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Cross Countries Study: State Enterprises Restructuring in Bulgaria, Romania and Albania

1. Introduction

In this part of the book we summarise the findings from a project about the restructuring of state enterprises in Albania, Bulgaria and Romania.

The main finding of our study is that the degree of restructuring in state owned firms in the three countries under consideration has been surprisingly modest. This is in sharp contrast to the significant pace of change noted in earlier by studies by, for example, Belka et al (1993) for Poland or Estrin etal (1995) for the Czech Republic, Hungary, Poland and Slovakia. It is also surprising given the length of time since the commencement of serious market oriented reforms. The study suggests that this is in large part because the economic environment in these three countries is much less clearly a market one than in the Vishegrad countries. The final section speculates on additional reasons, including the scale of the external shock in these countries and the less favourable preconditions to reform. Policy recommendations are deduced from the analysis.

In the following section, we discuss project methodology and findings, before considering macro-economic preconditions to reform and indicators of progress in reform.

The third section is addressed to the issue of restructuring, defining the tasks to be undertaken by firms in the shift from planned to market environment. This framework formed the basis for the common questionnaire applied in all the case studies. In the fourth section, we enquire why progress in restructuring in state owned firms, as indicated by the case studies, has been so much less than in the Vishegrad countries. We also speculate on the reasons for differences between the three countries, before drawing policy conclusions.

2. Methodology and Background

2.1. Main objectives of study

The study comprises a parallel analysis of state enterprises restructuring in Bulgaria, Romania and Albania on the basis of unified research methodology applied to each of the countries, identical range of problems and comparable samples of enterprises.

This has made possible not only the description of the processes of restructuring but also the comparison of their development in the three countries.

The main purposes of the project were to collect and analyse the infor,ation concerning the institutional frame of the restructuring in each country and the macroeconomic environment in which it is executed and on this base to analyse and measure the stage of restructuring in the firms. The study was carried out in two stages. The first stage analysed the macroeconomic and institutional framework of the process of enterprises restructuring of the base of a quantitative and qualitative analysis of statistical data, review and analysis of relevant literature and normative documents.

The second stage includes original studies of 5 to 7 enterprises in each country using the "case study" method. The questionnaire applied is identical for all countries, and the sample of enterprises is formed according to preliminary determined unified criteria.

2.2. Method of Studying Enterprises

The use of case study method imposes by several reasons. First, there is not enough and reliable data about the condition of the enterprises. The available statistical data is not enough and in some cases needs specifying. Second, may be more important reason, is that this method of study gives the opportunity for a detailed analysis of the qualitative characteristics of the proceeding in the enterprises processes and of the factors which determine them. The interview ranges the system cardinal questions of the reform at micro-level of the economy. The results show links and dependencies which in another way could not be examined.

The use of case study approach is not without problems. The studies require high costs. It needs too much time for their preparation and realisation. The interviews and especially the reports cannot be done by interviewers without the necessary qualification. And not at the last place, the access to the enterprises gets more and more difficult on considerations of – firm secret".

Mainly because of these difficulties the research team made totally 19 case studies 7 in Bulgaria, 7 in Romania and 5 in Albania. On these circumstances inevitably rises the question about the representativeness of the sample – to what extent the studied enterprises reveal maximally the existing problems and to what extent their reactions can be considered as typical for the relevant country. In order to satisfy the requirements for maximum possible representativeness the research team was guided by determined criteria and expertise so that it can determine the enterprises which will be included in the sample.

First, the range of the research was limited. The attention was focused only upon the state enterprises in the industry. The private firms were not studied because of their still small sizes and not big percentage in this branch. The enterprises from the military industry and the infrastructure were not included in the study because of the specific character of their restructuring and adjustment as well as the system control practised upon them by the administration.

Second, a group of 10-12 indicators was determined so that the choice of the conditional group of enterprises can be made on the base of their varied combination. In order to eliminate the identity of the enterprises, at least half of the number of the indicators should not be repeated in any two enterprises in the sample. The following indicators were used – branch, produced products, technological character, size, region, juridical form, attitude to privatisation, production share, market share, main markets of realisation.

In order to get comparison between the studied enterprises by countries the condition was accepted three enterprises to be from the branches of light industry, one from chemistry and three from machine-building, which approximately corresponds to the weight of these branches in the economy. As in Albania it was difficult to be found machinebuilding enterprises which can correspond to the chosen in Bulgaria and Romania, the total number of the studied enterprises was decreased from three to one and the possibility it to be from extractive branches was permitted.

2.3. Preconditions to Reform

The three countries of our study belong to the second tier of reforming economies, clearly starting from a lower initial level of development than for example the Czech Republic or Slovenia. As can be seen in Table 1, which brings together numerous indicators pre-reform, income per capita was low in Albania and in Romania and medium in Bulgaria using purchasing power parity measures for 1990. These levels of development are reflected in other social indicators such as infant mortality rates and school enrolment ratios, notably for Albania. It is also reflected in the agriculture share, which is relatively high in all three countries, but notably Albania where it was 40% in 1990. Of the countries, Bulgaria is most developed while by a considerable margin Albania faces the greatest development challenge.

Evidence for the severe excess development of industry typical of communist regimes can be seen in the extraordinary industrial shares in Bulgaria and Romania, reaching more than 50% of GDP in Bulgaria and only just below in Romania. Ironically, Albania may have some slight advantage in restructuring from being less developed, because so much of industrialisation in the other countries was misdirected according to market criteria. These levels of industrialisation are high, even by the standards of transitional economics: – the share in Hungary in 1990 for example was only 29%. The over industrialisation was associated with total integration into the CMEA, for Bulgaria at least. The figures are lower for Romania and especially for Albania, which had followed more autarchic path. Taken together, these facts left Bulgaria particularly exposed to the trade shocks associated with the disintegration of CMEA and the Soviet Union. None of the countries had any great trade links to the West, and these have had to be built post-reform.

The countries also differed considerably in macro-economic balance pre-reform. Bulgaria already had accumulated considerable foreign debt and had a large monetary overhang associated with a considerable budget deficit. Albania and Romania for quite different reasons had followed more controlled and autarchic policies, leaving them with better macro-economic balance and much less international debt. Bulgaria decided in the early years of reform to default on much of its foreign debt, at considerable cost in terms of credibility on world capital markets.

2.4. Progress in Reform

Economic analysis of transitional economies (see eg. Fischer and Gelb (1991), Portes (1993), Estrin (1994)) argue that there are four distinct but inter-related elements to a transition process, namely:

- ✓ macro-economic stabilisation
- ✓ price liberalisation, including trade liberalisation
- ✓ institution building, including capital markets
- ✓ privatisation.

Albania, Bulgaria and Romania were all placed by the World Bank Development Report 1996, into the second group of reforming economies in terms of the extent of liberalisation. The first group, including Poland, Slovenia, Hungary and the Czech Republic, had average "scores" on liberalisation 1989-95, of around 0.65 on a scale from zero to unity. This compared with a value of around 0.5 in Bulgaria and 0.45 in Albania and Romania. The EBRD Transition Report, also contains progress indicators in its Table 2.1, which confirm these economies comparable and middle ranking position in the transition process.

The attainment of macro-economic stabilisation following the traumas associated with price liberalisation in situations of severe macro-economic imbalance has led to large declines in output across the region. The situation in our three countries is summarised in Table 2. Interestingly, the output drop was largest in Albania, but there has since been three years of steady growth restoring somewhat the initial position. The output drop has also been partially recovered by recent growth in Romania, which is beginning to creep towards 1989 output levels. However it continues in Bulgaria, whose position is now slightly worse than that of Albania, both relative to 1989. Albania is also performing well on the inflation front, with initially high levels being brought under control and 1995 projections being close to OECD standards. Inflation has been much higher in Bulgaria and Romania, but there is some evidence that control is being reasserted at least in Romania. In summary, the macroeconomic situation is at best moderate in all three countries, but perhaps surprisingly is clearly best in Albania in terms of both growth and inflation, and worst in Bulgaria.

Progress in the process of privatisation in the three countries is summarised in Table 3. Progress has been modest in all countries, though arguably more advanced in Romania in terms of formal procedures, especially for small firms and in Albania in terms of GDP shares (probably because of the emergence of private agriculture).

Turning finally to institution building, the World Bank Development Report produces indicators across three variables – laws and legal institutions; the banking sector and the role and management of government. These are reproduced for the three countries in

Table 4, with the variables moving on a scale from 1-4. In these deeper areas of reform, the more developed economies of Bulgaria and Romania have established a lead over Albania, especially with respect to the banking and financial sector.

In summary, Albania was a significantly less developed economy pre-reform than the other two, was also less integrated within the CMEA system and less industrialised. Bulgaria was most developed, particularly integrated into the Soviet bloc and highly over-industrialised while Romania had pursued an expensive policy of debt repayment. Given these preconditions, reform has arguably been most rapid in Albania, especially on the macro-economic side. However the low level of development has meant that Albania has made less progress in deeper reforms related to, for example the legal system and the capital market. We will see below that progress also appears less in restructuring, based on the findings from our cases.

3. Enterprise Restructuring in Transition

This project has focused towards measuring the extent of restructuring of state owned firms in Albania, Bulgaria and Romania, using the case study approach. In developing a common analytical framework, the key issue is therefore to define restructuring in the transition context, and to find indicators of progress. The obvious starting point is an understanding of the socialist enterprise in the planned economy, in contrast to capitalist firms operating in a competitive environment. We can then categorise the changes that must take place in the firm in a number of ways. In what follows, we employ the following categories:

- ✓ enterprise objectives and constraints
- ✓ organisational restructuring
- ✓ "unbundling"
- ✓ product market restructuring
- ✓ input restructuring, notably of capital, labour and energy.

The most important point to stress is that restructuring in a transitional context is a multi faceted phenomenon. Firms have to restructure their products, production methods, quality control, stock systems, and accounting systems, not to mention their organisational structures and the balance between the "make or buy" decision. Firms can be making progress in some dimensions but not in others. An obvious reason might be differences in the costs of restructuring. Changes in energy use, production layouts, or quality of supplies purchased (made available by liberalisation of foreign trade) might be virtually costless or even cost saving while the purchase of new equipment or information technology might entail capital expenditures which firms would not be in a position to finance. But restructuring may also depend on governance mechanisms. Firms effectively controlled by their labour force or by local government authorities might be much less willing to reduce employment or to cut back on social assets than managerially controlled firms with docile labour forces. Thus restructuring cannot be regarded in a unidimensional way, and progress in a particular direction need not necessarily be associated with progress in other areas.

3.1. The Socialist Firm

As is well known in the literature on central planning (see eg. Gregory and Stuart (1989), Ellman (1989)), the socialist enterprise could be viewed effectively as merely a production unit. The central planning apparatus operative in most communist countries (Yugoslavia, Hungary and in the 1980s Poland were exceptions) arranged for the bulk of material inputs to be delivered, and for the disposal of most production, whether as inputs to further down the value chain, to domestic consumers or for export. Money was passive and while formal accounts were kept, positive or negative financial balances had little decision-making role in a system controlled by quantitative allocation of inputs and outputs. Investments were largely decided at the centre, and funded by direct grant.

Managers were put under considerable pressure to achieve quantitative output targets, upon which their considerable bonuses largely depended. At the same time, informational deficiencies in the planning system itself and the desire by the Centre to use pressure on managers to motivate plan fulfilment meant that the plans themselves were often infeasible and typically very hard to achieve. This gave every incentive for managers to cut corners in the attainment of current production goals; quality, planning, husbandry of capital and human capital, careful input management, energy and resources control were all sacrificed in the search for higher output.

Managers understood that the profitability of production was at best a secondary issue for planners. Indeed, if the "value" of planned output at centrally determined prices exceeded the "value" of inputs, also at centrally deterred prices, this was of no little or no consequence. Budget constraints on firms were therefore soft.

Even in decentralised economies such as Hungary, where output and supply planning had been abolished, managers could rely on subsidy virtually without limit to finance production. Managers also quickly learnt that it was often easier to achieve plan targets by getting their targets softened, or by getting special favours or grants from the Centre in supply allocation, than by improving technical efficiency or company performance. The motivation structure favoured systematic rent seeking amongst managers.

The mentioned general features of the socialist firm were shown in the specific institutional environment of the different countries. Its knowing could help in some cases for the better understanding of the changes in the state enterprises attendant the reform. In the end of 80s in Bulgaria a rejection from the strict centralism in the management of the economy was declared. The Planning Committee and the branch ministries were removed.

The centralism in the economy was made through so called state orders which embrace different part of the capacity of the enterprises. The management of the enterprises for a short period of time went through the experiment to be introduced from above the "self-management" including the choice of directors from the staff. After frustrating this experiment the decision was searched in so called firm organisation of the economy with forced role of the signed from above director of the enterprise. The mentioned specific moments could be connected with the shown later disinterestedness of the government to the state enterprises as well as with their forced decapitalisation.

Specific for Romania is the combination of hyper centralised planning, strong budget dependence and interference of the party apparatus with quasi autonomy, manifesting in own fund of the enterprises (5% of the profit) and turning the workers to "share holders". As we will see the reform period is characterised with comparatively strong centralisation and creation of funds for private ownership which own 30% of the ownership of each enterprise.

The specific model of Albania is characterised with hyper centralisation and command management with strict hierarchy structure including state planning commission, branch ministries and municipalities. In the end of the period the directors had limited rights combined with decreasing of the subsidies, i.e. as a view of the incapability of the government to subsidise the losing enterprises and not so much as of a desire to give autonomy of the enterprises. The efforts for a change of the centralised model of management the economy were weakest shown in Albania in comparison with the other countries. That is why it was easier to eliminate it totally and to the least extent to influence to the reform model. Nevertheless the west specific role of the municipalities as a hierarchy link for management and after 1990 shows a certain continuity.

3.2. Reform and the Firm

The reform leaded not only to a change in the macroeconomic conditions for functioning of the firms but also to a change of the firm organisation and the firm structures. In all transition economies, including Bulgaria, Romania and Albania, can be seen evidences for executed decentralisation, change of the juridical status of the firms and diversifying of the size structure of the enterprises.

In Bulgaria the decentralisation of the state enterprises and the changes in their juridical status were executed considerably early – in the first half of 1991. The newly accepted Trade Law has the aim to equalise the main economic legislation with this of the developed western countries and the special Law for Creation of Trade Companies put the base for the corporatisation of the state enterprises. The main part of these enterprises were restructured the very same year in joint-stock companies and limited liability companies.

By this time was made decentralisation and demonopolisation of the big state unions with the exception of the firms from seven branches – electronics, telecommunications, energy industry, metallurgy, military industry, etc., for which the plan was the decentralisation to be made with a special decision of the government.

The mentioned measures leaded not only to diversifying of the organisational forms of the state enterprises but also to a sharp increase of their number. The total number of the municipal and the state enterprises including de novo increased more than 22 times for the period of four years and the most rapid this process was in 1991. In the industry the increase of the state enterprises is more than 7 times.

The increased number of the independent enterprises in the economy as a whole and in their branches helps for the elimination of the monopoly. In many of the branches the maximum possible decentralisation as a base for demonopolisation of the economy is achieved. Monopoly position in the production still have small number of enterprises which are the only producers of the product in the country or unions (complexes) of enterprises which have been specialised in the frames of AMEA (for instance Balkankar, Bulgartabak, etc.). But even these complexes differs very much from their condition before 1989 because of the executed partly decentralisation in them. In the last years the competition by import had a strong influence for the damaging or eliminating of the monopoly at the domestic market for the enterprises from both mentioned groups.

One of the most important fields of influence of the reform is the change in the control and the management of the state enterprises. In this connection in 1991 an essential step in the determination of the property rights was made and the existing till then unclear combination between workers self-management, technocratism and government interference was eliminated. The Council of Ministers was chosen as the body which responds for the functioning of the state ownership. The main rules for holding of the managers contests for management of the enterprises were also established. Unfortunately these contests were hold very quickly and quite formally and did not lead to the expected results.

As a whole we can say that in Bulgaria to a great extent was executed the decentralisation and were created considerably diversified modern forms of organisation of the enterprises. The existing legislation has not been an obstacle for their perfection in the next years. In spite of these positive changes we still cannot say that the state enterprises function as normal institutions of the market economy. The development of this process depends on the development of the other institutions of the market economy, on the privatisation of the main part of these enterprises, on the establishment of the normal market environment in which they function.

In the first few years of the reform in Romania were accepted over 20 laws which established in general the legislation framework of the transition to the market economy. One of the purposes is the state sector to become in public by giving operative independence to the enterprises and implementing their policy at market principle.

An opportunity for diversifying of the forms of the state enterprises is created. By name new forms are close to those existing in the country before the war but by character as it can be seen in the other transition economies they have the marks of the previous state enterprises.

Autonomous companies are the strategic enterprises in the Romanian economy which are state ownership and will not be privatised in the next few years. The law suggests only the possibility the management of these enterprises to be given to private subjects by leasing or management contract. This could be made by public auction and in condition that the government will receive annual sum not less than the average profit of the enterprise in the last five years.

Another basic form of enterprises are trade companies which have the biggest share in the economy. A part of them are predominantly or totally private. But most of them have mixed capital – state and private.

The state ownership embraces 70% of the current assets while 30% are distributed by ownership certificates through the adults in the country. The share of the state is managed by State Ownership Fund and the share of the people – by private Ownership Fund. In practice by the first one the state has decisive influence both in determining the managers teams and their behaviour.

The decentralisation of the state enterprises in the industry in Romania is realised with much less intensity than in the other countries from Central and Eastern Europe. The increase of the total number of the enterprises as a result of the decentralisation is less than twice. Later the government estimates that at many places necessary and important technological link have been broken and realises the opposite process of merging of some state enterprises.

The legislation framework of the restructuring in Albania start to establish in 1992. In July the same year State Enterprises Law was accepted by which the management and the financial autonomy is given to the enterprises the basic questions concerning their activity in the market condition were cleared. Trade Associations Law deals with the questions about the types of associations, their status, their financial interrelations, their management and juridical responsibility including the problems with the failure. Later is accepted a separate Enterprises Failure Law which deals with the questions about the time, the conditions and the procedure of the failure.

It is notable that the diversification of the organisational forms of the state enterprises in Albania is not so big as in the other East European countries. That is probably because of the lack of tradition and the considerably small sizes of the country. A general law which deals with the status of all forms of enterprises, with state, private or mixed ownership, is lacking. The decision of the problems of the 30 biggest enterprises is searched by the creation of Enterprise Restructuring Agency, it is accepted that because of their small number it is possible this institution to find and apply a concrete decision to every separate case.

As one of the forms of decentralisation of the economy the enterprises in Albania were separated in two groups – subordinated to the branch ministries and to the municipalities. In the condition of undeveloped market, unclear status and lack of managerial traditions, many contradictions between the second group of enterprises and the municipal bodies arise, when the last have interfered directly in their production and financial activity.

3.3. Main Areas of Restructuring

As we noted above, a full transition reform programme would involve macro-economic stabilisation; price and trade liberalisation; the formation of market based institutions and laws; and privatisation. The three countries in our study have made moderate progress in all of these areas, though notably less has been achieved than in the Visegrad countries, for example. If we presumed that a total transition reform programme had been introduced, one can categorise the resulting "restructuring" at the enterprise level in the five areas noted above.

3.3.1. Enterprise Objectives and Constraints

The collapse of the planning system will deprive the socialist managers of the traditional incentives to maximise production to the detriment of costs and quality control. However, it is unclear what incentives it will put their place. This depends upon two factors. The first is the governance system which emerges with the decentralisation of decision-making authority to the firm consequential upon the formation of markets. For example the state as owner could create a governance system to reward managers for progress in attaining profit maximisation, and to penalise alternative objectives such as employment maintenance. Another possibility is that the collapse of the communist party at the time of reform so weakens the apparatus of the state that governance is effectively non-existent, and state owned firms are controlled by their employees – either managers, workers or both together. The objective of the firm would in this situation depend on the balance of power between groups within the enterprise itself, and on the objectives of the constituent groups. It seems likely that managerial control would emerge, but managerial objectives are not simple in the transition context. One possibility might be a strong concern for employment and local social issues; another could be a gradual looting of state assets into "private hands", with massive growth in the unofficial economy.

The second important factor in the objectives of the organisation post-reform is the softness of budget constraints. Whatever the governance mechanism, there will be little incentive for managers and workers to undertake complex and potentially painful restructuring in situations where the status quo is effectively underwritten by the state. Earle and Estrin (1995) have argued that there will be clear interactions between these two factors; the impact of manager versus employee ownership on restructuring for example will depend on whether budget constraints on the firm are hard.

The authorities may manage to reduce government subsidy, thereby introducing some crack into the walls of government regulations and bureaucracy surrounding enterprise decisions in which case competitive pressures can be brought to bear. Then enterprises will be forced to take account to some account of their market situation, regardless of the governance and motivation structure. In the limit, if the firm is subject to full competitive market pressures, rents will have been eradicated so even if insiders do control decision-making, they will have to respond to market pressures.

This implies that, even in state owned firms which are not yet being privatised, the governance system will be very important. Moreover, the process of "depoliticisation" – breaking the links between the enterprise and the state – will be crucial. There are a large number of indicators of this relationship, from the scale of direct subsidy or sales through the state to the extent of special licenses, regulations or quotes for inputs, outputs or other aspects of the production process. The extent of depoliticisation therefore represents a crucial dimension of enterprise restructuring in transition.

3.3.2 Organisational Restructuring

The remaining elements of restructuring are perhaps more straightforward and conventional. At its simplest level, the socialist firm will have to create new divisions to take on new functions previously undertaken centrally. These will almost certainly include finance, marketing and human resource management. In some organisations, they might also include R&D. The Board structure will have to be changed and new personnel recruited to fill these crucial new slots. At a deeper level, multiproduct firms may seek to change organisational structure in favour of profit centres, divisions and subsidiaries. The potential role of joint ventures and strategic alliances fits here also. Many of these changes can be measured directly in terms of organisational and employment changes.

3.3.3. „Unbundling„

Because of the pressures and uncertainties of planning, combined with the great rewards to plan fulfilment, incentives were skewed in favour of vertical integration, particularly in the manufacture of material inputs. Large socialist firms therefore often maintained their own foundries, machine shops, generators and repair units. Moreover, the enterprise also undertook important social welfare functions, notably in the areas of housing, child care and health, but to some extent also as a retail outlet. These social assets often absorbed a significant proportion of enterprise turnover.

The emergence of a market system also seems likely to lead to a completely different balance on the "make or buy" spectrum for most firms. Clearly scale economies and experience benefits were being lost by firms supplying their own inputs separately, and once the market has eradicated shortages and queuing, there is little logic in disproportionate reliance on internal supply. Similarly, in a market economy the role of the state – both central and local – vis a vis enterprises will shift, and the firm will need to divest many of its social assets, perhaps to local government.

The process of unbundling will not necessarily all be one way however. Socialist enterprises previously had little concern with supply quality or delivery standards. These might become major elements of competitive advantage in a reformed market system, and lead firms to develop or acquire new capacity up or down stream to their production process.

In summary therefore, restructuring should include divestment of non-core activities, both productive and social, as well perhaps as some acquisition in new areas. Divestment may also have financial benefits for enterprises undertaking restructuring in other areas.

3.3.4. Product Market Restructuring

Reforms should lead to major changes in what firms produce, how they produce it and to whom the output is sold. Restructuring might include a shift to the production of consumer goods, to an increase in production differentiation, and to major improvements in quality control and standards of production. The key factors will be for firms to begin to understand their markets, and to shift supply so as to satisfy demand. In terms of supply channels, firms should begin to develop new distribution mechanisms to replace centralised purchase, and to focus more on delivery standards and pricing. There should also be a major reorientation of customer base, from the state and other central buyers in CMEA to consumers and other firms domestically and internationally, especially in the West. Once again, it is straight forward to find indicators of progress in these areas.

3.3.5. Input Restructuring

One can here separate out five main areas for restructuring activity, in capital, labour, material inputs and energy. In all, the key element will be efforts to minimise costs, and to maximise profits.

On the capital side, firms in the region – especially those outside the priority defence and space sectors – often possess antiquated equipment. Restructuring in products and, quality may well require major investments in new equipment, both fixed assets and information technology. Such changes have major financial implications because socialist firms typically had little or no financial assets (or what they had was eradicated by inflation) and the banking systems in these countries remain severely important. Investment will therefore have to be financed largely from own resources in the short run, and this requires either current profitability or asset sales. Financial restructuring is therefore a key element in enterprise turn around, and will depend crucially on improved accountancy standards.

Overmanning was typical in socialist economies, partly as slack to ensure that output plans could be attained in huge production bursts at the end of each plan period, and partly as a full employment policy subsidised by soft budget constrained. This problem has been exacerbated in socialist countries by the large output drop associated with reform. A key indicator of restructuring is therefore performance with respect to labour productivity, and in the reduction of the labour force. However, while gross employment will typically have to fall, the other aspects of restructuring noted above may also imply significant labour recruitment mainly of white collar staff in finance and marketing. These will be in contrast to the sharp declines in blue collar employment. Training will also be important, for example in changing employee attitude towards absenteeism or quality control.

On the material input side, reform offers enterprises opportunities to change their suppliers, and perhaps to buy higher quality inputs from abroad. Information technology will also be important in stock control.

Finally, socialist firms were traditionally highly wasteful of energy, which was traditionally provided very cheaply within CMEA. The cost implications are now serious, not only at the enterprise level but for the balance of payment in countries where energy resources need to be imported. This is a major and fairly easy area for market restructuring, though investment will typically be required for fundamental shifts in energy usage. The serious environmental problems caused by poor standards and emission controls are also typical of socialist enterprises, and are an area in which restructuring yields social but not necessarily private benefit.

The questionnaires employed in our cases attempted to quantity or qualify developments in all these areas of restructuring. They also attempted to capture the impact of changing macro-economic conditions, notably the decline in demand, the shifting terms of trade, the increase in certain costs, notably capital and energy and the developing nature of the relationship between the state and state owned enterprises.

4. Assessing the Findings

4.1. Short Characteristics of the Studied Enterprises

After the mentioned above procedure and limits for the choice were followed, a list of enterprises with conditional characteristics for each country was prepared. After that the national teams made their efforts to study the real enterprises which should have close characteristics to the mentioned in the list. The combination of the indicators in each of the enterprises in each country is shown in Table NoNo 5, 6 and 7.

The Bulgarian enterprises are from 7 main branches of industry – electronics, machine-building, electrical, chemistry, textile, sewing and food industry. Three of the enterprises are big (2000 – 4000 employees), three are middle-sized and one is small (120 employees). All enterprises are state but two of them have privatisation projects and there is an application for partly restitution for one. Five of the enterprises are jointstock companies with 100% state ownership and only two are limited liability companies with 100% state ownership. For the first time this indicator shows crossing of the structure of the studied enterprises with the structure of all enterprises in the Bulgarian industry in which the number of state enterprises having status of limited liability companies dominates. The sample shows enterprises producing final products (3 of them) as well as producing intermediate products (2 of them). Two of the enterprises produce both final and intermediate products. Three of the enterprises are the only or main producer of this product and the rest are one of the many national producers in its sphere. Three of the enterprises produce mainly for the domestic market, another three produce for both the domestic and foreign markets and in one of the cases the production is mainly for export. Only one enterprise has monopoly positions on the domestic market and the other enterprises function in the conditions of competition with both national production and import. Thus the given picture of the studied enterprises is too close to this of the whole economy which is an additional reason for the representativeness of the sample of the studied enterprises.

The studied enterprises from Romania also present the main branches of its industry – machine building (mining and oil equipment, busses, trolleys and special cars), electrical industry, chemistry (pharmaceutics), textile, shoes, porcelain. All enterprises, with one exception, are big which is not surprising as the decentralisation of the state enterprises in Romania was not made so strictly as for instance in Bulgaria, Hungary and Czech Republic. After the decentralisation the number of the state enterprises in these countries increased 7-8 times and in Romania twice. Also connected with this is the fact that almost all enterprises are either main producer or one of the few big producers of this kind of production. Only in two branches (shoes, porcelain) the studied enterprises are ones of the many producers of this kind of production. The monopoly at the market is less seen because of the influence of the import and three of the studied enterprises keep monopoly or oligopoly positions not only in production but also in sells at the domestic market.

The studied enterprises have the same structure of ownership – 70% belong to the State Ownership Funds (SOF) and 30% – to Private Ownership Funds (POF). According to their juridical status all the seven enterprises are commercial companies which is the most popular form of organisation in Romanian industry.

The studied enterprises in Albania are from the branches of light industry (textile, clothes, food), chemistry (pharmaceutics) and energy industry. All enterprises are state, one of them is at double submission – to the municipality and to the ministry of agriculture, one – to the State Agency of Restructuring and one is part of so called corporations. One of the enterprises is partly privatised and another has prepared privatisation project. All enterprises are middle-sized with the exception of one big enterprise which consists 10 branches. Two of the enterprises are the only producers of this kind of production and the monopoly of one of these two is undermined by the import of the production. The rest of the enterprises are ones of the many producers and sellers of the products they produce.

The characterisation of the studied enterprises shows that it is closer to this of the whole combination of enterprises in the relevant country, this is one more reason for representativeness of the studied enterprises. Concerning the comparison of the sample by countries, the results show that three enterprises from each country are from the branches of light industry and one from chemistry (pharmaceutics). Machine-building is presented only in samples in Bulgaria and Romania with two enterprises while the relevant Albanian enterprise is from energy industry. The reasons for the last difference were discussed in the previous part. As a whole we can say that in the existing differences in the industrial structure and in the extent of development of the different branches these are optimal structures which both show the specifics of the industrial enterprises in each country and give opportunity for comparisons between them.

4.2. Assessing the Findings

A careful reading of the cases reveals that the pace of restructuring in all the dimensions under consideration has been very modest. In this section, we seek to explain why this might be the case, and to deduce policy conclusions.

We can summarise the findings across the cases in the five main areas of restructuring according to a scalc from 1 (minimal restructuring) to 5 (maximal restructuring) for each of the cases. This is attempted using our own judgement in Table 8. It can be seen that in general the pace of restructuring has been very modest. In terms of country, Bulgaria appears to have made the most progress, and Albania the least. For all the countries the progress has been greatest in depoliticisation on average, and least in Albania. There appear to be limited sectoral differences in the pattern of restructuring. Only in the sphere of organisational restructuring we can see priority of the enterprises from machine-building branches above those from the light industry which is valid for the three countries. In Bulgaria the enterprises from light industry have priority above the other in the product restructuring and in Romania those from machine-building have priority in unbundling above the other.

Our study does not show direct link between the extent of restructuring and the size of the enterprises, their monopoly position in the production or the market and the share of the export in their sells.

4.3. Explaining the Findings

The first major issue concerns why restructuring in state owned firms in Albania, Bulgaria and Romania appears to be so much less than has been found in previous studies for the Visegrad countries. The reasons are probably largely to be found in Tables 1 to 4 above. First, the preconditions to reform in these three countries was significantly worse than in the Visegrad countries; the level of development was lower, the degree of integration into CMEA for Bulgaria at least was higher, the extent of overindustrialisation was greater; the involvement in Western trade was less. There had been almost no decentralisation of the planning system especially in Romania and Albania, in sharp contrast to Poland or Hungary. Moreover unlike the Czech Republic the low level of international debt in Albania and Romania had been bought at the price of autarchy and improvement. Reform therefore involved a much greater institutional shock than in most of the Visegrad countries, in economic conditions which were inherently poorer. It is sometimes argued that the degree of responsiveness of an economic system is positively related to the scale of the shock that it faces. Arguments of this sort underlie the case for "big bang" as against gradualist reform packages. However, once one begins to look in detail at the macro-economic level, it becomes clear that very large exogenous shocks – the loss of markets, the collapse of supply systems; the inability to secure inputs or to pay for labour and energy – effectively paralyse enterprises which become unable to make even modest changes. This is partly an incentive problem -the situation appears irretrievable which mitigates against undertaking minor restructuring – and partly a matter of soft budget constraints. The authorities in such a situation are aware that they cannot let all firms go under, and hence permit continued subsidy, which itself demotivates restructuring.

The three countries in our study, as noted earlier, have made significantly less progress in the introduction of a market economy than the Visegrad countries. Though the extent of reform is considerable given the initial statutory conditions, the degree of price and trade liberalisation remains modest, leaving considerable scope for bureaucratic intervention, rent seeking and the insulation of firms from market forces. The pace of development of the private sector, both de novo and through privatisation, also leaves much to be desired, and this affects detrimentally the competitive pressures under which the firm operates. Capital market development has been particularly weak – and in the context of a recession which has severely strained enterprise resources, funds are simply not available for the more costly aspects of restructuring. Perhaps most significantly, the patchy evolution of the state apparatus has left governance of state owned firms largely under the control of managers, and to a lesser extent workers. Managers have had only limited incentives to undertake profit-maximising restructuring because the personal benefits to them will be modest, the effort considerable and the process will be unsettling and perhaps painful. Moreover, in none of these countries has a management market been established, in which managerial performance is state owned firms can be viewed as a signal of likely performance post-privatisation, thus giving managers incentives to restructure in order to enhance their own marketability.

The erratic and sometimes half-hearted approach to reform taken in these countries is also a reflection of political realities. In all three, communist or post-communist parties play an important political role, and either share in power or retain a significant prospect of returning to power. This is in part because income levels are low, distributional inequities are great and the threat of high unemployment is considerable. All of these act to slow reform. They also discourage foreign direct investment, which has been very low in all three countries. It is arguable that foreign direct investment can play a particularly important role in the transition process by unleashing competition based on quality, brand and price on hitherto closed markets, as well as by disseminating improved know-how, labour practices, training and production methods through the economy.

When one looks at differences in terms of progress in restructuring between countries, it seems likely that these can be best explained by preconditions rather than current progress in reforms. We saw earlier that it is arguable, especially on the macro-economic front, that Albania leads the way in this group, with Bulgaria lagging. From our cases, the order seems to be reversed at the enterprise level; progress in restructuring in our Bulgarian sample is somewhat more advanced and more broad ranging than in Albania with Romania in the middle. These differences probably derive from initial levels of development; despite the worse macro-economic performance, underlying human capital and other long run supply characteristics are probably superior in Bulgarian leading to greater responsiveness. The gap between macro and micro-economic performance should warn against excessive reliance on the former as an indicator of progress.

4.4. Policy Conclusions

We have argued that to some extent the relatively less satisfactory restructuring performance in Albania, Bulgaria and Romania compared to the Visegrad countries is inevitable, deriving from worse preconditions, less progress in reform for real political and institutional reasons, and lower levels of development. But some of the wounds are also self inflicted, and these can be addressed by policy measures. The key problem is that in all these countries, the governance of state owned firms is inadequate; the extent of "depoliticisation" is insufficient and the development of competitive market forces is at best partial. Concerning governance, the state must either exert greater authority over firms to ensure profit maximisation, or must dramatically accelerate privatisation. The latter policy would provide clear managerial incentives to restructure while firms were still in state hands, as well as through the changes in ownership and control. The state also clearly has much work to do in all three countries in eradicating subsidy and other government controls, and in withdrawing the state as an economic actor. Finally, faster progress towards liberalisation, freezing prices, opening trade and building market institutions including a capital framework and a capitalist legal system are clearly crucial elements in ensuring more rapid restructuring.

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World Bank Development Report, 1996

Table 1.

Preconditions to Reform, 1990

	Albania	Bulgaria	Romania
Population	3.3	8.7	23.2
Development levela	Low	Medium	Low
External debt ($b)	0.09	9.9	0.6
Share of industry/GDP	37	51	48.2
Share of agriculture/GDP	40	18	18
Natural Resources	Medium	Low	High
Government deficit (%GDP)	-3.7	-12.9	1.2
Primary School enrolment rate	85	97.1	99.4
Infant mortality rate (<5 years)	44.1	20.9	30.3

Sources: EBRD Transition Report, 1995.

Table 2.

Output and Inflation

		Albania	Bulgaria	Romania
Real GDP in 1995 as % 1989		75	75	81
(%) Output drop 1989-93		63	83	73
Inflation (CPI) (%)	91	104	339	223
	92	237	79	199
	93	31	64	296
	94	16	122	62
	96*	5	50	30

Source: World Bank Development Report, 1996.

Table 3.

Progress in Privatisation

	Albania	Bulgaria	Romania
% Employment in privatesector,1994	n.a.	34.7	51.4
Private sectors share in GDP, 1995	60	45	40
Progress indicators			
- large firms*	2	1/2	2
- small firms*	2 '	1/2	2/3

Sources: EBRD Transition Report, 1995., World Bank Development Report, 1996.

Table 4.

Institutional Reform

	Albania	Bulgaria	Romania
Laws	2	3	3
Banking sector	1	3	3
Role and management of government	4	2	2

Source: World Bank Development Report, 1996

Table 5

Bulgarian Enterprises

Sector, product, group	Enterprise characteristics
1. Electronics components consumer goods	state, joint-stock company, plan for privatisation, large – 4000, main producer, export, competitive market
2. Machine-building food machines	state, joint-stock company, plan for privatisation, large – 3800, final products, main producer, domestic/export, monopoly/compctitivc market
3. Electrical industry illuminants	state, limited liability company, no plan for pri vatisation, middle-sized – 400, final products, only producer, domestic, competitive market from import
4. Chemistry pharmaceutics, cosmetics	state, joint-stock company, no plan for privatisation middle-sized – 4-500, final/intermediate products, a few producers, domestic/export, competitive market
5. Textilecloths, yarns	state, joint-stock company, no plan for privatisation, large – 2000, intermediate products, many producers, domestic/export, competitive market
6. Sewing industry knitwear, store clothes	state, joint-stock company, application for partly restitution, middle-sized – 800, final products, many producers, domestic, competitive market
7. Food industry flours	state, limited liability company, no plan for privatisation, middle-sized – 120, intermediate products, many producers, domestic, competitive market

Table 6.

Romanian Enterprises

Sector, product, group	Enterprise characteristics
1. Manufacturingmining and oil equipment, reducers	SOF/POF 70-30%, trading company, large – 2600, final products, main producer, export/domestic
2. Machine-buildingbuses, trolleys, special vehicles	SOF/POF 70-30%, trading company, large – 4200, final products, main producer, domestic, monopolist
3. Electrical industrylamps, glass, semiproducts for lamps	SOF/POF 70-30%, trading company, preparation for privatisation, large, final/intermediate products, one of the three producers of lamps, 5050% export/domestic, the only supplier
4. Chemistry (pharmaceutics) drugs, medicaments	SOF/POF 70-30%, trading company, preparation for privatisation, large, final/intermediate products, 50% main producer, domestic/export (10% of the production), main supplier
5. Textilewool tissues	SOF/POF 70-30%, trading company, preparation for privatisation, large, intermediate products, one of the five producers, domestic/export 55-45%, many suppliers
6. Light industryleather, shoes	SOF/POF, trading company, large – 9000, final products and semiproducts, many producers, domestic/export (10% of the production), many suppliers
7. Light industryporcelain	SOF/POF 70-30%, trading company, preparation for privatisation, final products, many producers, domestic/export 2:1, many suppliers

Table 7.

Albanian Enterprises

Sector, product, group	**Enterprise characteristics**
1. Electric industryelectric energy	state, electro-energic corporation, no plan for privatisation, middle-sized, final products, one of many, domestic, natural monopoly
2. Chemistry (pharmaceutics)	state, no plan for privatisation, middle-sized – 200300 medicaments final/intermediate products, the only in Albania, domestic, competitive from import
3. Textile cloths	state, Enterprise Restructuring Agency, plan for privatisation (close and sell), middle-sized – 200-300 now 40, intermediate products, many producers, domestic (army), competitive from import
4. Textileclothes, shoes, tents	state, no plan for privatisation, large – 10 branches (factories), final products, the only military enterprise, domestic, monopoly for the army
5. Food industrybread	state, depends on municipality and ministry of agriculture, partly privatisation, middle-sized – 100400, final products, 18% of the bread production in Albania, domestic (regional), 20% from Tirana, competitive from new private firms

Table 8.

Cases	"depoliticisation"	Organisational restructuring	Unbundling restructuring	Product restructuring	Input restructuring
Bulgaria					
Electronics	4	4	2	3	3
Machine building	4	4	3	3	3
Electrical	4	2	2	2	2
Pharmaceutics	4	2	2	2	2
Textile	4	3	2	4	3
Tailoring	4	3	2	3	2
Foods	4	3	2	4	3
Romania					
Manufacturing (equipment)	3	3	2	3	2
Manufacturing (busses, trolleys)	3	3	3	2	3
Electrical	3	2	1	2	3
Pharmaceutics	3	2	1	1	3
Textile	3	2	1	3	2
Shoes industry	2	2	1	3	3
Porcelain	3	2	1	2	2
Albania					
Electric Co.	2	2	1	1	1
Profarma(drugs)	2	2	1	2	3
Woollen Textile	2	1	1	1	2
MCPE (clothes, shoes)	2	2	1	1	2
Bread Factory	2	1	1	1	1