Reviews

David P. Ellerman (Ed.), *Management & Employee Buy-Outs as a Technique of Privatization.* Central and Eastern European Privatization Network, Ljubljana, Slovenia, 1993, Paperback, 211 pages.

There is now a book on East European privatization which grows out of western experience and thinking, striving to transfer valuable knowledge and wisdom rooted in business, management and economics, not in politics, propaganda, journalism or foreign-affairs expediencies. This book actually *deals* with privatization. Privatization processes in Eastern Europe and Russia have not proceeded well, many mistakes were made and undertaking crucial corrections in the midcourse has never been easy.

The CEEPN (The Central and Eastern Privatization Network, Dunajska 104, Ljubljana, Slovenia) published a collection of some thirteen articles by experts on privatization in Eastern and Central Europe.

This collection is edited by David P. Ellerman from the World Bank who contributed defining introductory pieces on 'Management and Employee Buy-Outs in Central and Eastern Europe: Introduction' and 'Management and Employee Buy-Outs as a Technique of Privatization: Overview'.

These chapters represent elaborations of Ellerman's earlier work on *Management/Employee Buyouts as a Privatization Technique*, The World Bank, Economic Development Institute, Washington, D.C., September 28, 1992.

Management and Employee Buy-Outs (MEBOs) constitute true privatization techniques (in contrast to the mass pseudo-privatizations via citizens' vouchers) designed to induce company insiders to assume ownership functions. Derived from the experiences of the 'Go private' movement in the U.S.A. of the 1980s, the MEBOs represent proper response to the difficulties created by a separation of ownership and control, wherever it occurs.

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This separation, although at the core of the loss of competitiveness of publicly owned companies in the West, has reached its extreme manifestation in the state ownership under socialism. Such extremely anonymous and absentee ownership by the outsiders (the state and its burocrats) has led to short-term focus management, disinvestment and self-destruction. It is therefore highly illogical and economically suicidal to perpetuate such anonymity, atomization and dispersion of absentee outsiders through maoistic citizen-ownership via mass distribution of coupons and vouchers. In this sense, MEBOs represent some hope that at least in the upcoming stages there will be some concern about real restructuralization, productivity and performance of the virtually privatized companies.

This collection provides overviews of MEBOs applications in East Germany (R. Graml), Poland (H. Antoszyk, B. Ciosek), Hungary (I. Csillag), Russia (E. Kotova, A. Vasiliev, A. Abramov), Croatia (D. Kalogjera), Estonia (R. Rasmann), Romania (D. Ghitescu, V. Grusznizski) and Slovenia (A. Kanjuo-Mrčela, U. Korže, M. Simoneti).

Notably absent are any mentions of any MEBO activity in Slovakia or the Czech Republic. In these countries, 'privatization' was apparently and irreversibly derailed in the mass, voucher-based, 'going public' direction.

Specifically western perspective on MEBOs in Russia is provided by Richard Lloyd and a Belarus lease case 'Gomellift' is analyzed by V. Lavrentiev.

Basic conceptual foundations are provided by the two articles by Ellerman and an extensive and well-argued presentation 'Buy-Outs and the Transformation of Central and Eastern Europe' by M. Wright, I. Filatotchev and T. Buck. Altogether, there are about twenty different international contributors to this volume. Each contribution lists additional extensive references and a technical glossary of MEBO terms is also provided.

Many countries are belatedly turning towards MEBOs, recognizing that without managers and employees no restructuralization and no growth will be possible. MEBO technique, originated in the U.S.A. in the eighties, consists of a rich and flexible family of techniques and concepts. Ellerman identifies at least five useful forms:

1. *Classical MEBOs*, with case-by-case active regulation and third-party financing,
2. *Decentralized MEBOs*, with strict guidelines, but passive regulation,
3. *Fast-Track Leasing MEBOs*, standardized procedures for quick privatization of business activity, while leasing the land and assets,
4. *Restructuring-Oriented Partial MEBOs*, with turnaround management team and leveraged buy-out of only part of the company, and
5. *Secondary MEBOs*, with enterprise-initiated spin-offs of segments or divisions to managers and staff in a leveraged and seller-financed transaction.

All of these forms are equally valid and useful, their optimal portfolio for any country or region has to be determined by the experience, circumstances and privatization progress so far. There is no single way of privatization. It is the diversity and flexibility of MEBO tools that provides the best hope.

The key element of Ellerman's suggestions is the concept of *leverage*. Leverage is the key to focusing the gains and losses on a relatively small coherent ownership group, and to making the deal affordable to that group. Ellerman's approach represents the very opposite of the road taken in Russia and the Czech Republic: mass voucher privatization which dilutes ownership to the largerst possible group of citizens, definitionally external and absent from 'their' enterprises. No meaningful change can be forthcoming from such a sorry arrangement.

A similar concept, so-called 'Credit privatization', has been proposed by Čuba and Divila in their article in *Human Systems Management*, 10/3 (1991), 187–193.

Mass voucher privatization techniques are often hailed by politicians as being fast and easy to administer. That may be so, even though the speed has not been very impressive. The Czech Republic, for example, is wallowing in its own voucher mess for more than four years with no end to be seen.

More important is the impact on the true purposes of privatization: are the companies more efficient and productive? Have they successfully transformed their management and governance structures? Are there coherent ownership groups which can identify strongly with their enterprise?

The answer remains 'No' to all of the above. Mass voucher privatization amounts to a simple administrative transfer of ownership rights, essentially remaking the state sloppiness and corruption into a public sloppiness and corruption. Companies are not in private hands but publicly owned companies with state participation and old management structures are preserved. Overemployment is maintained for the political purposes of so-called 'social peace': The Czech Republic, in spite of its 50% drop in production, is 'capable' of maintaining perhaps the lowest official unemployment figures in the world.

In that sense – being clearly focused on restructuralization and performance – MEBO leasing program is rapid and fast-track without compromising quality and results. The key characteristics of a leasing MEBO program include:

Decentralization: abandoning the central-government bureaucratic approach benefitting only the ex-communists and their supporters.
Standardized procedures: simplifying and standardizing proposals, deals and contracts, thus limiting overpriced and forced 'consulting', extortion and corruption.
Passive regulation: reducing the discretionary responsibility of the Privatization Agency, limiting rapidly growing state interventionism and active regulation.
Cash down payment: no free distribution of vouchers and other political games, but a serious, significant cash down payment, allowing private parties to risk *their own* money.
Standardized seller finance: relying on seller (state, privatization agency, investment fund) financing and leasing in a simple, standardized manner.
Leasing: leasing (not outright buying) of the real estate and fixed assets of the enterprise. This is especially useful before all land and property restitution conflicts and uncertainties are reliably resolved.
Individualized ownership: all ownership must be based on individualized ownership shares or percentages: no 'masses', no collectivism.
Time deadlines: time deadlines are crucial and should replace the current slow, protracted bureaucratic maneuvering which opens door to speculation and corruption.

Auctions with multiple proposals: only when there are multiple, high-quality comparable proposals should the Privatization Agency assume a more active role in arranging competitive biddings or auctions.

The above characteristics seem to be fairly straightforward and represent common business sense. However, in the virtual reality of Eastern Europe only their very opposites have been put in place and administered with the proverbial ex-communist zeal and vengeance. Consequently, most of the economies of Russia and Eastern Europe have been destroyed or reduced to speculative survival tools of the Third-World status.

The problem faced now is precisely that so much damage has already been made: ownership has been recklessly atomized and dispersed, productivity and production plummeted, standards of living were drastically reduced, uncertainty, criminality and corruption increased. It is too late to build a reliable working privatization program; it is extremely difficult to build it on the ruins and ashes of the once coherent and functioning (even though badly) economies. Yet, it has to be done because no other alternative remains: ultimately, people have to produce because they have to live.

Instead of years we are increasingly talking in decades. It is quite realistic to assume a 30–40 year period before this transition to private free market economy could be considered complete. No political sloganeering will help: the communists were promising their 'better tomorrows' for seventy years and to doubt them was a crime. It did not help. There is no substitute for calm, competent and practical analysis. Ellerman has provided it and his contribution to more focused rational thinking about the matters of utmost importance is unquestionable.

Related to Ellerman's book is *Property and Contract in Economics* (Blackwell Publishers, Colchester, VT, 1992) where the case for economic democracy is persuasively argued. Concerning privatization, the issue is not whether or not people should be public or private employees, but whether human beings should be hired, leased or rented at all, rather than being jointly self-employed as in employee-owned companies.

Wrong-headed 'debates' over private or public ownership of slaves provide good evocative metaphor. The question was *not* private or public slavery, but slavery versus freedom and dignity of self-ownership.

Joint self-employment in the firm is the economic version of joint self-determination or political democracy in society. Such thinking radically undermines the neoclassical way of thinking about property by articulating a theory of inalienable rights, and constructs out of this perspective a 'labor theory of property' which is as different from Marx's labor theory of values as it is from neoclassicism.

Ellerman's book is highly recommended to all professionals dealing with privatization issues, especially in banks, monetary funds and governmental agencies. Understanding privatization is the necessary prerequisite for attempting to carry it out.

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Hugues Molet, *The New Production Management (Une Nouvelle Gestion Industrielle)*, Hermès, Paris, France, 1993, 164 pp. (in French).

This handy short text has four parts. In the first part (Introduction and Chapter 1), Molet, an Engineer and Professor of P/OM at the Ecole Nationale Supérieure des Mines in Paris, explains the increasing complexity of the art and science of production management. At every conference and every congress, we are bombarded with new methods which promise to solve all of our production ills: MRP, CAD/CAM, KANBAN, JIT, you name it. Molet describes the characteristics of the new industrial environment which lead to its complexification. However, he echoes the complaints of industrialists who lament the growing gap between the promise of better performance resulting from these new methods and their expectations.

In the second part (Chapter 2), the author provides a very complete review of the recent advances which promise to increase productivity. Advances are classified in three categories:

a) the formulation of production problems as optimization models,

b) various methods to systematize production variables such as quality (e.g., TQM) and maintenance (e.g., TPM), and
c) technological advances such as robotics, flexible manufacturig systems, and production planning and information systems.

In another separate group, the author categorizes methods which integrate all of the above, such as expert systems, local networks, systems theory, simulation, computer integrated manufacturing and the like.

Molet acknowledges that the above classification of methods is fallacious because no situation exactly fits a sole method category. Situations are 'hybrid', i.e., they exhibit a combination of characteristics which cannot be matched against those declared to be ideal. Objectives are diverse and not unique. Thus, contradictions arise and compromises must be taken.

To the mind of this reviewer, Part 3, (Chapter 3), is the most important as well as the most interesting. Molet proceeds to critically study the production methods he described earlier, in order to determine whether results have justified their cost and implementation. First, Molet asks whether the design of new production methods is adequately suited to the prevailing production environment – an environment which reveals complexity, uncertainty and ambiguity. Production methods assume linear and specific conditions which can never be met in the presently existing industrial environment. Serious gaps exist between *designed* and *actual* plant conditions and between the *existing* and the *implied* organization structure which is needed to implement the new methods. Firms do not modify their organization to take into account the hierarchical demands of the newly installed methods. In other words, organizations cannot adapt to changes as fast as problems are posed. It is a fact that certain firms have adopted the project management mode where individual managers' responsibilities cut across traditional organizational lines. However, there still is a serious separation between conceptualization and implementation, a separation which Molet attributes to the old Ford/Taylor model of supervision. New methods do not seem to take into account the newly created relationship between the various agents and actors. Often operators are not included in the redesign decisions, thus they lack motivation to accept innovations. Molet calls for nimble organization changes and flexible manufacturing methods which can more quickly be adapted to each other.

Molet refers to the perverse effects of quantification which inevitably lead to unanticipated results. This is an old problem to which the author and his colleagues at the Centre de Gestion Scientifique (Center for Scientific Research) at the Ecole Nationale Supérieure des Mines have drawn attention in previous publications. The author also draws attention to the differences in training that exist in Japan, USA and the West. He advises a collective form of training involving all those involved and affected by production and operations change. As a result, he visualizes an exhaustive review of all design and implementation problems prior to their emergence.

In the conclusion, Molet proposes that before the new production management and its methods can be successfully used we take the following steps:

1. *In search of simplifications*. We must improve our assessment of the context in which new methods will be applied. For design purposes, it is useful to assume the simplification of constraints and of conditions under which a particular method is applicable. However, this simplification may be unrealistic given the complexity of the industrial world.
2. *The need for coherence*. More coherence is needed among the technology, production methods, organization structure and evaluation criteria.
3. *The dangers of amnesia*. We should analyze successes and failures more thoroughly to gain from previous experiences. The author even suggests the appointment of a historian-trainer whose expertise about past innovations could be very useful.
4. *The expert and experts*. The overall 'master' expert no longer exists. Nowadays, knowledge and expertise are spread out and fractionated. Everyone, managers and operators alike, hold a piece of the 'truth'. As a consequence, all parties should be asked to participate in design and decision making.
5. *Team work*. The adoption of new methods and new technology requires team work, i.e., a coherent and intelligent effort to resolve conflicts and contradictions which may have crept between conception and implementation.
6. *The blind information utility*. There is no doubt

> that computer-aided systems are a god-send. We invented CAD/CAM, computer-aided manufacturing, computer-aided planning and control, computer-aided quality control and other methods where the computer and information systems play a dominant role in integrating methods and databases. However, the successful application of these technological advances requires a complex road to be followed. The enterprise must proceed to analyze how these new methods can be integrated in the current industrial setting.

In summary, Molet is emphatic when he refers very often to the lack of coherence between existing organizational structures and the requirements of proposed new methods. He expresses the wish that the new production management of the year 2005 will bring us new surprises and new models of productivity. He cautions us that their success will be dependent upon our ability to match design with reality.

This is a useful text which should be mandatory reading for all those involved in production and operations management. It mixes a thorough knowledge of the new P/MO technological tools with a practical sense that cannot be equaled by many of our plant managers.

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J.R.S. Bailey, *Managing People and Technological Change*. Pitman, London, 1993.

The focus of this work is on job design and the factors important in this regard to successful, new technology implementation. The style of the book is academic (in the best sense) in that it follows a logical and developing argument on the role of job design, introducing in turn the factors to be understood and taken into account. Through detailed discussion of case studies and reference to eminent research by Buchanan, Emery, Mumford, Trist and others, the author establishes a practical framework showing the factors that influence the effective introduction of new technology and their interrelationships. Therefore, this is not a book to be dipped into at random; nor is there need to do so since its 200 pages make an interesting read with a structure which may be particularly helpful to those new to the subject.

The author is right in believing that the book's major appeal will be in education and particularly, I believe, at undergraduate and post-experience levels in business studies, computer and engineering courses. There is, however, little doubt that practitioners could gain significantly from the book since it provides a usable framework for the human, strategic and cultural issues involved in job design. This is so even if new technology is not the stimulus for job design and the need is, for example, to redesign jobs to enable human beings to contribute more to an enterprise. The 'current interests' on the book's cover that are intended to entice practitioners are 'strategy' and 'culture' yet, there is no mention of the job design that arises from 'Business Process Re-engineering' or 'Empowerment'. Unfortunately, first because a whiff of these subjects might better attract practitioners to investigate the book and second because they might well find significant assistance from this book in their implementation of these concepts.

There are minor criticisms – the 'organization' is often reified toward the end, more implications of the framework could have been drawn out, and the Hackman and Oldham survey is used and referenced so frequently it should have been appended. Despite this, John Bailey has produced an honest work that provides an arena for the task of job design which may continue to be useful when many more fashionable subjects have been forgotten, I recommend it to undergraduates, post-experience students and practitioners.

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Oliver H.M. Yau, Consumer Behaviour in China: customer satisfaction and cultural values. London & New York, Routledge, 1994.

This is a book about consumer satisfaction and I am afraid that the consumer reviewing this book here has to report an initial high level of dissatisfaction which has to do with 'product labelling'. The book is not about 'consumer behaviour in *China*' at all. It contains a lengthy review of the literature, certainly well done in parts, about consumer satisfaction in general, an interesting discussion about 'Chinese Cultural Values' (with a scale based on 45 'common Chinese sayings') and a report of some research on hypothetical customer satisfaction on a sample of Hong Kong Chinese. The title of the book is, therefore, misleading in the extreme, and the publishers should certainly consider correcting it if it ever goes into paperback.

This is no mere semantic quibble. The issue of consumer behaviour in the People's Republic of China, carefully distinguished from Chinese communities in other Asian societies (including Hong Kong), has been of very great interest to researchers and marketers for at least the past decade when a genuine and substantial markt for 'middle class' consumer goods began to emerge in the PRC, particularly in the parts near Hong Kong, as a result of the open door policy. However, the author says practically nothing about the PRC, expressing the hope, in the section on 'Limitations of the Study', that the cultural values scale 'should still be valid and reliable when applied to Chinese in mainland China' (p. 7). This is not good enough.

As a study of 'consumer behaviour in Hong Kong' or even (at a pinch) 'Chinese consumer behaviour', however, there is much to recommend the book. The author and his team of researchers have sampled the population of Hong Kong with great care and have employed a variety of methods to measure and evaluate consumer behaviour and satisfaction with two common consumer products (ball-pens and mini-cassette players) in terms of the constructed Chinese Cultural Value Scale. The following quote gives a flavour of the level of analysis and the results obtained: 'the ball-pen sample seemed to be more concerned with adaptiveness, face, sincerity, interdependency, group-orientation and Pao [reciprocity], while the mini-cassette player sample was more concerned with interdependence, continuity, harmony with the universe, conformity to activity, abasement and face. However, in general, the differences did not seem very great across samples' (pp. 214–215).

The bulk of the empirical work reported in the book was carried out in 1985, and although there are more than 300 references cited, there are few citations from the literature of the 1980s (and only one post-1985). This may account for the rather dated feel of the analysis of Hong Kong, let alone China. We must conclude, therefore, that whatever else it might do, this book contributes very little to the study of consumer behaviour in China.

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