

# The variety of interest groups, institutions, and development after transition: applied to the development of enterprises in post-communist countries

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## INTRODUCTION

This contribution is concerned with the transformation of enterprises in post-communist economies. It aims to develop generalisations from the author's previous work on Central and Eastern European countries (CEECs) (Myant, 2003, Drahokoupil, 2008b), setting this against work on the development of varieties of capitalism across post-communist countries (e.g., Lane and Myant, 2007, for an overview, see Drahokoupil, 2008a) and incorporating results of empirical studies on enterprises in some parts of the former Soviet Union (FSU).

The central conclusion is that much of the existing literature, focusing on changes in incentive and ownership structures, has missed the most important issue. The countries concerned were involved in creating capitalism from a base without capitalists and without capital (cf Lane and Myant, 2007, Myant, 2007). The accumulations of wealth and the sources of finance that were available to enterprises in modern capitalist economies as they developed did not exist in post-communist countries in the years around 1990. Enterprises lacked independent access to finance and they also lacked the kinds of links and networks associated with firms in advanced market economies. Successful development depended on filling these gaps.

Policies of fiscal and monetary restraint and some of the forms of privatisation that were adopted, often following advice from international agencies, did not contribute to overcoming the fundamental problems. The result has been somewhat tortuous paths of transformation with different solutions emerging to the problem outlined above. Broadly speaking, two solutions have appeared. One amounts to dependence on foreign multinational companies. The other amounts to dependence on domestic financial and trading groups which have built up their wealth, contacts and power by unclear means. A third possibility of state support to fill the gap is also given passing references. In all cases the state has played some role, but a fully 'state-led' variety of capitalism in a post-communist country has yet to prove a viable means to create firms with international potential.

The stability and permanence of all of these solutions remains uncertain. The first would appear the most stable, bringing the prospects of investment, modernisation and linking domestic production into international networks. However, the forms of capitalism in post-communist countries in general remain to be settled.

Studies of the transformation of enterprises in post-communist countries point to a considerable degree of individual diversity. However, there are also a number of common trends and features that point to a key differentiation between the eastern and central European countries and the FSU. In the CEECs a period of crisis was largely overcome by the appearance of branches of multinational companies which either took over and reoriented existing enterprises or established themselves from scratch. In the FSU a period of crisis, albeit deeper and with somewhat different roots, came towards an end when enterprises were reintegrated into wider economic relations by powerful domestic actors.

There is diversity within both of these general pictures and the extent of genuine economic recovery varies greatly, particularly across the FSU. Indeed, in some countries recovery based on activity of enterprises has been minimal and rising living standards depends more on remittances from working abroad.

The starting points, in terms of nature and behaviour of enterprises, have a great deal of similarity. The enterprise under central planning was large and fully integrated into a system of planning that gave it assured markets. There were differences, most notably in technological levels and in the extent of international contacts. Enterprises producing semi-manufactures in CEECs generally had experience of exporting to advanced market economies. Many other manufacturing firms also had contacts, from buying licenses, from producing goods under contract, from exporting and, in some cases, from joint ventures. There were also differences in the forms of planned economy by the late 1980s, but their extent and significance are difficult to assess. Overall, the base for building new and deeper international contacts was strongest in CEECs and weakest, if not non-existent, in more remote parts of the USSR.

#### THE 'SHOCK' IN EAST-CENTRAL EUROPE

Enterprises in east-central Europe were hit from 1990 by rapidly falling demand. This was caused partly by deliberate policies (of cutting subsidies, restricting money, opening to imports that could compete with domestic firms) and partly by the ending of relationships within the CMEA which brought a rapid reduction in mutual trade. The thinking behind the restrictive policies was partly that there was an 'inflationary overhang', meaning savings that could be spent on goods once they became available thereby creating inflationary pressures: this fear was probably greatly exaggerated. The thinking was further based on the belief that establishing 'hard budget constraints' would change the incentive structure facing enterprises, pushing them towards an emphasis on improving efficiency to face the new competitive pressures.

There is a considerable body of literature from the early and mid 1990s on how far enterprises adapted to the new market environment. A reasonable conclusion is that they moved rapidly to find new markets and to build new contacts, but they did less in terms of large-scale modernisation. Carlin, et al. (1994) summarised the early literature. However, the key form of adaptation was to exploit the new opportunities for contacts with western Europe to sell products (either minimally adapted or produced to precise contracts) to new foreign customers. Enterprises able to do this could overcome the serious cash-flow problems created by the drop in demand and restrictive monetary policies. Thus it was variations in the base inherited from the past that determined variations in successful adaptation.

This account of the early adaptation of enterprises has two important implications;

1. The situation was quite unlike that facing a standard enterprise in a market environment which has its own financial independence and access to outside finance (from banks, other credits and from the stock market). The enterprise under central planning had not had access to its own financial resources and the restrictive policies introduced from 1990 had the effect of accentuating this weakness.
2. The key objective of the enterprise management appeared to be survival of the enterprises and that depended on overcoming cash-flow difficulties. Indeed, it is a reasonable generalisation, across CEECs and also Russia (Clarke, 1996 and 2007), that survival, meaning the continued functioning of the enterprise as a collective, was the

principle objective of management and employees alike in the period of the 'shock'. It could be seen as representing continuity from a heritage of 'paternalistic' management and wider social role played by the enterprise under central planning. However, it was not a barrier, or alternative, to adaptation to the new situation. On the contrary, it provided an incentive and urgency to finding means to adapt.

The aim of survival could lead to different responses, depending on the starting conditions and, to some extent, on choices made by management;

- production of established products could continue. This was straightforward for staple utilities, such as electricity, and generally possible for raw materials and semi-manufactures that could be exported to new markets in western Europe. These enterprises therefore required minimal internal restructuring and did relative well in the new environment.

- in other cases attempts to continue with established products could lead towards enterprise collapse. Continuity was less successful for manufacturers of more complex products (lorries, tractors, railway locomotives, heavy machinery). It therefore came with pleas for state help (to find markets, to cover past debts, to keep alive important sectors and traditions etc), but these enterprises endured very lengthy periods of crisis and contributed to the escalation of 'payment arrears' throughout the economy. Some have left the scene. Others could only revive after some kind of help from outside the enterprise, either from the state or from another business or from a combination of these actors.

- producing simpler products for western partners. This included OPT in garments and footwear and production of simpler components in engineering. It meant rapid adaptation and effective diversification away from sophisticated end-products and/or own-branded goods. It enabled enterprises to overcome immediate cash-flow problems, but was not a strategy with long-term prospects, partly because it provided no basis for independent innovation and partly because it depended on low labour costs that could come under threat from countries further East. This was still compatible with trying, over time, to re-establish the strength of established products and brands (garment firms tried to set up their own outlets, engineering firms tried to develop new, albeit fairly simple, products and to set up outlets in China and elsewhere), but survival was the immediate priority.

The prominence of diverse methods of survival in enterprise strategies has important implications for the nature of the transformation. These were a form of adaptation to a new situation, but it was not a form of adaptation that need imply progress towards the target of a modern firm as found in a modern market economy. Survival implied a diversification into trying as wide a range of activities as possible, hoping that something would bring success. That often implied widening the range of products, but the key element was also a downgrading (to simpler products, to products made for contract that were designed elsewhere) and not a move towards a higher technological level, still less a development of independent technological capacity. There was thus little change in the organisation of work and certainly no upgrading in skill levels (For examples from the Czech transformation; Myant, 1997, Myant, 1999 and Myant 2003).

This had implications for employment policy – there were generally sharp reductions in employment in established industries helped by state policies (early retirement schemes and unemployment benefits were important elements of state involvement that made this part of the economic transformation socially acceptable, as argued especially by

Vanhuyse, 2006) and by increasing employment opportunities in services. There was also state involvement to prevent the collapse of key enterprises, to ensure the functioning of a finance and monetary system and to hold in check rising unemployment.

The role of the state and the importance of social pressures, or the perceived threat of protests, can be followed in a number of key cases that then influenced overall government policies. The Czechoslovak government faced protests from ČKD (a large engineering combine in Prague) and Zetor (a tractor producer in Brno) in early 1991 that led to policies to prevent the collapse of major enterprises (Myant, 1993, pp217-8). The Polish government was forced to tread carefully with shipyards on the Baltic coast, the birthplace of Solidarity in 1980, and with the Ursus tractor factory in Warsaw, another scene of key protests from the past and of continuing militancy in the early 1990s (Myant, 1993, pp.257-260). Thus the threat of organised labour was one factor, alongside others such as the determination not to allow the destruction of major employers that were judged to have economic potential, that prevented a full reliance on *laissez faire*. However, the state in these countries kept out of full-scale enterprise restructuring. Instead, the enterprises inherited from the past were given little help beyond that necessary to prevent their collapse.

Thus the capitalism that could emerge from a base without capital was weak and dependent on outside contacts. The nature of those contacts provided very limited scope for accumulating resources for productive investment and modernisation. Survival therefore typically did not promise a future of independence and prosperity. Instead, the prospect was of a future of struggling to find new survival strategies.

#### THE 'SHOCK' IN THE FSU

Compared with CEECs, enterprises in the FSU countries faced greater disruption from the breaking of established links. They had often been very dependent on other parts of the FSU (areas that became distinct and independent countries with the break-up of the USSR) and had less experience of contacts outside the CMEA area. The 'shock' for them was primarily a matter of the ending of the former system of central allocation and hence of the payments system between republics. Enterprises suffered a drop in demand (they could not expect payment for part of their output), but also a drop in access to inputs (deliveries of raw materials and components often ended). This could be extremely disruptive for complex products that often depended on components from different republics.

As in CEECs, survival became the first priority and they had to do it without financial reserves and without access to external finance, but the task was more complex and difficult. A banking system continued in CEECs and could give credits to enterprises. Czechoslovakia was particularly strongly placed with a tradition of stable saving that gave banks substantial resources for lending. This supported new enterprise creation and kept afloat (for a time) many established enterprises (Myant, 2002). Banking in the FSU suffered from a lack of determined central control to ensure the development of a functioning system of exchange and credit. Banks played rather different roles, some concentrating on speculative transactions, some supporting individual enterprises and often helping move funds out of the country (Lane, 2002, Johnson, 2000, Buyscke, 2007). The lack of strong central banks marked a clear difference from CEECs and was partly a consequence of the chaos associated with the break-up of the USSR. Overall, it pushed

enterprises towards survival strategies that appear even further removed than those in CEECs from standard responses in a market system.

Survival strategies for enterprises in the FSU, in comparison with enterprises in CEECs, can be summarised as follows;

- those enterprises that could export to world markets did so, but this was limited by the lack of established contacts. Oil from Russia could continue to sell and cotton from Uzbekistan did well (incidentally hitting the textile industries in other FSU countries and dependent on organisation and support from the Uzbek state), but semi-manufactures suffered, either from the lack of experience on world markets or from problems with gaining essential inputs. This, then, was a slower and more limited feature than in CEECs.

- others tried to link up with foreign partners, but this was difficult. Contacts were weaker, the technological level was lower than in CEECs, geographical distance was greater (an important consideration for OPT and many components in mass production industries) and the legal framework was uncertain (even Czech companies were cautious in the Ukraine as they had bad experiences due to lack of clarity of ownership of enterprises, Myant, 1997). This, then, was not a major way out of cash-flow difficulties.

- survival therefore required finding the necessary contacts within the country so that existing capital and labour could be used to continue production. Inputs, markets and necessary finance could all prove problematic. Networks and political contacts could help, to judge from case studies of the mid 1990s (Clarke, 1996 and 2007). One solution was linking to a domestic trading company that could provide inputs and markets for outputs. The origins of these companies and of their accumulated wealth were often unclear. Indeed, the less regulated economic environment in FSU countries (compared with CEECs) created scope for a much greater dependence on informal methods and contacts. The absence of more straightforward alternative strategies made this a necessity for business survival. How far this reflected differences in actual mechanisms of functioning in the old centrally-planned system and how far it reflected the realities created by the early transformation period remain unclear.

Dependence on trading companies implied for the industrial enterprises a reduction (still further) in commercial activities outside of production alongside a probable diversification of production with concentration on unsophisticated and unbranded products. In this sense, then, the enterprise was moving further away from the form of a firm in an advanced market economy which would ideally combine production with other activities in sales, marketing, R&D and strategic planning.

- employment policy included a need to maintain a labour force (to exploit opportunities arising from the trading companies and in the hope of returning one day to traditional economic activities). This was not easy, in view of limited financial resources, and those firms with the least resources were left with the worst (least skilled and least disciplined) workers in a period of rapid labour turnover. However, in the absence of alternative employment and of a substantial welfare state (comparisons with CEECs show much more limited levels of provision, Cook, 2007) employees were prepared to stay in employment even with long delays in wage payments. They also accepted payment in kind as various barter arrangements provided outlets and revenues for enterprises. Thus deeper difficulties for enterprises, a weaker financial infrastructure and a weaker state role

all contributed to an apparently greater divergence from 'standard' economic behaviour of a firm in a market environment.

- long-term strategy appears to have been given even less consideration than in CEECs. There were frequently hopes of returning to past product ranges, but the narrowing to a purely production role made any thinking on a more comprehensive strategy highly problematic.

Case studies show dramatic falls in output, across all FSU countries but, as in CEECs, enterprises do seem generally to have survived. There were differences in the extent of direct state involvement to keep enterprises in tact and some signs that a substantial state involvement may be successful in some parts of complex manufacturing industry.

The most active state appeared to be in Belarus. MTZ, the Minsk tractor producer, suffered a massive drop in output (down to 25% in 1995??), but the state was committed to its survival. There were various forms of financial help, as for other parts of the country's inherited industrial base (Nutti, 2007), and the enterprise developed its product range to fit with market demand. Lukashenka was actively involved in the enterprise's management which at least confirmed state backing. Particularly in the years after 2000, MTZ sales increased back towards the capacity of 50,000 tractors per annum, with markets across the FSU, in various developing countries and also in Poland.

This could be contrasted with Kazakhstan's tractor producer in Pavlodar. Its product range was narrower and less attractive to farmers in the 1990s. The solution sought to the collapse in output was for the World Bank to help find a foreign partner that could bring revival. When this failed (Pavlodar was too remote and the factory was judged to need too much investment if it was to become viable), the enterprise was allowed to face collapse. Tractor production in the town is set to revive with small-scale production under licence of MTZ tractors, starting in 2008 with an annual target of 1,000.

#### NEW PRIVATE FIRMS

The development of a market economy requires the development of private companies. In numerical terms, the main source in all countries has been creation from scratch rather than privatisation of existing enterprises. There are differences between countries here in the comprehensiveness and reliability of data (a huge amount of informal economic activity can only be guessed at). There are differences in the scope for development of small companies beyond micro beginnings. That requires legal conditions and, for all but the smallest operations, access to credit. The picture in CEECs varies with the timing of growth, but the general picture is of a very large number of very small firms which were a major source of bad debt throughout the economies: in all cases banks suffered from a substantial burden of credits that would never be repaid.

However, a significant number of small enterprises have grown. A frequent picture is of someone with expertise from a state-owned enterprise setting up their own company, involved in selling/trading/ importing or exporting/ small-scale manufacturing/services. This could in some cases weaken established enterprises (they lost business services, research activities etc), but it also led to enterprises that took opportunities to diversify and adapt their activities. There is much less firm evidence on this from FSU countries in the early years, but the origins of many trading companies are presumably to be found here.

## PRIVATISATION INTO DOMESTIC OWNERSHIP

Privatisation has been widely assumed to lead to greater efficiency than state ownership. There is plenty of evidence that this need not be the case – it depends on who the owners are, the institutional preconditions and the market structure in which they operate. Nevertheless, this simplistic notion penetrated policy making in all countries to varying degrees and is forcefully expressed by figures who at various times advised governments (for a particularly simplistic view, see Shleifer, 2005).

The assumption was that transferring to private ownership – any private ownership – would bring a new incentive structure leading to greater efficiency. Our view is that privatisation certainly brings big changes, but they have to be assessed against their role in overcoming problems faced by enterprises (lack of clear ownership structures, lack of finance, lack of contact with customers, lack of involvement in international networks, lack of access to advanced technology). The incentive structure derived from privatisation alone does not solve these problems. Some forms of privatisation may lead to solutions, but some may make the problems worse.

Privatisation took a number of forms (direct sale to foreign owners, direct sale to domestic owners, transfers to forms of holding companies, various forms of voucher system leading to transfer into dispersed domestic ownership – either employees or the wider population). The philosophies behind these forms of privatisation differ.

The first follows either from a need for revenue or from limited faith in domestic owners. It often faced opposition from a political atmosphere that favoured national ownership and from fears that a foreign owner would not be committed to lasting production.

The second implies belief in the powerful entrepreneur leading a company. This was important in privatisation in the 1990s in the Czech Republic where control in a number of large firms was taken by individuals favoured within the government. They were able to benefit, for a time at least, from the availability of bank credits, but ultimately proved incapable of developing successful businesses. ‘Czech’ capitalism, based on entrepreneurs who wanted to build powerful business empires, ended in failure at the end of the 1990s.

Voucher methods imply a belief that shareholders can control and impose discipline on managers (or that a rapid period of ownership concentration would lead to control by powerful ‘entrepreneurs’). This is the most questionable: joint-stock companies arose as means to raise revenue for established companies and their development required an accompanying development of a complex legal framework to protect the interests of the investing shareholders. Here they were being created in a way that preceded the evolution of an accompanying legal system and that actually made the raising of revenue (by share issues) more difficult. The view that shareholders could control management, leading to greater efficiency, is naive and anyway secondary alongside the key problems of finance for survival and then for business development.

Indeed, early assessments of privatisation included a great deal of naivety. Many contented themselves with saying how much had been transferred to private ownership and this became an important indicator for success in transition. Studies were based on interviews with top managers rather suggested that management was in very skilled and competent hands and that new and appropriate forms of corporate governance were emerging, irrespective of the means of privatisation (this is true of a World Bank sponsored study, Brada and Singh, 1999). It was an unsurprising conclusion from a

methodology of minimal value and it was quickly proved wrong as many of the firms studied faced collapse. Other studies suggesting that shareholders were actively involved in restructuring enterprises (eg Schutte, 2000) were also telling only a small part of the story. Privatisation, depending on the form it took, opened up some quite different possibilities that cannot be interpreted within a framework that sees shareholders simply as a force for imposing an incentive to maximise efficiency on managements.

It was associated in all countries with fights for control over the enterprises. Existing managements sought the form that would be most favourable to themselves (direct free transfer was not realistic for political and other reasons, but they were happy with free, or nearly free, transfers to the public or to employees in the cases of Czechoslovakia and Russia, two countries that chose those kinds of methods). After privatisation, the battle for control continued with efforts to ensure shareholder loyalty and/or to accumulate more shares. Methods used could be secretive or illegal and could require political influence. Access to finance was important and its basis often obscure.

Privatisation was also associated with substantial changes in the operation and objectives of enterprises and in relationships of actors both inside and with others outside the enterprise.

It was associated with a diversity of objectives and greater complexity either than would be implied either by 'survival' or by profit maximisation. Indeed, theories of the implications of the separation of ownership from control in capitalist firms – largely ignored by advocates of rapid privatisation - have been built from a recognition of some of this complexity. They by no means encapsulate all of it.

- the survival objective continues to dominate in some enterprises. It may be strengthened where other options are limited and employees have a strong influence. This could apply, or could have applied, in Russian firms where the managers appeared to be in control, but employees held substantial shareholdings, so that that control could be conditional. It could have applied in Polish firms where there was a heritage of employee militancy and formal structures of representation through 'self-management'. Generally, however, the survival phase ended in CEECs and for many enterprises in the FSU.

- a separation of ownership from control produced scope for a separation between the interests of the enterprise (meaning its long-term survival and business success as a collective) and of the managers and/or owners. The latter could benefit from siphoning out resources to themselves (in their own enterprises, in bank accounts abroad if a financial institution would help in taking the assets out). There were also possibilities for destroying the company in total, selling off its assets with proceeds going to the owners. This is not a realistic possibility on any substantial scale where employees have organised power (through trade unions and access to the media), but was even advocated for Georgia by the country's one-time Minister of the Economy (Papava, 2005) on the grounds that everything inherited from central planning should be considered a burden restricting the scope for new growth. Such destruction of the economy's base appears indeed to have been particularly important in the Georgian transformation (Christophe, 2007).

- the existence of tradable shares also created scope for new kinds of enterprises aiming for immediate profit maximisation from owning and trading shares. They, or those who controlled them, could often best further their objective by taking wealth out of the country. Investment in productive activities and modernisation of the domestic economy were, for a time at least, unlikely means to profit maximisation.

Thus privatisation by dispersed ownership, and also to 'concrete' domestic owners, could have seriously negative consequences. It generally brought no new financial resources or expertise and encouraged a diversion of effort into battles for control rather than long-term strategy and a diversion of finance into buying controlling shares rather than investing in modernisation. It was also associated with new means to make profits which had little to do with improved efficiency or modernisation.

The history of enterprise success and failure is not related primarily to privatisation (it depends in the first instance on industrial branch, as indicated above). Indeed, there is hardly any successful Czech company emerging out of voucher privatisation. Big firms survived through the 1990s, often trying ambitious plans for establishing (or re-establishing) international sales and helped by running up debts to banks.

Ultimately, the key to survival for large enterprises outside the most favourable sectors was, with very few exceptions, either state ownership or foreign ownership. The former option could provide stability and financial support, but only the latter offered modern technology and integration into international networks. Thus in a number of cases in the Czech Republic the state helped out with financial aid and restructuring plans in the mid and late 1990s, the ultimate aim from then being sale to a reliable multinational company.

The fate of the Czech tractor producer Zetor can illustrate the problems. Both suffered dramatic drops in output as markets disintegrated. For Zetor difficulties were compounded by non-payment of bills for previous exports and by mistakes in sales policy, following the break-down of established exporting structures. It faced financial catastrophe by 1991 as it battled for state help to keep going. Voucher privatisation provided no solution. Attempts to link-up with the US firm John Deere also failed and Zetor faced renewed financial crisis in the late 1990s. It was then taken back into effective state ownership, slimmed down and sold to a Slovak company that tried again to revive sales. Thus the state was essential to survival, but did not provide a basis for recovery.

Experience in Russia (covered in Clarke, 1996 and 2007, and Morrison, 2008) was different, but there were some common features. Privatisation and its aftermath were associated with similar battles to ensure control, albeit set in the different context of privatisation that gave substantial nominal power to employees. The victors at first were the incumbent management, albeit often by somewhat obscure means. From the late 1990s ownership often moved to holding companies and financial groups, emerging out of trading and other companies. Their concern was typically not with modernisation and investment, but rather with making profits from trading.

An important change came after the financial crisis of 1998 which was followed by a period of growth and recovery. This was stimulated partly by the benefits of a high oil price, but that cannot be the whole story (cf, the contributions in Ellman, 2006). There was also rapid growth in domestic-oriented firms which benefited from improvements in the functioning of the financial system. It became possible to catch up on wage payments to pay bills, and to expect bills to be paid.

A variety of explanations have been given for this change, including the devaluation of the currency, the imposition of regulations over the financial system and the imposition of power from the state that could indicate that firms would suffer if they did not use

financial resources in the domestic economy. Thus privatisation was not the immediate cause of recovery, but reorganisation of enterprise structures after privatisation and new forms of networks and ownership were important. Accumulations of wealth in the hands of trading companies were reoriented (at least in part) away from speculation or transfers out of the country into investment in stabilising, and developing domestic enterprises. Thus an important change was the accumulation of capital in the hands of domestic organisations that could use it to foster the domestic economy when changes in the environment made this appear the most advantageous way to use the capital.

A similar process can be observed for the Ukrainian steel industry. Financial resources had previously left the country for safe havens. Some of this returned when the powerful financial groupings ('FIGs'), built up from trading and reliant on contacts to political power, actually brought money back into the country. Thus revival depended on close links between production and groups powerful enough to ensure inputs and to open new export markets (Swain and Mykhnenko, 2007).

It is therefore not possible to refer to one type of enterprise with a single, simple objective. There were still survivors. They were also short-term profit maximisers. There were also firms with the resources and the ability to establish contacts and networks that could enable them to take a longer-term, more strategic view. Some chose to do that and that, it is reasonable to hypothesise, was a key element in moving enterprises in a number of post-Soviet countries beyond the survival stage.

#### PRIVATISATION INTO FOREIGN OWNERSHIP

Foreign companies have been less interested in the FSU than CEECs. The benefits they can offer include;

- financial resources to overcome immediate difficulties,
- access to outside markets through their international networks and brand names,
- finance for investment and modernisation,
- scope for a long-term strategy.

In CEECs inward investment has provided rapid growth in modern economic sectors, albeit taking diverse forms that sometimes require only less skilled labour and bring minimal further benefits to the economy. They have been crucial for;

- motor vehicles and electronics in which no firm under domestic ownership has been able to maintain, let alone develop, a strong and independent international presence,
- textiles and garments, although some domestic firms have been able to survive,
- steel and chemicals, although it is far less clear that foreign ownership has been important: these sectors also did well under state ownership,
- raw material extraction has seen the least foreign ownership: again, these are successful branches anyway.

In the FSU foreign ownership in export-oriented industries has been important in semi-manufactures (Kazakh steel: domestic ownership in this case did not appear to provide access to export markets necessary for the industry's revival), but there is much less sign of modern export-oriented manufacturing industry under foreign ownership. Its place is taken by the financial groupings and holding companies which may operate to revive these manufacturing sectors across Russia and the FSU, albeit to a great extent targeting domestic markets and with limited prospects of reaching high levels of international competitiveness.

## TRANSFORMATION OF ENTERPRISES AND POST-COMMUNIST CAPITALISM

Enterprises have taken a central place in some attempts to define varieties of capitalism. Comparison of transformations across CEECs and the FSU countries show the transformation of enterprises depending on the business environments (finance and money), on political power, on the legal environment, on the strength of social interests and on the role taken by the state, partly in response to the above factors. Enterprises do not occupy an exclusively central place in the development of a variety of capitalism.

The transformation appears as a two-staged process. An initial stage, a 'shock', saw the ending of the system of central planning but the continuation of pretty much the same structure of enterprises. They had new opportunities, thanks to the freeing of relationships, and that appears as progress towards a 'normal' market system. However, there were also forces moving them in a different direction, leading to isolation of enterprises (they could not pay bills, or rely on payment from others and therefore lost many contacts with traditional partners) restricting their ability to act as autonomous units. They lost established links and had limited ability to establish new ones.

The second phase, 'recovery', depended on overcoming the isolation of the 'shock' phase. This meant re-establishing links with suppliers and customers which depended, in a market environment, on the ability to access outside finance. There is no guarantee that this will happen, and some countries have remained depressed. However, experience suggests the following broadly identifiable forms of recovery;

- foreign-ownership led, with multinational companies providing finance, links etc,
- raw-material led, with such substantial revenue from raw-material exports that a stimulus is provided for some wider domestic economic activity,
- FIG-led, with trading companies accumulating wealth and power (often through links to political power) to finance recovery,
- State-led, with continued state ownership or patronage holding companies together and enabling them to survive and recover.

These are not exclusive to particular countries. Most have some mixture across the modes of recovery. It remains to be seen whether one or more will tend to dominate and whether one or more will prove capable of producing a modern, internationally-competitive economy.

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