company, employing 600 employees and having a turnover of \$2 mil. BC is a large-sized organisation employing 2000 people, with a production capacity of 700,000 garments per year and a turnover of \$7 million. BG is the biggest Bulgarian manufacturer of bottles and jars with a market share of 40% and a turnover of \$ 10.5 mil. BS is 100% state owned and is not considered for mass privatisation under the current government initiative. BK and BG are also state owned but both are currently considered for privatisation. BC was privatised

through MEBO (management employees buy out) in 1995 and is currently a joint stock company.

The RK, RC and RT are medium sized with a turnover between \$ 2 and 3 mil. and net profit levels between \$ 60,000 and 80,000. The stockings company is large-sized, making a net profit of \$ 1 mil per year. While MEBO was the privatisation method adopted by the first three organisations, RS is owned by one private shareholder.

The theoretical model proposed by the paper is grounded in data and is developed according to Eisenhardt's (1989) methodology. Thus, the research design follows a methodical approach: firstly, the research area was clearly defined in order to focus the research effort. Secondly, it was agreed on eight cases of successful organisations which had succeeded in winning contracts on the Western market. Thirdly, the researchers started the field work and collected qualitative data via interviewing and company documents examination. The analysis of the data was two fold: within case-study and across case studies. Within case-study analyses aimed at collecting top management's views concerning each individual organisation. Cases were then compared with one another, with similarities being grouped in clusters and differences explained in light of existing similarities.

Finally, it was concluded that five features characterised the process of change from centrally planned culture to entrepreneurial culture in the organisations under the study. This type of theorising is referred to as orienting theory (Whyte 1994), as it gives important clues as to what the significant theoretical variables may be and whether there are any relationships between them.

## **The Struggle for Survival**

In their struggle for survival, Bulgarian and Romanian organisations had to learn a new type of behaviour which endorses free-market principles. Based on the empirical data, the paper maps out the change from centrally planned culture to entrepreneurial culture along five dimensions, namely strategic orientation, organisational structure, commitment to quality, technological innovation, and control of resources.

### **Strategic Orientation**

In the centrally planned economy, organisations were not free to chose their strategic orientation. A centralised strategy was imposed on them by the five year central plan. When asked about their strategic orientation in the planned economy, all the managers interviewed referred to the central planning process and the place and role their organisations had in it. In the current context, organisations are free to chose and enact those strategies which suit them best. The em-

pirical evidence suggests that there are common patterns across these organisations insofar as their strategic awareness and behaviour are concerned.

The type of ownership affects to a certain extent organisational attitude to strategy. Companies which are state-owned appear to adopt a 'wait and see' approach, being more concerned with tactical decisions, while those which are already in private hands have a more clearly defined strategic vision for the future. The managing director of BC said:

*'Through strategic planning senior management tries to increase the efficiency and effectiveness of the operation with regard to our relationships with suppliers and buyers. We plan to look beyond that and, in fact, we have a vision for the next 10 years: among our priorities are to build long term relationships with our clients from Western Europe and improve the level of customer service, create our own fashion label and range of products and make considerable investment in new product development'.*

In the Romanian case, RC appears to be one of the most strategically aware organisations: the company has both a marketing department and an export department. According to its managing director, the organisation is aware of the domestic and foreign competition, understands customers' needs and does a great deal of new product development. Its managing director describes it as

*'a company which offers quality products at a competitive price'.*

At the other end of the spectrum, RT does not even have an export or a marketing department. As the general director said:

*'I am the export and the marketing person: I have written to various embassies in Bucharest, to the Chamber of Commerce about what the company is doing and this is how foreign companies have found out about us. Our old clients also sent us new clients. We have no money to do market research or to go to international exhibitions' (RT).*

When asked about their current strategic orientation, the general director said:

*'All we want is to survive: we are not strong enough to follow a particular strategy, we have to muddle through until we pay back our debts and get up to speed on the technology front' (RT).*

The above evidence suggests that organisations perceive, construct and enact their strategies differently in their attempt to build an entrepreneurial culture. Indeed, some organisations act according to their perception of opportunities while others are driven merely by the pressures for survival.

## **Organisational Structure**

The organisations under the study have undertaken significant downsizing in the last five years. The RT downsized from 685 employees in 1990 to 220 in 1996,



while the RK cut its staff from 550 to 200 employees. One of the directors interviewed explained that this situation was due to the fact that:

*'In the past we had too many employees and the productivity level was very low. That was OK at the time because everybody was supposed to have a job and the state was subsidising loss-making companies. We cannot afford this anymore because we (our emphasis) are now responsible for our own survival' (RC).*

Various functions and departments have been reorganised and their overall contribution to the organisational structure has changed. Production used to be the central pillar of the organisational chart dictating the needs and goals of the other existing functions. At present, most Romanian companies consider the commercial/sales function to be as important as the production one. The structure of Bulgarian organisations appears to be more market oriented than their Romanian counterparts' with marketing, sales, new product development and the quality control function gaining in importance. However, marketing is still not perceived as a strategic function in any of the four Bulgarian organisations.

Although, the transition to a market economy has led to the decentralisation of strategic decision making at the level of each individual organisation, the decision making process within organisations, functions and departments remains to a large extent top-down. As an illustration, the RS general director said:

*'I want to know all that's happening. I don't trust my subordinates. I need to be in control all the time, otherwise things will go wrong'.*

One may conclude that while the centrally planned culture was characterised by hierarchical and rigid organisational structures which centered around the production function, the entrepreneurial culture is characterised by more flexibility which allows organisations to respond quickly to the external and internal demands. As the BS's managing director put it:

*'We had to make our structure more flexible and more responsive to change. Now that a number of small private companies are cutting into our market share, we cannot remain complacent'.*

### **Commitment to Quality**

The centrally planned culture did not encourage organisations to look at the market prior to defining their quality levels. Forker (1991) notes that:

*'in a market economy, competitive pressures compel firms to produce goods at higher quality levels than those required by the minimum specifications in the national standards'.*

In Bulgaria and Romania, where consumers faced a sellers' market with little or no choice of alternative supply sources, these competitive forces were essentially missing. This is not to say that in the centrally planned economies there was no rhetorical concern for quality. This concern was materialised in a com-

plicated network of quality standards. These standards were government led and were aimed at specifying dimensions and quality characteristics for industrial and consumer commodities. In Bulgaria and Romania, quality standards were set at enterprise, ministry and national levels.

1. *Company standards*- to ensure that goods produced for internal consumption within the same company were of an acceptable level.
2. Industrial ministries laid out *sector standards* for factories under their direct authority.
3. *National standards* (Bulgarian State Standards- BDS, and *standarde de stat-STAS* in Romania) are the only ones currently in use and provide the legal basis for quality enforcement. Both standards are aligned to ISO 9000.

It is our belief that the Bulgarian and Romanian problems lie, generally speaking, in the quality of conformance to standards not in the quality of design. A comparison between Romanian, Bulgarian and British standards for textile products suggests no significant difference in these standards. According to Frost and Jones (1994), the problem of conformance to standards is two-fold. Firstly, there is too much emphasis on schedules and costs and secondly, not enough feedback is given to the workers on the quality of their products.

While this was typically the case in the centrally planned economy, the evidence suggests that the organisations under the study have started to understand that customers' preferences are paramount in defining quality and conformance to these needs is good business practice. Most of the directors interviewed defined quality as

*'conformance to the customers' needs' (RC) or as*

*'an essential condition for survival and competitive advantage' (RS).*

The entrepreneurial culture appears to be characterised by an awareness of the importance of quality at all organisational levels and by personal ownership of the quality produced. As the BC director said:

*'For us meeting customer requirements is a necessity, we are learning gradually how to provide best quality and, in many cases, encourage quality experts from the customer organisations to come and supervise the production process. Our ambition is, in the next few years, to introduce TQM, and that will be a great challenge for everybody in the company'.*

Another director said:

*'everybody is responsible for the quality of their work, they assess the quality of their work before it is passed on. We also have the final control at the end of the technological flux which is done by our quality inspectors' (RT).*

## Technological Innovation

The evidence suggests that Bulgarian organisations have not made any substantial investments in new technology and equipment, during the years of planned economy. At present, they are currently upgrading their production facilities but consider themselves lagging far behind their West European competitors. The senior managers interviewed suggested that technological innovation is a crucial factor for success in the international market and agreed on the need for continuous technological improvement of their organisations. In their view, new technologies will improve the quality of the output and increase profitability through higher productivity. However, companies' executives see technological innovation as a gradual process which at present is hampered by lack of financial resources.

In the Romanian organisations, the situation is relatively similar. The Romanian government stopped importing new technologies in early 80s, partly because of the country's ambition to repay the external debt and partly because the official Party line purported that the country had the capacity to create and sustain its own technologies. At the time the study took place the organisations studied were involved in international technology transfer on the receiving side. The managers interviewed argued that their technological level was much lower than in any Western counterparts and it was one of their strategic objectives to close this technological gap. Thus, the RW and the RT were importing equipment and technology from Germany while the RC was importing them from Great Britain and Switzerland.

In the centrally planned economy technology was not only underrated but there was little concern with its social, organisational and managerial consequences (Woodward 1958). While, at present one can notice an increase in the efforts to continuously improve technologically, managers still do not appear to understand that technological and human aspects are inextricably intertwined. One of the directors interviewed said that:

*'if you get the technology right, everything else will follow' (RK).*

This technological determinism may be the result of top management's engineering background which is typical amongst Bulgarian and Romanian directors.

## Control of Resources

The centrally planned culture was characterised by budget driven planning, whereby resources were allocated via the central plan and organisations were expected to fulfil the tasks laid out in it. The virtual lack of competition between manufacturers, coupled with extensive government subsidies in the high cost industries left many organisations unable to handle their costs efficiently.



Organisations are now exposed to serious competition at home and abroad, and an increasing number of managers realise the importance of cost efficiency as a way to create or improve the competitive advantage of their organisations. The evidence suggests that, at present, when organisations undertake their own budgeting, many of them embark upon extensive cost cutting programmes as part of their strategic orientation.

A review of the current cost structure of the studied organisations suggests that raw materials are the most significant cost element, followed by salaries and cost of utilities. Companies have different solutions for cost cutting. Evidence suggests that irrespective of the method adopted, cost reduction is viewed as a critical factor for success. BK, a company with a long production cycle, is currently looking for ways of redesigning the manufacturing process to minimise the high costs involved in energy intensive operations such as the dying of the yarn and the knitting of the cloth. BK and BC are also looking for reducing the unit cost of their products by increasing the productivity of its labour force, by developing economy of scale and improving stock control. BS are at present re-negotiating the terms and conditions with their suppliers and are increasingly searching for local rather than international supply sources.

As far as pricing strategies are concerned, Bulgarian and Romanian organisations set prices in negotiations with their Western customers. In some cases, their bargaining power is significant:

*'We are gradually moving from low to higher margin products, looking for orders which improve our profitability (managing director, BK).*

In other cases, companies are forced to accept offers which are not necessarily the best. The RW's general director said, for example, that for the same product the German client pays half of the price the Italian client pays, but that

*'We cannot afford to lose the German client, because at the end of the day, we still cover our costs and make a little profit' (RT).*

## Conclusions

The model put forward by this paper has explanatory power only within the organisational settings explored, and, therefore, further testing is required in order to enhance the validity and reliability of the model. The model is summarised in the table below:

The collapse of the central planning system forced organisations into behaving entrepreneurially in order to survive. For the first time in their life cycle organisations have asked themselves questions such as: where are the market opportunities? how can we become a more efficient organisation? which are the most competitive suppliers? what do the customers really want? how can we finance the new technology? how will we pay back our debts?

*Table 1: From egalitarian culture to entrepreneurial culture*

<b>Item</b>	<b>Centrally planned Culture</b>	<b>Entrepreneurial Culture</b>
Strategic Orientation:	five year plan driven	driven by perception of opportunities and pressures for survival; commitment to internationalisation
Organisational Structure	hierarchical and autocratic	flatter but top-down decision making
Commitment to Quality	reactive response to the customers' requirements	increased attention to customer service
Technological Innovation	underrated not market driven	major technological re-engineering; awareness of the need for continuous technological improvement
Control of Resources	budget driven planning	market driven orientation to cost efficiency

The answers to these questions are to be found in the dramatic process of transition to an entrepreneurial culture. The cases presented in the paper suggest that moving towards an entrepreneurial culture is a painful process but that value changes associated with it are not only worthwhile but absolutely essential in the context of an increasingly global and competitive economy.

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