Peering through the fog of their expectations, many western economists criticized the privatization efforts of the eastern firms. They claimed that businesses were not restructuring, or that restructuring was occurring too slowly. They asserted that managers were unwilling or unable to make changes in their firms, and that owners were unable to discipline their managers. Josef Brada disagrees. A professor of economics and director of the College of Business International Programs at Arizona State University, Brada says that westerners have allowed their own assumptions to cloud their analyses. In his new book, Corporate Governance in Central Eastern Europe: Case Studies of Firms in Transition, Brada presents case studies comparing domestically owned companies in Eastern Europe with companies purchased by foreigners. His results contradict the earlier criticisms.

“Our experience is that if you look at the kinds of strategies that [foreign] firms follow, and the kinds of strategies that domestic firms follow, in many cases they are very similar,” Brada explains.

“The big difference you see is that firms owned by foreign multinationals have a much easier time implementing these strategies. First, because they have access to money, often from the parent company. Second, it’s a little easier for them to get the technology and knowledge needed to implement the changes.”

Brada, a Czech native, has been fascinated by Eastern European issues for most of his life. Currently, he edits a journal on East European economics, manages a program for developing business education in Macedonia, and participates in ASU’s Global Executives Program (see sidebar). In addition to sharing his expertise with former Soviet businesses, Brada also enlightens westerners about Eastern European economics.

“I think you can put the countries into two groups,” Brada says. “There are those that have managed to liberalize their economies and also to stabilize them. In a second set of countries, those are still probably the most pressing issues—the countries that still have high rates of inflation, where the government is running large deficits, and countries where foreign trade may be a problem as well.”

These categories help Brada determine what issues to address for a particular country. For example, he can approach countries that have achieved stabilization and say, “Managers understand that prices are for real. They understand that they must make a profit with their enterprises or go under. How do you teach them to think about issues such as raising productivity, or looking for new markets?”

Brada says managers never had to deal with those kinds of issues before. “They understand what they have to do. But the practical aspects of doing it become very important. That’s where they need some outside help,” he adds.

In unstable countries, however, outsiders have to address broader issues and help politicians understand and identify the problems.

“The government may be running a deficit. Simply printing money and saying, ‘We don’t like inflation, so we’re going to impose price controls’ doesn’t deal with the problem in the long run,” Brada explains. “They stop inflation temporarily through price controls, but many of the negative consequences of inflation happen anyway.”

Brada says that there are two ways in which outsiders can help these businesses. The first is to validate what people already know.
“It’s not as if East European managers are blind to what needs to be done,” he explains. “They talk to one another. But when they talk, it’s often about mundane problems, not talks at a strategic level. It helps them when outside experts can come in and validate what they’re doing. It gives them the confidence that they’re able to develop the right kinds of solutions on their own.”

Brada says that westerners can also help by providing a broader perspective on what is happening.

“When in a crisis situation, your first thought is to avoid going under. This gets people involved in day-to-day kinds of issues,” he says. “They simply continue dealing with day-to-day issues, and never get to the broader strategic issues, getting the enterprise to survive in the short run will not be good enough. They must start thinking about where they would like to be once staying above water is no longer the problem.”

This is no small task. East European business faced a crisis with the advent of economic reforms in the early 1990s. “Managers faced collapsing markets, because trade among these countries had decreased very rapidly after 1990. No one was buying the stuff they were producing. They had never dealt with those kinds of issues before.” Brada says.

“Most of them, because of their tradition and because they understood that the workers really had no other options, at least tried to keep the workers employed.”

Finally, governments began to develop privatization programs. And firms began thinking about what a private owner should provide.

“In many cases, a manager’s first response was to think, ‘Well, the owner should be someone with deep pockets. Our company needs more money,’” says Brada.

Occasionally, this did happen. Large foreignmultinationals came in and bought out companies. But managers soon realized that money did not solve all their problems.

“Managers still faced a lot of pressure. The big multinationals wanted more efficient operations.” Brada says. “They didn’t want to keep on a lot of extra workers. They wanted better quality standards.”

“Wars start over ethnic conflicts,” says Thor, a professor of international business and management and director of ASU’s Center for International Business Policy Studies. Consider the former Soviet Union, which holds more than 50 distinct ethnic groups, and that the once powerful uniformed police-state was defunct. Together, it seemed clear that internal conflicts were inevitable.

“The bottom line is that we tried to uncover the trade education.” Thor explains. “Our feeling is that if these people can trade with the world, they’re not going to fight with the world.”

Thor now directs ASU’s “Global Executives” program, designed by the government to exchange students between the United States and former Soviet controlled countries. Foreign students spend time in Arizona, while American students spend time abroad.

“People learn many aspects of business and trade. Their time is divided between classroom lectures, meetings with government and business leaders, and site visits to local companies.”

“The theory is to bring ASU students together and give them new experiences that are useful to their marketing and finance and trade careers. At the same time, we form linkages between the best and brightest students in the former Eastern bloc countries,” Thor says.

“Global Executives” was met with great success.

“Go to Brussels and see who’s negotiating now on behalf of countries like Bulgaria, Poland, Czechoslovakia and Ukraine. We have ASU certificate graduates representing all of those countries,” Thor adds. “We’ve already signed an agreement with the Chicago Board of Trade. We have a contingent of students who have taken classes in the Chicago Board of Trade.”

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“How does this work? The government gives us hundreds of students. We select a fraction of those students to form linkages between the best and brightest students in the former Eastern bloc countries,” Thor adds.

The program addresses a wide variety of business concepts, from dealing with customers to fixed assets, to basic market principles.

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“In many cases, a manager’s first response was to think, ‘Well, the owner should be someone with deep pockets. Our company needs more money,’” says Brada.

Occasionally, this did happen. Large foreign multinationals came in and bought out financial institutions less prominent. In Poland, the bulk of firms are new start-ups, so entrepreneurs play a greater role.

According to Brada’s research, no system of corporate governance is superior to the other and no system is perfect.

Then again, American businesses are far from perfect, too. Brada suggests that foreign analysts stop judging Eastern European business practices against a standard of perfection.

Instead, they should judge it against our own performance.

“Global Executives” is supported by the World Bank. For more information, contact Josef Brada, Ph.D., College of Business, 609 Kajsa Is. Or send e-mail to Josef.Brada@asu.edu
Most of the countries which make up the New Independent States (NIS) boast nearly twice as many physicians per capita as the United States, and more than twice as many hospital beds. But without proper financial and organizational backing, these countries lag well behind other industrialized nations in terms of mortality rates, hospital contracted infections, low birthweight babies, and other health indicators.

The Soviet Union’s break-up has posed a great challenge for the NIS. On one hand, each country has the opportunity to restructure healthcare and find solutions that fit individual needs. On the other hand, the countries have inherited healthcare systems plagued by economic and management problems that are not easily fixed.

“When the Iron Curtain came down and the Soviet Union broke into a variety of separate states, one of the major institutions that underwent change was the healthcare system,” Schneller explains. “The system had always been centralized. In a sense, Moscow was the center of the universe. After decentralization, each of the different states began to think about its own future.”

Since 1993, Schneller has been sharing his healthcare expertise with medical professionals throughout the NIS. His work is part of a broader strategy by the United States to introduce a market economy and management principles to the former Soviet states.

Schneller’s involvement is through the American International Healthcare Alliance and the Association of University Programs in Health Administration. Funded by the U.S. Agency for International Development, these groups work to develop partnerships between health management educators in the United States and the NIS.

The ASU professor teaches management seminars and is helping develop a professional association for healthcare educators. A professional association is proof of the old adage, “The whole is greater than the sum of its parts.” By banding together, Schneller says that members can influence social and political policy, stimulate research, share resources, and provide continuing education.

To form an association, NIS educators had to challenge long held beliefs and practices that existed under Soviet control.

“They’re not used to these association kinds of models,” Schneller explains. “It was a command and control economy. Certain institutions took leads and others followed. How do you go from that—where Moscow had more resources, power, and leadership—to a more equitable sharing of responsibility across an association?”
Economic problems also make it difficult to implement modern management principles. While the Soviets built numerous hospitals and trained many doctors, they never provided adequate funding to support them.

“There is an insufficient amount of money in the system to bring modern technology and the basic kinds of facilities to the hospital,” Schneller says. Motivating physicians is a problem because salaries are so low. And, without the funding to perform procedures on a regular basis, surgeons’ skills deteriorate.

Other problems are organizational in nature. For example, Schneller notes that the division of labor is very physician top-heavy. “One of the real interesting challenges has been to reinvent and discover the role of nursing. Physicians often did what many well-trained nurses do here,” he says.

The system also is hospital top-heavy. The average hospital stay is nearly three times as long as those in the United States. “How do you go from being very focused on inpatient care to outpatient care?” Schneller asks. The key to solving these problems, he says, is helping administrators blend American management principles with the unique cultural needs of former Soviet countries.

“For part of our discussion is to talk about our model and how we got there; but also to understand it within the context of each of these countries,” he explains. “Each country has to develop the details through its local history and conditions.”

When Schneller visits a new country, he spends the first day or two just interviewing physicians and managers. He wants to discover what types of management principles really apply. Americans often assume that former Soviet countries are homogenous and can approach healthcare in the same way. That is a common mistake.

“These countries are vastly different in their cultures,” says Schneller. “And they’re not just rediscovering healthcare. They’re rediscovering the religion. They’re rediscovering their languages.”

Schneller spent a Passover holiday in Tashkent, Uzbekistan. While there, he had the opportunity to join some local citizens at a Seder dinner.

“It was the first time these people ever celebrated Passover. These people had not practiced their religion—they’d never been to a Seder before!” Schneller exclaims.

“The experience was quite interesting. As I looked around the room, I saw people who looked like western European Jews. They were,” he recalls. “But I also saw people who looked Chinese, and people who looked Mongolian. [The Soviets] distributed people all over the former Soviet Union. They intermarried. They have families.

“Suddenly, all these people are together,” he continues. “They have decided to rediscover themselves through their Jewish roots. I’m sure others are doing this through Russian Orthodox or Catholic or Muslim roots.”

Healthcare managers have to take these cultural differences into account, Schneller claims.

“Catholics think about healthcare different than Jews do. Different than Muslims do,” Schneller adds. “How they think about life and death and birth and the role of the aged—all of these things are being rediscovered at once, and in different ways that are sometimes confusing.”

Meanwhile, many westerners are eagerly waiting for these issues to be resolved.

“Frequently, when I’m on a plane the person sitting next to me is from one of the big American consulting firms,” Schneller says. “Why are they there? Because they know that once you improve healthcare, once people understand that the hospital needs information systems, they want to sell them that system.”

Business decisions are made based on the strength of the infrastructure.

“I think healthcare will be increasingly global,” Schneller says. “We have students going to work for international consulting firms. That is the future.”

For more information about research or programs at ASU’s School of Health Administration and Policy, contact Eugene Schneller, Ph.D., 480.965.7778. Or send e-mail to Gene.Schneller@asu.edu.