Stabilization and State Enterprise Adjustment: The Political Economy of State Firms after Five Months of Fiscal Discipline, Poland 1990

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This report describes the behavior of Polish state firms after six months of fiscal stabilization. On the one hand, it is shown that state firms are attempting to adapt to fiscal constraints and the fall in domestic demand caused by the Mazowiecki government's stabilization plan. On the other hand, it tries to demonstrate that the continued confusion of both property rights and managerial authority impede the formulation and implementation of strategic adjustment plans at the firm level. The report also challenges a number of the governing stereotypes concerning managerial, union, and Employee Council behavior during the process of firm adjustment. In the final section, a proposal for the partial, indirect give-away of state assets is sketched. It is argued that the commercialization of state enterprises, and their partial assignment to publicly held investment associations presents the possibility of both clarifying managerial authority and more clearly introducing external market pressures into the strategic calculation of firms.

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Introduction

Since March 1990, the Enterprise Adjustment and Labor Market Research Group of the Institute for Marketization and Property Reform has been researching changes in the behavior of state enterprises. The investigation has been based on in-depth interviews with directors, unionists and Employee Councils leaders in 15 state firms. The goal of the research is to understand changes in the state sector of the Polish economy, and to develop a picture of the structures of industrial authority that aid or block firm restructuring and adjustment.

We believe that there is a direct relationship between the authority structure of firms and their capacity to restructure production, employment, sales, and assets, to meet the challenges of a rapidly changing environment. Moreover, we are convinced that the current confusion of authority at the plant level adversely affects the performance of firms and that without a real understanding of this confusion, macro-economic policy may be mis-directed or worse, entirely besides the point.

The researched firms were chosen more or less randomly. An effort however, was made to cover the major productive branches of the economy, to visit firms in with both 'good' and 'bad' market situations, and to look at regional differences. The interviews were conducted with each of the actors separately, and examined a number of critical areas: the current financial and market position of the firm; changes in production, organization, trade and employment since the end of 1988; external obstacles to adjustment; and the relationship between management and labor. Supplementary interviews were conducted in banks, Employment Bureaus, Ministries and regional offices of the unions. We have also made use of CUP (Central Office of Planning) data, OBZ reports (Center for Union Research, Region Mazowsze), and press accounts of firm behavior. Although the size of the sample precludes conclusive statements about the frequencies of the observed behaviors, we feel that our findings are strong enough to challenge governing stereotypes of firm behavior and to suggest certain broad policy directions.

The report is divided into three parts. In the first we address some of the typical characterizations of firm performance that are found in the press and in the current economic discourse. Our aim here is to indicate how the existing economic debate grossly oversimplifies the processes taking place in the real economy, and how none of the typically stated positions does justice to the variety of responses that can be seen. In this section, and to save space, we do not make direct reference to our case studies, though our conclusions can fairly easily be read-back from the more empirical discussions of conflict, strategy and property transformation that follow in the second section of the report.

In the second section, we examine the role of conflicts in improving or hindering firm performance, the conditions that generate different types of economic strategies within firms, and the role of property transformations in the changes taking place --and not taking place-- in the real economy. Each of these themes is discussed in direct reference to the case studies. On the one hand, we show that firms are doing more than simply waiting for the return of the old order. On the other hand, we argue that the continued confusion of authority and property relations at the firm level is inhibiting more dynamic responses.

In the third part of the report we make a number of policy suggestions. Our main concern here is to indicate the type of state policies that might facilitate more dynamic behavior on the part of firms and not to propose an "alternative economy program". Our suggestions focus on ways in which the authority structure of firms might be clarified without returning to direct state control, and on how local actors might be encouraged and aided in thinking strategically about the survival of their enterprises. These proposals are, by their very nature, deeply connected to changes in the property regime.

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"Good" Firms, "Bad" Firms

Since January, there has been an unbroken debate over whether tight monetary policy alone will rationalize and restructure the economy. In general, representatives of the state -- though not only-- have argued that strict fiscal discipline and the collapse of demand provide the only real background for a true verification of the economic potential of Polish enterprises, and that tight money will force loss-makers out of operation and profit-takers to replace them. Meanwhile, others argue that the depth of the current recession affects all enterprises without respect to their real potential and that the collapse of demand is producing the bankruptcy of both "good" and "bad" firms.

Our observations suggest that neither position accurately reflects the working of the real economy. We have found firms whose current financial situation is relatively good, but which are being grossly mis-managed and whose futures are suspect. And we have found firms whose current financial situation is terrible, but which are nonetheless reacting dynamically. Their prospects are potentially bright. In other words, it is not that the recession is killing-off both "good" and "bad" firms, or that the recession itself is leading to the automatic selection of potentially viable concerns. Rather, at the current level of market (un)development, it is impossible to use normal financial criteria as the most important instrument to divide firms into potential winners and losers.

By saying this, we do not mean to suggest that bad firms are good, and good firms are bad. Nor are we calling into question the government's tight fiscal policy. On the contrary, we regard the tight fiscal policy of the state as an absolutely necessary condition for the creation of a stable market environment and for any general improvement in firm performance. Furthermore, we are convinced that a radical loosening of fiscal policy would produce a rapid return to the inflation of the past and to the re-embedding of old habits and structures.

But while tight fiscal policy is a necessary condition for the improvement of firm performance it is not a sufficient one: macro-economic equilibrium does not at this point create the conditions in which the micro-economic financial performance of firms can be used as the most important indicator of a firm viability. Or put another way, the information contained in firm balance sheets is insufficient for judging the real possibilities of performance. Many of the "good" firms that the recession is supposedly killing-off are disasters, and some of the "bad" firms that the recession is supposedly weeding-out are viable operations.

Moreover, given that the market is still extremely imperfect --and likely to remain so for some time-- it is unreasonable to expect that the information contained in financial statements will suffice for the rational determination of potential winners and losers. As such the current debate is rather hollow: The state is right to claim that a release of financial discipline would produce a return to the past, but wrong to believe that financial discipline will naturally separate good firms from bad. Critics of state policy, in turn, are right in pointing out that the recession alone does not create an automatic mechanism for restructuring, but are wrong to think that the answer lies in either a loosening of financial discipline or the creation of some broad brush sectoral policy that will make up for market imperfections through the state determination of viable economic activity.

Instead, what we will suggest later in our report, is that what is needed is a state policy that will encourage the formation of micro-level mechanisms and institutions that on the one hand, encourage the creation of the information that is not currently contained in firm balances, and on the other hand are capable of distinguishing --on the basis of this enriched information-- dynamic economic behavior at the firm level from past practices.

Managing Directors (Dyrektorzy)

Discussions about the managers of state enterprises oscillate between two extreme positions. Some argue that most directors should be fired because their habits were created by the political economy of the command system and therefore they can not operate effectively in a market environment. Others claim that directors should be defended against working class desires to settle past political scores and current economic frustrations, because they have irreplaceable skills. Like the division between good and bad firms, neither of these positions does justice to the variety of reactions taking place at the firm level, and neither gets at the real problem of creating legitimate industrial authority.

What we have found, quite simply, is that there are good and bad directors; good directors who were deeply involved in the politics of the old regime, and bad directors who tried to stay out of these politics. More importantly, workers sense the difference: If a managing director presents a clear and coherent strategy for adjustment, workers will generally support him, even if this strategy carries high costs for the labor force. We did not encounter a situation in which a director had a convincing adjustment strategy and yet was attacked for his political past or even because the strategy was painful.

This does not mean that workers always keep good directors and always fire bad ones. It indicates only that workers are not blindly attacking management for either the politics of the past or the economic difficulties of the present. The problem is that in many cases management is incompetent, has no clear vision of change, or has only a partial vision that it is reluctant to disclose for fear of being fired. If management is floundering and the firm faces a difficult situation, it is likely that work force will move against it, without necessarily having much in the way of alternatives. Similarly, fear of working class reaction may restrain managerial initiative, though again it must be noted that where we see real initiative workers generally accept it in the name of firm survival.

Equally disturbing, are the cases of apparently healthy firms that are being terribly mismanaged but in which mismanagement is not contested because its costs have yet to be felt by the workforce (no layoffs, high wages). Here, the overall costs to the economy of poor leadership may be higher than in firms facing difficult or hopeless situations: profitable productive capacity is going unused while in the other cases 1) it is not clear that anybody can save the firm or 2) that conflict won't lead one or another actor to develop a viable strategy.

On the positive side, workers do not act out of political vengeance, and good managers are not fired, even when their firms have profound structural difficulties and adjustment costs are high. Moreover, in firms with financial difficulties we have observed something of a competitive search --between management and labor-- for an economic strategy. On the negative side, the tenuous political position of directors may be restraining some of them from making painful, but necessary decisions. Here, the lack of legitimate managerial authority adversely effects adjustment. Worse, in nominally healthy (zombie) firms (il)-legitimate managerial authority is going unchallenged because it costs have yet to be felt by the workforce. Lack of conflict in these situations means that management is allowed to waste resources and no force is demanding change.

Thus, the problem is not whether directors are generally good or bad, or whether they should generally be defended or not. Rather the question is, is there a better way to invest management with its authority and verify its performance than to rely solely on the reactions of the workforce, reactions which may lead to the ouster of good directors and the maintenance of bad ones. On the one hand, the state can not return to old practices and pretend to think for firms --except in exceptional cases-- by hiring and firing directors. On the other hand, it may be able to promote the formation of economic strategies at the firm level through other policy innovations and the reform of the property structure. We will return to these issues in the concluding section of the report.

Employee Councils (Rady Pracowniczy)

Here, again we do not agree with either of the two general characterizations about the Employee Councils: that they are the main force against the old nomenklatura and therefore, the most important source of change, or that they destroy adjustment behavior through the excessive defense of employee interests.

Employee Councils are, despite their wide legal competencies (the hiring and firing of directors, consultation and/or veto right over certain strategic decisions, etc.), often weak or controlled by management. In this sense, they neither block nor facilitate reform. At the same time, there are firms in which the Councils are the carriers of change, forcing management to pursue more dynamic adjustment strategies, and moderating workforce claims so that they do not exceed the financial capacities of the firm. Sometimes the Councils moderate union demands and act as a counterbalance to their extra-plant organizational interests.

The dynamic Employee Councils represent a widening of managerial skills and a pool for future to management. Moreover, it is in such active Councils that we find the greatest interest in property reform and often the most informed responses to questions about different reform plans. At the same time, our observations do not indicate that Employee Councils opt uniformly or generally for majority worker ownership schemes. Often Employee Council activists are inclined to support mixed ownership schemes in which the sale of stock to the work force is one element in speeding the reform of the property order. In this sense, it is an extreme simplification to assign to the existing Employee Councils a single and unified vision of property change.

Again the problem is not whether the Employee Councils block or support change in firms: sometimes they support them, sometimes they are passive. Instead, the problem is that their current legal competencies disperse the responsibilities for firm performance. Thus, despite a generally positive assessment of the Councils current activities, we think that the subordination of management to the Councils, weakens the dynamism of firm response, and that their competencies must be significantly modified. At the same time, it would be unwise to try to eliminate the Councils from the management system of state enterprises because they often widen the pool of industrial skills available to the firm and because they serve as a counter-balance to the unions extra-plant interests. We return to this problem in the third part of the report.

Trade Unions (Zwiazki Zawodowe)

Paralleling the set of stereotypes about enterprise managers and Employee Councils are a set of equally dichotomous stereotypes concerning the role of unions in the transition to a market economy. Put simply, some maintain that it is in the nature of unions to block the painful restructuring of firms and to defend wages and employment at the expense of profits and adjustment. And some maintain that the unions are the only defense against the squandering of the national wealth by an incompetent managerial class. Again, neither of these views is of particular use in describing what the unions are doing in the present situation.

Contrary to what is often said, the unions are institutionally weak at the plant level. This institutional weakness suggests that the lack of more dramatic efforts to restructure firms can not generally be attributed to union opposition to reform. At the micro-level we have found little evidence that unions strenuously block employment reductions --though they do argue over the structure of the firings-- when they are presented with even the most primitive justifications. At the macro level, the fact that profits are way up and yet the vast majority of firms persist in paying wages well under the above-normative wage-tax level, suggests that the unions are either not using their rights to get at this information, or are choosing to not to "eat" their firms now in the name of a potential future.

To be sure, there are deeply paternalistic patterns in Polish industry, and the threat of working class protest does play its part in slowing managerial initiative. The fact that employment is falling much slower than production suggests the strength of this paternalism. More importantly, the current property structure makes the institutional presence of profit seekers weak, allowing for alot of slop and delay in the adjustment process. But recognizing this paternalism and the absence of a force directly interested in profits is one thing. Arguing that the unions are institutionally blocking reform is another.

Indeed, while the size of our sample precludes an attempt to determine frequencies we suspect that the opposite is true: that at least in small and medium sized firms (to 2500 employees) the presence of an active union actually favors plant level reform and the formation a strategic adjustment plans (see the following section on conflicts). In some cases, the unions, or more exactly Solidarity, is directly responsible for the development of these plans. In some, they critically accept plans emerging from management or the Councils. And in others, union challenges to management create a competitive search for a viable adjustment strategy. What is important to recognize is that if a clear, well articulated strategy is formulated and presented to the unions and the work force then the unions generally support it even at the cost of serious cuts in employment, continued wage stagnation, and loss of membership. Moreover, despite past hostilities and present political disputes at the national level, both unions tend to work together at the plant level when faced clear choices about the prospects of their firms.

Given that the unions are often weak, that even where they are strong, they generally do not block coherent reform projects, and that in many places they are an active instrument of reform it is worth reflecting briefly on another set of stereotypes: That the unions must be either rewindikacyne (re-vindicative of "bread and butter") or wspolzarzadajacy (co-managing). From what we have seen at the plant level, this distinction is almost irrelevant for understanding current working class behavior.

Workers generally understand that for the first time their firms are faced by a hostile environment and that without change they will lose their jobs. Fear of firm collapse, means that at the plant level the dominant emotions are a mixture of fear, confusion, and an understanding that something must be done if the firm is to survive. When management has a strategy of what should be done, both unions tend to accept the strategy even at high costs. In other cases, the union itself is responsible for developing an adjustment strategy. Thus, while neither union really wants responsibility for management, both recognize that in the current situation they have little choice but to support reform strategies, because the cost of not reforming are higher.

What is striking, then, is how far the national political debate over the meaning of unionism is from the reality. The OPZZ's (the former state supported union) political rhetoric has almost no affect on how the OPZZ is behaving in firms, where the Factory Committee's generally accept, and certainly do not block reform efforts. This is not to say that rhetoric is unimportant, and that if things get worse it won't be used to justify strikes against the government. But these will be strikes against government policy because firms have failed to adjust, and not against management because the costs of adjustment are high in any given firm. Worse, the OPZZ's vision of the real nature of unionism seems to have been adopted --though without admitting it-- by the state, and by the National Executive Committee of Solidarity (KKW) itself: Both the state and the political representation of the union spend their time defending the general logic of the stabilization program, as if political defenses of macro-policy will resolve the confusion at the micro-level.

Our feeling is that this fear and confusion can not be overcome by macro-economic defenses of the stabilization program alone, but must be accompanied by a concerted effort to give firm based actors better tools for adjustment. For the union, this means developing the economic expertise to independently criticize and formulate adjustment plans. For the state, this means the creation of the institutional mechanisms that would encourage actors within firms to formulate restructuring strategies, and actors outside of firms to judge them. Again, we return to these issues in the closing section of the report.

Part II: Observations

The Role of Internal Conflicts

The political revolution of the last 12 months, and the stabilization program that began in January have generated a wave micro-conflicts state firms. Conflicts between management and labor occurred in the majority of researched cases and we suspect that the proportions here are not much different in the rest of the economy. It is thus necessary to characterize these conflicts and assess their role in improving or hindering firms' capacities to adjust.

Most conflicts begin "politically", as a struggle between groups for control over the basic decisions of the firm. We use the word political in quotation marks, because while conflicts are played out against the background of a wider and historically complex political arena, they are not generally directly tied to the organized political forces operating outside of plants. Rather, by "political" we mean to suggest the importance of the immediate struggle for power inside the micro-world represented by a factory. In this understanding, a political conflict begins as a personal or faction struggle between leading groups within the firm. It may remain at the level of internal factional struggle, it may expand to the outside world as factions seek external support, and it may be transformed into a competitive search for economic survival strategies.

Our findings can be understood by situating them along a bipolar axis. On one pole, are those conflicts which generate a new configuration of power more able to positively react to changes in the external environment. Here, transitional conflict opens or strengthens the possibility of adaptive change within the firm. In practice, the first area in which change occurs is in the formal organizational structure of the enterprise, a structure that given vested interests is virtually immovable without conflict. On the other pole, are stalemate situations. Here, conflict creates a new configuration of forces, but none of them is capable of responding to the challenges facing the enterprise (Close to the first pole are Cases 1 & 2. Close to the second, Case 4. Case 3 is intermediary.)

It is important to stress that we did not encounter a case of clearly destructive conflict, that is one in which a positive set of reactions to the external environment was undermined or destroyed by internal struggles. We have, however, encountered cases in which the absence of conflict, or its delay has permitted the dominant force within the firm to pursue a defensive, or passive strategy in the face of a rapidly changing environment.

In evaluating conflicts it is important to assess whether or not conflicts move from their initial "political" moment of struggle to the creation of an economic plan for the enterprise. The following cases illustrate the various proportions between the sphere of internal struggle and the creation of new strategies for the enterprises.

Case Studies of Conflict

Situation I. Conflicts that facilitate adaptive behavior

Case I: Medium-sized tool producer in a large industrial center.

The managing director was a long time representative of the PZPR at the provincial level. He advocated the so-called brigade system of industrial organization. Indeed, the brigade system had served as his political calling-card, and was used outside the plant as proof of his reformist credentials. The system was supposed to motivate employees to greater efficiency and to tie pay directly to work performance. In practice however, wages were not determined either by efficiency or work time. Instead, what mattered was the "selection" a brigade leader who had good connections with management. Such a leader could be counted on to win easier contracts and to receive a favorable, so-called "coefficient of brigade costs." The opposition to the managing director wanted an elimination of the system and a return to the traditional divisional structure of the firm. Opposition increased during 1988, when numerous semi-private companies grew up around the enterprise. The shareholders in these companies (know popularly as nomenklatura companies) came primarily from management and huge profits were made by signing sweetheart contracts with the state firm in which the worked.

The brigade system of the firm was unchangeable given the alliances and powers created under the old regime: The system had been confirmed by an Employee Council completely controlled by the managing director; brigade leaders stood in line for favors, line managers had vested interests in the overgrown administrative structure, and the managing director was supported from the outside by the Party. When this external support disappeared, the internal balance of forces within the firm quickly shifted.

Despite the fact that conflict had from the start an economic base, the initial method of struggle on both sides was dominated by symbols. The Factory Committee of Solidarity organized an campaign for the election of a new Employees Council, using the union's logo --contrary to the law-- to indicate its candidates. Meanwhile, management sponsored its own rival "Solidarity" union. The managing director --to the surprise of many-- tried to enlist a local priest to play a role in calming the work-force.

The first battles took place at the end of last year, relatively early in comparison to other plants. Concrete work on a new economic strategy for the firm however, did not begin until the conflict played itself out in April of 1990, when the newly elected Employee Council fired the managing director appointed in his place the chief accountant of the firm.

In this case, the engine of change was the Factory Committee of Solidarity that both forced the elections for the Employee Council and came to dominate it. The new director, in alliance with the Council made immediate changes in the organizational structure of the enterprise, and a concerted effort was launched to bring back to the firm some of the skilled workers and middle managers who had left because of the brigade system.

Two sorts of external impulses sharpened the conflict within the firm. In the first phase of conflict, the main role was played by the disappearance of the managing director's external political support. In the second phase, and beginning with the new year, the conflict was fueled by changes in the economy and managements reaction to it: as orders fell, the managing director raised prices without any new cost calculations, further accelerating the collapse of production.

In effect, earlier arguments against management concerning the overall organization of work, were supplemented and enhanced by arguments concerning managements inability to react flexibly to the market. The new Solidarity-backed forces in the firm -- though far from politically neutral-- nonetheless lacked non-economic possibilities for improving the condition of the factory. Hence their determination to search for effective organizational and economic solutions to some of the difficulties. The conflict here facilitated first a search for these strategies, and then at least their partial fulfillment: Exports have increased, prices lowered, and new workers employed to meet the increased demand for some products.

Case 2: Large electronics firm in a large industrial center

The managing director had strong links to the provincial organs of the PZPR, and for a time, even to central decision makers. In the mid-1980s, these ties resulted in the start of extremely "prestigious" investments. By late 1989, however, the investments were discontinued for lack of funds, while the product they were supposed to make possible proved to be completely unsalable on the market.

The Employee Council, was not one of those know for its independence in the mid-1980s. In 1988, Solidarity activists from the 1980-81 period won control over the Council. Nonetheless, a cooperative relationship with the managing director developed. On the one hand, the Council was composed of qualified people who shared a managerial approach to the firms problems. On the other hand, the managing director himself initiated efforts to correct the internal problems of the enterprise. Early in 1989, he formed an Expert Commission to examine the functioning of the firm. The Commission was composed of people with professional --as opposed to political--qualifications and included members of the Solidarity-dominated Employee Council.

The Commission worked through 1989, producing a series of reports and recommendations. The final report however, exceeded the expectations of the managing director. It called for deep organizational changes including the elimination of 50% of all supervisory positions, the reduction of the number of administrative levels, and the virtual liquidation of one of the firm's divisions. Doubts arose as to whether the managing director would realize or block the recommendations of the Commission. Nonetheless, the Employee Council hoped that cooperation with the managing director would continue. Acting on the recommendations of the Commission however, the Employee Council demanded the immediate firing of an assistant manager responsible for a poorly functioning division.

The firing was not considered a radical step and the larger workforce was not involved in the conflict with management. Yet at the meeting in which the Employee Council presented its demands, the managing director and two of his assistants unexpectedly submitted their resignation. The Council then invited the youngest and newest member of management to serve as temporary director of the firm. A few months earlier he had been appointed on the basis of an independent competition, had spent a number of years working elsewhere but had also been a member of the Employee Council during 1980-81. Thus unexpectedly, changes were made in the top management of the firm, changes that have led to the realization the Commission's recommendations. A conflict situation, and its resolution, eased the way for further progress.

Situation II: A simple struggle for control dominates the nature of the conflict. The conflict initiates a process of positive change, but has yet to produce a mature economic strategy.

Case 3: Medium-sized electronics firm in a large industrial center.

The Employee Council of this firm grew out of Solidarity 1980-81, and managed by the mid-1980s to win for itself significant independence and power. At the same time, the Council developed a common language with the managing director, a director with typical nomenklatura linkages outside of the firm. This arrangement survived without serious difficulties until 1989 when the newly reconstituted trade union Solidarity --composed of both old and new activists-- began to consider the informal aspects of the relationship between the Council and the managing director. At issue here, among other things, was Council approval of a number of so-call "nomenklatura companies" during 1989.

The enterprise is an extremely difficult situation. National orders are drying up and export prospects are weak. In the first wave of firings, 13% of the work force left the firm and in the near future an equal number are expected to be released. The first firings were not accompanies by changes in the organizational structure. Only after negotiations with the newly created union was an attempt made to reduce the number of low level supervisory positions and to draw up more complete plans for the firms' divisional and organizational structure. The union wants to fire the current managing director, arguing that without breaking the existing alliances within the enterprise no significant change in the firm's functioning will be possible. The

Employee Council, in turn, accuses the union of "witch hunting" and defends the director on the basis of the firm's good financial performance and high wages in previous years. The union's pragmatic response is that "The director was good before. He had a vice-premier as a buddy, and he could arrange (zalatwic) alot of things. This doesn't mean that he is good today. He hasn't done anything to save the firm. When he came up short for cash, he fired people, but without any plan for the future. Today, what we need is a manager."

In the first quarter of 1990, neither management nor the Employee Council have come forward with any long term plans for the firm or any comprehensive reform program.. At the moment there are a number of independent but separate initiatives that the union regards both as suspect and insufficient --the renting of one production hall, the separation of a training facility from the firm and the making of a research facility into an employee owned company. The lack of confidence in management, and suspicion with regards to changes in the property structure, has been strengthened by the emergence in 1989 of a number typical nomenklatura companies that simultaneously enriched members of management while allowing the firm to avoid the new tax system.

The conflict between Solidarity, management and the Employees council has not progressed passed the "political" phase. Each side is searching for support within the work force, and nobody has a clear conception of the economics of the enterprise. Nonetheless, conflict has produced the first steps in changing the organizational structure of the firm and moved the language of the conflict towards an economic discourse about the future.

Situation III: An absence of conflict permits the existing powers to operate without change. They pursue defensive and non-adaptive strategies.

Case 4: Medium-sized machine tool producer in a medium-sized industrial center.

The managing director dominates the running of the firm. Despite significant firings since February 1990, (c. 25% of the workforce) the managing director has managed to maintain calm in the plant through relatively high wages. The firings were motivated by a fall in production. They however,allow the firm to maintain high wages without exceeding the excessive wage tax limit. The firm is managed "traditionally", meaning that management is careful keep all the indicators used by the state to assess performance looking good: The firm is carrying no debt, owes the central budget nothing, and has not exceeded it wage fund. The firm is owed by other firms 1.5 times more than it owes and production has fallen 40% for "objective" reasons. Yet, the price the firm charges for its products on the domestic market is higher than when sold abroad --where it remains profitable. There has been no attempt to raise production by lowering the domestic price of the good or by finding new retail or wholesale distributors.

There is however an attempt to wait out external difficulties, to hide existing reserves, and to lobby the central authorities for new contracts. This strategy will work to the advantage of the firm if the government's efforts to impose financial discipline on firms breaks down: The firm will persist in selling a good at artificially high prices to a building industry that is receiving credit at negative real interest rates.

The reaction of the enterprise is dominated by the patterns of previous years. Now however, to maintain a "safe" wage level, management has been forced to significantly reduce employment. There are indications of worker discontent and it possible that a new round of (planned) firings will produce conflict over management.

Situation IV: Existing, long term conflict has failed to generate a positive plan of action for the firm. The different forces appear to be stalemated.

Case 5: Large manufacturing enterprise in a large industrial center.

This enterprise has traditionally played an important role in national politics and moreover, completely dominates the social services of the suburban area in which its base plant is located. The firm has recently met severe demand limitations for its product and was already utilizing less than 2/3's of it productive capacity. The enterprise is huge and geographically dispersed.

A strong trade union, a strong Employee's Council and a newly changed management composed of people persecuted under the old regime create a situation in which all three groups have legitimate claims on authority. At the same time, the problems facing the firm are so complex that no group has a clear idea of what should be done. As a result, there are continual struggles over fragmentary changes, that rather than leading to the working out of some overall plan for the firm seem to be leading to a stalemate situation. None of the dominant forces within the firm has supported the apparently logical idea of subdividing the enterprise. Here, it can not be excluded that the general paralysis is connected to the expectation (or reality) of new informal privileges for an enterprise widely known for its union activities in the past.

Summary of Conflicts

During the first five months of 1990, conflicts within enterprises were played out between management, Employee Councils and trade unions. Generally, the wider workforce was not directly and actively involved on one side or another, strikes have thus far been a rarity.

Conflicts over management emerged as the economic situation of firms deteriorated. The conflicts had positive effects when one of the forces involved began to use the deteriorating economic position of the firm as an argument in its struggle for control. In this way the language and structure of conflict moved away from "politics" and towards the economic realities facing the enterprise. As a result of the ensuing struggle and bargaining between groups, we have observed in some cases the emergence of new economic projects. Generally these projects focus on changing the internal organization of the firm. Some of them grow into wider more comprehensive adjustment strategies.

The danger of a renewal of informal, non-market links between firms and central decision makers still exists, particularly in large firms. In smaller firms however, conflict --unlike in the past-- seems to be leading to internal reform projects, rather than to the expectation that appeals to the center will lead to improvement of the situation. Concentration on internal problems however, leaves very little room for attention to the market and too often internal changes appear to be done for their own sake and without real regard for external demands. Attention is more often focused on organizational changes, problems of reducing the work-force and the structure of employment than on the organization of trade or the prospects of introducing new products.

The observed changes were thus often far from the dynamism that is required for market expansion. What is striking is the lack of patterns of appropriate behavior, particularly the habit of looking at the future of the firm through its prospects for economic survival. Instead of posing the question what can we sell, too often respondents ask themselves only what can we produce.

It is important to indicate that conflicts are not by any means the sole route for improving the adaptive capacity of firms. There are cases in which the existing social forces in firms, without significant change or conflict, react dynamically to the challenges of the market. We discuss a few of these cases in the next section on firm strategies. Here it is worth noting that managing directors, independent of their past allegiances, generally win the support of workers if they can demonstrate flexible strategies for adjusting to the new environment. This working class support for dynamic adjustment strategies seems to explains the general absence of destructive conflicts, conflicts in which a positive firm reaction is undermined by struggle.

The one case of stalemate that we encountered must nonetheless be regarded as extremely important and dangerous. Here a new configuration of authority in the firm, born of conflict, seems to expect to resolve the firm's problems through political favors from central decision makers. Symptoms of such behavior and expectations are observable in almost all firms. But if in other cases these expectations do not dominate and subdue positive reactions it is because the chances of smaller firms to exploit their connections are incomparably weaker than in the one extremely large firm we examined. If however, a few large and highly visible firms won significant privileges from the new state, then the optic of smaller firms would rapidly change -- increasing the political pressure to abandon reform.

Part II

The Strategic Behavior of State Enterprises

The strategic behavior of state firms can be understood either as offensive and dynamic or defensive and passive. Firms acting offensively are above all those firms who attempt to adapt to the new economic situation by: Counteracting the recessionary collapse of production, eg. searching for new forms of sales, lowering the price of products, eliminating middlemen, finding new foreign buyers; rationalizing employment, eg. lowering the number of supervisory positions, limiting the number of non-production jobs, changing the structure of employment; lowering the costs of production, eg. changing suppliers, negotiating prices, resigning from overly costly services; making more effective use of existing capital, eg. the sale or leasing of dispensable assets, reducing warehouse space, rationalizing stocks; and searching for foreign partners, eg. attempts to form joint stock companies, and to acquire new technologies.

Firms acting defensively are those which generally make no significant internal changes (despite the fact that they appear both necessary and possible), do not change their practices (even when they no longer bring the same results), attempt to win or use existing support among central decision makers, and do not attempt to understand the new economic situation. They are waiting, in essence, for a return to the old model of steering the economy and the sellers market that went with it.

It is obvious that not all firms realize one of the above mentioned strategic formulas in all its aspects. However, it is possible to indicate in virtually all cases the type of economic strategy a firm is pursuing on the basis of these categories.

Offensive strategies

We have observed expansionary economic behavior both in firms in relatively good economic situations as well as in firms suffering from serious financial difficulties. It is impossible on the basis of our sample population to estimate the frequency of offensive strategies either group of firms. But it is possible to state that in general, firms that are both acting strategically and have good financial situations, are firms that began the adjustment process early, sometimes years in advance of the stabilization program. Firms in poor financial situations, but behaving offensively, generally undertook their present adjustment as a response to the economic hardships brought on by the stabilization program itself.

Situation 1. Offensive strategy pursued by firms in a good financial condition. (By good financial condition we mean the regular payment of obligations to the budget and to banks, positive sale balances, high profits, and the absence of work stoppages large-scale firing.)

Case 1: Medium-size machine tool producer in a medium-sized industrial center.

The firm employs about 1200 people. Its financial results during the first two quarters of this year were excellent. The value of sales during the first quarter was more than 25 billion zloty and profits more than 13.5 billion zloty. Despite being owed 11 bln zl. by other firms (against 2 bln zl. of its own arrears) does not have any financial difficulties and basically makes no use of bank credit (less than 2 bln zl.). Employees state that the situation of the firm has never been so good.

In previous years the economic performance of the firm was average or even poor (temporary financial problems and production breakdowns). For a number of years however, the managing director of the firm --a PZPR member named to his post during the first year of Martial Law-- has initiated changes in the strategy of the firm and undertaken efforts to make the firm more independent and to prepare it for the eventual marketization of the economy. For the last two years, the director has sought out new buyers both at home and abroad. He won contracts with a number of West German, French and Canadian firms.

Foreseeing change --among them the decline of profitable exports to the East-- he began a reorientation of production and of exports. Two to three years ago exports to the USSR accounted for 30-40% of all production. Presently, as a result of changes in the exchange rate for exports to the USSR it has become completely unprofitable for his firm to trade east. As a result, the firm withdrew --with permission from the Ministry of Industry-- from its Russian contracts. At the same time, the firm made contacts with Western partners, started up the production of new products and now sells almost 50% of production on Western markets (earlier 10-15%).

Changes this year --particularly the collapse of domestic demand, the fall of orders and the rise of input prices-- produced immediate reactions on the part of the enterprise. The production profile was altered, new machines purchased, and workers retrained to produce entirely new goods (a significant amount of which are sold in the West). Domestic inputs were replaced by foreign supplies as soon as it became clear that Polish products were more expensive than there imported counterparts. There is constant monitoring of the market and constant preparation for talks with new foreign firms. The portfolio of orders is continually being improved and the capital stock is being fully exploited. Moreover, both labor and capital are deployed extremely flexibly, shifting with the type of orders and the immediate needs.

The strategic functioning of the firm must be considered as expansive. Its main characteristics are flexible responses (particularly in the area of new contracts, and improving the portfolio of products) optimization of the costs of production (mainly through the choice of the cheapest suppliers, elimination of middlemen, and the reorganization of the structure of employments) constant observation of the market and the exploitation of the opportunities that present themselves.

Case 2: Medium sized textile firm in a large industrial area.

The firm is composed of two separate plants operating in two cities. Together 3100 people are employed, with about 1000 in the subsidiary plant. After the first four months of this year the firm recorded profits of 17 bln zl. against 40 bln. zl. in sales. The firm is owed approximately 30 bln zlotys by other firms against its own arrears of 6 bln zl. Despite this, the firm has not made use of bank credit for two years. The current financial situation of the firm is very good.

Since 1980, the enterprise has been managed by a high ranking member of the PZPR, indeed briefly a member of the Politburo. For the past few years, he has been preparing the firm for changes in the economy. There has been comprehensive overhaul of the firm's organizational structure, and since 1980 employment has decreased --through attrition-- from 3500 to 2100 while unit production has increase 25%. Moreover, using only firm earnings, the capital stock has been continually modernized. The managing director has also made production more flexible, increasing product assortment and shortening product runs. This was done even when the Polish and Soviet markets would absorb any thing that the firm produced.

Similarly, he reoriented the export strategy of the firm, successively withdrawing from sales in the USSR and replacing it with exports to Western Europe (France, West Germany). Presently exports account for about 30% of production. The firm constantly monitors the market and quickly reacts to changes. Production series are as a rule relatively short, and changed immediately when demand slackens. Contacts with the West have resulted in access to foreign raw materials, patterns and technology. As a result of the poor function of trade, the firm has opened two distribution outlet. Their sales now account for more than 50% of all sales. Exports are planned to increase to 80% of production in the coming years, and efforts are being made to rise the percentage of final goods (garments) in total sales.

The expansionary strategy of the firm has been pursued for a number of few years, though it could only manifest itself in full in the last few months. It is based above all on extreme sensitivity to market signals and rapid adjustment to fluctuations in demand. Important for this year's good financial results was the earlier movement away from Eastern markets and the enlargement of the share of sales in the West, with all that this entailed for the quality and assortment of goods. It is worth noting the importance of the firm's own trade network and the earlier --and gradual-- adjustment of employment and administrative structures to the needs of the market.

Situation II: Offensive strategies in firms suffering from financial difficulties (eg. problems with payments to the budget, banks and other firms, distress borrowing).

Case 3: Medium-sized machine tool producer in a large industrial center.

The enterprise produces measuring devices and employs about 2300 people. There are three subsidiary units elsewhere in Poland and the main location is composed of three distinct plants. The economic situation of the firm is poor. After the first two months of the stabilization program the value of production was 19 bln zl. and the value of sales only 13 bln zl.. Meanwhile, the cost of production were 21 bln zl.. Moreover, the firm owes the bank 4 bln zl. and has arrears with other firms of 3 billion, though it is owed 7 bln zl. by other enterprises. A significant proportion of finished products are presently being warehoused, despite a reduction in the level of production and the underutilization of capital stock.

The previous managing director (fired in April of this year) was named and supported by the provincial level of the PZPR. He had made little attempt to prepare the firm for systemic change and then reacted passively to change when it occurred. For example, when demand fell he limited production, announced large scale reductions in the work force and once again raised prices without undertaking any sort of analysis of the market or his costs of production. As a result, the economic situation of the firm deteriorated further than was necessary and the financial difficulties accelerated. Internal conflict culminated in his firing.

The chief account of the firm was made temporary managing director. Working with the union, a corrective plan for the enterprise was developed. The called for the reorganizing of the firms structure, the lowering of prices, and an increase in exports. Exports to Western markets (USA, France, West Germany). have been expanded to 50% of production, and the goal is to increase them to 70%. After an initial analysis of Western markets and talks with foreign buyers, the plan appears to be realistic. Efforts are being made to use the firm's capital stock more effectively by converting capacity previously used for the production of undesirable goods to those for which there are Western markets. The firm is starting a second shift, reducing the number of administrative workers, and expanding blue collar employment by 300-500 people. With time average production costs will be lowered. Since April, the firm's economic situation has improved.

Moreover, the long term adjustment strategy of the firm appears to give it good chance for not only over-coming its present crisis, but of prospering in the future. The strategy articulated in the corrective clearly expresses the main features of offensive adjustment behavior --new western contacts, internal change, and the restructuring of production to meet market demand.

Case 4: Large electronics firm operating in a large industrial center.

The firm primarily produces electronic consumer durables. It employs 4500 people in the main plant, and about 1000 in the geographically separated subdivision. The present economic situation of the firm is disastrous. The value of monthly sales averages about 37 bln zl. while the monthly costs of production reach 40 bln zl. The firm owes other firms about 60 bln zl. and is owed 45 bln.. Moreover, the firm owes the banks 10 bln zl. and only through short term borrowing is it in a position to pay its obligations to the central budget. This year, sales have fallen 50%. The firing of 1000 workers is planned.

Despite the fact that the firm is in a dramatic situation, there are reasons to believe that the firm is a viable concern. For a relatively long period of time --9 months--, the enterprise has prepared itself for the current systemic changes. These changes, from the firms point of view, however arrived to soon.. In 1989, the previous managing director formed an Expert Commission to work out a developmental strategy for the firm with regards to production, employment and sales. Since January, the strategy has been both pursued and adapted. Its main foundation is that the firm must completely change its production profile. Consumer electronics, for which demand has fallen radically and whose prospects for growth are minimal (high costs, outdated technology, foreign competition) must be replaced by the production of mechanical devices and electronic sub-components. Luckily, the firm possesses the technological capacity for some mechanical production and talks with foreign partners are well advanced.

Current production cannot be sold in the West, and is more and more difficult to sell at home. To counteract the fall in demand, the firm has begun to do basic market research, launched a huge advertising campaign to sell its warehoused goods, and lowered the prices of its products. Sales have accordingly increased. In accordance with the firm's corrective plan significant internal cost reductions have taken place. A complete internal reorganization of the firm led to the firing 1100 people, primarily from the overexpanded technical division. Machines and firm vehicles have been sold, a couple of factory buildings leased, and some production moved to a new night shift to save on energy costs. The firm is also preparing itself to compete for contracts in the telecommunication sphere. The sketched, and since January, pursued basic program of change bears the markers of an expansive strategy. The viability of the accepted assumptions and economic effects of the program will be clear only after a few months.

Defensive Strategies

Passive patterns of behavior were observed in firms in both relatively good economic situations, as well as in those with serious financial difficulties. The behavior of firms in the first group was conservative and amounted to trying to defend the positions won under the old regime. The relative financial prosperity of these firms is not the result of market adjustment but of the legacy foreign contacts, favorable "parameters" and monopoly positions achieved in the past. Among enterprises in poor financial straights we found a simply failure to respond to the change in the environment compounded by less favorable starting points. In both sets of firms an absence of sensible corrective plans was accompanied by expectations of state aid and/or a return to a sellers market.

Situation III. Defensive strategies in firms with relatively strong financial situations.

Case 5: Medium-sized machine tool producer in a medium-sized industrial center.

The firm makes measuring devises used in the construction industry. It employs 1300 people. Last year the financial situation of the firm was excellent. Sales were about 17 bln zl. and profits about 7 bln zl.. The firm produced about 200,000 large units for the construction industry and 340,000 smaller models for private farms. Domestic demand significantly exceeded the productive capacities of the firm and there were no problems with sales. The firm is the sole significant producer of these devices in the country.

This year, the firm planned to produce 330,000 units for private farms and 350,000 of the larger models, despite the fact that demand was expected to fall. In the first 4 months, orders fell by more than 50%. Production is now is at 45% of last year's level and more than 40% of final goods are being stock piled. The fall in demand from private farms is even larger. The firm has been saved by its traditional export sales (about 30% of production) to Arab countries, sales financed to a large degree by the World Bank. The firm is living off last year's profits and high bonuses were paid to workers in February, but have been withheld since then.

The firm has not yet borrowed money, but its situation is deteriorating from month to month. The firm's balance sheet is now near zero despite a positive sales of close to 3 bln zl. The firm regularly pays it budgetary obligations but is not making full use of its wage fund. It pays out 5% less than it could according to the above normative wage tax rules.

Since the beginning of this year the one real adjustment the firm has made is the continual limiting of production and the firing of about 300 employees. Despite the significant fall in demand, the firm has not tried to diversify production, research the market or advertise its products. The managing director states that the trade network has broken down and that one can no longer count on it. But he also has no intention of trying to trade for himself. The firm has successively raised the prices of its products, producing a further fall in sales. Most importantly however, this is not a result of a rise in the costs of production, since the firm continues to sell abroad at half the domestic price. The managing director said that foreign sales were profitable. Moreover, attempts to increase exports are not aggressive.

There has been no thought given to changing the production profile of the firm since the managing director believes that the previously favorable domestic market conditions will return in short shrift. It is on this assumption that the basic strategy of the firm is based. The firm is preparing itself for a state sponsored boom in the construction industry which will recreate the firm's sellers market and the stockpiled goods are considered as insurance against foreign competition when the boom begins. The managing director is also counting on his personal contacts with high level government bureaucrats to win contracts.

Case 6: Medium-sized textile firm located in a large industrial area.

The firm is composed of 5 plants and employees about 2000 people. The capital of the firm amounts to about 43 bln zl. Last year the firm had 18 bln zl in profits and a profitability coefficient of 30%. The situation was considered excellent.

Since January, the firm is having a number of difficulties. Monthly production oscillates between 30-80% of planned output. Capital and labor are being underutilized. The firm borrowed 3 bln zl from the bank to meet its current financial obligations, this despite the fact that these obligations are not particularly large (for example average salaries in May were a low 670,000 zl and the firms wages were only 77% of the untaxable wage fund). In January, one division was liquidated, 60 people fired and a building given over to the city while the machines were sold. 250 people will be fired in the near future while there has been a temporary internal shift of employment from divisions with low sales to those with higher ones. The firm has tried to open its own trade network to make up for the collapse of the state trade network but thus far this effort has not led to the expected results. The director is considering expanding exports (presently 10% of production is sold in the West, 12% on the Soviet market, of which 4% is for dollars) but doesn't have a clear vision of how to do this. He has tried to make connections with the National bank of Poland to get cheap, short term credit, but so far has no real idea about how to use the eventual monies.

In general, the firm is confused, counting on financial support from various credit institutions, including the World Bank but unsure of how to adjust. Some of the reactions of the firm seem positive, but they are taking place will-nilly and within the context of a more defensive attempt to wait out the current crisis.

Case 7: Medium-sized firm in a large industrial center, producing and installing electrical goods for the construction industry.

The enterprise employs about 1500 people. Last year, like the years before it, were very good.. Sold production amounted to 25 bln zl. and profitability was calculated at 50%. The enterprise had no financial difficulties. As a result of its virtually monopoly position (particularly with regards to large investment projects) the firm choose its own clients and dictated conditions. This year, it has not been able to so easily pick its clients and is undertaking practically all contracts (presently the firm is working on about 230 different investment projects while last year it took on only 50 or 60.) Despite this, the firm is treating the general collapse of demand in the economy as a passing phenomena and is preparing for an expansion of services.

It appears however, that rather the opposite conclusion should be drawn and that the collapse of demand in this industry is slower as firms race to finish investments begun earlier. In the first quarter, the firm undertook work worth 34 bln zl. and had a calculated profitability of 34%. Work done on export markets was worth 2 bln zl. Nonetheless, and together, the work represented only 70% of planned output. The firm has reduced employment by 170 people and temporarily moved people within the firm to guarantee employment. Only 80% of the wage fund is being currently paid out and the managing director is holding the rest as insurance against a further deterioration of the firm's situation or wage claims from the workforce. The managing director is attempting to find new buyers in the West, but is not doing this particularly intensively. There is no thought given to increasing the variety of services offered, or improving the attractiveness of the conditions under which the firm works. No internal changes have been made to permit or encourage the better use of labor or materials.

Current difficulties are clearly being treated as a temporary state. The strategy of the firm has many defensive characteristics and is based on maintaining its earlier position and on minimizing the efforts to correct the current situation. Changes can be expected in the case of a significant worsening of the firm's position --which may happen quite quickly.

Situation IV: Defensive strategies in enterprises with serious financial problems.

Case 8: Medium-sized electronics firm in a medium-sized industrial center.

The firm produces components for use in the electronics industry. It employs about 1200 people. The financial situation of the firm last year was not bad. The value of sales was about 48 bln zl. and profits amounted to about 8 bln zl. No credit was taken or necessary to maintain the firm's operations. Since the beginning of this year, orders have fallen 25% and production about 30%. After the first quarter, the value of sales amounted to 60 billion zl. and profits were 1.5 billion. The payment of budgetary obligations has left the firm with no money for operating expenses. As a result, the firm borrowed 13 bln zl. During the first quarter the interest on this credit was 10 bln zl. The high interest rates were an extremely important element in the deterioration of the firm's financial situation.

The firm presently stands before a difficult attempt to save itself. As a result of the crisis in Polish electronics, it is assumed that orders for the firms goods will continue to fall despite the fact that prices are being held just slightly above costs and below world prices. Profitability, in comparison to last year, has fallen by about 70%. Already in January, 50 employees were released. Further reductions are planned for the future. It is not possible to change the production profile of the firm because of the shortage of capital. It is also not possible to increase exports because of the antiquated technology and because of the exchange rates in the East. For the moment the firm is saving itself by paying extremely low wages (490,000 zl average in April), firing workers, lowering production and trying to get rid of assets. There is absolutely no plan or program for getting out of the crisis. Management has clearly adopted a strategy of waiting things out and of hoping for a return of a better market. A part of the workforce is aware that the firm is moving rapidly towards bankruptcy.

Case 9: Large agricultural machinery producer in a large industrial area.

Firm employees 12,000 workers. Last year, the enterprise had good financial results. Presently, the firm is experiencing very serious financial troubles, including difficulties meeting its budgetary obligations. Government subsidization of the price of the firm's goods in the past meant that demand greatly exceeded the production capacity of the firm. The firms was in a luxurious market situation and as a monopolist dictated conditions.

The radical systemic changes of this year completely altered the conditions in which the firm operates. Above all, subsidies were withdrawn and costs made more realistic. The price of the firm's goods rose 15 to 20 times. As a result, demand dropped more than 50%. The previous managing director (replaced in the spring of 1990) did not anticipate or prepare for any of the changes that the reforms brought about. The collapse of demand was treated as a temporary phenomena, and production was to be maintained at the same levels as last year. One may suspect that he believed, that such a large and politically important plant would sooner or later receive government support. During the first quarter of this year he occupied himself simply with cosmetic internal changes.

In April, the managing director was fired, but since then little has changed. The new management is still not in a state to create a sensible corrective plan.

Conclusions Concerning the Strategic Behavior of Firms

The firms clearly divide themselves into those that are trying to adapt to the changes in the environment in an active way and those who are not. Offensive strategies include searching for new solutions in the organization of production, the rationalization of costs, the promotion of trade and exports. Defensive strategies are characterized by the avoidance of radical change, waiting for the return of a sellers market and/or state aid. This division of firms is not identical to the division of firms into profit-makers and loss-takers: Offensive strategies are found in firms with terrible financial situations, and defensive strategies among those who are --at least for the moment-- prospering on paper.

Firm that is reacting offensively now, and is also in a relatively good financial position probably began its adjustment process well before the stabilization program was put into effect. Offensive strategies in firms with poor financial balances are the product of reactions to the economic crisis precipitated by the reforms themselves. The first group of well prepared firms could serve as the engines of our economy in the immediate future --at least in the state sector. Firms in the second group might achieve desirable economic results in the not so distant future if they could be identified and aided. Both groups of firms have demonstrated a capacity to react dynamically and it is here that our limited investment resources should be placed. How these resources should be extended, and more importantly, how these firms can be distinguished from others requires a separate discussion that we return to in the third part of the report.

Enterprises presently finding themselves in passable financial situations and behaving passively are basically still living off the financial position they achieved in previous years. Important in these cases, are the generally favorable --and independent of the firm-- external conditions in which they operate --monopoly positions, lack of foreign competition, inherited contracts with the West, etc.. The defensiveness of the behavior here is linked to old habits -principally among managers, the lack of internal and external challenges, and the assumption that the buyers market is a temporary phenomena. In these cases, conservative thinking and attempts to re-create the old rules of the game, dominate.

Despite their relatively good financial situations now, many of these firms will show signs of collapse in the near future as the reserves of the past are frittered away. It is thus necessary to also identify these firms, and to encourage them to change and to adjust their behavior as soon as possible. Again how this might be done without returning to direct state control will be discussed later.

The situation is somewhat different in firms already characterized by poor financial performance and still reacting passively. Here, the predominance of defensive responses results from the absence of internal forces capable of working out a realistic program of change, a feeling of hopelessness, and/or an actual powerless affect the situation. This real or perceived hopelessness, combined with poor financial performance requires immediate intervention: After examination the firms current operation and its developmental future it is necessary either to begin bankruptcy and liquidation procedures or to place the firm in receivership. Again in the final section of the report we discuss the formation of expert groups that might serve as receivers in such procedures.

It is obvious from the above that we clearly oppose the use of the present financial state of firms as the key indicator for assessing their future developmental possibilities. Instead, we propose to assess firms on the basis of their current behavior and whether they are reacting actively or passively to systemic changes. We think that in the case of state firms --particularly in a situation where they absolutely dominate the economy-- the unconditional use of market instruments to determine economic viability does not optimize the exploitation of the productive resources of the economy as a whole.

We should add, that it appears that changes are rarely radical and comprehensive. It is exceptional to find firms thinking synthetically about the restructuring and reduction of employment, the optimization of the use capital, and changes in production profiles. Most often firms limit reform to the restructuring of current employment. If firms are not suffering financially sometimes even these efforts are not seen. In the others, efforts are made to minimize firings rather than rationalizing employment in general.

Other efforts to reduce the costs of production are often similarly superficial. Attempts to reduce the costs of services, energy and materials are frequently half-hearted and ill thought through. More often efforts are concentrated on the improvement of sales through the creation of independent trade networks, advertising and installment schemes, and attempts to find new export markets.

Perspectives for Changes in the Property Regime

Our observations regarding the sphere of property relations --the rights relating to the use and control of assets-- can be divided into two parts. One touches on the various components of enterprises, the other on enterprises as a whole entities. With regards to the first, we can say that transfers and sales of parts of enterprises are increasingly encountered as elements of enterprise adjustment strategies. The most frequently form of these transformations are the rent, sale or transfer of parts of an enterprise's assets to other actors. Less frequent are attempts to create joint stock companies from parts of firms and last years move towards the creation of semi-private joint stock companies or cooperatives around state enterprises has been slowed be legal restrictions and changes in the tax code.

The evaluation of these changes, both from the economic and social point of few are often controversial. Joint stock companies and cooperatives are generally seen as being heavily dominated by the old nomenklatura and as an unjust conversion of political power into economic gain. Transactions involving the sale or lease of even small elements of a firms assets are often highly contentious.

Despite the controversial nature of these partial property transformations it is arguable that they represent rational firm responses to changes in the environment: Last year the dominant reaction of firms in this regard was the creation of new joint stock companies and cooperatives around the state enterprise. This year, however, we see more partial transformations of the ownership structure as pieces of the assets are sold orthrough leased. The first set of changes were encouraged holes in the tax and price control systems that allowed dummy corporations --frequently dominated by Party elites-- to raise prices for the goods and services of the initial state firm and to avoid the above normative wage tax (thus benefiting workers as well). This years changes, are prompted by firm attempts to save money by releasing or selling underutilized and often heavily taxed assets.

In opposition to partial property transformations, the transfer of ownership rights for entire enterprises has yet to occur. Indeed, it generally does not even come up on its own in discussions with firm based actors. From what we can tell, the de-nationalization of state firms is still not regarded within firms as a near term reality. To be sure, the goal of widespread privatization is generally accepted, and our informants often said things like "these assets should have a concrete owner." But they were not inclined to specify what this should or would mean for their enterprises, and a wide variety of different ideas concerning privatization were expressed in the interviews.

Thus, it is fair to say that with respect to the overall economy, enterprise strategies will not include complete ownership changes so long as the state does not draw up the basic legal framework for privatizations, and then set this framework in motion. In other words, we have not observed significant internal pressure for one or another form of property transformation. For the moment, other problems dominate the day to day affairs of firms. To much is unknown about the environment in which state firms will be transformed, and the potential advantages for various firm based actors is too unclear to expect their active participation in the liquidation of the state enterprises in which they work. At the same time, the nature of plant based conflict demands that the social forces operating within firms be taken into consideration in the construction of the legal framework for privatization if this process is to have any chance of relatively rapid success. Any process of privatization that does not take into consideration the complex and confused set of rights and practices within firms risks serious political resistance.

But while it is crucial to recognize the importance of firm based actors in the privatization process, we can not on the basis of our research offer much on the subject of "the true social feelings about just or unjust property transformations." We can say however, that the present public debate over whether employee stock ownership is more desirable than so-called "citizens" stock ownership does not accurately reflect divisions or even attitudes towards property change within firms. Different employee representatives express different opinions on this debate and on other question relating to ownership transfers. The blurriness of the preferences labor activists have with regards to the form of privatization is seconded by survey data from the Center for Trade Union Research. In response to a question about the preferred form of property transformations posed to unionists at the Second National Congress of Solidarity the largest group of respondents --about half-- declared themselves for "a pluralistic system of ownership in large and medium sized enterprises" and a wide variety of individual and institutional property forms.

If it is possible to say something about the dominant attitudes among labor representatives, it is only that they recognize the need for a clear regulation of the property regime, and a resolution that would make somebody responsible for the assets. In this sense, firm actors recognize that the present system is ineffective, but at the same time the prospects for change remain so distant that they are not actively considered in the formulation of firm strategies. Without at least some basic models of future property change labor and management will not begin to think actively about preparing their firms for privatization.

Our informants did not generally opt for the free distribution of state assets. At the same time, they were fully conscious of the huge disproportion of between the value of these assets and the low level of disposable reserves held by the population. They understand perfectly well that privatization will be either a very long, slow process, or that it will take place on a non-equivalent basis. The possibility, or even necessity of non-equivalent sales opens up a wide field for political bargaining. This bargaining, particularly if it is unstructured, may have little to do with how best to use existing assets.

A separate problem touches on the attitudes of the average, non-politicized employee. The basic issue here is that general population has little knowledge or understanding of changes in the property order or their potential consequences. This creates a situation in which the actors affected by change (actively or passively) have very little possibility for conscious choices. Examples of the first attempts to change the property structure of enterprises show that knowledge on the subject grows slowly, while emotional reactions are quick. It is with this awareness, rather than a preference for one or another option for property transformation that the we look on the main social problems connected to wide scale property changes.

The first case shows the weakness of thinking about property transformation in a firm where it should be of primary importance. The second case illustrates some of the social questions that arise around partial transformations.

Case 10: Large agricultural implements producer in a large industrial area.

For many years the firm has been using less than 2/3's of its productive capacity. The recent collapse of demand has led to even lower levels of capital utilization. A small group of lawyers and economists within the firm want to improve the use of the existing capital stock by reorganizing the firm on the basis of a holding company. This idea however has not found support among any of the important groups of decision makers within the firm. What is more, even the territorial divisions of the company do not demonstrate any particular dynamism with regard to becoming more autonomous. In this situation, the ideas of this small group remain vague and undeveloped.

The lack of any internal pressure for property change we explain in this case by the acceptance of conservative strategies by all the important forces within the firm. It appears that everybody --in different ways-- is counting on the political power of the firm and its regional and national importance to save it from radical restructuring.

Case 11: Medium-sized electronics firm in a large industrial center

The Employee Council of the firm has come forward with a plan to transform a research facility of the enterprise into a joint stock company. The plan has received the support of the managing director, but has been opposed by the Factory Committee of Solidarity. Within the Council the general opinion is that the opposition of the union is caused by bad experiences with the joint stock companies that were formed around the enterprise last year and were dominated by plant-based party managers, including the present director. The union's analysis of these companies revealed that the were rather typical "nomenklatury" firms in as much as the produced very little, while selling the state firms goods at inflated prices.

Paradoxically, and at first glance it appears that the members of the union's factory commission are identifying the attempt to create a worker owned company from part of the factory as another attempt to create a so called "nomenklatura company." The reasoning of the Committee however is not simply the product of bad associations with past, or with the simple slogan "nomenklatura company". Rather it is related to the partial and fragmentary nature of the entire project. It is difficult for the unionists to accept the idea that a previously loss-making part of the enterprises could --according to the employee ownership plan-- become a profit-making firm without exploiting the original state enterprise. They would gladly see the formation of a plan to transform the entire firm, but alone the committee is not able to formulate such a plan.

A second point of contention between the Union on the one side, and the Council and management on the other, is the leasing of one building to a foreign firm. The contract in itself is advantageous for the enterprise, but has led to a debate over whether the conditions of the contract are as "advantageous as they could be." Here, the weak development of the market and the lack of precedence with regards to such contracts, makes all such agreement subject to political questioning.

The next three cases are from firms in which ideas about transforming the entire enterprise have appeared. At the same time however, these ideas are completely divorced from an offensive adjustment strategy.

Case 11: Medium-sized electronics firm in a medium sized industrial area.

The firm is near collapse, and has poor future prospects for development given its technology and its product. The Employee Council is nonetheless trying to fire the managing director, put its own people into positions of authority, and turn the company into a worker owned enterprise. What is striking in the whole operation, is the complete gap between the Councils political struggle against management and for worker ownership, and the complete absence of thinking about how to improve the economic situation of the firm.

Case 12: Medium-sized machine tool producer in a medium-sized industrial area.

The managing director of this firm has maintained, despite a fall in production, an acceptable financial profile and is not rushing to utilize the significant productive capacity that is at his disposal. He prefers not to risk trying to redeploy his assets so long as it is not clear that he cant do better by winning a contract through his old connections at the ministry of housing. At the same time, he has stated his intention of working out a plan for a property transformation that would give the existing management group control of the firm.

Case 13: Medium-sized construction firm in a large industrial area.

The managing director has declared his desire to prepare his firm to become one of the first joint stock companies of the Treasury, and then for privatization. He is counting on the maintenance of his own influence both the managing director of the state owned joint stock company and later as a share holder. He also considers it unlikely that his geographically dispersed work crew will pose a serious challenge to any given process of privatization. At the same time, he considers that the long term future of the firm is based primarily on the renewal of investment which "at some point must happen."

The next two cases demonstrate the opposite phenomena:. Here the dominant force in the enterprise is focusing its efforts on working out the internal problems of the firm and improving the immediate economic situation, while treating changes in the ownership structure as important, but secondary at the moment.

Case 14: Large electronics firm in a large industrial area.

The firm is in a difficult financial situation, but also en engaged in a long term and radical restructuring process. In an attempt to improve the utilization of the existing assets one production facility has been leased to a foreign company. Alongside organizational changes, attempts to sell accumulated stocks, and changes in employment, the basic problem remains as to how to redeploy assets that are ill suited for competitive success and partially unfinished as a result of discontinued investments. Here, the firm is planning radical changes in the production profile of the firm.

The "purging" of the firm --the name used for the firms adjustment plan-- includes mention of the future privatization of the firm. But the form of this privatization is left completely open. Moreover, it is clearly stated that privatization is a task for the future and that for the moment efforts must be concentrated on overcoming the present difficulties. Among the active participants in the reorganization of the enterprise there exists a certain inclination to treat employ stock ownership as the basis for privatization, and from this point of few they closely observe the larger political debate on privatization.

One of the activists in the Employee Council summed up the situation in the following way: "What's the point of thinking about property changes when we have a complete mess in the firm. Given the situation, no buyer will want to enter into any sort of arrangement with us." Indeed, the desire find a co-owner, particularly a foreign one, is fueling the attempt to restructure the firm.

Case 15: Medium-sized machine tool producer in a large industrial center.

The prospects for property change in firm are more distant than in the above case. Here, the administrative structure of the firm is being completely redrawn as the firm attempts to liquidate the brigade system that is held partially responsible for the firms current difficulties. The bad experience with the brigade system has made many suspect of organizational innovation and for the moment leading actors are want only a return to the normal structure of a state enterprise. But while privatization is not considered an immediate issue, it is generally accepted as a goal by the main actors within the firm.

Conclusions Concerning Property Changes

We began our research convinced that the successful transformation of the Polish economy requires a rapid start-up of wide spread property changes. We continue to think that this is one of the most fundamental elements of systemic change. The generally slow and partial character of firm adjustment strategies underline the need for relatively swift structural. At the same time, the nature of firm level conflict and the confused set of rights and practices that have grown up around state assets suggest that the simple transfer of property titles in itself will not resolve the internal problems of enterprises. It is utopian to think that privatization can be accomplished solely on the basis of finding new outside owners for all firms --irrespective of whether they are created by the sale of assets for minimal prices or the by giving away stocks.

The current conflicts within enterprises, and the partial improvement in managerial structures, may help in leading actors to think about the privatization process. Indeed, if the situation in firms stabilizes, and the outlines of government legislation on privatization become clearer there will undoubtedly be an increase in firm based attempts to identify for themselves the most advantageous form of property change. In this context, it is important that the basic guidelines for transferring shares at non-equivalent values --necessary for hastening the reforms-- be clear, and not created spontaneously by individual actors in individual firms.

A larger vision of property changes is necessary both to strengthen and ground the development of these processes. The more this vision guides and stimulates firm based actors to initiate and pursue property changes the more effective these changes will be for the entire economy. For the moment, for the active forces within firms, there seems to be no link between the prospects of property changes and adapting to the radical changes that have occurred in the economy. The only significant exceptions are linked to the hope of finding a foreign partner.

Thus, on the one hand, the question of how to distribute state property --in the face of the absolute necessity of non-equivalent sales-- opens the possibility for a political bargaining process that could be extremely destructive to the adjustment process of firms. On the other hand, the weakness of firm adjustment process itself demands changes in the property regime, and the linking of property changes to the stabilization of the current confused authority structure of firms. Property transformations, in short must both take into consideration and alter the existing array of interests and power operating within firms if they are to have the desired results.

Part Three: Conclusions and Propositions: Intermediary Organizations and Property Reform

The challenge which stand before the Polish economy, like the economies of other nations of this regions, is to enter the world economy. For a generation our society and its economy has been isolated from the world market and organized as if it were one huge bureaucracy. Isolation and bureaucracy have stunted our adaptive capacities and our future position in the world will depend in large measure on our ability to regenerate them.

The ability to regenerate our adaptive capacities depends first and foremost on the remaking of our institutional order. The authoritarian paternalism of the communist state created a social order that criminally wasted human and material assets. Without changing this order we will continue to squander our skills and capital. We regard deep institutional reform as the nations most important economic problem, though we understand the threats presented by other weaknesses such as the overall shortage of capital, the hypertrophy of heavy industry, monopolies, antiquated technology, and the lack of modern skills in the workforce.

We do not wish to trivialize the importance of these problems. Nonetheless, we are convinced that until we recast institutional legacy of the communist state and the industrial order that went with it, new inputs of skill and capital are likely to disappear in the structural inefficiencies that have become embedded in our social practices. No one should have any illusions that breaking-out of 40 years of industrial paternalism to won't require sweat and time.

The first step in breaking out of the current morass is to make firms plan and pay for themselves. The state cannot assume responsibility for the fate of enterprises, nor can it print money to pay for the failure that its overextended usurpation of responsibility has caused. A return to either of these paternalistic practices will only re-embed past practices.

In this respect, the stabilization program of the Mazowiecki government is a major break from the past. For the first time, firms are being forced to think for themselves about costs, markets, and survival. In the last six months, we have observed firms struggling to take responsibility for themselves and no one should underestimate the profundity of this struggle and what it means. The idea that nothing has really changed or that everybody is simply set on waiting things out is misguided.

At the same time, our observations suggest that it is equally misguided to believe that macro-economic stability alone will lead to the successful restructuring of firms --to say nothing of the economy as whole-- or that after six months the recession itself will make winners and losers easily distinguishable. What we have found is that the most important distinguishing factor between a potential winner and loser is a firm's capacity for strategic action. This capacity, in turn, is largely determined by the interaction of the social forces within the firm. We are repeatedly struck in our research by how firms with similar production profiles, technology and market situations can nonetheless behave in completely apposite ways.

Whether or not firms can generate --and be helped in generating-- sufficient social capacity for strategic adaptive behavior is now the most important question facing the Polish reforms. Financial discipline, external challenges, and socio-political change have thrown existing industrial identities into question and have unleashed a wave of conflicts over management. What we have found is that many of these conflicts are completely justified and that many are not; that in some cases conflict leads to offensive economic strategies, in some cases to dangerous stalemate.

But whatever assessment one makes about the outcome of any given conflict, what is most striking is that across conflicts there is an incredible variation in the capacities and motives of the leading actors. This variation precludes the use of stereotypes in describing firm behavior and adds to the dangers of relying primarily on financial balance sheets as the primary means of assessing firm viability. Workers are not blindly lashing out at management, and in general the unions are not blocking restructuring efforts if management knows what should be done and can put its case cleanly. At the same time management too often has no idea of what to do, while the contested nature of industrial authority --indeed, the complete lack of rules and past practices governing its legitimation-- mean that disputes between actors can persist without ever generating a clear strategy.

External challenges and internal conflicts are, on the one hand, forcing actors to generate economic information and adjustment strategies. On the other hand, external disciple and internal conflict alone are insufficient to guarantee the generation of either appropriate information or the legitimate authority necessary for radical restructuring. Management and labor are currently operating in a closed world. Neither has much access to information about external markets, neither has a direct, immediate interest in acquiring such information, and the rules governing their struggles remain too open. In short, it is too easy for both sides to see success or failure only in terms of the outcome of their mutual struggles and not in terms of external expansion.

The problem then is not in the conflicts themselves --which are in anycase are both necessary and inevitable-- but in the fact that their institutional structure has yet to define any group or authority as ultimately responsible for an outcome. This is another way of saying that state property has decomposed and new rights and entitlements have yet to be defined. The situation does not facilitate radical restructuring efforts within firms. At the same time the sociological significance of the existing --

and confused-- rights renders dubious any solution of the problem of legitimate authority that depends on the immediate transfer of property titles to completely new, outside owners. This is true no matter how these new owners are created: Whether on the basis of "below-value" sales or on the basis of a give-away schemes, they will lack the information and authority necessary to act strategically if they are resisted by internal actors.

To be sure, a plan to slowly sell-off state enterprises on the basis of book or market values would theoretically solve the problem of legitimate authority since future owners would be receiving title in return for risking their own capital. But given the marginal financial reserves of the population it is precisely this principle which eliminates the possibility of quickly extending the process to a significant section of the economy. Moreover, and again given the low level of the population's cash holdings, any attempt to sell-off state assets quickly would mean that stock prices would rapidly approach zero and we would return to the basic question of the politics of a non-equivalent sale.

The contradiction between the necessity of speeding up changes in the property regive and the necessity of both transforming and legitimizing authority at the firm level requires new and untried solutions. Here, we want to present a sketch of one potential solution. We do not pretend to be original and similar proposals are being discussed not only in Poland, but in Hungary and Czechoslovakia. Our proposal is built around a partial give-away of state assets, combined with the immediate commercialization of state enterprises. The numbers used in our examples should be treated illustratively.

The novelty of these propositions lies in the immediate creation of institutions that own shares in state firms while at the same time they are owned by wide group of individual stockholders. We call them Investment Associations but similar structures have been proposed under the rubric of Mutual Funds and Holding companies. The owners of the Associations would be Polish citizens who came to possess all the shares of these association through a one time give-away plan organized by the state. The Associations in turn would own a certain percentage --say 20%-- of the shares of a significant number of state enterprises (at least 1000 primarily small and medium sized firms). A percentage of the remaining stocks would be given or sold to other actors, for example employees, banks and local governments. The main goal of this undertaking would be creation of Boards of Directors for state firms that would include representatives of management and labor, as well as the newly created partial owners of the assets.

All the firms embraced in the programs would immediately become joint stock companies in which management would be responsible to the Board of Directors, and not to the work force or the Ministry of Industry. Initially, the Boards would not be constructed on the basis of one share one vote, or even one share one dividend but rather politically established in such a way that all interests were represents --the workforce, the new partial owners and the state. For example the composition of the Board could include two representatives of the state, two from the workforce, two from the investment associations, and one each from the banks and local government. The state would reserve for itself the deciding vote in questions concerning the sale, give away or emission of stocks. The politically established nature of the boards would change to a more normal commercial form with the sell-off of the remaining shares.

This solution would institutionalize negotiation between the main internal and external actors involved with the firm. It presents the possibility of being accepted as legitimate because the current social forces within the firm would be represented on the Board of Directors, while at the same time all citizens would acquire some ownership rights. The legitimation of authority at the firm level would stabilize the position of managers, while the new partial owners would be interested the making of profits. The new owners would place pressure on management and labor, and help insure that their internal conflicts played themselves within the constraints imposed by the market. The requirements of the market and constant, institutionalized negotiation between the concerned parties would dynamize both the acquisition of information and improve its circulation.

Similarly, this solution would speed up the process of privatization without foreclosing on the use of a variety of methods at further stages of the game, since the state could sell its remaining shares at market or non-market prices. The indirect give away of enterprise shares to citizens (through the investment associations) as the first act of a widespread privatization program would allow us to avoid the huge problem of evaluating state assets. Moreover, so long as we do not have industrial actors directly interested in making profits, the nations assets are likely to remain undervalued. Giving a way a part of these assets creates the possibility that the rest might be worth something in the future.

Let us briefly return to the question of the legitimation of authority at the firm level and ask whether these proposals would be acceptable to the social forces now operating in firms. On the one hand, the commercialization of the enterprises requires the work force to give up certain managerial rights now exercised principally through the Employee Councils. On the other hand, the construction of these proposals gives us reason to suspect that they would be positively received by workers. Employees gain stocks in their own enterprises, shares in other firms and at the same time maintain significant influence on management through their representatives on the Boards. The future competencies and rights of the present Employee Councils are in this context negotiable. We think however, that problem is solvable by guaranteeing representatives of the Councils a place on the Boards without respect to the number of shares possessed by employees. This variation of the German model would also provide a counter weight to the extra-plant organizational interests of unions with respect to the representation of the working class

The potential viability of these proposals will depend on the particular solutions to a number of critical problems. The first, concerns the nature and behavior of the newly created Investment Associations. The citizens who will be given shares in these associations will not, in the first instance possess enough experience with markets to immediately make reasonable choices about the management of these associations. In the moment of their creation the state will have to name their managing boards, finance their operations and regulate their functioning. The main task of these associations should be the maximization of the dividends of their shareholders. The engine of their activity should be the prospect that in the future their success or failure will be verified by stockholders electing their managerial Boards or selling-off the stocks of less profitable Associations.

The problem is that on the one hand, that we do not know whether these associations will really by interested in maximizing profits in a situation where they have been created and remain --at least initially-- controlled by political institutions. On the other hand, it is also possible that the could concentrate their efforts on the achievement of short term profits so as to insure high dividends and the re-election of the initially nominated management. Such short term profit seeking, particularly in an economy short of capital, could limit the developmental possibilities of many enterprises.

Connected with this dilemma, is the question of how long the distributed stocks of the Investment Associations should be --if at all-- non-transferable. The shorter the time, the less risk there is that political pressure will influence the goals of the Associations. A longer the freeze period, however, would allow people to assess the real value of their stocks and the Investment Associations to figure out the potential of the firms that the own shares of. Whatever period is ultimately decided upon the state must use this time to conduct an intensive education program about the functioning of capital markets, and the future values that people have been given.

An equally important problem is the continued fogginess of the behavior of state representatives on the Boards of Directors of commercialized firms (this problem appears in virtually all privatization schemes. The state would, for a significant amount of time, continue to own more than half of all shares. Questions here touch on both the voting rights of these shares and their rights to dividends. The state could end-up returning to it role as manager of the entire economy, and at the same time exhaust firms financial reserves by demanding high dividends. The problem with dividends could be resolved by earmarking the dividends of the state's shares for the development of the firm while maintaining the some version of the current capital tax as a source of budgetary income. The problem of state intervention into managerial problems could be resolved first through the construction of the Board of Directors itself, and second through enumerating the issues on which the representatives of the state had the deciding vote (eg. further sale of stock, bankruptcy procedures etc.)

We should add in conclusion, that similar problems appear in other programs of privatization. The virtues of an indirect, and partial give-away of state assets, however, lie in improving the authority structure of enterprises; in breaking the hermetically sealed flow of information presently trapped in conflicts between management and labor; in creating new actors directly interested in profits; in developing a system of negotiation that includes groups inside and outside of firm; and finally in allowing us to initially avoid the problem of valuating assets.

It should also be stressed, that the process of privatization cannot be limited to enterprises and must be extended to their environment, particularly to the so-called commercial banks. The slow nature of this undertaking, however, requires other intermediary solutions. It is necessary to build independent institutions that without reference to the politics of the state place pressure on enterprises to adapt dynamically to the changing environment. The proposed Investment Associations are an a potential example of non-state institutions that might reasonably be expected to independently assess firm performance, put pressure on firms to adapt, and ultimately aid them in restructuring.

But the question of how to sensibly, individually and non-bureaucratically place pressure on firms to adapt is so pressing that we think that other institutions should be encouraged to get actively involved with firm restructuring efforts. Here we have in mind institutions such as the local industrial associations, the newly elected local governments and the regional offices of the trade unions. All should work directly with enterprises to develop viable adjustment strategies. Moreover, these groups should be encouraged to work together --and given the resources to do so-- so as to create a variety of institutional viewpoints on the workings of firms. Over the longer term, it is critical that the internal problems of enterprises are seen within the larger contexts of local labor markets, the environment and the developing private economy.

An example of such institutions are the expert economic groups that some regions of Solidarity are creating to advise enterprises on how to adjust. The efforts of the newly elected local governments to create Chambers of Commerce and regional Employment bureaus are another set of promising developments. The coordination of regional development and restructuring efforts that the union is leading in Torun and city government is leading in Gdansk should be watched carefully as potential models intermediary institution building.

In the area of information --to say nothing of many others-- the state has an important role to play. In general, it can encourage dynamic economic behavior of firms by partially financing different projects such as efforts by firms to create joint trade representatives abroad, sectoral or regional trade fairs, or basic schooling about how to develop foreign markets.

Each of these ideas, and especially the proposed Investment Associations require extensive development. We present them here, along side a basically empirical analysis, not so much because of the virtues of any one of them, but to stress the importance of finding institutional ways to aid firms adjust without returning to the direct state administration of the nations assets.